STOCKS	Week on week
DSEX	CSCX
▲ 0.85%	▲ 0.52%
4,418.84	8,163.74

COMMODITIES	Friday closing
Gold ▲	Oil ▲
$1,509.30	$68.16
(per ounce)	(per barrel)

ASIAN MARKETS			As on Friday
MUMBAI	TOKYO	SINGAPORE	SHANGHAI
▲ 1.00%	▼ 0.36%	▲ 0.11%	▼ 0.08%
41,575.14	23,837.72	3,226.53	3,005.04

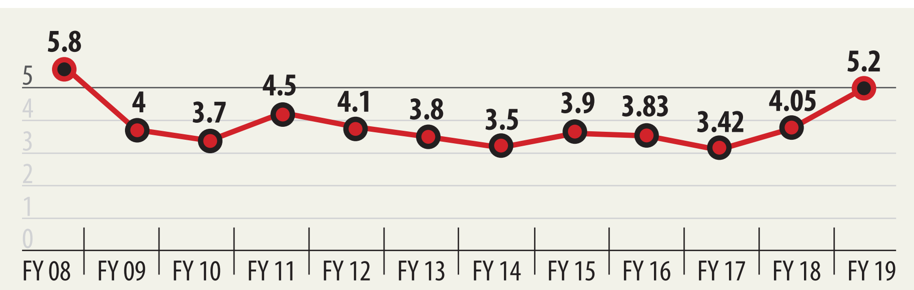
CURRENCIES (As on Thursday, STANDARD CHARTERED BANK)	$ USD	€ EUR	£ GBP	¥ JPY
BUY TK	83.95	92.29	108.40	0.75
SELL TK	84.95	96.09	112.20	0.79

Star BUSINESS

DHAKA SUNDAY DECEMBER 29, 2019, *POUSH 14, 1426 BS* starbusiness@thedailystar.net

Budget deficit goes over 5pc boundary

Revenue shortfall, spending rise to blame



SOURCE: **FINANCE DIVISION**

REJAUL KARIM BYRON

Budget deficit, which is when spending exceeds revenue, is set to cross the sensible perimeter of 5 percent of GDP in fiscal 2018-19 for the first time in 12 years on the back of ebbing collections of the tax administrator.

Revenue collection grew 10.67 percent last fiscal year against the target of about 46 percent, according to provisional data of the National Board of Revenue. But, data from the Comptroller and Auditor General office shows that the growth was less than 10 percent.

As per the finance division's provisional data, the budget deficit last fiscal year was 5.2 percent.

"In the end, it may be even bigger," said a finance ministry official upon condition of anonymity.

It takes at least six months to work out the actual deficit after the conclusion of the fiscal year. The final accounts are expected to be worked up within the next couple of days, he added.

For developing countries a budget deficit is not unusual as the government needs to spend big on building infrastructure to shore up future economic activities.

The government meets the gap between income and expenditure through domestic and foreign borrowing obtained as loans or grants.

But keeping the deficit within 5 percent is recommended, and is in fact considered international best practice.

In Bangladesh, when the budget is drafted a 5 percent deficit is projected. The actual deficit turns out to be about 4 percent every year as the ministries and divisions fail to use up their allocated funds.

Finance Minister AHM Mustafa Kamal acknowledged that revenue growth was slow.

READ MORE ON B3

Loan write-offs rocket

AKM ZAMIR UDDIN

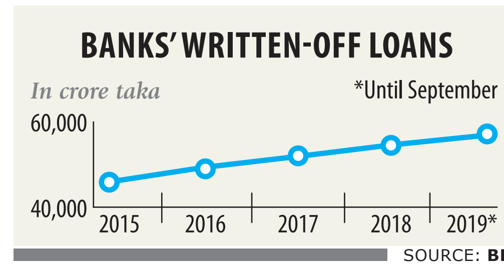
Loans written off by banks escalated 42.66 percent year-on-year to Tk 1,640 crore in the first nine months of the year as lenders, awash with default loans, endeavoured to clean up their balance sheets.

