IMF says global recovery on firmer footing

AFP, *Washington*

THE global economic recovery is on firmer footing as improving growth in China, Europe and Japan offset downward revisions for the United States and Britain, the International Monetary Fund said Sunday.

However, wage growth remains sluggish which risks increasing tensions that have pushed some countries toward more anti-global policies, while efforts to erode financial regulations put in place since the 2008 crisis could erode stability, the IMF warned. "The recovery in global growth that we projected in April is on a firmer footing; there is now no question mark over the world economy's gain in momentum," IMF chief economist Maurice Obstfeld said.

Presenting the latest update of the World Economic Outlook (WEO), he said "recent data point to the broadest synchronized upswing the world economy has experienced in the last decade."

The fund still expects the global economy will grow by 3.5 percent in 2017 and 3.6 percent in 2018, the same as in the April WEO.

However, the unchanged forecast masks some significant revisions, including in the United States where the IMF downgraded its growth estimate last month after judging that spending plans promised by President Donald Trump that had been expected to provide a boost to the economy were stuck in limbo.

The US estimate was cut to 2.1 percent for this year and next, down 0.2 points and 0.4 points, respectively, from the more optimistic forecast in the last report.

The outlook for the British economy also was revised down by 0.3 points to 1.7 percent this year on weaker-than-expected activity in the first quarter, while the impact of Brexit "remains unclear."

But those downward revisions were offset by the improving outlook in key economies, including the euro area where growth prospects have improved in France, Germany, Italy and Spain.

The euro area now is projected to see economic growth of 1.9 percent this year and 1.7 percent in 2018. Japan also is seeing improved growth prospects, with an expansion of 1.3 percent this year expected, although that is seen slowing sharply to 0.6 percent in 2018.

Meanwhile, China continues to be a major engine of global growth, expanding by 6.7 percent this year, and 6.4 percent next, driven by economic policies in Beijing. The forecast for 2017 was revised up by 0.1 percentage point, "reflecting the stronger than expected outturn in the first quarter" which the IMF said was underpinned by Beijing's "supply-side reforms." The 0.2-point upward revision for 2018, however, was the result of the expected delay in the "needed fiscal adjustment," which could cause risks down the road.

China's "higher growth is coming at the cost of continuing rapid credit expansion and the resulting financial stability risks," Obstfeld warned in his prepared statement. But within the mostly upbeat forecasts, the IMF once again sounded the warning on the growing anti-global sentiment, which could leave all economies worse off.

That has been fueled in part by the fact the benefits of increased growth have not been broadly shared.

"Even as unemployment is falling, wage growth still remains weak," Obstfeld said.

That "not only holds back the improvement of living standards, but also carries risks of exacerbating social tensions that have already pushed some electorates in the direction of more inward-looking economic policies."

While the report does not specify any country, it comes amid Brexit talks and the Trump administration's continuing focus on "America first" policies, including cutting bilateral trade deficits and backing away from free trade agreements.

The report warned that "policies based narrowly on domestic advantage are at best inefficient and at worst highly damaging to all."

Obstfeld said, "Strengthening multilateral cooperation is another key to prosperity."

