Japan upgrades Q1 GDP growth on smaller hit to domestic demand

REUTERS, Tokyo

Japan's economy shrank less than initially reported in the first quarter on smaller cuts to plant and equipment spending, but the coronavirus pandemic still dealt a huge blow to overall demand.

Separate data showed growth in bank lending slowed sharply in May, while real wages posted the biggest monthly jump in more than a decade in April, in signs that the world's third-largest economy was gradually overcoming last year's pandemic hit.

Among the mixed indicators are some reassuring signs for policymakers, who are worried Japan's recovery will lag major economies that have rolled out Covid-19 vaccines much quicker and are able to reopen faster.

The economy shrank by an annualised 3.9 per cent in January-March, not as bad as the preliminary reading of a 5.1 per cent contraction, but still posting the first fall in three quarters, Cabinet Office data showed Tuesday.

The reading, which beat economists' forecast for a 4.8 per cent decline, equals a real quarter-on-quarter contraction of 1.0 per cent from the prior quarter, versus a preliminary 1.3 per cent drop.

The revised gross domestic product (GDP) decline was mainly due to a smaller fall in public and capital spending, which both eased less than initially thought, offsetting a slightly larger fall in private consumption.

"Overall, capital spending and private consumption remained weak, which showed weakness in domestic demand," said Takeshi Minami, chief economist at Norinchukin Research Institute.

"The vaccine issue is the most important thing for the (economic) recovery," he said, adding that the vaccination rate would need to come to about 50 per cent to boost economic recovery prospects.

Capital spending shrank 1.2 per cent from the prior quarter, better than a preliminary 1.4 per cent decrease, and matching the median forecast for a 1.2 per cent loss. Government consumption fell 1.1 per cent, a smaller drop than a preliminary 1.8 per cent decline.

Private consumption, which makes up more than half of gross domestic product, dropped 1.5 per cent from the previous three months, worse than the initial estimate of a 1.4 per cent drop. However, Economy Minister Yasutoshi Nishimura said spending could recover as consumers return to the streets.

"If infections subside, there'll be pent-up demand from not having been able to go eating out or travelling," Nishimura told reporters after the release of the data.

Net exports — or exports minus imports — subtracted 0.2 percentage point from growth, while the hit to domestic demand pulled it down by 0.8 percentage point, not as bad as a preliminary contribution of minus 1.1 percentage point.

The better-than-expected revision comes after household spending and exports jumped in April, though the gains were inflated largely by the comparison to last year's deep pandemic-driven plunge.

Total lending by Japan's banks grew 2.9 per cent in May from a year earlier, slowing at a record pace from a 4.8 per cent increase in April, Bank of Japan data showed on Tuesday.

Inflation-adjusted wages, a barometer of household purchasing power, rose 2.1 per cent in April on a year-on-year basis, the government said.

The bank lending slowdown was due largely to the base effect of a Covid-driven surge last year, while a drop in consumer prices and rebounds in overtime pay and compensation for part-time workers helped lift wages.

REUTERS/FILE

A shopper wearing a protective mask pushes a shopping cart at Japan's supermarket group Aeon's shopping mall as the mall reopens amid the coronavirus disease outbreak in Chiba, Japan on May 28, 2020.

Exporters may lose $18.7b a year if carbon goals not met

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Racing against the clock to hit the net-zero carbon goals, MNCs are piling pressure on their suppliers to become more sustainable, with companies based in emerging and fast-growing markets facing the biggest challenge.

Sixty-four per cent of MNCs believe emerging market suppliers would struggle more than their peers in the developed markets to meet the emission reduction targets. A further 57 per cent is prepared to replace emerging market suppliers with developed market suppliers to aid the transition.

MNCs are concerned that emerging-market suppliers are failing to keep pace with for two key reasons: insufficient knowledge and inadequate data.

Fifty-six per cent of MNCs say the lack of knowledge among the emerging market suppliers is a barrier to decarbonisation.

With MNCs struggling with the quality of data, two-thirds are using secondary sources for data to plug the gap left by supplier emissions surveys.

A further 46 per cent say unreliable data from suppliers is a barrier to reducing emissions.

In the press release, Bill Winters, group chief executive of Standard Chartered, said: "It's no surprise that as multinational companies transition to net-zero, they will have to ask their suppliers to evidence their own transitions."

However, suppliers, especially those in emerging and fast-growing markets, cannot do it alone. MNCs need to incentivise the suppliers to help them kick-start the transition journey, he said.