The upward trend of written-off loans will help lenders paint a rosy picture of their health only for the time being, said Zahid Hussain, a former lead economist of the World Bank's Dhaka office.

"But this will not bring anything positive as recovery of such delinquent loans is incredibly tough," he added.

As of September, the banking sector's total written-off loans stood at Tk 55,055 crore, up 10 percent from a year earlier, according to data from the Bangladesh Bank.

Banks have failed to recover 75 percent of the total written-off loans since January 2003, when the central bank introduced the policy. Unrealised delinquent loans stand at Tk 41,461 crore as of September.



SOURCE: **BB**

Although banks have to file cases with the money loan courts to write off loans, the legal process hardly brings any positive result when it comes to recovery of delinquent loans, Hussain said.

"It is just a symbolic exercise," he added.

Earlier in February, with a view to cutting down the stockpile of defaulted loans, the BB relaxed the policy to allow banks to write off default loans that have been languishing in the bad category for three years, down from five years previously.

Furthermore, lenders do not have to file any case with money loan courts to write off delinquent loans worth Tk 2 lakh, up from Tk 50,000 previously.

"There is no scope to hold back written-off loans unless and until default loans are checked," Hussain said, adding that the central bank continues to give regulatory forbearance to banks, fueling defaulted loans in recent months.

In the first nine months of 2019, an eye-watering Tk 22,377 crore of outstanding loans turned red.

Banks have to keep 100 percent provisioning against written-off loans that erodes their capital base and available loanable funds.

"They should strengthen their financial health first before they can write off loans," said Ahsan H Mansur, executive director of the Policy Research Institute of Bangladesh.

READ MORE ON B3

Real estate sector bounces back

2020 looks brighter, developers say

JAGARAN CHAKMA

Things are finally looking up for realtors in 2020 after a bumpy last few years thanks to government support to public servants for housing loans and an increase in home loan ceiling by the central bank.

The sector saw at least 9 percent growth this year, according to Alamgir Shamsul Alamin, president of the Real Estate and Housing Association of Bangladesh (REHAB).

He went on to credit the government decision to extend low-cost home loans to public servants from fiscal 2018-19 for the pickup in flat sales.

Based on the location and grade of a government employee, he or she can now take loans starting from Tk 20 lakh to up to Tk 75 lakh at 10 percent interest from public banks like Sonali, Rupali and Agrani and the state-owned Bangladesh House Building Finance Corporation.

Of the 10 percent interest rate, the government

KEY FACTORS

- Govt support to public servants for housing loans
- Increase in home loan ceiling

will foot 5 percent and the employee will bear the rest.

Alamin, however, could not provide accurate flat sales figure for 2019 due to the absence of central data collection by the sector's trade body.

"Sales were slightly better this year," said Liakat Ali Bhuiyan, first vice-president of REHAB and chairman of Brick Works Development, a real estate company. Brick Works managed to sell all apartments in its three ongoing projects in 2019.

As of December 27, about 11,000 flats remain unsold, in contrast to 14,000 at the end of 2018, according to Bhuiyan.

The sector would gain momentum if the interest rate for home loans was brought down to single digits, he said.

At present, the interest rate on home loans ranges from 11 percent to 13 percent.

Bhuiyan went on to commend the slash in registration fee to 11 percent from 14-16 percent of a property's price

In another positive move, the central bank last month raised the home loan ceiling to Tk 2 crore from Tk 1 crore and also allowed banks to provide loans up to 70 percent of the property price.

GPH ISPAT

Saiful Islam, vice-chancellor of the Bangladesh University of Engineering and Technology; Fahmida Gulshan, chairman of the Department of Materials and Metallurgical Engineering, Md Alamgir Kabir, chairman of GPH Ispat, and Mohammed Jahangir Alam, managing director, attend a deal signing ceremony between the department and the company at the university's auditorium in Dhaka recently on mutual cooperation on research and innovation. The company handed over a universal testing machine to BUET.

