FINANCIAL TIMES

EUROPE Friday December 17 2010

The Madoff blowback

Why the banks are being targeted. Analysis, Page 9

Why history trumps economics in Europe

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World Business Newspaper

TOMORROW IN FT WEEKEND

How to cook Christmas

Everything from the best Christmas tipples, a guide for the last-minute cook and chefs' favourite cookbooks

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Permanent rescue fund envisaged ● Calls for short-term changes resisted

EU backs new bail-out system

Angela Merkel, German chancellor, talks with George Papandreou, Greek prime minister, during the European heads of state summit in Brussels yesterday

epa

By Peter Spiegel in Brussels

European leaders last night approved an amendment to European Union treaties to create a new bail-out system for debt-laden countries, but divisions over other measures to halt the eurozone crisis appeared to harden at their year-end summit.

The amendment, which must be ratified by all 27 member states, allows for eurozone countries to create a permanent rescue fund in 2013, the most concrete change in EU institutions since the debt crisis began threatening the single currency early this year.

But in spite of calls by leading officials, including the head of the European Central Bank and International Monetary Fund, for a more immediate Europe-wide response to the crisis, a core group of northern, fiscally prudent countries resisted calls for short-term changes to the EU response system.

Instead, senior officials from these countries – including Germany, Finland, the Netherlands and Sweden – have insisted that the EU re-emphasise fiscal austerity in so-called "peripheral" members and quickly pass new budgetary rules that would fine profligate countries.

The German government has taken the lead on this issue but has come under fire for being "un-European". But heading into a pre-summit caucus of centre-right leaders, Angela Merkel, the German chancellor, did not appear ready to back down.

Moreover, leaders from other northern European countries echoed the German sentiments more loudly than before.

"Instead of publicly philosophising about all kinds of ideas to cure crises, we must actually start preventing them," said Mark Rutte, the Dutch prime minister.

Ideas for near-term solutions have been floated ahead of the summit, including an Italian-Luxembourg plan for Europe-wide bonds; Belgian advocacy for increasing the size of the current €440bn eurozone bail-out fund; and support by Jean-Claude Trichet, the ECB chief, for using the bail-out fund to buy bonds from at-risk countries.

The strong stance taken by the northern countries makes it more likely that the only near-term tool at the EU's disposal, short of full-scale bail-outs, will be the ECB programme of using its own balance sheet to buy sovereign debt.

The ECB appeared to prepare itself for such a change by announcing on Thursday that it would nearly double its capital from €5.8bn to €10.8bn by the end of 2012, a move interpreted as giving the bank greater ability to keep buying distressed bonds of countries such as Greece, Ireland and Portugal.

"Traditionally, the northern countries see the situation similarly and I believe there's no miracle which we should wait for," said Jyrki Katainen, the Finnish finance minister. "If you have more expenditures than income, then you have to adjust it."

Eurozone woes, Page 2

Lorenzo Bini Smaghi, Page 11

www.ft.com/brusselsblog

UK banks urged to use profit as a buffer, not for bonuses

By Chris Giles and Jennifer Hughes in London

British banks should stop paying large cash bonuses and dividends in order to increase their ability to resist the threat of a wider and deeper eurozone crisis, the Bank of England demands today in its latest Financial Stability Report.

Officials worry that although banks have improved their ability to absorb losses, the interconnectedness of the European banking system will amplify losses from peripheral economies such as Greece, Ireland and Portugal.

"UK banks have claims of almost £300bn ($468bn) on France and Germany, whose banking systems are more heavily exposed to the most affected economies," the BoE says.

It adds that although UK lenders have limited direct exposure to peripheral European debt, renewed stresses in those regions could undermine growth and create large losses in banks' much larger portfolios of loans to households and companies. To guard against these and other risks, the BoE insists buffers of capital should be gradually built up, by banks retaining profits in good times rather than paying cash to shareholders and employees.

"It is in banks' collective interest to build resilience gradually through retention of earnings, which would be boosted if banks restrain distribution of profits to equity holders and staff," the report argues. The Bank is not proposing new sanctions to enforce the guidance, but as it will become the supervisor of UK banks, its words have more teeth than usual.

The Bank suggested banks could reward staff and shareholders while building capital if bonus payments "took the form of equity or other loss-absorbing capital".

Lex, Page 14

News Briefing

Raw materials to weigh on Europe, Bosch says

A rise in raw material prices will slow Europe's economic growth next year and could hit smaller supplier groups, warned Franz Fehrenbach, the head of Bosch. **Page 15; Bosch performance, Page 17**

Turkey cuts rates

Turkey's central bank has cut interest rates in a move intended to protect stability, but likely to raise doubts over its commitment to fighting inflation. **Page 4; Lex, Page 14**

Putin blames police

Vladimir Putin, Russia's prime minister, blamed decisions by police for ethnic violence that broke out in Moscow after a football fan's murder. **Page 3**

Obama tax deal hopes

The House of Representatives is expected to pass the US $858bn tax deal struck by Barack Obama and Republicans amid waning Democrat criticism. **Page 5**

Tokyo woos groups

Japan is to offer international companies big tax breaks and other incentives to set up regional headquarters to boost its attractions as a business hub. **Page 15; Lex, Page 14**

Spy drones complaint

India has complained that Pakistani and Chinese spy drones are straying into its airspace – a note of discord during this week's summit between the countries. **Page 6; Editorial Comment, Page 10**

US bounce gains pace

The US recovery is showing signs of gaining traction, with data pointing to improved health in housing, employment and the manufacturing sector. **Page 5; Letters, Page 10**

Kosovo PM faces heat

Hashim Thaci, Kosovo's prime minister, is under fresh scrutiny over his guerrilla past as European foreign ministers examine claims about organ trafficking in the 1998-99 war. **Page 6; Moral fervour, Page 11**

Banking capital gap

The world's biggest banks have a €1,730bn ($2,287bn) gap in liquid investments that they must fill within four years, the global banking watchdog said. **Page 5; Letters, Page 10; America must start again, Page 11**

Assange on bail

Julian Assange will spend Christmas in a country mansion instead of a London prison cell, after the UK's High Court ruled that the WikiLeaks founder could be released on bail. A judge heard an appeal against bail from UK prosecutors on Thursday, who argued that Mr Assange was a flight risk before an extradition hearing next year. The Australian is wanted for questioning in Sweden over claims of rape and sexual assault.

Report, Page 6

US claims Taliban momentum has been reversed in Afghanistan

Obama says that gains remain 'fragile'

By Daniel Dombey in Washington and Quentin Peel in Berlin

The US has announced it has "arrested" and even "reversed" the Taliban's momentum in much of Afghanistan even as President Barack Obama warned that gains remained "fragile and reversible".

In a review of Afghanistan and Pakistan policy for the 12 months since Mr Obama decided to increase US forces in Afghanistan by 30,000 to 100,000, the White House said "specific components" of its strategy for both countries were working and highlighted what it said were "notable gains".

But it added: "The challenge remains to make our gains durable and sustainable".

The review highlights the US's biggest success as its Central Intelligence Agency campaign against al-Qaeda leaders in Pakistan – an almost entirely separate battleground from the troop surge in Afghanistan.

"In pursuit of our core goal, we are seeing significant progress," said Mr Obama. "Today, al-Qaeda's senior leadership in the border region of Afghanistan and Pakistan is under more pressure than at any point since they fled Afghanistan nine years ago."

The review added that: "In Afghanistan, the momentum achieved by the Taliban in recent years has been arrested in much of the country and reversed in some key areas."

The review coincides with the administration's bid to reverse what Robert Gates, defence secretary, acknowledged was public opposition to the war in both the US and its more than 40 partners. Germany, which has the third-largest contingent in the country after the US and the UK, announced on Thursday it hoped to start withdrawing troops from Afghanistan by the end of next year.

