Growth momentum to slow without policy upgrades

Top IMF economist tells The Daily Star

JEBUN NESA ALO, *from Kuala Lumpur*

MAINTAINING the past growth performance will become increasingly challenging for Bangladesh without a significant rise in public and private investment, said a top official of the International Monetary Fund.

"Yes, the fast growth of the past could be sustained, but it will not happen automatically," said Brian Aitken, the division chief of the Asia Pacific department of the IMF.

Aitken's comments came in an interview with The Daily Star on the sidelines of the 2017 IMF-BNM summer conference in the Malaysian capital. The two-day conference ended yesterday.

To sustain the growth momentum, Bangladesh's policy practices and institutions need to be upgraded to better fit with the aspiration of a middle-income country status.

In this respect, one of the key tasks is to develop the country's capital markets for financing long-term private investment that would greatly improve growth prospects, he said.

Boosting government tax revenue is also vital to provide adequate resources for public infrastructure investment and social spending.

The implementation of the VAT and Supplementary Duty Act 2012 would be an important step towards achieving the government's growth ambitions and reaching the middle-income country status, he said.

The new VAT law, which was formulated at the prescription of the IMF, was supposed to take effect from this fiscal year but it was shelved at the eleventh hour following fervent opposition by a section of the business community and lobby groups.

Formulated at the prescription of the IMF, the law called for a uniform 15 percent VAT for most goods and services available in the country, doing away with the existing multiple rates.

Brian Aitken

The new VAT would have boosted Bangladesh's low budget revenue, allowing the country to raise growth-supporting public investment and social spending, without undermining fiscal sustainability.

"We have attached great importance to implementing the new VAT law," Aitken said, adding that the failure to implement it and modernise Bangladesh's tax system will make the journey to becoming a middle-income country more difficult, uncertain and longer.

The economist also touched upon the default loan-riddled state-owned banks, which are progressively becoming an Achilles heel for the government.

He said addressing the poor performance of the state banks so that savings are allocated to profitable growth-enhancing projects and not to loss-making undertakings is also important for the country's growth aspirations.

Asked about the disparity in growth forecasts of the multilateral lenders, he said: "It is not unusual for growth forecasts to differ moderately, as in the case of Bangladesh."

Aitken, however, went on to commend the country's macroeconomic management.

"We view the macroeconomic management in Bangladesh as successful."

Monetary policy has been managed well, contributing to lowering inflation, and fiscal discipline has kept the deficits and public debt at a moderate level.

In turn, macroeconomic stability, in combination with favourable external demand, has resulted in strong and stable output growth, and increased resilience of the economy to external shocks.

"This solid macroeconomic performance is set to continue this year, with output growth projected to remain close to current levels and inflation broadly in line with the Bangladesh Bank's target."

About the sliding remittance, he suggested the government research possible reasons behind it and implement policies that make it easier for foreign workers to remit through the official channels.

In recent times, there has been a growing tendency among migrant workers to send money home through illegal methods, which deprive the government of foreign currency.

"However, to the extent that the remittance slowdown reflects worsening economic conditions in other countries, it could be difficult to put in place effective measures to reverse the slowdown."

There has also been a significant slowdown in remittances from the Gulf Cooperation Council countries -- host to the majority of Bangladesh's migrant workers -- because of the declining economic activities as a consequence of the lower oil prices.

Regardless, Aitken called for an improvement in Bangladesh's business climate, including infrastructure, such that the country can attract more foreign direct investment, which could offset the impact on balance of payments from the slowdown in remittances.

E-tailer Snapdeal's board accepts Flipkart's up to $950m buyout

REUTERS, *Mumbai*

Online marketplace Snapdeal has accepted Flipkart's revised takeover offer of up to $950 million, two sources said on Wednesday, providing heft to its bigger rival in a high-stakes battle with Amazon.com Inc.

The board of Jasper Infotech, which runs Snapdeal, approved Flipkart's bid of $900 million-$950 million last week, the sources who were familiar with the matter said. A deal is now pending the approval of Snapdeal shareholders, they said.