China's industrial profits grow at fastest in eight months

REUTERS, *Beijing*

Profits at China's industrial firms grew at the fastest pace in eight months in November, but broad weakness in domestic demand remains a risk for company earnings next year.

China's industrial sector has faced persistent pressure in the past year, with manufacturers battling sluggish demand and a profit-denting trade dispute with the United States. But recent factory activity surveys have pointed to a nascent recovery in the manufacturing sector, following Beijing's accelerated stimulus measures to steady growth.

Industrial profits in November rose 5.4 percent from a year earlier to 593.9 billion yuan ($84.93 billion), snapping three months of decline, as production and sales quickened, data from the National Bureau of Statistics (NBS) showed on Friday. That compared with a 9.9 percent drop in October.

For January-November, industrial firms notched profits of 5.61 trillion yuan, down 2.1 percent from a year earlier, but slightly better than a 2.9 percent fall in the first 10 months.

The expansion was mostly due to quickening production and sales, while factory-gate prices contracted at a slower pace, said Zhu Hong, an official with the statistics bureau in a statement released alongside the data.

But he cautioned that the rebound may not be an indication of a sustained recovery.

"Although the profit growth turned to positive in November, we have to see that the current downward pressure on the economy is still big, and the volatility and uncertainty of profit growth still exist due to multiple factors such as market demand and industrial prices."

In November, profits at state-owned industrial firms rose 0.6 percent from a year earlier, reversing a declining trend since the second half this year, while private sector profits also posted a significant acceleration in growth.

Among sectors, the chemical, petroleum processing and steel industries reported recovering profits last month due to rebounding market demand and rising prices.

"We expect the surge in industrial profit growth to be just short-lived, given strong growth headwinds and still-elevated uncertainty amid US-China trade tensions," analysts at Nomura said in a report after the data.

"In our view, Beijing will likely continue to roll out moderate easing measures amid limited policy room."

The upbeat figures come amid patchy recoveries in industrial output against broad weakness in demand at home and abroad. Industrial production rose at the fastest clip in five months in November amid easing trade hostilities with Washington, but exports continued to hover in the contractionary zone.

China and the United States cooled their 17-month long trade war earlier this month, announcing a Phase 1 agreement that would reduce some US tariffs in exchange for more Chinese purchases of American farm products.

Analysts said the deal could boost China's export activity and corporate investment in the near term, but its economic outlook would continue to be challenged by lackluster global growth. US President Donald Trump said on Tuesday he and Chinese President Xi Jinping will have a ceremony to sign the first phase trade deal agreed to this month.

China's economy is expanding at the slowest pace in nearly 30 years and could face greater downward pressure next year, but policymakers have vowed more support to stabilize growth and prevent risks.

Turkey unveils first fully homemade car in $3.7b bet on electric

REUTERS, *Istanbul*

Turkey unveiled its first fully domestically-produced car on Friday, saying it aimed to eventually produce up to 175,000 a year of the electric vehicle in a project expected to cost 22 billion lira ($3.7 billion) over 13 years.

The project has been a long-time goal of President Tayyip Erdogan and his ruling AK Party as a demonstration of the country's growing economic power.

Speaking at the unveiling ceremony, Erdogan said Turkey aimed not only to sell the car domestically but also wanted it to become a global brand, starting with Europe.

"We're all together witnessing Turkey's 60-year-old dream become reality," he said, referring to failed plans in the past to build a fully home-produced car. "When we see this car on roads around the whole world, we will have reached our goal." Following his speech, a red SUV model of the car and another grey sedan one were raised onto the stage, sporting the TOGG label of the consortium that is building them.

Erdogan said the charging infrastructure for electric cars would be ready nationwide by 2022. Turkey is already a big exporter to Europe of cars made domestically by firms such as Ford, Fiat Chrysler , Renault, Toyota and Hyundai .

The new project, launched in October, will receive state support such as tax breaks, and establish a production facility in the automotive hub of Bursa in northwest Turkey, according to a presidential decision in the country's Official Gazette.

