FINANCIAL TIMES

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Chinese bank lending surged last month and property prices rose at the fastest rate in nearly two years. **Page 4**

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Hundreds of thousands of Iranians turned out to mark the 31st anniversary of the Islamic revolution. **Page 2; Slideshow: www.ft.com/iran**

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EU pledge on Greece fails to calm fears

Setback to hopes of swift rescue for Athens

Concerns over fresh sell-off in markets

By Ben Hall and Tony Barber in Brussels and David Oakley in London

A pledge from the European Union to stand by crisis-hit Greece yesterday fell short of investor hopes for an immediate rescue and raised fears of renewed selling in financial markets.

Efforts by Nicolas Sarkozy and Angela Merkel, French and German leaders, to paper over differences about how to deal with the Greek debt crisis led to a summit statement in Brussels that stopped short of providing immediate support for Athens.

The leaders of the 27-nation bloc promised "determined and co-ordinated action if needed to safeguard stability" of the eurozone, which has been shaken by turmoil in bond markets amid fears that Greece's debt problems could spread.

The accord amounted to an implicit assurance to help Athens if it had problems in refinancing debt in April and May. But the lack of a detailed bail-out plan underwhelmed investors in financial markets. Global stocks and bonds made modest gains but the euro fell 0.9 per cent against the dollar.

Herman van Rompuy, EU permanent president, described the deal as a "political statement", saying leaders had not come up with a detailed rescue because Greece had not asked for help.

Mr Sarkozy said: "We have committed to a show of solidarity, transparency and discipline."

The agreement endorsed Greece's plans to cut its budget deficit by 4 percentage points of gross domestic product this year. It laid out a set of guidelines that Athens would be expected to follow if it were to be given financial support, most probably from Germany, France and some other eurozone countries, in the future.

Greece would be expected to "do whatever is necessary including adopting additional measures" to eliminate the deficit by 2012. EU leaders hope to calm markets by putting more pressure on Athens to implement budgetary cuts, rather than by making explicit at this stage how they could offer it financial assistance.

Berlin – traditionally the EU's paymaster – is acutely conscious that the German public is unlikely to welcome any initiative open to the interpretation that the country's taxpayers would pick up the bill for decades of Greek profligacy, manipulation of statistics, public sector corruption and tax evasion.

Jonathan Loynes, economist at Capital Economics, said the accord seemed "little more than a vague statement of support for Greece". Steven Major at HSBC said: "It all hangs on whether the implicit guarantees go down well with the markets. If they don't, then there could be a sell-off."

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www.ft.com/greecedebt

McQueen is dead Fashion world shaken

Lee Alexander McQueen, the British designer whose sharp tailoring, fantastical imagination and cockney posturing made him a highly lauded and notorious fashion figure, was found dead yesterday at his home. The cause was not disclosed. Robert Polet, chief executive of Gucci Group, the luxury conglomerate that bought the Alexander McQueen brand in 2001, said: 'Lee's passing will be mourned deeply . . . the legacy he leaves us is a rich one' **Obituary, Page 15** Getty

Shell staff details are leaked to campaign groups

By Ed Crooks in London

Royal Dutch Shell has suffered a serious breach of security after contact details for 176,000 employees and contractors were e-mailed to environmental and human rights campaign groups.

The database, from Shell's internal directory, gives names and telephone numbers for its workforce worldwide, including some home numbers used for business.

The e-mail was ostensibly sent by disaffected staff calling for a "peaceful corporate revolution" at the company.

The database was e-mailed with a 170-page covering note, explaining that it was being circulated by "116 concerned employees of Shell Oil dispersed throughout the USA, the UK, and the Netherlands", to highlight the harm allegedly done by the company's operations in Nigeria.

Shell confirmed the database was genuine, but said it did not pose a security risk because it did not include home addresses. It said it was investigating the security breach but did not believe it had been leaked by disaffected staff. The leak nevertheless raises the prospect that it may be subject to further action by campaigners.

