

German E.C.B. officials split over plan for saving euro zone

FRANKFURT

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A top German official at the European Central Bank on Monday defended the bank's plans to intervene in bond markets as a way of pushing down borrowing costs for business and encouraging economic growth. It is a position that puts him at odds with the president of Germany's own central bank and highlights a growing split in the country's policy-making elite.

Jörg Asmussen, a German who is a member of the E.C.B.'s executive board, said during a speech in Hamburg that

bond buying by the European bank had become necessary because distortions in the market for government debt had interfered with monetary policy and prevented cuts in official interest rates from trickling down to companies that need credit.

By framing the issue as a matter of business growth, rather than government bailouts, Mr. Asmussen seemed to be taking a stance that might appeal to German political opponents of market intervention by the E.C.B. — of which Germany is the biggest financial contributor.

“The markets are pricing in a disintegration of the euro zone,” Mr. Asmussen *E.C.B., PAGE 17*

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said, according to a text of the speech, which was in German. "Such systemic doubt is dramatic — and for the European Central Bank unacceptable."

Mr. Asmussen's remarks came only a day after Jens Weidmann, president of the German central bank, the Bundesbank, fiercely criticized plans by the E.C.B. to intervene in bond markets.

The stark difference in views between the two officials is surprising because they have been seen as close allies. They both studied economics at the University of Bonn, and both served as high-ranking officials in the German government — Mr. Asmussen as a top aide in the Finance Ministry, and Mr. Weidmann as economics advisor to Chancellor Angela Merkel — before becoming central bankers.

In recent days Ms. Merkel has moved carefully away from hard liners who argue that troubled euro zone countries must largely solve their own problems. On Monday a leader of her governing coalition repeated her warning to party members to stop speculating about Greece leaving the euro.

"I believe that at the end of the day, everyone has to ask themselves the basic question, Do we want a currency union and do we want to take all responsible steps possible to maintain this currency union?" said Michael Meister, one of the leaders of the conservative caucus in the German Parliament.

Ms. Merkel and Mr. Asmussen operate in different policy spheres, and Mr. Asmussen is formally supposed to represent all of Europe and not just Germany. But their alignment on this issue provides a counterweight to the school of thought represented by Mr. Weidmann.

The E.C.B. and its president, Mario Draghi, would be taking a huge risk if they embarked on a major bond-buying program against unified opposition from top German leaders.

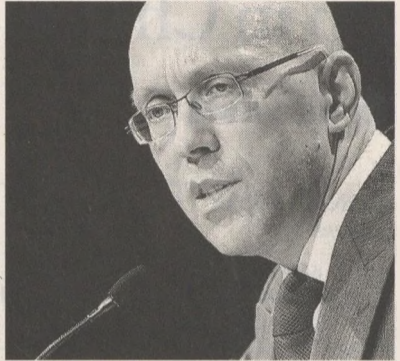
The crux of the debate in Germany and elsewhere in Europe is whether Spain and Italy and other countries in distress are to some extent victims of financial markets and thus deserving of more outside help, or whether they are being justly punished by investors for poor economic performance and lax fiscal discipline.

According to the second argument, measures by the E.C.B. to hold down their borrowing costs by buying their bonds would only encourage political leaders to procrastinate on measures to improve their competitiveness.

That was the argument voiced in an interview by the newsmagazine *Der Spiegel* with Mr. Weidmann, whose views are in tune with many German economists and citizens. "The financial largess of the central bank will awaken lasting covetousness and lead to a socialization of risks," he said in the interview, which was published Sunday.

But Mr. Asmussen on Monday sided with those who argue that one reason investors have driven up borrowing costs for Spain and Italy is that they have lost confidence in the common currency as a whole. "Only a currency whose existence is beyond doubt is a stable currency," Mr. Asmussen said.

Ms. Merkel has not publicly taken a clear position on bond buying, and she



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Jörg Asmussen's stance differs starkly from that of the German central bank chief.

generally avoids giving advice to central bankers. But Nicholas Spiro, managing director of Spiro Sovereign Strategy in London, argued that Mr. Weidmann's hard line served her purposes, ensuring that any E.C.B. bond buying would come with many strings attached.

"Ms. Merkel is willing to back Mr. Draghi because she has been more or less reassured by the heavily conditional nature of his bond-buying plan," Mr. Spiro wrote in an e-mail.

Mr. Asmussen did little in his speech to clear up intense speculation about what strategy the E.C.B. would use to control bond markets. He repeated statements by Mr. Draghi that the bank would operate in conjunction with the European rescue fund, and focus on buying only shorter-term debt.

If the E.C.B. buys only bonds that mature in two years or so, countries would still have a strong incentive to make changes. That is because they would have only a short time before they needed to face investors again to sell new debt.

Mr. Asmussen warned that the crisis was driving Europe further apart, reviving national stereotypes. "I am continually astonished how casually people speak about other residents of the common European house," he said.

Financial markets within Europe are also fragmenting, he said. Banks are doing less business across borders, reversing years of progress toward creating a single market. Mr. Asmussen called for faster progress toward creating a common bank regulator and a European deposit insurance program to prevent bank runs.

To that end, the German and French finance ministers on Monday announced the creation of a study group to draw up joint proposals on issues including fiscal and banking unions.

"We will start in the next days and weeks a working group between our ministries to prepare forthcoming decisions in bilateral cooperation," Wolfgang Schäuble, the German finance minister, said after meeting his French counterpart, Pierre Moscovici, Reuters reported.

The announcement followed a meeting of Ms. Merkel and French President François Hollande in Berlin on Thursday, where they vowed to stand behind Greece as it sought to overhaul its economy and dig its way out of a crippling debt load.

Melissa Eddy reported from Berlin