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THE WALL STREET JOURNAL.

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Berlusconi pleads with lawmakers on eve of no-confidence vote

Reuters (1); AFP/Getty Images (2)

Italian Prime Minister Silvio Berlusconi, addressing the Senate on Monday ahead of a crucial no-confidence vote scheduled for Tuesday, warned that political instability could aggravate investor concerns over Italy's public finances. Analysts expect the vote to come down to a mere handful of lawmakers. **Articles on pages 3 and 18-19**

ECB warnings win calm in Europe debt markets

By Brian Blackstone
And Matthew Dalton

FRANKFURT—The ECB has been far less aggressive in acquiring the bonds of weak euro-zone countries than many investors anticipated, a sign that the central bank's strong warnings, rather than actual purchases, are behind the recent stabilization in the area's debt markets.

The European Central Bank said it bought €2.67 billion ($3.53 billion) in government bonds between Dec. 1 and Dec. 8, a period dominated by rumors of substantial ECB intervention. At the peak of the bond-purchasing program in May and early June, the ECB bought on average about €10 billion a week in bonds.

A number of economists had thought that Monday's report would approach that amount.

That speculation, spurred by remarks from ECB President Jean-Claude Trichet that the central bank was prepared to act, restored calm to bond markets across the euro-zone's beleaguered fringe, following a steep selloff.

The immediate market reaction to the news of the ECB's bluff on Monday was muted, but given the persistent doubts over the creditworthiness of some countries and over Europe's ability to halt the spread of the crisis, investors are likely to retest the central bank's resolve in coming days and weeks, analysts said.

"What the ECB has done has paid off, but the battle hasn't been won at all," said Ken Wattret, economist at BNP Paribas in London.

Underscoring such concerns, analysts at the Institute of International Finance, a Washington-based trade group representing the world's largest banks, said heavy demand for funds from governments and banks would remain a challenge during 2011, "especially for slow-growth and high-debt countries in Europe."

It said it didn't expect radical action from European Union governments to deal with the crisis.

"Given the way the problem was allowed to fester and grow over the past year, the most likely scenario is for a muddling-through process, probably leading to an unstable equilibrium," the report said.

Against these low expectations, leaders of the 27 EU nations will discuss the crisis at a two-day summit in Brussels starting Thursday.

The leaders are scheduled to agree to the outlines of a post-2013 euro-zone bailout fund and back minor changes in EU treaties to allow the fund to be created.

But they are also likely to discuss more pressing questions—including the lending capacity of the euro zone's current bailout fund, which makes up the biggest part of the international rescue finance available to help euro-zone members.

Both Germany and France have said they oppose expanding the €440 billion European Financial Stability Facility for now.

One problem for the fund
Please turn to page 6

Obama's health bill dealt blow by judge

By Janet Adamy

RICHMOND, Va.—A federal court ruled Monday that a central plank of the health law violates the U.S. Constitution, dealing the biggest setback yet to the Obama administration's signature legislative accomplishment.

In a 42-page ruling, U.S. District Judge Henry E. Hudson said the law's requirement that most Americans carry insurance or pay a penalty "exceeds the constitutional boundaries of congressional power."

The individual mandate "would invite unbridled exercise of federal police powers," wrote Judge Hudson, of the Eastern District of Virginia. "At its core, this dispute is not simply about regulating the business of insurance—or crafting a scheme of universal health insurance coverage—it's about an individual's right to choose to participate."

The lawsuit, brought by Virginia Attorney General Ken
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The Quirk

World War I collectors—and thieves—are competing for memorabilia. **Page 33**

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Introducing the European destabilization mechanism. **Page 15**

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PAGE TWO

Caution with the cash is wise policy

[Agenda]

By Patience Wheatcroft

In Europe and in the United States, companies are husbanding their cash. Chief executives appear to have decided that a swash-buckling deal-doer at the helm is not what a business needs as it heads into 2011. Today's corporate chiefs are much more risk averse. This is a perfectly reasonable reaction to a time of such uncertainty in world economies but it does mean that companies on both sides of the Atlantic are sitting on their biggest cash piles for many years.

Now they are coming under heightened pressure to part with some of the money. In the U.S., President Barack Obama has been urging companies to use some of the almost $2 trillion they have in liquid assets to invest in expansion and taking on more staff. Investment bankers everywhere are trying to encourage the corporates to consider acquisitions, a revival in the M&A market promising major bonus potential.

There are signs that just such a revival may be on its way. Monday saw a succession of relatively small-scale deals announced from Europe, including **Reckitt Benckiser**'s purchase of the Indian pharmaceutical company, **Paras**, and John Wood, a U.K.-based oil and gas business, spending almost £1 billion ($1.58 billion) on **PSN**, a services provider in the sector.

Yet the mood is predominantly one of caution. **Sanofi-Aventis**, the French pharmaceuticals business that has plucked up the courage to make a much larger bid, said Monday that it was extending its $18.5 billion offer for **Genzyme**, the U.S. biotech business, but not increasing it, despite a pitiful level of acceptances for the current terms.

And surely, despite the blandishments of investment bankers, chief executives are right to be nervous about making big bets in the current marketplace. When the outlook is unclear, there is comfort to be had from the knowledge that one is sitting on a well-padded cash cushion. That may or may not mean that opportunities to pick up first-class assets at bargain prices are missed, but what it will certainly mean is that opportunities to make disastrous errors are avoided.

Bloomberg News

Bart Becht, CEO of Reckitt Benckiser, is buying in growth markets.

Companies on both sides of the Atlantic are sitting on their biggest cash piles for many years.

Anyone who doubts that should remind themselves of the story of GEC, a thriving British electrical and engineering business that the late Lord Weinstock had grown over 33 years. He was much criticized for his determination not to spend the cash pile he had accumulated in the company but, once he stepped down as chairman in 1996, his successors set about squandering it. They paid top dollar at the height of the Internet bubble and, inevitably, when that burst, the business was virtually wiped out, along with much of Lord Weinstock's personal fortune.

According to Bloomberg statistics, 466 of Europe's biggest companies, those that make up the Stoxx Europe 600 index minus any financial companies, now have about £445 billion ($704 billion) of cash between them. They could replicate the GEC disaster but that would not be a wise career strategy. They might sensibly follow the example of Bart Becht, the shrewd, and hugely successful, chief executive of Reckitt Benckiser, and buy well-paced businesses in growth markets—Paras has a string of brands that are either first or second in the Indian market place. But investing large sums in Europe will continue to look dangerous until the future of the euro zone is clearer.

Even the most cautious, though, might be persuaded to consider putting a small amount of cash into backing innovative start-ups in their sector. Even if the banks are providing the funding they promise for small businesses, start-ups that are laden with heavy debt burdens may be at a disadvantage compared with those with an element of equity funding. If that equity comes with a dose of useful mentoring, so much the better. And if the start-up flourishes, the funder may be in a position to feel more confident about providing more significant investment.

