

## EU Support in Greece Debt Crisis

European leaders, led by Nicolas Sarkozy and Angela Merkel of France and Germany respectively, have pledged to support and aid Greece with their current debt crisis. The EU leaders are hoping that this show of political support will bring about a wave of optimism and calm to the debt markets, which are currently in turmoil following news of Greece's sovereign debt problems. For the moment, it appears to have worked, as Greek government bonds rallied strongly, with yields on 10 year bonds decreasing 37 basis points to 6.022 %. US markets also responded solidly, with the S&P 500 rising to the highest level in a week following the an-

ouncement.

The agreement has stopped short of concrete plans to aid Greece, as there are squabbles amongst the leaders over exactly how the situation should be remedied. Many are worried about just handing over huge amounts of money to Greece, and want to ensure that the Greek government is taking proactive steps to ensure that their debt levels do not reach so high again. Officials said that details of a bail-out plan were "still the subject of discussion and we are not even in a position to deliver it [on Thursday.]" However, there have been rumours that a potential plan would be loans or

commitments to purchase Greek bonds. It is believed that if money was to be loaned out, the IMF will not actively be involved in any of the lending of money; however they might be put in a monitoring role to help mentor Greece with their handling of debt. This has provided a temporary stop-gap of the fear surrounding Greek's debt crisis, but something must be done soon. The debt levels in Greece currently stand at 12.7 per cent of GDP. This is the highest level in Euro history, and over four times the EU's 3 per cent limit.

Derek Weigel



Greek Finance Minister Georgios Papaconstantinou

### Markets

The FTSE100 closed up 0.5 percent higher on Thursday. This was driven by the strength of commodities, while banks fell back ahead of a summit that could lay out a rescue plan for debt-stricken Greece. At 1138 GMT on Thursday the FTSE 100 index was 23.90 points higher at 5,155.89.

Today (Friday) at 14.00 GMT the Dow was up 1.05 percent at 10,144.19. The S&P500 remained unchanged at 1,078.47. As did the NASDAQ composite which had no daily change at 2,177.41.

### Winners & Losers

Company	Price	Change
ICAP PLC	330.50p	+12.25 %
Reckitt Bencksr Group Ord Shs.	3326.00p	6.39%
Rolls-Royce Group PLC	513.00p	6.35%
Rangold Resources Ltd.	4420.00p	5.89%
Autonomy Corp PLC	1491.00p	-7.93%
BT Group PLC	121.22p	-6.62%
Lloyds Banking Group PLC	256.20p	-6.25%
Barclays PLC	256.20p	-5.73%

## Bernanke Outlines Exit Strategy

Bradley Wright

On Wednesday, Chairman of the Federal Reserve Ben Bernanke announced plans regarding the strategy for withdrawing its stimulus money. During the crisis the Reserve pumped billions of dollars into the US economy by making more money available to banks, encouraging lending to consumers and the wider business community.

He stressed any plans were months away from being implemented, so as not to damage the still weakened economy. Bernanke's comments echo those of other leading economies - including the UK, about how to reduce the cash used to kick start economies.

Bernanke has proposed to pay banks higher interest rates for capital deposited at the fee, which in turn will result in higher rates passed to the con-

sumer and tighter credit conditions. By paying higher rates, the Fed aims to make it more attractive to banks as the rate offered by the Reserve will be more attractive than the spread earned from lending to consumers.

Bernanke stated there would be no way the Fed would begin such plans without strong financial and economic conditions were in place. He also stated raising the spread between the discount rate and the Fed funds rate that it offers to banks for emergency loans.

The DOW slid 0.8% upon the statement, with traders stating 'it was not anything unexpected; however it still unnerved the market'. This is just testimony to the still weakened economy and the strategy has not fallen on deaf ears!

## Davos Round up

Pearl Boateng

A year on from the bleakest Davos meeting in the World Economic Forum's four decade history, hopes were high for this year's annual meeting of business and political leaders. Lacking the obvious over indulgence of 'pre crisis' years, the meeting will go down as the banker bashing year.

French President Sarkozy rounded on the financial system calling for 'taxing on exorbitant profits of finance to combat poverty'. However two delegates were overheard discussing 'nothing's going to happen ... just the status quo'.

