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Greek cabinet falls out over reforms

Public criticism by health minister

Expectations rise of extra EU support

By Kerin Hope in Athens

Greece's prime minister has pushed aside rising dissent within his cabinet as ministers join the ranks of European politicians and economists speaking out at the flagging pace of Greek economic reforms.

George Papandreou chaired an emergency cabinet meeting on Tuesday as European Union and International Monetary Fund experts arrived in Athens to assess progress to meet austerity conditions tied to last year's €110bn ($158m) financial bail-out. "There is no hesitation . . . We are taking the decisions needed to guarantee not only an exit from this crisis but also viable economic growth," Mr Papandreou said. He spoke amid rising expectations that Greece will need further EU financial support.

Andreas Loverdos, health minister, had criticised the government's record: "We must not lose any more time . . . We have to fight harder, there is no room for mixed policy messages."

Mr Loverdos's challenge – the first time the prime minister's handling of economy policy has been publicly questioned within government – emphasised the political dimension, analysts said. Mr Loverdos referred to months of cabinet infighting about a €26bn austerity package and €50bn privatisation programme that must each be approved by the EU and IMF before a decision about a fresh bail-out for Greece.

Angela Merkel, the German chancellor, on Tuesday refused to speculate about further aid for Greece. She said she could only decide on the basis of the imminent progress report by the IMF, EU and European Central Bank. Olli Rehn, Europe's economics commissioner, also said it was too soon to say whether Greece would require more loans to cover its obligations for next year.

Mr Loverdos, praised last year by the EU-IMF mission for unpopular reforms of state-funded pensions in his previous cabinet post, has the highest approval rating of any cabinet member.

"Papandreou . . . can either confront those resisting change within his own party [to try to] restart the reform process or run the risk of being overcome by events," said Wolfango Piccoli, analyst at Eurasia Group, a consultancy.

Mr Papandreou's energy and labour ministers, among his closest allies, have spoken out publicly against privatisation. The prime minister, announcing the sale of a 17 per cent stake in the state electricity utility to cut government's shareholding to 34 per cent, insists it will stay under state control. "We are moving rapidly from an economic crisis to a political crisis," said Yannis Stournaras, director of economic think-tank Iobe. "You cannot run a reform programme with a two-speed government."

Mr Piccoli said the prime minister "needs to show he is in control of his party and . . . committed to adjustment. The alternative is a general election, as happened in Ireland or Portugal". Mr Papandreou's Socialist party has a lead of one point on conservatives who oppose the EU-IMF programme, says a poll by Mega television. The prime minister's personal rating is 31 per cent, that of Antonis Samaras, conservative leader, 24 per cent.

Additional reporting by Quentin Peel in Berlin and Joshua Chaffin in Brussels

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Finland keeps EU waiting on Lisbon bail-out

By Andrew Ward in Stockholm and Joshua Chaffin in Brussels

Finland has postponed a decision on whether to back the European Union bail-out for Portugal, casting fresh doubt over the chances of unanimous approval for the €78bn deal when EU finance ministers meet in Brussels next week.

Negotiations between Finnish leaders ended without agreement on Tuesday after the Social Democratic party, which has a crucial role in the decision, renewed its demand that private investors must share the burden with taxpayers in EU bail-outs.

Senior Finnish officials said they were hopeful lawmakers would give their backing to the Portuguese deal in time for it to be authorised when EU finance ministers meet on May 16-17.

But the Social Democratic party said its support would be conditional on Finland pushing for changes to the bail-out to take account of widespread anger among Finnish voters over the wave of taxpayer-funded rescues in the eurozone.

Finnish politics has been in turmoil since the eurosceptic True Finns party won nearly a fifth of the vote in last month's general election, throwing into doubt Helsinki's reputation as one of the EU's most compliant members.

Unlike other eurozone countries, Finland requires approval from parliament to take part in EU bail-outs. This has left the Portuguese deal at the mercy of Finnish lawmakers because it needs unanimous EU support to go through.

Jyrki Katainen, leader of the centre-right National Coalition party, which won the biggest share of the vote in the election, has pushed for lawmakers to approve the bail-out this week before a new Finnish government has been formed. But a vote on the issue by parliament's grand committee, previously expected today, has been postponed until Friday because of disagreement among the parties.

Kimmo Sasi, chief negotiator for the National Coalition party on the Portugal issue, told the Financial Times the prospects for Finnish approval this week were still "fairly good".

Olli Rehn, Europe's economics commissioner, gave a cautious reply when asked if a country could force changes to the Portuguese bail-out programme. The bail-out required unanimous approval, he said, "which means that every member state counts".

Paris resists Ireland's low corporate tax

By Peggy Hollinger in Paris and John Murray Brown in Dublin

France will refuse a cut in the cost of Ireland's European bail-out loans at next week's meeting of eurozone finance ministers as long as Dublin maintains its ultra-low corporate tax rate.

Paris appears to be setting itself against a growing European view that Ireland should be given some extra room for manoeuvre as European leaders weigh the need for a new aid package for Greece, which could also involve a second rate cut.

Ireland pays an average of 5.8 per cent on its €85bn ($122bn) bail-out agreed with the European Union, International Monetary Fund and the EU's stability fund.

12.5%

Corporate tax rate levied in Ireland

"When a country has called on its partners for financial solidarity, the least that can be expected is that the country itself adopts a more co-operative behaviour," a French official said. "This is an important point for France."

President Nicolas Sarkozy has attacked Ireland's 12.5 per cent corporate tax rate as a form of "fiscal dumping", accusing Dublin of using unfair methods to attract foreign investment and compete against the European partners who bailed the country out of its severe banking crisis. His view has previously been endorsed in Germany, where Berlin has also called for an increase in the corporate tax rate.

However, EU officials told the Financial Times that there was widespread consensus among other member states on a new Irish deal. "We can get that soon, but we need the political green light coming from France," said the EU official.

Enda Kenny, the newly elected prime minister, has pledged to win concessions on a loan whose conditions are regarded by the Irish public as excessively punitive. Irish officials are lobbying intensely to shift the French position, arguing that the corporate tax rate is necessary for the competitiveness of a country with 4.5m people and any change could severely dent investor confidence.

Ireland's finance and foreign ministers will be in France later this month to press their argument. They will stress that Dublin is ready to make concessions on a common corporate tax base in exchange for a lowered rate.

Speaking to reporters in Strasbourg, Olli Rehn, Europe's economics commissioner, gave support to Ireland's plea for lower interest rates on its emergency loan package.

The Commission has previously proposed bringing those rates more in line with those paid by Greece, which had a one percentage point cut in March. "I would expect this kind of agreement could be taken shortly," Mr Rehn said.

He added that the interest rate for the European portion of Portugal's €78bn bail-out would be above 5.5 per cent but "clearly below" 6 per cent.

French officials said Ireland was likely to get a lower rate on that part of its loans from the IMF, which could amount to as much as 40 to 50 basis points.

Additional reporting by Joshua Chaffin and Peter Spiegel in Brussels

Giulio Tremonti (right) with Silvio Berlusconi. Mr Tremonti is a darling of Brussels for rigorously cutting Italy's deficit AFP

What they say...

'With Tremonti we are going to lose the elections, and for this I am asking Berlusconi to shake things up'
Gianfranco Galan
Culture minister

'I am sceptical about the Italian economy catching up with Germany and France'
Natacha Valla
Goldman Sachs analyst

'If it were not for Tremonti, Berlusconi would spend everything'
Umberto Bossi
Northern League leader

Tremonti at centre of leadership battle

Italian coalition

Finance minister has Berlusconi's backing but others fear austerity backlash at polls, write Guy Dinmore

One week he is savaged by Silvio Berlusconi's media attack-dogs, the next, Italy's prime minister touts him as his likely successor.

Giulio Tremonti, finance minister, has found himself at the centre of a political battle that could determine the future of Italy's ruling centre-right coalition in a post-Berlusconi era.

Twice in recent weeks Mr Berlusconi has indicated he may not seek another term at the next elections – scheduled for 2013 – if he survives his five-year mandate, but sooner if his coalition loses its thin majority in parliament. Mr Tremonti is already the bookmakers' favourite to succeed him.