Five models of the car will be produced, the statement said, adding the government had guaranteed to buy 30,000 of the vehicles by 2035.

India's internet shutdowns costing telcos millions of rupees in lost revenue

REUTERS, *New Delhi*

Indian mobile operators are losing around 24.5 million rupees ($350,000) in revenue every hour they are forced to suspend internet services on government orders to control protests against a new citizenship law, a top lobby group said on Friday.

Countrywide protests have raged for three weeks after parliament passed legislation which gives minorities from neighbouring Pakistan, Afghanistan and Bangladesh a path to citizenship but excludes Muslims.

That, coupled with a plan for a national register of citizens, are seen by critics as anti-Muslim moves by the Hindu nationalist government of Prime Minister Narendra Modi.

To quell protests, government has deployed thousands of police as well intermittently ordered mobile data shutdowns at a time people have used social media such as Instagram and TikTok to wage a parallel battle online. Such internet suspensions have been criticised by internet freedom activists.

On Friday, mobile internet was ordered shut in at least 18 districts in northern Uttar Pradesh state, a telecoms industry source told Reuters.

A Reuters witness received a text message from an internet service provider announcing that home broadband services on the outskirts of capital New Delhi will be unavailable for 24 hours, till the morning of Dec 28.

Indians consume an average 9.8 gigabyte of data per month on their smartphones, the highest in the world, according to Swedish telecoms gearmaker Ericsson. The country is the biggest market by users for social media firm Facebook and its messenger WhatsApp.

Internet shutdowns should not be first course of action, said the Cellular Operators Association of India (COAI), which counts mobile carriers Bharti Airtel, Vodafone Idea and Reliance Industries' Jio Infocomm as its members.

"We've highlighted the cost of these shutdowns," COAI director general Rajan Mathews told Reuters. "According to our computation at the end of 2019, with the increase in online activities we believe the cost (of internet shutdowns) is close to 24.5 million rupees for an hour of internet shutdown."

The revenue losses will pile on to the woes of India's telecoms sector, bruised by a price war and saddled with a combined $13 billion in overdue payments following a Supreme Court ruling in October.

Bharti, Vodafone Idea and Reliance Jio did not respond to emails seeking comment.

REUTERS/FILE

Commuters watch videos on their mobile phones as they travel in a suburban train in Mumbai.

The bans follows an unprecedented shutdown of internet and text messaging services in parts of Delhi last week, widening a communications clampdown in restive areas stretching from disputed Kashmir to the northeast.

Internet services in Indian Kashmir were suspended for over 140 days since New Delhi relegated its status to a federal administered territory from a state, making it the longest such shutdown in a democracy, according to digital rights group Access Now.

MRDI

Sheikh Afil Uddin, a lawmaker, Md Ashanur Rahman, chief economist and country business manager of City Bank, and Hasibur Rahman, executive director of the Management and Resources Development Initiative (MRDI), hand over a bicycle to a school girl at Basatpur in Jashore. Forty-one girls received bicycles under a corporate social responsibility initiative of the bank and the MRDI. The initiative has been implemented by local daily Gramer Kagoj.

PRAN

Eleash Mridha, managing director at Pran Group, speaks at press conference at the Pran Center in the capital's Badda on Saturday to launch the company's campaign -- Chhorai Bhalobashar Ushnota Season-2 -- to help the cold-hit poor people and raise public awareness on used plastic bottles.

Recession, robots and rockets: another roaring 20s for world markets?

REUTERS, *London*

Helicopter cash, climate crises, smart cities and the space economy -- investors have all those possibilities ahead as they enter the third decade of the 21st century.

They go into the new decade with a spring in their step, after watching world stocks add over $25 trillion in value in the past 10 years and a bond rally put $13 trillion worth of bond yields below zero.

They also saw internet-based firms transform the way humans work, shop and relax. Now investors are positioning for the tech revolution's next 10 years.

