21

E.C.B. faces pressure as euro crisis resurfaces

FRANKFURT

BY JACK EWING
AND RAPHAEL MINDER

As the euro zone crisis shows signs of heating up again, political leaders are once again turning to the European Central Bank for help.

Spain's borrowing costs drifted further upward on Monday ahead of two crucial debt auctions this week, while leaders elsewhere in the region suffered the political consequences of the debt crisis. As a result, some elected officials, notably in France, have begun loudly pushing the E.C.B. to intervene more forcefully in debt markets or take other steps to relieve hard-pressed governments.

But analysts say the E.C.B., and its president, Mario Draghi, will take steps only if they think markets are overreacting and that governments have not wavered from unpopular policies, like making it easier to fire workers, that the central bank sees as necessary to improve growth.

For example, analysts said, the E.C.B. could buy Spanish bonds on the open market to help hold down borrowing costs as the government in Madrid tries this week to sell €5.5 billion, or $7.2 billion, in new debt. Spain appeared to need the help Monday after the yield, or effective interest rate, on 10-year bonds rose above 6 percent in the open market, from less than 5 percent last month.

Whether the central bank intervenes "is a function of how much the E.C.B. thinks markets are overshooting and how confident the E.C.B. is that Spanish authorities are doing the right thing and adopting credible measures," said Nick Matthews, an economist at Royal Bank of Scotland.

On Tuesday, Luis de Guindos, the Spanish economy minister, is scheduled to call on Mr. Draghi. The E.C.B. would not comment on what they planned to talk about.

The E.C.B. has also become an issue in the French presidential campaign in recent days, with both leading candidates lambasting the central bank. President Nicolas Sarkozy, behind in the polls with less than a week to go before the first round of voting, said the E.C.B.'s mandate should be rewritten to compel it to pay more attention to growth rather than inflation. His main challenger, François Hollande, blamed the E.C.B. for letting the sovereign debt crisis get out of control.

An expansion of the central bank's writ to make it behave more like the Federal Reserve is extremely unlikely, however. It would require a change in the European Union treaty, including unanimous approval by all 27 member states, with referendums in some countries.

"The chance of this happening is zero," said Jacob Funk Kirkegaard, a research fellow at the Peterson Institute for International Economics in Washington. "Sarkozy knows that and Hollande knows that. This is French election kabuki theater."

In Germany, the country most

EURO, PAGE 15

Euro zone turns to E.C.B. as crisis worries resurface

EURO, FROM PAGE 13

stridently opposed to taking the E.C.B.'s focus off inflation, there was little reaction to Mr. Sarkozy's comments, probably because most people considered them to be obvious electioneering.

"The German position on the E.C.B. and its independent role is known, also in Paris, and has been unchanged for a long time," Steffen Seibert, spokesman for Chancellor Angela Merkel, said Monday at a press briefing. He added that Germany agreed with France on the need for sustainable growth in Europe.

In any case, the E.C.B.'s mandate already encourages it to support growth in the euro zone, just not at the expense of inflation. Mr. Draghi and other top policy makers have said on numerous occasions that they believe modest inflation is a prerequisite for growth.

Still, the statements by the French candidates reflect the frustrations of leaders who must bear the political cost of structural changes that have effectively been a condition for E.C.B. aid.

The €1 trillion total of low-cost three-year loans that the E.C.B. issued to commercial banks in December and March — some of which was used by the banks to buy more government bonds — came only after Italy and Spain committed to labor deregulation and other changes.

If anything, comments like Mr. Sarkozy's may discourage the E.C.B. from issuing another round of such loans, or buying bonds directly, so as not to appear susceptible to political pressure.

"If I want the E.C.B. to intervene in the sovereign debt market, I would be very angry with Sarkozy," said Mr. Kirkegaard, the research fellow.

The E.C.B. has bought various government bonds on the open market intermittently since 2010 in what it has characterized as moves to maintain its control over interest rates. The E.C.B. said Monday it did not buy any bonds last week, the fifth straight week of no purchases.

Mr. Kirkegaard and other analysts said they thought that the E.C.B. would act to hold down Spain's borrowing costs, especially if the country's leaders committed to more steps to remove impediments to growth. The most likely action would be purchases of Spanish bonds. More forceful steps, like a cut in the E.C.B.'s main interest rate from 1 percent or another round of inexpensive three-year loans, are unlikely in coming months, analysts said.

That could change if tensions rise to levels seen at the end of last year. The Spanish government is already facing a difficult week as it holds two separate debt auctions — Tuesday and Thursday — to raise as much as €5.5 billion.

The sales will follow a disappointing bond auction this month by Spain that raised questions about the sustainability of an earlier decline in yields. Some domestic banks had used the E.C.B. loans to buy government bonds, underpinning bond sales but also increasing the dangerous link between the health of banks and the health of the government.

At the same time, the Spanish government is trying to reassure investors that it would be able to rescue any of the country's 17 regional governments should their finances deteriorate further.

On Monday, Mr. de Guindos, the economy minister, met in Paris with French investors to try to convince them that Spain would not need a Greece-style bailout, a message that he will very likely repeat on Tuesday in Frankfurt when he meets with Mr. Draghi.

Raphael Minder reported from Madrid. Melissa Eddy contributed reporting from Berlin.