EU, IMF urged to show courage to rescue ailing Italian economy

Italian economy is expected to contract by 8.3% in 2020

ROME: Prime Minister Giuseppe Conte called Saturday for a "courageous plan" in launching virtual talks with EU and IMF leaders to rescue Italy's economy and society from the "unprecedented shock" triggered by the coronavirus pandemic.

Conte said the plan was needed to surmount the nation's crisis as Italian opposition figures shunned the hastily organized and roundly criticized emergency talks—and as reports emerged of new virus cases in Rome. European Union leaders "must show that they have understood that it is about defending mutual interests," Conte said in an opening speech transmitted to leading executives in Brussels.

"We are in the process of living an unprecedented shock with very high human, social and economic costs," said Conte, whose country had recorded 34,301 coronavirus deaths to Saturday—one of the worst tolls in Europe.

The EU's third largest economy is expected to contract by at least 8.3 percent in 2020, under the most optimistic official estimate. To stimulate activity in EU countries most affected by the COVID-19 crisis, the European Commission has proposed a 750-billion-euro ($847-billion) recovery plan — 500 billion euros in grants and 250 billion euros in loans.

Italy is expected to receive around 172 billion euros of this sum. "We must also take advantage of (the moment) to transform the crisis into an opportunity to eliminate all the obstacles that slowed (the country) down for the last 20 years," Conte said.

He said he shared European Commission President Ursula von der Leyen's view that "we cannot allow ourselves to return to the pre-crisis status quo".

The talks venue is a 17th century palace, the Casino del Bel Respiro, which Conte called a rare choice "to pay tribute to Italian beauty". Participating remotely were Von der Leyen, the EU's economic affairs commissioner Paolo Gentiloni, European Council President Charles Michel, as well as International Monetary Fund director Kristalina Georgieva, a Bulgarian who previously served on the European Commission, the EU executive.

Virus inflicts severe shock on economy

"This is the moment for you to develop and implement an effective recovery plan," Von der Leyen said, adding the Commission will support Italy until recovery. Michel said that "by reinforcing Italy, we are also reinforcing Europe."

"We must not forget," he added. "Italy's sacrifice probably indirectly saved lives in the rest of Europe". Italy was hit with the virus before it reached most of its neighbors.

Although his approval ratings rose during the coronavirus emergency, Conte faces questions from prosecutors over his handling of the pandemic and now confronts political challenges over the threat of deep recession. Conte has suggested a task force headed by former Vodafone chief executive Vittorio Colao to come up with recommendations on how to get Italy's economy back on track.

Conte said last week he wanted to unite "the country's strongest forces" and compile the "most effective ideas" for an economic rebound following two months of lockdown. Proposals include digitizing Italy's onerous public administration, modernizing infrastructure and restructuring the national university system, among others. But the opposition spurned Conte's invitation and even government officials including Economy Minister Roberto Gualteri have criticized hasty plans and lack of cabinet input.

Reports of new cases in Rome—at a hospital and a building inhabited by squatters—only added to Italian concerns on Saturday with five fatalities and more than 100 people affected, health officials said.

Regional director of health Alessio d'Amato said 104 cases had been logged after an outbreak at the San Raffaele Pisana hospital in the west side of Rome, adding some 200 recent patients would have to be tested. Amato said the cluster was under control but that authorities were remaining highly vigilant. A further cluster of nine cases, who were hospitalized, was uncovered at a squatted block of flats in the southern district of Garbatella, regional health authorities said.

The building's remaining residents—many of them immigrants—were quarantined while La Repubblica newspaper put cases at the block at 17. —AFP

ROME: Italy's Prime Minister Giuseppe Conte (fourth left) attending, along with members of the Italian government, a video conference with EU and IMF leaders from Villa Pamphili in Rome, as the country eases its lockdown aimed at curbing the spread of the COVID-19 infection.—AFP

Sterling sheds gains vs dollar

LONDON: The pound shed early gains against a weaker dollar on Friday to be 0.6 percent lower on the day as a combination of stronger appetite for risk, unprecedentedly weak economic data and Brexit concerns weighed on the British currency. The pound had a poor week, slipping back after it had risen 3.9 percent against the dollar in 10 consecutive days of gains. It recovered against the dollar on Friday, touching $1.2653 in earlier trade, before falling 0.6 percent on the day to $1.2528 at 1504 GMT. Against the euro, the pound flattened at 89.69 pence. Analysts suggested sterling was behaving like a risk currency, strengthening when improving global market sentiment weakens demand for the safe-haven dollar.

