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US recovery path 'raises risk of global instability'

By Denise Roland

A BADLY timed exit from quantitative easing and subsequent interest rate rise in the US could wreak havoc with global financial stability, the International Monetary Fund has warned.

The think tank cautioned that, on the one hand, the longer the US Federal Reserve continued with "extraordinary policies" – QE and ultra-low interest rates – the more financial stability risk will build up.

On the other, a hasty end to QE, triggered by rising inflation or concern about financial stability, would shock global markets, the IMF warned in its Global Financial Stability Report in Washington.

The Fed's announcement last May that it was considering reducing bond purchases – or tapering – unleashed a global sell-off as investors braced for a sharp reduction in the amount of liquidity in the financial system. Emerging market assets were the worst hit.

The US central bank did not start tapering until December and has trimmed asset purchases at every policy meeting since. Asset purchases have now fallen to $55bn (£32bn) per month from the monthly $85bn prior to December.

"As the turbulence of last May demonstrated, the timing and management of exit is critical," said the report.

It added: "Undue delay could lead to a further build-up of financial stability risks, and too rapid an exit could jeopardise the economic recovery and exacerbate still-elevated debt burdens in some segments of the economy."

The IMF said the global financial system was still unprepared for a return to "normal" monetary policy conditions since it had become heavily reliant on ultra-low interest rates, allowing a number of financial risks to build up during the era of high liquidity.

"The scaling back of certain extraordinary policy supports has not been accompanied by adequate preparations for a new environment of normalised, self-sustaining growth," it said.

"They will need to transition away from these supports if they are to create an environment of self-sustaining growth, marked by increased corporate investment and growing employment."

The IMF said the rock-bottom interest rate environment meant many advanced economies had failed to reduce their pre-crisis debt loads. It highlighted the eurozone as a region where companies and banks were laden with high debt levels.

It also warned that an increasingly desperate "search for yield" in a low interest rate environment meant that investors were making riskier bets.

"The proportion of bonds with lower underwriting standards is on the rise, as it was before the financial crisis, and this could contribute, as it did then, to higher default rates and lower recoveries as the credit cycle turns," it said.

"Weaker market liquidity and the rapid growth of investment vehicles that are vulnerable to redemption risk could amplify financial or economic shocks. In this transitional period, the reduction in US monetary accommodation could have important spillovers to advanced and emerging market economies alike as portfolios adjust and risks are repriced," it added.

In addition, Japan has not yet

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Happy feet LVMH buys stake in luxury shoemaker

The luxury fashion powerhouse LVMH has added shoemaker Giuseppe Zanotti to its stable of designer brands. Talks with the Italian footwear label (pictured) began in December, and now the brand has confirmed that LVMH's private equity fund, L Capital, will hold a 30pc stake in Vicini, which owns Zanotti. The company will sit alongside LVMH's other star players including Dior, Fendi, Givenchy and Louis Vuitton.

Treasury lifts bar on divider payouts to RB shareholders

By Harry Wilson

ROYAL Bank of Scotland has tal major step towards resuming its dend after agreeing with the Tre to "retire" a special share that blo payouts to shareholders.

The taxpayer-backed lender, w is 81pc owned by the state, sai European Commission had signe a deal allowing it to amend a stat agreement put in place at the tir its 2008 bail-out that meant sh holders could not be paid a divid

George Osborne, the Chanc said he was "pleased" at the a ment to get rid of the Dividend A Share (DAS).

"This is another important ste the road to a more resilient ban system and in dealing with the p lems of the past to get taxpa money back," said Mr Osborne.

Negotiations over the cancellati the DAS began last year, with the s originally valued at £1.5bn, th City analysts now estimate it t worth less than half of this amour retirement is largely symboli present, given RBS remains loss- ing and at least a year away returning to profit.

In February, RBS confirmed losses since its rescue had consu all of the £46bn pumped into the six years ago in October to stave c collapse.

RBS's taxpayer-backed rival, Ll has also yet to resume dividend ments, but has said it could ma small payout to shareholders basc its performance in the second ha the year.

However, paying dividends is in the City as crucial to the full r bilitation of RBS and Lloyds as no banks.

The deal on the dividend is like be seen as an endorsement by Treasury of RBS chief executive McEwan's strategy for the bank.

As well as agreeing to the canc tion of the DAS, the European au ities have also extended the dea for RBS to sell off the 315-br Williams & Glyn, which was origi ordered to be sold by the end o year.

The EC said it recognised the "c mitment" to selling the business.