Uncertainty was a pervasive descriptor of the mood this year - questions focused on regulation, financial markets and the economy. Bob Diamond (CEO of BarCap) attacked President Obama's banking plan, George Papandreou (Greek PM) sat uncomfortably during a euro zone debate regarding the then Greek government bond crisis (that has since escalated) and George Soros (billionaire founding partner Soros Fund Management LLC) favourably contrasted China's approach to letting steam out of asset bubbles through 'administrative guidance'.

One thing was for sure, the 'Volcker Rule' (proposed Obama banking reform) was on everyone's lips. Major Western bankers were cautious - Diamond being the only 'global' bank to stand out, China called the plans 'irrelevant to its circumstances' and Alistair Darling called for more rapid progress in international agreements on bank reforms.

Three years ago the annual meeting was seen by bankers as where to find the best party, this year they put on a sombre, brave face - many stayed away. Prior to the meeting the industry was shell shocked to hear of the proposed UK Treasury 'Banker Tax' and the US 'Volcker Rule'. Bankers globally had found paradise in proposed Basel Committee proposals, but now this whole accord has been turned on its head.

Further Information Can be Found At - [www.ft.com/davos](http://www.ft.com/davos)

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## RBS and Lloyds fall short of bailout obligation

Folarin Araromi

Lloyds Banking Group, and fellow part state owned giant, RBS, are feeling the pressure over their lending commitments to businesses and individuals. The banks took criticism from the Committee of Public Accounts (CPA) who said they would fall short of a pledge to lend £39bn by the end of February 2010. The legally binding commitment was made by the two banks in exchange for taxpayer support received in 2008.

The committee has called on the government to do more to force the banks to lend. But as Mark Dean of Money-Corp points out, "HBOS [a subsidiary of Lloyds] went bust because they lent money to companies and people who could not pay it back...fortunately they are now dealing only with borrowers capable of making the repayments". The call by the CPA shows a contradiction in the political discourse surrounding bank management. Banks are expected to act responsibly and within

reason - and unfortunately this means making tough calls on lending. However, concern has been raised at the new procedures put in place at the banks.

Stephen Alambritis, from the Federation of Small Businesses, argues that banks were not making it easy for businesses to borrow money. "Businesses are balking at the interest rates charged and the tortuous process they are forced to go through to borrow money," he said. Nevertheless, RBS has committed itself to lending £25bn in mortgage and business loans, while Lloyds Banking Group has pledged to lend £14bn. Lloyds spokesman Stephen Pegge said, "We are still saying yes to 80% of businesses who want to borrow, but there will be some businesses that it will be difficult to provide that extra finance for. We are growing our business lending faster than the rest of the market, but it's subject to demand, and that demand has been limited."

## Strictly Bites

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UBS announced fourth quarter earnings of SFr1.21bn in 2009. The increase in profits was somewhat down to reduced accounting charge of just SFr24m on the value of the bank's own debt, and a SFr480m tax credit. The fourth quarter result followed a SFr564m loss in the previous three months, reducing total annual loss for 2009 to SFr2.74bn. A loss of SFr21.29bn recorded in 2008.

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Credit Suisse returned to pre-crisis levels of profitability last year. As one of Europe's winners through the credit crunch, they reported net profits of SFr6.72bn. This followed their loss of SFr8.22bn in 2008.

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A gold-plated savings guarantee that protects 100 per cent of deposits for customers of Northern Rock is expected to be lifted within weeks as the government moves a step further in its rehabilitation of the nationalised bank.

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The National Statistics Institute recorded a contraction in Spain's GDP of 0.1% in the last quarter of 2009 - the seventh successive quarter of decline - and in the full year there was a drop 3.6 per cent.

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The KBC failed to meet analysts' expectations. The fourth-quarter net profit of €304m (\$417m) followed last year's loss of €2.6bn. For the first time in eight quarters, net profit came in above the bank's underlying profit as KBC began to see improvements in its portfolio of CDOs, which had been behind the bulk of earlier losses.

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The Euro zone recovery has start losing momentum according to recent figures from Eurostat. GDP in the 16-country region grew by just 0.1 per cent higher in the fourth quarter compared with the previous three months. The Euro zone was left behind by the US, which grew by 1.4 per cent in the same period.

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