Hollande in flap over 'pigeons'

Capital gains tax anger forces retreat

Online protest surprises Elysée

By Hugh Carnegy in Paris

France's Socialist government has been forced into retreat by an online revolt by entrepreneurs and investors against its plans to raise capital gains taxes.

It said it would review the details of its budget proposal to bring taxes on income from capital in line with tax bands for earned income after a furious campaign on Facebook, Twitter and other networks by a group of web entrepreneurs calling themselves "the pigeons" drew a wave of support since it was launched last weekend.

The strength of the protest by *les pigeons*, French slang for fall guys, or suckers, caught the government on the hop just as it was planning to move on from last week's tax-heavy budget to concentrate on plans to ease labour market restrictions and lower labour costs, two key demands of French business.

Instead, the volatile state of relations between government and business was underlined by a comment from Laurence Parisot, head of Medef, the employers' federation, likening remarks by a Socialist politician about "hooligan bosses" to racism.

Pierre Moscovici, the finance minister, met leaders of the online protest yesterday and said changes would be made in favour of entrepreneurs who started their own business. "We want to tax unearned income, not risk," he said, although he added the principle of aligning capital gains with income taxes would be maintained.

Les pigeons called off a street demonstration in Paris planned for Sunday after the offer of talks. But the momentum of their protest rolled on, with CroissancePlus (GrowthPlus), a mainstream association of growing businesses, publishing a full-page advertisement in several national newspapers adding its voice to the clamour.

Addressed to President François Hollande, it said: "Your government has gone too far . . . killing the spirit of enterprise. Mr President, don't export our entrepreneurs, don't export our growth, export our products. Listen to us and let us create growth and employment!"

The focus of the protest has been on the proposed increase in marginal capital gains tax rates to as high as 60 per cent, from a current rate of 32 per cent. Medef said this compared with maximum rates in the UK of 28 per cent and 26.4 per cent in Germany. Neighbouring Belgium levies no capital gains tax.

Government ministers insisted that the budget already included measures to shelter small entrepreneurs and investors from the top tax rates.

But they suggested they would drop the level at which investors receive a tax allowance for reinvesting gains and could cut the period required to hold an investment before qualifying for an allowance.

The protest has drawn support from entrepreneurs involved in start-ups, venture capitalists, private equity executives and other business leaders, all warning of an exodus of investors from France.

The protest overshadowed the opening of talks yesterday between Medef and five trade unions on labour market rules in which the government wants the unions to agree to some German-style "flexi-security" reforms, allowing more freedom for companies to negotiate wages and working time adjustments during a downturn, in return for avoiding redundancies.

Tasked to produce joint proposals by the end of the year, the "social dialogue" is part of the government's response to business demands for measures to improve France's flagging competitiveness.

Draghi comes close to urging nations to use bond-buy plan

Secondary market

ECB data show a worsening credit squeeze in southern Europe, write **Michael Steen** and **Ralph Atkins**

Mario Draghi, president of the European Central Bank, yesterday came close to demanding that European leaders make use of his bond-buying plan, as data showed a worsening credit squeeze facing small business across much of southern Europe.

The bank held its interest rates unchanged at historically low levels, as expected, but made clear in its economic analysis that risks "continue to be on the downside" in the face of weak growth prospects and an expected slowdown in inflation across the eurozone.

Those factors would in normal times argue in favour of a rate cut but Mr Draghi said the 22-member ECB governing council, meeting in Slovenia for one of its two annual gatherings outside of Frankfurt, had not even discussed interest rate cuts. Instead, he emphasised that the ECB's Outright Monetary Transactions programme, first outlined last month, was waiting to be used.

"We are ready and we have a fully effective backstop mechanism in place," Mr Draghi said. "Now it's really in the hands of governments. As I have said many many times, the ECB cannot replace the actions of governments."

Mario Draghi

Under OMT, the ECB would buy an unlimited amount of bonds in the secondary market of a country suffering from elevated borrowing costs, if the bank judged that those costs reflected market speculation of a break-up of the eurozone.

Mr Draghi offered some new details of the programme: it would only be offered to those with "full, complete" access to bond markets and bond purchases would be suspended if a country's compliance with the fiscal and structural reform conditions attached was put under review.

As the governing council session at Brdo conference centre at the foot of the Alps got under way, the ECB released new data showing how wide the financial "fragmentation" of the 17-country bloc had become. The divergence in interest rates charged on loans by banks to small businesses has increased since Mr Draghi's pledge in July to preserve the eurozone's integrity.

The interest rate charged in Spain on a business loan of up to €1m lasting between one and five years rose to 6.6 per cent in August – the highest since October 2008, when central banks started slashing interest rates following the collapse of Lehman Brothers investment bank.