This is the sort of symbiotic arrangement that has worked well in parts of the pharmaceutical industry, where the giants have been prepared to nurture biotech start-ups. It could provide a route by which chief executives could lay the foundations of future expansion for just a little risk capital rather than taking big capital risks while economies remain mired in uncertainty.

The scale of that uncertainty was spelled out on Monday as various organizations lined up to issue end-of-year forecasts for Europe. The Organization for Economic Cooperation and Development was the most positive, although it did say that, in the euro zone, "the pace of recovery is likely to be muted."

Ernst & Young, the accounting firm, put its forecast lower, with 2011 GDP growth for the zone of just 1.4% against the OECD's 1.7%. The firm pointed out that this figure, however, masks some very different performances in what is now effectively "a three speed Europe" with Germany at one extreme and Greece at the other. As if to underline its likely continuing role at the bottom of the rankings, Greece is this week suffering another series of strikes and protests, with bank workers and journalists joining the banner wavers from the public sector.

The most bearish report came from the London-based Centre for Economics and Business Research, which concluded that the chances of the common currency surviving were just 20%. It bases this drastic view on calculations that the pain that would have to be endured by Portugal, Ireland, Italy, Greece and Spain if they were to stay in the euro zone as it currently exists would simply not be accepted by their voters. Consumer spending in those countries, says the CEBR, would have to be cut by 15%, a cut in the standard of living greater than the U.K. suffered during World War II.

The political will to save the euro may be strong enough to disprove that apocalyptic outlook. But what it underlines is that for companies, conserving their cash—in the right currency—is a fail-safe strategy right now.

ONLINE TODAY

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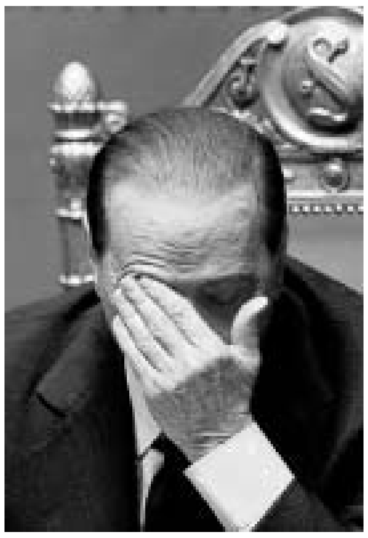
'A summer meeting of Czech and German leaders took on a special twist when they discussed ways to save the euro.'

Continuing coverage



Follow the latest as Italy's prime minister faces a key vote at **europe.wsj.com**

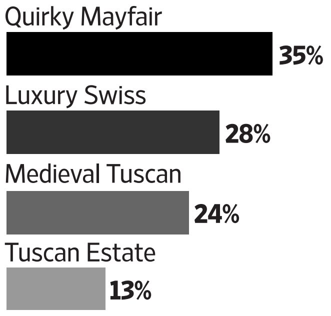
Question of the day

Vote and discuss: Will Italian Prime Minister Silvio Berlusconi survive a test of his leadership?

Vote online today at **wsj.com/polls**

Previous results

Q: Which Europe House of the Day is your favorite?



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■ **British banks face** a new round of stress tests as part of a switch to a new regulator, the head of the Financial Services Authority said. 28

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NEWS

Italy's Berlusconi faces major test

By Stacy Meichtry

ROME—Prime Minister Silvio Berlusconi faces what may be the biggest test of his 16 years in politics on Tuesday, when the Italian Parliament is due to vote on whether to send his conservative government packing and possibly usher in early elections, just as Europe struggles through major fiscal turmoil.

The no-confidence motion in the lower house of Parliament, where Mr. Berlusconi's majority is in doubt, is viewed by many lawmakers as a decisive moment in the Italian leader's long reign as the dominant figure of this country's political landscape. Even if he secures a majority of votes, the billionaire premier's margin of victory is likely to be thin, hobbling his ability to forge ahead with his promised agenda, including economic measures needed to revive Italy's lackluster economy.

"You can't govern with a one-vote advantage," said Umberto Bossi, a key ally of Mr. Berlusconi's whose Northern League party is expected to vote in support of the government.

For months, Mr. Berlusconi has been struggling to fend off a rebellion among allies, led by Gianfranco Fini, who broke with the government over the summer, accusing the premier of quashing internal dialogue within his ruling People of Freedom Party. As the rebellion has gathered force, Mr. Berlusconi's once-formidable majority in Parliament has been ground down to a wafer-thin margin of support in the lower house. The premier also will face a confidence vote the same day in the Senate, where he has a clear majority.

On Monday, the premier delivered remarks to the Senate meant to reassure lawmakers in both houses that he was willing to make amends, mainly by reshuffling his cabinet.

"If you give us your vote of confidence, we will open the doors," Mr. Berlusconi said. "We are ready to change the team."

He also reiterated that lawmakers should back his government using the argument that political instability could aggravate investor concerns over Italy's public finances. Italy's relatively low deficit of 5% of gross domestic product has allowed the country to steer clear of the sovereign-debt crisis. But the country's public debt, equal to 118% of GDP, worries some investors.

Mr. Fini—co-founder of Mr. Berlusconi's party and speaker of the lower house—has repeatedly called on the premier to resign ahead of the confidence votes, arguing that he has become too polarizing a figure to keep governing. More than 35 lawmakers faithful to Mr. Fini have vowed to join the left-wing opposition in voting against the government. Mr. Berlusconi, who has aggressively courted lawmakers across the political spectrum over the past few weeks, says he still has enough votes to win.

In the run-up to the votes, dubbed "B-day" by the Italian media, Mr. Berlusconi has at times appeared to relish the tension. He addressed a rowdy session in the lower house late Monday, grinning broadly as lawmakers howled back at him in protest. "The Italian public's appreciation of the [prime minister] is much greater than any other European premier," Mr. Berlusconi said.

Analysts expect the voting to come down to a mere handful of lawmakers. As of Monday evening, Italian newspapers estimated that 313 lawmakers will vote against the government and 314 will back it.

Two were undecided. Italy's lower house, or Chamber of Deputies, has 630 parliamentarians, but the speaker of the house, in this case Mr. Fini, doesn't take part in confidence votes because the position is considered bipartisan.

Further complicating matters are three deputies—two from Mr. Fini's camp and one on the center-left opposition—who are in the late stages of pregnancy and may not be able to show up.

"If she waits until Tuesday at midday, then it's done: I'll vote," Federica Mogherini, one of the pregnant lawmakers, told Italian daily La Repubblica on Monday, referring to her expected daughter.

Among the points of contention between Mr. Fini and the prime minister is a planned overhaul of Italy's criminal-justice system. Mr. Fini has questioned whether the government is trying to tailor the overhaul to shield the premier from Italy's courts. Mr. Berlusconi is facing two suspended trials for alleged corruption and fraud, charges he has denied.

