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Signs of discord over E.C.B.'s plan

PARIS

Reaction in Germany is scathing, while debtor countries express doubts

BY STEVEN ERLANGER

In the long euro crisis, there is often a sobering morning-after whenever there appears to be a major breakthrough. And so it went again Friday.

The unlimited bond buying plan that the European Central Bank president, Mario Draghi, announced to much fanfare Thursday as a way to stabilize the euro currency union ran into immediate political problems a day later in Germany, Spain and Italy.

Despite Chancellor Angela Merkel's support for Mr. Draghi and the independence of the E.C.B., German political and media reaction was scathing, with charges that the bank, in seeking to stabilize the euro currency union, was subverting the bank's mandate to fight inflation and forcing collective debt upon euro zone members.

''A black day for the euro,'' ''Over the red line'' and ''Pandora's Box opened forever'' were some of the German headlines, with even the center-left Süddeutsche Zeitung headlining an editorial: ''The E.C.B. rewards mismanagement.'' The German central bank, the Bundesbank, put out a statement, commenting acidly that the E.C.B. was ''financing governments by printing banknotes.''

At the same time, the two intended beneficiaries of the Draghi plan — Spain and Italy — expressed reluctance to ask the bank for help, even if both might eventually have little choice but to seek aid. The governments in Madrid and Rome apparently fear the political impact at home of bowing to whatever demands for economic reform and austerity that might come with the financial aid. They seem afraid, for now at least, that the medicine is worse than the disease because Mr. Draghi made it clear that there would be no free money without a program of greater spending discipline.

''Those who did everything to have the E.C.B. help now say they don't want it,'' said Ferruccio de Bortoli, editor in chief of Corriere della Sera, in a Twitter message. ''Speculation will play on this contradiction.''

The point of the new bank program is to ease interest rates on the bonds of Spain and Italy, the third- and fourth-largest economies in the euro zone, by reducing investor speculation against the future of the euro itself. High rates threaten to bust their budgets, but also to make it difficult to raise money in the financial markets.

If Spain and Italy cannot go to the market to finance their debt, then they could need full bailouts by a European Union whose rescue funds are simply too small. So keeping interest rates down for Spain and Italy is a vital part of

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PHILIPPE WOJAZER/REUTERS

PIVOTAL MOMENT FOR FRENCH PRESIDENT François Hollande is facing rising discontent as he prepares a package of tax increases and spending cuts. *PAGE 4*

Bond-buying plan runs into resistance

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any euro rescue plan, and it would buy time for European politicians to make the difficult political decisions toward the fiscal and banking union that is the longer-term answer to the structural problems of the currency union.

So far, investors are betting on Mr. Draghi. The interest rates on the bonds of Spain and Italy fell significantly on Thursday and Friday.

Despite the reluctance of the Spanish prime minister, Mariano Rajoy, to risk the stigma of seeking help — beyond the money Europe has promised to help prop up Spain's most troubled banks — he is expected to nonetheless make such a request before the end of October. (Much depends, of course, on a ruling by the German constitutional court next Wednesday on the soundness of the permanent European bailout fund, the European Stability Mechanism, that would finance much of the bond-buying under the Draghi plan.)

"The Spanish fear is that they become another Greece."

Spain must pay back €20 billion in bond redemptions in October. Some analysts suggest that Mr. Rajoy will need to seek help to satisfy half of Spain's €180 billion financing needs over the next year.

"The Spanish fear is that they become another Greece — that they will have to chop off their right arm for a blood transfusion," said Mark Cliffe, chief economist at ING Bank in Amsterdam.

But some European officials suggest that Spain has already done a lot to clean up its books — more than Italy, certainly — and that any new conditions might not be much more onerous, especially in a period of such deep recession and political backlash against austerity. Mr. Rajoy is already losing popularity at a rapid pace, and no one wants further political instability in Spain to add to continuing anxieties over Greece.

Italy is a less urgent case. Prime Minister Mario Monti, a respected economist, had been pushing for an E.C.B. program as a safety net. But he is loath to accept the terms that might now be required because of their potential to choke off economic growth and because of Italy's own complicated political scene. The country's ruling political parties, which support the technocratic Mr. Monti for now, are rapidly losing popularity to anti-euro populist forces ahead of national elections expected next spring.

Of course some Italians would welcome the idea of E.C.B. conditionality, as a way of forcing change through the sclerotic Italian political system. The bank's move was "probably a turning point for Italian politics," the political columnist Stefano Folli wrote hopefully in the business daily Il Sole 24 Ore. The conditions for bond-buying — "structural reforms, full economic rehabilitation, complete control of public finance" — would force Italian parties to meet European demands.

But there is considerable uncertainty about what kinds of conditions will in fact be required in return for the new program, and Mr. Draghi made it clear that there would be different programs for different countries.

In part to reassure the Germans, Mr. Draghi made it clear that the bank's new willingness to buy bonds of countries facing market speculation would be dependent on "conditionality" — working out a program of structural and economic change with experts from the E.C.B., the European Commission and the International Monetary Fund, the famous "troika" that has designed full bailout programs for Greece, Ireland and Portugal.

Mr. Draghi said that bond purchases under the new program would require "strict conditionality" attached to "an appropriate" program approved by the European bailout funds. But there are two kinds of programs — full, as with the bailout three, and "precautionary," which is clearly meant to be less onerous, designed for countries like Spain and Italy, whereby the bailout funds might purchase longer-term debt as necessary.

But when asked how conditionality would be defined, Mr. Draghi was vague, saying: "This framework is defined in broad lines — it is very much up to the governments themselves, the European Commission, the I.M.F. to decide exactly about the precise shape of this conditionality."

Whatever happens, neither Spain nor Italy want to be thrown into the same pot with the full-bailout three, which have suffered a significant loss of control over their budgets. But the whole point of the Draghi program is to try to ensure that they are not.

There is a further uncertainty about the program and conditionality, which goes to the heart of the survival of the euro, which the E.C.B. is mandated to defend. Once the E.C.B. loads up further on Spanish and Italian bonds — it has already purchased more than €200 billion of European bonds, including €50 billion from Greece — it will find it very difficult to stop its bond-buying even if countries do not keep to their promises of reform. To do so would be a form of suicide, because it could trigger market panic and force countries to exit the euro, beginning a process with no clear end.

But to many Europeans in countries with economic problems, from Greece and Italy to Portugal and Spain, there also seems to be no end to hard times. "I'm pretty convinced that Italy will apply for aid from the E.C.B. sooner or later, and we'll work just to repay the money that the Germans lent us," said Gianluca Braia, a 40-year-old Roman who has been unemployed since he lost his job at a food company that outsourced his job.

"I have no trust in politicians — I've seen too much corruption and incapacity," Mr. Braia said. "I'm happy that Monti is prime minister, but the music changes little for us citizens."

Landon Thomas Jr. and Stephen Castle contributed reporting from London, Rachel Donadio and Gaia Pianigiani from Rome, Melissa Eddy from Berlin and Raphael Minder from Madrid.