Draghi asked European governments to help him help them. The answer so far is “no.”

France and Germany, the euro area’s two largest economies, will say they’re not interested in providing state guarantees for the European Central Bank president’s asset-purchase program announced last week, according to a draft document obtained by Bloomberg News.

Draghi asked governments to guarantee some elements of asset-backed securities, bundled loans that the ECB plans to purchase to unlock funding in the region’s stalling economy. After rolling out interest-rate cuts and long-term loans to banks, the ECB is now turning up the pressure on political leaders to put their own money on the table.

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“Some actors have called for a public intervention, to facilitate the development of the securitization market, notably to improve the economics of securitization,” the French and German governments wrote in a paper that may be presented at a meeting of the region’s finance ministers in Milan this week. “An intervention in the form of a public guarantee would be problematic.”

The German and French finance ministries declined to comment on the subject of guarantees today.

The Frankfurt-based ECB’s announcement on Sept. 4 of a cut in interest rates and a plan to buy private-sector assets including ABS and covered bonds helped push the euro below $1.30 for the first time since July 2013.

‘Decisive Point’

While the plan to revive the region’s 1.2 trillion euro ($1.5 trillion) ABS market is within Draghi’s monetary-policy remit, officials have signaled that expanding the program to include riskier slices of debt, so-called mezzanine tranches, would need government support.

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“For me it’s a very decisive point, that there’s a guarantee, for example from a state on a mezzanine tranche,” ECB Executive Board member Sabine Lautenschlaeger said in Hamburg yesterday. That
would allow “a company that is, for a bank, too great a credit risk to be given a push.”

The ECB’s call for a partnership with governments in reviving the ABS market reflects some misgivings about the risks in such instruments. ABS are backed by underlying assets such as mortgages or credit-card debt, and are packaged into products containing slices with different risk profiles. Similar products were blamed for helping cause the financial crisis.

**Bundesbank Objection**

Bundesbank President Jens Weidmann last week opposed the rate cut and ABS plan, and has spoken out against the greater threat such purchases would pose to the central bank’s balance sheet.

By asking states to stand behind some tranches of ABS, the ECB would be able to buy those elements and allow banks to rid their own balance sheets of assets that require a higher level of capital backing, according to Ian Bell, head of the secretariat of Prime Collateralised Securities, a London-based industry standards association.

“By saying that they are willing to buy mezzanine tranches with a state guarantee, that can provide some capital relief for banks, but that requires the cooperation of other parties,” he said. “If some kind of gentlemen’s agreement on guarantees doesn’t exist, you are really going to have to rely on spreads on senior tranches tightening enough to make these instruments attractive as capital-relief tools.”

**Investment Plan**

The French-German paper focuses on efforts to find a definition of ABS that may allow other investors beyond the ECB to enter the market with confidence, while shying away from committing public support.

“We suggest a dedicated European regulation, which would enshrine criteria for high-quality securitization and establish uniform standards at a generic level,” the paper said. “It does not seem appropriate to try to artificially decrease the cost of securitization through the relative regulatory treatment or structural public subsidies.”

Separately, euro-area government officials said the two countries will offer stimulus proposals in Milan that include enlisting the European Investment Bank for loans to companies. That could pave the way for a 300 billion-euro investment plan outlined in July, three officials said, asking not to be identified because the document is in draft form.

The rejection of guarantees is a rebuttal to the arguments of ECB Executive Board member Benoît Coeure, who said government-backed development banks could provide backing that would see loans to specific industries made eligible for ECB purchases.

“The ECB shouldn’t be asked to implement sectoral policies, to support one sector or another, which would amount to an industrial policy that wouldn’t be within the mandate,” Coeure said in an interview with the Robert Schuman Foundation published on the ECB website today. “If governments want to do so, they can use instruments at their disposal such as the French or European development
banks."

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