



Brussels gives the green light to NAMA in a week where more business are forced into liquidation, the pace of private sector credit continues to decline and the State is forced to take a 15.7% in Bank of Ireland...

Summary of Key Events: Week 22nd – 26th February

- Ireland**
- The EU Commission gave the required approval for NAMA on Friday, which allows the agency to begin the process of acquiring the “€54 billion” of loans by year-end. It will start by buying €17 billion in loans from the top ten borrowers this month.
 - Finance Minister, Lenihan has confirmed that €3 billion needs to be saved in Budget 2011 via spending cuts and tax increases/adjustments. Recapitalisation of the banks (the bill for which is creeping up all the time...) and reforming the regulatory system are high on the agenda for the coming months.
 - The state was issued with 184 million Bank of Ireland shares (a 15.7% stake), last week in lieu of €250m payment for re-capitalisation of the bank in 2009. The shares will go into the Pension Fund.
 - The retail sector continues to feel the effects of the lack of both credit and consumer spending as Hughes & Hughes bookstore chain goes into receivership. Poor footfall at Dublin and Cork airports, rapid expansion during the boom which came with high rental levels are also given as reasons by Hughes & Hughes for its current problems. Bestseller Retail Ireland, which is a holding company for 3 fashion brands, including Vero Moda, has been granted interim examiner ship, with 14 of 36 stores in Ireland to close. Postbank (a joint venture between An Post and BNP Paribas) has announced that it will close by year-end.
 - Myhome.ie data indicate that there are signs that activity in the residential property market is picking up as the number of properties reaching “sale agreed” has increased, with December showing the highest monthly sale agreed properties in 2009.
- Europe**
- Greece missed its deadline last week set by the European Commission to give a full account of its financial operations, telling the EU officials that the delay was due to a 4 day strike at the Greece’s Finance Ministry. Eurostat is investigating allegations made in the New York Times and Financial Times that Major Wall Street Banks had helped Greece hide holes in its budget and therefore allowing it to gain membership of the euro zone.
 - German business confidence has dropped for the first time in over a year, further indicating that recovery in Europe’s largest economy will be slow and bumpy.
 - Spain has launched a cost cutting plan to reduce its budget deficit from 11.4% of GDP to 3% of GDP by 2013.
- UK**
- The Nationwide House Price Index showed that house prices fell by 1% in February ending a 9 month rise in prices.
- US**
- The Federal Reserve Chairman stated during the week that US interest rates would remain low for an ‘extended period’.



IRELAND

State issued with 184 million Bank of Ireland Shares (a 15.7% stake)

The State was issued with 184 million Bank of Ireland shares during the week in lieu of the €250m cash payment due to paid to the state as the 8% return on the bank being re-capitalised in 09. The EU commission has blocked banks in receipt of state aid from making cash payments. Some analysts are speculating that the Government will end up a majority shareholder in the bank in the future. The newly issued state owned Banks of Ireland shares were funded through the National Pension Reserve Fund and the shares are to go into the Pension Fund.

The EU Commission has approved NAMA

The EU Commission has approved NAMA with the transfer of the top 10 borrowers to start immediately. These top ten developer loans are estimated at €17 billion and the objective is to complete the transfer of these loans by the end of March. The EU Commission's approval came with emphasis on the need to ensure that the "haircuts" being applied to the loans are as true a reflection of conditions in the marketplace as possible. This means that NAMA has to take into account the risk of potential losses to the tax-payer and the higher than originally expected costs of recouping the monies owed on the loans, via the sale of securities such as property. The Commission also wants to see "appropriate restructuring measures" in each institution – AIB, Bank of Ireland, Anglo, Irish Nationwide & EBS.

EUROPE

German business confidence has dropped for the first time in over a year

German business confidence has fallen for the first time in over a year, further indicating that recovery in Europe's dominant economy will be slow and uneven. The Ifo index has shown that in February business confidence has fallen from 95.8 in January to 95.2. It had been expected that business confidence would have risen for the 11th consecutive month.

Spain's budget deficit reached 11.4% of GDP in 2009

The Spanish government has launched a radical cost cutting plan to reduce spending as its budget deficit has reached 11.4% of GDP with aim to reduce to 3% of GDP by 2013. However, central bankers have criticised the plan sent to the EU commission, stating that its economic forecasts are too optimistic.



UK

House prices fell 1% in February

The Nationwide House Price Index has shown that house prices fell 1% in February, ending a 9 month rise in prices. The adverse weather conditions at the start of the year and the ending of the stamp duty holiday may have attributed to the fall in prices, though the housing market is not the only market to have been affected by the weather – poor retail sales have also been attributed to the icy weather in early 2010. Year on year house prices are up 9.2% compared to February 09.

Output in Q4 09 revised upwards

The Office for National Statistics (ONS) has revised upwards the level of output for Q4 09 from 0.1% to 0.4% due to a more robust service sector. The revised figures show that the exit for recession was slightly stronger than first anticipated - when a number of stimulus packages were in place to help boost production and consumer spending, such as reduced VAT and the car scrappage scheme. Figures for Q1 2010 could be weak due the reversal of the reduced VAT, higher inflation and the adverse weather in early 2010.

US

Consumer confidence plunged in February to its lowest level since July 09

US consumer confidence plunged in February to its lowest level since July 09, as consumers became more pessimistic about the current economic environment. The consumer confidence index for February fell to 46 points from 56.5 recorded in January; analysts had not been expecting such a drop in confidence. Consumers are concerned about the labour market, which has affected confidence both for the present situation and the future, with fewer consumers anticipating an improvement in business conditions or the labour market. Two thirds of the US economic activity is from consumer spending and is considered vital in helping the US economy emerge from recession.

US interest rates to remain low for an extended period

Fed Chairman, Ben Bernake, stated last week that US interest rates would remain low for an 'extended period' as he expects US economic recovery to be slow but steady. The comments came after the Fed increased the discount rate by 0.5% to 0.75% the previous week. The Fed has stated that the move was to unwind emergency liquidity measures that were implemented during the crisis.



Key data and events to watch this week.....

Monday 1st March

- Irish manufacturing PMI (Feb) and new car sales (Feb)
- US personal income/consumption (Jan)
- UK consumer credit (Jan)

Tuesday 2nd March

- EU HICP Flash (Feb)
- Irish industrial disputes (Q4) and exchequer balance (Jan-Feb)

Wednesday 3rd March

- EU-16 retail sales (Jan)
- Irish live register (Feb), retail sales index (Jan) and services PMI (Feb)

Thursday 4th March

- EU-16 GDP (Q4) and ECB interest rate announcement
- Bank of England interest rate announcement

Friday 5th March

- Irish live register additional tables (Feb) and KBC Ireland/ESRI consumer confidence (Feb)
- US non-farm payrolls (Feb) and consumer credit (Jan)

Note: PTSB/ESRI house price index will no longer be published monthly but quarterly, due to the decline in number of mortgages being issued to provide accurate monthly data. According to the index, in its final monthly release last week, house prices in Ireland fell 18.5% in 2009 and fell 3.6% in December alone. According to the index average house prices are now back to April 03 levels and there has been a 31.5% drop in prices from the peak of market in February 07.