Could we see a repeat of the roaring twenties, as the 1920s were known -- years of prosperity, technological innovation and such social developments as women winning the right to vote? Possibly. But there's unease, along with all the euphoria. The current economic cycle is already the longest in US history and a recession looks inevitable in the new decade -- which also will mark 100 years since the Wall Street crash of 1929.

And solutions may need to be unconventional, even more so than the extraordinary policies of negative interest rates and bond-buying that eased the post-2008 global funk.

With those policies maxed out, "in the 2020s it seems inevitable that a world of helicopter money awaits," Deutsche Bank predicts.

That would entail central banks or governments providing citizens with large amounts of money, as though it was being dropped from helicopters, a strategy rejected even by the unorthodox policymakers of the 2010s. Another radical option under discussion is modern monetary theory, when governments create and spend as much money as needed, so long as inflation stays low.

"Central banks have effectively invited governments to experiment with more unconventional policies," Deutsche said. However, those policies may pile up even more global debt, already at record highs.

So what will markets do? A decade of rock-bottom interest rates didn't revive growth and inflation in developed nations, but they certainly inflated markets, as prices for bonds, equities and real estate show.

The inequality they spawned have also triggered a widespread backlash against globalisation. The result is a de-globalising world, or as Morgan Stanley puts it, "slow-balisation".

The bank expects tech investments to outperform, in particular smaller internet firms in China, as protectionism hurts larger rivals.

But it predicts less exciting returns -- "a lower and flatter frontier compared to prior decades, and especially compared to the ten years post-GFC (global financial crisis)."

As market returns cool, the planet will continue to heat up. Carbon emissions, temperatures, sea levels and thus climate-induced poverty and immigration are expected to rise.

That should increasingly lead asset managers to seek alternatives to pollutants, especially coal, use of which must cease in OECD nations by 2030 for the Paris Agreement to be met.

BofA expects clean energy and electric-vehicle companies to emerge as winners, estimating the clean energy market to be already worth $300 billion.

Ageing populations are another challenge, making demographics a key investment criterion. Deutsche Bank names Ireland, Rwanda, Ghana, Botswana and Laos as among the 22 nations in line for a "demographic dividend", benefiting from growing working-age populations.

REUTERS/FILE

Traders work on the floor at the New York Stock Exchange, US.

It also backed sectors like e-commerce as Generation Z, those who will be in their mid 20s to early 30s by 2030, exercise growing spending power. But in some countries, affluent older spenders will still carry clout. By 2030, over 80s will represent 5.4 percent of the US population, up from 3.7 percent in 2015, driving demand for retirement homes, healthcare and long-life innovations.

"Immortality may prove the most interesting secular theme in the 2020s," BofA predicts.

Facebook can be effective tool for branding

Experts, digital entrepreneurs say

STAR BUSINESS REPORT

Social media platforms, especially Facebook, can play a significant role in developing of building businesses in Bangladesh if entrepreneurs can use them properly, experts and successful e-commerce firms said yesterday.

There are eight lakh Facebook pages in Bangladesh that run business contents. Even if one lakh pages run their business regularly or even occasionally, their value would be huge, they said.

"Here, idea is the key and no cost is needed to brand products," said Mahtab Uddin Ahmed, managing director of Robi, at the inaugural session of the F-Commerce Summit at the Krishibid Institution Bangladesh in Dhaka.

The event, which was the third of its kind, was organised by Greeky Social, a digital media marketing company.

Speakers at the event said social media platforms give chances to young entrepreneurs to get their fair share of the market.

Currently, there is a huge number of social media channels and entrepreneurs need to be careful while carrying out digital campaigns and need to have clear idea about prospective customers, Ahmed said.

"Choose your social platform correctly and in line with the target audience of the products."

Dhaka has the second highest number of Facebook users among the cities in the world, according to Ahmed. There are about 3.5 crore active users in Bangladesh as well.

"One can easily brand their products through the huge platform," he added.

STAR

Robi Managing Director Mahtab Uddin Ahmed cuts a cake to inaugurate the F-Commerce Summit at the Krishibid Institution Bangladesh in Dhaka yesterday.

