Debt in a warm climate: coronavirus and carbon set scene for default

REUTERS

Where Covid-19 has precipitated unprecedented debt, the climate crisis could trigger defaults across a planet that a UN panel says is dangerously close to runaway warming.

To avert disaster, countries are committing to cut carbon emissions. However, these will be costly and will most likely add to a global debt pile that asset manager Janus Henderson estimates ballooned to $62.5 trillion (R924.99 trillion) by the end of last year.

With floods and wildfires wreaking havoc across the globe, estimates vary on how much damage the crisis will inflict on economies.

A report earlier this year from the Bank of America put it at $54 trillion to $69 trillion by 2100, which compares with a valuation of the entire global economy at about $80 trillion.

The financial repercussions could manifest themselves in less than 10 years, warns a study by index provider FTSE Russell.

The first climate-linked credit rating downgrades are set to hit countries soon, adds the report's co-author and FTSE Russell's senior sustainable investment manager, Julien Moussavi.

In a worst-case "hothouse world" scenario, developing countries such as Malaysia, South Africa and Mexico, and even wealthier economies like Italy could default on debt by 2050.

In another, where governments are initially slow to react, countries including Australia, Poland, Japan and Israel would be at risk of default and rating downgrades too, notes the study.

REUTERS/FILE

A house hit by a landslide is seen after heavy rain caused flooding in towns surrounding Lake Como in northern Italy on July 27.

While developing countries are inherently more vulnerable to rising sea levels and drought, richer ones will not escape the climate crisis fallout, such studies show.

"You can talk about climate change and its impact and it won't be long before someone talks about Barbados, Fiji or the Maldives," says Moritz Kraemer, chief economist at Countryrisk.io and former head of sovereign ratings at S&P Global.

"What was a surprise to me was the impact on higher-rated, richer countries," he adds.

Another study by a group of universities, including Cambridge in the UK, concludes that 63 countries – roughly half the number rated by S&P Global, Moody's Investors Service and Fitch Ratings – could see credit ratings cut by 2030.

China, Chile, Malaysia and Mexico would be the hardest hit, with six notches of downgrades by the end of the century, it said, while the US, Germany, Canada, Australia, India and Peru could see about four. The corresponding increase in borrowing costs would add $137 billion to $205 billion to countries' combined annual debt service payments by 2100, the study estimates.

Ratings downgrades typically raise borrowing costs, especially if they cause countries to be ejected from bond indexes tracked by funds managing trillions of dollars.

Developed countries are increasing spending to temper climate damage, with Germany creating a €30 billion (R522.22 billion) recovery fund after recent floods, and Singapore budgeting the equivalent of $72 billion to protect against rising sea levels in the next century.

For emerging economies already scarred by Covid-19, the climate crisis will create even more pressure.

The International Monetary Fund warns that a 10 percentage point rise in climate change vulnerability, as measured by the Notre Dame Global Adaptation Initiative index, is associated with an increase of more than 150 basis points in long-term government bond spreads for developing nations. The average rise across all countries was 30 basis points.

The UN environmental programme estimates that in developing countries, annual adaptation costs will be as much as $300 billion in 2030, rising to $500 billion by 2050.

As a percentage of GDP, sovereign debt is still about 60 per cent in emerging economies, according to data from the Institute of International Finance, versus 100 per cent or so in the US and the UK, and 200 per cent in Japan.

The rise from pre-pandemic levels of about 52 per cent is of particular concern. European, US and Japanese central banks are essentially underwriting state borrowing, but this is not possible in poor countries, which must ultimately repay debt.

"How do you enable the sort of funding that's required, given the high debt levels and the importance of the ratings frameworks?" asks Sonja Gibbs, director for global capital markets at the institute.

Droughts shrink hydropower

REUTERS, *Brasilia/Shanghai*

Severe droughts are drying up rivers and reservoirs vital for the production of zero-emissions hydropower in several countries around the globe, in some cases leading governments to rely more heavily on fossil fuels.