Widespread public scepticism is all the more significant since the US now emphasises not just the scheduled start of a troop drawdown in July but also the commitment to stay in the country until a handover to Afghan forces in 2014 and beyond. Officials said the review put the US on track to begin the drawdown as scheduled.

Mr Gates cautioned he "did not know" how fast US forces would draw down after July and much would depend on building up the Afghan police and army, which the review said had exceeded their growth targets.

In particular, Mr Gates highlighted advances in the Taliban heartlands of Kandahar and Helmand.

US storyline, Page 6

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World Markets

STOCK MARKETS

	Dec 16	prev	%chg
S&P 500	1241.49	1235.23	+0.51
Nasdaq Comp	2632.07	2617.22	+0.57
Dow Jones Ind	11495.09	11457.47	+0.33
FTSEurofirst 300	1131.31	1127.25	+0.36
DJ Euro Stoxx 50	2845.78	2841.99	+0.13
FTSE 100	5881.12	5882.18	-0.02
FTSE All-Share UK	3045.21	3046.33	-0.04
CAC 40	3888.36	3880.19	+0.21
Xetra Dax	7024.4	7016.37	+0.11
Nikkei	10311.29	10309.78	+0.01
Hang Seng	22668.78	22975.35	-1.33
FTSE All World $	(u)	214.05	-

CURRENCIES

	Dec 16	prev		Dec 16	prev
$ per €	1.319	1.333	€ per $	0.758	0.750
$ per £	1.559	1.562	£ per $	0.641	0.640
£ per €	0.846	0.853	€ per £	1.182	1.172
¥ per $	84.3	84.0	¥ per €	111.3	112.0
¥ per £	131.5	131.2	£ index	80.7	80.3
$ index	81.8	81.3	€ index	93.54	94.19
SFr per €	1.281	1.282	SFr per £	1.514	1.502

COMMODITIES

	Dec 16	prev	chg
Oil WTI $ Jan	87.70	88.62	-0.92
Oil Brent $ Jan	92.20	92.20	
Gold $	1,368.25	1,390.25	-22.00

INTEREST RATES

	price	yield	chg
US Gov 10 yr	92.94	3.47	-0.05
UK Gov 10 yr	108.87	3.61	-0.01
Ger Gov 10 yr	95.28	3.05	0.01
Jpn Gov 10 yr	99.40	1.27	0.00
US Gov 30 yr	94.70	4.58	-0.03
Ger Gov 2 yr	99.87	1.07	-0.02
	Dec 16	**prev**	**chg**
Fed Funds Eff	0.20	0.19	0.01
US 3m Bills	0.14	0.14	-0.01
Euro Libor 3m	0.95	0.95	0.00
UK 3m	0.66	0.66	

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Finland	€3.60	Qatar	QR15
France	€3.30	Romania	Ron16
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Eurozone woes

Secret bid to freeze EU budget

News analysis

European unity will be further stretched by a backroom economic initiative, say **George Parker** and **Stanley Pignal**

Britain, France and Germany were last night engaged in clandestine efforts to secure a real-terms freeze in the European Union budget until 2020, in a move that will infuriate Poland and other poorer EU states.

David Cameron, Britain's prime minister, was privately lobbying leaders of other EU paymaster countries at a summit in Brussels last night, hoping that up to 10 countries would sign a letter calling for the freeze. Nicolas Sarkozy, French president, and Angela Merkel, German chancellor, have backed the letter but wanted to keep its existence under wraps to avoid a diplomatic row at a time when the eurozone crisis was already stretching EU unity.

As news of the initiative began to seep out last night, there was anger from those who gain most from the EU's €141.5bn budget and those who see Brussels spending as a driver of European integration.

"We are fully mobilised," said a Polish official. "It's not something that has any value of surprise." Meanwhile José Manuel Barroso, European Commission president, was said by diplomats to be furious at the initiative; he is supposed to be leading discussion on the drafting of the next EU budget, running from 2014-20.

One senior diplomat claimed Mr Barroso had been sidelined in a classic manoeuvre by Europe's biggest budget contributors, reminiscent of a stitch-up by the same countries in 2003 ahead of the 2007-13 budget round.

The diplomat claimed Britain and Germany had made tacit agreements that France's beloved Common Agricultural Policy would remain largely intact, while Britain's equally cherished budget rebate would survive unscathed.

With EU spending frozen in real terms – and declining over the budget period as a share of Europe's total wealth – the big losers would be those countries reliant on structural funds to bolster their economies.

British officials deny any grand bargain over the rebate and CAP. Nevertheless, a call for budget discipline would be a significant – and much needed – negotiating triumph for Mr Cameron, who has faced anger from his own Conservative MPs for failing to take a tougher line in Europe.

Mr Cameron is already under fire for agreeing to a new EU treaty revision – setting up a permanent eurozone bail-out mechanism – without securing any significant concessions from Brussels in return.

Mr Cameron's campaign has put him on a collision course with Poland, which is the biggest net beneficiary of EU funds, and would be hardest hit by any move to limit the budget. Last year, the country took in €6.5bn more in EU funds than it paid out.

The Poles have been rounding up support from fellow central and eastern European countries, who are also beneficiaries of the EU budget. They also met Mr Barroso on Thursday morning to discuss their concerns.

Germany has already signed a joint declaration with France calling for a strong CAP, the biggest part of the EU budget. As a result, the Poles fear that the only way to satisfy Mr Cameron will be to slash the EU's cohesion funds, which disproportionately benefit the new member states. The issue has also become charged because Poland was expecting to preside over the financial framework discussion during its turn at the helm of the EU presidency in the second half of 2011.

Any pre-arranged deal by the EU's three big powers would in effect deprive it of that opportunity and undermine its authority.

"What is the most important from our point of view is for the budget not to be reduced significantly," Donald Tusk, Poland's prime minister, said before the summit.

BRUSSELS BLOG
All the latest news from the EU summit in Brussels
www.ft.com/brusselsblog

Spain's prime minister, José Luis Rodríguez Zapatero, pats Italy's Silvio Berlusconi during yesterday's EU summit in Brussels AP

ECB sends out €5bn bill for capital increase

Investor sentiment

By Ralph Atkins in Frankfurt

Eurozone countries have been sent a bill for the increasing risks being borne by the European Central Bank as it acts to restore investor confidence in the continent's 12-year-old monetary union.

The ECB announced on Thursday that national central banks would fund a €5bn rise in its subscribed capital from the present €5.76bn. Purchases of eurozone government bonds have been stepped up recently by the ECB, even though it believes responsibility for resolving the crisis lies mainly with eurozone governments.

The ECB said the capital increase reflected the risks it was bearing on foreign exchange and gold holdings as well as on securities. But Gilles Moec, European economist at Deutsche Bank, said the announcement was a reminder that "letting the ECB fight alone" was "no free lunch".

Confirmation of the ECB's first general capital increase followed a scheduled ECB governing council meeting in Frankfurt but coincided with the European Union summit in Brussels focused on the eurozone debt crisis.

The capital increase, which could see national central banks' profits being paid to the ECB, will allow the ECB to increase significantly the provisions it makes in its balance sheet against possible losses

As an institution, the ECB accounts for less than 10 per cent of the balance sheet of the "euro-system" network of eurozone national central banks, which implement monetary policy. ECB operations providing liquidity to the banking system, which were hugely expanded after the Lehman Brothers collapse in September 2008, do not appear on its balance sheet. But the ECB's 2009 accounts, the latest available, show it held more than €2bn in covered bonds acquired as part of an earlier securities purchasing programme. This year's accounts are likely to show it holding a small but significant share of government bonds purchased since May, which by the end of last week were worth €72bn. Most are likely to have been issued by Portugal, Ireland and Greece.