One of the more abrasive figures in the cabinet, Mr Tremonti is a darling of Brussels and financial markets for rigorously cutting Italy's budget deficit to a level below that of France. But fellow ministers fret that his austerity policies will cost them at the polls.

"With Tremonti we are going to lose the elections, and for this I am asking Berlusconi to shake things up," railed Gianfranco Galan, the culture minister. Mr Galan was echoing the views of many Italians who do not believe government assurances that the crisis is behind them. Officials also say privately that Mr Tremonti may need to make further big cuts this year to keep the deficit-cutting programme on track.

The economy has shed more than 500,000 jobs in the past three years, real incomes have fallen and an improvement in consumer confidence came to a halt in early 2011. OECD figures show that productivity in Italy declined between 1993 and 2009.

"I am becoming more sceptical about the ability of the Italian economy to catch up with the pace of recovery that is unfolding in Germany and France," says Natacha Valla, an analyst at Goldman Sachs. "Exports have done OK, but what worries me most is that households' living conditions are not that supportive of consumption."

That Mr Galan made his comments to Il Giornale, a Milan daily and part of the Berlusconi family media empire, infuriated Mr Tremonti, who is well aware that the newspaper has waged many a campaign against the prime minister's critics and rivals. The same day, Mr Tremonti demanded a meeting with Mr Berlusconi and won a public endorsement of his spending cuts.

With ministers sniping at each other, Mr Berlusconi's coalition took another blow when the Northern League, his rightwing and isolationist-inclined allies, savaged his decision to commit Italy to taking part in Nato air strikes in Libya. Mr Tremonti is known as the minister closest to Umberto Bossi, Northern League leader, who with characteristic bluntness said this month: "If it were not for Tremonti, Berlusconi would spend everything."

Commentators have suggested that the prime minister was giving a sop to Mr Bossi by describing Mr Tremonti as the leading candidate to succeed him – less than a month after he had indicated he would prefer Angelino Alfano, justice minister. Mr Berlusconi's intention, others say, was to dispel an image of a divided government ahead of local elections this weekend.

Il Giornale also wondered whether Mr Berlusconi was adopting "the most classic divide and rule" tactics – by appearing to launch a leadership contest, he would ultimately demonstrate that only he can stop the party "shattering in a thousand pieces". That way, Mr Berlusconi might aim to stay in power beyond 2013.

French finance minister faces probe

Lagarde accused in damages wrangle

Questions raised on settlement's legality

By Stanley Pignal in Paris

France's public prosecutor has asked for a full-scale judicial inquiry into the role played by Christine Lagarde, French finance minister, in the awarding of damages worth €285m ($409m) to one of France's most controversial business figures.

A full probe into the settlement of a long-running claim brought by Bernard Tapie would be an unwelcome distraction for Ms Lagarde as the country gears up for next year's presidential elections.

Ms Lagarde is accused of overstepping her authority when she moved to end 15 years of legal wrangling with Mr Tapie by means of a binding arbitration panel, which led to the payout by the French state in 2008.

Jean-Louis Nadal, public prosecutor, said there were "numerous reasons to question the regularity, and even legality of the arbitration settlement".

The recourse to arbitration at the expense of the traditional judicial system infuriated Socialist deputies. They questioned whether the voluble financier – a former minister and football club owner who served a prison sentence for match fixing before moving on to have a successful television career – had received preferential treatment because of his support for Nicolas Sarkozy, president.

Mr Tapie's claims relate to his brief ownership of the Adidas footwear group in the early 1990s, and alleged misdealing by Credit Lyonnais, which he claims fraudulently profited from the resale of the brand in 1993. The French government is party to the case as it handles part of the historic liabilities of the bank following a 1995 bail-out.

Several court decisions and mediation attempts failed to settle the matter, leading Ms Lagarde to agree to binding arbitration in late 2007.

A three-judge panel in July 2008 awarded €240m to Mr Tapie's company – run by liquidators since its earlier bankruptcy – plus an additional €45m in damages to the him and his wife.

Opposition politicians have clamoured for an inquiry, charging that the government's stance changed following Mr Sarkozy's election in 2007. Mr Tapie, though formerly a minister in a Socialist government, had publicly backed him ahead of the vote.

Ms Lagarde's entourage played down the prosecutor's request, calling it "a routine part of [judicial] procedure". She has previously insisted Mr Tapie was treated "without exception, without privilege", adding that the settlement was a "good decision in the interest of the state".

The episode has already flustered Ms Lagarde, a former high-flying lawyer with a reputation for technical expertise rather than political nous.

In the wake of the revelations of the payout, she had originally claimed that Mr Tapie's debts to the government would reduce his net payout to about €30m, but later reports put the amount at closer to €200m. She later threatened to sue Socialist deputies airing claims of wrongdoing.

The prosecutor's request for an inquiry relates only to whether Ms Lagarde as finance minister was entitled to make the decision to abandon court proceedings against Mr Tapie. It does not touch on the more substantive questions of the 1990s legal imbroglio.

The Cour de justice de la République, a court that rules on ministerial conduct, will have to decide within a month whether the request is admissible.

Only then would a full-scale investigation take place.

Mr Tapie told the AFP newswire the case would have no bearing on the settlement he received. But he added: "I am absolutely convinced that the outcome will show [that] . . . things were done in an absolutely normal way."

Christine Lagarde: already flustered over the episode

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Warsaw - economic & financial centre of Central and Eastern Europe

Poland's Capital Market, the strongest in the region, is supported by privatisation

Recent transactions on the Warsaw Stock Exchange executed as a part of privatisation program

PZU (insurance)
May 2010, $ 2.7 bn
largest IPO in the CEE region to date

PGE (energy)
October 2010, $ 1.4 bn
2nd largest ABB in CEE ever completed

TAURON PE (energy)
June 2010, $ 1.3 bn
the largest privatisation via IPO with over 50% stake placed with public markets

March 2011, $ 452 m
one of the largest ABBs in the history of Polish capital markets

WSE (stock exchange)
November 2010, $ 423 m
4th largest EMEA stock exchange IPO to date

2011 - privatisations continue

Poland's GDP grew by 3.8 % in 2010 making it one of the fastest developing countries in the EU

Ministry of Treasury of the Republic of Poland

Only an 'energy internet' can ward off disaster

Future of energy

JEREMY RIFKIN

This year has seen ever-higher prices at the pump, rebels seizing Libyan oilfields and a nuclear facility crippled in Japan. Yet few have realised that these disparate events are part of a larger unfolding drama. Our global energy economy, long-powered by fossil fuels and nuclear, is spiralling into a dangerous and unstable endgame.

In the first decade of this century, the emerging nations, led by China and India, brought one-third of the human race into the declining oil era. Global output rose and because every activity in our economy requires carbon-based energies, huge demand pressure was placed on diminished fossil fuel reserves.

When the price of oil passed the $125 per barrel mark in early 2008, the folly of constructing a civilisation on exhumed carbon deposits became clearer. Looking back, we can see that we hit peak globalisation, the outer limits of an economic system dependent on fossil fuels. By July 2008 oil had risen to $147, precipitating a slowdown in the global economy. This was the economic earthquake that signalled the passing of the oil era; the financial collapse 60 days later was merely the aftershock.

This is now happening again, sped forward by Libya and Fukushima. 2010 saw a tepid recovery, mostly to replenish exhausted inventories. But as growth resumed, oil rose too – it now hovers at about $110 – forcing up prices. Indeed, this is precisely what one would expect from an oil era entering a long, slow death throe: each time output throttles up, oil prices rebound, purchasing power drops and the economy stalls.

Of course, the oil spigot is not going to run dry tomorrow. There is still coal, tar sands, heavy oil and shale gas. But these are dirtier, more expensive and exacerbate climate change. Nor can we replace our energy infrastructure overnight. The challenge is keeping the old regime on life support long enough to lay the foundations for a new energy infrastructure, in part through energy efficiency measures taken by businesses and households trying to cut costs in response to raised prices.