"The justice reform is ready and we will present it to Parliament" if the government wins the confidence vote, Mr. Berlusconi told the Senate in his speech.

If Mr. Berlusconi loses the confidence motions in either house, he will be forced to tender his resignation to Italian President Giorgio Napolitano. At that point, Mr. Napolitano would have to decide whether to call early elections, which could take place as soon as the spring, or to ask Mr. Berlusconi or another leader to form a new government with the Parliament's backing.

"No matter how it goes, he is going to have problems, because his majority will be too small," said Renato Mannheimer, one of Italy's leading pollsters.

—Giada Zampano contributed to this article.

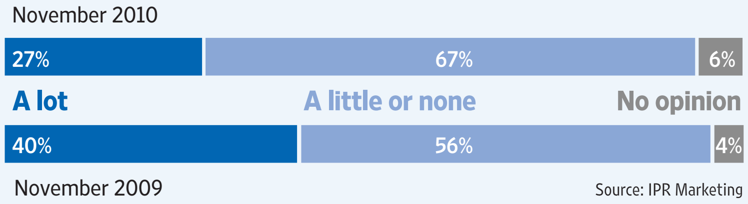
Agence France-Presse/Getty Images

Parliament speaker Gianfranco Fini, right, and Undersecretary Gianni Letta, await Mr. Berlusconi's address.

Silvio sputters

A recent poll found that public support for Prime Minister Silvio is waning.

How much faith do you have in Mr. Berlusconi's government?



Source: IPR Marketing

■ Firebrand Umberto Bossi now one of Italy's top politicians..............18-19

Fancy visiting Chernobyl? Kiev sees tour potential

By James Marson

KIEV, Ukraine—Ukraine's government wants to turn Chernobyl, the site of the world's worst nuclear accident, into a tourism hot spot.

Ukraine's Emergency Situations Ministry said Monday it is working on a plan to open the area around the defunct plant—where a reactor exploded on April 26, 1986, spreading radiation across the then-Soviet states of Ukraine, Belarus and Russia—to visitors starting next month.

The ministry said radiation levels in certain parts of the so-called exclusion zone, which stretches 30 kilometers (19 miles) around the exploded reactor, are returning to normal levels. Visitors will be able to take in views of the nuclear plant, as well as towns and villages abandoned in the disaster's aftermath.

New official tour operators would have to meet strict criteria to be allowed to operate, said Yulia Yurshova, a spokeswoman for the Emergency Situations Ministry, as straying from the route can be dangerous because of the threat of collapsing buildings and varying radiation levels. "The Chernobyl zone isn't as scary as the whole world thinks," said Ms. Yurshova. "We want to work with big tour operators and attract Western tourists, from whom there's great demand."

Tens of thousands of people were evacuated from the exclusion zone after the accident. Several hundred have since returned and some 2,500 workers still maintain the plant, which is now closed, entering the restricted area from a nearby town.

Tours to Chernobyl and the sealed area around the plant—many run illegally, Ms. Yurshova says—already attract some 6,000 visitors a year and cost around $150. Currently, official tours are offered through a state company that can accommodate only a few visitors.

Ms. Yurshova said larger-scale sanctioned tours would begin in January. She said more details on how tour operators would be chosen would be announced next week.

Helen Clark, who heads the United Nations Development Program and visited the zone Sunday with Emergency Situations Minister Viktor Baloha, said she supports the plan. "There is an opportunity to tell a story here and of course the process of telling a story, even a sad story, is something that is positive in economic terms and positive in conveying very important messages," she said in a statement.

Chernobyl is reachable on a day trip from Kiev, which is adding new hotels ahead of the European football championship in 2012, which Ukraine is co-hosting with Poland.

Work on a new sarcophagus to seal the exploded reactor is expected to be completed by 2015, the ministry also said Monday. The huge metal-and-concrete shield will cost $1.2 billion and will be financed by Ukraine and international donors.

Associated Press

Belgian tourists at the sarcophagus over the exploded reactor in September.

Associated Press

Russian riot police detain a protester at one of several small rallies Sunday following Saturday's rioting near Red Square.

Russia vows action after racist rioting

By Gregory L. White

MOSCOW—Russian President Dmitry Medvedev vowed to crack down on those involved in bloody racist rioting in the capital over the weekend, warning that ethnic violence could tear the country apart.

Police in Moscow remained on alert Monday, closing off Manezh Square, including its underground shopping center and a nearby subway station, at the height of rush hour. Police told local news agencies the measures came in response to reports of a possible reprise of Saturday's rioting, some of the worst in the capital in years. The area was quiet amid the heavy police presence Monday.

Manezh, a large square popular with tourists that lies adjacent to the Kremlin and Red Square, was taken over Saturday afternoon by as many as 5,000 soccer fans and demonstrators who chanted anti-immigrant slogans and attacked dark-skinned passersby.

Police struggled to contain the crowd and called in the city police chief to negotiate. Dozens were injured, including several police, and the violence spread into the subway as demonstrators were dispersed.

"The recent events in Moscow—pogroms, attacks on people—must be qualified as crimes and the people who committed them punished," Mr. Medvedev told top law-enforcement and military officers Monday in the Kremlin, adding that ethnic violence "threatens the stability of the state."

Neo-Nazi and other ultranationalist groups have had a strong following in Russia since the 1991 Soviet collapse, targeting darker-skinned migrants from Russia's Caucasus region, as well as immigrants from Central Asia and other former Soviet republics, for violent attacks.

The violence has worsened in recent months, according to community groups and analysts, though it isn't clear why. "The situation is very alarming," Archpriest Vsevolod Chaplin, spokesman for the Russian Orthodox Church, said Sunday. "Only quick and serious measures can pull Russia back from the fatal threshold of interethnic bloodshed."

Associated Press

Medvedev: The 'pogroms' must stop.

Alexander Verkhovsky, director of the Sova Center, which studies ultranationalist groups, said the authorities had made some progress with a crackdown in recent years. But Saturday's violence suggested the roots of the violent underground run deep, he said.

"It's not a single organization," he said, noting that estimates put the number of violent activists throughout Russia as high as 20,000. Hate crimes peaked in 2008, with 115 killed and nearly 500 wounded, according to Sova data.

Separately Monday, prosecutors said they had completed the investigation into the 2009 murders of human-rights lawyer Stanislav Markelov and journalist Anastasia Baburova on a downtown Moscow street. Prosecutors have charged a neo-Nazi activist with the killings.

Minority groups criticize police for not cracking down hard enough on the ultranationalists—tolerating their demonstrations when antigovernment actions by opposition groups, by contrast, are broken up.

"We hear tough statements from the leaders but the authorities aren't doing anything at all," said Mukhammad Amin Madzhumder, president of the Federation of Migrants of Russia, an advocacy group.

