

# Business

THURSDAY, OCTOBER 14, 2021

## IMF warns supply snarls slowing global recovery

### Subsidies not the right tool to deal with high energy prices

**WASHINGTON:** Worldwide supply chain disruptions are driving price increases and draining momentum out of economies recovering from the COVID-19 pandemic, the IMF warned.

The ongoing hit from the pandemic and the failure to distribute vaccines worldwide is worsening the economic divide and darkening prospects for developing nations, the IMF said in its latest World Economic Outlook. The global economy is expected to grow 5.9 percent this year, only slightly lower than projected in July, before slowing to 4.9 percent in 2022, the report said.

But the overall figures mask large downgrades and ongoing struggles for some countries, including the United States, Germany and Japan that are feeling the impact of supply bottlenecks, IMF chief economist Gita Gopinath said. "This recovery is really quite unique," she told AFP on the sidelines of the annual meetings of the International Monetary Fund and World Bank.

Despite a strong return in demand, "the supply side has not been able to come back as quickly," hampered in part by the spread of the Delta variant of COVID-19, which has made workers reluctant to return to their jobs. Those labor shortages are "feeding into price pressures" in major economies, she said, slowing growth expectations this year.

Energy prices have hit multi-year highs in recent days, with oil above \$80 a barrel, weighing on households. But Gopinath said she expects energy prices to begin to retreat by the end of the first quarter of 2022.

#### Darkening prospects

In low-income developing countries, the outlook "has darkened considerably due to worsening pandemic dynamics," she said in a blog post on the new forecasts. The setbacks, which she blamed on the "great vaccine divide," will impact the restoration of living standards, and a prolonged pandemic downturn "could reduce global GDP by a cumulative \$5.3 trillion over the next five years," she warned.

"The dangerous divergence in economic prospects across countries remains a major concern," Gopinath said. Advanced economies are expected to regain "pre-pandemic trend path in 2022 and exceed it by 0.9 percent in 2024," she said. However, in emerging market and developing economies, excluding China, output "is expected to remain 5.5 percent below the pre-pandemic forecast in 2024." Amid the danger of long-term scarring, "the foremost policy priority is therefore to vaccinate at least 40 percent of the population in every country by end-2021 and 70 percent by mid-

2022," she said.

#### Delicate US balancing act

The world's largest economy has benefitted from massive fiscal stimulus, but the Delta wave and the supply issues have undermined progress, prompting the IMF to slash the US growth forecast for this year to six percent, a full percentage point off the July figure. US growth is expected to slow to 5.2 percent next year, slightly faster than previously expected, but policymakers will face a delicate balancing act amid risks of rising inflation and lagging employment, the fund noted.

Wages also threaten to rise as employers compete for scarce workers, Gopinath noted. Governments should avoid using general subsidies as a way to soften the blow from recent high energy prices, the IMF said yesterday.

Broad subsidies are expensive, so policymakers instead should use targeted aid to help low income families most impacted from the recent surge, Paulo Medas, of the IMF's Fiscal Affairs Department said.

Generalized energy subsidies "benefit rich households who don't need the support," making them very costly, Medas told reporters.

In addition, "they are not friendly to the environment, in fact they lead to very negative incentives." The IMF recommends "using more targeted support to those that are more vulnerable, and the



WASHINGTON, US: IMF chief economist Gita Gopinath speaks during an interview with AFP at the International Monetary Fund headquarters in Washington DC. —AFP

hardest hit" including cash transfers or subsidizing electric bills for low income families.

After debt loads surged last year amid the pandemic, governments now must take care to "calibrate" spending, the IMF said yesterday. Global debt in 2020, including public and private borrowing, "jumped by 14 percent to a record high \$226 trillion," according to the IMF's Fiscal Monitor report.

"A significant number of countries are in debt distress, or at high risk of debt distress," said Vitor Gaspar, director of the IMF's Fiscal Affairs Department.

