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ECB stays alert with move for Italian bonds

By Ralph Atkins in Frankfurt

The ECB remained firmly in crisis management mode following the marathon Brussels summit to stem the sovereign debt crisis.

Within hours of the meeting, traders reported that the ECB was intervening again in the Italian government bond market – a clear sign that its controversial purchases were far from being wound down.

ECB staff were also starting work on how the ECB could help ensure medium-term funding for struggling European banks.

The Bank's bond buying programme was reactivated in August after the eurozone debt crisis spread to Italy and Spain. So far it has resisted becoming explicitly the lender of last resort to crisis-hit countries – as some economists argue it should. But since then, almost €100bn in eurozone government debt has been acquired – despite opposition from Germany's Bundesbank and the resignation of Jürgen Stark, an ECB executive board member, in protest.

The euro's monetary guardian has cited two reasons for its action: first, to buy time before the emergency bail-out fund, the European Financial Stability Facility, becomes operational; and, second, to help restore the normal functioning of financial markets. The first objective is almost fulfilled, but continuing tensions in financial markets are likely to provide cover for the ECB continuing the programme for some time yet.

"They are not going to do anything pro-active, but at the same time, they are not going to let the world fall down around their feet," said one leading ECB watcher.

The ECB is not sending clear signals about its intentions, however. On Wednesday, Mario Draghi, who will succeed Jean-Claude Trichet as ECB president next week, hinted in a speech in Rome that the ECB's "non-standard" measures would remain in place under his leadership. Their use was preventing "the malfunctioning of the money and financial markets from obstructing the monetary transmission mechanism," he said.

Nicolas Sarkozy, French president, seized on those remarks as indicating the ECB would carry on buying bonds. But Mr Draghi was referring as much to the exceptional support the ECB is providing to eurozone banks with its offers of unlimited loans of up to one year.

Although the ECB would want to stop purchases as soon as possible – Mr Draghi insisted all "non-standard" measures were "temporary" – keeping the programme in place should help reassure investors, even if its use was gradually reduced.

As part of the measures to strengthen eurozone banks, the ECB will help the European Commission to "urgently explore" a possible coordinated approach to medium-term funding schemes for banks. If that ends up with the ECB providing liquidity, it would expand further its crisis-fighting measures.

Additional reporting by David Oakley in London