By contrast, the interest rate on a similar bank loan in Germany fell to just 3.8 per cent – the lowest since ECB figures started in 2003. The wide variation in the cost of bank loans reflects the sharply higher funding costs faced by banks in much of southern Europe.

"The level of fragmentation becomes unacceptable when the singleness of the monetary policy in the euro area is being put into question," Mr Draghi said. "Because that is the time when we cannot achieve our main objective, namely maintaining price stability in the medium term across the euro area."

He has previously referred to the ECB's rate-setting action not having the desired effect on the borrowing costs in countries such as Spain as a "broken transmission mechanism" that OMT is designed to fix.

However, he would not be drawn on whether that meant any cut of the ECB's main rate was precluded until such a time as either OMT is deployed or the borrowing costs of Spain and Italy fall to lower levels.

Mr Draghi said Spain still faced challenges, but praised the government for "how many measures have been announced, legislated and implemented in such a short time".

Julian Callow, economist at Barclays Capital, said this could be interpreted as a call for Spain and Europe's finance ministers to activate a programme under the European Stability Mechanism, the bloc's bailout fund, which would pave the way for OMT to be deployed.

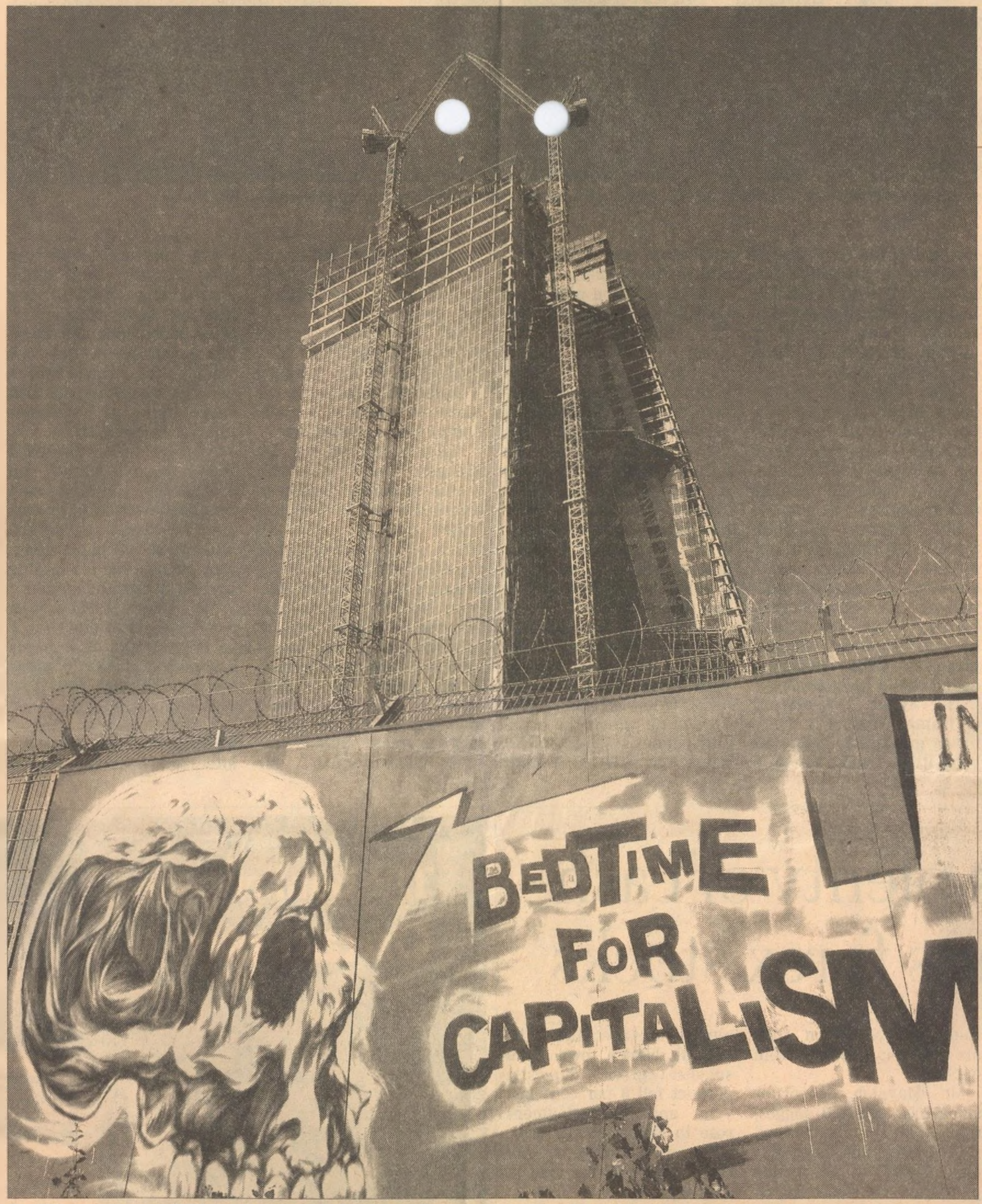
The bond-buying programme has met fierce resistance from the Bundesbank in Germany, whose president, Jens Weidmann, was the sole governing council member to vote against it in September and viewed it as tantamount to printing banknotes.

