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Obama wants U.S. to freeze some spending

By Damien Paletta And Jonathan Weisman

WASHINGTON—U.S. President Barack Obama will call for a five-year freeze on nonsecurity discretionary spending in his State of the Union address Tuesday night "as a down payment toward reducing the deficit," a White House official said.

The freeze won't touch some of the budget's biggest items, such as Medicare, Social Security and defense spending; nor will it apply to homeland-security spending or foreign aid.

But Mr. Obama will look for "cuts and efficiencies" in other areas, the official said. For example, the president is pushing the five-year plan designed by Defense Secretary Robert Gates to slow the growth of military spending, which officials believe would save $78 billion.

The president's plan would save about $26 billion over five years, according to the White House budget proposal for the current fiscal year. Those savings would be dwarfed by the $100 billion in cuts for this year alone that many House Republicans are pushing.

Republicans said Tuesday that Mr. Obama's proposal wouldn't do enough to rein in spending.

"At a time when the Treasury secretary is begging Congress to raise the debt limit, this is simply inadequate," said Michael Steel, a spokesman for House Speaker John Boehner (R., Ohio).

White House officials say steep spending cuts could threaten the economic recovery, and Mr. Obama wants targeted funding increases for education, infrastructure and research, arguing that they would boost U.S. competitiveness and foster job growth.

But many congressional Republicans say spending must be cut immediately.

Some GOP lawmakers are pushing to reduce spending to 2008 levels, which would require about $100 billion in cuts, while others say that spending should be rolled back to 2006 levels.

The debate over how far to cut, and which programs to reduce, is likely to dominate the conversation in Congress for much of this year.

Mr. Obama's call for a five-year budget freeze is effectively a two-year extension of a proposal he made in the 2010 State of the Union address, when he outlined a three-year freeze on nonsecurity discretionary spending. Some Democrats opposed that proposal.

But the freeze was implemented, in effect, because Congress didn't pass spending bills for the current fiscal year, leaving the government to run on stopgap measures at the prior year's spending levels.

The most recent stopgap spending measure ends in March.

House Republicans want to go beyond a freeze and implement deep cuts for the rest of the fiscal year.

■ State of the Union: highlights and analysis WSJ.com/US

Tunisia unrest spreads to Egypt

European Pressphoto Agency

Egyptian riot police watch over a protester during antigovernment demonstrations in downtown Cairo on Tuesday. Two protesters and a policeman were killed in the demonstrations, the country's largest in recent memory. **Article on page 11; more photos at WSJ.com/World**

The Quirk

One man's fight to perk up Peru's gloomy national anthem. Page 33

Editorial & Opinion

Divorce, Belgian style. Page 13

Bankers to lobby privately against new rules

By David Enrich

Last year, bankers at the World Economic Forum in Davos, Switzerland, played the roles of bogeymen. French President Nicolas Sarkozy lashed out at their "indecent behavior" and "morally indefensible" pay packages.

The bankers aren't likely to win any popularity contests at this year's gathering at the Swiss ski resort. But they are hoping that some of the stigma of having helped plunge the world into a financial crisis will have faded.

Bankers are showing up emboldened by their resurgent profits and eager to mingle with politicians and regulators in the hopes of fending off onerous new restrictions on how they run their businesses and pay their employees. For the first time since the financial crisis, bankers won't be biting their tongues.

"There was a period of remorse and apology for banks," **Barclays** PLC Chief Executive Bob Diamond testified to a parliamentary panel in London this month. "I think that period needs to be over."

In 2009, as the global financial crisis was raging, some big-shot bankers—including top executives from Barclays, **Citigroup** Inc. and **Bank of America** Corp.—skipped Davos. Many ventured back last year, but kept low profiles, aware of their radioactive reputations.

This year, most giant U.S. and European banks are sending their chairmen or CEOs to Davos. One exception is **Goldman Sachs Group** Inc., which is sending its No. 2 executive.

Bankers and their lobbyists say they will be jetting into the Alps armed with long lists of proposed and pending rules that they would like to water down or kill altogether. The lobbying is more likely to take place in private meetings than on stage in full view of hundreds of reporters and television cameras.

"I expect that regulatory issues will be on the agenda this year in Davos, but perhaps less in the center of attention," said Charles Dallara, managing director of the Institute of International Finance, the banking industry's global trade group.

Much of the lobbying is likely to revolve around an international accord that bank regulators hammered out last year in another Swiss city, Basel. The so-called Basel III rules will force banks to hold thicker capital cushions to guard against potential losses and deeper pools of liquidity to protect against potentially crippling bank runs.

But the rules don't fully kick in until 2018, and some

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■ Continuous coverage at WSJ.com/Davos

We have to pity poor Mervyn King

[Agenda]

By Alen Mattich

Not only is the Bank of England Governor Mervyn King having to explain why the inflation rate is high and rising, he's also confronted with an economy grinding its way down through the lower gears. Indeed, and to near-universal surprise, the U.K. shifted into reverse during the fourth quarter.

The data release was a real shocker.

Analysts had already penciled in a slowing growth rate, to a 0.5% quarter-on-quarter increase from a 0.7% rise in the third quarter and 1.1% in the second. But no one was expecting an outright decline, much less the 0.5% drop reported in the preliminary GDP estimate published Tuesday.

To be sure, December's unusually high snowfalls paralyzed much of the country and were partly at fault for the economy's weakness. Without this disruption, GDP would have been "flattish" during the quarter, according to government statisticians.

Nowhere was this more apparent than in construction, which contracted 3.3% (though economists disagree about how much of this was down to weather and how much of it was merely an unwind of credibility-stretching growth rates of 7.0% and 3.9% in the previous two quarters).

Growth is likely to rebound during the first quarter as the weather effects are reversed. What's more, preliminary GDP estimates tend to be revised substantially—most likely upward, in this case. That's because recent survey evidence has been relatively bullish, suggesting the underlying economy is growing solidly, albeit maybe not quite at trend.

The picture, though, is more than usually clouded. Weather distortions last year make it hard to see quite which quarter of the past five tells the true story about the state of the economy, says Jonathan Loynes, an economist at Capital Economics.

Bloomberg News

Mervyn King, the Bank of England governor, speaking in Frankfurt last week.

But even an optimistic view has to be tempered by the coalition government's austerity program. Some firms will have anticipated slowing government spending—another likely contributor to the fourth quarter's weak construction numbers—but most of the measures will only just be beginning to take effect, starting with this month's 2.5-percentage-point increase in value-added taxes.

For the coming months, whatever the Bank of England does, it will do no right.

Bridgewater Associates, a U.S. fund-management firm, figures the net drag on GDP over the next six months will be an annualized 1.6%. It's hard to see where the economy's upward momentum will come from.

Unlike Germany, which expanded strongly during 2010, thanks in part to a storming export performance, and is expected to continue posting above-trend growth during 2011, the U.K.'s own exports have contributed little to GDP growth. Sure, they've risen, but imports have risen just as fast. Unfortunately, the U.K. government is banking on expanding net exports to drive growth.

Meanwhile, commodity price inflation is proving a drag on household consumption as wage growth fails to keep pace.

Those same commodities, however, are putting upward pressure on key inflation measures. Throw in the impact of the latest consumption-tax rise and an already firm and rising underlying trend, and CPI could climb to within spitting distance of 5% over the coming months. The Bank of England has already exceeded its 2% target for almost 80% of the time over the past five years and inflation is likely to stay too high for another year at least.

Andrew Sentance is the only one of the Bank of England's nine-member policy-setting committee to have called for a rate increase—albeit a modest one—in response to the price pressures. His contention has been that while the U.K. economy may be running short of capacity, the rest of the world isn't. And the rest of the world is the root of the U.K.'s price pressures.

Imported inflation will keep causing the bank to overshoot its target and will eventually become embedded as an ugly inflation problem curable only through aggressive rate rises, unless a more measured approach is taken now, he argues.

Others on the MPC, led by Adam Posen, think the bigger risk is that the economy slips into deflation once the latest batch of temporary factors influencing prices work their way through the system.

The latest GDP report is likely to keep the debate at stalemate.

"If the MPC were to raise rates and then find the economy was plunging into another recession, the Bank of England's position would no longer be politically tenable," according to Stephen Lewis, an economist at Monument Securities.

At the same time, Mr. Posen's recent arguments for additional quantitative easing to offset the economy's slowdown aren't likely to deliver a majority on the MPC.

