UK think tank warns future PM against big tax cuts

REUTERS, *London*

Britain's next prime minister will not have room to make large, permanent tax cuts, the Institute for Fiscal Studies said on Thursday, challenging the plans of the two Conservative candidates vying to succeed Boris Johnson as prime minister.

Foreign Secretary Liz Truss wants to reverse more than 30 billion pounds ($36 billion) of recent and upcoming tax rises from her rival, former finance minister Rishi Sunak, who says he wants to cut taxes once inflation is under control.

However, the IFS - sometimes seen as an unofficial arbiter of government spending plans - said the highest inflation in 40 years would require extra public spending in the short term.

Debt servicing costs alone are set to be 54 billion pounds higher next year than the government's budget watchdog forecast in March.

Foreign Secretary Liz Truss wants to reverse 30 billion pounds of tax rises from her rival, former finance minister Rishi Sunak, who says he wants to cut taxes once inflation is under control

More spending on public services was also "almost inevitable" to deal with the higher cost of living, the IFS added. Higher inflation also lifts tax revenue, but does so less rapidly than the demands over public spending, the IFS said.

"The reality is that the UK has got poorer over the last year," IFS Deputy Director Carl Emmerson said.

"It is hard to square the promises that both Ms Truss and Mr Sunak are making to cut taxes over the medium-term with the absence of any specific measures to cut public spending and a presumed desire to manage the nation's finances responsibly," he added.

The IFS predicted borrowing in the current financial year would be 16 billion pounds higher than previously forecast, and 23 billion pounds higher in 2023-24, before returning to levels in line with earlier forecasts in 2024-25.

This would give whoever is prime minister at that time 30 billion pounds of surplus on day-to-day spending, but it would be unwise for any politician to make firm commitments to use this to cut taxes, given the uncertainties ahead, the IFS said.

Women harvest chili at Mirerbari village of Rajarhat upazila in Kurigram. Farmers are happy getting Tk 180 to Tk 200 per kilogramme whereas at retail the vegetable is selling for Tk 240 to Tk 250. Chili has been cultivated on 820 hectares of land in greater Rangpur this season but production has fallen about 40 per cent this year for a lack of rainfall. The photo was taken recently.

PHOTO: S DILIP ROY

Fed says more rate hikes coming but pace will slow

AFP, *Washington*

US central bankers remain committed to raising interest rates further to quell rising prices, but agreed it would be appropriate to slow the pace of the hikes "at some point," the Federal Reserve said Wednesday.

The central bank has raised the benchmark borrowing rate four times this year, including two massive three-quarter-point increases in June and July as it tries to cool demand to lower prices that have surged at the fastest pace in more than 40 years. The aggressive moves took on more urgency after US annual inflation spiked to 9.1 per cent in June.

In the minutes of the July policy meeting, which produced a second massive rate increase of 75 basis points, Fed officials said it will take some time to bring "unacceptably high" inflation back down near the two percent goal.

Policymakers are trying to tread a narrow path and avoid pushing the world's largest economy into recession, and many officials at the meeting cautioned that there is a "risk" the Fed could go too far.

Since the last Fed meeting, financial markets have been cheered by hopes that a slowing economy will allow the central bank to dial back or even halt the rate hikes, especially after comments from Fed Chair Jerome Powell, who signalled that the rapid increases eventually would give way to more normal steps.

But Fed officials have tried to dispel some of that excess optimism, stressing in recent speeches that the central bank is committed to pursuing its battle on inflation -- a message echoed in the minutes. And economists see no suggestion of a pivot from the Fed's policy-setting Federal Open Market Committee (FOMC) any time soon.

After the benchmark rate was slashed to zero at the start of the coronavirus pandemic, it now sits in a range of 2.25 to 2.5 per cent. "Even if the FOMC decides to scale back its rate hike to 50bps on September 21, we look for another 125bps increase in the fed funds rate by year-end," said Kathy Bostjancic of Oxford Economics.

And the central bankers said even when the rates hit a "sufficiently restrictive level," they may keep them there for some time to ensure that inflation falls.

There have been some positive signs in the economic data, as consumer inflation slowed in July to 8.5 percent, and soaring gas prices, exacerbated by the war in Ukraine, have fallen in recent weeks.

FOMC members noted the recent decline as well as some signs that supply constraints have eased, which also should work to bring down prices.

However, they said falling oil prices "cannot be relied on" to lower overall inflation, and instead, slowing demand will be a key factor in curbing price pressures, the minutes said.

Some officials warned against "complacency." Still, the rapid, aggressive moves by the central bank have started to have an impact, and while officials say the US economy should continue to expand in the second half of the year, "many expected that growth in economic activity would be at a below-trend pace," the minutes said.

While the labor market remains strong, many noted "some tentative signs" that job conditions have started to soften. Last month, the world's largest economy still had nearly two job openings for every unemployed person in the labor force.