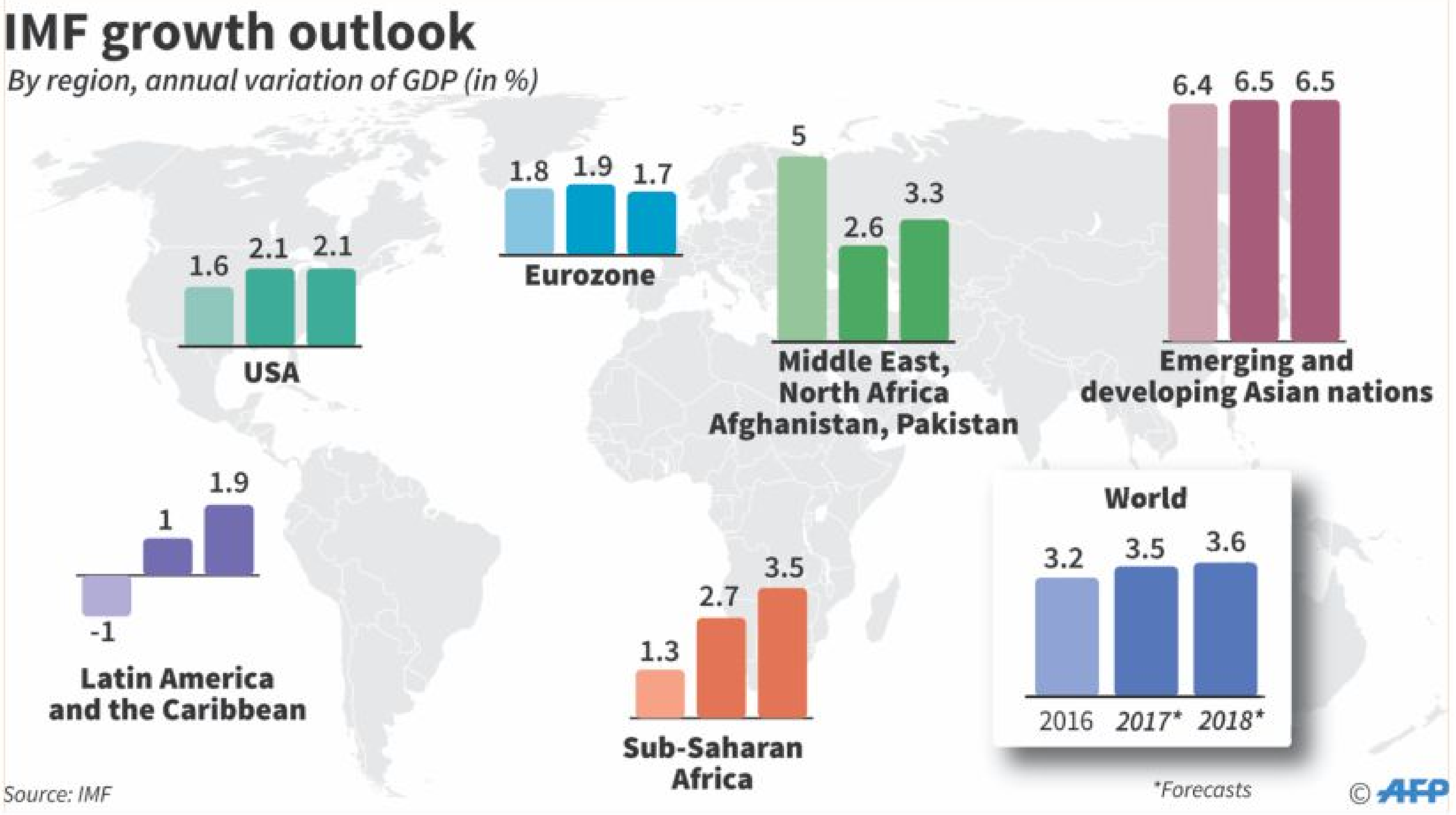
Finally, the IMF cautioned that "a broad rollback of the strengthening of financial regulation and oversight achieved since the crisis" -- something the Trump administration is pushing -- could increase the risk to global financial stability.

REUTERS/FILE

Maintenance crew work on the approach lighting system at Shanghai Hongqiao International Airport in Shanghai. China continues to be a major engine of global growth, expanding by 6.7 percent this year.

IMF growth outlook

By region, annual variation of GDP (in %)



Eurozone economy hits speed bump: survey

AFP, *Brussels*

EUROZONE private sector business activity slowed in July for the second month running but was still running near six-year highs, a closely watched survey showed Monday.

Analysts said that while the slip in the headline readings of the survey by data monitoring company IHS Markit was disappointing, the economy remained on its best run since the eurozone debt crisis.

IHS Markit said its July Composite Purchasing Managers Index (PMI) came in at 55.8 points, the lowest reading in six months and down from 56.3 in June.

The PMI measures companies' willingness to invest in their business and so gives a good idea of how well the underlying economy is performing. Any reading above the boom-bust 50 points line indicates the economy is expanding.

By sector, the all important services index was unchanged at 55.4 points in July, while manufacturing fell to 56.8 points from 57.4 points in June.

IHS Markit chief business economist Chris Williamson stressed that the state of economy in the 19-nation eurozone remained "impressive".

"It's too early to know for sure whether the economy has merely hit a speed bump or whether the upturn is already starting to fade," Williamson said.

Uber rival Grab to raise $2.5b in new financing

AFP, *Singapore*

SOUTHEAST Asian ride-hailing firm Grab said Monday it expects to raise $2.5 billion in financing, mostly from China's Didi Chuxing and Japan's Softbank, as it strengthens its lead over rival Uber.

Didi, China's ride-hailing leader, and mobile giant SoftBank will invest up to $2.0 billion while $500 million is expected to come from other new and existing investors.

Grab said it amounts to the largest single financing in Southeast Asia. Both Didi and SoftBank are already investors in Grab.

The Singapore-based firm said it would use the fresh funds to bolster its leading position in the ride-hailing industry and invest in a mobile payment platform called GrabPay.

"We are delighted to deepen our strategic partnership with Didi and SoftBank," said Anthony Tan, Grab's group chief executive and co-founder.

"With their support, Grab will achieve an unassailable market lead in ridesharing, and build on this to make GrabPay the payment solution of choice for Southeast Asia."

Grab said it has a market share of 95 percent in third-party taxi-hailing and 71 percent in private-vehicle hailing in Southeast Asia, far ahead of main rival Uber.