Paul Fisher, another member of the committee, recently warned that the U.K.'s return to growth would be bumpy and could well entail a quarter's decline in GDP. Only he probably didn't think it would happen quite so quickly. Just as inflation has become more volatile in postcrunch Britain, so too has growth. And just as the Bank of England is looking through the temporary outruns in consumer prices, it will want more evidence slowing growth is delivering slowing inflation before it looks to ease policy further.

Besides, just as it would be politically untenable to raise rates amid such an apparently sharp slowdown in the economy, the bank would face damaging criticism were it to loosen monetary policy at a time when inflation seems to be getting out of control.

So, for the coming months, whatever the Bank of England does, it will do no right.

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- **The IMF said** the uneven global recovery continues, but sovereign-debt and financial-sector risks, particularly in Europe, could threaten global stability. **5**
- **U.S. steelmakers blamed** a slow economic recovery for larger-than-expected quarterly losses as soaring raw material and labor costs offset recently rising prices. **23**
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'I don't understand how killing innocent people accomplishes anything, politically or ideologically.'

Reader **David Soto** on 'Medvedev Blames Airport Lapses for Bombing'

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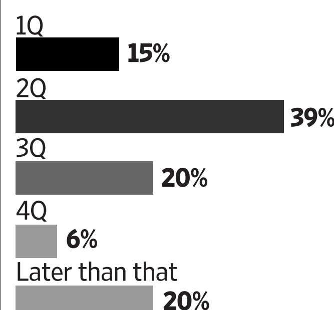

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EUROPE NEWS

U.K. economy faces new questions

By Alistair MacDonald

European Pressphoto Agency

A London street on Tuesday. Extreme weather at the tail end of 2010 was a big factor in the economy's contraction.

LONDON—The U.K.'s snow-battered economy shrank for the first time in more than a year during the fourth quarter of 2010, a surprise negative hit that will trigger debate about the country's aggressive fiscal tightening and the direction of interest rates amid high inflation.

Gross domestic product fell 0.5% in October through December, after expanding by 0.7% in the third quarter, according to preliminary estimates from the Office for National Statistics. The drop is the first quarterly contraction in GDP since the third quarter of 2009 and contrasted with the 0.4% growth that economists had expected.

An official from the statistics office said extreme weather at the tail end of 2010—which resulted in the coldest December in over 100 years—was likely to have been a large cause of the contraction. Many economists also point to recent strong business surveys to illustrate the recovery.

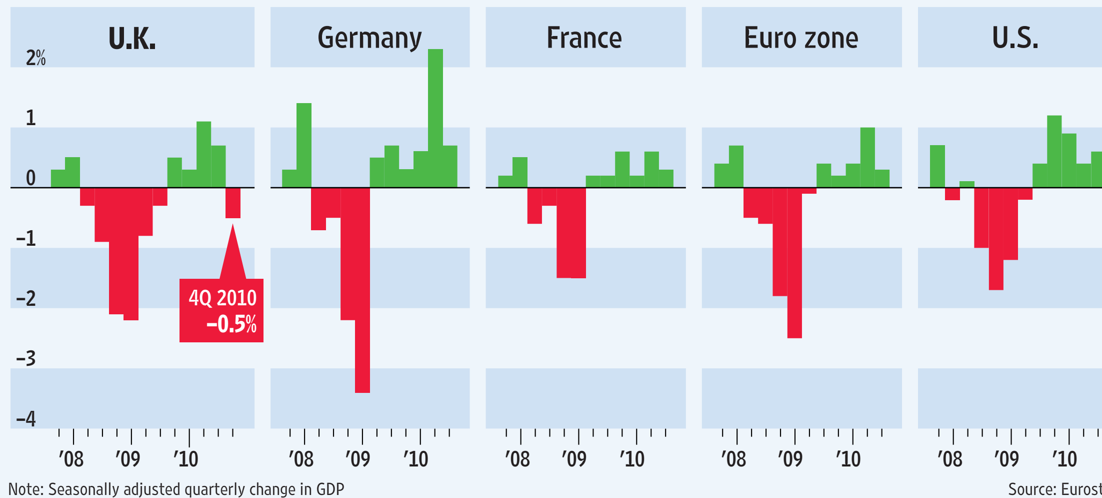
But, the bad news wasn't just confined to December, with its hard-hit services and construction sectors. Even without the December snow, economic growth was flat in October and November from the third quarter, Credit Suisse says.

Tuesday's data are likely to support the case for the Bank of England holding off raising interest rates in the near term, despite a jump in the U.K.'s inflation rate to 3.7%, nearly double the 2% central bank's target level.

In a speech on Tuesday, central bank Governor Mervyn King said the numbers were a reminder that "the recovery will be choppy" but that "the U.K. economy is well placed to return to sustained, balanced growth over the next few years."

Referring to the U.K.'s austerity drive amid a weak economy, Mr. King said: "the right course has been set and it is important we maintain it."

Looking ahead, the U.K. faces a high inflation rate, an increasingly cautious consumer, and cuts and tax increases valued at around 8% of GDP over the next four years.



"It seems that the economy is incredibly vulnerable. And with the fiscal tightening yet to fully bite, economic growth will remain subdued this year," said Hetal Mehta, U.K. economist at Daiwa Capital Market Europe, who described the GDP figure as "horrendous."

Opposition politicians argue that the economy showed early signs of the effects of the coalition government's aggressive spending cuts and the poor numbers are a reminder that the economy is still fragile.

"The fact is cuts which go too far and too fast will damage our economy," said Ed Balls, the opposition Labour Party's chief finance spokesman.

Public finances provided one piece of good statistical news for the government, with the net amount the country needed to borrow in December 2010 coming in less than expected at £16.8 billion, down from £21 billion in December 2009. Financial markets have punished countries, such as Ireland and Portugal, which investors believe have weak public finances.

The cuts have positioned the U.K. as a global test case in the argument for choosing austerity over stimulus to repair the economy. Tuesday's numbers are likely to leave the U.K. lagging behind Europe's other big economies, France and Germany. Sterling fell sharply to $1.5765 from $1.5908, and the euro was climbing rapidly against sterling after the data, trading around 86.29 pence from 85.67 pence.

Inflation, coupled with higher unemployment, low wage growth and economic uncertainty, will cap the consumer spending that drove Britain's economy in recent decades. The other big driver of Britain's recent growth was government spending, which in the coming fiscal year alone is to be cut by £23 billion.

U.K. Treasury chief George Osborne said the government wouldn't change its fiscal plans following the unexpected contraction. "That would plunge Britain back into a financial crisis," Mr. Osborne said in a statement. "We will not be blown off course by bad weather."

The fall in the fourth quarter means that the economy grew by 1.4% in 2010, after contractions of 4.9% in 2009 and 0.1% in 2008. Tuesday's poor number comes after what had been a robust recovery for a country once seen as having a much higher risk. Up to the third quarter, the U.K. had enjoyed its fastest four-quarter recovery in its postwar history, according to Lombard Street Research.

—Ainsley Thomson and Nicholas Winning contributed to this article.

Sócrates pins debt crisis hopes on exports

By Alex MacDonald

European Pressphoto Agency

Prime Minister José Sócrates

ABU DHABI—Portuguese Prime Minister José Sócrates says he is counting on a pickup in exports and foreign investors to ease Portugal's debt crisis.

"We don't need any help," Mr. Sócrates said, referring to whether Portugal might need to ask for a bailout from the European Union or International Monetary Fund. "We reduced our budget deficit by more than 2.2 percentage points [of gross domestic product in 2010] and the economy expanded by nearly twice as much as initially expected to 1.3%," he said in an interview.

"What other country has managed to reduce its budget deficit by so much and, at the same time, expand its economy by so much in a year?"

To preserve those trends, Mr. Sócrates and other government officials have embarked on a series of roadshows around the world to market Portuguese products—including its debt. Last week Mr. Sócrates was in Qatar and Abu Dhabi, where he signed bilateral trade agreements ranging from renewable energy to tourism. His ministers have also spoken to Gulf sovereign-wealth funds and to China, both have expressed interest in Portugal's debt and its privatization program.

But doubts persist—including from Portugal's central bank—about the health of the country's economic vital signs. Some economists believe that Portugal will inevitably have to follow Greece and Ireland in seeking a bailout from the EU and the IMF.