The e-mail sets out a four-stage strategy for raising awareness of allegations about Shell's practices in Nigeria, including campaigns to target the media and institutional investors.

It also advocates "having people from NGOs [non-governmental organisations] becoming full time (undercover) employees of corporations (in western countries)" to campaign for change in corporate practices.

With no identifiable Shell staff admitting responsibility, it is impossible to know if the claim of 116 supporters is true.

The leaked information is about six months old, suggesting it could have been taken by a former employee.

Tomorrow

Lord Browne has Lunch with the FT
FT Weekend Life & Arts

Jancis Robinson: fine wine online
FT Weekend Life & Arts

Win a Verbier ski trip by private jet
FT Weekend Reader offer

Infineon rebels suffer shock defeat in bid to oust Wucherer

Crushing blow for disgruntled investors

By Daniel Schäfer in Munich

Infineon's rebellious shareholders suffered a crushing and unexpected defeat yesterday in their attempt to oust the chairman-designate of the German chipmaker, though some investors alleged there might have been flaws in the voting process.

A majority of shareholders – 72.62 per cent of the vote – rejected Willi Berchtold, the finance director of a large German car-parts maker who had been proposed as chairman by a group of dissenting investors.

Klaus Wucherer, who had been publicly opposed by some big institutional investors, was re-elected as a non-executive director with a similar majority in a vote that even close confidants to Infineon's board said was "hugely surprising".

The board last night unanimously elected Mr Wucherer as chairman.

Hans Hirt, head of European corporate governance at Hermes, the UK fund manager that led the campaign against Mr Wucherer, said he had formally voiced his dissent against the vote. He said Hermes would analyse the differences between the 66 per cent-plus votes against a share repurchase authorisation and the clear approval of Mr Wucherer.

Both proposals had been resisted by RiskMetrics, a shareholder advisory group that often bundles more than 20 per cent of votes. Hans-Martin Buhlmann, head of VIP, a German shareholder advisory group, called the outcome a "violation of shareholders' wishes".

Infineon and its lawyers strongly denied allegations that the agenda had been changed to count RiskMetrics' votes in their favour.

The rejection of Mr Berchtold came as a blow to attempts by international shareholders to influence corporate governance in German boardrooms.

The finance director of ZF Friedrichshafen, a car-parts supplier, had received the backing of a number of large international and domestic shareholders in the month-long campaign.

No shareholder had publicly voiced support for Mr Wucherer, who had served as a non-executive director at Infineon since 1999. But he might have won over some investors recently by pledging to serve only one year.

Mr Wucherer warned the debate about a fresh start was hurting the company, and promised to provide stability: "I have enough leadership strength to head Infineon as chairman and to stabilise the company."

Mr Wucherer's victory came after a slew of shareholders had voiced their anger at Infineon's annual meeting.

Policy challenge

International Monetary Fund economists are challenging economic orthodoxy today by suggesting that many pre-crisis policy tools should be redesigned. A staff paper co-authored by Olivier Blanchard, IMF chief economist (above), says the turmoil has 'exposed flaws in the pre-crisis policy framework'. Suggestions include raising inflation targets from 2 per cent to about 4 per cent.

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World Markets

STOCK MARKETS

	Feb 11	prev	%chg
S&P 500	1079.78	1068.13	+1.09
Nasdaq Comp	2177.12	2147.87	+1.36
Dow Jones Ind	10157.94	10038.38	+1.19
FTSEurofirst 300	990.51	987.13	+0.34
DJ Euro Stoxx 50	2680.25	2700.17	-0.74
FTSE 100	5161.48	5131.99	+0.57
FTSE All-Share UK	2643.94	2628.67	+0.58
CAC 40	3616.75	3635.61	-0.52
Xetra Dax	5503.93	5536.37	-0.59
Nikkei	(c)	9963.99	
Hang Seng	20290.69	19922.22	+1.85
FTSE All World $	(u)	185.47	