Vasileios Gkionakis, head of FX strategy at Lombard Odier, said the pound's losses this week made sense because market participants had been complacent in view of ongoing Brexit risks and the coronavirus-induced economic slump. "Little progress has been made on Brexit ... the UK economy is going to lag the rest of the developed markets, so levels at $1.27-$1.28 were a bit of a stretch for sterling," he said. Britain's economy shrank by a quarter over March and April, data showed on Friday. Bank of England Governor Andrew Bailey said the central bank had to be ready to do more to help. The country has also made very little headway in talks about a future trade relationship with the European Union, negotiators have said, and it confirmed on Friday it would not extend a Brexit transition period that is due to end on Jan. 1.

Asset manager Candriam told clients that it expected "further depreciation" of the pound, as their view on Britain was negative given its performance in managing the COVID-19 crisis and a lack of progress in sealing a deal with the EU.

"This all alongside a massive fiscal deficit, inflated debt to GDP and a current account deficit which requires financing," Candriam said.

From next week, much of Britain's retail sector is authorized to reopen as long as shops follow social distancing rules. — Reuters

LONDON: The pound recovered against the dollar on Friday, touching $1.2653 in earlier trade, before falling 0.6 percent on the day to $1.2528

British economy takes 25% hit from COVID

LONDON: Britain's economy shrank by a quarter over March and April as entire sectors were shuttered by the coronavirus lockdown in what looks likely to be the bottom of a "catastrophic" crash before a long and slow recovery.

Dwarfing previous downturns, the economy contracted by 20.4 percent in April from March, when it shrank by nearly 6 percent. It was 24.5 percent smaller than in April 2019. Both of April's readings represented bigger falls than the dire forecasts in a Reuters poll of economists.

The Office for National Statistics said the economy had shrunk back to its size in 2002.

"This is catastrophic, literally on a scale never seen before in history," Paul Johnson, director of the Institute for Fiscal Studies think tank, said. "The real issue is what happens next." Prime Minister Boris Johnson said the figures were no surprise as Britain's huge services sector was being hit particularly hard by social distancing measures, but he said a recovery would follow.

"Coronavirus is likely to hit a country like the UK economically very hard. We depend on services, on human contact," he said. "But we're also a very resilient and a dynamic economy and we will bounce back." Much of Britain's retail sector is due to open its doors next week and the government last month urged people who could not do their jobs at home to return to work.

"Take action"

Bank of England Governor Andrew Bailey - who has warned of the deepest recession in three centuries - said there had been signs of recovery since April's "dramatic" fall but the big question was how much long-term economic damage would be done. "We hope that will be as small as possible but we have to be ready and ready to take action, not just the Bank of England but more broadly, on what we can do to offset those longer term damaging effects," he said.

The BoE is expected to announce a fresh increase of at least 100 billion pounds ($126 billion) in its bond-buying firepower next week. Finance minister Rishi Sunak is considering what further stimulus measures he needs to provide.

The Organization for Economic Co-operation and Development said this week that Britain could suffer the worst downturn among the countries it covers, with an 11.5 percent slump this year. IFS director Johnson told Sky News the hit might be short, if the roughly one third of private sector employees who are temporarily laid off can return to work, consumers go out and spend again and Britain avoids a second COVID-19 wave. But he said it was more likely that unemployment would jump when the government's wage subsidy scheme ended in October, and that Britain would limp into 2021 with the risk of a Brexit shock also on the horizon.

Britain left the European Union at the end of January and began a no-change transition period which lasts for the rest of 2020. Talks on a broad new deal have made little progress. The ONS said output in the dominant services sector fell by 19 percent in April from March while manufacturing was down more than 24 percent and construction crashed by 40 percent.

In the three months to April, the overall economy contracted by 10.4 percent from the previous three-month period. —Reuters

As Colombia eyes pensions, market shudders

BOGOTA: Colombia's financial market cringed last week when it learned the government was planning to order pension funds to transfer some $7.34 billion worth of contributions to the public retirement fund. The measure would have allowed 350,000 people with fewer than 10 years before retirement to move funds to the public pension fund, Colpensiones. It immediately sparked speculation the money would be used for some of the $11.7 billion in pension costs the government faces this year, allowing it to redirect other funds toward coronavirus needs.

Although the measure was later ruled out by the government, a proposed law working its way through congress has kept market worries high. The law would also allow those with private pensions to voluntarily move to the public fund. The provision is meant to correct legal complaints that savers were not given sufficient advice when they joined private funds two decades ago.

