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Europe nears crisis plan for public stakes in key firms

Plan seen as key part of recovery fund

LONDON/FRANKFURT/BRUSSELS: EU officials are seeking to finalize a plan for public stakes to be taken in key European companies to shield them from the economic fallout of the COVID-19 pandemic, three sources familiar with the matter told Reuters.

The European Union is looking to take decisive, unified action to support corporates after plans to help struggling southern states became mired in dispute and led to some politicians questioning the future of the European project. On May 5, after weeks of negotiations, France called for "an equity fund, either to recapitalize or to acquire shares in strategic companies that need capital, especially for those operating in European strategic value chains", according to a proposal submitted to the EU commission and seen by Reuters.

One favored option is the creation of a central "solvency support" scheme, funded by member states, to direct investments into companies deemed systemically important,according to the three sources familiar with the discussions. Another could see European companies issue convertible bonds to the European Investment Bank, the EU's lending arm, that could later turn into an equity stake, said two of the sources. A spokeswoman for the European Commission declined to comment.

While all member states have largely embraced the idea of such investment, its governance has proved a stumbling block along traditional fault lines, said the sources who declined to be named as the negotiations are confidential. Italy and France want the new scheme to prioritize support for companies in countries worst hit by the coronavirus pandemic and economic slump, and with fewer financial resources at their disposal, according to the sources.

But German officials have asked for more visibility on the benefits that Europe's largest economy will get from ploughing a large chunk of the cash into the scheme, they said. Much of the detail surrounding any scheme to protect companies - and not just states - is yet to be finalized. A broad announcement on it is expected in the coming days as part of a trillion-euro plan for a recovery fund, the sources said.

European champions

The plan to take stakes in companies is inspired by previous proposals backed by France and Italy to strengthen Europe's "strategic" industries. Last August, EU officials examined the creation of an EU sovereign wealth fund to invest in European champions in sectors where Europe lags behind global rivals such as technology, according to an internal document seen by Reuters that mentioned stepping up competition with US giants such as Apple and Google as well as China's Alibaba.

This plan stalled in the autumn, and the wealth fund never materialized. But the broad idea of the bloc investing in major companies was revived by Italian and French officials after the coronavirus hit Europe as a way to overcome the stalemate on debt mutualization, the sources said. It was also championed by internal market commissioner Thierry Breton as a way to protect systemically important businesses in Europe and deter any unwanted takeover or stake-building from outside actors.

Concerns over the vulnerability of some European companies grew in April when it emerged that Saudi Arabia's sovereign wealth fund had amassed stakes in four European oil majors, including France's Total and Italy's ENI. Another method of investing in companies being examined by EU officials is by making greater use of an agency that takes small stakes in companies, the European Fund for Strategic Investment, to bolster businesses struck by the pandemic, one source said.

FRANKFURT: This file photo shows Christine Lagarde, President of the European Central Bank (ECB), addressing journalists during a press conference in Frankfurt am Main, western Germany. —AFP

Since it was set up in 2015, the fund has made roughly 1.9 billion euros of small investments in companies specializing in life science, renewable energy and digitalization. The 27-member bloc is also looking at using its central budget to give guarantees to the European Investment Bank that would, in turn, hand out loans to companies struggling in the slump, another source said. —Reuters

Lebanon launches IMF talks to rescue economy

BEIRUT: Lebanon began talks with the International Monetary Fund on Wednesday, aiming to secure some $10 billion of badly needed aid to help the country out of the worst financial crisis in its history. Tough negotiations lie ahead for Lebanon, which will be expected to enact economic reforms its sectarian leaders have long avoided if Beirut hopes to secure international aid, analysts say.

With Lebanon in a coronavirus lockdown, the first round of talks began via videoconferencing. 'We are comfortable with the atmosphere of these initial discussions, and we expect that the upcoming discussions will be equally constructive,' Finance Minister Ghazi Wazni said in a statement.

Beirut officially asked for IMF assistance earlier this month, in what Prime Minister Hassan Diab called a 'historic moment' for a country facing the biggest threat to its stability since the 1975-90 civil war.

The talks will be based on a government rescue plan which maps out tens of billions of losses in the financial system. An international support group including the United States and France said in a statement the decision to request an IMF progra was 'a first step in the right direction'. Domestic political support was 'necessary for successful conduct and rapid completion of negotiations with the IMF", the support group noted, hinting at the need for consensus among Lebanon's fractious politicians. —Reuters

Collapse in consumption dragging down global economic outlook: IMF

WASHINGTON: A collapse in consumption and other data point to a downward revision of the International Monetary Fund's already pessimistic outlook for the global economy given the global coronavirus pandemic, a top IMF official said on Wednesday.

IMF chief economist Gita Gopinath said economic data gathered since April were confirming the IMF's forecast for a 3 percent contraction in global economic output, and pointed toward potentially worse scenarios.

"If anything, it looks like the outlook will worsen," she told a conference hosted by the Financial Times newspaper, adding that the collapse of consumption would likely "lead to downward revisions."

In April, the IMF underscored the high level of uncertainty around its outlook, noting that a longer, deeper crisis could result in a contraction of 6 percent for 2020 and zero percent growth in 2021.

"No country is being spared, and the numbers that you see coming in are historical lows," she said, noting that developing countries and emerging market economies were at particular risk. Gopinath said there was a possibility of recovery after countries began easing widespread lockdowns, as long as there was sufficient testing for COVID-19, the disease caused by the virus, contact tracing for those who got infected and appropriate quarantining of those who become ill.

She pointed to a rebound in China, where external demand remained weak but domestic demand was picking up. In an apparent reference to increased tensions between the United States and China, Gopinath said it was imperative to de-escalate trade tensions and impairment of cross-border capital flows to avoid further harm to the global economy.

"If we want to have a recovery where we have firms reopening, production taking place (and) people being rehired ... we cannot have a further breakdown in global supply chains," she said. Gopinath also underscored the need to provide ample liquidity for countries hit hard by the crisis, noting the needs of emerging economies and developing countries would likely exceed the $2.5 trillion the IMF had initially forecast.

All options remained on the table, she said, despite resistance by the United States to an allocation of the IMF's Special Drawing Rights currency, which is akin to a central bank "printing" new money.

"We've been very clear to the membership about what the needs will be - and they will be substantial," she said.

UN warning

The world economy is projected to shrink by 3.2 percent in 2020 after the coronavirus pandemic sharply restricted economic activity, increased uncertainty and sparked the worst recession since the depression, the United Nations said on Wednesday.

A report by the U.N. Department of Economic and Social Affairs said there would likely only be a gradual recovery of lost output in 2021. In January, the department had projected world economy growth of between 1.8 to 2.5 percent this year. "The world economy is expected to lose nearly $8.5 trillion in output in 2020 and 2021, nearly wiping out the cumulative output gains of the previous four years," the report released on Wednesday said. The new coronavirus, which causes the respiratory illness COVID-19, has infected some 4.3 million people globally and more than 291,000 have died, according to a Reuters tally. The virus first emerged in the Chinese city of Wuhan late last year.

Businesses were shut down and hundreds of millions of people around the world were told to stay home to stop the spread as scientists rush to develop treatments and a vaccine. The UN report said the pandemic showed how economic and public health "are inextricably linked and mutually reinforcing."

"Countries may seek to reduce inter-dependence, and shorten supply chains, as many may consider the potential costs of a crippling pandemic too high relative to the benefits they receive from economic integration and interdependence," it said.

"The fight against the pandemic — if it continues for too long and its economic price becomes too high — will fundamentally reshape trade and globalization," it added. —Reuters