

# Moody's strips Britain of triple-A rating in major blow to Osborne

REUTERS, London/New York

Britain suffered its first ever sovereign ratings downgrade from a major agency on Friday when Moody's stripped the country of its coveted top-notch triple-A rating, dealing a major blow to finance minister George Osborne.

Moody's said weak prospects for British economic growth, which have thrown the government's deficit reduction strategy off course, lay behind its decision to cut the rating by one notch to Aa1 from Aaa.

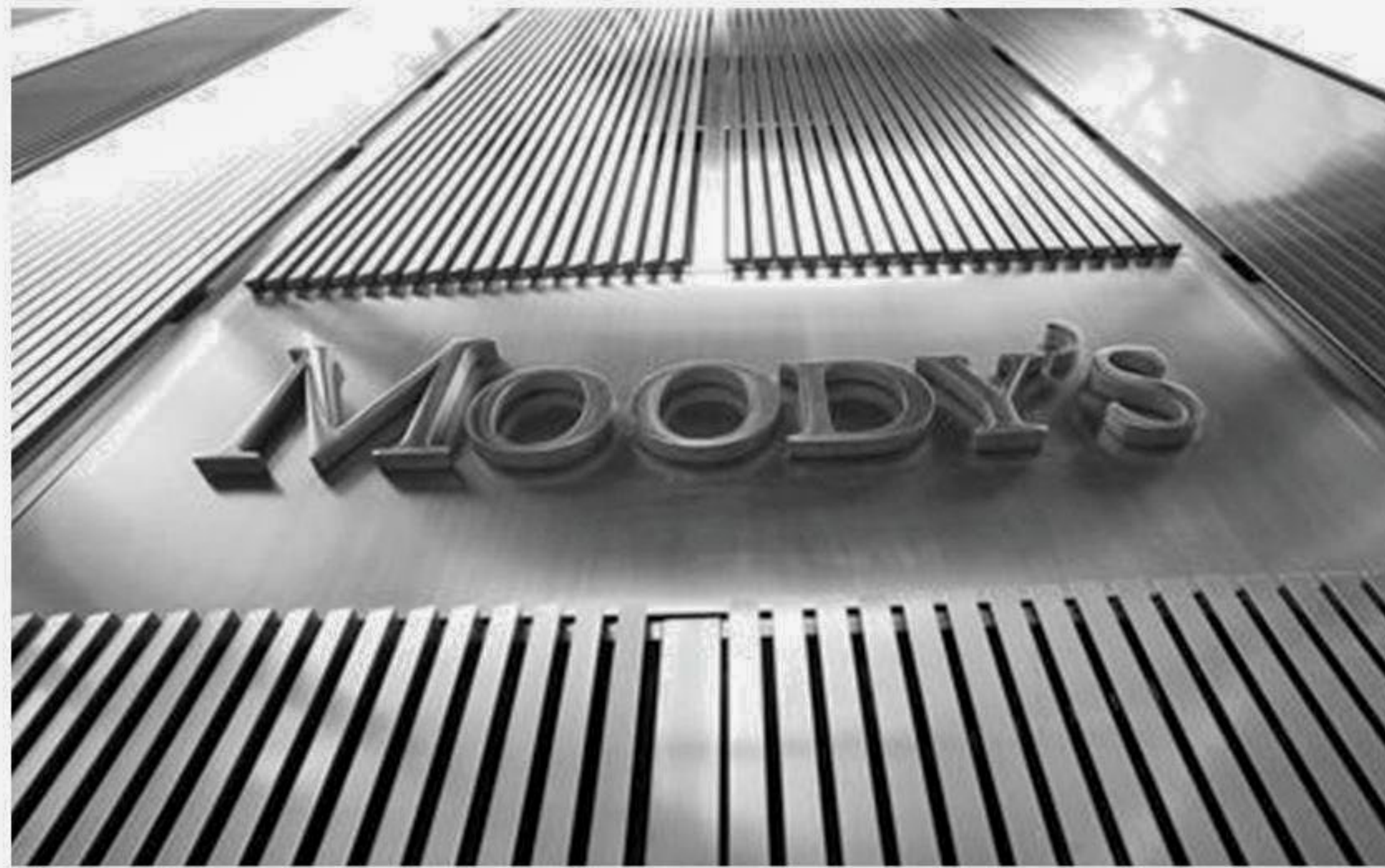
Austerity has been the watchword for Osborne's fiscal policy since his Conservative-led coalition came to power in 2010 after an election in which he vowed to defend Britain's triple-A rating, which can help keep down borrowing costs.