On Saturday, police arrested about 60 people in the violence but released them shortly afterward, local news agencies reported. Following Mr. Medvedev's comments Monday, authorities announced criminal investigations into the rioting but no new arrests.

Saturday's violence appeared to grow out of the murder of a young fan of one of Moscow's professional soccer teams early this month, during what police say was a fight between soccer fans and a group of youths from the Caucasus. The ranks of soccer fans often overlap with those of the ultranationalists.

Earlier last week, demonstrators blocked a major highway in Moscow to protest the release of a suspect in the murder, who was from the Caucasus. Police took about an hour to clear the blockade and arrested none of the demonstrators.

A memorial march for the slain fan, sponsored by fan clubs for several teams, went off without incident early Saturday. Fan clubs, which aren't affiliated with teams, denied any connection between their groups and ultranationalist violence.

Later Saturday, demonstrators moved to Manezh Square. Thousands of mostly young men, their faces covered by masks or scarves, pumped their arms, waved flares and chanted slogans such as "Russia for Russians" and an obscene demand that immigrants leave.

Police appeared unprepared for the large turnout there and struggled to contain the crowd until reinforcements arrived.

Officials defended the police response but said lessons would be drawn from the events. One police official complained to Moscow's City Council that television coverage of rioting in Europe in recent weeks had inspired the demonstrators, the Ekho Moskvy radio station reported.

U.K. police probe links to suspect in Swedish blast

By Cassell Bryan-Low And Charles Duxbury

LONDON—British authorities are investigating U.K. connections of the man believed to be behind the terror attacks in Stockholm over the weekend and searched a house where they believe he had lived.

London's Metropolitan Police said they searched a house in Luton, about 30 miles north of London, late Sunday night under the Terrorism Act of 2000. Police think the man believed to be the suicide bomber behind the attacks—who Swedish authorities identified as likely to be Taimour Abdulwahab—had lived in the U.K. residence until as recently as the past year or two, according to a person familiar with the probe.

Agence France-Presse/Getty Images

Bomb suspect Taimour Abdulwahab

No arrests in the U.K. have been made and no hazardous materials were found, but the U.K. police inquiry continues.

Swedish authorities say they are treating as a terrorist attack two explosions near Christmas shoppers on Stockholm streets Saturday afternoon that killed the suspected bomber and injured two others.

The blast could have had a bigger impact but authorities believe the detonation occurred before the bomber reached his target.

"It seems something happened and a mistake was made by him, which meant that some of the explosives he had went off and killed him," Swedish prosecutor Tomas Lindstrand said.

The blasts occurred minutes apart around 5 p.m. local time near Drottninggatan, a busy pedestrian shopping street in central Stockholm packed with Christmas shoppers. People scattered in panic as a white Audi station wagon containing gas canisters, exploded and burst into flames. Minutes later, a man in his late 20s died in what Swedish media said was an apparent suicide bomb attack a few hundred yards away from the car. Witnesses said a man lay on the ground bleeding, apparently with blood appearing to come from his abdomen, and media reports said a bag containing nails lay on the ground beside him. Two people were taken to the hospital with light injuries. Swedish authorities have said that the investigation so far has revolved mostly around the man killed, but that there could be others involved.

Authorities believe the explosion may have occurred before the bomber reached his target.

Mr. Lindstrand said the man behind the attacks was almost certainly Mr. Abdulwahab, an Iraqi-born Swede due to turn 29 years old on Sunday, the day after the explosion.

"The man who blew himself up is 98% identified, but we do not yet have a formal identification," Mr. Lindstrand told reporters in Stockholm on Monday. "He was completely unknown to the security service and there was nothing on him from earlier."

Authorities believe Mr. Abdulwahab spent at least several years in the U.K., including attending university, according to the person familiar with the probe. The University of Bedfordshire in Luton confirmed that a Swedish national of the same name had registered in 2001 and graduated with a bachelor's degree in sports therapy in 2004.

A woman who Mr. Abdulwahab is believed to have a connection with currently lives at the address in Luton being searched by U.K. police, along with children, according to the person familiar with the probe. Police believe Mr. Abdulwahab is the father of at least two children but it couldn't immediately be determined if the woman or the children at the address were related to Mr. Abdulwahab.

Mr. Lindstrand, the Swedish prosecutor, told reporters in Stockholm it was likely that the bomber was alone when he carried out the attack but probably had help in preparing it.

"He was wearing a bomb belt, he had a rucksack with a bomb and he was carrying an object in his hand which can be compared with a pressure cooker," Mr. Lindstrand said.

Where the man was heading is unknown but the prosecutor said it seemed reasonable to suggest he was going "where there were as many people as possible, maybe the central station, maybe a department store" when his equipment malfunctioned.

Shortly before the attacks, a warning message was sent to the Swedish security service SAPO and news agency TT. The message, which Mr. Lindstrand said came from the dead man's phone, didn't contain any reference to the attack's location.

SAPO and the police are continuing with their work round the clock, said Mr. Lindstrand.

"The investigation is in full swing and witness interviews are under way and technical investigations are being carried out of the bomb material and of course an autopsy is being done," said Mr. Lindstrand. "We are also looking at pictures from surveillance cameras and so on, so it is a fairly traditional investigation process."

EUROPE NEWS

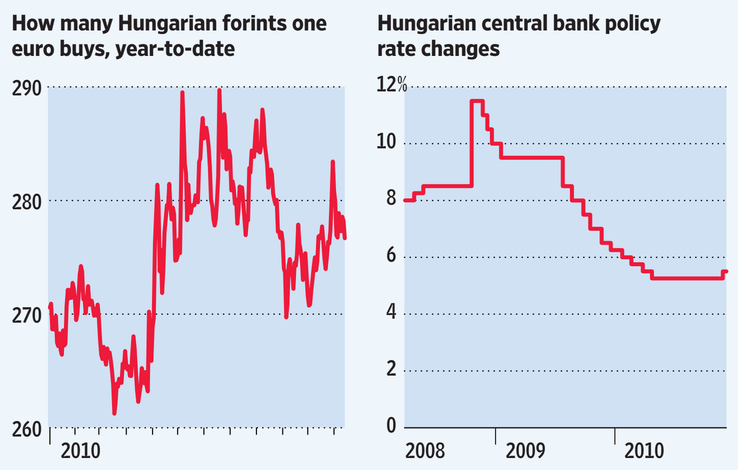
Banker: Hungary 'vulnerable'

BUDAPEST—The governor of Hungary's central bank, locked in a struggle with the country's political leaders, said eroding investor confidence is one of the biggest potential threats to the national economy.

