ECB’s Coene Says Widening Spreads May Force Spain to Ask for Aid

By Gabi Thesing - Sep 17, 2012

European Central Bank Governing Council member Luc Coene said rising bond yields may force Spain into asking for aid and submitting to the ECB’s conditions for granting it.

If “markets see that Spain will not” ask for assistance, “then it will not last long before spreads will rise again, and then Spain will be somewhat forced to come back on its decision and submit to the conditionality program,” Coene said at a panel discussion in London yesterday.

Spanish bond yields climbed past 6 percent yesterday for the first time since Sept. 7, the day after ECB President Mario Draghi gave details of the central bank’s new government bond purchase plan. After falling to a five-month low of 5.55 percent on Sept. 10, the yield jumped as much as 46 basis points to a high of 6.01 percent yesterday, with Spanish Prime Minister Mariano Rajoy reluctant to seek aid.

Under the plan, the ECB would buy government bonds in tandem with Europe’s bailout funds to stem rising borrowing costs as long as countries asked for help and agreed to conditions.

The Spanish 10-year yield reached a euro-era record 7.75 percent on July 25, before Draghi pledged the next day to do “whatever it takes” to safeguard the monetary union.

Coene stressed that if Spain does not ask for assistance, then “we will not buy its bonds.” The ECB would stop buying immediately if countries reneged on their agreements with the bank, he said.

‘Profligate Governments’

Coene said many officials in the ECB were reluctant to engage in bond purchases at all because “it enables profligate governments” to keep up spending.

The only reason the central bank has started the Outright Monetary Transactions program is because it buys governments time and allows them “to take structural measures,” he said.

Coene said the bonds purchased would be marked-to-market, rather than held to maturity, because in a few years it “could well be that the market situation will be reversed and then we might sell” the assets.

Bonds bought under the OMT will not have a preferential status, Coene said. If “something happens we share the same fate as private creditors,” he told his audience. “For the future it is clear will not ask for preferential treatment.”

Asked if the central bank would ever consider outright bond purchases, Coene, who heads the Belgian central bank, said that it was “very unlikely, given the mandate and the treaty we have.”

To contact the reporter on this story: Gabi Thesing in London at gthesing@bloomberg.net

To contact the editor responsible for this story: Craig Stirling at cstirling1@bloomberg.net