What we need in the long run, however, is the equivalent of a new economic paradigm – that is, a systemic change in the way we organise economic life – to move beyond carbon and nuclear energy. And here I believe we are on the cusp of a third industrial revolution, in which internet technologies and renewable energies merge to create a powerful, new energy infrastructure.

In the coming era we will need to create an "energy internet" to enable hundreds of millions of people to produce green renewable energy in their homes, offices and factories. They can then store this energy as hydrogen and use green electricity to power their buildings, machinery and vehicles. Surplus electricity can then be shared with others, just as we now share information online.

We must keep the old oil regime on life support long enough to lay the foundations for a new energy infrastructure

Buildings are already being converted into micro-power plants with the installation of solar panels, vertical wind turbines, geothermal heat pumps, biomass converters, small hydro and the like. Sensors will be applied to every appliance, and software will keep owners apprised of changes in the price of electricity moment-to-moment, so that they can adjust their electricity use and sell electricity back to the grid if the price is right, making everyone an energy entrepreneur.

We can already see some of the other innovations that will be needed to move down this path. Governments around the world have recently instituted feed-in-tariffs that pay businesses and homeowners a premium price for the renewable electricity they produce and send back to the grid. Green mortgages with low interest rates that allow businesses and homeowners to "pay as you save" on energy are also becoming popular.

The new system that needs to emerge also holds the promise of fundamentally restructuring our economy. Fossil fuel energy systems favoured vertical economies of scale and giant, centralised enterprises. In contrast, the era of renewable energies will empower a multitude of small and medium sized enterprises, as well as larger companies, to share their energy with each other in networks that function more like ecosystems than markets. Just as millions share music with each other online and overpower major music companies, so millions of energy producers sharing electricity can overwhelm today's conventional power generated by centralised power and utility companies.

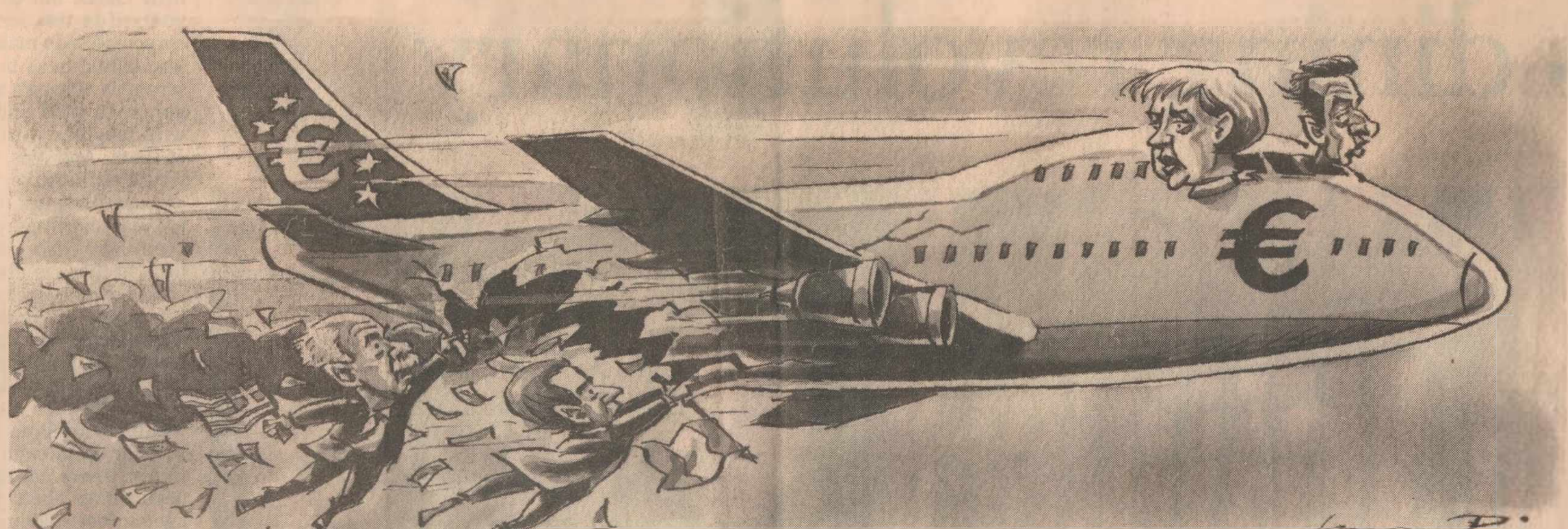
As the oil era draws to a close, this vision offers the hope of a sustainable post-carbon era by mid-century and the possibility that we can avert catastrophic climate change. The question is whether we will see the economic possibilities ahead, and muster the will to get there in time.

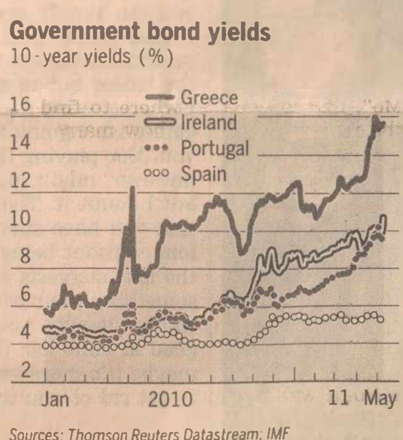
The writer teaches at the Wharton School's executive education programme. His forthcoming book is The Third Industrial Revolution: How Lateral Power is Transforming Energy and Changing the World

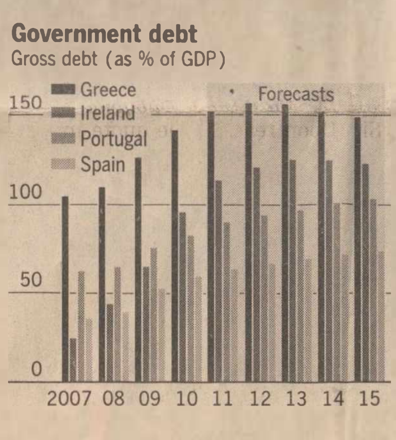
This is the third article in our series. To read previous articles go to: www.ft.com/energyfuture

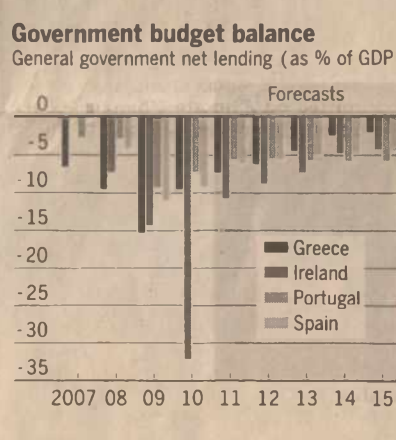
The eurozone's journey to defaults

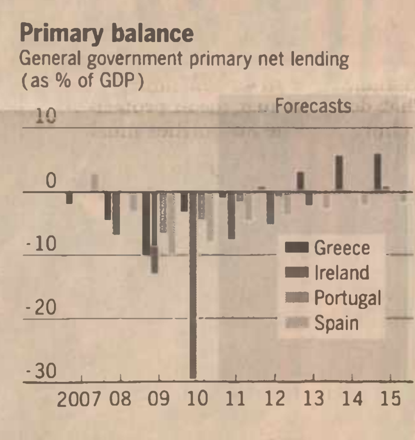
Martin Wolf











Sources: Thomson Reuters Datastream; IMF

A story is told of a man sentenced by his king to death. The latter tells him that he can keep his life if he teaches the monarch's horse to talk within a year. The condemned man agrees. Asked why he did so, he answers that anything might happen: the king might die; he might die; and the horse might learn to talk.

This has been the eurozone's approach to the fiscal crises that have engulfed Greece, Ireland and Portugal, and threaten other member states. Policymakers have decided to play for time in the hope that the countries in difficulty will restore their creditworthiness. So far, this effort has failed: the cost of borrowing has risen, not fallen (see chart). In the case of Greece, the first of the countries to receive help, the chances of renewed access to private lending on terms that the country can afford are negligible. But postponing the day of reckoning will not make the Greek predicament better: on the contrary, it will merely make the debt restructuring more painful when it comes.

