

# Central bankers agree bank capital surcharge plan

REUTERS, Basel, Switzerland/London

Global banking regulators have agreed on a proposal to slap an extra capital charge on the world's biggest banks to make them safer by 2019.

The surcharge is part of a series of regulatory reforms launched in response to the financial crisis, which forced countries worldwide into costly bailouts of their banking sectors to prevent systemic collapses.

The Group of Governors and Heads of Supervision (GHOS) said after a meeting in Basel on Saturday the proposal would be put out to public consultation next month.

"The additional loss absorbency requirements are to be met with progressive common equity tier 1 capital requirement ranging from 1 percent to 2.5 percent, depending on a bank's systemic importance," the group said in a statement.

An additional 1 percent surcharge would also be imposed if a bank becomes significantly bigger, pushing the total to 3.5 percent.

The plans, which need approval from world leaders (G20) in November, would be phased in between Jan. 1 2016 and end of 2018.

The capital surcharge will come on top of the new 7 percent minimum core capital all banks across the world will have to hold under new Basel III rules being phased in over six years from 2013.

However, many of the world's biggest banks already hold core tier 1 capital ratios of 10 percent or more and therefore easily meet or exceed the top end of the surcharge band.

The central bankers have opted for a smaller surcharge than foreseen but, in return, the surcharge will have to be in the form of top quality capital -- retained earnings or common equity.



US coins are displayed at the Money Museum in the Federal Reserve Bank of Chicago in Illinois.

This marks a victory for hardline countries such as Britain and the United States but will disappoint some banks that have been hoping to use hybrid debt such as contingent capital (CoCos) to pad out the surcharge band.

Dirk Jaeger, Managing Director for supervision matters at Germany's banks association BdB said the decision was not much of a surprise: "But we regret that bank levies and CoCo bonds do not count for the additional capital buffer."

The proposal, which was due to be finalised by last November but faced opposition from banks and some countries, will apply initially to so-called

globally systemically important banks (G-SIBs).

"These measures will strengthen the resilience of G-SIBs and create strong incentives for them to reduce their systemic importance over time," the statement said.

The consultation paper in July will indicate how many banks face a capital surcharge but it is not clear yet if their names will be published.

The number of banks affected is likely to change over time as lenders grow or shrink and the consultation will spell out how often a snapshot of the sector will be taken.

Banks will face a surcharge according

to an indicator that draws on five elements -- size, interconnectedness, lack of substitutability, global (cross-jurisdictional) activity, and complexity.

The group of central bankers and the Basel Committee it oversees said they will continue to review the use of contingent capital.

The central bankers said they would support the use of contingent capital to meet higher national requirements than the global minimum surcharge.

However, even then, there would have to be a high-trigger for converting the debt into equity to help absorb losses on a going concern basis, the central bankers said.

## Growing urban population strains Chinese cities

AFP, Chongqing, China

A forest of buildings and cranes rises through thick fog above roads jammed with cars in a Chinese city the size of Austria and home to more than 32 million people.

The southwestern megacity of Chongqing is bursting at the seams as authorities struggle to keep pace with its rapidly growing urban population -- a situation seen repeatedly across the vast country of 1.3 billion people.

Lifelong resident Zhou Dehong, 80, says he is stunned by the speed of development in the teeming metropolis which, like many Chinese cities, is plagued by chronic traffic jams, dirty air and the deafening sound of jack-hammers.

"In every aspect, the pace of development has been very fast," Zhou told AFP.

More than 350 million people are expected to move to Chinese towns and cities in the coming years, boosting the country's urban population to one billion by 2030, according to a report by consultancy firm McKinsey & Company.

The unprecedented urbanisation will more than double the number of cities with one million residents to 221 and require the construction of five million buildings, including 50,000 skyscrapers -- equivalent to 10 New Yorks, it said.

The staggering expansion is putting enormous strain on China's already depleted natural resources and could trigger more social unrest as millions of people leave the countryside to live in densely populated urban areas.

"There's going to be more volatility and uncertainty," Jonathan Woetzel, a Shanghai-based director for McKinsey, told AFP.

"Urbanisation essentially picks you up and moves you to a place where you don't know anybody nor do you have as many formal rights as you would have had in your previous residence."

It means living "cheek by jowl with other people who they have never met and literally don't share a common language with nor do they have the same sense of rights and responsibilities," Woetzel said.

University of Sydney professor Lu Duanfang said the massive human migration would also have "huge ecological implications" as valuable farmland near urban areas is used for high-rise buildings, and demand for energy and water soars.

## Russia bets big on World Cup economic revival

AFP, Moscow

Russia is making a multi-billion-dollar bet on the 2018 World Cup bringing wealth and promise to remote regions that have seen little progress since Soviet times.

Success could spark a social and economic revolution in which growth seeps to cities whose infrastructure had spent decades decaying from mismanagement and financial neglect.

But failure could crush the hopes of a generation of Russians living in the provinces and reinforce global investor doubts about a country whose bureaucracy is as notorious as its surly service.

"Our government takes it all very seriously. Our regional governments take it very seriously. It is a great motivation to really change for the better," said Russia 2018 World Cup Organising Committee chief Alexei Sorokin.

"We want to make full use of the infrastructural growth," he said at the Inside World Football Moscow Forum.

The obvious benefits a World Cup can bring have been felt most in countries such as South Africa -- places with needs and grand projects that refused to get off

paper until it was time to prepare for the world's most watched event.

Russia desperately wants to follow suit. It plans to pour up to \$100 billion into high-speed rail development and upgrades stretching from the Gulf of Finland to the Ural Mountains host city of Yekaterinburg.

