

China factories hum in shadow of debt risk

REUTERS

China's industrial engine cranked up again in May, reassuring investors worried about slowing growth in the world's second-biggest economy as it grappled with debt risks and tried to shake off a stinging ratings downgrade from Moody's Investors Service.

Moody's sees an improving global outlook even as it warned of a slowdown in China later in the year as liquidity-tightening measures take effect.

The ratings agency said the biggest risks to global growth, including protectionism and European Union exits, seemed to have subsided, although an opinion poll in Britain pointed to the danger of a hung parliament in elections next week.

Moody's expects 2017 growth for China at 6.6 percent, in line with the official target of at least 6.5 percent.

China's official Purchasing Managers' Index (PMI) eased worries about a sudden slowdown after a run of weak readings of April data. The PMI was at 51.2 in May, compared with April's 51.3 and forecasts of 51.0 in a Reuters poll.

"The latest official PMI readings add to broader evidence that downward pressure

on growth has eased lately," said Julian Evans-Pritchard, China Economist at Capital Economics.

"Looking ahead, however, we suspect that the current stability... will prove temporary. With the regulatory crackdown on financial risks still weighing on credit growth, it will be difficult to avoid a further slowdown in the coming months."

Private surveys on factory activity for most Asian economies will be released on Thursday.

Chinese stocks edged higher and the onshore yuan hit a four-month high against the dollar.

Activity in China's steel industry grew at the fastest pace in a year in May, supported by an increase in new orders. The steel sector PMI rose to 54.8 from 49.1 in April, climbing above the 50-point mark that separates growth from contraction.

Trade headwinds remain a risk, with U.S. President Donald Trump's administration keen to tackle what it regards as China's "unfair and illegal" sales of under-priced steel.

The steel sector helped drive China's strong first-quarter growth, but the reliance on the investment-led model has raised questions about whether it will be sustainable given official

pledges to cut debt levels of nearly 300 percent of GDP.

In cutting China's sovereign rating for the first time in nearly 30 years last week, Moody's cited the contradiction between using stimulus to meet growth targets and trying to reduce debt in the economy.

The big question for investors is how far Chinese authorities will go in their attempts to curb bubble risks.

Most analysts argue that Beijing will tread carefully for fear of knocking the economy hard, though investors worry that a significant credit contraction in China will reverberate through financial markets and the global economy.

Moody's said it expected G20 economies, which account for 78 percent of the global economy, to collectively grow at an annual rate of 3.1 percent this year and next, from 2.6 percent in 2016.

In a positive sign, factory output in Japan, the world's third-biggest economy, grew at the fastest pace in almost six years, taking production to its highest level since 2008.

South Korea's industrial output declined unexpectedly, however, adding an element of uncertainty for the central bank, which plans to upgrade its 2017 growth outlook

from the current 2.6 percent.

One factor Moody's said had improved the outlook was the election of Emmanuel Macron as French President, which reduced the risk of a European Union exit by a major country.

In Britain, which is negotiating its exit from the bloc, a new constituency-by-constituency modeling by YouGov showed the Conservative Party might lose 20 of the 330 seats it holds while the opposition Labour Party could gain nearly 30 seats.

The news came after a string of opinion polls showed a narrowing lead for Theresa May's Conservatives, shaking investors' confidence that May would easily win a majority in next week's national election.

Moody's singled out Britain as one of the advanced economies that shows signs of slowing, as Brexit-related uncertainty weighs on consumer spending and investment.

On Monday, European Central Bank President Mario Draghi said euro zone growth may be improving but inflation remains subdued, arguing that the extraordinary monetary policy support was still needed to raise inflation back to the bank's 2 percent target.

New managing director for LankaBangla Finance

STAR BUSINESS DESK

Khwaja Shahriar has recently been appointed as the managing director of LankaBangla Finance Ltd, the company said in a statement yesterday.

Prior to the appointment, Shahriar had been serving the company as deputy managing director. Before joining LankaBangla, he served Brac Bank for several years in different positions, including the head of corporate banking. He completed his graduation from Dhaka University and obtained bachelor of business in banking and finance degree from Monash University, Melbourne and an MBA in finance from Victoria University in Australia.



Meghna Group to sell consumer goods at discount

STAR BUSINESS DESK

Meghna Group of Industries has launched a new campaign for the month of Ramadan to sell consumer goods of the group at discounted prices. Under the campaign, the group will sell a one-litre Fresh soybean oil pack at Tk 85, down from its regular price of Tk 102.

Fresh branded sugar will be sold at Tk 60 a kg, down from Tk 72, while the price of every 1kg pack of Fresh Super Premium salt will be cut by Tk 6 to Tk 34.

The group will run the campaign in Jurain, Fakirapool, Press Club, Kawran Bazar, Mirpur 1, Mirpur 11, Kalyanpur, Mohammadpur, BDR Market in Uttara and Malibagh Rail Gate areas, the company said in a statement yesterday.

Toyota uses open-source software in new approach to in-car tech

REUTERS, Tokyo

Toyota Motor Corp on Wednesday said the infotainment system of its revamped Camry sedan to be sold in the United States will run on a Linux-based, open-source technology platform as it tries to keep up with tech firms in developing software for cars.

