

## Citi Takes Government Assistance

Bhavin Dhanani

**Citigroup** has become the latest financial institution to be bailed out by the US government. After its share price plummeted in recent weeks there were fears for the bank's future. However, the bank was deemed too big to fail and a bailout plan was arranged last Monday.

In exchange for preference shares in the bank, the US Treasury will invest \$20 billion. The investment follows the \$25 billion Citigroup received as part of the industry bailout plan by the US Treasury. In addition to the investment, up to \$306 billion worth of risky loans and assets will be guaranteed by the Treasury and the Federal Deposit Insurance Corp.

At the time of the bailout the market capitalisation of Citigroup was \$20 billion. Just two years ago the market valued Citigroup at \$270 billion, over 13 times as much as the most recent low. This shows the extent to which Citigroup has struggled in the credit crunch, posting four consecutive quarters of losses. Its share price did rally on the news of the bailout closing 58% up on Monday. Competitors in the industry also rose sharply with Goldman Sachs rising 26% and Morgan Stanley increasing by 33%.

Several stipulations have arisen as a result of the plan. Remuneration of managers and board directors will be significantly lower this year compared

to last as the government has the right to intervene in compensation decisions. The bank's dividend will also fall heavily. Per quarter, the dividend will be a maximum of 1 cent per share for the next three years.

At one time, Citigroup stood as America's biggest bank. However Citigroup's risk taking was huge, becoming the biggest issuer of collateralised debt obligations. In its search for higher profits, the bank whose universal banking model was heralded as the future, has crumbled.



Citi announced Treasury Department, the FDIC and the Federal Reserve Board

Sarah Lloyd

## China Feels Economic Pace

### Markets

- The FTSE closed up this week at 4279.75.
- The European Central Bank will announce this Wednesday its actions towards changing the base rate.
- Thursday also sees the release of GDP figures for Europe.
- Another interest rate decision is released this Thursday from the Bank of England. This is expected to again be a cut in the UK's base rate, though not quite as aggressive as the cut in November.

### Winners, Losers

Company	Price	Change
Std Chartered (banking)	812.00p	27.95%
Schroders (banking)	814.50p	23.60%
Aviva (insurance)	395.00p	23.05%
Compass (leisure)	294.50p	17.10%
UTD Utilities (utilities)	594.00p	-7.40%
Pennon (utilities)	447.50p	-7.40%
Centrica (utilities)	228.75p	-16.51%
Rio Tinto (resources)	1553.0p	-36.61%

**The** Chinese central bank cut rates by 108 basis points in one-year benchmark lending and deposit rates. This drop in rates is the most aggressive move by the authorities in more than a decade.

The rate cut is the latest sign of worries in Beijing about the slowing of the Chinese economy. The Central Bank has already cut the benchmark lending rate three times since Sept. 16, and the benchmark deposit rate twice.

The one-year lending rate is important in China since banks use it to calculate their client products' interest rates, based on the maturity of the loan and the credit-worthiness of the borrower. As interest rates on many outstanding loans are adjusted at the start of each year, the reduction in rates

will soon leave businesses and consumers with lower interest rate payments and more money left to spend.

The central bank also reduced the reserve requirement by 1 percent for large banks and 2 percent for small banks. This means banks are now free to lend more of their assets.

Demand for residential mortgages has weakened as the real estate market slows down. However small businesses are seeking loans to get them through the current fall in sales that has resulted from the economic slowdown.

The interest rate paid by the central bank for reserves has also dropped by 0.27 percentage points.

Little explanation for the rate cut has been given by those in charge.

## TARP & TALF

The Troubled Asset Release Program (TARP), or 'Wall Street Bail-out' as named by many investment banking critics, has seen an update to its structure this week. The structural update means there is now an additional \$800 billion available to the newly named Term Asset-Backed Securities Loan Facility (TALF). The new bailout bears a stark resemblance to Gordon Brown's recently announced bailout plan.

TALF will only invest in financial firms. They will implement this by buying stocks thus (hopefully) encouraging banks to lend. The initial idea of buying up banks' troubled assets has been completely wiped off the agenda. Hank Paulson, the US Treasury Secretary, said doing this now would "not be the most effective way" to handle our financial problems.