CURRENCIES

	Feb 11	prev		Feb 11	prev
$ per €	1.361	1.370	€ per $	0.735	0.730
$ per £	1.561	1.559	£ per $	0.641	0.642
£ per €	0.872	0.879	€ per £	1.147	1.138
¥ per $	89.8	89.8	¥ per €	122.2	123.1
¥ per £	140.1	140.1	£ index	80.2	79.8
$ index	84.0	84.0	€ index	99.17	99.84
SFr per €	1.466	1.466	SFr per £	1.682	1.668

COMMODITIES

	Feb 11	prev	chg
Oil WTI $ Mar	75.28	74.52	0.76
Oil Brent $ Mar	72.54	72.54	-
Gold $	1,071.95	1,077.35	-5.40

INTEREST RATES

	price	yield	chg
US Gov 10 yr	99.13	3.73	0.04
UK Gov 10 yr	103.59	4.02	0.11
Ger Gov 10 yr	100.07	3.24	0.02
Jpn Gov 10 yr	99.70	1.33	
US Gov 30 yr	95.16	4.68	0.04
Ger Gov 2 yr	100.35	1.05	-0.02

	Feb 11	prev	chg
Fed Funds Eff	0.12	0.13	-0.01
US 3m Bills	0.10	0.11	-0.01
Euro Libor 3m	0.60	0.60	
UK 3m	0.54	0.54	

Prices are latest for edition

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Eurozone woes

Greece pays price of scrutiny for help

EU rescue

Athens will be rigorously monitored on every aspect of its economy, writes Tony Barber

Greece's budgetary and economic policies will be subjected to an unprecedented degree of surveillance by European Union authorities as the price of a promise of support agreed yesterday by Germany and other EU governments.

Pensions and healthcare policies, the public administration, labour and product markets, the use of EU structural funds, financial sector supervision and official statistics will all be rigorously monitored by the European Commission to ensure that Greece is not let off the hook.

The measures are more intrusive than anything adopted in the EU's 53-year history and, if applied to the letter, will amount to a significant curtailment of Greece's fiscal sovereignty in return for its right to continue sharing the euro currency with Germany, France and the other 13 eurozone nations.

Experts from the European Central Bank and the International Monetary Fund will be brought in to back up the Commission, but on the insistence of eurozone leaders the IMF will stay largely in the background and will not be asked to provide credit lines for Greece, EU officials said.

All these initiatives are expected to be approved by eurozone and EU finance ministers at meetings next Monday and Tuesday.

For financial markets, the important question is whether the arrangements will work as effectively as IMF-linked recovery programmes of the kind that have been successfully applied to Hungary and Latvia, two non-euro EU countries, since 2008.

"If the Greek government shows signs of being unable to implement the required conditions, then market pressures could remain high or intensify again," one investment bank analyst said.

Greece's track record, not just as a member of the eurozone since 2001 but throughout its modern history, does not inspire complete confidence.

The country had been in a state of default for about 50 per cent of the time since its recognition as an independent country in 1832, according to calculations in a book published last year by Kenneth Rogoff, and Carmen Reinhart, two Harvard economics professors.

> Greece's track record throughout its history does not inspire complete confidence

Prof Rogoff perceives a risk that many Greeks will seek to evade their government's attempt to boost tax collection and slash the budget deficit by shifting their wealth abroad or disappearing into the underground economy – which is already estimated to be about 30 per cent of gross domestic product.

EU officials say the bloc's recently adopted Lisbon treaty gives them concrete powers to influence Greek behaviour and enforce Greek compliance with the Commission's policy recommendations, once EU finance ministers have approved them next week.

For example, the Commission has launched an infringement procedure that will make it legally binding upon Greece to report reliable financial statistics – a cornerstone of the effort to rebuild Greece's credibility with financial markets and its fellow eurozone members.

Moreover, the Commission proposed on Wednesday to give Eurostat, the EU's statistical agency, the legal power to audit the accounts of member-states.