For now, at least, the government's fiscal austerity program and export growth have helped restore some confidence among international bond investors that Lisbon can still avoid a bailout. Yet investors continue to demand a high price for Portuguese government debt. Economists say the 6.8% yield paid on 10-year Portuguese government bonds is unsustainable.

Mr. Sócrates said in the interview last week that yields of around 7% are "irrational" given the country's better-than-expected economic growth and its budget deficit reduction program. He said he expects that "yields will drop" as the government moves ahead with its budget plan, and boosts exports.

However, some experts doubt whether higher exports will be enough to support the economy. Exports rose about 15% in the first 11 months of 2010 compared with an 18% drop in the whole of 2009. The government expects exports to rise by 7.3% in 2011. However, the Bank of Portugal expects exports will grow at a slower pace of 5.9% in 2011 and won't be enough to offset a slump in domestic demand and investment. The central bank predicts the economy will shrink 1.3% this year, compared with the government's forecast for 0.2% growth.

Moody's Investors Service Inc., the credit-ratings agency, is also considering a downgrade of its sovereign-debt rating for Portugal, because it is concerned that the country's high borrowing costs and feeble economic growth prospects could make it hard for the government to rein in its budget deficit.

Mr. Sócrates said he isn't concerned by doubts regarding economic growth, saying he has "great hope" that exports will grow by more than expected this year.

Portugal's finance ministry is also on a mission to lower the country's borrowing costs by diversifying its bondholder base. It has traveled as far afield as China, Brazil and the Persian Gulf to attract new capital.

The government is in the midst of €6 billion privatization program, with proceeds to be used to reduce its debt load. The government is privatizing or selling down its stake in such companies as the **TAP Portugal** airline and Portugal's largest electricity company, **Energias de Portugal** SA. Mr. Sócrates previously said Abu Dhabi's sovereign-wealth investment funds are studying Portugal's privatization program, with interest in energy and transport companies. "Our only problem is our public accounts," he said. The government has set itself an ambitious target of reducing its budget deficit to 4.6% of GDP in 2011 and to below 3% in 2012.

Medvedev vows crackdown

By Richard Boudreaux
And Gregory L. White

MOSCOW—President Dmitry Medvedev said terrorism is "the main threat" that Russia faces and vowed to find and eliminate those responsible for Monday's deadly suicide bombing at the country's busiest international airport.

Speaking to security officials, Mr. Medvedev said airport officials and police responsible for what he called lax security at Moscow's Domodedovo Airport would be punished.

But Monday's bombing, which killed 35 people and wounded more than 150, highlighted the persistence of terror attacks in the Russian heartland. Terrorists have struck the capital twice in the past 10 months, breaking a relative lull in attacks there that had lasted for several years.

"Terrorism is the main threat to our state," Mr. Medvedev said. He warned that extremist groups would be targeting major international events Russia is scheduled to host in the coming years, including the 2014 Winter Olympics in Sochi. Several foreigners were among the dead Monday, including a Briton, a German and a Bulgarian.

Some officials and analysts questioned whether the Kremlin could stop the attacks.

"We can't handle these first of all because we are a country that's corrupt—everything can be bought and sold," said Gennady Gudkov, a senior legislator from the pro-Kremlin Just Russia party. "Extremist groups and suicide bombers are appearing like mushrooms after the rain."

There was still no claim of responsibility for Monday's attack, but Russian officials said it bore the hallmarks of similar suicide strikes by Islamist extremists from the restive North Caucasus region.

In recent years, the groups have spread beyond their origins in Chechnya to other predominantly Muslim regions nearby. They have called for turning the area into an Islamic state.

Mr. Medvedev said security officials and citizens had let their guard down after the previous attacks in the capital, the twin bombings in March 2010 that killed 40 people in the Moscow subway and led to a short-lived tightening of security. "A loss of control and alertness happens," he said. "Terrorists take advantage of that."

Already Tuesday, finger-pointing had begun over who was to blame for Monday's bombing.

Mr. Medvedev, who an aide said still planned to arrive Wednesday at the World Economic Forum in Davos in time to deliver the keynote speech, blasted Domodedovo for what he said were "critical shortcomings." But airport officials rejected the criticism, saying security in the public zone outside international arrivals where the bombing took place was the responsibility of the police.

Access to that area isn't tightly controlled in most international airports world-wide, officials said. Scanning everyone entering an airport would be time-consuming and costly.

"The expense would be serious, requiring 5-10 times more checkpoints," said Andrei Nedosekov, deputy minister of transport.

He said authorities dramatically tightened controls over passengers and baggage after suicide bombers bribed their way onto two domestic flights from Domodedovo in 2004, killing 90. But the public area of the airport outside those checkpoints isn't as closely monitored, with police doing only spot searches. Mr. Nedosekov said there was no heightened alert at Domodedovo before Monday's attack.

The latest wave of major attacks to hit Moscow was in 2004, when suicide bombers struck rock-music festivals, subway stations and the flights from Domodedovo, killing scores.

The culmination came in the southern Russian town of Beslan, where terrorists seized a school. When Russian troops stormed the building in an attempt to end the siege, 331 hostages, more than half of them children, were killed.

World-wide revulsion over the siege and heavy insurgent losses at the hands of Russian forces may have helped to push the insurgent movement into a lull, according to Russian experts on the mostly Muslim Caucasus region.

In the years that followed, the insurgents rebuilt their battered underground networks with a new generation of men and a growing number of women bent on revenge, while the root causes of the conflict—the region's poverty, corruption and dominance by Russian-led counterinsurgency forces—remained unchanged, these experts say.

"The use of brutal, indiscriminate force in the Caucasus, the systematic use of state terror, has proven to be not only ineffective but also counterproductive," said Yekaterina Sokiryanskaya, a program director in the region for the Moscow-based Memorial Human Rights Center.

Associated Press

Russian Premier Vladimir Putin, front left, on Tuesday speaks to a man who was injured in Monday's airport bombing.

Bailout bond from EU draws strong demand

By Art Patnaude

LONDON—International investors poured into the first bond issued to fund a new European Union facility to save euro-zone governments from default, underscoring confidence in the EU's efforts to safeguard the euro.

The €5 billion ($6.82 billion) issue by the European Financial Stability Facility attracted bids totaling more than €40 billion Tuesday. The €440 billion sovereign-bailout fund was designed during the EU's 2010 sovereign-debt crisis in order to back high-debt countries unable to borrow on capital markets.

The EFSF said the bond generated strong demand in Asia, with investors there buying 38% of the total amount. Among the Asian buyers, Japan's government purchased more than 20% of the issue, reflecting its early commitment to contribute to European financial stability, the EFSF said.

"We've never seen an order book like this," said Valentina Stadler, senior credit analyst at UniCredit. "The driver is not only the top credit quality of the EFSF but also the extremely high political support."

That comes as a relief to EU policy makers, who have worried that further fiscal crises in Europe could rock investor confidence in the 17-nation euro zone and its common currency. Strong demand shows that investors trust the EU's handling of the debt crisis, German Economics Minister Rainer Bruederle said Tuesday.

The EFSF priced the €5 billion bond, maturing in July 2016, to yield 2.892%, or 0.59 percentage point above the yield on a German government bond with the same maturity.

The triple-A-rated EFSF aims to borrow as much as €16.5 billion in the bond market in 2011 and up to €10 billion in 2012.

"By all accounts, investors are falling over themselves to get their hands on the EFSF bond," said ING rates strategist Padhraic Garvey in a note.

Turkish film's opening delayed in Germany

By Marc Champion

A Turkish film in which the hero takes revenge on Israel for last year's clash at sea between Israeli soldiers and Turkish aid activists, won't be able to open in Germany as scheduled on Thursday—an annual day of remembrance of the Jewish Holocaust, the German movie-rating agency said.

"Valley of the Wolves, Palestine" is an offshoot of a wildly popular televised Turkish action series that has portrayed Israeli soldiers as wanton killers. The series, which began airing before the flotilla incident, triggered a diplomatic row between the two countries last year.

The movie's Facebook page says it will be released in more than 100 countries. With more than three million ethnic Turks estimated to live in Germany, the movie has a substantial potential audience there.

Tensions over the Mavi Marmara clash, which brought relations between Israel and Turkey close to rupture, had begun to calm by last fall, but began to boil again recently. This week, the former allies released competing fact-finding reports that come to diametrically opposed conclusions as to who was to blame.