By Margit Feher, Gordon Fairclough And Dagmar Aalund

Tightening ahead | Hungary aims to raise interest rates to keep inflation at bay

András Simor, governor of the National Bank of Hungary



Sources: WSJ Market Data Group; National Bank of Hungary

Photo: Matt Lutton for The Wall Street Journal

"The Hungarian economy is still vulnerable to shifts in investor sentiment," said András Simor, who has headed the National Bank of Hungary since 2007. "And risk assessment of Hungary if anything has deteriorated during the recent months."

Heavily indebted Hungary was the first European Union country bailed out by the International Monetary Fund and the EU in the wake of the 2008 financial crisis.

In an interview Monday with The Wall Street Journal, Mr. Simor expressed skepticism about government measures that he termed "unconventional" and said efforts by politicians to increase their influence over central-bank decision-making were wrong-headed.

In an effort to avoid new austerity programs and still meet EU budget-deficit limits, the populist governing party, which came to power here after a landslide election victory in April, has imposed hefty temporary taxes on banks and other big businesses. It is moving to fold a large sum of money from the private pension system into state coffers.

Prime Minister Viktor Orban has said he is working to jump-start economic growth by slashing personal income-tax rates, lowering taxes on smaller enterprises and boosting some social-welfare payments to families.

Hungary's economic policies and the split between the central bank and the government here have come under intense scrutiny by markets suspicious of any deviation from the belt-tightening orthodoxy now taking hold across Europe. Last week, Moody's Investors Service cut its credit rating on Hungary's sovereign debt two notches to just above junk-bond levels. The cost of insuring Hungarian government debt against default has been increasing, a sign that markets are more nervous.

"That is something we're watching carefully," Mr. Simor said.

Still, the governor said, the bank's decision late last month to raise interest rates a quarter point to 5.5% was driven primarily by a worsening inflation outlook. He said November's 4.2% annualized inflation rate wouldn't "change our view" that inflation remains a worry.

"One should not believe that a 25-basis-point increase will get inflation back to target," Mr. Simor said. But, he added: "That doesn't necessarily mean that we need many steps." He said "a modest tightening cycle" could be enough to damp inflationary expectations.

The November rate increase drew a rebuke from the growth-focused government, which called it "unjustified."

Zoltan Kovacs, a state secretary in the Ministry of Public Administration and Justice, said that while some of the government's moves are "atypical," they "might be right." Mr. Kovacs said the government would announce further measures in February and that investors should "give us time" to prove they work.

Mr. Simor said the central bank believes moving toward adoption of the euro should be a priority. He said adhering to the rules for euro membership would force the government to keep debt under control and limit inflation.

Members of Mr. Orban's Fidesz party have called on Mr. Simor, appointed by the country's previous Socialist-led government to a six-year term, to resign. Fidesz lawmakers have introduced a bill to change the way the central bank's interest rate-setting committee is chosen—a move seen by many analysts as a threat to the central bank's independence.

Under draft legislation, four of the committee's seven members would be chosen by Parliament and could be ousted if lawmakers deem their performance unsatisfactory.

Fidesz has a two-thirds majority in the parliament, giving it the votes it needs to pass legislation.

Mr. Simor said the bill to change the makeup of the monetary-policy council is "an unnecessary development that raises questions about the central bank's commitment to price stability, and this undermines the credibility of monetary policy."

The governor questioned the impact of the government's policies on taxes and pensions. He said that any growth-producing effects of personal-income-tax cuts would be offset by negative impacts of the new temporary taxes on banks, large retailers and telecommunications and energy companies.

Those taxes are expected to add to inflation next year and in 2012, according to central bank estimates, Mr. Simor said. He said the bank tax, which aims to raise roughly $1 billion annually for the next three years, could also make it harder for Hungarian households and businesses to get loans.

The tax "puts a question mark" on whether the parent companies of Hungarian banks "will want to put more resources into Hungary," Mr. Simor said.

Mr. Simor criticized the planned change to the pension system, under which contributions to private pension funds would be moved to the state.

"What makes this worse is that a portion of the savings that have been built up are planned to be spent on current budgetary expenditures," Mr. Simor said. He said that while that could reduce headline government-debt levels in the near term, it could increase the state's long-term pension liabilities.

The government's Mr. Kovacs said the pension change was necessitated by EU accounting rules. He said Hungary's previous diversion of pension contributions from the public system to a private system led to a burdensome debt because funding had dried up for the public system.

Rate cut on the agenda in Turkey

BY ERKAN OZ

ISTANBUL—Turkey's central bank could cut interest rates by up to half a percentage point Thursday, a move likely to put downward pressure on the Turkish lira and one that risks stoking inflationary pressures, analysts said Monday.

Markets were taken by surprise when the Central Bank of the Republic of Turkey published a presentation by its deputy governor, in which he said a rate cut aimed at stemming hot-money flows into Turkish assets and a soaring current-account deficit was increasingly likely.

"Clearly now there is a real possibility of a cut in the policy rate even as early as this week's meeting," said Timothy Ash, London-based emerging markets analyst for the Royal Bank of Scotland. Predicting a cut of 0.25 percentage point, Gizem Oztok, an economist at the Istanbul brokerage Garanti Yatitim, said markets now expect a rate cut of up to 0.5 percentage point when the monetary policy committee meets Thursday.

The dollar was trading at 1.510 lira after the presentation was published, from 1.502 late Friday, but the lira recovered later in the day. The yield on the benchmark 20-month bond fell as low as 7.42%, from 7.67% on Friday, before rising slightly to 7.47%.

Deputy central bank Gov. Erdem Basci said a rate cut would be on the agenda of the monetary policy committee when it meets Thursday. The panel will also discuss implementing a gradual rise in reserve-requirement ratios. "Scenario one, which requires moderate cuts in short-term interest rates, became more up-to-date following the decision of the European Central Bank," Mr. Basci said, referring to the ECB's Dec. 2 statement that it would continue quantitative easing.

Tipped as a top contender to head the bank when Gov. Durmus Yilmaz retires next year, Mr. Basci made it clear that the bank was worried by the high proportion of short-term financing that is sustaining the country's current-account deficit—the imbalance between what Turkey imports and what it exports. That financing could disappear suddenly, if risk appetites were to change, and trigger a hard landing for an economy that has been one of the standouts since the global financial crisis, he said.

Reuters

Deputy Gov. Erdem Basci

Mr. Basci also indicated in his presentation that inflows of so-called hot money could rise even more if unchecked, as the U.S. Federal Reserve, European Central Bank and the Bank of Japan pump money into their markets. That tends to increase the cash searching for higher returns in emerging markets, such as Turkey.

Data released Monday showed that the current-account deficit, a perennial weak spot for Turkey's economy, widened to $35.72 billion from January to October this year, from $9.19 billion a year earlier.

That was a slightly smaller increase than analysts had expected, but the central bank and analysts alike see the ballooning imbalance as a key source of risk. Turkey's current-account balance has traditionally grown rapidly as output expands, in part because it has relatively few energy resources and depends on imports of partly finished goods to raise production.