Roads have been assigned double that figure while another \$10 billion will be spent on more immediate projects linked to the World Cup such as airport and stadium renovation and the construction of hotels.

"We are already looking beyond 2018 at all the infrastructure services the World Cup will offer Russia," said British Embassy commercial team leader Damion Potter.

"Stadiums are like candles on a cake," added Andrew Garbutt of the Los Angeles-based AECOM engineering and design firm.

"They look pretty and they are there for a reason. But what really matters is the cake -- the infrastructure -- underneath."

Organisers have the dual brief of making the hinterlands hospitable to the international masses while locking in long-term rewards.

## Europe will cope if Greek aid package fails: Germany

AFP, Berlin

The eurozone is preparing for the worst in the Greek debt crisis and will cope should Athens default on its loans, German Finance Minister Wolfgang Schaueble said in an interview published Sunday.

Schaueble said he and his European counterparts fully expected the Greek parliament to pass a crucial austerity package this week despite massive street protests and resistance from the opposition, but would manage if it did not.

"We are doing everything we can to prevent a perilous escalation for Europe but must at the same time be prepared for the worst," he told the Bild am Sonntag newspaper.

Schaueble said the experience from the 2007-2008 global financial crisis, triggered by the bankruptcy of the US investment bank Lehman Brothers, showed that the world economy could bounce back from a disaster.

"If things turn out differently than everyone expects that would of course be a major breakdown. But even in 2008, the world was able to take coordinated action against a global and unpredictable financial market crisis," he said.

He acknowledged that gross national product in Germany, the eurozone's biggest economy, fell 4.7 percent as a result -- the worst performance in the postwar period. But he noted that the country had since returned to growth.

Schaueble nevertheless warned the Greek parliament against failing to pass the austerity package, underlining that it would have a major impact on the stability of the eurozone.

## Welcome to POSCO country: India's fight for investors

REUTERS, Dhinkia, India

For eight-year-old Rakesh Bardhan, it is protest time. Decked out in a black T-shirt and a matching handkerchief wrapped around his head, he is off to join hundreds of farmers, labourers and fishermen standing between a generations-old way of life and India's biggest single foreign direct investment.

Local people are protesting against the planned construction of a \$12 billion steel mill by South Korea's POSCO in the poor Orissa state.

"If the company wants to set up its project, let them first kill us," Bardhan shouts over the speeches and slogans blaring out from loudspeakers to rows of protesters behind him. "If our land goes, everything will go. We will not get food, clothes or education."

The POSCO protests are another storm warning in an environment growing increasingly hostile to what many Indians see as a nexus of corrupt politicians and businessmen profiting from kickbacks and forced land acquisition as foreign firms vie for a place in the Indian market.

How the stand-off plays out will be closely watched at home and abroad for signs of how relations are changing between investors, the government, and Indians affected by big projects.

Farmers accuse the Orissa government of being in cahoots with big business to trick them out of land their families have held for generations. They believe their best shot at a decent life is holding on to their farm incomes, and accuse police of beating up villagers and burning crops to force them to leave.

"We will not sell at any cost or under any pressure," said Kabir Chandra Pradhan, a 46-year-old grower of betel -- a leaf used to wrap a sticky mix known as paan that lightens the heads and reddens the teeth of millions of Indians every day.

POSCO is the latest in a number of high-profile projects that have been held up by protests.

Tata Motors said on Wednesday it was challenging in court a decision by



REUTERS

Villagers sit at the entrance to a house in Gobindpur village, about 75 km (46 miles) east of Bhubaneswar.

the newly elected government in West Bengal to reclaim land India's top vehicle maker owns but abandoned in 2008 due to violent protests.

Many say India urgently needs more POSCOs -- foreign companies pouring cash into one of the world's fastest-growing economies, revamping rusty infrastructure and providing thousands of new manufacturing jobs for a population of 1.2 billion people.

But the project has endured years of delays due to protests at the site as farmers, backed by activist groups and left-wing political parties, refuse to give up their land.

After weeks of agitation in which women and children like Rakesh formed human rings to block police, the state government was forced to suspend its land acquisition on Tuesday.

Only half of the 4,000 acres (1,600 hectares) of land needed for the site have been acquired, though it was due to start pumping out 4 million tonnes of steel a year by 2011.

### FDI BAROMETER

The project is a barometer for India's investment climate, as Prime Minister Manmohan Singh's government walks a tightrope between cultivating economic development and sustaining the livelihoods of the world's biggest number of poor, many of whom

form his party's core vote.

Foreign direct investment (FDI) is key to providing the billions of dollars worth of new highways, ports and industrial plants India needs to maintain economic growth as it grapples with high inflation, rising interest rates and dampened investor confidence.

FDI fell 28.5 percent to \$19.4 billion in 2010/11, the last fiscal year that ended in March, as foreign investors shunned India over policy paralysis from a series of corruption cases, regulatory hurdles and lack of reform.

Rival emerging giant China, by contrast, has seen booming FDI, with inflows up 23.4 percent year-on-year in the first five months of 2011 to \$48 billion.

POSCO is only one of numerous high profile projects in the energy sector that have been held up by red tape, protests and fights between local and central authorities. ArcelorMittal (ISPA.AS: Quote, Profile, Research) and Tata Steel too have faced delays.

Investors are also concerned by how long the government is taking to rule on Vedanta Resources' plan to buy Cairn Energy's Indian assets, a potential \$9.6 billion deal the firms agreed last August but which has been held up by a dispute involving the state-run oil exploration firm.



AFP

A Sri Lankan Airlines float plane lands on the Kelaniya river on the outskirts of Colombo. Sri Lanka's tourism industry has secured \$1.2 billion foreign investment this year due to a post-war tourism boom and has raised its investment target to \$3 billion within the next five years.