Governments and the financial sector have a role to play by creating the right infrastructure and offering the necessary funding, he said.

"We must work together to ensure the supply chain is decarbonised in a way that delivers shared prosperity across the world."

The study surveyed 400 sustainability and supply chain experts at MNCs across the globe.

MFS transactions hit all-time high

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The government also provided cash assistance to the poor in the last week of April through the MFS channel, putting a positive impact on the MFS transactions, Quadir said.

Around 35 lakh people employed in the informal sector received Tk 2,500 each through the MFS channel from the government's social protection scheme.

The daily average transaction was up 10 per cent to Tk 2,116 crore in April compared to March.

Abul Kashem Md Shirin, managing director of Dutch-Bangla Bank, said transactions through MFS would increase more in the days ahead as the government had recently taken steps to disburse funds of social safety net programmes through the MFS channel.

In April, the bank also enjoyed robust transactions through Rocket, which is the MFS brand name of the bank, he said.

Telcos seek corporate tax cuts

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He said despite the expansion of mobile coverage, about half of Bangladesh's population (46 per cent unique-subscriber penetration) remains to be connected to the mobile network. Reforming mobile taxation is therefore key to accelerating digital inclusion, he said.

"According to the International Telecommunication Union, a 10 per cent increase in mobile broadband penetration would yield 2.43 per cent increase in GDP per capita in the developing countries. Therefore, the government can easily catalyse GDP growth by lowering the taxation structure," he said.

Taimur Rahman, chief corporate and regulatory affairs officer at Banglalink, said, "We are disappointed to see that our reasonable demand for a few revisions has not been addressed in the announced budget."

"If these tax rates are reduced significantly, our investors will feel more encouraged to invest in this telecom market, which is a good sign from the FDI perspective as well," he said.

Hossain Sadat, director and head of public and regulatory affairs, Grameenphone, said rationalising the taxation systems would accelerate the digital journey as the telecom sector has been considered an emergency service during the pandemic.

Shahed Alam, chief corporate and regulatory officer at Robi, said, "Despite making our demands based on thorough analysis, we, as an industry, are continuing to get deprived from the budget every year."

"We would urge the government to undertake a comprehensive study on the taxation structure for the industry, so that we can have a healthy dialogue and arrive at decisions that will truly unlock the digital potential of the country," he said.

BB buys record $7.7b to keep taka stable

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But a lower credit demand has adversely impacted the cost of funds for banks as liquidity has largely remained idle. The excess liquidity in the banking industry stood at around Tk 200,000 crore in April.

Despite the massive dollar purchase, the central bank has failed to devalue the taka against the US currency.

Since July, the central bank has been intervening in the foreign exchange market after the local currency began strengthening.

The interbank exchange rate has been hovering around Tk 84.80 per USD since July. The rate was Tk 84.95 on June 2 last year.

Had the central bank had not intervened in the exchange market, local currency would have appreciated.

Ahsan H Mansur, executive director of the Policy Research Institute of Bangladesh, said the central bank's stance in purchasing the dollar was appropriate to contain the appreciation of the local currency.

"The central bank has to maintain the intervention until normalcy returns."

The intervention means Bangladesh will have more dollars than required during the pandemic.

The current business slump might continue until the end of the next fiscal year, given the weak vaccination programme, said Mansur, also a former official of the International Monetary Fund.

Although import payments have recently gone up to some extent due to the price hike in the global commodity market, this has not positively impacted the investment sector.

The volume of the imported products has not increased significantly, he said.

"The central bank's intervention is time-befitting as it is playing a strong role in protecting the interest of exporters from the slowdown," said Kutubuddin Ahmed, chairman of Envoy Group, a garment exporter.

Despite Bangladesh Bank's move, the exchange rate of the taka is still comparatively stronger than those in peer nations. For instance, the currencies of India, Sri Lanka and Pakistan fell against the US dollar earlier.

"So, we are facing a competitiveness crisis due to a stronger taka. The authorities should give more efforts to devalue the local currency in the coming days to shield the interest of exporters."

Md Arfan Ali, managing director of Bank Asia, said Bangladesh would continue enjoying the excess dollar in the coming days due to the higher flow of remittance.

Between July and May, Bangladesh received $22.8 billion in remittance, already the highest in a single year.

The pile-up of US dollars will help the country to a larger extent when imports start picking up.

Foreign reserves stood at $45.08 billion on June 2, up 34.70 per cent year-on-year.

549 BSCIC plots left unused

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Asaduzzaman Shamim, owner of Jaman Metal Works in Rajbari, took the allotment of a plot in 2018 to build a factory to produce household items made of aluminium and steel.