Greek debt is on a path to exceed 160 per cent of gross domestic product. Unfortunately, it could easily be far higher, as a paper from Nouriel Roubini and associates at Roubini Global Economics notes. Greece may fail to meet its fiscal targets, because of the malign impact of fiscal tightening on the economy or because of resistance to agreed measures. The real depreciation needed to restore competitiveness would also raise the ratio of debt to GDP, while a failure to achieve such a depreciation may well curtail the needed return to growth. The euro may appreciate, further undermining competitiveness. Finally, banks may well fail to support the economy.

Given such a debt burden, what are the chances that a country with Greece's history would be able to finance its debt in the market on terms consistent with a decline in the debt burden? Extremely small.

Assume that interest rates on Greek long-term debt were 6 per cent, instead of today's 16 per cent. Assume, too, that nominal GDP grows at 4 per cent. These, note, are highly optimistic assumptions. Then, even to stabilise debt, the government must run a primary surplus (before interest payments) of 3.2 per cent of GDP. If Greek debt is to fall to the Maastricht treaty limit of 60 per cent of GDP by 2040, the country would need a primary surplus of 6 per cent of GDP. Every year, then, the Greek people would need to be cajoled and coerced into paying far more in taxes than they receive in government spending.

What might persuade investors that this is sufficiently likely to justify funding Greece? Nothing I can imagine. But remember that 6 per cent would be a spread of less than 3 percentage points over German bunds. The default risk does not need to be very high to make this extremely unappealing.

In short, Greece is in a Catch 22: creditors know it lacks the credibility to borrow at rates of interest it can afford. It will remain dependent on ever greater quantities of official financing. However that creates an even deeper trap.

Assume, for example, that half of Greek debt were to be held by senior creditors, such as the International Monetary Fund and the European stability mechanism, which is to replace the current European financial stabilisation mechanism in 2013. Suppose, too, that the reduction in debt needed to secure lending from private markets, on bearable terms, were to be 50 per cent of face value. Then private creditors would be wiped out. Under such a dire threat, no sane lender would consider offering money on bearable terms. A take-over of Greek debt by official funders makes return to private finance even more unlikely.

If one takes seriously the view that any debt restructuring must be ruled out, advanced by Lorenzo Bini Smaghi, an influential Italian member of the board of the European Central Bank, official sources must finance Greece indefinitely. Moreover, they must be willing to do so on terms sufficiently generous to make a long-term reduction in the debt burden feasible. That is possible. But it is a political nightmare: the moral hazard involved would be enormous. Greece would lose almost all sovereignty indefinitely and resentments would reach boiling point on both sides. Non-European members would also prevent the IMF from offering such indefinite largesse. The burden would then fall on the Europeans. It seems unlikely that needed agreement would be sustained.

The alternative is a pre-emptive restructuring of the debt, perhaps next year. Since market prices tell us that this is what investors expect, it should not come as a shock to them. A restructuring ought to raise the country's creditworthiness and increase the incentives to sustain a programme of stabilisation and reform. Moreover, with a planned, pre-emptive restructuring the authorities could also prepare the needed support for banks, both inside Greece and outside it.

Many ways of restructuring debt exist, some more coercive than others. Fortunately, 95 per cent of Greek public debt is issued under domestic law, which should reduce the legal problems of enforcing the desired deep restructuring.

Needless to say, this would still be a big mess. Moreover, there is no certainty that a restructuring would return Greece to growth, since the country also suffers from a lack of competitiveness. Inside the eurozone, no simple way of resolving the latter weakness exists. The country may be doomed to prolonged deflation.

However unpopular restructuring might be, the alternative would be worse. The debt would then need to be financed indefinitely. This, then, would be a backdoor route into a fiscal support mechanism for members far more extreme than that for the states of the US. The saga is most unlikely to end with Greece. Other peripheral countries – Ireland and Portugal, for example – are also likely to find themselves locked out of private markets for a long time. In neither case is a return to fiscal health in any way guaranteed, given the extremely difficult starting points.

Overindebted countries with their own currencies inflate. But countries that borrow in foreign currencies default. By joining the eurozone, members have moved from the former state to the latter. If restructuring is ruled out, members must both finance and police one another. More precisely, the bigger and the stronger will finance and police the smaller and the weaker. Worse, they will have to go on doing so until all these horses can talk. Is that the future they want?

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MORE COMMENT ONLINE

Uri Dadush and **Moisés Naím** say advanced countries will bear the brunt of adjusting to a four-speed world economy **www.ft.com/opinion**

Cautionary lessons on ethics from yet another bank fiasco

John Kay

Payment protection insurance helps people who suffer accidents or illness or lose their jobs to repay debts. If you have a credit card, you will certainly have been invited to take out a PPI policy. Last week, the chief executive of Lloyds Bank announced that the bank would provide £3.2bn ($5.2bn) to cover claims for improper marketing of these products.

António Horta-Osório is today probably the most unpopular man in the UK financial community. Not because of the misconduct at his bank, which he has only just joined but because he has acknowledged that misconduct. His competitors feel he has let the side down, and have abandoned their own defence.

In 2005, Citizens Advice made PPI the subject of a super-complaint – a genteel British version of the class action. That organisation had received many protests from struggling borrowers who had mistakenly hoped their policies would give them protection.

Regulatory investigations followed. An inquiry by the Office of Fair Trading was followed up by the Competition Commission and the Financial Services Authority. The Competition Commission found that claims paid accounted for less than 15 per cent of the value of premiums written for the principal forms of PPI and that the profits of distributors of the policies averaged 70 per cent of the value of sales. In most cases, a borrower with PPI would find that premiums totalled more than the interest on the loan. The FSA discovered many instances of mis-selling. Some customers believed they could not get credit unless they responded to the sales pitch. Others had little chance of a successful claim because of policy exclusions.

Market economies are always vulnerable to chancers and spivs who sell overpriced goods to ill-informed customers

The big British banks have been the principal distributors of PPI policies and have encouraged staff to market them through sales targets or commissions. You might have expected that, faced with such embarrassing revelations, the banks involved would have expressed regret and agreed to put their houses in order. This is not what happened.

Both the Competition Commission and the FSA have extensive legal powers to demand information and to impose remedies for abuse. These are rarely used – because companies under investigation comply voluntarily. But the inquiry into PPI is one of very few cases in which this authority has had to be invoked. Appeals against decisions have been made at each stage, and regulators have been bombarded with fluff in defence of the indefensible.

Last month, British banks lost a court case in which they challenged the FSA's demand that they identify and reimburse customers to whom PPI has been mis-sold. Since most people do not need to make a claim on an insurance product, they never discover whether the policy they bought actually met their needs.

The new rules will ban the marketing of PPI at the point of sale of credit. This remedy is far from ideal. The moment at which a borrower takes out a loan is the best time to examine possible difficulties in repayment. People who take out small personal loans, or struggle to pay credit card bills, are unlikely to be financially sophisticated. A good PPI policy might be of real help to many borrowers but the existing products have been so bad that most people would be better off without them. Much the best outcome would be that providers offered good advice and products that provided value for money, but this is almost impossible to enforce by law.

Market economies are always vulnerable to chancers and spivs who sell overpriced goods to ill-informed customers and seem to promise things they do not intend to deliver. If such behaviour becomes a dominant business style, you end up with the economies of Nigeria and Haiti, where rampant opportunism makes it almost prohibitively difficult for honest people to do business. Our prosperity depends on a self-enforcing culture of ethical business values, in which traders value their reputation and seek to develop long-term commercial relationships. That is the culture in which banks used to operate: it is time they did so again.

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Why Assad will rise again – and then fall

David Lesch

Having met Bashar al-Assad, Syria's President, a number of times, I can say with confidence that he was startled when the tumult in the Arab world spread into his own country. Like so many autocrats over the years, he truly thought he was secure, and even popular.

He liked to say that his country was "different". He certainly saw it as immune to the uprisings besetting other countries. His regime's mouthpieces of course echoed this, stressing that these states' elderly rulers were out-of-touch and corrupt American lackeys. The implication was that Mr Assad, at 45 young by the standards of fellow autocrats, understood the Arab youth, having faced down America and Israel and thus brandishing credentials that played well in the "Arab street".