It is a huge opportunity to have social media like Facebook to open a new business, said Ashish Chakraborty, director and chief commercial officer of SSL Wireless, an online payment gateway platform. "That's why the number of Facebook-based pages is so high."

He urged f-commerce entrepreneurs to improve service quality.

F-commerce is the term used in the online business world to focus on designing and developing content and storefront sites on Facebook social networking websites. In short, selling products and services on Facebook.com involves all types of e-commerce on social media.

"From the e-Commerce Association of Bangladesh (e-CAB), we usually receive huge number of complaints about f-commerce, and this number needs to go down," said Chakraborty, also a director of the e-CAB.

Managing trade licence and bank financing is the biggest challenge facing f-commerce and the e-CAB is trying to sort them out, he said.

Proper documentation is the main challenge to get a loan, said Shajed Al Haque, head of trade business at Brac Bank, in another session.

However, the private bank is giving out loans to e-commerce companies. "In order to receive financing, entrepreneurs need to maintain accounting from day one."

"And if anyone can maintain it for a few years, it will be an asset for the venture and banks can depend on the transaction record."

The bank is very open to disbursing loans and urged Facebook entrepreneurs to use at least freely available accounting software to secure loans, he said.

Brac Bank has two lakh SME customers and disbursed Tk 12,000 crore among them.

In order to support digital entrepreneurs, Brac Bank is offering end-to-end solutions in partnership with a loan evaluation company and a delivery company for the betterment of e-commerce companies, Haque said. The Daily Star was the media partner of the event.

Novoair adds flights to Ctg, Barishal

STAR BUSINESS DESK

Novoair is set to add one daily flight each on its Dhaka to Chattogram and Barishal routes from January 19 to meet the growing demand for the routes.

The local carrier will operate six daily flights to Chattogram, home to several tourist attractions and the country's main sea port that handles as much as 90 percent of the country's overseas trade.

And the airline will now fly twice to Barishal, which is mostly reached through time-consuming ferries from Dhaka.

As of yesterday, Novoair with its fleet of seven aircraft carried about 9.5 lakh passengers this year, up about 19 percent year-on-year, said AKM Mahfuzul Alam, senior manager of the airline.

Thanks to the rising income, more people now prefer to fly to different domestic destinations to avoid the long tailbacks on roads.

The number of people opting for air travel on domestic destinations jumped nearly 81 percent to 11.72 lakh in 2017 from 2013, according to data from the Civil Aviation Authority of Bangladesh.

Biman Bangladesh, Novoair, Regent Airways and US-Bangla Airlines carried about 25 lakh travellers in 2019 on different domestic routes, according to industry data.

Established in 2007, Novoair flies from Dhaka six times a day to Cox's Bazar, five times each to Saidpur and Jashore, twice to Sylhet and once daily to Rajshahi and Kolkata.

Most destinations in Bangladesh can be reached from the capital's Hazrat Shahjalal International Airport, which handles about 70 lakh passengers a year.

Ctg port on world's 'three millionaire' list

BSS, *Chattogram*

The Chittagong port has made it to the list of 'three millionaire ports' club in the world by handling 30 lakh twenty-foot equivalent units of containers this year. There are 60 such seaports around the globe.

Earlier, the Bangladeshi port was ranked 64th in the list of the world's top 100 container handling seaports by the maritime world's internationally recognised Lloyd's Marine Survey & Consulting.

The calculations of container handling were recorded from January 1 to December 22 this year, said Md Omar Faruk, secretary of the Chittagong Port Authority.

The addition of modern equipment, including new gantry cranes, and increased capacity of the port have helped the CPA a lot to achieve the glory, he said.

Most of the containers were handled at New Mooring Container Terminal and Chittagong Container Terminal. The two contributed more than 17 lakh containers to the total handled till 8am on December 21, when the target was achieved.

Nissan orders spending cuts

REUTERS, *Beijing*

Nissan Motor Co has told its managers to cut non-essential spending as the automaker grapples with slumping car sales and tumbling profits, three company sources told Reuters.