ECB's words calm market amid lull in bond buys

Continued from first page

is that to obtain a top triple-A rating to allow it to borrow cheaply in bond markets, the fund can't lend on all the money that it raises.

Analysts at Citibank have estimated that only around €255 billion of loans are available from the EFSF.

But with the ECB becoming increasingly uneasy about the size of its bond purchases, some governments and EU officials have been debating whether they should allow the EFSF to borrow at below the top rating.

That would increase the fund's lending capacity, but increase the cost of funds.

Governments also will discuss the possibility of allowing the fund to buy euro-zone government bonds, officials said.

"There may be some push in that direction by the ECB, which is increasingly unhappy about the current situation," an official from a euro-zone government said.

Opponents of the ECB's bond purchases worry that the program has eroded the central bank's independence from politics.

Mr. Trichet has tried to counter that impression, stressing that the bond buys are only being used to ensure the proper functioning of markets.

Opponents of the ECB's bond purchases worry that the program has eroded the central bank's independence. Mr. Trichet has tried to counter that impression.

He has also pressured euro-zone governments to do more to create a permanent fix to the region's debt problems.

The ECB doesn't provide a country breakdown of its purchases.

However, bond traders say that the intervention since May has been focused on Greek, Irish and Portuguese debt, and not on debt from larger at-risk countries such as Spain and Italy.

Unlike the U.S. Federal Reserve, which announces amounts and maturities of securities it plans to buy, the ECB leaves markets largely in the dark about details of its interventions.

"They would rather take the tactical guerrilla-style intervention...they obviously don't want to commit to overwhelming amounts," said Julian Callow, economist at Barclays Capital in London.

By keeping bond-purchase amounts relatively low, Mr. Trichet also avoids renewing tensions within his 22-member governing council.

The purchases are highly unpopular in Germany, where they invoke fears of hyperinflation and a loss of central bank independence.

Germany's central bank chief, Axel Weber, has been a vocal critic of the program, saying that it creates stability risks and that it blurs the line between fiscal and monetary policy.

Greece faces a week of labor unrest

By Alkman Granitsas

ATHENS—Greece's unions are planning a storm of protests this week as the Socialist government scrambles to meet commitments at slashing its 2011 budget deficit and overhauling the country's labor laws and unprofitable state-owned enterprises.

Beginning Monday, public-transport workers have vowed a series of work stoppages and 24-hour strikes through the week that are expected to bring traffic chaos to the capital.

At the same time, bank workers, journalists, air-traffic controllers, state-television employees and rail workers are also joining in with separate disruptions this week, and Greece's two biggest unions—private sector GSEE and public-sector ADEDY—will hold a 24-hour general strike Wednesday.

"We are striking to protest the denigration of labor rights and also a very harsh and unjust budget which will only worsen the current recession," said Stathis Anestis, spokesman for umbrella union GSEE. "We expect there will be a very big protest Wednesday because the labor movement is facing major provocations."

Under the terms of a multiyear, €110 billion ($145.5 billion) bailout signed in May, Greece has promised its international lenders to enact a series of economic changes while also cutting its budget deficit to below 3% of gross domestic product by 2014, from 15.4% in 2009.

In the 2011 budget, to be voted on Dec. 22, the government aims to cut the deficit by two percentage points of GDP, or about €5 billion, to a targeted 7.4% of GDP. Many fear the series of tax rises and spending cuts involved will further weigh on Greece's already sputtering economy.

Greece is in the second year of a protracted recession, with the latest data showing a 4.6% year-to-year contraction in third-quarter GDP, and with unemployment rising to 12.6% of the work force from 9.6% a year ago.

On Tuesday, the government also plans to push through a deeply unpopular omnibus bill to cut costs at state-owned enterprises and liberalize labor laws. The bill, which is being voted on under express parliamentary procedures, has drawn sharp protests from opposition parties and even some grumbling from Socialist backbenchers.

Among other things, the bill will cap salaries and slash bonuses at 52 state-owned enterprises—ranging from Greece's monopoly gambling company **OPAP** SA, to bus and trolley companies that service the greater Athens area.

Also included in the legislation is an amendment to previous labor-market changes that would allow companies facing financial difficulties to negotiate lower salary packages than those governed by sectoral wage agreements.

Unions say the amendment will lead to the abrogation of collective wage contracts—which now govern almost half of Greece's 4.5 million-strong work force—while the Communist Party says the government's labor overhaul is leading the country back into the dark ages.

Even so, few expect the government to back off from the reforms it has promised its lenders, the International Monetary Fund and the European Union, which are seen as a precondition for Greece to receive the fourth tranche of its €110 billion loan in the spring.

"The government is determined to push ahead with these reforms and the unions don't represent broader public opinion," said one person close to the government.

For one thing, the Socialists still control a comfortable majority in Greece's 300-member parliament, where they hold 157 seats. And the latest public-opinion polls show the ruling Socialists leading by a nine-percentage-point margin over the main opposition New Democracy party.

However, the strikes come as Greece's hard-hit retailers and small businesses are hoping for Christmas shoppers to lift sales after a disappointing year.

According to data from the country's merchants' association, 20% of retailers in central shopping districts have closed this year, and some 4,000 businesses go bankrupt each month.

"With these strikes it will be yet another difficult week for Greece's business community," said Constantine Michalos, president of the Athens Chamber of Commerce and Industry. "But the strikes won't succeed in changing the government's policies."

European Pressphoto Agency

A striking public-transport worker protested outside the Transport Ministry in Athens on Monday.

Irish lawmakers are expected to accept bailout deal in vote

By Jason Douglas

DUBLIN—Irish lawmakers are expected to pass a parliamentary vote on accepting a €67.5 billion ($89.2 billion) aid package from the European Union and International Monetary Fund Wednesday.

The ruling coalition, led by Prime Minister Brian Cowen's Fianna Fail party, is expected to win the vote with the support of lawmakers unaffiliated to any political party. The government has already passed parts of its 2011 budget with the help of independent lawmakers' support.

The Irish Times newspaper reported Monday that the government has secured the support of three independent lawmakers for Wednesday's vote.

Two have a long record of supporting Fianna Fail. The third, Joe Behan, couldn't immediately be reached for comment. Mr. Behan supported a government bill to cut ministers' salaries and the minimum wage Dec. 10, according to parliament records.

Mr. Cowen has challenged opposition parties Fine Gael, Labour and Sinn Fein to get behind the deal or spell out where they will get the money to fund public-sector workers and welfare checks while Ireland remains effectively locked out of capital markets by sky-high borrowing costs.

Labour and Sinn Fein have already signaled they will vote against the bailout package. Among other measures, both parties have said they would find extra money by restructuring the senior debts of Ireland's banks, which are guaranteed by the state.

Damien English, Fine Gael's deputy finance spokesman, said Monday his party will also vote against the bailout.