Only a month ago there was a debate in the west as to whether or not Mr Assad, who had long liked to present himself as different from his hardline father, would sanction a crackdown. Now, of course, that hope is over. He has relied on tanks and troops to repress protesters, killing nearly 600 people, according to human rights groups.

Given the course of the past few years this should not be a surprise. One encounter I had with him is illuminating. It was in 2007 during the referendum to determine whether or not he would "win" another seven-year term in office. (His name was the only one on the ballot.) Then, amid parades reminiscent of the celebrations for Saddam Hussein, for the first time I felt he had succumbed to the aphrodisiac of power. The sycophants had convinced him Syria's well-being was synonymous with his and that he must hold on to power at all cost.

So he appears now close to a reincarnation of his father, Hafiz al-Assad, who sanctioned the crackdown on Islamic militants in 1982. But now that he seems more confident of restoring control I suspect he believes he can again recover from the pariah status facing him. He did after all survive the fallout of the assassination of Rafiq Hariri in Lebanon in 2005 in which Syria was implicated.

For now he has withdrawn into a sectarian fortress, apparently intent on maintaining his minority Alawite sect's hold on power. At critical times in his presidency, he has given in to the hardliners, particularly the Alawite generals who dominate the security apparatus.

I fear he will only throw some bones of political reform that will fall far short of demands – and draw closer to Iran

So how can he manoeuvre his way back to acceptability? As the crackdown continues, the international community has given him leeway fearing what might happen in Syria and the region should he fall. He seems to be using it to buy time to quell the uprising. Should the regime survive, I expect he will try to engage in some level of reform, as the generals return to their barracks. But I fear he will continue to focus on economic reform, only throwing protesters some bones of political reform that will fall far short of their demands, and, possibly, draw closer to Iran.

If this only gets him back to where he was before the uprisings intensified, he will probably be satisfied. A classic authoritarian state is, after all, the regime's default condition. Corruption, institutional inertia and a repressive apparatus ensure that its instinct is to recoil into survival mode. Mr Assad's hope will be that repression will stamp out the fervour that removed the regimes in Egypt and Tunisia. As in the past, he will think he has made significant concessions, but this is a different Middle East today. The momentum of change is harder to reverse in the long term. He may confront a more determined opposition sooner than he realises.

He thought Syria was different but he was wrong. The true meaning of the Arab spring is that people are weary of autocrats. The west may for reasons of realpolitik have to pretend to accept his reforms but his people will not. For now he survives. But he is not leading and, eventually, he will join the list of former Arab dictators.

The writer is professor of Middle East history at Trinity University in San Antonio, Texas. He is author of The New Lion of Damascus: Bashar al-Assad and Modern Syria

Investors count the cost of any default by Athens

News analysis

Question of who would suffer has acquired urgency, say **Tracy Alloway, Megan Murphy** and **David Oakley**

Financial markets are pricing in the once unthinkable. Worried by the possibility that Greece could restructure its debt, investors are gauging the likely impact on European banks that hold its bonds. Some, it has emerged, could be exposed to billions of euros in losses.

The question of who would suffer in the event of a writedown being imposed on Greek bondholders has acquired extra urgency as analysts digest different scenarios should Greece be unable to return to the bond markets next year.

These scenarios include a voluntary, or soft, restructuring of Greek debt, and a hard restructuring that would force losses on to debt holders by writing down the value of Greek government bonds.

"Market focus has shifted to the issue of debt restructuring, what form this could take and how losses could be accounted for," says Philip Finch, UBS banking analyst.

Analyst estimates, based on quarterly company reports and figures for last summer's pan-European bank stress tests, show – perhaps unsurprisingly – that Greek banks are the most exposed to their country's debt.

They hold €72bn, or 22 per cent of the €330bn total outstanding, says UBS.

Outside Greece, though, leading banks in France, Germany and Belgium are also significantly exposed.

Morgan Stanley estimates that BNP Paribas in France is the single most exposed of the non-Greek banks to Hellenic debt, with about €5bn of bonds on its books.

A 50 per cent writedown, or haircut, on the value of Greek bonds, which some commentators believe is a possibility, would cost BNP €1.7bn.

At Dexia, the Franco-Belgian bank, its €3.5bn banking exposure represents a sizeable 39 per cent of the bank's tangible net asset value, Morgan Stanley estimates. A 50 per cent haircut would lead to the group taking a €1.3bn hit.

Commerzbank, of Germany, and Société Générale, in France are also exposed, with both holding about €2bn-€3bn of Greek sovereign debt. In total, non-Greek banks hold 11 per cent of outstanding Greek debt, UBS says, the International Monetary Fund and European nations that took part in last year's Greek bail-out having similar exposure.

So, why are the markets not more alarmed about the impact of a Greek restructuring on European financial groups?

In short, investors are hopeful that the impact on the banks, while painful, would be manageable.

Baudoin Prot, BNP's chief executive, has told the Financial Times that the impact of a Greek restructuring on his bank would be "limited".

"I am not saying it would be marginal, but we could deal with it," Mr Prot said.

Bankers say it is not so much a restructuring itself but the broader risk of contagion and the precedent a Greek default would set that is really worrying policymakers.

"A Greek default would be painful and will no doubt shake the eurozone, but it would be manageable," says Bill Blain at NewEdge, the financial group. "The danger is that it could see the crisis spread."

To ease those worries, investors and strategists say that a soft restructuring, which could be voluntary and involve extending debt maturities, would be a relatively painless way of handling Greece's debt problems. It would have little impact on the exposed banks, which hold most of their Greek debt in so-called "hold to maturity books" and which do not have to be marked to market value.

Moreover, following last year's Greek bail-out, exposure to the country's debt has shifted from banks to public entities. European governments and the IMF now hold 11 per cent of Greek debt, says UBS.

The European Central Bank is estimated to hold 20 per cent through direct purchases of Greek bonds, making it Greece's second biggest investor. Widening the central bank's exposure to take account of its financial liquidity operations paints a starker picture.

JPMorgan analysts estimate that including lending by the ECB to Greek banks raises its notional exposure to nearly €200bn.

Using that figure, they calculate the ECB can withstand a haircut of up to 30 per cent before taking losses. "A hypothetical Greek debt restructuring exceeding that haircut would be damaging especially if Ireland followed suit," JPMorgan says.

Hellenic banks have been loading up on Greek government bonds and government-guaranteed assets for use as collateral at the ECB's refinancing operations, borrowing some €91bn as at the end of February. According to JPMorgan some 77 per cent of the collateral posted at the ECB by Greek banks is government or government-guaranteed, and would be affected by a restructuring.

For Greek banks, a 50 per cent haircut in a hard restructuring would lead to about €25bn losses, JPMorgan says, leaving only €4bn of equity to cushion the Hellenic banking system.

Greek financials would see half that loss if a restructuring took place in mid-2013, when the new European Stability Mechanism comes into effect. Timing could be important.

Additional reporting by Stanley Pignal

Restructuring risk has jumped

Financial markets are pricing in a 70 per cent chance of a restructuring in Greek debt, a jump from 50 per cent only two months ago, **writes David Oakley**.

