

Business

BoE expects less severe British recession, leaves rate on hold

Bank sees slower economic recovery from COVID hit

LONDON: The Bank of England yesterday said it had voted to keep its main interest rate at a record-low 0.1 percent, while predicting a less severe recession for the UK. The BoE added that its huge cash stimulus program used to prop up the British economy during the coronavirus pandemic would remain at £745 billion (\$967 billion, 813 billion euros).

Britain's economy was expected to contract by 9.5 percent this year, the BoE said, downgrading its prior estimate of minus 14 percent. "Nonetheless, the recovery in demand takes time as health concerns drag on activity," the BoE said in minutes of its latest regular meeting that took place Tuesday.

"GDP is not projected to exceed its level in 2019 Q4 until the end of 2021, in part reflecting persistently weaker supply capacity," it added. The pound meanwhile rallied against the dollar on the revision.

"The BoE was considerably more upbeat about the recovery than had been expected," noted City Index analyst Fiona Cincotta. "Upwardly revised growth forecasts, a more rapid recovery than initially feared and no tilting towards negative rates at this time has sent the pound surging towards \$1.32."

The BoE also forecast that Britain's unemployment rate would shoot higher to around 7.5 percent by the end of the year. "Employment appears to have fallen since the COVID-19 outbreak, although this has been very significantly mitigated by the extensive take-up of support from temporary government schemes," the minutes said. "Surveys indicate that many workers

have already returned to work from furlough, but considerable uncertainty remains about the prospects for employment after those support schemes unwind."

UK companies, from major retailers to airlines, are axing thousands of jobs despite government efforts to safeguard employment during the pandemic. The government is paying up to 80 percent of workers' wages under the state's furlough scheme, which finance minister Rishi Sunak has said must end in October. Replacing the scheme is a stimulus package worth £30 bil-



UK companies axing jobs despite govt efforts

lion, including bonuses for companies retaining furloughed staff and offering apprenticeships amid fears of mass youth unemployment resulting from COVID-19 fallout.

Slower recovery

The Bank said that Britain's economy would probably take longer to get back to its pre-pandemic size than it previously thought, even if the scale of the hit this year might not be quite as bad.

However, the BoE's protections for 2020 are



LONDON: The Bank of England expects output to be more than 20 percent lower in the second quarter of 2020 than it was in the final quarter of 2019. — Reuters

less grim than in May. Unemployment is expected to peak at 7.5 percent at the end of this year, almost double the most recent rate but lower than the BoE's previous estimate of just under 10 percent. The overall economy now looks on course for a 9.5 percent drop this year. That would be the worst performance in 99 years but less severe than a 14 percent plunge in the BoE's May scenario, which would have been the worst in more than three centuries.

Sterling hit its highest level against the dollar in five months and was up about 0.4 percent at

0720 GMT. British government bond yields also rose, as the BoE confirmed a further slowdown in the pace of bond purchases. The BoE said GDP was set to rebound by 9 percent next year, weaker than the 15 percent surge in May's scenario, and there were bigger risks of a slower recovery than a faster one. The projections showed the BoE's Monetary Policy Committee thought inflation was likely to go below zero this month before returning to around the BoE's 2 percent target over the next couple of years and rising to 2.2 percent in 2023. —Agencies

Nintendo reports bumper \$1bn net profit in first quarter

TOKYO: Nintendo yesterday reported net profit surged to \$1 billion in the first quarter, with players stuck at home during the coronavirus virus driving extraordinary demand for the gaming industry.

The Japanese giant raked in 106.5 billion yen for the three months to June, a more than six-fold increase from 16.6 billion yen a year earlier. Sales more than doubled to 358 billion yen, as demand for its popular Switch console remained robust, as the device entered the crucial fourth year since its launch. The results far exceeded the expectations of analysts and come on the back of the runaway success of both the Switch and Nintendo's hit "Animal Crossing" game.

"Sales for the entire Nintendo Switch family rose 166.6 percent year-on-year to 5.68 million units," the firm said, referring to both the original Switch and the stripped-back Switch Lite.

Nintendo is one of a "handful" of major companies seeing significant business opportunities from the coronavirus outbreak, analysts said. "Demand for video games has remained strong among



TOKYO: This file photo shows a screen displaying the characters from the Animal Crossing series video game at a Nintendo store in Tokyo. — AFP

people staying home following the pandemic," Hideki Yasuda, an analyst at Ace Research Institute in Tokyo, told AFP ahead of the results.

"The lockdown boom is expected to continue for now," he added. Despite the blockbuster figures, the Kyoto-based firm declined to upgrade its full-year forecast, leaving intact its projection of 200 billion in net profit for the fiscal year to March, down 23 percent from the previous year. — AFP

Spotlight on Indonesia's slow stimulus

JAKARTA: Indonesia's efforts to support its economy through the coronavirus crisis were being hampered by the slow disbursement of a \$50 billion stimulus plan, economists said. The World Bank and Indonesian government have warned that millions more people risk being plunged into poverty amid the pandemic, as data showed the economy shrank for the first time since 1999 in the second quarter. Five months after its launch, only 22.4 percent of the stimulus had been spent. The package had been split between health and economic recovery programs ranging from corporate tax exemptions to food and cash aid for households.

David Sumual, Bank Central Asia's chief economist, said that unless the stimulus was disbursed faster the economy risked contracting this year for the first time since 1998.

"Government spending is the only driver of growth right now, especially social programs," Sumual said. Just 39 percent of the 2,739 trillion rupiah (\$189 billion) state budget, which includes the stimulus, was spent in the first half of 2020, down from 42 percent at the same time last year. In two videos released by his office, President Joko Widodo rebuked ministers for not spending faster. But ministries are now beginning to focus on finalizing next year's budget. — Reuters