Mr Draghi again insisted the ECB was still acting in the spirit of the Bundesbank, on which it was founded, and said yesterday's meeting had been "constructive across the board" when asked about differences of opinion with Mr Weidmann.

He also defended the conditions attached to OMT.

"Conditions don't necessarily have to be punitive, actually many of the conditions have to do with structural reforms which have both a social cost but also great social benefits. If they are well designed, the second are going to be greater than the first."

Additional reporting by Claire Jones in London

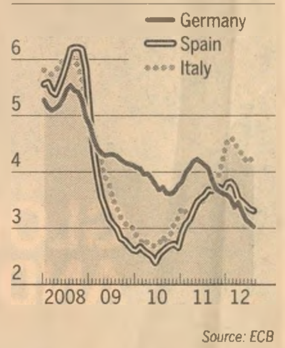


Graffiti near the new ECB headquarters in Frankfurt. Germany has fiercely resisted the bank's bond-buying proposal AP

Loans to small businesses
Average rate on loans to non-financial corporations* (%)

* 1-5 years, up to €1m

Mortgage rates
Average rate on loans for house purchase (%)



Source: ECB

Concern grows over slipping Greek bailout programme

'Troika' tension

Political leaders are keen to tackle the debt but face a difficult legacy, write **Peter Spiegel** and **Kerin Hope**

With the pieces in place for a new Spanish rescue, the attention of eurozone leaders has shifted again to Greece, where a running stand-off between international lenders and Greek authorities has renewed uncertainty over how Athens can get its €174bn bailout programme back on track.

Senior officials in both Athens and Brussels said much of the dispute centred on the highly pessimistic views taken by the International Monetary Fund on whether the new Greek government can succeed where its predecessors failed: quickly and thoroughly implementing economic reforms to return the country to economic growth.

The IMF stance has caused friction within the so-called "troika" of bailout lenders, which also includes the European Central Bank and the European Commission. EU creditors believe the new Greek team, including Antonis Samaras, prime minister, and his highly regarded finance minister, Oxford-trained economist Yannis Stournaras, has shown a credible willingness to tackle the most intractable problems.

"The IMF is the most sceptical of the ability for Greeks to reform," said one senior EU official. "Samaras and Stournaras want to do the right thing, but they suffer from a terrifying legacy and a ghastly present."

IMF officials believe they have reason to be suspicious. A privatisation programme that this year was supposed to raise €3.5bn, for example, is likely to yield only €300m, and a target of €19bn in sales by 2015 looks increasingly hard to achieve.

At stake is not only a €31.2bn aid payment that is already more than two months overdue but the IMF's willingness to sign off on a revised bailout that is expected to extend the programme two more years into 2016. Senior EU officials said the extension was likely to add €30bn to Greece's bailout needs.

The IMF's pessimism was having a direct impact on how an overhauled bailout programme could be structured, said another senior EU official.

Without assuming a quick return to growth following passage of a new round of reforms, on paper Greece will be unable to shrink its debt levels fast enough to become "sustainable" in the long run without lenders taking more radical measures – like accepting losses on their own bailout loans.

Mario Draghi, ECB president, took one of those measures off the table yesterday, saying the ECB would not take any losses on its €55bn in Greek bond holdings. Eurozone government lenders have not made such a clear rejection, but senior officials said it would be almost impossible politically for national leaders to agree to such losses.

The IMF's hard line on the Greek budget comes after it badly underestimated this year's plunge in output, which was projected to shrink 4.5 per cent as recently as March but is now expected to fall nearly 7 per cent. Under Mr Stournaras's budget, the Greek economy would contract another 3.8-4 per cent next year, but the IMF has argued it will be closer to 5 per cent.

Until this week, Mr Stournaras has resisted pressure to close a €1.5bn-€2bn gap in an existing €13.5bn budget hole by making deeper cuts in pensions and public sector wages.

€300m

Amount raised so far in privatisation programme

But IMF officials have thus far rejected proposals for other "soft" cuts in the operational budgets for healthcare, defence and local government on the grounds Mr Stournaras's ministry is unable to monitor spending in other parts of the bureaucracy effectively.