The penny-pinching drive is in place for the rest of financial year until end-March and will most likely continue into the coming business year, they said.

Managers have been told to put the kibosh on unnecessary travel, sales incentives and promotional events to "conserve every yen," as one source put it.

China slashes red tape for IPOs

AFP, *Beijing*

Chinese lawmakers agreed Saturday to slash red tape for initial public offerings, approving an amendment to the country's securities law that also aims to better protect investors and prevent insider trading.

Mainland authorities have recently stepped up moves to attract listings of big tech firms, including launching a new technology board in Shanghai in July, as the country's economy has stuttered to its slowest rate of growth since the early 1990's.

"This amendment is a big breakthrough as it cuts red tape and the cost for companies when going public," said Dong Dengxin, director of the Finance and Securities Institute at Wuhan University of Science and Technology.

"It is the most significant revision of the Securities Law in history." The new registration-based IPO system in the newly amended law -- which comes into effect on March 1, 2020 -- requires strict information disclosures from companies seeking to list.

The listings however do not need approval from the China Securities Regulatory Commission (CSRC), according to a draft law published Saturday.

It has also removed the need for companies to be profitable before listing.

The revised law includes better protections for minority investors, said Gong Fanrong, director of the finance committee legal team under China's National People's Congress.

It calls for companies to establish dispute resolution mechanisms to address shareholder grievances and improve transparency, he added.

Companies found guilty of making false or misleading statements or withholding important information from shareholders could face penalties ranging from one to 10 million yuan ($ 143,000 to $1.4 million).

It also includes tougher punishments for securities fraud and insider trading.

Individuals found guilty of insider trading will be fined two to ten times the value of their ill-gotten gains.

Intermediaries and professional services firms found guilty of faking information during IPOs will be fined two million to 20 million yuan, compared to 300,000 to 600,000 yuan at present.

The law also says securities industry employees, including regulators and those who work for brokerages or stock exchanges are bared from trading in stocks.

Loan write-offs rocket

FROM PAGE B1

But the ongoing situation is the opposite due to the upward trend of default loans. Loan write-off is a global practice but this not an ultimate solution to showing off a better financial health, he said.

Many weak lenders have even lost their capability to write off default loans as they have to keep 100 percent provisioning against the loans.

The central bank should impose an embargo on banks from giving out dividends in case of failure to maintain required provisioning, said Mansur, also a former official of the International Monetary Fund.

"Punitive measures should be taken to put the brakes on rising defaulted and written-off loans," said Khondker Ibrahim Khaled, a former deputy governor of the central bank.

Passports should be confiscated as soon as borrowers enter the default zone, he said, while also calling for defaulters not to be bestowed with the status of commercially and very important persons.

Banks are facing a challenge in writing off defaulted loans as many of them are cash-strapped, said Syed Mahbubur Rahman, chairman of the Association of Bankers, Bangladesh, a forum of managing directors of private banks.

"They should speed up the recovery of defaulted loans. This will help them bring down such loans," said Rahman, also the managing director of Mutual Trust Bank.

Japan's output, retail sales fall, signalling economic strains

REUTERS, *Tokyo*

Japan's industrial output slipped for the second straight month in November, raising the likelihood the economy will contract in the fourth quarter due to slowing demand abroad and at home.

Japan's economy has cooled in recent months due to a prolonged hit to exports from soft global demand and a slide in consumer spending following a nationwide tax hike.

Official data showed factory output fell 0.9 percent in November from the previous month, a slower decline than the 1.4 percent fall in a Reuters forecast.

That followed a downwardly revised 4.5 percent decline in the previous month, the largest month-on-month slump since the government started compiling the data in comparative form in January 2013.

"The overall economy including factory output is expected to contract sharply in the current quarter," said Yoshiki Shinke, chief economist at Dai-ichi Life Research Institute.

"It is expected to rebound in January-March but the issue is how much it will recover."