However, the EU's ultimate weapon remains what it was in the pre-Lisbon area – the threat of financial penalties if Greece ignores mandatory advice on cutting its deficit. No EU country has ever suffered such fines, largely because national governments are wary of imposing a punishment that may one day be turned against themselves.

The Commission's recommendations include a reduction in Greece's public sector wage bill, to be achieved partly by the replacement of only one in five retiring civil servants, the establishment of a contingency fund for budgetary emergencies amounting to 10 per cent of current expenditure, increases in tax and excise duties, and reform of the tax administration.

Greece will also be required to submit a report as early as mid-March, spelling out the timetable according to which it will implement its deficit-cutting measures this year. Quarterly reports will be required from mid-May on how it is implementing the broader reform programme.

Harsh judgment from Europe's papers

Media reaction

By FT Reporters

Europe's press is uneasy with the idea of rescuing Greece.

"Why Europe is useless" was the banner headline of the leftwing French daily, **Libération**.

For French newspapers, the Greek crisis has brought into sharp relief Europe's impotence in the face of more powerful forces. Yet a cautious note of optimism has emerged as commentators express hope that the rescue package might lead to better co-ordination of economic policy.

In Germany, the **Frankfurter Allgemeine Zeitung** oozed indignation.

"Germany is meant to take responsibility for Greek debts – that's not how the idea of the euro was sold to the Germans," the conservative newspaper noted in reference to the single currency's founding treaty, which banned bail-outs.

The newspaper noted that Greece's eurozone partners had in the past neither the will nor the instruments to force Athens to reform its finances. "How do they hope to have any success once they have lent money to Greece?"

Its page one editorial warned that if the eurozone changed from "a currency union to a debtors' zone", its citizens would "pay a heavy price in the form of a devaluation of their currency and their pensions".

The left-of-centre Athens daily **Eleftherotypia** expressed relief, but little in the way of an admission that Greece had made a rod for its own back.

"Until now Greece didn't have any political support from its EU partners in this crisis – it's been left alone to cope, as have Portugal and Spain," it said. "However late in the day, it is time for the EU leaders to take a bold political stand and set aside the inflexible, technocratic approach that has favoured those speculating against the euro."

In the **Daily Mail**, the rightwing British paper, Andrew Alexander asked, "Will the eurozone still be around in five years' time?" He thought not.

"Victims of hubris, the eurozone's original cheerleaders deserve this current crisis. In their eagerness for enlargement, the founder members allowed the rules to be broken.

"With the euro now under siege, it is possible that the world would actually be a better place without the eurozone."

Worries over bail-out plan dull investor enthusiasm

Financial markets

By Ralph Atkins in Frankfurt and David Oakley in London

A lack of detail about how any eventual bail-out might work and worries about the stability of public finances in other eurozone countries curbed investor enthusiasm for the deal thrashed out in Brussels yesterday.

"The short-term reaction will be one of disappointment. Going into the meeting, market expectations had grown that there would be firmer commitments on the financial side," said Jacques Cailloux, economist at Royal Bank of Scotland.

The wariness of investors was seen in the muted welcome the deal received in the markets. Although the euro fell 0.9 per cent against the dollar as jitters at eurozone stability persisted, bond markets held broadly steady. The yield on Greek 10-year government bonds, which have an inverse relationship with prices, fell only 5 basis points to 5.95 per cent.

The lack of a stronger market welcome was not necessarily a bad sign, economists said. Greece's fiscal difficulties did not require a quick fix. The near-term problem faced by the eurozone's political leaders was contagion. Worries about Greece were spreading to other countries, particularly Spain and Portugal, which have also seen budget deficits widen sharply.

Athens should not have to tap financial markets for funds on a large scale until the April-May period, when it needs to raise €25bn (£228bn, $34bn) to refinance debt and pay off its deficit. After then, it is likely to face several nerve-racking years as it seeks to bring down its public sector deficit to below the 3 per cent of gross domestic product limit set under European Union fiscal rules.