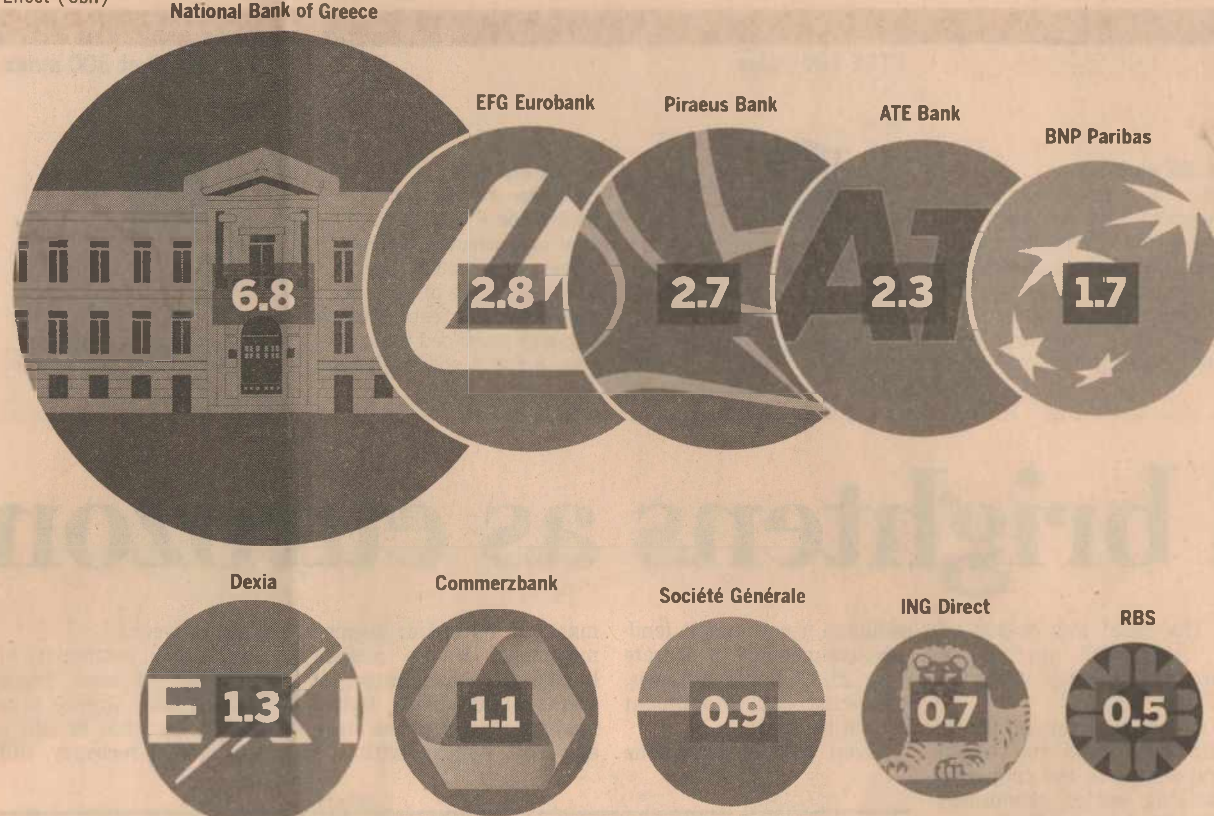
The increase in expectations of a bond default in Athens, as measured by credit default swaps, has sparked fears for the eurozone's fragile financial system.

Investors and strategists warn that a Greek restructuring could hit banks holding Athens' debt and trigger contagion to other markets.

Feeling exposed

Adverse shock scenario: Greek bonds in the banking book

Effect (€bn)



Dexia 1.3 | Commerzbank 1.1 | Société Générale 0.9 | ING Direct 0.7 | RBS 0.5

Greek government bonds

Greek banks

Sources: Morgan Stanley; Thomson Reuters Datastream

Trading post

Jamie Chisholm

The market has given a swift verdict on how much it values IMF forex analysis. The global economic watchdog on Monday [illegible] the New Zealand dollar was overvalued by up to 20 per cent, and the Kiwi finished the day firmer against the buck and less than 2 cents off this month's cyclical high.

The IMF has form. It made a similar argument in April 2010, but the Kiwi joined other so-called "commodity" currencies in a year-long rally that saw it almost challenge 2008's peak above $0.82.

The broad market's "risk on" strategy during that period helped, but the Kiwi was further aided by New Zealand's positive interest rate differential as Wellington led the way in monetary tightening as the global economy emerged from the credit crunch recession.

In spite of the market's initial response to the I[illegible] analysts at Barclays Capital highlight a couple of reasons why the Kiwi could weaken.

First, the normalisation of developed economies' monetary policy will reduce New Zealand's interest rate advantage, a trend that will also discourage carry trades.

More dramatically, there is a risk of a rating downgrade, as, the IMF notes, the Christchurch earthquake worsens the budget deficit.

Rolling global overview at: www.ft.com/markets

The flying Kiwi

US dollars per New Zealand dollar

Source: Thomson Reuters Datastream

Greek government debt rallies after successful bond auction

By Kerin Hope in Athens and David Oakley in London

Greek bond markets rallied on Tuesday after a successful debt auction and media reports that Europe was drawing up a fresh bail-out for Athens.

Greece's cost of borrowing fell nearly half a percentage point on two-year bonds to 25.18 per cent as reports that Athens was in line for a €60bn ($86.1bn) aid package boosted sentiment and eased worries about a looming default.

EU and Greek officials, however, denied reports that an extra €60bn would be offered to Athens to fund it through 2012 and 2013.

In spite of the denials, the report by a newswire provided ammunition for investors who believe policymakers will find more funds to help Athens avoid a painful default that could have ramifications for Europe's financial system.

More funds on top of last year's €110bn package would in theory give Greece more time to turn round its economy and convince the financial markets that it can reduce its public debt.

The news came amid strong demand for Greek six-month bills in the first market test of investor sentiment since the restructuring debate intensified in recent weeks.

Although yields at 4.88 per cent for the €1.625bn of six-month paper sold were higher than the previous auction in early April, investors and strategists deemed the auction a relative success because of the strong demand.

The auction saw a bid-to-cover ratio, a measure of investor demand relative to the debt available for sale, of 3.58. A bid-to-cover ratio above two shows strong demand.

The speculation on new loans and the successful auction helped offset the negative impact of Monday's sovereign downgrade by Standard & Poor's.

Greek banks bought two-thirds of the issue in order to rollover existing short-term bonds that were being used as collateral for liquidity from the European Central Bank.

Petros Christodoulou, the debt manager, said: "We're happy to be able to access short-term capital at rates below 5 per cent when the country is in the process of undergoing structural change."

Platon Monokroussos, head of markets research at EFG Eurobank, said: "A positive news flow today has helped – the report that Greece is in line for a fresh loan – suggesting that the government can continue rolling over short-term paper."

A Greek ministry official said discussions were taking place "about finding a solution that is credible and in such a way that there is no problem in covering government financing needs in 2012" but said there were no "specifics or details".

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A proclamation from Spain's ministry of public works

FT Alphaville

"Investing in Spanish real estate sector is safe," read slide 21 of the PowerPoint presentation created by Spain's Ministry of Public Works, part of a European roadshow aimed at boosting investor confidence in the country's housing sector, **write Tracy Alloway and Izabella Kaminska**.

With Spain's real estate market the subject of intense speculation, Spanish representatives took to the institutional and retail investor circuits last week, pledging to "inform about the situation, strengths and opportunities of the Spanish housing sector." Spanish banks are still heavily exposed to domestic property losses, prompting worries that any sharp decline in house prices could trigger financial difficulty that might spread to the already troubled eurozone.

"This is the ideal time to invest in Spanish real estate," Spain's public works minister José Blanco told potential investors at the Spanish embassy in the swanky Chelsea district of London, its first pit stop on the European tour. "The Spanish economy is beginning to show its first signs of recovery."

But ministers may be fighting an uphill battle. That same week, rating agency Standard & Poor's warned of "fresh headwinds" gathering force within Europe's real estate markets as the likelihood of the European Central Bank raising interest rates and fiscal austerity forced potential buyers on to the sidelines.

In Spain, where the majority of mortgages are variable rate loans linked to interest rate moves, S&P said it anticipated a "prolonged slump in housing markets".

Meanwhile, two of Spain's private housing agencies published their monthly house price estimates, posting an average 0.8 per cent fall month-on-month in April. That could be the sharpest pace of annual decrease since March 2010, at 4.7 per cent.

Reaction to the Spanish roadshow itself has been lacklustre in some corners. Barclays Capital economists Julian Callow and Antonio Garcia Pascual told clients that "the recent apparent intensification of house price declines" could be down to a few factors, including the end of a tax allowance for mortgage interest payments, and those rising rates.

One-year Euribor, a money market measure that most Spanish mortgages use as a reference rate, has already been rising.