It is "urgent" to make progress on a framework to help those countries at risk, he told reporters, repeating the call from the International Monetary Fund and World Bank to take action before the debt service suspension initiative agreed by the Group of 20 expires at the end of

## Texas businesses stuck between federal and state vaccine rules

**WASHINGTON:** American Airlines and Southwest Airlines said Tuesday they will continue requiring employees to be vaccinated against COVID-19, deferring to federal regulations as Texas and the White House square off over vaccine mandates. The clash comes as the Republican governor of Texas, Gregg Abbott, signed an order Monday banning all vaccine mandates in his state, including those coming from private companies.

But that state rule is in direct contradiction with a regulation announced by President Joe Biden last month, which would require all companies with more than 100 employees to ensure their workers are vaccinated against the coronavirus. White House spokeswoman Jen Psaki said Tuesday the new Texas law does not change the federal government's vaccine mandate plans, which could cover some 100 million US workers.

"We know that federal law overrides state law," Psaki said. But the Biden administration has yet to detail the practical applications of the federal order.

"There isn't a big historic precedent for this and



we want to get it right," Psaki said, assuring that plans for the federal order could be expected within "weeks."

#### Airlines defer

As federal contractors, major airlines must require their employees to be vaccinated by December 8, which could prove complicated for those based in Texas. American Airlines said it will defer to federal law over the state law. "We are reviewing the executive order issued by Gov. Abbott, but we believe the federal vaccine mandate supersedes any conflicting state laws, and this does not change anything for American," a spokesperson

for the carrier said in a statement to AFP.

Fellow Texas-based airline Southwest also said Tuesday it would continue requiring vaccines for employees, despite Abbott's order. "According to the president's executive order, federal action supersedes any state mandate or law, and we would be expected to comply with the president's order to remain compliant as a federal contractor," Southwest said in a statement.

And the Greater Houston Partnership, a Texas business group that includes Exxon Mobil, Chevron, BP, Shell and JP Morgan Chase, said in a statement Tuesday: "The governor's executive order does not support Texas businesses' ability and duty to create a safe workplace." Abbott said Monday he supported vaccination, but would not allow mandates for it in his state.

"I issued an Executive Order prohibiting vaccine mandates by ANY entity in Texas," the governor wrote on Twitter. "The COVID-19 vaccine is safe, effective & our best defense against the virus, but should always remain voluntary & never forced," said Abbott, who is also against mask mandates and tested positive for the virus in August. Psaki slammed the Texas order during a press briefing Tuesday. "I think it's pretty clear when you make a choice that's against all public health information and data out there that it's not based on what is in the interest of the people you are governing," she said. "It's perhaps in the interest of your own politics." —AFP

## US Congress averts default with stop-gap debt limit hike

**WASHINGTON:** US lawmakers rubber-stamped a short-term bill to lift the nation's borrowing authority Tuesday, averting the threat of a first-ever debt default — but only for a few weeks. The Democratic-controlled House of Representatives voted along party lines to pass the stop-gap \$480 billion hike, which advanced from the Senate last Thursday after weeks of heated debate.

"It's about the kitchen table, it's about our economy, the global economy, but it's also about our constitution which says the full faith and credit of the United States shall not be in doubt," Democratic House Speaker Nancy Pelosi told reporters ahead of the vote. Democratic leaders had spent weeks underlining the havoc that a default would have wrought, including the loss of six million jobs and \$15 trillion in household wealth as well as increased costs for mortgages and other borrowing.

Republicans refused to offer any of their own votes to avert the crisis, and even blocked Democrats who control Congress from lifting the limit on their own, via a simple majority. But the party dropped its blockade in the Senate last week, ending for now an impasse that risked leaving the federal government incapable of securing and servicing loans after October 18.