The emerging problems with hydropower production in places like the United States, China and Brazil represent what scientists and energy experts say is going to be a long-term issue for the industry as climate change triggers more erratic weather and makes water access less reliable.

They also could pose a threat to international ambitions to fight global warming by hindering one of the leading forms of existing clean power. Hydropower is the world's top source of clean energy and makes up close to 16 per cent of world electricity generation, according to the International Energy Agency (IEA).

This year, climate-driven droughts have triggered the biggest disruptions in hydropower generation in decades in places like the western United States and Brazil. China is still recovering from the effects of last year's severe drought on hydro production in Yunnan province in the southwestern part of the country.

Elsewhere, too much water is the problem. Last year in Malawi, for example, flooding and debris from megastorms forced two power stations to go offline, reducing hydropower capacity from 320 megawatts (MW) to 50 MW, according to the IEA.

Those effects have forced power grid operators to rely more heavily on thermal power plants, often fired by natural gas or coal, and to ask businesses to curtail electricity use to prevent outages, according to Reuters interviews with grid operators and regulators.

"When we're talking about hydropower we're really talking about making sure we have enough water to get electricity," said Kristen Averyt, a research professor focusing on climate resilience at the University of Nevada in Las Vegas. "What does that hydro generation get replaced with?"

In California, the State Water Project was forced to shut down a 750-MW hydroelectric power plant at Lake Oroville this month for the first time since it was built in 1967 because of low water levels. In good years, the plant can power half a million homes.

Dollar dominance back on agenda in DR Congo

AFP, *Kinshasa*

DR Congo has revived a long-standing dream of promoting the national currency and sidelining the dollar to regain control over key economic levers.

The Democratic Republic of Congo's economy became informally "dollarised" several decades ago under the dictatorship of Marshal Mobutu Sese Seko, whose chaotic rule bred four-digit inflation.

Today, the Congolese franc and the US dollar co-exist, but the greenback remains massively dominant.

The dollar is used in major contracts, business transactions and the bank accounts of the well-heeled, and even accepted by shopkeepers and in cash machines.

"The US dollar is the common currency, just as English is the common language," said a vendor in "Le Chateau", the nickname for a small street in Kinshasa's business district studded with the umbrellas of money-changers.

The use of the dollar tamed hyperinflation, but also sapped the government's room to shape fiscal policy and spending, which are the basic tools of economic management.

Foreign currencies are believed to account for more than 90 per cent of the money supply in this sprawling country of more than 2.3 million square kilometres (888,000 square miles).

Now, the authorities are once again mulling how to boost the standing of the Congolese franc, although

AFP/FILE

President Felix Tshisekedi, who came to power in 2019, has launched a push to widen use of the Congolese franc.

thinking is still at an early stage.

President Felix Tshisekedi has called on the government to carry out "deep reflection on making the Congolese franc a strong and stable currency", according to minutes of a cabinet meeting on August 6.

Strengthening the franc would improve the public's purchasing power and help to "accelerate the de-dollarisation process," the report said.

The way of achieving this would be through "a series of measures aimed at using the Congolese franc as the unit of account for all transactions," the report said.Several attempts at "de-dollarisation" have been made before.

Measures forced through at the end of the 1990s fell short because of a recession linked to war in the east of the country and a flourishing black market in foreign exchange.

Conflict in the east, pitting armed groups against each other and the army, persists to this day.Another bid was launched in 2012, when the government had high hopes for growth and new high-denomination bills of Congolese francs.

But that too failed.Almost 10 years later, the government and the new head of the country's central bank, Malangu Kabedi-Mbuyi -- a former International Monetary Fund official (IMF) -- are under orders to find a new solution.

Stocks make modest gains after days of records

AFP, *New York*

US and European stock markets made modest gains on Friday after days of records as concerns about the pandemic sparked a surprise collapse in US consumer confidence.

On Wall Street, the Dow and S&P 500 eked out a fourth consecutive record close and modest gains for the week amid thin summer trading.