A third factor pulling down house prices, the BarCap analysts said, was the large stock of unsold homes – or so-called shadow inventory – still waiting for buyers.

"[At the London roadshow] the deputy housing minister said that the excess inventory of unsold homes was 700,000 – though various private sector estimates have previously put the number at more like 1m," and even 1.5m, the analysts said. Based on the higher estimate, the stock of unsold inventory would take six years to clear.

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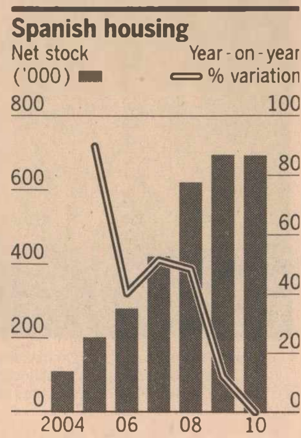
Spanish housing



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MARKETS

Markets update

S&P 500 index

US equities
Microsoft's acquisition of internet phone company Skype and strong Chinese trade data helped underpin sentiment on Wall Street as investors took a slightly rosier view of the health of the US and global economies

FTSE 100 index

UK equities
Gains for mining stocks helped the FTSE 100 to its best performance in three weeks, while banks rose amid an easing of eurozone sovereign debt fears. Imperial Tobacco advanced after announcing a share buy-back

FTSE Eurofirst 300 index

European equities
Positive results helped lift Deutsche Post and Solvay, the Belgian chemicals group, as the wider market was helped by an easing of concerns about a Greek debt restructuring. National Bank of Greece rallied 7 per cent

Nikkei 225 Average
'000

Asian equities
The Nikkei was lifted by optimism that its exporters would cope with earthquake-related disruption better than had been feared. Chinese stocks were helped by figures showing strong export growth in April

Source: Thomson Reuters Datastream

Markets updated at www.ft.com/markets

Mood brightens as eurozone debt fears ease

GLOBAL OVERVIEW

Robust Chinese exports give boost

Crude oil continues on upward path

By Dave Shellock

An easing of eurozone sovereign debt tensions and optimism over the global economy offered support to world equity and commodity prices, although the euro struggled to recover recent losses against the dollar.

Reports that fresh bail-out funds might be made available to Greece - albeit denied by officials in Athens - went some way to soothing concern that the country might be forced to restructure its debt.

The mood was helped by a successful auction of Greek six-month Treasury bills.

Greek government bonds climbed across the board and shares in the country's banking sector rebounded after Monday's sell-off.

The yield on 10-year debt fell 28 basis points to 15.43 per cent, while National Bank of Greece saw its stock rally 7 per cent.

On the **currency markets**, however, the euro ended flat against the dollar as analysts remained sceptical about the outlook for the region's periphery.

Several observers made the point that the eurozone appeared to be lurching from one crisis to the next.

"It is only a few weeks since global markets were celebrating the agreement of eurozone leaders to establish a permanent lending arrangement to operate from 2013," Stephen Lewis, economist at Monument Securities, said.

"Even at the time, the markets' optimism seemed misplaced. If the present hurdle is surmounted, it seems highly likely that a fresh challenge to the strategy will appear within a matter of weeks."

Jim Reid, strategist at Deutsche Bank, said: "Some may say that Greece is a sideshow to what is still a strong global recovery. But the problem is that a European policy accident, albeit unlikely, is probably the biggest immediate risk to global financial markets."

Equity markets, however, appeared to put such concerns to one side as sentiment got a lift from Microsoft's $8.5bn purchase of internet telephone company Skype, positive earnings announcements and news of strong growth in Chinese exports last month.

By the close in New York, the S&P 500 was up 0.8 per cent while the FTSE Eurofirst 300 index rose 0.8 per cent.

In Tokyo, the Nikkei 225 Average added 0.3 per cent amid hopes that the disruption to exporters caused by March's earthquake might not be as bad as feared.

"Despite the unsettled domestic political environment, the fabled stoicism of the Japanese will help sustain their recovery, supported by expected continued growth in global demand for the key export sector," said David Cohen at Action Economics.

Further positive news came from Asia as China recorded a much bigger than expected trade surplus in April, driven by a surge in exports. There will be a further focus on China's economy on Wednesday when the country publishes consumer prices figures.

Commodity prices continued to recover from the steep sell-off seen last week, with the oil market managing to shrug off overnight news of a rise in crude margin requirements at the Chicago Mercantile Exchange.

Amrita Sen, oil analyst at Barclays Capital, noted that margin increases over February and March following disruptions to Libyan supply had done little to alter the upward momentum of crude prices.

"We believe the same will be true this time around, given the backdrop of strong fundamentals," she said.

June Brent rose another $1.73 to $117.63 following Monday's near-$7 rise.

Precious metals built on the previous session's rebound, with gold climbing to $1,515 an ounce and silver to $38.51.

US **government bonds** eased back as the markets absorbed $32bn of three-year notes, even though the yield at auction was the lowest since December.

The yield on the 10-year Treasury rose 5bp to 3.21 per cent.

German government bonds
10-year yield (%)

3.5
3.4
3.3
3.2
3.1
3.0
2.9
2.8
Jan 2011 May

Source: Thomson Reuters Datastream

◄ **German Bunds fell, driving yields up from a seven-week low, as reports that Greece could receive a new aid package lessened fears that Athens might have to restructure its debt**

► **The dollar hit a two-week high against the Swiss franc after weak consumer price figures undermined expectations for a near-term rise in Swiss interest rates**

Dollar
Against the Swiss franc (SFr per $)

0.98
0.96
0.94
0.92
0.90
0.88
0.86
0.84
Jan 2011 May

Vodafone misses Footsie gains after analysts cut earnings expectations

LONDON

By Bryce Elder and Neil Hume

Vodafone missed out on the FTSE 100's biggest gain in three weeks amid concerns that its results next week might disappoint the market. Its shares were one of only three blue-chip fallers in London as analysts cut numbers.

Credit Suisse, Nomura and Exane BNP Paribas all trimmed earnings forecasts by about 3 per cent to reflect competition in Europe.

Profit warnings from KPN and Belgacom have pointed to smartphones cannibalising voice usage, suggesting consensus expectations for Vodafone's margins still need to fall, Nomura said.

It cut forecasts to "pre-empt cautious margin guidance" at full-year results next Tuesday.

Credit Suisse also predicted that Vodafone Europe would miss forecasts for 2011, though it expected US and Indian operations to compensate.

Vodafone ended weaker by 0.3 per cent to 169½p even as all three brokers kept "buy" advice.

"We do not see results as a great positive catalyst but believe that consensus is now sufficiently cautious," said BNP.

Strong corporate earnings and gains among the commodity stocks helped lift the wider market, sending the FTSE 100 higher by 76.2 points, or 1.3 per cent, to 6,018.89.

A better than expected US performance lifted **InterContinental Hotels** by 3.9 per cent to £12.98 while **Imperial Tobacco** gained 3.1 per cent to £22.24 after boosting investor returns.

Schroders' voting shares rose 5.6 per cent to £17.50 after Numis Securities added the fund manager to its "buy" list.

Quarterly results last week were disappointing but the stock had fallen to 13 times forward earnings, compared with a historical average of 15.5 times, analyst David McCann said.

Reed Elsevier climbed 3.3 per cent to 549½p after it hosted a seminar on its risk information unit, the publisher's first investor day for four years. The meeting "marked a significant turning point in the company's communication strategy," said Credit Suisse.

Sage Group rose 3.6 per cent to 296p on talk that the accounting software maker was a takeover target for Oracle or SAP.

Dealers doubted the talk and noted that Sage management was on a US investor roadshow this week. But they added that the disposal of Sage's perennially underperforming US healthcare unit looked more plausible.

Misys, which has also been the subject of rumours about a bid or the disposal of a division, added a further 1.4 per cent to 348¼p.

Fiserv and SunGard Data Systems would be potential bidders, though they might need more evidence that Misys's banking unit had been turned round, said analysts.

Premier Foods led the mid-cap gainers, up 6.4 per cent to 28¾p, after Citigroup turned positive with a 40p price target.