A significant movement out of private pensions would have ripple effects in public bonds, as pension funds are major buyers, and in the stock market, where funds invest a large part of the $71.6 billion they control.

"We ended up in the same place by a different route," said Munir Jalil, BTG Pactual's chief economist for the Andean region. "What it shows is the level of cash flow need... for the national government, which makes them consider these ways of getting funds."

The country's economy, usually one of the region's heartiest, looks set to contract 5.5% this year because of months-long coronavirus quarantine and lower oil prices. "These proposals don't help at all because we'd have to calculate how much money would leave private funds," said Daniel Velandia, Credicorp Capital's chief Colombian economist. "They would have to sell their positions or transfer debt titles to the government; it isn't at all a positive impact."

The policy has echoes of Argentina in 2008, analysts said, when private pensions were nationalized to make $24 billion available to the government. Bogota's "fortunate reversal" kept Colombia off Argentina's "disastrous path," former Finance Minister Juan Camilo Restrepo said on Twitter.

The government was considering allowing partial withdrawals from pension funds, Finance Minister Alberto Carrasquilla said on Wednesday. A day later, President Ivan Duque rejected the idea.

"This shows the deficiencies of the system and makes the need for a structural pension reform even more urgent," said Mauricio Olivera, director at the Econometria consultancy. "If everyone moves to Colpensiones, it could create a pension time bomb because the subsidies are really high." — Reuters

Developing nations, not including China and India, poured an unprecedented $59.5 billion into clean energy.

Renewables not enough to meet climate goals

PARIS: The world added 12 percent more clean power capacity in 2019 than the year before, but new renewable energy planned over the next decade falls far short of what is needed to forestall dangerous global warming, the UN warned.

An additional 184 gigawatts (GW) of renewable power—mostly solar and wind—came on line last year, according to the Annual Global Trends in Renewable Energy Investment report, jointly issued by the UN Environment Programme and Bloomberg New Energy Finance (BNEF).

One gigawatt is similar to the capacity of a nuclear reactor. Total investment in renewables in 2019 was $282.2 billion, led by China ($83.4 billion), the United States ($55.5 bn), Europe ($54.6 billion), Japan ($16.5 billion) and India $9.3 billion), with a record 21 countries each spending at least $2 billion. Developing nations—not including China and India—poured an unprecedented $59.5 billion into clean energy. The rapidly falling cost of solar and wind power—less expensive in most electricity markets than coal—means more bang for the buck, the report showed.

Investment in 2019 was the same as the year before, but yielded an additional 20 GW of installed capacity. But measured against the Paris climate treaty target of capping global warming at "well below" two degrees Celsius above pre-industrial levels, the transition to clean energy is not happening nearly fast enough, the report said. The 826 GW of new renewables planned by 2030 — at a cost of about $1 trillion—is only a quarter of the roughly 3,000 GW required to keep us on track for a 2C world, it concluded. Investment is lagging as well—more than $2.7 trillion were committed to renewables during the last decade.

"Clean energy finds itself at a crossroads in 2020," said BNEF chief executive Jon Moore, one of the report's authors. "The last decade produced huge progress, but official targets for 2030 are far short of what is required to address climate change."

When the current health crisis eases, he added, governments must not only boost renewable power, but the decarbonisation of transport, buildings and industry.

The huge amounts of cash mobilized to jump-start economies stalled by COVID-19 lockdowns is a once-in-a-generation opportunity to close this "renewables gap" in investment, the authors argue. "If governments take advantage of the ever-falling price tag of renewables to put clean energy at the heart of COVID-19 economic recovery, they can take a big step towards a healthy natural world," said UNEP executive director Inger Andersen.

"This is the best insurance policy against global pandemics." But the transition from a brown global economy to a green one is strewn with obstacles.

Investment in renewables last year, for example, was barely half the amount governments spent to subsidize fossil fuels, according to a report last week from the International Energy Agency (IEA) and the Organization for Economic Co-operation and Development (OECD).

Combined subsidies for both consumption and production last year totalled $478 billion in 77 economies, the two intergovernmental agencies found. That's an 18 percent drop compared to 2018, but the decrease was due mainly to lower oil and gas prices.

Indeed, subsidies for fossil fuel production in 44 countries increased 38 percent last year, OECD figures showed. "I am saddened to see some backsliding on efforts to phase out fossil fuel support," OECD Secretary-General Angel Gurria said in a statement. —AFP