But a very slow recovery from the financial crisis has pushed back by at least two years the government's goal of largely eliminating the budget deficit by 2015's election.

The opposition Labour Party blames the deficit on too much austerity.

Nonetheless, Osborne insisted now was not the time to change course. His annual budget due on March 20 is expected to show a further deterioration in the country's fiscal outlook.

"Tonight we have a stark reminder of the debt problems facing our country and the clearest possible warning to anyone who thinks we can run away from dealing with those problems," he said in a statement. "Far from weakening our resolve to deliver our economic



recovery plan, this decision redoubles it."

However, the downgrade may fuel unease amongst members of his own party and his Liberal Democrat coalition partners that Osborne's gamble that he could slash the deficit and ensure a return to growth by the May 2015 election is failing to pay off.

Sterling fell by almost a cent to around \$1.5160 after the downgrade, just off Thursday's fresh 2-1/2-year low, and analysts expected it to weaken further on Monday, even if many had seen a downgrade coming sooner or later.

"It's a pretty big deal," said Kathy Lien, managing director at BK Asset Management in New York. "We didn't see a huge reaction in the pound because it's late in the New York session. But

you'll see some more aggressive selling when the markets open (in Asia) on Sunday."

Moody's said the outlook on its rating on Britain was now stable, meaning any further change is unlikely for the next year or so.

Britain joins the United States and France in having lost its triple-A rating from at least one major agency, after holding a top-notch rating from Moody's and Standard & Poor's since 1978, and from Fitch Ratings since 1994.

Moody's said that despite considerable economic strengths, Britain's growth was likely to be sluggish due to a mix of weaker global economic activity - especially in the euro zone - and a drag from the ongoing domestic public and private-sector de-

leveraging process."

"This period of sluggish growth poses challenges to the government's fiscal consolidation program, which we now assume will extend well into the next parliament," Moody's analyst Sarah Carlson said in a telephone interview with Reuters.

But Ed Balls, the Labour Party's main spokesman on finance issues, said the Moody's decision should be a wake-up call for Osborne ahead of his annual budget statement as Chancellor of the Exchequer.

"This credit rating downgrade is a humiliating blow to a Prime Minister and Chancellor who said keeping our AAA rating was the test of their economic and political credibility."

"The issue is no longer whether this Chancellor can

admit his mistakes but whether the Prime Minister can now see that, with UK economic policy so badly downgraded in every sense, things have got to change."

Howard Archer, chief UK economist at IHS Global Insight, said a new approach from Osborne was improbable.

"The strong likelihood is though that it will not materially lead to a change in his plans."

Changes are more likely from the Bank of England, which surprised markets earlier this week after it revealed that Governor Mervyn King and two other policymakers favoured restarting bond purchases to boost the economy.

They remained in the minority among their fellow policymakers but economists increasingly expect more stimulus eventually by the central bank.

This - and the central bank's tolerance of above-target inflation - have combined to put pressure on sterling while leaving British government debt relatively shielded.

Charles Diebel, a fixed income strategist at British bank Lloyds, was sanguine about the impact of the downgrade on gilts, as US and French debt was not badly affected when these countries lost their triple-A ratings.

"This has been speculated as inevitable and is most likely largely in the market. I would expect only very limited damage to the gilt curve and to sterling. Historically, losing your AAA is actually a bond bullish event," he said.

# India sets rules for new bank permits in rural push

AFP, Mumbai

India on Friday unveiled rules for issuing new bank licences in a push to expand financial services into the country's rural hinterland where hundreds of thousands of villages have no banking outlets.