Fine Gael isn't opposed to accepting aid but Mr. English told state broadcaster RTE the party believes its negotiators can secure a better deal with the EU and IMF. Specifically, they believe they can get a lower interest rate on the loans than the average 5.8% agreed between the donors and Mr. Cowen's government.

"We are not going to vote for a bad deal," Mr. English said Monday.

Mr. Cowen has said he intends to call a general election early next year, once the final parts of the 2011 budget have been passed by parliament. The election is expected to hand power to a Fine Gael and Labour coalition.

Agence France-Presse/Getty Images

Prime Minister Brian Cowen has challenged opposition partied to back the deal or spell out where they will get the money to pay public-sector workers.

OECD says expansion is steadying world-wide

By Ilona Billington
And Riva Froymovich

LONDON—The world's leading economies should continue to grow, but at a more stable pace, with signs that growth across all of the major economies is steadying, according to a survey of leading indicators released by the Organization for Economic Cooperation and Development on Monday.

The figures point to "expansion" for developed economies as a whole, but the range of movement is limited with the majority of countries surveyed reporting a rise or fall of around 0.1 point, the survey shows.

The composite leading indicator for the OECD's 30 members rose to 102.6 in October from 102.5 in September.

"OECD composite leading indicators, designed to anticipate turning points in economic activity, suggest a stabilization in the pace of expansion across the OECD," the organization said.

A level above 100 suggests expansion while a figure below suggests contraction, although when the index is below 100 but is rising, the index shows the economy in question is recovering.

The leading indicator for the major five Asian economies posted the biggest increase in October, to 101.7 from September's 101.5, but even that is indicative of a slower pace of expansion compared with the performance in the region earlier in 2010, the OECD said.

The major seven economies—France, Canada, Japan, Germany, Italy, the U.K. and the U.S.—posted a 0.1-point rise to 102.7 in October from 102.6 a month earlier, while growth across countries in the euro zone was flat at 103.4, unchanged from both September and August.

The flat result in the euro zone was likely weighed down by fears over the smaller, peripheral economies such as Greece, Ireland and Spain, where government debt and the spending cuts and tax increases required to deal with this are weighing on growth, confidence and investment.

The larger, core economies of Germany and France are continuing to record a pickup in growth—the OECD reported that in France the index rose to 102.2 in October from 102.1 in September while in Germany it was unchanged at the higher level of 105.2.

The U.K. also reported a flat figure in October at 102.3, while in the U.S. growth accelerated to 102.3 from 102 in September. The 0.3-point pickup in the U.S. was the third-strongest in October, exceeded by Russia, where the composite leading indicator rose to 105.5 from 104.8 in September, and China, where the index rose to 101.9 from 101.3.

The indicators for Brazil and India, meanwhile, fell to 98.9 and 100.6, respectively. The indicator for Japan also declined to 102.6 in October from September's 102.7.


How will you tackle the year ahead?
14,000 executives and their senior teams
4,800 companies globally
6 challenges we solve together:
Assessing Key Performance Trends and Risks
Organizing and Managing Critical Talent
Benchmarking Performance and Plans
Establishing Innovative Operating Approaches
Driving Alignment and Support for Change
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WHAT THE BEST COMPANIES DO

U.S. NEWS

Downtowns get a fresh lease

By Anton Troianovski

As the U.S. market for office space shows signs of recovery, the suburbs are getting left behind.

For decades, the suburbs benefited from companies seeking lower rent, less crime and a shorter commute for many workers. But now, office buildings in many city downtowns have stopped losing tenants or are filling up again even as the office space in the surrounding suburbs continues to empty, a challenge to the post-war trend in the American workplace and a sign of the economic recovery's uneven geography.

Even some forlorn cities are showing signs of revival. In Detroit, Health insurer **Blue Cross Blue Shield of Michigan** next spring will start moving thousands of suburban employees into the downtown.

Like many cities, Detroit offered an incentive package, including giving Blue Cross employees free annual passes to a public-transit system connecting its downtown buildings. Another motivation: to have more people in one place as the insurer adjusts to the health-care overhaul.

"We believed having everyone together would very much benefit us when we had to make quick changes as a result of national reform," Blue Cross vice president Tricia Keith said.

Statistics show that suburban office markets were hit harder by the recession than their downtown counterparts and are recovering more slowly. The national office vacancy rate in downtowns was 14.9% at the end of the third quarter, the same level as in early 2005—while the suburban vacancy rate hit 19%, 2.3 percentage points higher than in 2005, data firm Reis Inc. says.

In the first three quarters of this year, businesses in the suburbs vacated a net 1.5 million square meters, or 16 million square feet, of occupied office space while downtowns have stabilized, losing just 11,000 square meters.

Things were different after prior recessions. As commercial real estate recovered in 2003 and 2004, office space in the suburbs filled up faster than in downtowns, Reis's data shows. For much of the 1990s, as businesses abandoned downtowns to be closer to their suburban work forces, suburban office buildings tended to be more occupied.

But since early 2009, the opposite has happened in major metropolitan areas including Houston, Las Vegas, Miami, Pittsburgh and Phoenix—occupied office space rose downtown but fell in the suburbs.

A succession of mayors have revitalized downtown Houston, above, persuading companies like BG Group to relocate there from the suburbs.

Suburbs have been clobbered harder by a recession that hit businesses that are often based there, including mortgage lenders and home builders. Downtowns, on the other hand, have benefited from being home to less hard-hit sectors of the economy, such as government, and companies that have recovered more quickly, such as big banks.

To be sure, most American office workers continue to work in the suburbs—home to nearly twice as much office space as in central business districts, Reis says. And many real-estate developers largely expect suburban office markets to recover when job growth strengthens.

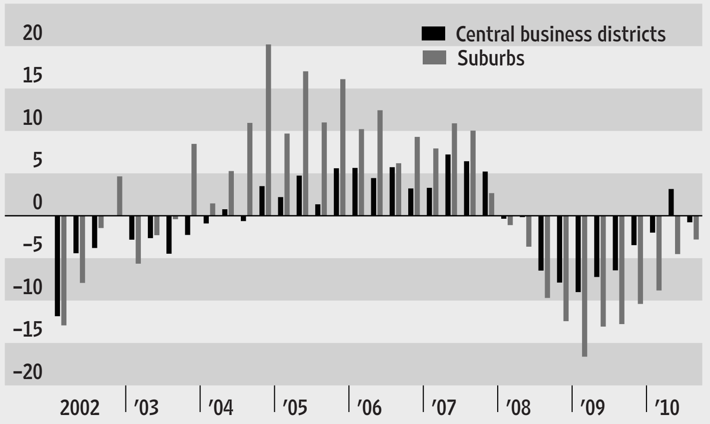
But some scholars, urban advocates, and developers believe a secular shift is under way in the American workplace. "Young people don't want to be out on the fringe…and as people are beginning to figure that out, it's beginning to get factored into office relocations," said Christopher Leinberger, a real-estate developer and a visiting fellow at the Brookings Institution.