Snapdeal declined to comment, while Flipkart was not immediately available for comment.

India's fledgling e-commerce sector is in the midst of a fierce war for supremacy between U.S. online retail giant Amazon and leading homegrown player Flipkart at a time more and more Indians shop on the web, helped by a spurt in availability of cheap phones and data plans.

Japan's solar-to-tech conglomerate SoftBank, Snapdeal's biggest investor, is keen to consummate the deal and take an equity stake in Flipkart to profit from India's booming online retail market.

A 2016 report from accounting firm EY noted that e-commerce has grown at a compound annual growth rate of over 50 percent in the last five years in India and the pace of growth is expected to continue, with e-commerce sales topping $35 billion by 2020.

Bengaluru-headquarterd Flipkart had revised its initial offer for Snapdeal to up to $950 million, Reuters reported last week. The board also considered a $700 million share-swap offer by listed e-commerce firm Infibeam but rejected it as too low, one of the sources said.

JPMorgan to merge UK-based private bank with wider European ops

REUTERS

JPMorgan Chase & Co, the biggest US bank by assets, is planning to merge its UK-based private banking unit with its wider European wealth operation ahead of the UK's exit from the European Union, Sky News reported on Wednesday.

The merger will lead to the relocation of fewer than 100 of the roughly 1,000 jobs in the private banking unit in Britain, to Europe, Sky reported, citing sources. A number of alternatives to the merger were also being considered, Sky said. A JPMorgan spokeswoman declined to comment.

Daniel Pinto, head of investment banking at the Wall Street bank, told Bloomberg in May that it planned to move hundreds of London-based bankers to offices in Dublin, Frankfurt and Luxembourg after Brexit.

CEO Jamie Dimon, however, said in April the bank was not planning to move many jobs out of Britain in the next two years.

British economy holds up against Brexit headwinds

AFP

Britain's Chancellor of the Exchequer Philip Hammond (R) meets staff as he tours the IBM office in London yesterday, as the preliminary estimates for 2017 Q2 GDP are published.

AFP, *London*

BRITAIN'S economy advanced slightly in the second quarter, pulled higher by the key services sector despite high inflation and uncertainty over Brexit, official data showed Wednesday.

Gross domestic product grew by 0.3 percent between April and June, a slight increase compared with the first quarter of the year, the Office for National Statistics said in a statement.

GDP had stood at 0.2 percent growth between January and March, the ONS confirmed, while the improved second-quarter reading matched analysts' consensus forecast.

The data comes shortly after the International Monetary Fund downgraded its 2017 growth estimate for Britain on Brexit's clouded outlook.

The ONS on Wednesday said that UK growth in the second quarter had been "driven by services, which grew by 0.5 percent" largely thanks to the retail sector.

"Construction and manufacturing were the largest downward pulls on quarterly GDP growth, following two consecutive quarters of growth," the ONS added in its statement.

At the weekend, the IMF revised down its 2017 GDP forecast for Britain by 0.3 points to 1.7 percent following weaker-than-expected activity in the first quarter, while noting also that the impact of Britain's exit from the European Union "remains unclear".

Britain's annual growth rate stood at 1.7 percent in the second quarter, down from 2.0 percent in the first, the ONS added Wednesday.

Britain's economy is under pressure as high domestic inflation cuts consumer spending and raises household debt.

The rise in prices sits alongside weak average earnings growth in the country, reducing the chances of an interest rate hike from the Bank of England this year, that would mirror the policy of monetary tightening in the United States.

"We do not expect the BoE to change... at the August meeting, though the first hike is probably getting a little closer," noted Alan Clarke, head of European fixed income strategy at Scotiabank.

"An upwards revision to the Bank's inflation projection and downwards revision to the unemployment rate will signal that the door is still open to a rate hike later in the year, should the growth data improve," he added in a client note.

The latest quarterly reading of 0.3-percent growth "confirms that the economy has little momentum because consumers are enduring falling real wages (on high inflation) and businesses are holding back from spending due to Brexit risk", said Samuel Tombs, chief UK economist at Pantheon Macroeconomics.