Ninety percent of India's 600,000 villages do not have banking facilities, the Reserve Bank of India says, while fewer than half of the country's 1.2 billion people have a bank account.

Private companies, public-sector groups and non-banking financial firms will be eligible to apply for licences for new banks by setting up financial holding companies, the central bank said in a statement.

Groups seeking to set up a bank "should have a past record of sound credentials and integrity, be financially sound with a successful track record of 10 years", the Reserve Bank said.

The minimum capital needed to set up a bank will be five billion rupees (\$91 million).

Also, the new banks will have to open at least a quarter of their branches in rural areas with no such facilities, and foreign shareholdings in any new bank should not exceed 49 percent in the first five years.

The need to set up more banks, especially in rural areas, has become increasingly urgent as the government seeks to pay cash directly to India's poor to ensure more efficient distribution.

Indian conglomerates like the Tata Group and the Anil Ambani Reliance group, which already own financial businesses, have voiced interest in setting up banks.

The Reserve Bank is seeking to follow a path of "financial inclusion", embracing swathes of rural India which have little access to banking services, the bank's governor Duvvuri Subbarao said.

No new Indian bank has been set up since the private Yes Bank in 2004. Yes Bank now is a leading industry player.

India currently has just 26 state-run, 20 private and 40 foreign banks. Another 2,200 rural and co-operative banks cover other parts of the country.

# Boeing proposes full 787 battery fix to FAA

REUTERS, Washington/Seattle

Boeing Co on Friday gave US aviation regulators its plan to fix the volatile battery aboard its new 787 Dreamliner, even though investigators have not yet determined what caused the batteries to overheat on two planes last month.

Boeing did not propose abandoning the lithium-ion batteries and is not working on a backup or longer-term fix for the problem that has grounded its entire fleet of 50 Dreamliners for nearly five weeks, three sources familiar with the plans said.

The company and the US Federal Aviation Administration said no firm result emerged from the meeting between Deputy Transportation Secretary John Porcari, FAA Administrator Michael Huerta and other FAA officials and Boeing Commercial Airplanes CEO Ray Conner and other senior Boeing executives in Washington.

With Boeing's costs mounting by millions of dollars a day while the planes are on the ground, the FAA said it is "reviewing a Boeing proposal and will analyze it closely. The safety of the flying public is our top priority and we won't allow the 787 to return to commercial service until we're confident that any proposed solution has addressed the battery failure risks."

Boeing declined to comment on the details of its proposal, but said the meeting with the FAA was productive. The proposal to the FAA includes measures to address a range of possible causes of short-circuits in the batteries, the sources said.

Five weeks ago, US authorities grounded the worldwide fleet of 787s. US, Japanese and French investigators are still not certain what caused the battery fire aboard an All Nippon Airways 787 in Boston and an overheated, smoking battery on a Japan Airlines 787 in Japan.

The proposed fix includes adding ceramic insulation between the cells of the battery to help keep cells cool and prevent a "thermal run-



away" in which one cell overheats and triggers overheating in adjacent cells. It also includes building a stronger, larger stainless steel box with a venting tube to contain a fire and expel fumes outside the aircraft should a battery catch fire again, the sources said. In addition, the plan proposed wiring changes, self-torquing screws that will not come loose and battery alterations to prevent moisture and vibration problems, one of the sources said.

But there was also a plan to use a different battery type or some other longer-term fix, the sources said.

"I have talked to a number of people who are working directly on these batteries. No one is on the Plan-B team," said a person familiar with Boeing's efforts who was not authorised to speak publicly about them.

A second source, who also was not authorised to speak publicly, said Boeing does not view its proposal as a temporary "band-aid" that would be supplanted by another solution later.

Boeing spokesman Marc Birtel said in a statement: "We are encouraged by the progress being made toward resolving the issue and returning the 787 to flight for our customers and their passengers around the world."