The ECB also has substantial foreign exchange holdings, which has left it exposed to increasingly volatile currency risks.

Comment, Page 11

Growth on track despite debt crisis

Eurozone economic growth has barely slowed this month despite the debt crisis, with Germany's strong recovery offsetting bleak conditions in the worst-hit countries, according to a survey.

Purchasing managers' indices for the 16-country region dipped in December but remained consistent with a pace of growth at least as robust as in the previous few months. In Germany, private sector activity was expanding at its fastest since mid-2006.

The results add to evidence that the eurozone's economic recovery remains on track despite the escalating debt crisis. But they will do little to calm fears about stark divergences across the region.

"A near-record rate of growth in Germany and robust expansion in France contrast with a slowdown to near-stagnation in the other euro nations collectively," reported Chris Williamson, chief economist at Markit, which produces the survey.

In full: www.ft.com/euro

German voters go cool on deep attachment to European idea

GLOBAL INSIGHT

Quentin Peel in Berlin

All the brickbats and bitterness ricocheting round the corridors of Brussels have finally got through to the German political establishment.

The moment of truth came last week when Jean-Claude Juncker, Luxembourg's prime minister and for many years a loyal German ally, accused Angela Merkel, the chancellor, and her government of being "un-European". That charge really hurts in Berlin.

When the Bundestag, the German parliament, debated the financial crisis in the eurozone on Wednesday, speaker after speaker rose to reaffirm the country's fundamental European commitment.

Opposition speakers accused the chancellor of destroying Germany's good name around Europe by behaving like an "Iron Lady" in Brussels, forcing austerity on the weakest eurozone members, and refusing to contemplate jointly-backed bonds to help finance their debts.

"The euro is our common fate," she retorted, "and Europe is our common future."

There was not a hint of Euroscepticism from any part of the house, or hostility to the common currency that has replaced the mighty D-Mark in the pockets of German consumers. It was as if all parties agreed it does not win any votes in Germany to be anti-European.

Yet on the very same day, an opinion poll in the Stern magazine suggested that 45 per cent of German voters believed the euro had brought more disadvantages than benefits to them, against 33 per cent for the contrary.

Such scepticism was true both of supporters of Ms Merkel's centre-right Christian Democratic Union (CDU), and of the centre-left Social Democrats (SPD), the principal opposition party.

So are German parties simply out of touch with the rising Euroscepticism of voters? If so, it is a dangerous time to read them wrong. Next year will see seven state elections in the 16 German Länder – almost a mini-general election. The CDU risks losing control after more than 50 years in prosperous Baden-Württemberg. The SPD is also down in the polls, and could be humiliated by running behind the Greens.

Yet the political reality in Germany, says Manfred Güllner, head of the Forsa polling institute behind the Stern survey, is that while electors may be unenthusiastic about the euro, it does not affect their vote. An anti-euro party established in the early 1990s failed to get even 1 per cent support.

"There has never been any election where Europe and the euro have played a direct role," he says. Although there is a plurality that doubts its benefits, Forsa's poll suggests 49 per cent would keep the euro, against 48 per cent who want the D-Mark back. "Germans are accepting the inevitable," the pollsters conclude.

The pro-D-Mark lobby is steadily shrinking, partly because younger voters do not share the nostalgia of their parents. What has changed is that German voters no longer feel the same emotional attachment to the European ideal that used to be represented by Chancellor Helmut Kohl, who launched the project in the Maastricht treaty. "The idea that the euro is all about war and peace is nonsense," says one leading Frankfurt analyst.

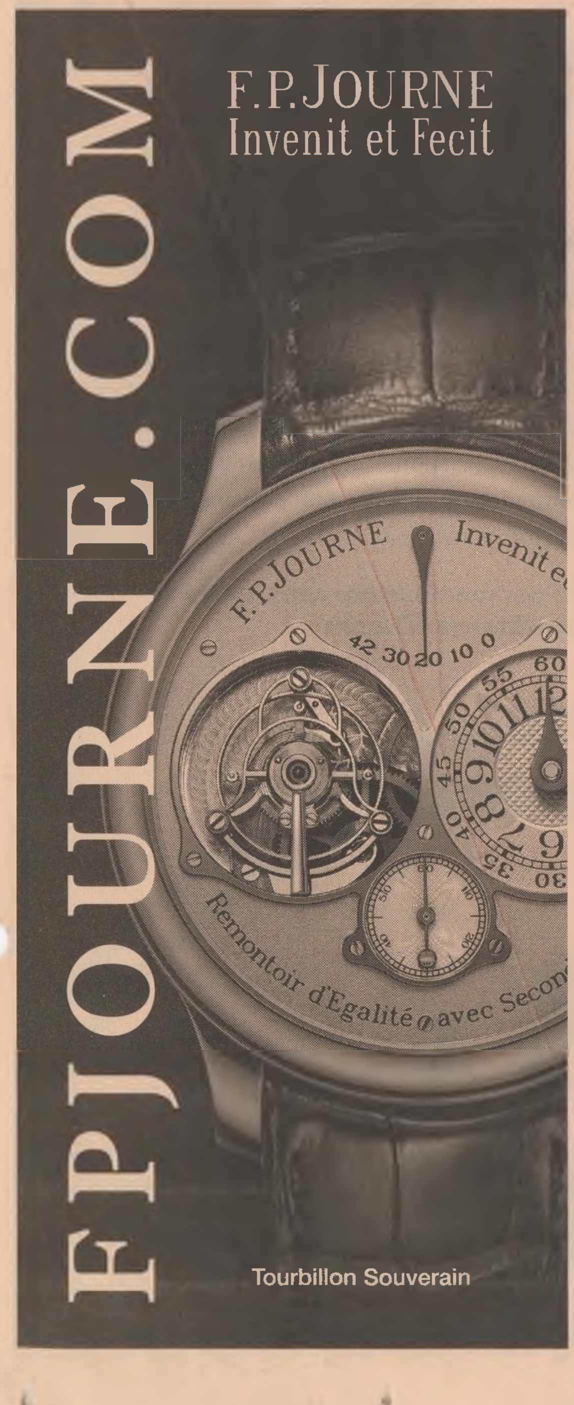
Ms Merkel is a pragmatic pro-European par excellence. "Collapse of the eurozone, even the exit of one of the smaller countries from the euro, would have the worst consequences for Germany," she told the Bild Zeitung newspaper in an interview. No mention of war and peace.

While electors may be unenthusiastic about the single currency, it does not affect their vote

Wolfgang Schäuble, her finance minister, is one of the last members of her government with an emotional attachment to the European idea. He has dared to start a more fundamental debate. Common eurobonds would mean fundamental treaty change, he says, and much closer fiscal harmonisation in the eurozone. It could mean losing national budgetary sovereignty.

A similar argument was used by Frank-Walter Steinmeier, parliamentary leader of the SPD, in the Bundestag. He wants eurozone bonds to be "an unambiguous signal of the irreversibility of economic and monetary union" – provided they are backed by closer EU integration. That would mean tighter controls over fiscal and monetary policy, and minimum standards on pay and welfare policy, capital and corporate taxation.

It is a vision of another great leap forward for the EU that German politicians are starting to contemplate. But will the rest of Europe follow?



Estonia still keen on single currency

Baltic states

Prime minister insists that Europe must not lose sight of the bigger picture, writes **Andrew Ward**

With its winding, cobbled streets leading up to an onion-domed cathedral and limestone castle, Tallinn's old town looks much like it has for centuries.

But peer across the city from the battlement walls and the skyline is dominated by gleaming office towers and business hotels that testify to Estonia's rapid economic development since independence from Moscow in 1991.