On Tuesday, Germany's movie-ratings agency said it won't clear the Turkish movie in time to permit its planned opening there on Thursday, a day earlier than in other countries, saying its submission came too late to complete a review.

The Istanbul-based production company that made the movie said the ratings agency was violating "law, democracy and freedom of thought," by failing to classify the movie in time.

The Auschwitz-Birkenau concentration camps were liberated from Nazi control on Jan. 27, 1945. Germany has commemorated the date since 1996.

A spokesman for Germany's Voluntary Control of the Film Industry agency, known as FSK, said Tuesday that the cause of the delay was purely technical. "They gave us the film very late. We didn't have time to complete the examination," the spokesman said.

A meeting to rate the film is scheduled for Thursday, meaning it won't be cleared to show that day.

"Valley of the Wolves, Palestine" deals with the storming of the Mavi Marmara passenger ferry when it was sailing off the Gaza Strip as part of an aid convoy in May. Israeli soldiers shot and killed nine passengers—eight Turkish citizens and one U.S. national from Turkey.

In the new movie, the series' James Bond-like hero, Polat Alemdar, goes to Gaza to avenge the Turkish deaths by killing the Israeli commander who led the operation.

Pana Film, the Istanbul-based production company that made the movie, on Tuesday said, "Our guilt lies in standing beside innocent people, and not being supporters of Zionist-Fascist policies."

The movie was set for release a day earlier in Germany than elsewhere because movie-theater cycles in Germany start on Thursdays, said an official at Pera Films, the Cologne-based company distributing the movie in Germany.

The FSK spokesman said Thursday's meeting was being held on the earliest possible date.

Panafilm

'Valley of the Wolves, Palestine' features the character of Polat Alemdar, center.

EUROPE NEWS

IMF still sees risks in Europe

BY MICHAEL R. CRITTENDEN

WASHINGTON—The uneven global recovery continues apace but sovereign-debt and financial-sector risks, particularly in Europe, could threaten global stability, the International Monetary Fund said Tuesday.

A pair of reports released by the fund suggested that advanced economies are still struggling to move past the recent financial crisis, while growing emerging economies are showing signs of overheating and inflationary pressures.

Policy makers around the globe need to address these issues, including through the expansion of the rescue fund for the euro area, or risk a faltering recovery, the IMF said.

"A host of measures are needed in different countries to reduce vulnerabilities and rebalance growth in order to strengthen and sustain global growth in the years to come," the fund said.

The biggest area of concern remains Europe, where sovereign-debt issues and questions about some of the region's banks have led to an increasing amount of turbulence. The financial rescues of Greece and Ireland, as well as the potential for other countries to need aid, will continue to hurt market confidence in the region, the IMF said.

"In particular, continued market pressures could result in serious funding pressures for major banks and sovereigns, increasing the likelihood that problems spill over to core countries," the report said.

Euro-area countries should move aggressively to combat these problems by embracing more rigorous stress tests of the region's banks, as well as an expansion of the scope and size of the European Financial Stability Facility.

The key is to try to decouple the risks to the economy caused by both sovereign and banking risks, the report said.

"The evident links between weak balance sheets of government and banking sectors have led to renewed pressures in funding markets in the euro area and widening strains," the fund said.

Beyond the problems in Europe, the IMF said it is also concerned with any slowdown in the global efforts to heighten regulation of the financial-services industry, as well as the ability of emerging-market economies to deal with an increase in capital inflows. On the latter issue, the fund said that countries need to consider a range of policy options—including currency appreciation—to prevent any asset-price or credit bubbles.

"Policy makers will need to be attentive and act in a timely manner when pressures from inflows are building up," the report said, acknowledging that capital controls and other macroprudential measures might be necessary.

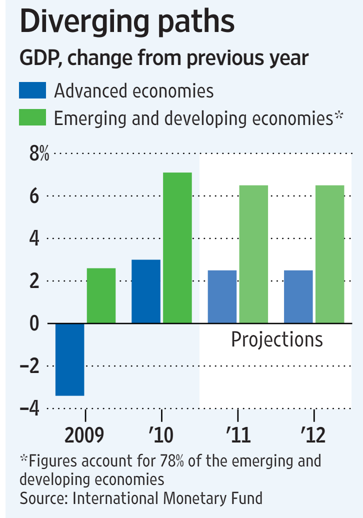
For the U.S., the fund's World Economic Update suggested that continued efforts to stimulate the economy "are justifiable at this juncture" given the unemployment and housing markets, while monetary policy should continue to be accommodative.

Longer term, however, the fund said the U.S. needs to start work on a plan to deal with its fiscal situation.

"The absence of a credible, medium-term fiscal strategy would eventually drive up U.S. interest rates, which could prove disruptive for global financial markets and for the world economy," the fund said.

The IMF said it currently expects the U.S. economy to grow 3% in 2011—up from its October projection of 2.3%—but it expects only 2.7% growth in 2012.

The fund also projected economic growth of 1.5% in the euro zone this year, while China is expected to continue to lead the major economies with growth of 9.6% in 2011.



*Figures account for 78% of the emerging and developing economies
Source: International Monetary Fund

Turkey warns on inflation

BY JOE PARKINSON

ISTANBUL—Turkey's central bank raised its inflation forecast and issued a robust defense of its controversial policy to simultaneously curb hot-money growth and cool a domestic lending boom.

Governor Durmus Yilmaz said the monetary policy committee had raised its 2011 inflation expectation to 5.9% from 5.4%. Mr. Yilmaz also said the bank's policy of cutting the key interest rate while raising banks' reserve ratios is "the best choice" for Turkey, and rejected criticism that the bank hadn't communicated its strategy effectively to the market.

Mr. Yilmaz conceded that the deteriorating current-account deficit represented an early sign of overheating, but the central bank chief cautioned that he was eager not to "put the brakes on too hard" to jeopardize sustainable growth.

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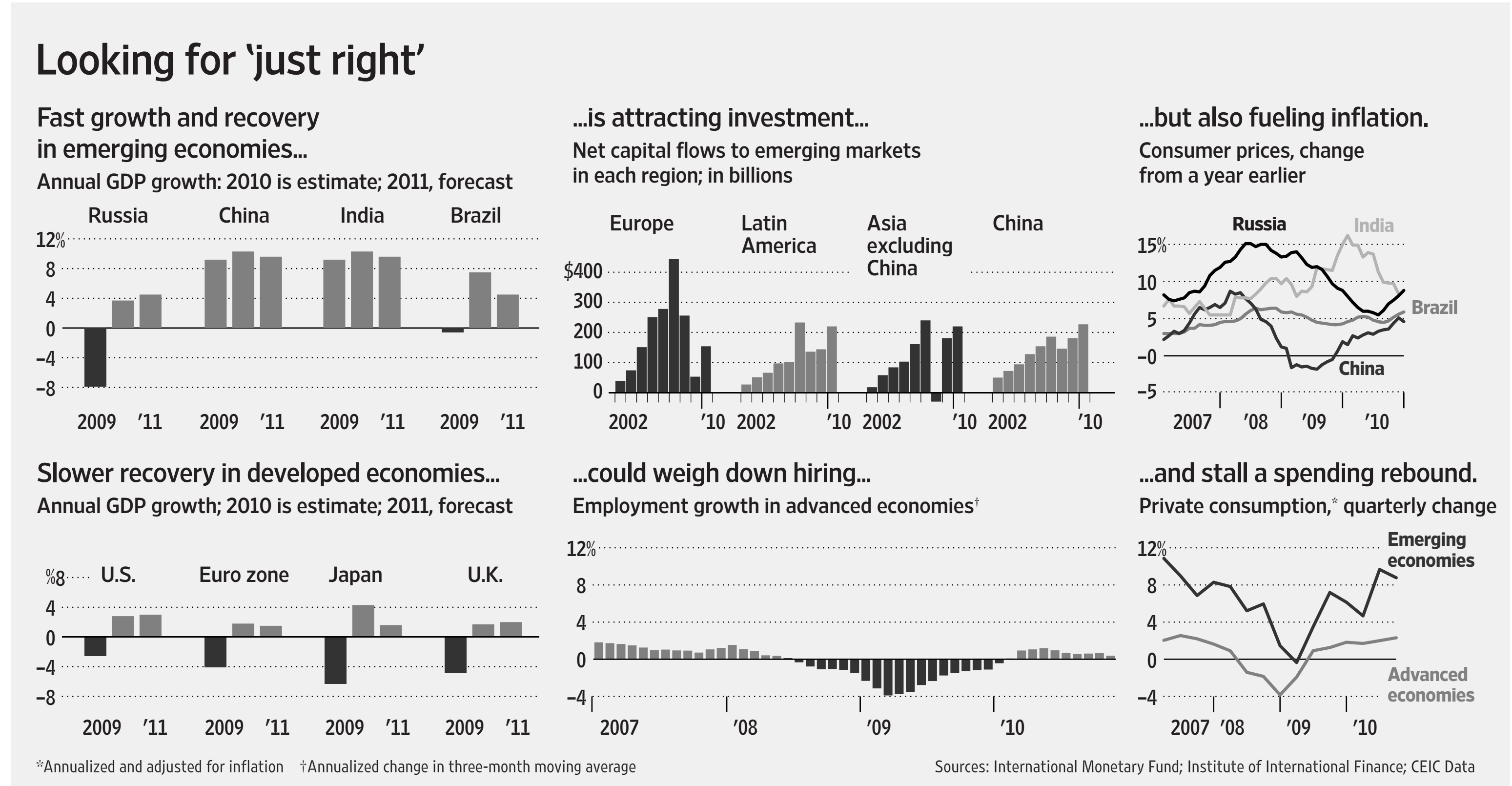
DAVOS: WORLD ECONOMIC FORUM

