



Corporate Conference Call

11 May 2010

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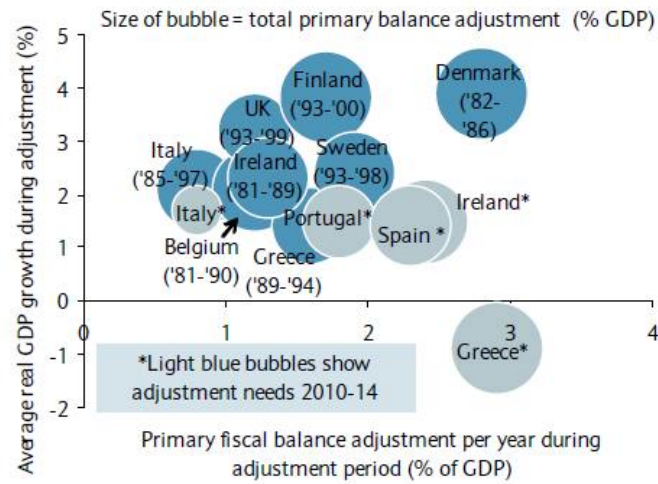
Plan

- The Greek crisis and the weekend's policy measures
 - ▶ Will they work?
 - ▶ What are the implications for the UK?
- The UK and GBP after the election
 - ▶ Fiscal sustainability
 - ▶ Monetary policy
- Fairly significant forecast changes



Greece faces a very difficult combination of large adjustment and weak growth

Figure 4: Needed fiscal adjustment to stabilize debt dynamics

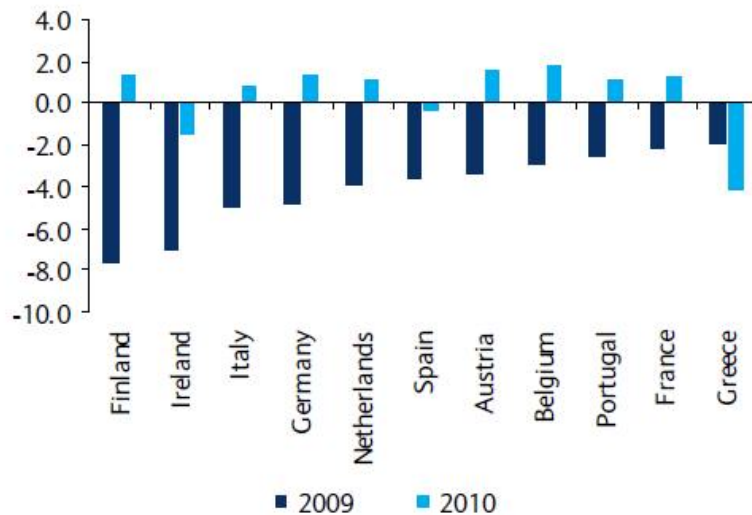


Source: Haver Analytics, Barclays Capital



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Fiscal consolidation is going to lead to a very slow recovery