British GDP slowed in the first quarter after output of 0.7 percent in the final three months of 2016.

British inflation is meanwhile being supported by a Brexit-fuelled slump in the pound pushing up import costs -- although the annual rate managed a slowdown to 2.6 percent in June from a near four-year high of 2.9 percent in May.

"The good news is that the worst of the exchange rate induced inflation should start to roll off... which can offer support to the key retail and services sectors," said Neil Wilson, senior market analyst at ETX Capital.

Global ransomware attacks on the rise: Europol

AFP, *The Hague*

Global ransomware attacks soared by over 11 percent in the 12 months to March, Europol reported Tuesday, but specialist tools developed with its partners had helped unlock some 28,000 encrypted devices.

"Ransomware has soared since 2012, with criminals lured by the promise of profit and ease of implementation," the European police agency said in a statement.

According to a report by cybersecurity specialists Kaspersky Lab, the "total number of users who encountered ransomware between April 2016 and March 2017 rose by 11.4 percent compared to the previous 12 months, from 2,315,931 to 2,581,026 users around the world".

Europol and Kaspersky joined forces with the Dutch police and others a year ago to establish the "No More Ransom" initiative, just months before a couple of high-profile cyberattacks made headlines.

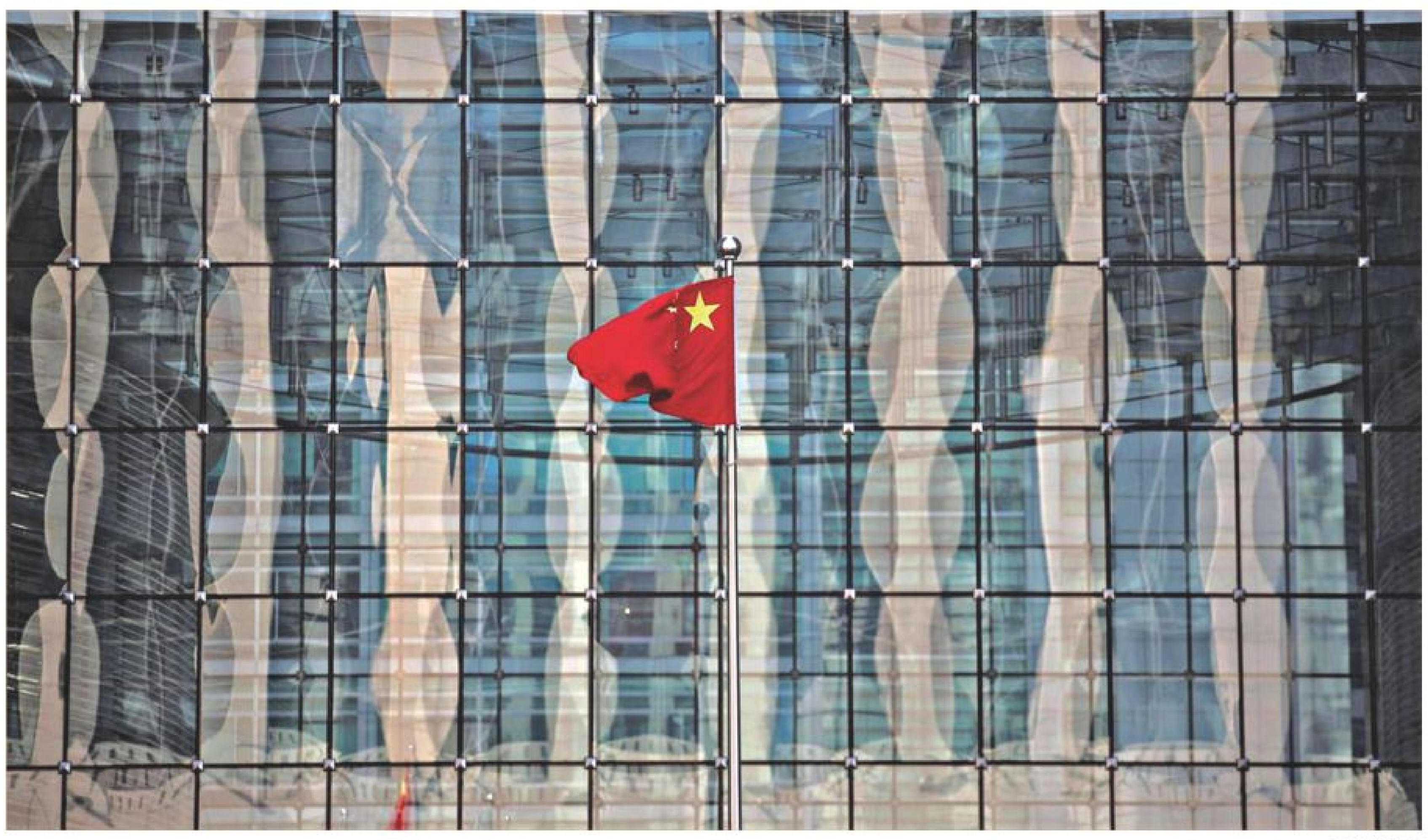
In May the WannaCry attack claimed more than 300,000 business victims across 150 countries in its first few days, Europol said.