The global recovery is asymmetrical

By Jon Hilsenrath
And Anjali Cordeiro



As the financial crisis of 2008 fades into the past, corporate executives are having to navigate an unbalanced global economic recovery, marked by supercharged growth in the developing world and painfully slow growth in the mature economies that suffered most during the downturn.

Multinational corporations such as **Yum Brands** Inc. and **Manpower** Inc., lured by the eye-popping pace of growth in China and other emerging markets, are investing aggressively there, breeding more growth and inflation.

Those same executives, seeing slow growth and uncertainty over government budget and regulatory policies, are proceeding cautiously in the advanced economies, exacerbating the sluggishness that makes businesses wary in the first place.

The unbalanced world economy is likely to be a major theme as executives, government officials, academics and journalists gather at the World Economic Forum in Davos, Switzerland, which kicks off Wednesday. It's also one force behind the new focus on national competitiveness expected to be sounded by President Barack Obama in his State of the Union address Tuesday night.

Evidence of this two-speed global recovery is widespread.

Yum Brands, the fast-food chain, will build roughly 900 KFC, Pizza Hut and Taco Bell restaurants this year; 80% of them will be in emerging markets. A stand-alone China division will add an additional 500 to 600 stores.

"The big opportunities in our category are in the developing world," says Graham Allan, who runs the international division of Yum. "We intend to go after it."

AkzoNobel, a Dutch manufacturer of paints, plans to open two stores a day in China and is pouring money into a Brazilian pulp and paper business.

Chief Executive Hans Wijers says his biggest worry in emerging markets is: "Are we growing fast enough?" In the U.S. and Europe, meanwhile, he worries about having excess capacity.

One threat for developing countries is overconfidence, an ingredient in the housing and technology bubbles that have plagued the global economy in the past.

Federal Mogul Corp., a Michigan auto-parts supplier which emerged from bankruptcy protection in 2008, eliminated 11,000 jobs during the recession, most of them in North America and Europe. Since the recession ended it has hired 4,000 workers—half in emerging markets.

Manpower, a U.S. staffing firm, says 95% of its new office openings this year will be in emerging markets such as Poland, India, China and Vietnam, 100 to 125 new offices in all.

In many emerging markets, it's as if the downturn never happened. In China, annual purchases of cars and trucks have soared to more than 18 million in 2010 from five million in 2005. In the U.S. and Europe sales are still below precrisis peaks. **General Motors** Co. sold more cars in China last year than in the U.S. Inflation-adjusted output has risen more than 70% in China since 2005 and about 55% in India, but only 16% in the U.S.

Money is pouring into the hot emerging economies, creating inflationary pressure that policy makers are having trouble containing.

Foreign-exchange reserves—which are central-bank holdings of foreign currencies—have risen sharply since the crisis. At more than $5 trillion, they are six times their level a decade ago, according to calculations by the Federal Reserve. China holds about half of the total, slightly more than $2.6 trillion.

The International Monetary Fund estimates that emerging markets will see an annual economic growth rate of 6.5% in 2011 and 2012, while the world's advanced economies will expand at a rate of 2.5%. In the developed world, "growth remains subdued, unemployment is still high, and renewed stresses in the euro area periphery are contributing to downside risks," the IMF said in a recent report.

Kenneth Rogoff, a Harvard professor and former chief economist at the IMF, says the growth differential is likely to be wider over the next decade than it was over the last decade. Developing economies, in turn, he says are "going to be facing a lot of pressures from their success."

As growth patterns shift, Vineet Nayar, chief executive of **HCL Technologies**, a fast-growing Indian outsourcing firm, sees the mindset of executives shifting. Before the crisis, he says, many firms based in rich countries were content to rely on domestic consumption.

Today their leaders are unhappy with domestic markets "and hungry," he says. At the same time, executives in developing economies before the crisis "had aspirations but didn't have the confidence. Today they have a huge amount of self-belief that was not there a few years ago."

A new PricewaterhouseCoopers survey of 1,201 chief executives, conducted between September and December, documents this. Among executives based in North America, 94% see revenue growth in Asia this year, 80% in Latin America, while only 67% forecast growth in North America and 51% in Western Europe. Executives in Europe have even more disparate views —48% predict growth in their home base but 86% see growth in Latin America and 92% in Asia.

The survey isn't all bad news. In PWC's 2010 report, only 27% expected to do more hiring in Germany; in the current report, 62% do. And 55% expect to hire in the U.S., up from 39% last year. Another silver lining for U.S. companies: Many are pouring money into research and development in search of a global competitive advantage, which could create opportunities for workers back home. "They are investing hugely in innovation," says Mr. Nayar.

And executives are less worried about the big rich countries closing their markets to emerging-market rivals. Trade protectionism ranked in PWC's survey as a worry in 2009 and 2010 but fell off the list in 2011. "These markets today are so interconnected, protectionism is not a way to solve these problems," says Dennis Nally, chairman of PWC's international division.

While enjoying the fruits of rapid growth, developing countries face perils from this period of unbalanced growth.

One threat is overconfidence, a key ingredient in the technology and housing bubbles that plagued the global economy during the past decade in the financial excesses in Asia in the 1990s.

"The euphoria which was there among the emerging countries, especially China and India, is going to be tempered a little by concerns about overheating and concerns about asset bubbles," says Nariman Behravesh, chief economist at IHS Global Insight.

He is particularly concerned about a real-estate bubble forming in China.

The value of all of the homes in China, he estimates, is about 3.5 times the value of its annual economic output—a ratio with alarming implications because it suggests housing there is overvalued. The U.S. ratio of home values to economic output was much lower, at 1.8, during its recent housing bubble. "There is reason to worry," says Mr. Behravesh.

Policy makers in the fast-growing emerging world are having a hard time stemming such asset-price increases, or brewing inflationary pressures. China's currency is pegged to the dollar, a link that limits China's ability to raise interest rates to control inflation. It could allow the currency to appreciate more, but exporters are pushing against this because they see the cheap currency as a way to spur sales abroad. Other emerging economies, such as Brazil, have raised interest rates and allowed their currencies to appreciate but are reluctant to go too far for fear of putting their own exporters at a disadvantage against the Chinese.

Investors are growing worried that some central bankers may already be behind the curve in preventing inflation and may have to raise rates more than expected this year. Those fears have pushed stock indexes in India and China down by 7% and 4% this year even as the S&P 500 is up nearly 3%.

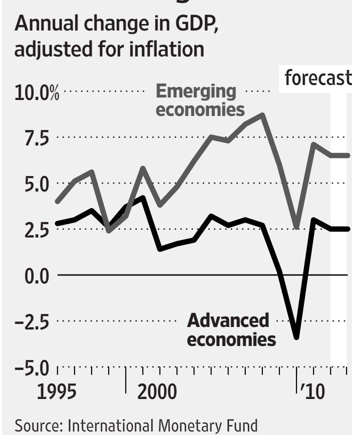
Policy makers from Brazil to Taiwan are intervening directly in foreign-exchange markets to hold down their strengthening currencies. They do this by scooping up dollars and selling their own currencies. Some are also restricting the flow of capital into their markets. But there's no model for getting that policy balance just right and avoiding unstable capital markets.