Meanwhile, American consumers have continued to spend despite high prices, drawing on a stockpile of savings, though data indicate a shift towards services and away from cars and other big-ticket items, while rising mortgage rates have started to slow activity in the housing sector.

ICB AMCL CMSF mutual fund open to subscription

STAR BUSINESS DESK

Capital Market Stabilisation Fund (CMSF) and ICB Asset Management Company Ltd (IAMCL) jointly floated a closed-end mutual fund namely "ICB AMCL CMSF Golden Jubilee Mutual Fund" on Wednesday commemorating the Golden Jubilee of Bangladesh's independence.

The size of the fund is Tk 100 crore and the face value per unit is Tk 10. Public subscription of the fund will remain open for eight days, spanning from August 17 to August 24 this year, a press release said.

The IAMCL is acting as the asset manager and the Bangladesh General Insurance Company Ltd (BGIC) as trustee whereas Brac Bank is acting as custodian of the fund.

ICB Securities and Trading Company Ltd (ISTCL) Khulna branch orgainsed a road show for the public subscription of the fund on its office premises in Khulna.

ATM Ahmedur Rahman, chief executive officer of the IAMCL, Sachindra Nath Bagchi, senior officer, Md Saiful Islam, assistant general manager of ICB Khulna branch, and Tofayel Ahmed, principal officer of ICB Securities and Trading Company Ltd (ISTCL) Khulna branch, were present.

Hyundai Mobis aims to separate key businesses

REUTERS, *Seoul*

South Korean auto parts maker Hyundai Mobis Co Ltd said on Thursday it was considering separating its modules and key parts production businesses into new wholly owned units in an effort to enhance each segment's expertise and maximise efficiency.

Hyundai Mobis, an affiliate of automaker Hyundai Motor Co, said in a regulatory filing it aims to hold a board meeting in September to approve plans to separate the businesses, expected to be launched in November.

Korean firm invests $100m in EV startup

REUTERS, *Detroit*

Korea's SK Inc has invested $100 million in North Carolina startup Atom Power, which aims to upgrade the electric vehicle (EV) charging experience in the United States with new hardware and software, the companies said Thursday.

Based in Huntersville, North Carolina, eight-year-old Atom Power has developed a digital circuit breaker that provides more control, flexibility and reliability to EV charging, especially for commercial fleet operators and managers of multi-family dwellings, according to Chief Executive Ryan Kennedy.

Life without internet?

FROM PAGE B4

If the above is summarised, the key product, that is data, is being subsidised by voice revenue which is itself nosediving and will be eventually negligible in terms of supporting the loss from data business. Hence the whole industry will be "in ICU" or dead - meaning no internet. The picture portrayed above is well known to the regulators and I have observed their true intention to work on it. Unfortunately, not everything is in their hands.

The recent auction of 2300 MHz to 2600 MHz is a good reflection of the regulators' intention. It is obviously not enough and much more needs to be done to ensure that the industry survives to ensure that the Digital Bangladesh 2041 vision is delivered.

The regulators and policymakers may consider taking up some of the following options in the coming days to ensure the industry's survival.

1. Set a data floor price based on thorough cost modelling so that all the operators manage to recover their investment costs.

2. Implement Significant Market Power (SMP) in such a manner that the smaller players survive to compete and at the same time ensure that SMP players are reasonably incentivised to invest.

3. The National Board of Revenue (NBR) needs to align its revenue earning strategy with telecom/digital vision.

4. The government should demand that the operators integrate the remaining 40 per cent of the population into the digital network, improve quality of service, directly contribute to the Bangladesh Vision 2041 based on key performance indicators (KPI).

The above four actions may not be too difficult for the policymakers and regulators to ensure that the population of Bangladesh do not go back to the days of 80s or 90s. Mobile connectivity is a powerful tool to drive sustainable economic growth, reduce poverty and transform all sectors that one can imagine. Let us not talk about life without internet but life with 5G, IR 4.0 to create a digital society and to accelerate Bangladesh's transition to a digital economy.

The author is a telecom and management expert.

Sri Lanka warns of 8pc economic contraction

FROM PAGE B4

At the peak of Sri Lanka's fuel shortages, motorists had to wait for days and sometimes weeks to top up, but strict fuel rationing has shortened queues.

Months of protests over the collapsing economy culminated in the resignation of president Gotabaya Rajapaksa, who was forced to flee his official residence after it was stormed by a huge crowd last month.

Rajapaksa is accused of mismanaging the island nation's economy to the point where it was unable to finance even the most essential imports.

He has since travelled to Thailand and close associates have said he was desperate to return home, where he faces corruption charges that had been suspended because of his presidential immunity.

The political upheavals last month stalled talks with the IMF, but a delegation from the international lender of last resort is expected in Colombo before the end of August.

Weerasinghe said he was hopeful authorities would finalise a staff-level agreement with the Fund later this month ahead of a formal bailout deal.