Facing IMF resistance, Mr Stournaras is finally giving ground. He is expected to agree to further cuts in farmers' pensions and family allowances, and the abolition of civil servants' Christmas and Easter bonuses, which would cover the bulk of the missing savings, according to people in the negotiations.

But once that package is agreed, the debate moves back to Brussels, where officials must find a politically palatable way to give Greece more time and, potentially, more money.

With losses on official loans unattractive, and Mr Draghi's bonds off the table, eurozone lenders will be forced to find alternatives, such as yet another round of extended maturities or interest rate reductions on Greece's bailout loans.

In order to win over sceptical parliaments in northern Europe, however, eurozone leaders are putting intense pressure on Athens to show results over the course of October, ahead of an expected decision early next month.

"The Greeks know this is the time of big decisions," said one senior EU official.

EU backs tougher nuclear insurance

By Joshua Chaffin in Brussels

Europe's energy commissioner voiced support for tougher insurance requirements for nuclear operators as he announced that "stress tests" had revealed nearly all of the EU's 132 reactors could benefit from safety upgrades.

Günther Oettinger, the EU's energy commissioner, said nuclear operators should have to buy liability insurance to cover damages from accidents – as drivers do – even though this might push up energy costs.

In the event of accidents costs would be borne by taxpayers if insurance was not in place, he said, adding it was not his task to "make nuclear cheaper".

The commissioner is planning to discuss the matter with insurance companies and produce an impact assessment before deciding whether to come forward with a formal legal proposal next year to harmonise EU liability rules. Mr Oettinger gave a generally positive assessment of safety levels at EU nuclear plants, based on stress tests carried out by the bloc's 27 member states in response to the 2011 Fukushima nuclear disaster in Japan. The exercise was designed to check reactors' ability to withstand catastrophic natural disasters.

"The safety situation in Europe is at a good level," Mr Oettinger said. However, he added, "nearly everywhere there is a major potential for improvement".

The suggested fixes included keeping seismic instruments on site to monitor earthquake activity better and ensuring emergency equipment was stored in secure locations.

The EU cannot force member states to make safety upgrades, but it hopes leaders will endorse the findings at their next summit and commit to implementing the recommendations.

World Bank chief seeks switch of focus to end poverty

By Robin Harding in Washington

The World Bank is considering an ambitious new goal to end global poverty, Jim Yong Kim, the institution's new chief, has told the Financial Times

In one of his first interviews since becoming president of the world's top development bank, Dr Kim said he was looking at a new target in an effort to "get right back and make poverty our primary focus".

The comments are the first clear indication of how Dr Kim plans to refocus the World Bank, as the growing wealth of clients such as China casts doubt on its historic mission of development finance. "The question we're asking our teams is: if our goal is to end poverty, if our goal is to reduce vulnerability, if our goal is to do so by spurring the development of the private sector, how do your activities line up with those fundamental goals?" said Dr Kim, who took over from Robert Zoellick in July.

A focus on poverty could mean a big shift in the bank's resources – although Dr Kim said such decisions had not yet been taken. At present, the bank makes big loans in faster-growing emerging markets, such as $200m this year to help build a railway in China.

Although the goal was to end poverty, said Dr Kim, the bank would try to achieve it by promoting private sector growth and ensuring the benefits were shared throughout a developing society.

"What happened in the Arab Spring countries? There was economic growth but it certainly wasn't shared," he said. "Shared prosperity means inclusive of young people; inclusive of women. But for us, because of the reality of climate change, it also means a prosperity that you share with future generations."

Climate change is a thorny issue for the bank. Poor nations are vulnerable to its effects, yet hungry to grow by building fossil fuel power stations. But Dr Kim, with his scientific background as a doctor, plans to make it a top priority.

He said an average rise of 2C of global warming was now almost inevitable. The bank would work to help

'[We need] a clarion call for waking up on this issue of climate change'

Jim Yong Kim
World Bank president

countries meet energy needs, while sounding "a clarion call for waking up on this issue of climate change".

"Climate change mitigation and adaptation are simply going to be a reality for the next decades," he said, indicating that a focus on mitigation could help persuade recalcitrant companies and nations to invest.

Another tricky question is how to handle relations with the new global economic giants, such as China, which now offer a lot of help to developing countries directly. "I think the trend will be that our interaction with middle-income countries is going to be much more about knowledge, and helping to find solutions, and improving implementation and delivery, sharing the lessons from other countries."

But he noted that two-thirds of people in absolute poverty lived in middle-income states. "So if we're interested in ending poverty, we have to work with the middle-income countries."

In the coming years, countries such as India and Vietnam are set to graduate from the bank's concessional lending arm: the International Development Association. But Dr Kim said the IDA needed to grow. "We have not been very good at lifting fragile and conflict-afflicted states out of fragility," he said. "I see a need for increased [IDA] resources."