Greece had yet to leave "the still waters of the harbour", said Julian Callow, European economist at Barclays Capital. "In April and May they will leave the harbour and things may become choppier. They will set sail in the second half of the year – but it will be a long voyage."

As such, the Brussels plan may have headed off immediate disaster while keeping up the pressure on Greece. The lack of detail may also have helped keep on side Jean-Claude Trichet, European Central Bank president, who had argued strongly that Greece had to be encouraged to help itself. "Whether the balancing act works will mostly depend on the Greek government carrying through their plans for further measures," said Erik Nielsen, European economist at Goldman Sachs.

Steven Major, global head of fixed income research at HSBC, said: "It is a clever plan . . . If the implicit guarantees can help the Greeks raise money in the bond markets then Europe might not have to come up with any money."

(From left) José Manuel Barroso, European Commission president, Angela Merkel, George Papandreou, Nicolas Sarkozy and Herman Van Rompuy AFP

Week of drama ends in an anti-climax

Diplomatic flurry

By FT Reporters

When Europe at last spoke yesterday in response to the Greek debt crisis, its voice was barely audible.

Addressing reporters outside a library in Brussels, Herman Van Rompuy, European Union president, the man entrusted with projecting the bloc's voice on the world stage, was forced to repeat a mumbled declaration of support for Athens. "Perhaps I need to rehearse," Mr Van Rompuy said of his performance.

Markets will be judging the substance – and not the delivery – of the president's message. It resulted from a frenetic week of diplomacy that revealed divisions between the euro zone's senior partners, Germany and France, and played out against a backdrop of growing protest in Greece, as workers reacted to the prospects of swingeing austerity cuts.

A turning point in the saga came on Wednesday, when the eurozone's 16 finance ministers held an emergency video conference in which they coalesced around the two planks of yesterday's political declaration – that member states would support Greece, and that its government, in turn, must do everything possible to restore its finances. "That was a very important moment," one European diplomat said.

The seeds for that agreement were planted nearly a week earlier at a Franco-German summit in Paris. It was during that meeting last Thursday that, according to officials familar with the talks, French President Nicolas Sarkozy pressed Angela Merkel, the German chancellor, on the need to come up with an unambiguous message in support for Greece in order to quell market turmoil.

Ms Merkel was troubled by the prospect of any rescue that would offer a "blank cheque". She repeatedly insisted that Greece make additional promises to slash its budget, apparently unconvinced by sweeping reforms promised by George Papandreou, the Greek prime minister.

Berlin was also concerned that any support for Greece might set the stage for even larger bail-outs for Portugal and Spain.

Notably absent from the debate was Gordon Brown, the UK prime minister, who made clear that he viewed the matter was one for the eurozone members.

On Tuesday, seeking to reassure investors and fellow European leaders, Mr Papandreou and his finance minister, George Papacontantinou, announced new reforms, including a salary cut for chief executives of state-owned companies.

In a flurry of telephone diplomacy, Mr Sarkozy tried to broker a deal with Ms Merkel, Mr Papandreou and Mr Van Rompuy on Wednesday afternoon, to no avail.

Talks between Mr Papandreou and Ms Merkel were particularly difficult, with the German leader presenting a shopping list of additional fiscal and structural measures for Athens, and the Greek leader resisting.

"They weren't quite on the same page," said one official.

It took a last-minute meeting between the four yesterday morning, hours before the EU's special summit in Brussels, to hammer out an acceptable compromise.

Reporting by Josh Chaffin in Brussels and Ben Hall in Brussels, Kerin Hope in Athens and Gerrit Wiesmann in Berlin

PM talking tough on reform

Weighing words

By Kerin Hope in Athens

Greece's prime minister yesterday reiterated his pledge to do "whatever it takes" to reform the economy in return for political support from the European Union and an implied promise of financial backing to avert default.

"We didn't ask for financial assistance . . . and we managed to persuade [EU leaders] that we would carry out our stability plan as agreed with the European Commission," George Papandreou said in Brussels after the EU summit.