The transformation from Soviet satellite into one of the European Union's most vibrant young members reaches another milestone on January 1, when Estonia is due to become the 17th nation to join the euro.

To outsiders, it may look a strange moment for the eurozone to be admitting new members when the single currency is embroiled in what some observers consider to be a battle for survival. Yet, Estonia's eagerness to join despite the crisis provides a reminder of the euro's appeal to some countries on the eastern fringe of Europe eager to cement their place in the west. While the debt crisis has sparked renewed debate over the merits of monetary union, Andrus Ansip, Estonia's prime minister, says Europe must not lose sight of the bigger picture. "Everyone in Estonia understands that the European Union started as a peacekeeping project and that the common market and the euro is a continuation of that," he says.

"So it is crucial for integration to continue."

Jürgen Ligi, finance minister, says the economic case for the euro remains intact, particularly for a country of just 1.3m people. "We are simply too small to have our own independent monetary policy," he says. "There were always questions about whether we might devalue no matter how often we said we wouldn't. Joining the euro will attract more trade and investment by putting that uncertainty to rest."

But even Mr Ligi admits that "at least half" the motivation is purely symbolic – a signal to the international community that Estonia is now a fully fledged member of the European club six years after joining the EU and Nato. Neighbouring Latvia and Lithuania are also pressing for euro membership, with a target of joining in 2014. The three Baltic states were among the first countries struck by the global financial crisis when a regional credit bubble burst in 2008. But they are being hailed as a model for more recently crisis-hit EU members, such as Greece and Ireland, after pushing through deficit cuts while also returning their economies to growth.

5.3%

Rate of inflation recorded in Estonia last month

Estonia is leading the recovery, with year-on-year growth of 5 per cent in the third quarter and public finances that put most of Europe to shame. Its budget deficit is projected to be among the lowest in the EU at about 1.3 per cent of gross domestic product this year – easily within the 3 per cent limit for euro entrants.

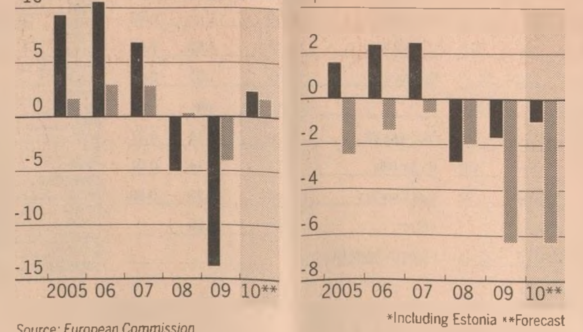
Meeting euro entry conditions was a painful process involving heavy budget cuts during a deep recession, yet Estonia managed to avoid the social unrest seen elsewhere in Europe – something Mr Ligi attributes to bitter memories of the Soviet era. "We are still allergic to socialist ideologies," he says. "This makes us less susceptible to the protest movements of southern Europe."

Not all Estonians are thrilled about joining the euro. Polls show only a narrow majority in favour less than a month before the switchover. Many believe euro adoption is to blame for rising inflation, which reached 5.3 per cent last month, even though the government insists high food and commodity prices are the culprits. There has also been a burst of nostalgia for the kroon as a symbol of Estonia's hard-won independence and concern that Estonians could be forced to help bail out profligate eurozone members.

Toomas Hendrik Ilves, Estonia's president, says Tallinn will align itself with other smaller, northern nations such as Finland and the Netherlands, who have been pushing for stronger measures to impose fiscal discipline: "The only way the small can survive is following the rules and insisting that everyone follow the rules."

Additional reporting by Peter Spiegel and Joshua Chaffin

The eurozone's newest asset



Source: European Commission

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Comment

Europe cannot default its way back to health

Lorenzo Bini Smaghi

Among the many things we have learnt from this crisis is that governments and financial markets find it difficult to understand each other. Governments cannot grasp why the markets lose confidence in the state of public finances so quickly and regain it so slowly, after a long period of fiscal consolidation. The markets, for their part, are mystified by the failure of governments to take simple and timely steps to sort out the problems they face.

To tackle the problems of public finance, one of the measures that many believe should be adopted in some developed countries, particularly in Europe, is to default on or restructure public debt. Not a day passes without a suggestion of that kind being made by market participants, economists and commentators.

Such a measure is considered effective because it allows – according to those who propose it – a rapid reduction in the debt burden, making it more sustainable. It enables a country to avoid implementing an overly restrictive fiscal policy, which may further hamper growth and lead to social tensions. It spares taxpayers from having to pay for mistakes made by investors, especially foreign ones, who have lent too eagerly to the country. More generally – they argue – the default of a sovereign state allows the financial markets to function better and to incorporate the risk premium appropriately.

Given all these apparent advantages, you may wonder why countries currently experiencing financial distress, starting with the European ones, have so far refused to follow this advice. Why are democratically elected governments so reluctant to default on their debt and follow the path taken in the past decade by countries such as Ivory Coast, Pakistan, Nigeria, Ukraine, Venezuela and Zimbabwe?

One hypothesis is that our democracies are incapable of handling sovereign crises such as the one we currently face. An alternative view is that the recommendations made by economists are – at best – based on simplistic models that do not allow the complexity of the situation to be grasped and thus lead to mistaken conclusions. In other words, the cure could do more harm than the disease.

An oft-made assumption is that governments can renegotiate with their creditors the terms and conditions of their debt instruments without this having major repercussions on the rest of the economic and financial system. This assumption is largely based on the experience of developing countries with underdeveloped financial systems and mainly foreign creditors. What is generally not well understood is that, in advanced economies, public debt is the cornerstone of the financial system and an important component of the savings held by citizens.

Attentive observers will not fail to notice that this path tends be taken where democracy has rather shallow roots

As recent events have shown, the simple fear of a default or of a restructuring of public debt would endanger the soundness of the financial system, triggering capital flight. Without public support, the liabilities of the banking system would ultimately have to be restructured as well, as was done for example in Argentina with the *corralito* (freezing of bank accounts). This would lead to a further loss of confidence and make a run on the financial system more likely. Administrative control measures would have to be taken and restrictions imposed. All these actions would have a direct effect on the financial wealth of the country's households and businesses, producing a collapse of aggregate demand. Taxpayers, instead of having a smaller burden of public debt to bear, would end up with an even heavier one.

Many commentators fail to realise that the main impact of a country's default is not on foreign creditors, but on its own citizens, especially the most vulnerable ones. They would suffer the consequences most in terms of the value of their financial and real assets.

The economic and social impact of such an event is difficult to predict. The democratic foundations of a country could be seriously threatened. Attentive observers will not fail to notice that sovereign defaults tend to occur in countries where democracy has rather shallow roots.

Europeans have not forgotten the devastating effects that the expropriation of wealth, such as that carried out during the two world wars by way of inflation or defaults, may have on the economic and social fabric. There is awareness that, in the end, it may be less costly to tackle excessive public debt with the traditional remedies – that is, achieving an adequate level of primary surplus – rather than looking for quick fixes. There is also awareness that, without restoring economic growth, the debt burden cannot be reduced over time. This requires major structural reforms aimed at improving the functioning of the labour, capital and goods markets.

That is why, even if belatedly and reluctantly, governments and parliaments in Greece, Ireland and several other European countries have adopted tough recovery programmes and radical reforms. And that is why the other European countries are supporting them. They know that the alternative is much worse for their citizens.

To understand what is happening in Europe, economics textbooks are useful but the history ones even more so.

The writer is a member of the Executive Board of the European Central Bank

America must start again on financial regulation

Henry Kaufman

The Dodd-Frank act aimed to reform US financial markets, but is now contributing to uncertainties over growth, while posing a serious long-term challenge to competitive finance and the independence of financial institutions. At about 2,400 pages it is hardly a paragon of brevity. Even so, a surprising number of its requirements are still being hammered out by the new official regulatory bodies it created.