"The consequences of these ad hoc interventions are not well understood," says Ramin Toloui, co-head of emerging markets at investment giant **Pacific Investment Management** Co. "It creates a new set of question marks and risks."

Then there's the key question of whether developing economies have the legal framework needed to cope with their supercharged growth.

Craig Petray, chief executive of Chicago sweetener maker The NutraSweet Co., says the company is trying to expand its China business, but is holding off on building a plant there partly because of concerns about protecting its intellectual property. His firm sells a sweetener called Neotame to Chinese food and beverage makers but he says that some local Chinese companies have begun making the same brand in violation of NutraSweet's China patents.

The firm is "exploring legal avenues," he says, but hasn't succeeded in fending off the copycats.



Brighter view

Ahead of Davos, a PricewaterhouseCoopers survey of CEOs world-wide found a more upbeat group than last year.

■ **Confidence returns:** 48% of CEOs said they were 'very confident' of growth in the next 12 months. That compares with 31% last year and 50% in its 2008 report, just before the crisis began.

■ **Key markets:** China named by 39% of CEOs as the most important player in the outlook. The U.S. followed at 21% with Brazil (19%) and India (18%) rounding out the top four.

■ **Jobs:** Just 16% of CEOs planned to cut their work force, down from 25% a year ago.

Survey based on interviews with 1,201 CEOs in 69 countries in fourth quarter.
Source: PricewaterhouseCoopers

Bankers to challenge rules

Continued from first page

key details still need to be ironed out.

At a pre-Davos news conference in Paris on Monday, Frédéric Oudéa, chairman and chief executive of giant French bank **Société Générale** SA, said the industry was hoping to discourage individual countries from imposing requirements that are tougher, or take effect sooner, than the Basel rules.

Already, Switzerland has ordered its banks to meet much higher capital and liquidity requirements than faced by other banks. U.K. authorities also are looking into so-called gold-plated standards that would exceed international norms.

"Individual jurisdictions should avoid adding further standards or requiring accelerated implementation," Mr. Oudéa said.

To be sure, it is too late for the banks to derail momentum toward tougher regulations. In addition to the Basel accord, the U.S. last year enacted the Dodd-Frank law that will overhaul and toughen oversight of financial institutions. European lawmakers have imposed restrictions on the bonuses that banks can award to their top performers.

"In terms of regulation, the heavy lifting has been done," said Thomas Huertas, the head of banking-sector regulation at the U.K.'s Financial Services Authority.

But, he added, the regulatory to-do list remains lengthy—and features plenty of controversial issues that are already becoming battlegrounds with the banking industry.

U.S. officials are crafting the rules that will determine the sharpness of Dodd-Frank's teeth. In Europe, regulators are preparing a new round of "stress tests" of top banks.

In the U.K., a government-appointed commission is studying potentially vast structural changes to the banking industry, and bankers and government officials are in talks over restrictions on banker pay and potential lending requirements.

Harald Benink, a professor of banking and finance at Tilburg University in the Netherlands, said there was an "enormous" amount of regulatory issues still up in the air. "There will be a lot of lobbying."

One item in many banks' crosshairs: a provision of the Basel accord that calls for regulators to impose higher capital requirements on "systemically important financial institutions."

Bankers and regulators are haggling over how to define that term. Most banks want the list of such banks to be as small as possible. But the industry also is warning that leveling a capital "surcharge" on one big bank but not another could create an uneven playing field.

"Imposing simple capital surcharges isn't the right way to improve stability," Société Générale's Mr. Oudéa said. He said regulators are wrong to focus solely on big banks.

That argument isn't likely to sway many policy makers. Bailouts of giant banks, not small ones, have been costly and deeply unpopular for many Western countries.

Bloomberg News

Bob Diamond of Barclays says bankers' 'period of remorse and apology' is over.

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Some thoughts on unlocking potential in today's environment: 1. Innovation is essential, especially if it's disciplined and focused on business outcomes; 2. Out-thinking the competition is useless unless you can out-execute them as well; and 3. This is no time for trial and error; winners get it right the first time. Talk to us to see how we can help you turn potential into tangible performance.

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Is Spain next in line for a bailout?

By Stephen Fidler

Greek Prime Minister George Papandreou arrived in January 2010 at the World Economic Forum in Davos, Switzerland, pledging that his indebted country would pay its bills and do what it must to avoid a bailout.

What has happened since then would have surprised most of his audience: Greece took a €110 billion ($150 billion) rescue package from other euro-zone governments and the International Monetary Fund. Ireland sought aid, too, to the tune of €67.5 billion. The European Union sought to bolster confidence by assembling a bailout fund with a headline figure of €750 billion.

Even so, the crisis hasn't been contained. Many financial-market analysts think Portugal, with its high debts and slow growth, will be next in line for a bailout package. Then there is Spain, whose economy is almost twice the size of Greece, Ireland and Portugal combined.

Reuters

Greek Prime Minister Papandreou, right, with his finance minister, George Papaconstantinou, at last year's forum in Davos.

Lorenzo Bernaldo de Quirós, of Freemarket International Consulting in Madrid, describes the mood in the financial circles of Spain's capital as being one of "true terror."

That's not because Spain's government debt is of Grecian proportions. According to the European Commission, Madrid's debt is equivalent to around 64% of economic output, well below the euro-zone average of 84%. This is forecast to rise to just 73% by the end of 2012.

But there are known unknowns that disturb investors. One is the size of the hole in Spanish savings banks that will have to be filled by government borrowing. Analysts at Barclays Capital estimate that Spanish banks need €46 billion to €90 billion in new capital—between 4.5% to 9% of Spain's economic output—and other estimates suggest even more will be required. Government officials have said €30 billion should do it.

Furthermore, Spain's central government is directly responsible for only about one-third of public spending. About the rest, which includes spending by autonomous regional governments and municipalities, there is insufficient transparency, says Mr. Bernaldo de Quirós.

Yet there is no consensus on whether Spain will need a bailout. Many economists concur with an analysis from Goldman Sachs last week that says Spain may face a liquidity crisis—a shortage of short-term funding that an international package should suffice to fill—but not a crisis of solvency, a fundamental inability to pay its way. Even under a pessimistic scenario, wrote Goldman analyst Dirk Schumacher, Spain's debt can be stabilized at about 90% of economic output.

But, says Daniel Gros, director of the Centre for European Policy Studies in Brussels, a liquidity problem that isn't tackled properly can quickly become a solvency problem.

One frequent criticism of the EU's bailout facility is that it can't intervene quickly enough to stem panic and prevent a solvency crisis from developing.

Faced with this criticism and others, the euro zone has since the start of this year been awash in ideas to bolster the rescue fund's functioning and capacity. Proposals include earlier intervention that could nip an incipient crisis in the bud, lower interest rates for borrowers, and the possible financing of government bond purchases.

The crisis has also changed the EU in other ways unforeseen a year ago. For the first time, says Charles Grant of the Centre for European Reform in London, the EU has a single nation in the driving seat: Germany. Paris has taken a back seat following years of Franco-German leadership. Also, the European Commission, the EU's Brussels-based executive arm, has been weakened.

That has imposed German thinking on the euro zone, Mr. Grant says. The Continent's weaker economies are being told that the price for aid, and the only way to escape their economic troubles, is to follow the German example of fiscal discipline and structural reform.

It may be a bitter pill. A future of more austerity and tough structural reforms won't be popular in Europe's peripheral nations. There are already recriminations in Ireland over the tough terms for its bailout, while voters in Germany and other creditor countries rail at having to support their profligate or careless neighbors.

One year after Mr. Papandreou's ultimately futile campaign to stave off a bailout, the spotlight has moved on from Greece. But perhaps not forever.

Many analysts argue that, with a ratio of debt to economic output expected to exceed 150% by the year's end, Athens will be unable to service its debts. If holders of Greek bonds are forced to take losses in a debt restructuring, says Mr. Gros, the risk is that a second round of market nervousness could strike the euro zone. Whether that happens or not, he says, "is more psychology than hard economics."

A year in Europe

Key moments in the spread of the Continent's debt crisis

■ **Jan. 27, 2010:** Greek Prime Minister Papandreou begins a campaign in Davos to convince panicking bond markets that Greece won't need a bailout.