A debt restructuring last October cleaned up the company structure but left investors nonplussed, it said, and added: "We believe that as performance stabilises, the market will be increasingly willing to ascribe a 'sensible' valuation to the stock."

EnQuest, the North Sea oil producer, rose 5.2 per cent to 136¾p on news that it had taken majority control of the 26.8m-barrel Crawford oil field. It raised its stake from 19 per cent to 51 per cent in exchange for shouldering $56m of development costs.

TalkTalk, the UK internet provider, lost 2.5 per cent to 134¾p after it cut package prices, a move analysts said was likely to have been in response to competition from BT's Plusnet brand.

Set-top box maker **Pace** slumped 39.2 per cent to 93p on a warning that it had paid too much to stock up on inventory this year. Analysts said that, while there was no confidence left in management or forecasts, the distressed valuation might make Pace a takeover target for a rival.

Among small caps, **Xcite Energy** dived 25 per cent to 237½p after the oil explorer released a disappointing update on its Bentley heavy oilfield in the North Sea.

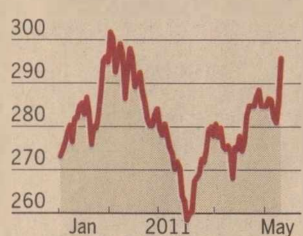
JJB Sports rallied 5.3 per cent to 29½p after Panmure Gordon set a 40p price target on recovery hopes ahead of the Olympics.

Caledon Resources edged up 2.5 per cent to 104p on reports that China's economic planning agency had signed off Guangdong Rising Asset Management's 112p-per-share bid for the Australian coal group.

Vatukoula Gold Mines moved up 13.9 per cent to 151½p after a positive update from a company mine in Fiji.

Lombard & People, Page 20
Biggest movers, Page 31
Small caps report: www.ft.com/equities

Sage Group
Share price (pence)



Source: Thomson Reuters Datastream

Key indicators

Indices	Close	Day's change
FTSE 100	6018.9	+76.2
FTSE 250	12055.2	+159.1
FTSE 350	3201.5	+40.7
FTSE All-Share	3133.73	+39.59
FTSE All-Share yield	2.94	2.97
FTSE 100 Fut Jun	5990.5	+76
10 yr Gilt Yield	3.41	0.02
20yr Gilt All-Share Ratio	1.40	0.01

Swiss franc slips on price data

CURRENCIES

By Peter Garnham

The Swiss franc lost ground on Tuesday after inflation data weighed on expectations that the Swiss National Bank would raise interest rates in the near future.

Swiss consumer price inflation came in at an annual rate of 0.3 per cent in April, far below forecasts for a reading of 0.7 per cent.

Analysts said it was likely to prompt the SNB to keep rates near zero at its quarterly policy meeting in June.

Divyang Shah, at IFR Markets, said the SNB was more likely to raise rates at its September meeting, by which time there would be more clarity on some of the uncertainties in the market that have boosted haven demand for the Swiss franc and sent it to record highs against the dollar in recent months.

He said the list of uncertainties was long, including the outlook for commodity prices, European sovereign debt concerns and, more recently, some softness in US economic data.

"The European debt crisis is a big factor that has helped the Swiss franc strengthen and the SNB will be aware of fanning risk aversion-related demand for the currency by indicating they want higher interest rates," said Mr Shah.

"For now the uncertainties and the inflation reading should see a pricing out of any lingering concerns that the SNB could move as early as the June meeting."

By late day in New York, the Swiss franc fell 1 per cent to SFr0.8803 against the dollar, its weakest level in two weeks.

It also dropped 1.3 per cent to SFr1.2684 against the euro, lost 0.7 per cent to SFr1.4404 against the pound and was 0.4 per cent lower at Y91.83 against the yen.

In contrast, the Norwegian krone advanced after April consumer price inflation came in stronger than expected.

This raised expectations that the Norges Bank, Norway's central bank, would raise interest rates for the first time in a year at its policy meeting on Thursday.

The Norwegian krone rose 0.9 per cent to NKr5.4228 against the dollar and climbed 0.6 per cent to NKr7.8125 against the euro.

Currency rates, Page 31
www.ft.com/currencies

Ebay lifted by windfall hopes after Microsoft's Skype deal

WALL STREET

By Michael Stothard in New York

Microsoft lost ground after the group confirmed it was buying Skype for $8.5bn while US stocks continued to trend higher following the strong non-farm payrolls report.

Shares in Microsoft were down 0.6 per cent to $25.67 after announcing the deal.

Ebay, the online auction site that owns 30 per cent of Skype, was up 2.5 per cent to $33.93 in expectation of a windfall.

Ebay shares were helped by the fact that the value put on Skype by the acquisition represents a large premium to what Wall Street had been expecting from its planned initial public offering.

The S&P 500 closed up 0.8 per cent to 1,357.16, with solid economic data showing that US wholesalers had stockpiled goods in March as sales rose strongly.

But the wider markets were also bouncing back from losses last week. A bumper official non-farm payroll figure turned sentiment round, leading to three solid days of gains on the S&P 500.

The Dow Jones Industrial Average was up 0.6 per cent to 12,760.59 while the Nasdaq Composite added 1 per cent to 2,871.89.

The gains on Tuesday were broad-based but industrial stocks saw some of the strongest improvements as healthy trade data from China pointed to robust global economic growth.

United Parcel Service was up 0.9 per cent to $74.37 while **General Electric** added 1.2 per cent to $20.30.

The S&P industrial sector was up 0.8 per cent.

Energy stocks were the worst performing, weighed down by falling oil prices.

The oil price recovered as the session continued but investors remained cautious. **Hess Corp** declined 0.4 per cent to $79.67 while **Murphy Oil** lost 0.4 per cent to $70.31.

Dean Food rose 11.5 per cent to $12.24 after the dairy and meat purveyor beat expectations with its first-quarter results and raised its earnings forecast.

JA Solar Holdings was up 6.2 per cent to $6.48 after reporting a better-than-expected quarterly profit.

Wendy's-Arby's rose 4.2 per cent to $5.02 after the fast food group reported strong same-store sales growth in the US.

Sotheby's, the auction house, lost 6.1 per cent to $43.71 after reporting a slimmer-than-expected first-quarter profit.

Biggest movers, Page 31

Microsoft
Share price ($)

Source: Thomson Reuters Datastream

Deutsche Post leads rebound on profits

EUROPE

By Stephen Smith

Strong earnings reports led by forecast-beating results from **Deutsche Post** and a more sanguine view of the Greek debt crisis helped prompt a rebound for European stocks.

Shares in the world's biggest carrier of air and sea freight, whose businesses include DHL, rose to their highest level in nearly three months as the FTSE Eurofirst 300 gained 0.8 per cent to 1,149.62, only its second positive session in six.

Deutsche Post's first-quarter pre-tax profit was lifted 23 per cent to €629m, beating the expectations of €588m. After rising 3 per cent, the shares succumbed to late profit-taking to close 1.3 per cent higher at €13.66.

Solvay, the Belgian chemicals group, headed the Eurofirst leaderboard after jumping 8.3 per cent to €108.25 and hitting three-and-a-half year highs as first-quarter operating profit also beat estimates.

Stocks that fell on Monday amid Greek debt worries enjoyed a recovery with investors interpreting as positive reports – denied by Athens – that more bail-out money was being made available, given that it would push back a need for painful restructuring.

National Bank of Greece, among the biggest Eurofirst fallers on Monday when it tumbled 4.1 per cent, made back all of its losses after climbing 7 per cent to €5.05.

The Athens General, the benchmark index for Greek stocks, rose 1.4 per cent to 1,369.18, nearly recovering Monday's 1.5 per cent fall.

Among the biggest holders of Greek bonds, **BNP Paribas** rose 2.3 per cent to €54.13, **Société Générale** was up 2.1 per cent to €43.08 and **Commerzbank** rose 2.1 per cent to €4.21.

Danske Bank was the Eurofirst's biggest faller after first-quarter profit sank 7.8 per cent on increased loan impairment charges in Ireland.

It dropped 4.5 per cent to €111.70.

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