The attack, using a type of malware that encrypts files on an infected computer and demands money to unlock them, crippled "critical infrastructure and businesses," Europol said.

Then last month similar attacks hit Europe and North America, and were revealed to be an updated version of a malware called Petya.

"Some organisations are still struggling to recover from ExPetya attacks of 27 June," the police agency said.

China to convert all giant state companies into joint-stock firms by end-2017



REUTERS

Beijing moves to make its state-owned giants more nimble, efficient and modern.

REUTERS, *Beijing*

ALL big Chinese companies owned by the central government will be registered as limited liability companies or joint-stock firms by the end of the year, as Beijing moves to make its state-owned giants more nimble, efficient and modern.

About 90 percent of firms owned by the central government and local governments have already completed the process, which has helped improve their governance structures and management, the cabinet said in a statement on its website on Wednesday.

It did not say whether private capital will be allowed to invest in the state giants or whether they will list shares.

Through reforms, the central government hopes to revive China's bloated and debt-ridden state-owned sector and create "bigger and stronger" conglomerates capable of competing on the global stage.

Part of the reforms will involve shutting the most uncompetitive firms. The ownership structure of some SOEs will also be modernised.

One of the biggest problems facing China, particularly the lumbering state-owned giants, is a spike in debt since the 2008 global financial crisis.

Authorities have stepped up efforts to contain debt risks over the past year, and part of those steps have involved the restructuring of state firms.

Earlier this year, People's Bank of China Governor Zhou Xiaochuan said banks will withdraw support for financially unviable firms, repeating pledges by other officials to drive "zombie" firms out of the market.

China is also pushing mixed ownership to allow private capital to invest in firms while retaining the government's presence in the companies.

The state-owned asset regulator has said "erroneous" notions like "privatisation" and "de-nationalisation" should be avoided.

Efforts will be made to strengthen the party's leadership at big state firms and to prevent the loss of state assets during restructuring, the cabinet said on Wednesday.

The party's leadership will also help protect employees' legal rights and ensure the stability of corporate reforms, the cabinet said.

One focus will also be on the formation of the board of directors at state-owned companies, the cabinet said, as part of efforts to bring it in line with present day corporate governance practices.

The board will have a say in major corporate decisions, hiring and salary distribution.

Salary corridors linked to corporate profits and productivity will also be set up, according to the cabinet.

Last month, the state asset regulator said China's centrally administered SOEs will be divided into three types - industrial groups, investment firms and operating companies.

While details were sparse, the move will similarly change the way SOEs are organised.

The central government now owns and administers 101 enterprises in sectors ranging from nuclear technology to medicine.

The state asset regulator has told the enterprises and their subsidiaries to hand in their restructuring plans by end-September, the official Xinhua news agency said on Wednesday.

Xinhua reported that 69 of the enterprises, with assets totalling 7.97 trillion yuan ($1.2 trillion), have not registered themselves as either joint-stock companies or limited liability firms.