European equities edged higher to cap the week, with Frankfurt's DAX 30 momentarily breaching the 16,000-point mark for the first time and Paris briefly reaching a 21-year high.

US shares drifted higher at the open, but retreated after the University of Michigan reported its consumer sentiment index plunged to its lowest level in a decade as the Delta variant of Covid-19 continues to spread.

"There is little doubt that the pandemic's resurgence due to the Delta variant has been met with a mixture of reason and emotion" from consumers, the survey's chief economist, Richard Curtin said.

The index fell 13.5 per cent -- one of the largest declines ever recorded -- to 70.2 due to "dashed hopes that the pandemic would soon end," and the correct assessment that the economy will suffer, he added. Earnings season is winding down but strong quarterly results have helped buoy markets on both sides of the Atlantic.

"This has been a common feature of the markets recently, small and steady gains that have seen European stocks push into record territory," said Craig Erlam, senior market analyst at OANDA.

The gains in Europe also have been driven by strong Covid vaccine programs that have enabled countries to loosen restrictions, Erlam said.

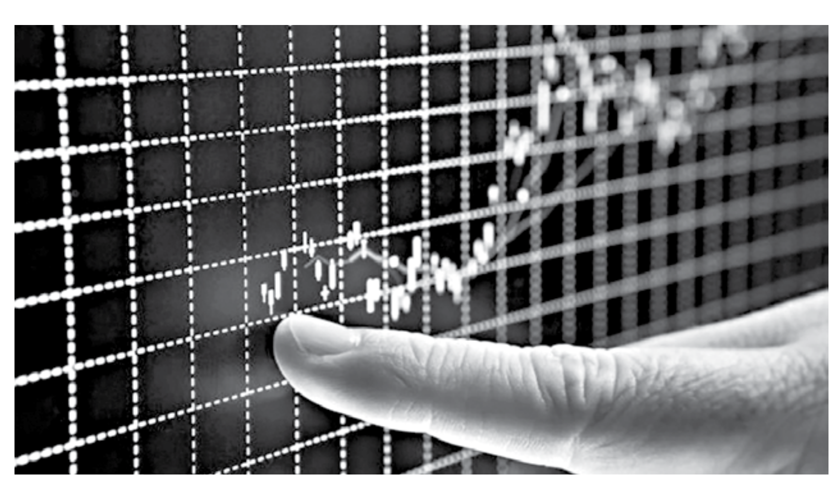
But rising US infections from the Delta variant and mixed inflation data will turn attention to economic data next week, notably retail sales, for a better read on the prospects for the world's largest economy.

Further evidence of inflation pressures after mixed data this week, would likely prompt the Federal Reserve to start to roll back its massive stimulus program sooner than expected.

Fed chief Jerome Powell is due to address the annual central banking conference in Jackson Hole, Wyoming later this month, which could be the occasion for the first promised advance notice of a plan to taper the monthly pace of bond buying.

The worry is that tapering, along with an interest rate increase to contain inflation, could hamper the recovery.

"Global investors are assessing the implications of the spread of the Delta virus, the possible tapering by the Fed, and China's clampdown," said Geir Lode, of Federated Hermes.



Ford counterattacks in 'cruise' dispute with GM

REUTERS, *Detroit*

Ford Motor Co said late on Friday it will ask the US Patent Office to rescind trademarks obtained by rival General Motors Co for the terms "Cruise" and "Super Cruise," escalating a brawl GM began by suing Ford over its use of "Blue Cruise" for an automated driving system.

The legal fight between the two Detroit automakers turns on whether "cruise" is a generic term for technology that allows the car to take over some share of driving tasks from a human motorist.

The clash underscores the intensity of competition among established automakers to be seen as leaders in automated driving technology, competitive with Silicon Valley rivals Tesla Inc, Alphabet Inc 's Waymo unit and others.