With the Automotive Grade Linux (AGL) system in a mainstay model, Toyota aims to have the flexibility to customise its software, while it would also keep user data that could otherwise be captured by CarPlay from Apple Inc or Android Auto from Alphabet Inc's Google - applications which enable users to access smartphone data through vehicle infotainment systems.

Toyota is among 10 global automakers working with suppliers and technology companies to jointly build AGL, a basic, open-source platform for vehicle applications which automakers can customise, eliminating the need to code systems from the ground up for each vehicle model.

Developing the platform in collaboration with Mazda Motor Corp, Suzuki Motor Corp, Daimler AG and others will reduce development time and costs, Toyota said, and create an industry standard platform to operate in-vehicle features including music and navigation applications.

The platform can also be used to support future advanced technologies, including self-driving functions and connected car services. "It's very necessary to reduce the overhead of duplication work among our suppliers so they can spend more time to create new things rather than maintaining fragmentary codes," said Kenichi Murata, group manager of Connected Strategy and Planning at Toyota.

Cars typically require over 100 million lines of computer code as automakers pack as much technology as possible to attract buyers. So much so that coding has become an increasingly cumbersome part of vehicle development, which takes years, compared with the mere months it takes for tech firms to develop apps.

In addition, the process requires constant updating to keep up with technology developments and which results in disparate interfaces between automaker's products.

The latest Camry sedan to be launched in coming months will use AGL to operate its suite of in-vehicle apps, and the Japanese automaker said it planned to expand the platform to other Toyota and Lexus vehicles in North America and elsewhere.

Modi urges Spanish firms to invest in India

AFP, Madrid

Indian Prime Minister Narendra Modi on Wednesday urged Spanish firms to invest in India, saying the fast-growing country offered "many opportunities" in areas ranging from tourism to energy. "India is an enormous country and it offers many opportunities to Spanish firms in all sectors," he said in Hindi as he arrived at Spanish Prime Minister Mariano Rajoy's official residence in Madrid for talks. "I invite Spanish firms to participate in our development," he added.

Modi, who arrived in Spain late on Tuesday from Germany, his first stop on a four-nation Europe tour, was scheduled to meet with King Felipe VI later on Wednesday.

He was also to meet Spanish business leaders as part of his push to drum up more foreign investment in India, the world's fastest-growing major economy.

"Spanish firms are global leaders in sectors that are a priority for us. We want to attract tourism, infrastructure, energy and defence firms," Modi said in an interview published in Spanish business daily Expansion. Spain is India's seventh largest trading partner in the European Union.

Two-way trade totalled 4.72 billion euros (\$5.27 billion) in 2016, an 8.5 percent increase over the previous year, of which Spanish exports made up nearly 1.26 billion euros.

The number of Spanish firms that operate in India has risen to over 230 currently from just 70 in 2008.

"Our bilateral relations are becoming more and more intense. I hope this visit spurs deeper ties between our two countries," Rajoy said.

It is the first visit by an Indian prime minister to Spain since Narashima Rao came to the country in 1992.

Modi's tour also leads him to France and Russia -- but not to former colonial power Britain.



Swedish Ambassador to Bangladesh Johan Frisell calls on Planning Minister AHM Mustafa Kamal at the planning ministry in Dhaka yesterday. Sweden will help in improving efficiency and capacity of Bangladesh Bureau of Statistics.

PLANNING MINISTRY

Canada Q1 economic growth leaps to 3.7pc

AFP, Ottawa

Canada's economy roared back to life in the first three months of this year, as more business and household spending pushed growth to 3.7 percent, the government's statistical agency announced Wednesday.

The gross domestic product (GDP) was in line with expectations after an annualized 2.6 percent uptick in the final months of 2016 -- placing Canada's growth ahead of its G7 peers.

By comparison, US GDP grew 1.2 percent in the quarter.

Purchases of passenger cars and trucks led the increase in consumer spending, according to Statistics Canada.

Spending on housing, water, electricity, gas and other fuels, recreation and culture, and clothing and footwear also increased, the agency said.

Bump up infrastructure spending

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Infrastructure development means not only improvement of roads and highways but also ensuring adequate supply of energy and power to the industrial sector and enhancement of port facilities for smooth movement of export and import goods.

For example, South Korea invested 10 percent of its GDP in 1990s to improve infrastructure; now Vietnam is doing the same.

"Many Asian nations are increasing infrastructure spending and reaping benefits," Khan said, adding that the Bangladesh government has also raised the GDP spending for infrastructure development from 2.87 percent to 3 percent in fiscal 2011-12.

But it could not ensure sufficient development, he said.

"If we can improve our infrastructure we can easily catch foreign investment, even under the Chinese initiative of 'One Belt and One Road'. This is a big opportunity for us for attracting FDI," Khan said.

Fresh investment to the country's main export earning sector, apparel, has also been stagnant over the last few years due to the uncertain global economic outlook and shrinking profits, said Siddiqur Rahman, president of Bangladesh Garment Manufacturers and Exporters Association.