■ **Feb. 11:** After last-minute haggling between French President Sarkozy and German Chancellor Merkel, the leaders at a European Union summit pledge action to defend euro-area stability. Though vague, their statement sets the stage for future action but shows Germany's reluctance to agree to bailouts.

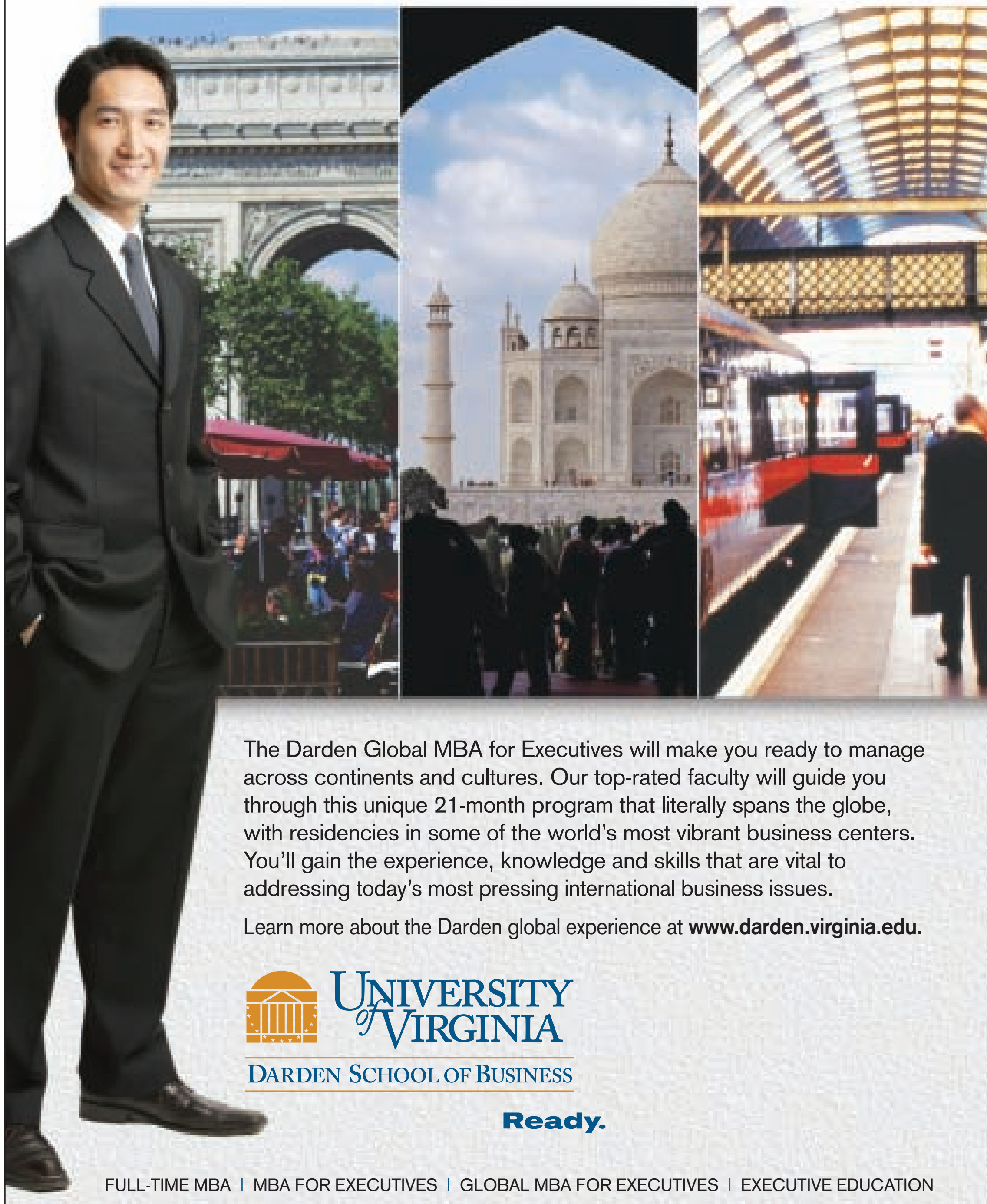
■ **April 11:** In a hasty Sunday meeting, finance ministers approve the outlines of a deal for Greece: €30 billion in bilateral loans plus €15 billion from the IMF. It is the first time that cash is put on the table.

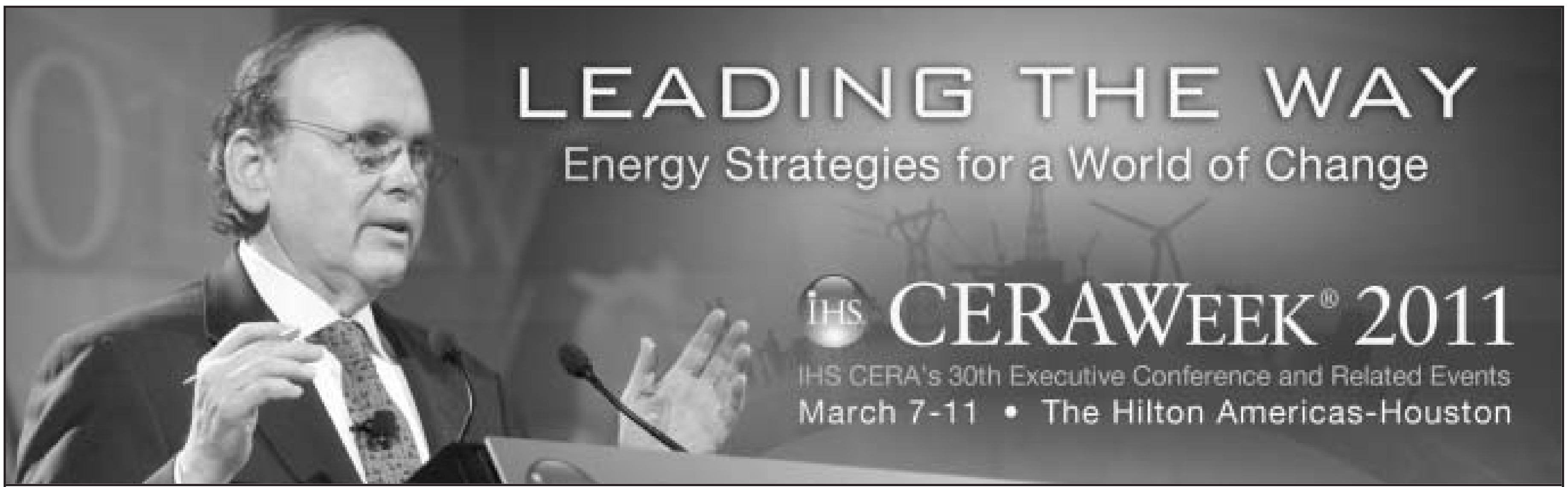
■ **May 9-10:** An emergency meeting of EU finance ministers, is initially called to rubber-stamp the Greek bailout, which by now had expanded to €110 billion. Meeting ends, in the early hours of Monday morning, with agreement on a €750 billion rescue fund.

■ **Sept. 30:** After weeks of trying to keep a lid on bank troubles, Ireland admits that its bank rescue will be larger and broader than it had thought.

■ **Oct. 18:** On the boardwalk of the French seaside resort of Deauville, Merkel and Sarkozy agree that a future bailout fund could force holders of government bonds to take losses.

■ **Nov. 18:** European Central Bank governing council threatens to cut off Ireland's extraordinary bank liquidity facility. Days later, Ireland asks for a bailout. A total of €67.5 billion is granted on Nov. 28.





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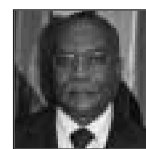

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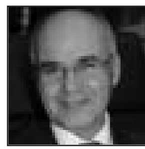

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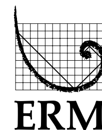

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U.S. NEWS

Getty Images

Home prices in the U.S. declined in November. Above, a real-estate agent leaves an open house at a San Francisco home.

Broad economic gains fail to reach housing market

By Sara Murray

U.S. home prices declined in November, falling to new lows in a handful of cities and underscoring that the housing sector has yet to join the nation's broader economic recovery.