In suburban Los Angeles and Orange County, Calif., the amount of occupied office space has dropped by a combined 1.1 million square meters from January 2009 to the end of September 2010, or more than 5% of the entire inventory. The pain was much less severe in downtown Los Angeles, which lost about 61,000 square meters over the same time period, or 1.8% of the total inventory, Reis data shows.

Downtowns and suburbs go different ways

In contrast to the last recovery, suburban office space in the U.S. is still emptying even as downtown markets stabilize.

Quarterly change in occupied office space, in millions of square feet



Source: Reis, Inc.

Detroit's suburbs have lost more than 186,000 square meters of occupied space since early 2009, 3.4% of its inventory, while the hard-hit downtown has lost just 3,900 square meters, just 0.3% of its total.

Progress made by cities from Denver to Pittsburgh in revitalizing their downtowns in the last decade also has played a role. New retail, nightlife and condominium projects have helped lure some tenants who had long been based in the suburbs.

In Chicago, **UAL** Corp.'s United Airlines is leaving its one-million-square-foot, 1960s-era office park near O'Hare International Airport for the tallest downtown office building, the Willis Tower.

In Houston, British energy company **BG Group** PLC is moving its U.S. headquarters from the suburbs to a new skyscraper downtown. The company surveyed its employees and found downtown was a more convenient commuting destination, policy and corporate-affairs vice president David Keane said. BG also saw a recruitment edge thanks in part to the downtown-revitalization efforts of several Houston mayors.

"When you're looking at new graduates coming into Houston, I think they want to be located downtown," Mr. Keane said.

In Denver, a light-rail system has contributed to a more vibrant downtown. Colliers International broker Brad Calbert, who helped arrange moves by energy companies SunCor Energy Inc. and Black Hills Corp. from the Denver suburbs to downtown, said, "There is a cultural transition going on."

Madoff won't attend son's funeral

By Chad Bray

NEW YORK—Convicted Ponzi scheme operator Bernard Madoff won't attend the funeral of his son, Mark, who committed suicide last weekend, his lawyer said.

Mr. Madoff is serving a 150-year sentence in a federal prison in North Carolina after pleading guilty in March 2009 to carrying out a decades-long fraud.

"Mr. Madoff will not be attending the funeral out of consideration for his daughter-in-law and two grandchildren's privacy," said Ira "Ike" Sorkin, Mr. Madoff's lawyer. "He will be conducting a private service on his own where he is now."

Mark Madoff, 46 years old, was found hanged with a dog leash in his apartment in Manhattan on Saturday, the second anniversary of his father's arrest.

It was unclear Monday if Mr. Madoff had requested a special furlough from the U.S. Bureau of Prisons to be able to attend the funeral, details of which haven't been made public. Mr. Sorkin declined to comment Monday. The Bureau of Prisons has previously declined to comment on whether the request was made, but has said such requests are reviewed on a case-by-case basis.

Separately, a $19.6 billion lawsuit filed by the trustee overseeing the bankruptcy of Mr. Madoff's investment firm against Austrian banker Sonja Kohn and dozens of related firms last week has "nothing to do with reality," her lawyer said Monday.

In a lawsuit filed Friday, Irving Picard, the Madoff trustee, contends that Ms. Kohn, the principal shareholder and the head of Bank Medici AG, had a 23-year "criminal relationship" with Mr. Madoff in which more than $9.1 billion was funneled into his Ponzi scheme. Mr. Picard is seeking to recover $19.6 billion, or the amount of the principal he claims investors lost in Mr. Madoff's scheme.

Clemens Trauttenberg, a lawyer for Ms. Kohn and Bank Medici, said Ms. Kohn and the bank are victims of Mr. Madoff's fraud and they believed Mr. Madoff was reputable. Mr. Clemens said neither Ms. Kohn nor anyone at Bank Medici had knowledge of the fraud, and he described Mr. Picard's case as "wild allegations."

The allegations have "nothing to do with reality," said Mr. Trauttenberg by telephone from Austria. The suit is "a fishing expedition [filed] the day before his deadline."

Mr. Picard filed a flurry of lawsuits in recent weeks to recover funds from investors who allegedly received false profits from the Ponzi scheme or people or institutions he claims enabled the fraud. Under U.S. bankruptcy law, Mr. Picard had to bring such lawsuits by Dec. 11, the two-year anniversary of Mr. Madoff's arrest and his firm's demise.

U.S. court rejects part of health law

Continued from first page

Cuccinelli, is the first court ruling against the law since President Barack Obama signed it in March.

More than 20 federal lawsuits have been filed against the overhaul, and judges in two of those cases ruled in favor of the Obama administration.

While the ruling creates a headache for supporters, it doesn't mean states or the federal government must stop implementing the law.

Judge Hudson didn't grant the plaintiffs' request for a nationwide injunction against the entire law or against the requirement that most Americans carry insurance. That requirement, known as the individual mandate, begins in 2014. The judge also said his ruling only applies to the individual mandate and the provisions of the law that are directly dependent on it. The Supreme Court is expected ultimately to settle the issue after the Virginia case and similar challenges wind their way through the courts.

Administration officials say the ruling amounts to an attack on one of the law's most popular provisions, the ban on insurers denying coverage to people with pre-existing health conditions. That piece of the law can't work unless coupled with a requirement that nearly all Americans carry insurance, they say.

"We are disappointed in today's ruling but continue to believe—as other federal courts in Virginia and Michigan have found—that the Affordable Care Act is constitutional," said Justice Department spokeswoman Tracy Schmaler.

For opponents of the law, Monday's ruling is the first victory in a multifaceted attack designed to help Republicans take back the White House in 2012.

The Obama administration argues that since all Americans at some point get health-care services, a requirement to carry health insurance is simply a way of regulating how consumers pay for care. The Constitution gives Congress the power to regulate interstate commerce.

Judge Hudson said the Interstate Commerce Clause wasn't sufficient for Congress to establish the individual mandate. He said Congress lacked precedent for "regulation of a person's decision not to purchase a product, notwithstanding its effect on interstate commerce or role in a global regulatory scheme."

The administration says that without the individual mandate, it could no longer require insurers to provide coverage to people with pre-existing conditions because that would create an unhealthy pool of consumers and drive up insurance prices for everyone. But the administration argues that, should the mandate ultimately be struck down, courts should uphold most of the rest of the law.

That would include the expansion of Medicaid to 16 million Americans, tax subsidies to help lower earners buy insurance and new exchanges where consumers can comparison shop for policies.

The health overhaul is designed to expand insurance to 32 million Americans. Without the requirement to carry insurance, the Obama administration predicts, the law would leave an additional 16 million Americans uninsured.