In fiscal 2015-16, BGMEA had a total of 4,328 member factories, up from 4,296 in fiscal 2014-15.

"So, the number of new factories is

very modest," he said, adding that the number of new factories this year is also very small.

If the existing projects are implemented timely there will be a positive impact on the investment scenario, both in quality and quantity, said Zahid Hussain, lead economist of the World Bank's Dhaka office.

Projects like the construction of LNG terminals, development of port, power plants, Padma bridge and the other big ones should be implemented as soon as possible for attracting more local and foreign investment, he said.

The government needs to prioritise the industrial sector for attracting investment, said Shafiqul Islam Mohiuddin, president of the Federation of Bangladesh Chambers of Commerce and Industry.

The special economic zones should be ready at the earliest as the land price is very high in the country, he said, adding that the government should also give a clear picture of utility prices to investors for the next six years at least so that they can take a decision.

The frequent changes in the prices of utility discourage investment, Mohiuddin said.

Bangladesh received \$1.71 billion in FDI in the first six months of the fiscal year, up 7.8 percent year-on-year, according to central bank data.

The FDI received last fiscal year was more than \$2 billion, which was 9.34 percent higher than the previous year.



Imran Ahmed, chief operating officer of NRB Bank, and Christoph Voegeli, general manager of Radisson Blu Dhaka Water Garden, exchange the signed documents of a deal at a programme at the hotel in Dhaka on May 29. The bank's credit cardholders will enjoy "Buy 1 Get 1 Free" buffet iftar, dinner and sehri during Ramadan.

Sales of savings tools beat target

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The government plans to cut the rates on saving tools to lessen the debt burden. In various pre-budget discussions, Finance Minister AMA Muhith hinted at cutting the rates to align them with the banks' lending rates.

Currently, saving instruments maturing in five years offer the highest 11.52 percent interest rate whereas the average deposit rate in the banking sector is 5 percent.

A saver gets a monthly return of Tk 916 against an investment of Tk 1 lakh whereas banks give a maximum Tk 200 to Tk 300 after deducting all charges and taxes. In some banks depositors barely get any return from their deposits.

The news of the interest rate cut prompted buying spree of saving instruments. The sales of saving instruments soared 35 percent year-on-year in April.

The rate on saving certificates will be cut as the current rate is "absurd" in comparison to the market rate, Muhith told reporters on Saturday. The government's target for interest payment was Tk 32,863 crore in 2017-18. It plans to spend Tk 42,646 crore for interest payment in the upcoming fiscal year, according to a finance ministry source.

The borrowing target from saving instruments will be set at Tk 25,828 crore in 2017-18.

Biru Paksha Paul, former chief economist of Bangladesh Bank, said a cut in interest rate on saving tools would be a welcome move that will fix the distortion in the market.

He said savers would not be much affected as the reduction will not be significant. The decision will however have a long-term impact in the economy as it would reduce the government's debt burden, he added.

If the rate is cut some savers will be deprived of the lucrative returns since there is no alternative risk-free option to invest, said Mohammed Nurul Amin, managing director of Meghna Bank. "Though the government is spending more against savings instruments the ultimate beneficiary is the country's citizens. So, the government can do it," he said.

The veteran banker said the inflation rate should be covered by the savings rate. Otherwise money could be diverted to risky investment tools.

Golam Hafiz Ahmed, immediate past managing director of NCC Bank, said any rate cut will cause sufferings to a certain income groups who bank on the returns from the savings. He said the cut may bring some money to the capital market. At the same time, deposits could divert to informal sectors.

At the moment, saving instruments is the only safest investment tool as banks offer very low deposit rates, according to Ahmed.

"Cooperatives, NGOs, local merchants and non-banking financial institutions will get a chance to pull savers by offering higher rates. But there will also be risk of being cheated," he said.

A tricky budget

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"We see an over-pressure in the revenue target and the government looks 'extreme' instead of being 'moderate' in this regard," said Khondaker Golam Moazzem, research director of the Centre for Policy Dialogue.

The finance minister could have looked for alternative sources of money such as foreign aid and low-cost bank loans to meet the financing needs. Traders, businesspeople and the public are equally worried about the fallout of imposing a flat 15 percent VAT, he added.

The recent trend in private investment is showing promising signs, said Debapriya Bhattacharya, distinguished fellow of the CPD.

Provisional estimates of the government show that private investment has increased slightly to 23.01 percent of GDP this year from 22.99 percent a year ago.

He also urged the government to slash the personal income tax rate for the lowest threshold to 7.5 percent from 10 percent, which he said would help boost people's disposable income, especially those belonging to the middle-class.

"This cut will bring more revenue to the state as it will increase domestic demand," Bhattacharya added.

How the finance minister addresses the other challenges -- growing public expenditure, borrowing from costly savings tools, gas and electricity crisis, infrastructure deficiencies, unemployment and declining foreign aid -- would be of great interest, analysts said.

Infrastructure gaps and inadequate energy supply, combined with the high cost of doing business, remain the main obstacles to the realisation of Bangladesh's growth potential, according to a recent World Bank report.