Agencies are racing to a July 2011 deadline to set many of the act's regulations. Confusingly, however, some will be phased in more gradually: more than six years may elapse before the restrictions on proprietary trading are fully in place, for instance. The law also creates a worrying overlap between regulatory bodies. The Federal Reserve has overall authority, but doubts remain whether it can coordinate regulators with sufficient market and monetary policy expertise. The Fed's position has also been weakened by recent criticism of its moves on quantitative easing, and by likely tougher oversight by the new Republican Congress. In short, the implementation of this act is very precarious.

Even so the greatest failing remains one of design: the act did not deal correctly with the problem of the extraordinary concentration of assets held by a small number of large financial institutions. This accelerated sharply in the 1990s with the final demise of the Glass-Steagall Act. It then took another big jump during the credit crisis. In 1990 the 10 largest US financial institutions held about 10 per cent of US financial assets. Today, the number is well over 70 per cent.

The new legislation supposedly heightens surveillance over these giant institutions, and allows regulators to engineer their orderly dissolution. This sounds plausible, but on closer examination amounts only to a new protective ring around these institutions, an arrangement posing huge risks. Indeed, dissolving a large institution will most likely increase financial concentration. For where will their assets end up, if not in the hands of the federal government, or one of the remaining giants?

The Dodd-Frank Act did not deal with the concentration of assets held by a few large financial institutions

A related problem is that, in a future period of monetary restraint, some large institutions not being allowed to fail will cause others to fail instead. In particular we are likely to see the disappearance of more and more regional and local institutions. Again, the assets of failing firms will end up in the hands of federal agencies or too-big-to-fail institutions. Growth in financial concentration via these paths will reduce competition enormously. Fees for all sorts of activities and financing costs will increase. One-stop shopping will become the hidden prerequisite for many demanders of credit. The large, dominant institution will, among other things, press also to be the investment banker, lender, pension portfolio fund manager, and deposit provider.

Consider, too, the implications for small business finance. Because financial conglomerates lack managers rooted in local communities, they are less well equipped than smaller, local institutions to tailor services to small business borrowers. The quality of small business finance will deteriorate and, because they continue to generate millions of jobs, the economy will suffer. Growing financial concentration will also encourage spreads to widen. In addition, too-big-to-fail institutions becoming essentially financial public utilities will undermine the efficient allocation of credit through open market trading – a centrepiece of any capitalist system.

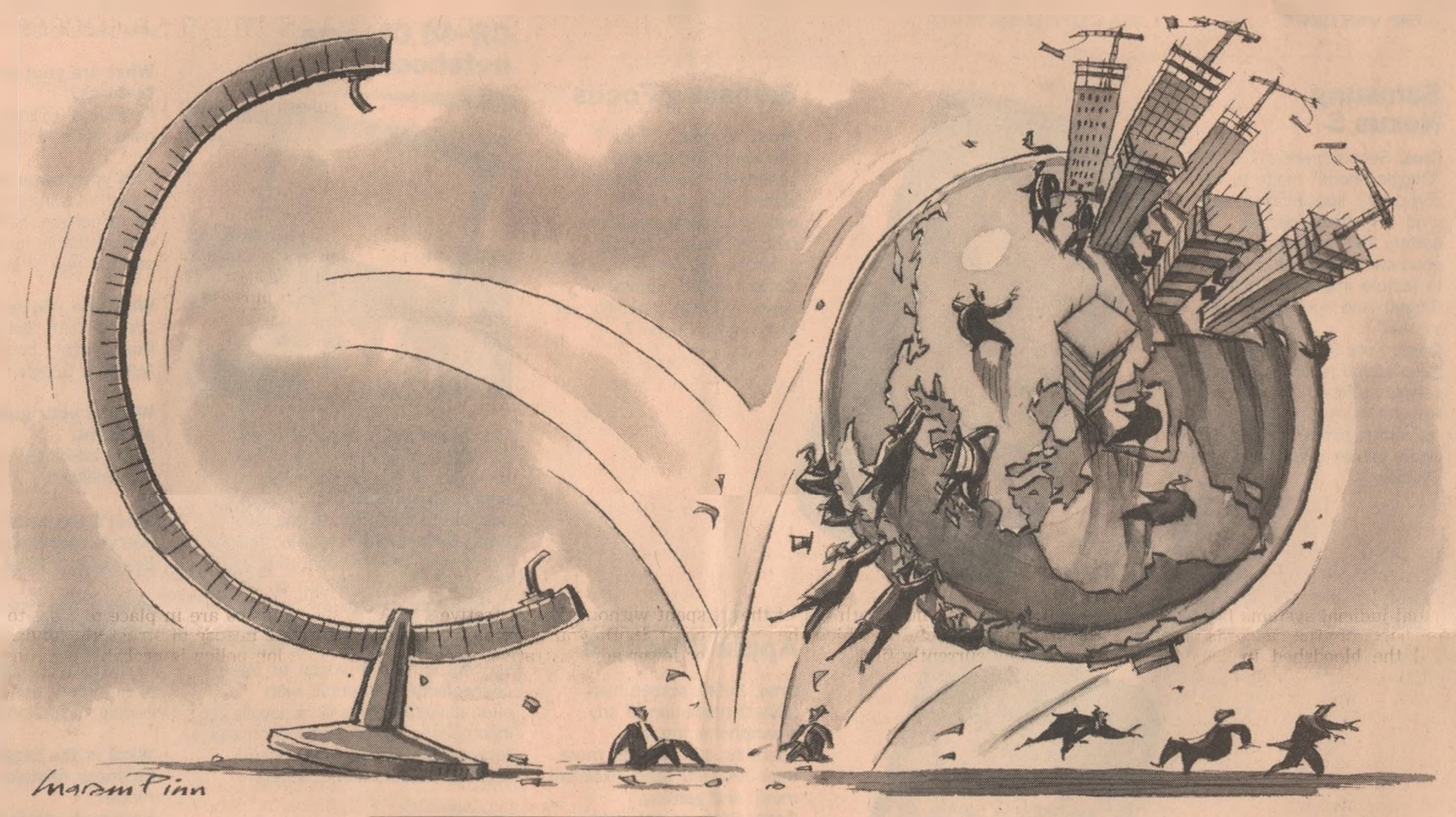
Yet even for all these new rules, our financial system is not going be immune to the volatility that characterises market-based systems. Indeed, concentration will make it more, not less volatile, because competition will not properly restrain the excesses of the dominant players at the protected core. Moreover, portfolio shifts by a declining number of participants will induce swings in the price of financial assets where heretofore a large number of participants of smaller size tended to cushion volatility.

Simply put, the new legislation should have reduced the size of large institutions down to a level where they would not be too-big-to-fail. Even acknowledging that it takes considerable judgment to define such a threshold, any serious attempt in this direction nevertheless still would be much more desirable than enshrining the domination of big institutions in our financial system.

The writer is author of The Road to Financial Reformation: Warnings, Consequences, Reforms

On the way to a new global balance

Philip Stephens



We are living through one of history's swerves. A multipolar world has been long predicted, but has always seemed to be perched safely on the horizon. Now it has rushed quite suddenly into the present. Two centuries of western hegemony are coming to a close rather earlier than many had imagined.

The story is unfolding in dry economic statistics. Next year, just as this year, the economies of the rising states – China, India, Brazil, Turkey, Indonesia and the rest – are likely to grow by 8 per cent or more. Debt-burdened advanced nations will mostly struggle to expand by more than 2 per cent. The pattern is well-established. The global divide is between slow- and fast-growing nations as much as between the rich and the rising.