GM filed a federal suit against Ford on July 24, accusing Ford of violating GM trademarks by using the name "Blue Cruise" for a system that enables hands-free driving. GM had previously trademarked "Super Cruise" for its hands-free, partially automated driving technology. It also has trademarked "Cruise," the name of its robo-taxi unit in San Francisco. Ford reiterated on Friday its position that GM's suit is frivolous. The effort to nullify GM's trademarks for the use of the word "cruise" takes the fight to a new level.

"To defend itself, Ford has no choice but to ask the US Patent and Trademark Office to rescind both of GM's "Cruise" and "Super Cruise" trademark registrations that should have never been registered in the first place," Ford said. "Any number of companies use the word 'cruise' in connection with driver assist technology."

Among the examples Ford cited: "Predictive Cruise," marketed by Mack Trucks; "Smart Cruise Control" marketed by Hyundai Motor Co, and Autocruise, used by auto supplier ZF Friedrichshafen AG.

Multi-billion-dollar reconstruction projects await post-war Libya

AFP, *Tripoli*

A decade after Libya descended into chaos, a host of countries are eyeing potential multi-billion-dollar infrastructure projects in the oil-rich nation if stability is assured.

Economist Kamal Mansouri expects Libya's reconstruction drive to be one of the biggest in the Middle East and North Africa.He estimates "more than 100 billion dollars" are needed to rebuild Libya, which has been gripped by violence and political turmoil since dictator Moamer Kadhafi was toppled in a 2011 uprising.

Former colonial power Italy, neighbouring Egypt and Turkey are tipped to be awarded the lion's share of reconstruction deals.

In the capital Tripoli, dozens of rusted cranes and unfinished buildings dot the seafront, testimony to hundreds of abandoned projects worth billions of dollars launched between 2000 and 2010. After Kadhafi's overthrow, Libya fell under the control of a complex, ever-shifting patchwork of militias and foreign mercenaries backing rival administrations.

While Turkey has supported the Tripoli government, eastern-based strongman Khalifa Haftar, who battled but failed to seize the capital, has had the backing of Russia, the United Arab Emirates and Egypt. But a UN-backed ceasefire was agreed last October, paving the way for the establishment in March of an interim administration.

The new government led by Prime Minister Abdulhamid Dbeibah is tasked with organising presidential and parliamentary elections in December if a legal framework is agreed on time.

The new administration has been courted by Western and regional leaders who have visited Libya with large business delegations in tow.

Italy's Foreign Minister Luigi Di Maio was accompanied by the chief of Italian energy giant ENI. In May, Dbeibah, an engineer and businessman, visited Rome and agreed with his Italian counterpart Mario Draghi to expand collaboration on energy projects.

AFP/FILE

This unfinished Tripoli hotel is one of many construction projects that were halted by the turmoil that has gripped Libya since the 2011 uprising that toppled longtime dictator Muammar Gaddafi.

Italy aims to defend its commercial interests in the nation with Africa's largest oil reserves, an energy sector where Eni has been the leading foreign player since 1959.

The firm reportedly proposes building a photovoltaic solar plant in southern Libya. In June, Spanish Prime Minister Pedro Sanchez also visited with a business team, while Dbeibah has travelled to Paris.

As Dbeibah's administration takes part in several business forums, Turkey, Egypt, Tunisia and Algeria are also in the running for lucrative contracts.A delegation from Russia's energy group Tatneft visited Tripoli in June to study oil exploration projects.

"Libya hasn't built a thing in 10 years," said Global Initiative senior fellow and Libya expert Jalel Harchaoui.

"It's a rich country which hasn't maintained its infrastructure.

"A decade of violence has ravaged its airports, roads and the electricity network. While there is no shortage of major projects and international suitors, questions remain over funding and whether instability will return.

Divisions have devastated Libya's economy and complicated management of its oil revenues, weakening its foreign currency reserves.

On the political and economic fronts, a 2021 budget has yet to be approved and UN-led efforts to organise elections appear to be floundering.