The new arrangement merely kicks the can down the road, possibly to complicate another major funding deadline — a shutdown that would begin from December 3 when the government's coffers theoretically run out. — **'Full faith and credit'**

The borrowing cap may yet turn out to be less pressing, however. Economists estimate that the nation will reach the new, revised debt limit some-



WASHINGTON, US: A person jogs past the US Capitol in Washington, DC. US lawmakers rubber-stamped a short-term bill to lift the nation's borrowing authority Tuesday, averting the threat of a first-ever debt default — but only for a few weeks. —AFP

time in mid-December or early January — slightly later than the December 3 date that Congress originally projected. The United States spends more money than it collects through taxation so it borrows money via the issuing of government bonds, seen as among the world's most reliable investments. Around 80 years ago lawmakers introduced a limit on how much federal debt could be accrued.

The ceiling has been lifted dozens of times to allow the government to meet its spending commitments — usually without drama and with the support of both parties — and stands at around \$28 trillion. But Republicans in both chambers of Congress have this time objected, saying they refuse to support Biden's "reckless" taxing and spending plans. In reality, raising the debt ceiling doesn't authorize new spending — it merely pays for expenses that both Republican and Democratic administrations have already committed to. —AFP

## India's Infosys reports strong quarter earnings

**MUMBAI:** Indian software giant Infosys said yesterday it expects to grow faster than previously projected after reporting quarterly earnings that beat analyst estimates. The company reported revenues of 296 billion rupees (\$3.9 billion) in the three months ending September 30, an increase of 20.5 percent compared to the same quarter last year.

"On a year-on-year basis, our growth was the fastest in 11 years," chief executive officer and managing director Salil Parekh said in a media briefing. "Given this continued momentum we have further increased our revenue growth guidance to 16.5 to 17.5 percent." Revenues from digital services grew 43 percent year-on-year, contributing more than 56 percent of its total revenues, up from 54 percent in the previous quarter. At the same time, revenues from the firm's legacy consulting and technology business grew only 0.7 percent in the three-month period.

Net profit at India's second-largest IT company rose to 54.21 billion rupees, 11.9 percent higher than the same quarter last year. The company maintained its operating margins at 23.6 percent, compared to 23.7 percent in the previous quarter despite absorbing the impact of wage hikes in the period. However, Infosys left its forecast for operating margins at 22-24 percent for the current financial year 2021-22. The company signed deals worth \$2.15 billion in the quarter, down from \$2.6 billion in the previous quarter ended June 30. Infosys said it will expand its graduate hiring program to 45,000 recruits this year to meet increased demand for digital services, even as its attrition rate—a key metric for IT companies—spiked to 20.1 percent from 13.9 percent in the previous quarter. —AFP



## US biggest bitcoin miner after China crackdown: Study

**LONDON:** The United States has overtaken China as the biggest miner of bitcoin following Beijing's crackdown on the method used to unearth the world's major cryptocurrency, a study showed yesterday.

Figures released by the University of Cambridge showed that activity in the US more than doubled in the four months to the end of August, increasing the market share held by the world's biggest economy to 35.4 percent. Kazakhstan, in second place, also more than doubled its activity to 18.1 percent, followed by Russia with 11 percent, said Michel Rauchs at the university's centre for alternative finance.

China banned the mining of bitcoin in June, as authorities have said for a long time that there were strong links between the cryptocurrency and money laundering. Mining for bitcoin requires powerful computers to solve complex puzzles, resulting in the consumption of huge amounts of electricity.

According to the Cambridge Bitcoin Electricity Consumption Index, mining of the cryptocurrency uses an amount of electricity equivalent to 0.45 percent of global output, or the same amount produced by the Philippines. Rauchs said that with China's ban, global mining of bitcoin immediately slumped by more than one third, but has since rebounded. "That initial 38 percent drop... in June was partially offset by a 20 percent bounce-back over July and August, suggesting that some Chinese mining equipment has been successfully redeployed overseas," the expert said.

"Further, as of early October, the trajectory is indicating that all, or nearly all, of that June downturn would be fully recovered soon," Rauchs added. —AFP