The geopolitical balance is adjusting accordingly. China is asserting itself in east Asia. India is building a blue-water navy. Turkey and Brazil are seeking to translate regional power into international kudos. Indonesia is hedging between Washington and Beijing. Europe battles against irrelevance; America with a burgeoning budget deficit and political gridlock.

Predictions of the passing of US primacy are premature. For all its troubles, America remains the sole superpower – the only nation able to project power in every corner of the earth. One of the under-noticed stories of 2010 has been the return of the US to Asia. Unnerved by Beijing and the lethal unpredictability of North Korea, China's neighbours have clamoured for protection from Uncle Sam.

The picture of US power painted by secret diplomatic cables is essentially flattering. America's pursuit of its national interest coincides most of the time with the provision of public goods for the rest of us. Washington worries in private as much as it does in public about the impact on global security of nuclear proliferation, failing states, terrorism and regional conflicts.

The other side of the WikiLeaks coin is that the US is an inadequate superpower. The diplomatic exchanges show how its unrivalled power has left the US unable to impose its solutions in the world's troublespots. Only this month we saw Israel's Benjamin Netanyahu wreck Barack Obama's efforts to promote peace in the Middle East.

The world's rising states are at a stage where they want to enjoy power without responsibility. Putting a kind interpretation on its latest muscle-flexing, China is the adolescent who has just discovered he has the physical strength of an adult. In ignoring Deng Xiaoping's admonition to bide its time, Beijing is squandering soft power accumulated over a decade.

India wants the respect conferred by great power status, but is reluctant to give up the street credibility conferred by its old non-aligned leadership role. Delhi is also strangely incapable of confronting enmities in its own neighbourhood. Turkey wants to look east as well as west, but has yet to balance its new ambitions for Muslim leadership with its old attachment to Euro-Atlantic integration.

Europe is in bad shape. What started out as a private sector banking crisis has become a public sector debt crisis. The eurozone is under siege from the markets. The real threat is political. The economic shock of the continent's relative decline against a rising Asia has merged with the continuing political aftershocks from the fall of the Berlin Wall two decades ago.

The world's rising states are at a stage where they want to enjoy power without responsibility

A united, more unapologetically nationalist Germany, has upended the European Union's political equilibrium. The Union worked when leadership was shared by France and Germany. But Berlin now wants to call the tune. The single currency may be rescued, but I am not sure there is great enthusiasm for a German Europe. As for Britain, its fresh-faced prime minister has shown no interest in, nor aptitude for, crafting anything resembling a foreign policy.

Japan, where I have spent this week at a series of security discussions hosted by the German Marshall Fund of the US and the Tokyo Foundation, seems trapped in semi-permanent denial. Though alarmed by clashes with China in the contested East China Sea, Japan has had five prime ministers in three years. This game of political musical chairs somehow seems easier than thinking about a strategic response to the insecurities of east Asia.

Russia counts itself among the rising powers. But it is a declining state trapped in its past. For reasons of domestic politics and of attention-seeking abroad, Russian leaders continue to pretend that the enemy lies in the west. National pride, they judge, can be restored only by standing up to the US and Europe.

The real perils are closer to home – endemic corruption, demographic decay and a hollowed out petro-carbon economy. Elsewhere, the strategic challenges come from Islamist extremism and the possibility of China and India bursting their borders in Russia's depopulated eastern territories. Russia's long-term interests lie in closer integration with the west. Dmitry Medvedev, Russia's president, may grasp this. Vladimir Putin, his predecessor and likely successor, sticks with the old story.

The lazy way to describe the new geopolitical landscape is one of a contest between the west and rest – between western liberal democracies and eastern market economy autocracies. Neat as such divisions may seem, they miss the complexities. None are more determined, for example, than Russia and China to keep India from securing a permanent seat on the UN Security Council. Few are more worried than India by China's military build-up.

A more sanguine view of the re-ordered world looks to the Group of 20 nations as an instrument to forge a broader consensus about east-west and north-south co-operation. There is some cause for optimism in respect of global economic governance; far less so when it comes to security and foreign policy.

The rising nations prize state power over international rules, sovereignty over multilateralism. The transition to a new order is likely to see more rivalry and competition than co-operation. The facts of interdependence cannot be wished away but they will certainly be tested. It is going to be a bumpy ride. A pity then that much of the west seems intent on hiding under the bedcovers.

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The perils of moral fervour in the Balkans

Geoffrey Wheatcroft

In 1999, the western powers used military might to drive out Serb forces from Kosovo after Serbia had attempted to maintain its domination in the disputed region, committing in the process what were widely condemned as atrocities.

The Serbs' eviction from Kosovo was hailed as a victory for justice and humanity. But there has been news in the past week which casts a very different light on the passions of more than 10 years ago. We have been reminded of old truths, about unintended consequences, the vanity of human wishes, the way that best-laid plans go wrong, and the danger of taking sides in conflicts about which we may know little, or not enough.

If one leader made the case for armed intervention in Kosovo it was the British prime minister, Tony Blair. He gave famous expression to this doctrine in his Chicago speech of April 1999. "This is a just war, based not on any territorial ambitions but on values," he said of the Nato action in Kosovo. "We cannot let the evil of ethnic cleansing stand."

Only last July Mr Blair visited Kosovo, to be greeted by several children who had been named after him, as well as by Hashim Thaci, former leader of the Kosovo Liberation Army and now prime minister. He has lamented that "Blair's own extraordinary energy and considerable achievements are now being undervalued at home". But his "role in Kosovo's history will be recognised as an important example in a great legacy," said Mr Thaci.

Another enthusiastic partisan at that time was US senator Joseph Lieberman, who would be Al Gore's running mate the following year. He went even further than Mr Blair. The US "and the Kosovo Liberation Army stand for the same human values and principles", Mr Lieberman said. "Fighting for the KLA is fighting for human rights and American values."

Well, not quite those rights and values, if the findings of a Council of Europe investigation into organised crime in Kosovo are correct. The investigators charge that Mr Thaci runs a "mafia-like" criminal network. He stands accused not only of "violent control over the heroin and narcotics trade" but of trafficking in human organs. In a particularly gruesome claim, it is said that his forces killed Serbs and then sold their body parts.

Back in the 1990s, the Balkans seemed so easy, at least to Mr Blair, if not to everyone. The late Roy Jenkins, a sometime Labour cabinet minister who then served as a European commissioner, had admired Mr Blair, but came to regret what he called his Manichean tendency to view everything in black and white.

Ardent spirits such as Blair forgot in their desire for moral clarity that the truth is rarely plain and never simple

Anyone who has read *A Journey*, Mr Blair's memoir, will see what Lord Jenkins meant. The former premier does interpret events in bald terms of right and wrong, with no shades between. So did others who took sides in those Balkan conflicts, among them correspondents who covered the fighting, with what one of them later described ruefully as his colleagues' "angry partisanship".

Of course it was true that Milosevic was a tyrant, and that Serb forces at times acted with horrible cruelty. But they were not alone, and ardent spirits such as Mr Blair and Mr Lieberman, in their desire for moral clarity, forgot what an Oscar Wilde character says when asked for "the truth plain and simple": the truth is rarely plain, and never simple.

If anyone should have known that it was Richard Holbrooke, the architect of the 1995 peace deal in Bosnia, who died on Monday after a lifetime as an American diplomatic trouble-shooter. In his memory, the New York Times reprinted an article Mr Holbrooke had written in 1999 about the Balkans. That piece reminds us of an infamous episode in the former Yugoslavia in 1993, when Mostar's ancient, world-famous bridge "was brutally destroyed simply for sport". So it was – and who destroyed the bridge? The Croats.

Although Mr Holbrooke acknowledged that, what he did not mention was that the Croats were later backed by his own country. Washington even turned a blind eye in 1995 when more than 200,000 ordinary Serbs were driven out of Krajina by Croat forces, in the largest single act of ethnic cleansing that the whole dismal series of internecine wars would witness.