But he said Greece would "take additional measures if required" to achieve the plan's ambitious target of reducing the budget deficit by 10 percentage points of gross domestic product by the end of 2012.

Analysts in Athens said the EU leaders had made a strong political statement that would reinforce the socialist government's position as it tackles public sector reforms and makes a long-postponed overhaul of the state pension system.

"It's a strong statement that can be presented as a diplomatic victory for the prime minister – and can provide some reassurance for markets," said Yannis Stournaras, director of IOBE, an Athens think-tank.

But the government faces a challenge from increasingly militant labour unions, with a joint strike planned for February 24 by ADEDY, the Greek civil service union, and GSEE which represents about 1m private sector workers.

Some market analysts said the leaders' statement failed to provide enough reassurance for Greece to resume borrowing to fund its €290m public debt following sustained pressure on its bond markets.

Greece must return to bond markets in April to roll over about €10bn of maturing debt.

"The eurozone countries today have tried to put a safety net under the Greek debt problems . . . but nothing has been decided, nothing has been ruled out," said Carsten Brzeski of Global Economics.

Greece is still mired in recession, with figures released yesterday showing a jump in the official unemployment rate to 10.6 per cent at the end of last year.

The jobless rate for men – traditionally much lower than for women – reached 8.8 per cent, the highest for more than a decade, and hit 27 per cent for young people entering the workforce, pointing to the possibility of social unrest as the austerity programme is enforced.

A senior Greek official said yesterday that the government was "quite comfortable about meeting goals" set out last month in the stability plan and repeated yesterday. They include a March 15 deadline for putting in place a raft of deficit reduction measures for this year.

He said January figures to be released this week showed budget targets had been met both on revenues and spending.

The price of EU support for the government includes rigorous supervision by the European Commission as reforms are carried out – a measure that reflects Greece's long record of missed deadlines and fudged statistics.

Move to pay off hospital debts

Drug and medical device companies are bracing themselves for a revised proposal from the Greek government as the authorities attempt to pay off nearly €7bn in outstanding hospital debts, **writes Andrew Jack in London**.

Yannis Chryssospathis, legal counsel to the Hellenic Association of Pharmaceutical Companies, the trade body, said his members expected an official offer to restructure their unpaid bills in the next few weeks as efforts escalated to meet a government pledge for reimbursement by the end of March.

The deal is likely to mirror a previous 2004 restructuring of debts that included a significant discount, and might also seek to include the costs of raising additional funds in order to finance the debt.

Separately, senior European pharmaceutical executives have agreed to fly to Athens for talks after intense discussions last week at the European Federation of Pharmaceutical Industries and Associations, the European Union-wide body.

The industry continues to maintain pressure for repayment, with efforts to persuade the European Commission to pursue a legal ruling that Greece has broken EU late payment rules by refusing to reimburse pharmaceutical debts.

A similar legal request has been lodged with the Commission by the Greek medical device companies, who are owed about half of the €7bn ($9.5bn, £6bn) in outstanding payments.

How markets attacked the Greek piñata

James Rickards

Wall Street loves a piñata party – singling out a company or country, making it the piñata, grabbing their sticks and banging it until it breaks. As in the child's game, the piñata is left in shreds. Unlike the child's game, in the Wall Street version the piñata is stuffed with money for the bankers to scoop up with both hands, instead of sweets. We see this game being played today, with Greece as the piñata.

Investors trying to understand why their portfolios have begun to melt down for the second time in five years are becoming experts in the fiscal policy of Greece. A look at the piñata party might make things clearer.

Greece's travails are often measured by reference to the market in credit default swaps (CDS), a kind of insurance against default by Greece. As with any insurance, greater risks entail higher prices to buy the protection. But what happens if the price of insurance is no longer anchored to the underlying risk?

When we look behind CDS prices, we don't see an objective measure of the public finances of Greece, but something very different. Sellers are typically pension funds looking to earn an "insurance" premium and buyers are often hedge funds looking to make a quick turn. In the middle you have Goldman Sachs or another large bank booking a fat spread.