Turkey stuns markets by cutting rate despite soaring inflation

AFP, *Istanbul, Turkey*

Turkey's central bank on Thursday stunned the markets by lowering its main interest rate even as inflation soared to a 24-year high and looks set to climb further.

The central bank said "recession is increasingly assessed as an inevitable risk factor" as it lowered its one-week repo auction rate to 13 per cent from 14 per cent.

"Just insane -- with inflation at 80 per cent and rising," BlueBay Asset Management economist Timothy Ash remarked in an emailed comment. "Turkey's central bank (has) stepped up its fight against economic orthodoxy," Jason Tuvey of Capital Economics added in an ironic note.

"The move increases the risk of yet another currency crisis."

The Turkish lira lost one percent of its value against the dollar within moments of the announcement.

Turkey's monetary policy decision contradicts the approach pursued by most other countries as they try to combat the spike in consumer prices caused by Russia's invasion of Ukraine. The war has sent food and energy prices soaring and forced central banks to raise borrowing costs -- even as economic growth remains anaemic.

But Turkish President Recep Tayyip Erdogan subscribes to the unorthodox belief that high interest rates cause inflation rather than rein it in.

He has fired three central bank governors since 2019 who have tried to pursue a more conventional economic course.

Turkey now has a real interest rate of negative 66.6 per cent when adjusted for inflation.

This forces businesses and ordinary people to spend as much as possible before their liras lose even more value with each month.

Turkey's approach has propelled economic growth that Erdogan hopes can help him secure a third decade in power in a general election scheduled for next June.

But it has been accompanied by a sharp depreciation of the lira that has eroded living standards and pushed the financial sector to the brink of crisis.

The Turkish government has adopted a series of alternative measures to combat inflation which most economists dismiss as either insufficient or too complex and expensive to work.

These include limiting bank lending and offering state guarantees to ensure that Turks' deposits do not lose too much value over time. The central bank has also dug in deeply into its foreign currency reserves to try and prop up the lira's exchange rate.

These interventions have made Turkey increasingly dependent on deals with petrodollar-rich nations such as Russia and Ankara's one-time rivals in the Middle East.

Turkey reported a big jump in its hard currency holdings this month that the finance minister linked to a financial transaction with an unnamed foreign country.

Media reports said Russia's state-held nuclear energy firm Rosatom had transferred billions of dollars for the construction of Turkey's first nuclear power plant.

The central bank vowed on Thursday to push ahead with its "liraisation strategy" aimed at reducing the use of foreign currency.

Vietnam asks tech firms to store user data onshore

REUTERS, *Hanoi*

Vietnam's government has ordered technology firms to store their users' data locally and set up local offices, its latest move to tighten cybersecurity rules.

The new rules, issued in a decree on Wednesday, will apply to social media companies like Alphabet Inc.'s Google and Meta's Facebook, and telecommunications operators, and will take effect on October 1.

"Data of all internet users ranging from financial records and biometric data to information on peoples' ethnicity and political views, or any data created by users while surfing the internet must be stored domestically," the decree stated.

Authorities will have the right to issue data collection requests for purpose of investigation and to ask service providers to remove content if it is deemed to violate the government's guidelines, the decree added.

Foreign firms will have 12 months to set up local data storage and representative offices after receiving instructions from the Minister of Public Security, and will have to store the data onshore for a minimum period of 24 months, according to the decree.

Two tech firms contacted by Reuters, Google and Meta, did not immediately respond to requests for comment.

Vietnam is run by the Communist Party, which maintains tight media censorship and tolerates little dissent. It has tightened internet rules over the past few years, culminating in a cybersecurity law that came into effect in 2019 and national guidelines on social media behaviour introduced in June last year.

Iran's oil exports could rise further

REUTERS, *London/Singapore*

Iran increased its oil exports in June and July and could raise them further this month by offering a deeper discount to Russian crude for its main buyer China, firms tracking the flows said.

Despite US sanctions Iran has boosted oil exports, largely to China, during President Joe Biden's term, but shipments have recently slowed due to competition with Russian crude.

"Iran has been exporting more since the new US administration - oil, products and petrochemical goods," Sara Vakhshouri of Energy consultant SVB International said.

And while high oil prices have reduced pressure on Tehran to do a nuclear deal, if talks to resurrect one succeeds it would allow Iran to boost sales beyond China, to former buyers in South Korea and Europe.

Iran's oil ministry did not reply to a request for comment.

Chinese crude imports could recover in August as the pricing advantage of Russian oil, displaced by falling demand in Europe on concerns about sanctions over Russia's invasion of Ukraine, wanes, Emma Li, analyst at Vortexa Analytics, added.

"Iranian crude was facing strong competition from Russian Urals in July as the non-sanctioned barrels were offered at similar discount levels. However, as the price difference of the two widened, Chinese refiners may turn back to cheaper Iranian barrels in August," Li said.