Grab offers private car, taxi, motorbike and carpooling services in seven countries and 65 cities across Southeast Asia, a region of 650 million people.

"Starting with transport, Grab is establishing a clear leadership in Southeast Asia's internet economy based on its market position, superior technology, and truly local insight," said Didi founder and chief executive Cheng Wei in a statement.

"Both companies look forward to working together with communities and policymakers across Asia to fully embrace the extraordinary opportunities in the upcoming transportation revolution."

Masayoshi Son, chairman and chief executive of SoftBank, described Grab as "a tremendously exciting company in a dynamic and promising region."

REUTERS/FILE

People wait for the start of ride-hailing company Grab's fifth anniversary news conference in Singapore.

Cartel probe looms over German car industry

AFP, *Frankfurt Am Main*

GERMAN carmakers faced a brewing scandal Monday as suspicions grew they colluded illegally for decades, further damaging the industry's image and exposing it to massive financial risks.

News weekly Der Spiegel reported Friday that German carmakers Volkswagen, Audi, Porsche, BMW and Daimler had secretly worked together from the 1990s onwards on huge areas of car development, construction and logistics -- including how to meet increasingly tough emissions criteria in diesel vehicles.

Both buyers and suppliers of the auto giants suffered from the under-the-table deals, the magazine alleged.

For the world's largest carmaker Volkswagen, the diesel emissions scandal alone has already cost tens of billions of euros since it admitted to cheating on regulatory tests in 2015.

That is likely why the Wolfsburg-based firm, along with Mercedes-Benz parent Daimler, was one of the first to hand over details of the alleged broader collusion between the five firms to competition authorities, reported Spiegel, saying it had seen a VW document submitted to the authorities. Regulators often treat the first company to report such infringements more leniently than the rest.

And Daimler has experience: it suffered a billion-euro fine from Brussels last summer after agreeing on prices for its trucks with three European competitors.

In theory, the maximum fine from the European Commission or Germany's federal competition authority could reach 10 percent of a firm's revenue -- or close to 50 billion euros ($58.3 billion) across all five car companies, based on their 2016 sales.

On top of that would come individual claims from customers.

Many buyers could have paid "a price that was far too high" for their vehicles, Klaus Mueller of the VZBV consumer federation told newspaper Sueddeutsche Zeitung Monday.

It could be some time before the full details of the automakers' cooperation come to light.

Both Brussels and German authorities say they have received information on the possible agreements between the firms.

These are now "undergoing examination by the Commission," the EU's executive arm said Saturday, while adding that it would not "speculate further" on the outcome.

Volkswagen has said nothing, although its supervisory board is set to meet on Wednesday, while Daimler insisted that it applies an internal competition law compliance programme.

Munich-based BMW denied any collusion with competitors Sunday, adding that none of its vehicles had been manipulated to meet diesel emissions norms.

Among the areas Spiegel reported manufacturers collaborated on in its report Friday was the size of tanks for a liquid known as AdBlue, used to treat diesel exhaust fumes.

The fluid reacts with harmful nitrogen oxides found in the emissions and transforms them into water and nitrogen.

But carmakers agreed not to add large reserves of the additive to their vehicles, Spiegel reported, preferring to save space for customers' golf bags or profitable upgrades such as speaker systems.

Rather than call on drivers to refill the tiny AdBlue tanks every few thousand kilometres, Volkswagen built systems into millions of vehicles that reduced exhaust treatment unless software detected the car was undergoing a regulatory emissions test.

Other manufacturers including Daimler are suspected of doing the same.

"If this turns out to be true it would cost tens of billions of euros altogether, and single-digit billions for each manufacturer," analyst Frank Schwope of Nord/LB bank told AFP.

The reports have also spooked investors, with car industry stalwarts trailing on the DAX index of blue-chip German shares Monday.

Daimler was the worst performer on the table, with its stock losing 3.76 percent to trade at 60.23 euros ($70.21) by 1010 GMT.

"In the context of the diesel scandal, forbidden agreements are a kind of total meltdown for the credibility of the German car industry," said Professor Stefan Bratzel of the Center of Automotive Management, which is located outside the western German city of Cologne.

In the political arena, lawmakers are gearing up for an election in late September and cannot leave the car industry theme untouched.

Carmakers must "clear the decks", said Volker Kauder, leader of Chancellor Angela Merkel's Christian Democratic Union in the lower house of parliament.

"We have to say clearly: justice and the law apply even to the car industry."

Centre-left challenger for the Chancellery Martin Schulz warned that if the allegations prove true, "it would be a gigantic fraud at the expense of customers and suppliers, many of them small- and medium-sized businesses."

REUTERS/FILE

People walk past a row of Volkswagen e-Golf cars during the company's annual news conference in Berlin, Germany.