None of this, it should not need saying, justifies anything that Serb forces did. It means only that national or communal conflicts are seldom a matter of clear-cut virtue against vice, and that all communities produce men capable of wickedness and crime.

And it means something else. One eminent English judge likes to say that, after a lifetime of legal and juristic experience: "The only law I still really believe in is the Law of Unintended Consequences." If anyone wonders about that epigram, let him look at the exalted language of "values, evil and rights" in 1999, and see what kind of government our intervention in Kosovo, supposedly in pursuit of those values, has brought about.

The writer is author of Yo Blair!

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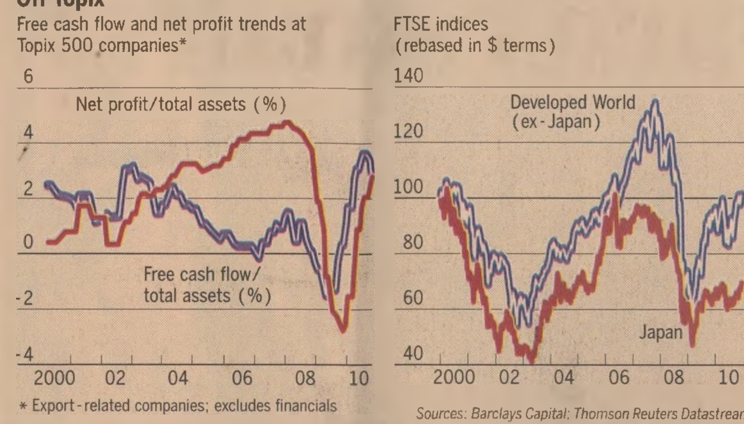
Flush in Japan

At around this time of year, equity fund managers like to look afresh at Japan. Lots of them look away again promptly. But many pile in, convinced that the year to come cannot be as indifferent as the one just gone. Sure enough, Japan has enjoyed six weeks of net foreign portfolio inflows, the longest such stretch since December last year.

As always, there are catalysts. After months of sitting on its hands, the Bank of Japan is preparing to buy risky assets such as exchange-traded funds and Reits, while the government has cut corporate taxes. Elsewhere, investors are turning away from Indian and Chinese stocks, amid fears of further tightening. Some $10bn of net inflows into Japan since the start of November – more than half the total inflows year-to-date – have made the Nikkei 225 the world's best-performing major equity index over that period.

Japan Inc's core problem, though, is likely to linger in 2011: excess cash and not enough collective determination to put it to work. The country's largest 500 companies saw free cash flow per share grow by almost a fifth over the past 12 months – seven times the rate of

Off Topix



* Export-related companies; excludes financials

Sources: Barclays Capital; Thomson Reuters Datastream

cash accumulation at S&P 500 companies. And still they resist spending it. December's Tankan survey showed just a slight year-on-year increase (+2.9 per cent) in domestic capital expenditure plans, including land purchases, in the year to March. Confidence seems especially low among small and medium-sized companies, which plan to spend 8.3 per cent and 3.5 per cent less, respectively, than they did last year.

That is why post-bubble Japan has been such a perennial disappointment. The list of main markets trading at lower price/book values than the broader Topix is short and inglorious: Ireland, Greece, Italy, Venezuela. If companies were to start to invest cash with as much vigour as they hoard it, there might indeed be value in Japan. If they do not, this year's seasonal spurt will end much like the rest.

BP

BP's share price is wrong but no one knows yet whether it is too high or too low. That is in the hands of lawyers now.

It is not a surprise that the Obama administration has sued BP over the explosion in the Gulf of Mexico. What really frightens investors picking through the legalese is the possibility that the government will nail BP for "gross negligence".

The term's exact legal meaning will no doubt be disputed in court, but in general terms negligence is gross if a company has knowingly taken less care than it should. Such a finding would be financially toxic for BP. Take just one of the laws cited in the government's lawsuit: BP faces a potential fine of $5.4bn under the Clean Water Act ($1,100 for each of the 4.9m barrels spilt). A finding of gross negligence would almost quadruple that bill.

Interpreting the legal ins and outs in the months to come will be hard enough for investors. But they must also gauge the level of anti-BP sentiment in the political world, which will inevitably influence the judge in the civil suit, and jurors in any subsequent criminal trials.

For now, investors seem to have a little more hope than fear. BP reckons the spill's total cost will be about $40bn, providing it is not found guilty of gross negligence, which it insists it is not. Such a judgment could double the bill. BP's current market capitalisation of $137bn is about $50bn lower than it would have been if the share price had followed the peer group since just before the accident. Roughly speaking, that makes BP either $10bn too cheap or $30bn too expensive, before considering the cost of reputational damage. Investors never like uncertainty. Such a gross example makes BP an investment for the brave.

Valuing Twitter

Much less money is changing hands in the current dotcom boom than in the last one. That is good. But the sale of equity in Twitter is a sign that valuations are no less heroic – and that cash will soon be wasted on a vast scale.

The new round of fundraising – $200m of cash, valuing the whole company at a putative $3.7bn – bolstered Twitter's status as internet darling. The site has spent the past year trying to figure out how to convert trying to turn the large and rapidly growing userbase of its free microblogging service (tweeting in 140 character snippets) into a substantial revenue-generating business. It will now have venture capitalist John Doerr – who backed both Google and Amazon early on – on the investor roster.

Yet Twitter is still not profitable. One way to justify such a valuation might be the chance of a takeover battle. But Mr Doerr's involvement surely reduces the likelihood of an approach in the near term from Google, one of the companies most often linked with Twitter. As a Google director, he will have been privy to any board-level discussions on potential takeover targets.

Google is guilty though of pushing up valuations for other start-ups, most recently in its rebuffed $6bn approach to Groupon, which would have been the largest sale of a venture capital-backed business since 1999 (when Cisco paid $6.9bn for Cerent). While the company's approach to local advertising online would sit well within Google, Groupon's business model is easily replicated.

Groupon's attraction is largely as a challenger to Facebook, king of the opaque valuations. A secondary market sale of shares on Wednesday seemed likely to top the previous $39bn valuation, but neither buyers nor sellers have access to the financials. The blind lead the blind onwards and upwards.

Unstimulating Turkey

Turkey has resorted to an unusual technique to tackle the great policy trilemma. Its central bank has cut the policy interest rate from 7 per cent to 6.5 per cent. The goal is to slow the economy. That sounds crazy, but these are crazy times.

The trilemma, or impossible trinity, refers to three desirable attributes of monetary policy: freely-set interest rates (to respond to the domestic situation), stable exchange rates (to help manufacturers plan investments), and no restrictions on capital flows (as controls bring distortions and corruption). Alas, no country can maintain them all.

Conflicts emerge because foreign and domestic players have different agendas. In Turkey, a higher policy rate might slow lending and push inflation down from its current 7 per cent. But such a rise would only exacerbate the inflow of foreign hot money. That is a common problem these days in developing countries, but Turkey is using the cash particularly badly; an import boom has brought the trade deficit to a worryingly high 5.5 per cent of gross domestic product.

The central bank thinks that lower rates will discourage yield-hungry foreigners. The cut will also stimulate booming lending, but it is expected to fight back by raising bank reserve requirements. Capital controls, attempted by some other big emerging markets, might sound simpler, but Turkey has porous financial and physical borders.

Will the rate cut work? It could, if the government and local banks set their own policies to discourage consumption and encourage productive investment. But with an election looming, that is unlikely.

Still, a rate cut puts Turkish authorities, who often complain that the world does not take them seriously, ahead of the US Federal Reserve. The US central bank has tried zero rates and bond-buying, but even those are less daring, and risky, than the Turkish anti-stimulus stimulus.