Production was pushed down by a decrease in output of production machinery and information equipment, which offset a bounce back in output of cars and car engines.

"There is still uncertainty for the economic outlook as the effects from the US-China trade friction will likely remain but there are positive signals for a moderate pickup in factory output," said Hiroaki Mutou, chief economist at Tokai Tokyo Research Institute.

Manufacturers surveyed by the Ministry of Economy, Trade and Industry expect output to gain 2.8 percent in December and rise 2.5 percent in January, the data showed.

REUTERS/FILE

A woman looks at shoes on sale at an outlet in Tokyo's shopping district.

Separate data released on Friday showed retail sales dropped a larger-than-expected 2.1 percent in November as consumer sentiment stayed depressed after October's sales tax hike.

The weak readings could pressure the government to come up with new ways to boost growth and force the central bank to maintain its stimulus programme.

"Economic sentiment has worsened overall," said Shudai Hasegawa, a shopkeeper at a store selling rice, pickles and other foods in Tokyo's Shinagawa area.

"There are fewer people in the shopping street here from the start of the year compared to the previous year, and also after the tax hike," he said earlier this month.

Kota Watanabe, manager of a store selling pillows and futon mattresses, said demand from older consumers over 50 has been weak this year, partly due to warm weather.

"They say they are satisfied with cheap goods. There are also people saving money for their children instead of spending it themselves."

The broader economy is likely to stay under pressure as weak business and consumer confidence and a delayed pickup in global growth hurt demand.

The government last week cut its overall view on the economy for the fourth time this year due to a downgrade in its assessment of manufacturing output.

The Bank of Japan stood pat last week though it warned risks to the recovery remained high and offered a gloomier view on output.

Japan's government last week approved a record budget for the coming fiscal year. Part of the planned spending will help finance a $122 billion fiscal package to shore up growth.

Meanwhile, Japan's jobless rate fell in November, while the jobs-to-applicants ratio held steady, suggesting the nation's tightest jobs market in decades is holding up.

The seasonally adjusted unemployment rate fell to 2.2 percent in November from 2.4 percent in the previous month, Ministry of Internal Affairs and Communications data showed.

The jobs-to-applicants ratio was unchanged at 1.57 in November from the previous month, health ministry data showed.

FBCCI

A delegation of the Bangladesh Merchant Bankers Association led by its newly elected President Md Sayadur Rahman calls on Sheikh Fazle Fahim, president of the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI), at the latter's office in Dhaka yesterday. The association sought the FBCCI's help to remove the ills in the banking sector.

Budget deficit goes over 5pc boundary

FROM PAGE B1

"But the government's expenditure also increased for the implementation of some mega infrastructure projects. It was capital expenditure, which will ultimately bring benefits to the economy," he told The Daily Star.

As a result, budget deficit could not be contained to the previous limit.

"But, this is a one-off," he said, adding that the deficit will be restricted within 5 percent this fiscal year as revenue is expected to grow.

Last fiscal year coincided with the national elections, so the government's spending from its own funds was higher than from foreign sources, said another finance ministry official.

This also had an effect in raising the budget deficit, he added.

Fiscal deficit in 2018-19 increased due to both revenue shortfall and expenditure increases, said Zahid Hussain, former lead economist of the World Bank's Dhaka office.

Usually, shortfall in expenditures buffers the revenue shortfall relative to the budget target, thus keeping the deficit below the original 5 percent of GDP budget target.

"Last fiscal year was an exception to this trend and it is most likely to continue this fiscal year as well."

While the government can afford such temporary deviation from the target because of a low debt to GDP ratio, the financing of deficit is the real issue.

If the financing came from concessional foreign sources as reimbursements to cover the accelerated investments in development projects, there will be no real reason to worry. Such increases in deficit are indeed welcome.

But that may not have been the case as evident from cuts in foreign borrowing in the revised fiscal 2018-19's budget relative to the original budget.

It will be useful to look at the sources of expenditure increases in order to identify opportunities for reducing waste, Hussain added.