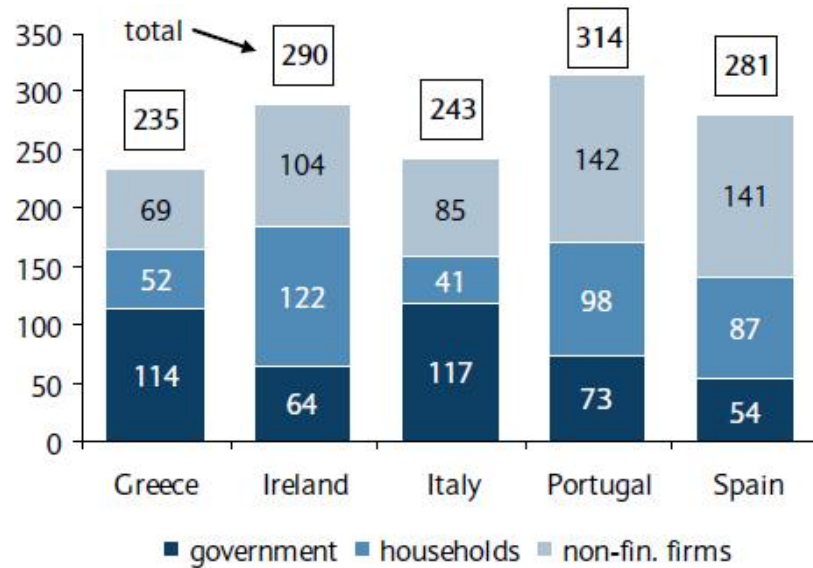


Source: Eurostat, Haver Analytics, Barclays Capital



4

Government debt is not the only issue facing the peripheral economies



The euro zone package

- Shock and awe:
 - ▶ 750bn worth of loan guarantees and other support: most from the euro zone but over 200bn from the IMF
 - Note, the total government financing needs for Greece, Portugal, Spain and Ireland combined in 2010 is around 200bn
 - ▶ A resumption of the long-term refinancing operations
 - ▶ A resumption of USD swap lines
 - ▶ ECB to buy government bonds on the secondary markets – importantly this is not QE (ie it will not allow the purchases to increase the money supply)
- It requires:
 - ▶ Government and national parliament support
 - ▶ The countries that are being supported need to undertake significant fiscal consolidation packages

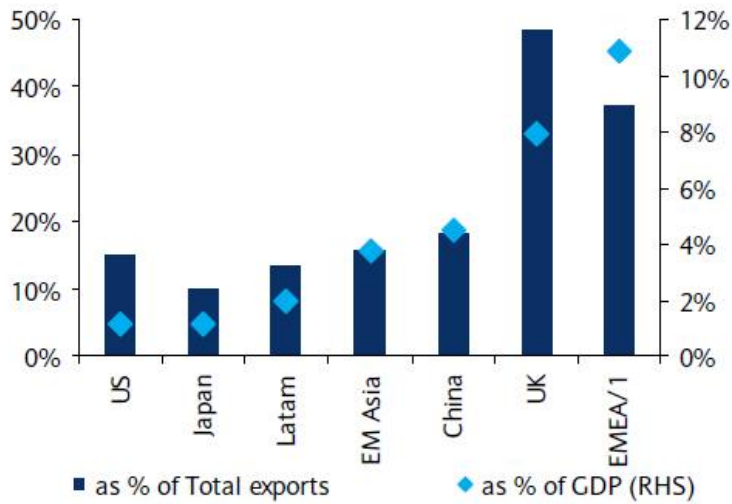
Will it work?

- Several issues:
 - ▶ A liquidity/short-term confidence problem
 - ▶ (Perhaps) a solvency problem
 - ▶ Issues with the framework of the euro zone
 - By construction, the single currency reduces monetary flexibility
 - But the euro zone also has restricted fiscal flexibility
 - And the politicians will need to answer important questions
- Of particular importance are:
 - ▶ Who is going to pay for this?
 - ▶ Is this a bail out?

What does it mean for the UK?

- Another period of financial fragility is the last thing any economy needs – euro zone stability is very much in the UK's interests because of the impact on financial markets
- The euro zone is the UK's most important trading partner
- Moves in the EUR are important for moves in GBP – even against third currencies
- The focus on government finances has great importance for the UK given our large debt and deficit and the uncertainty about the next government

The UK is relatively exposed to the euro zone via trade links...

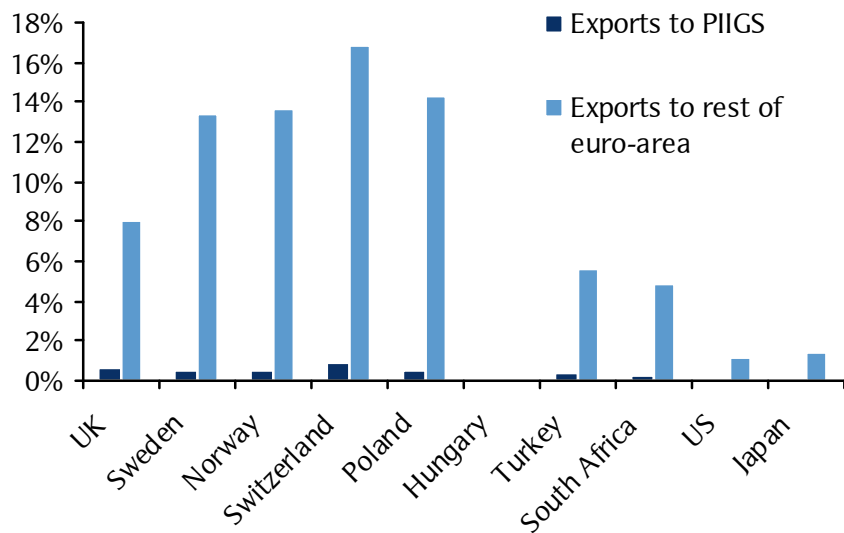


Note: EMEA comprises of Eastern European countries plus Turkey, Israel and South Africa. Source: IMF, Haver Analytics, Barclays Capital