Bank of England

Banks are starting to make money again. It seems no one wants them to hold on to it. Populist politicians want to stop bankers paying themselves high bonuses, while investors want to shake the money loose in dividends. Bank managements are disinclined to listen. They should, however, pay attention to the Bank of England's latest financial stability report, which argues correctly that the least painful way for banks to build up the capital they need under new Basel III capital requirements is by retaining more of their earnings. That means limiting both bonuses and dividends.

Basel III gives banks until 2019 to build up their capital to the newly required levels; as of the end of 2009, the Basel banking supervisors reckon the world's biggest banks needed an extra €577bn of tier one core capital. The BoE's elegant justification for the long grace period is that it allows banks to rebuild that capital gradually, without being forced to raise new equity on the market. They should be grateful. Pre-crisis, banks on both sides of the Atlantic typically traded at twice their book value; now US banks trade at about 1.1 times book, while European banks are at barely 70 per cent of book. So equity is now very expensive capital.

Also, UK banks have more short-term funding to replace in 2011 than they did this year, and could also face difficulties raising extra funding from deposits. And regardless of Basel, the BoE says banks should be cautious because low rates could mask serious credit problems.

The BoE's ideas are investor-friendly – even amid the current thirst for yield, investors should be neutral about dividends, while lower bankers' bonuses will enhance book value. But its logic points ineluctably towards a long and grinding decade for banks, and the profits they share with investors and employees.

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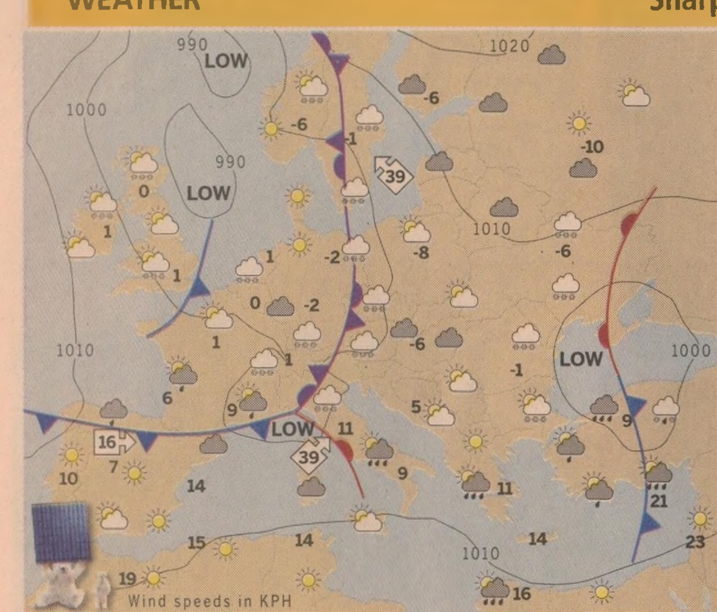

Forecasts by MeteoGroup — Warm front — Cold front — Occluded front — Wind speed in KPH

Today's temperatures — Maximum for day °C

Abu Dhabi	Sun	27	Malta	Fair	14
Amsterdam	Snow	1	Manila	Fair	31
Ankara	Shower	9	Miami	Sun	25
Athens	Sun	11	Milan	Snow	0
Bahrain	Sun	23	Montreal	Cloudy	-8
Barcelona	Sun	12	Moscow	Fair	-11
Beijing	Sun	7	Mumbai	Sun	31
Belfast	Snow	1	Munich	Snow	-2
Belgrade	Sun	-3	Naples	Shower	9
Berlin	Snow	-2	New York	Sun	3
Brussels	Fair	0	Nice	Sun	12
Budapest	Cloudy	-5	Nicosia	Shower	19
Cairo	Sun	22	Oslo	Cloudy	-6
Cardiff	Fair	3	Paris	Fair	1
Chicago	Sun	-5	Prague	Snow	-5
Cologne	Cloudy	-3	Reykjavik	Snow	-1
Copenhagen	Cloudy	0	Riga	Cloudy	-11
Delhi	Sun	23	Rio	Thunder	34
Dubai	Sun	27	Rome	Shower	11
Dublin	Fair	1	San Francisco	Rain	12
Edinburgh	Fair	1	Singapore	Thunder	30
Frankfurt	Cloudy	-2	Stockholm	Snow	1
Geneva	Snow	1	Strasbourg	Cloudy	-2
Hamburg	Sun	-3	Sydney	Fair	27
Helsinki	Cloudy	-6	Tokyo	Sun	10
Hong Kong	Sun	16	Toronto	Cloudy	-1
Istanbul	Rain	8	Vancouver	Fair	5
Lisbon	Sun	10	Vienna	Cloudy	-5
London	Fair	1	Warsaw	Fair	-8
Los Angeles	Rain	16	Washington	Sun	4
Luxembourg	Cloudy	-5	Zagreb	Fair	-2
Madrid	Sun	7	Zurich	Snow	1

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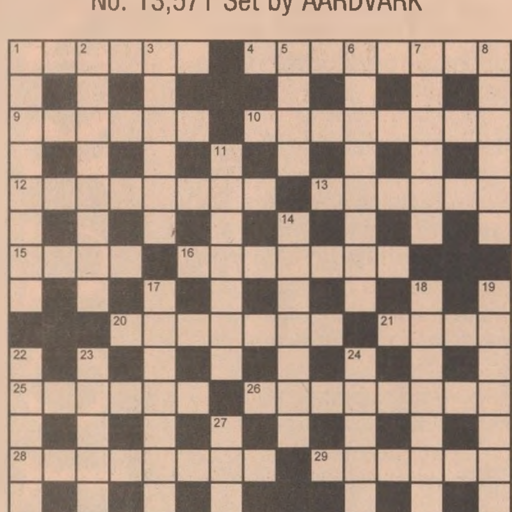

JOTTER PAD

ACROSS

1 Through a lens, snapping, I like the Mediterranean? (6)
4 Note Cricket Club collecting rubbish and the recycling (8)
9 Artist's work opening in Oxford, with revue organised (6)
10 Mum damaged ornate type of furniture (8)
12 Prepare for battle in speech – one might do this when heated (4,4)
13 Tropical plant minute, in my opinion, when cut back (6)
15 Swimmer, English perhaps, not old (4)
16 Aching to cook and eat Welsh rabbit (7)
20 Foodie's complaint about room rearmost in brasserie (7)
21 Tender shilling coin (4)
25 Carry offspring when initially without car (6)
26 25 could get you this French cheese, two leaving mid-October (4,1,2,1)
28 Type of design lad OK to wear in bank (5-3)
29 Aircraft ride affected after intermittent gale (6)
30 5th programme broadcast reflects food culture (8)
31 Couple of pints very gently at home – a flavour of cider? (6)

DOWN

1 Drink at party perhaps that's thrown during winter freeze (8)
2 European city hospital probes broken ulnae (8)
3 Average marks given in new type of exam (6)
5 Flower from Germany perhaps one regrets discussing (4)
6 Last miner to work occupies story briefly (8)
7 Laugh, holding port, tipping over dish (3,3)
8 It's a problem to lug ladder (hip's restricted) (3,3)
11 Jar limb, right away, on pub doorway regulars avoided (7)
14 Minute hearing apparatus tenor's not used for ages (2,5)
17 Stole ticket finally, before sprint for gig? (4-4)
18 Reckoned sheepish one would ensnare over-the-top journalist (6,2)
19 Broadcast of Bader surfaced – and not his earlier counterpart (3,5)
22 Correspondent finds Pastor occupying a type of colony (3,3)
23 Part of theatre elevated in seconds (6)
24 Italian resort provided with priest from the south (6)
27 See 101 specific sites (4)

SOLUTION 13,570