Now the piñata party begins. Banks grab their sticks and start pounding thinly traded Greek bonds and pushing out the spread between Greek and the benchmark German CDS price. Step two is a call on the pension funds to put up more margin, or security, as the price has moved in favour of the buyer. The margin money is shovelled to the hedge funds, which

CDS let anyone bet on anything. We have given Wall Street huge incentives to burn down your house

enjoy the cash and paper profits and the 20 per cent performance fees that follow. How convenient when this happens in December in time for the annual accounts, as was recently the case. This dynamic of pushing out spreads and calling in margin is the same one that played out at Long-Term Capital Management in 1998 and AIG in 2008 and it is happening again, this time in Europe.

Eventually the money flow will be reversed, when a bail-out is announced, but in the meantime pension funds earn premium, banks earn spreads, hedge funds earn fees and everyone's a winner – except the hapless hedge fund investors, who suffer the fees on fleeting performance, and the unfortunate inhabitants of the piñata. What does any of this have to do with Greece? Very little. It is not much more than a floating craps game in an alley off Wall Street.

This is where the idea of CDS as insurance breaks down. For over 250 years, insurance markets have required buyers to have an insurable interest; another name for skin in the game. Your neighbour cannot buy insurance on your house because they have no insurable interest in it. Such insurance is considered unhealthy because it would cause the neighbour to want your house to burn down – and maybe even light the match.

When the CDS market started in the 1990s the whiz-kid inventors neglected the concept of insurable interest. Anyone could bet on anything, creating a perverse wish for the failure of companies and countries by those holding side bets but having no interest in the underlying bonds or enterprises. We have given Wall Street huge incentives to burn down your house.

Let's be clear, public finance in Greece is a mess. Statistics have been fudged, government pensions have been inflated and reckless borrowing has been the norm. Drastic remedies are required. But the crisis is manageable, and Europe has sent clear signals that they will take care of their own house without help from China, America or the International Monetary Fund. Unfortunately, a measured response does no good to the dealers in CDS, who require volatility and even panic to make their game a profitable one. If contagion spreads in uncontrollable ways, so much the better for the traders in volatility, never mind the collateral damage.

Until the CDS market is confined to buyers who have an underlying interest in the risk being covered, and sellers who are regulated as insurance companies with adequate reserves, this market will remain a reckless enterprise bent on arson. Serious issues of sovereignty and stability are at stake. Regulators have to stop ignoring the piñata party and start providing adult supervision.

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Greece-proof paper

Europe's eagerly awaited scheme to help Greece is less a bail-out plan than a vague recipe of intent. So far, it boils down to two ingredients: tough love with a dollop of fudge on top. Eurozone members, led by Germany and France, will lend money should Greece struggle to raise the €40bn it needs to by the middle of the year. The International Monetary Fund will, meanwhile, provide technical surveillance of Athens' deficit reduction programme – presumably policing Greek statistics all the while.

Other details remain scarce. But one question is how the cost of any eurozone loan might compare with a regular IMF standby agreement. In Greece's case, assuming it would have to borrow more than $4.2bn, or above three times its quota, that would be about 4.25 per cent. If the eurozone scheme costs more, Greece should take cheaper IMF money instead. If it is less, then eurozone tough love is not so tough after all. That would provide a disincentive for other fiscally profligate countries to tighten their belts.

Might the scheme work? A gloomy view is that Greece will not be the last country to need support. Eurozone willingness to extend more funds to other countries will inevitably wane. And Greek domestic support for essentially German-imposed cost cuts will evaporate. The positive view is that the scheme is already a success. Mere talk of a eurozone package has boosted Greek assets over the past week. A five-year sovereign bond, sold last month but which tanked in early trading, is back in the money – although at 5.9 per cent, the yield remains higher than it has ever been since Greece joined the eurozone. Still, however vague the eurozone's plan might be, Greece's ability to tap capital markets has some life left in it yet.