TARP will inject \$250 billion into financial firms to help with liquidity and President Bush has requested another \$100 billion to save AIG and Citigroup. The remaining \$350 billion is understood as likely to be left for the Obama administration to allocate.

TALF will offer \$200 billion in credit to support securitised auto, credit-card and student loans. It will also spend \$600 billion buying mortgage-backed securities issued or guaranteed by Fannie and Freddie. TALF will add to existing commitments to support the commercial paper market which is currently worth almost \$2,000 billion.

### Are we doomed?

The biggest rate cut in 10 years and an economic growth forecast which is the lowest for nearly two decades, it appears the wheels of the Chinese economic boom have become derailed as the financial crisis powers in to Asia. China's prospects darken with social unrest and unemployment on the up...

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## Pre-Budget Delivered

Sarah Lloyd

**Hailed** as the most important pre-budget report since Labour came to power in 1997, Alistair Darling's report outlined numerous tax changes that are being brought about.

Individuals earning more than £150,000 will fall into a new tax band, paying 45 percent income tax, which the Government intends to use to pay for an unprecedented £120 billion borrowing bill.

The new rate - expected to affect 400,000 people and raise about £2 billion a year - would be brought

in immediately after the next general election, meaning the public would need to elect Labour to see it implemented.

Among other measures, Darling is set to cut VAT to 15 percent for at least a year in an attempt to boost spending as Britain heads for recession. He is also expected to announce plans to ensure banks lend money to families and small businesses.

The announcement of over £20 billion in fiscal stimulus in the pre-budget report is pushing the British government borrowing to a record level.

## Strictly Bites

Only 0.24% of the shares from The Royal Bank of Scotland's (RBS) recent rights issue were taken up. The offer price of 65.5 pence per share was significantly higher than the market value. As a result taxpayers made an immediate paper loss of £2.4 billion. The rights issue takes the Government's holding in RBS to 57.9%.

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The UK's biggest building society, Nationwide, has decided to stop its standard variable rate mortgage to all new borrowers. It will still be available to customers on fixed rate deals.

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The Land Registry has stated that house prices across England and Wales fell by 10.1% in October compared to a year ago. The average price of a house is £165,529 in England and Wales.

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On Saturday OPEC ministers met to discuss oil production after recent falls in the price have eroded income to oil producing nations. In the end it was decided to leave the oil quota unchanged. However, it was mentioned that next month's meeting may see a cut.

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Theo Paphitis was this weekend trying to mount an eleventh-hour rescue deal for Woolworths' high street stores, saving thousands of jobs.

Spain and Italy have both announced plans to boost economic prospects. Italy will use €80 billion to provide tax breaks for the poor as well as mortgage assistance. Spain's €11 billion stimulus plan will attempt to create 300,000 jobs after unemployment reached 12.8% in October. No other country in the eurozone has a higher level of unemployment.

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Inflation in the eurozone has fallen sharply. Eurostat said that the figure was 2.1% in November compared to 3.2% in October. Meanwhile unemployment has risen across the region, fuelling speculation that the European Central Bank will cut interest rates.

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Commerzbank, the second largest bank in Germany, has announced its takeover of Dresdner will be completed earlier than expected. In addition, it will pay 48% less than what was originally agreed. The deal is now expected to be finalised in January.

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Another day, another twist to the Halifax Bank of Scotland (HBOS) and Lloyds TSB deal. A group of stakeholders are planning legal action to stop the deal going ahead on the grounds that the deal will create a retail banking monopoly. The Government had originally waived competition rules because of the ailing state of the banking sector.

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Sources: [www.theft.com](http://www.theft.com), [www.reuters.com](http://www.reuters.com), [www.economist.com](http://www.economist.com), [www.timesonline.com](http://www.timesonline.com), [www.bbc.co.uk](http://www.bbc.co.uk), [www.yahoofinance.com](http://www.yahoofinance.com), [www.bloomberg.com](http://www.bloomberg.com), [www.ft.com](http://www.ft.com)