S Korea hikes interest rates for first time since before pandemic

Few countries have begun to lift borrowing costs

SEOUL: South Korea yesterday became one of the first major economies to hike interest rates following the coronavirus pandemic, as authorities try to rein in growing household debt and a frenzied housing market. The central Bank of Korea raised its key rate to 0.75 percent from a record low 0.5 percent-where it had been since May 2020 — with officials asserting the economy was experiencing a "sound recovery".

A few countries have begun to lift borrowing costs, among them Brazil, Russia, Chile and Mexico, and investors around the world are watching closely for when the US Federal Reserve will start to taper its huge stimulus programmes. It was its first rate rise since November 2018 and came as authorities in the world's 12th-largest economy grapple with surging household debt and an overheated housing market, which analysts warn could threaten economic stability.

South Korea's household debt rose 41.2 trillion won ($35.3 billion) during the April-June period to a record high 1,806 trillion won, roughly equivalent to the country's GDP. "Household loan growth has accelerated and housing prices have continued to increase rapidly in all parts of the country," the BOK said in a statement.

The country has continued "sound recovery", it said, adding that "exports have sustained their buoyancy and facilities investment has shown a robust trend". But analysts cast doubts over the pace of the recovery and the impact of the rate hike.

"Most advanced economies haven't raised their rates yet and I don't think South Korea's economic situation has improved," said Joo Won, a researcher at Hyundai Research Institute. The increase appeared to be aimed at cooling off the housing market, Joo told AFP, adding higher interest rates will "greatly increase the burden on the vulnerable".

Lee Seung-euk, a researcher at the Korea Economic Research Institute, said the hike was "not welcome news" as the country is battling a new rise in coronavirus cases. "The social distancing rules could affect consumer sentiment and pose a downside risk for recovery," he added. The central bank maintained its growth outlook at four percent for this year but raised its consumer inflation forecast to 2.1 percent from 1.8 percent, signalling a possible policy tightening.

The rate hike comes as South Korea sees its highest infection rates of the pandemic, albeit low by global standards, at around 1,000-2,000 a day. The country had previously been held up as a model of how to combat the pandemic, with the public largely following social distancing and other rules, but it was slow to start its vaccine rollout owing to supply shortages. —AFP

SEOUL: Pedestrians walk through the Myeongdong shopping district in Seoul yesterday, after South Korea's central bank announced first rate hike in three years. —AFP

Taiwan plans stricter laws against economic espionage by China

TAIPEI: Taiwan will tighten its laws in an effort to fight talent poaching and intellectual property theft from its lucrative tech industry by China, officials said yesterday. The planned amendment to the island's national security act will make economic espionage a crime punishable by a jail term of between five to 12 years.

It aims to protect "trade secrets in key technologies" from being poached by China or other "hostile external forces", the justice ministry said. The Mainland Affairs Council (MAC), Taiwan's top China policy-making body, said it was also planning to revise the law to try and stop the island losing top talent to firms on the mainland.

"This is to prevent the outflow of our high-tech and semiconductor talents and technologies as well as Chinese investors from attempting to evade scrutiny to illegally invest in Taiwan," MAC spokesman Chiu Chui-cheng told a virtual press conference.

Taiwan's chip foundries churn out some of the world's most advanced and smallest microchips, with local firms Taiwan Semiconductor Manufacturing Co (TSMC) and electronics giant Foxconn both key suppliers to Apple. Mainland China on the other hand suffers from an acute shortage in advanced microchips following a US ban on many such sales to the country.

Several recent cases have renewed concerns in Taiwan over the loss of local talent and unauthorised investments by Chinese firms in the island's tech sector. Prosecutors in northern Hsinchu county Monday indicted five people for illegally receiving nearly $19 million from a Chinese electronics firm to set up a company in a local science park. —AFP

Air New Zealand narrows pandemic related losses

AUCKLAND: File photo shows an Air New Zealand plane taking off from Auckland Airport with the national carrier managing to cut its losses by a third in the last financial year as strong domestic and cargo demand partially offset the impact of the global pandemic. —AFP

WELLINGTON: Air New Zealand managed to cut its losses by a third in the last financial year as strong domestic and cargo demand partially offset the impact of the global pandemic, the airline said yesterday.

The flag carrier said its net loss for the 12 months to the end of June was NZ$289 million (US$202 million), compared with a NZ$454 million hit the previous year. The result was boosted by a 71 percent increase in cargo revenue and a recovery in domestic demand to 93 percent of pre-pandemic levels.

However, border closures meant operating revenue slipped 48 percent to NZ$2.5 billion. Chairwoman Therese Walsh said the loss reflected a reality in which Air New Zealand was still unable to operate two-thirds of its passenger network.

"In a severely constrained environment, Air New Zealand maintained cost discipline, focusing on delivering with excellence in the areas in its control," she said. "The return of a strong domestic business and growth in the cargo services that underpin our key export markets was a reminder of the airline's crucial role in New Zealand's infrastructure."

The airline said the government had committed to remaining a majority shareholder after a planned capital raising, which has now been deferred to early next year. It said New Zealand's current lockdown, imposed as the country battles an outbreak of the Delta variant, would impact the bottom line of the 2021-22 financial year.

"Given uncertainty surrounding the current national lockdown, ongoing international travel restrictions and uncertainty regarding the level of demand as these restrictions lift, Air New Zealand has suspended 2022 earnings guidance," it said. The airline also said it did not anticipate paying a dividend until earnings had substantially improved. Shares in Air New Zealand were down 0.98 percent at NZ$1.52 in early trading on the NZX-50, which was off 0.22 percent. —AFP