The Standard & Poor's/Case-Shiller home price index, which tracks prices in 20 major cities, fell 1.6% in November from the same month a year ago, according to Tuesday's report. Home prices have buckled under excess housing supply, exacerbated by foreclosures. At the same time, Americans remain reluctant to buy amid high unemployment.

The 20-city index is above the low hit in spring 2009, at the depth of the recent recession, but prices are still falling in some cities. House prices in nine cities, including Las Vegas, Charlotte, and Detroit, dropped to their lowest point since the housing bubble burst.

Four cities—Los Angeles, San Diego, San Francisco and Washington, D.C.—reported prices that were higher than in November 2009.

Compared to October, the seasonally adjusted home price index declined 0.5% in November, while prices fell in 16 of the 20 cities surveyed. It was the fifth consecutive month of declines.

The Federal Housing Finance Agency's housing-price index released Tuesday showed similar deterioration over the past year. The agency's index, which covers mortgages sold to or guaranteed by Fannie Mae or Freddie Mac, showed home prices declined 4.3% in November from the same month a year earlier. Seasonally adjusted prices were unchanged in November from a month earlier.

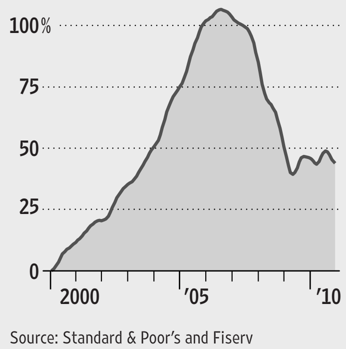
The pickup in economic growth hasn't been enough to spur widespread improvement in the housing market, though there were tentative signs of improvement in the housing sector at the end of 2010. A report last week showed sales of previously owned homes rose 12.3% in December from a month earlier, hitting a seven-month high.

Despite the housing woes, Americans grew more optimistic as the year began. An index of consumer confidence jumped to 60.6 in January from 53.3 in December, the Conference Board said Tuesday. Consumer perceptions of both current economic conditions and the outlook for the economy improved this month. The index measuring present conditions ticked up 6.1 points to 31 in January. An index that gauges consumer expectations increased eight points to 80.3.

—S. Mitra Kalita contributed to this article.

Trouble spot

Change since January 2000 in S&P/Case-Shiller index of U.S. home prices



Source: Standard & Poor's and Fiserv

New twists in Chicago race

By Lauren Etter

CHICAGO—The Illinois Supreme Court agreed to review the case challenging Rahm Emanuel's qualification to run as Chicago's next mayor.

The high court on Tuesday issued a one-page order saying that it would act on Mr. Emanuel's emergency motion seeking a review of a lower-court decision that knocked him off the mayoral ballot.

The court will only review briefs previously filed by lawyers in the lower court. It won't hear oral arguments.

The order breathes new life into Mr. Emanuel's campaign. He and his team suffered a severe blow Monday after a three-judge panel of the Illinois Appellate Court ruled that Mr. Emanuel wasn't eligible to run for mayor because he forfeited his residency when he moved to Washington to work for President Barack Obama in 2009.

The 2-1 decision by the panel reversed a lower-court ruling that had given Mr. Emanuel permission to be on the ballot.

Late Monday evening, Mr. Emanuel filed an emergency motion to the high court asking the justices to prevent the Chicago Board of Election Commissioners from printing ballots without his name. Tuesday morning, Mr. Emanuel's lawyers filed their appeal of the appellate court's decision.

On Monday morning, printing of ballots without Mr. Emanuel's name began, but this was halted at noon, when the election board received an order from the Illinois Supreme Court to include Mr. Emanuel's name on all ballots being printed while it reviewed the matter. Election officials are under pressure to get ballots out to voters soon, as early voting begins Monday.

Now the ball is in the hands of the state's high court. No time line was indicated for when a decision would be made. However, the Emanuel campaign has asked the court to review the case on an expedited basis. Given that oral arguments won't be heard, it's likely the court will issue a decision sooner rather than later.

Embassy bomber gets life in prison

By Chad Bray

NEW YORK—A former Guantanamo detainee was sentenced to life in prison Tuesday after he was convicted last year of conspiracy in the 1998 bombing of U.S. embassies in Africa.

Ahmed Khalfan Ghailani, 36 years old, was the first former detainee of the prison in Guantanamo Bay, Cuba, to be tried in a U.S. civilian court.

In November, a jury convicted Mr. Ghailani of one count of conspiracy but acquitted him of more than 280 other counts in connection with two truck bombings outside U.S. embassies in Tanzania and Kenya that killed 224 people and injured thousands.

"It was a cold-blooded killing and maiming of innocent people on an enormous scale," U.S. District Judge Lewis A. Kaplan said in Manhattan federal court on Tuesday as he sentenced Mr. Ghailani, who is Tanzanian, to life in prison.

"The very purpose of the crime was to create terror by causing death and destruction on a scale hard to imagine in 1998 when it occurred."

As part of the sentence, the judge also ordered Mr. Ghailani to pay $33 million in restitution.

Lawyers for Mr. Ghailiani, who has been in U.S. custody since 2004, including at Guantanamo from 2006 to 2009, argued for leniency. They cited his mistreatment while in U.S. custody. Mr. Ghailani didn't address the court himself during the sentencing.

> **Federal prosecutors in Manhattan said Mr. Ghailani, who later became a bodyguard for Osama bin Laden, was a full-fledged member of the conspiracy.**

While being held by the Central Intelligence Agency, Mr. Ghailani was subjected to so-called enhanced interrogation techniques, according to his lawyers.

His lawyers have said those techniques amount to torture. "Nothing developed through the history of our system of justice ever envisioned the use of torture in a criminal matter," said Peter Quijano, one of Mr. Ghailani's lawyers.

The judge said his sentencing decision shouldn't be taken as condoning any mistreatment Mr. Ghailani may have suffered. He said Mr. Ghailani may have remedies for any "illegal and improper actions by our government." The judge said: "Today is about justice not only for Mr. Ghailani, but for the victims of his crimes."

During the trial, which lasted more than a month, lawyers for Mr. Ghailani had argued that he was duped by more sophisticated people into purchasing material used in a bombing outside the U.S. Embassy in Dar es Salaam, Tanzania.

However, federal prosecutors in Manhattan said Mr. Ghailani, who later became a bodyguard for Osama bin Laden, was a full-fledged member of the conspiracy.

Prosecutors said he knew what he was doing when he purchased a truck and other materials used in the Tanzanian bombing, including gas tanks containing pure oxygen and acetylene.

Agence France-Presse/Getty Images

Ahmed Khalfan Ghailani

"To have a spouse murdered in the way I did has been excruciatingly painful," said Sue Bartley.

Ms. Bartley lost her husband, Julian, the U.S. consul general in Nairobi, Kenya, in 1998 and her 20-year-old son, Jay, a college student in Kenya, in the Nairobi bombing.

"The pain is with me every day. Oftentimes, it is unthinkable," she told the court on Tuesday before the judge handed down the sentence.

Four other men were convicted and received life sentences in a separate 2001 trial in New York stemming from the embassy bombings.

Mr. Ghailani was transferred from Guantanamo to New York in 2009 to face trial before opposition grew against holding major terrorism trials just blocks from the site of the World Trade Center in lower Manhattan.

In 2009, U.S. Attorney General Eric Holder announced plans to try Khalid Sheikh Mohammed and other plotters of the Sept. 11, 2001, terrorist attacks in civilian court in New York.

However, those plans have been since put on hold following a backlash from New Yorkers and members of Congress over security and other concerns.

President Barack Obama has vowed to close the detention facility at Guantanamo.

However, the administration will have to navigate new congressional restrictions signed into law in December concerning the movement of prisoners to the U.S. from Guantanamo for trials.

The Defense Department is expected to soon approve military-court proceedings against Abd al-Rahim al-Nashiri, who is accused in the 2000 attack on the U.S.S. Cole in Yemen.

Some 173 prisoners remain at Guantanamo.

The Obama administration wants to put some on trial and send others to third countries, and it also wants to detain dozens indefinitely without trial.

Military tribunals haven't necessarily produced long sentences. In October, Omar Khadr pleaded guilty to planting roadside bombs and throwing a grenade that killed a U.S. soldier in Afghanistan.

Mr. Khadr, a Canadian captured at age 15, received an eight-year sentence under a plea agreement. The U.S. agreed to support his repatriation to Canada after one more year at Guantanamo.