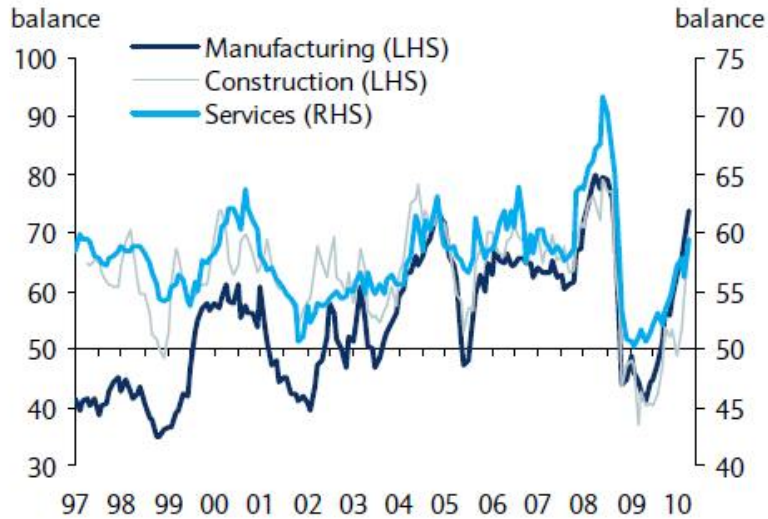
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... though little of the exposure is to the most affected economies



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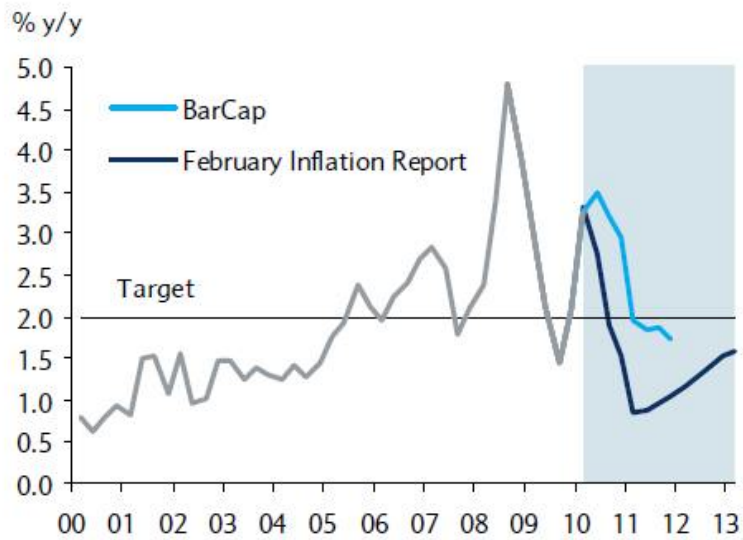
UK companies' price pressures appear to be increasing



Source: Haver Analytics, Barclays Capital



If you look at one thing in the Inflation Report, look at the BoE's short-term inflation projections



Source: Haver Analytics, Bank of England, Barclays Capital



Prospects for GBP in light of all the news

- In the very short run
 - ▶ Significant volatility likely, especially if it takes a long time to form a new government
- Over the next few months:
 - ▶ Prospects relative to the EUR have improved:
 - The global recovery persists
 - The UK recovery persists
 - The EUR crucial long-run issues
 - ▶ Prospects relative to the USD have worsened:
 - The euro zone issues affect the UK as well
 - US economic prospects are improving significantly more quickly than those in Europe, including the UK

Forecasts

	Spot	Forecasts			
		1 Month	3 Month	6 Month	1 Year
GBP/USD	1.49	1.45	1.48	1.57	1.57
GBP/EUR	1.16	1.21	1.23	1.26	1.26
EUR/GBP	0.86	0.83	0.81	0.80	0.80
EUR/USD	1.28	1.20	1.20	1.25	1.25
USD/JPY	93	95	96	98	100
USD/CHF	1.11	1.21	1.23	1.20	1.24
USD/CAD	1.03	1.03	1.00	1.00	1.03
AUD/USD	0.90	0.90	0.88	0.84	0.82
NZD/USD	0.72	0.70	0.70	0.69	0.67
EUR/JPY	120	114	115	123	125
EUR/CHF	1.42	1.45	1.47	1.50	1.55
EUR/SEK	9.65	9.75	9.60	9.50	9.40
EUR/NOK	7.88	8.10	8.05	7.90	7.85

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