"Though it was allotted in 2018, there were some official procedures. It took a long time to complete the procedures. In the meantime, Covid-19 arrived."

Because of the pandemic, the setting up of the factory has gotten stuck, he said. However, he bought the machinery for the factory and now plans to resume construction in July.

BSCIC Chairman Md Mostaque Hassan said it had taken a strong step against the leasees who had left the plot unused after taking the allotment.

"It can't go on like this. Work is underway to lease out these plots anew."

"Many entrepreneurs have shown interest. Now, the plots will be handed to the real entrepreneurs so that industries can be set up there," Hassan said.

There is a tendency among some district-level entrepreneurs to not stick to the plans cited in their proposals. Instead, they want to set up factories as per their wish. When they cannot do so, they leave the plots deserted, said an official of the BSCIC.

After receiving proposals from the applicants, the BSCIC carries out feasibility studies before awarding the plots. If anyone does not build the factory within the deadline, the allotment can be cancelled.

"We also cancelled allotments in the past," said Nasrin Rahim, deputy general manager of the industrial estate division at the BSCIC.

Each plot is leased out for 99 years. Entrepreneurs can pay the full amount of the lease price in a single payment. Also, they can pay it in 10 instalments in five years.

Many entrepreneurs do not want to build factories in the Rangamati industrial estate because of an absence of a good communication system, said another official of the corporation.

He said if the BSCIC had prepared the plots in the hilly areas through proper planning, the plots would not have remained unused.

Some 543 plots in the industrial estates across the country are yet to be awarded. Of them, 367 are ready to be allotted.

Normally, big factories take multiple plots. So, there is a difference between the number of plots allotted and the number of industries developed. The factories at the BSCIC estates are employing more than 67 lakh people. A total of Tk 63,318 crore have so far been invested.

Some 112 industrial units, which were earlier sick, have reopened since the beginning of the current fiscal year.

Businesses demand reforms in tax system

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He also urged the leaders of different business associations, including the FBCCI, to push the government to expedite the different priority projects in Chattogram, including ending waterlogging in the city, dredging the Karnaphuli river and constructing the Bay Terminal at the Chattogram port.

"If the Bay Terminal is not complete by 2024, foreign trade through the country's premier port will be hampered," Alam said.

Rupali Chowdhury, president of the Foreign Investors Chamber of Commerce and Industry (FICCI), said foreign direct investment in Bangladesh was very low compared to neighbouring countries such as India.

Although the government is undertaking a number of infrastructure development projects, more work needs to be done in terms of legal and policy support to attract foreign investment.

Besides, many policies are inconsistent, she said.

For example, there was no regulation regarding paying 15 per cent VAT when investors first started buying land in the country's economic zones.

However, the NBR suddenly decided to impose this charge, which is discouraging, Chowdhury said.

With regard to the 10-year tax holiday for different industries outside the economic zones, she said the facility means that these companies basically enjoy the same benefits that companies inside the zones do.

"So what extra benefit are we going to offer the investors inside the economic zones," she asked.

Faruque Hassan, president of the Bangladesh Garments Manufacturers and Exporters Association (BGMEA), echoed the same.

Terming frequent policy changes as discouraging for investment, Hassan said any new tax or policy should remain the same for at least five years.

He went on to say that the proposal to continue providing 1 per cent additional cash incentive for the garments industry in the new budget would help the sector in terms of increasing cash flow.

Hassan hoped that Bangladesh's exports will return to pre-pandemic levels by October this year, on condition the Covid-19 situation does not worsen.

Alamgir Kabir, president of Bangladesh Cement Manufacturers Association (BCMA), demanded the complete withdrawal of non-adjustable AIT for cement industries.

Although the AIT has been reduced from 3 to 2 per cent in the proposed budget, it is still a burden for the import dependent sector, he said.

Besides, Tk 500 needs to be paid as import duty per tonne of clinker, the main raw material of cement, he said.

"So, the average import duty stands at 10 to 11 per cent, which makes it difficult for the highly competitive sector to survive," Kabir said.

Lauding the proposal to reduce corporate tax in the new budget, Chittagong Stock Exchange Chairman Asif Ibrahim proposed to increase the tax gap between listed and non-listed companies so that good companies get encouraged to come to the capital market.

The EC Committee Chairman of Islami Bank Bangladesh, Professor Md Selim Uddin, said in case of low tax collection, the pressure would increase for loans to be taken from domestic sources.