Birtel reiterated that hundreds of engineers and technical experts are working "around the clock" to return

the 787 fleet to service. "Everyone is working to get to the answer as quickly as possible and good progress is being made," Birtel said.

Boeing's stock closed up 65 cents, or 0.86 percent, at \$75.66 on the New York Stock Exchange.

Richard Aboulafia, aerospace analyst with the Teal Group in Virginia, said Boeing needed a backup plan in case the FAA did not approve its proposal.

"It's a bit tone deaf to propose containment and management when the political winds are favouring an elimination of the risk," he said, citing Transportation Secretary Ray LaHood's insistence that the plane would return to flight only when it was "1,000 percent safe" and similar remarks by other officials.

"They need to be out there talking about a bigger solution beyond mere containment because the political winds and public opinion are not going to favour a solution that's focused on fire and smoke management," Aboulafia said.

He noted that Airbus had already signalled its plan to switch back to more traditional nickel cadmium batteries for its A350 airliner, but the 787 was far more dependent on electrical power, which would complicate any effort to switch to a different type of battery. A complete redesign could take around nine months to implement, he said.

# Protesters vow 'citizen tide' to swamp Spain

AFP, Madrid, Spain

Spaniards furious at hardship and corruption scandals in the financial crisis vowed a mass "citizens' tide" of protests in cities across the country on Saturday.

A grouping of civil associations and protest movements called in a statement for non-violent demonstrations in Madrid, Barcelona and scores of other cities.

February 23 marks the anniversary of an attempted coup in 1981 by right-wing officers who tried to crush Spain's young democracy and restore military rule.

"We are facing a real financial coup, that is why we have chosen this date," Paco Segura, spokesman for one of the organising associations, Ecologists in Action, told a news conference.

"Today our democracy is also threatened, that is why we protest to demand a true democracy where people can decide their future," he added.

The manifesto of Citizens' Tide targets financial market pressure, "brutal cost-cutting policies" plus "corruption and loss of legitimacy of the institutions".

Like the "Indignants" movement that erupted in May 2011 and swamped central Madrid for weeks, the movement says it has no formal leadership.

It unites workers in various sectors who have held their own demonstrations over recent months, such as teachers, nurses, doctors, students, miners, with movements such as feminists, environmentalists and small political parties.

# US allows business with four Myanmar banks

AFP, Washington

The United States authorized US entities to do business with four major Myanmar banks Friday, extending the easing of economic sanctions on the former pariah state.

The Treasury Department said it had issued a general license to allow individuals, companies, and financial institutions to conduct most financial transactions -- such as opening and maintaining an account and a range of other financial services -- with the banks.

The banks named were Myanma Economic Bank, Myanma Investment and Commercial Bank, Asia Green Development Bank, and Ayeyarwady Bank.

"This action will give US companies and non-governmental organizations greater access to some of the largest Burmese banks and allow these financial entities to access the US financial system," the department said in a statement, referring to Myanmar as Burma, the country's former name.

The new banking permission supports the July 2012 easing of US economic sanctions on Myanmar that

allows new investment and encourages additional US economic involvement.

David Cohen, Treasury under secretary for terrorism and financial intelligence, expressed hope the action will aid the impoverished Southeast Asian country.

Increased financial access "will help to facilitate Burma's continued social and economic development, serve as a model for responsible investment, and help to provide a better future for the Burmese people," Cohen said.

Relations between the two countries have undergone a sea change since Myanmar's ruling military ceded power in 2011, ending decades of dictatorship.

President Thein Sein launched a series of reforms after taking office in 2011, including freeing political prisoners, loosening censorship and allowing pro-democracy icon Aung San Suu Kyi to enter parliament.

As part of the raft of reforms, Myanmar is seeking an overhaul of its battered and mistrusted banking system, a move that analysts say could pave the way for foreign lenders to open branches.



Indian film actress Shilpa Shetty Kundra (C) and her business partner Kiran Bawa of IOSIS Spa and Wellness (R) join hands with producer Wardha Nadiadwala during an event in support of the Cancer Aid Research Foundation in Mumbai on Friday.