Monti Calls for More Crisis-Fighting Urgency in ECB Standoff

By Gregory Viscusi and Rainer Buergin - Aug 6, 2012

Italy’s Prime Minister Mario Monti warned of a potential breakup of Europe without greater urgency in efforts to lower government borrowing costs, as a stand-off over European Central Bank help for Italy and Spain hardened.

Monti, in an interview with Germany’s Der Spiegel magazine published yesterday, said that disagreements within the 17-nation euro area are detracting from the policy response to the debt crisis and undermining the future of the European Union.

“The tensions that have accompanied the euro zone in the past years are already showing signs of a psychological dissolution of Europe,” Monti told Der Spiegel. While he backed the ECB’s willingness to address “severe malfunctioning” in the government bond market, Monti said the problems “have to be solved quickly now so that there’s no further uncertainty about the euro zone’s ability to overcome the crisis.”

Spain and Italy, whose surging borrowing costs have moved them to the heart of the turmoil in the euro area almost three years after the crisis surfaced in Greece, are so far resisting ECB President Mario Draghi’s attempt to have them formally request help before the central bank will buy their bonds. Monti and Spanish Prime Minister Mariano Rajoy have both said they will await further details as the ECB works up its plan.

French President Francois Hollande is pushing Monti and Rajoy to request aid from Europe’s bailout fund to help ease markets and protect France from speculation, Italian newspaper la Repubblica reported today, without citing anyone. Monti may speak with Draghi today, the newspaper reported.

Kiss of Death

“Italy has, to all intents and purposes, been hung out to dry,” Nicholas Spiro, managing director of Spiro Sovereign Strategy Ltd., said in an e-mailed comment. “As far as Rome is concerned any external assistance would be the kiss of death. This puts Mr. Monti in an untenable situation.”

Italian 10-year bond yields were little changed at 6.03 percent as of 10:23 a.m. in Berlin today after rising to 6.28 percent as Draghi outlined his plan on Aug. 2. Spain’s 10-year bond yielded 6.76 percent after rising as high as 7.44 percent. Equivalent German debt yields 1.39 percent.

The euro dropped 0.3 percent to $1.2354.

Greece, the country at the nexus of the debt crisis, agreed after more than a week of meetings with representatives of the so-called troika of international creditors -- the International Monetary Fund, the ECB and the European Commission -- on the need to strengthen policy efforts to support the economy and comply with its bailout terms.

Greek Progress

“We made a lot of good progress,” Poul Thomsen, the IMF’s representative to Athens, said after a meeting with Finance Minister Yannis Stournaras ended yesterday. The troika will return to Athens in early September.

Investors and politicians are meanwhile grappling with the significance of Draghi’s comments on sovereign debt purchases. While markets initially tumbled after Draghi said Spain and Italy would have to formally request a resumption of the bank’s bond buying in conjunction with Europe’s bailout fund, thus entering into a rescue program with strict conditions, they rallied the following day as investors concluded that ECB action would happen, albeit on an unknown future date.

“If the arrangement sketched out is fully implemented, the ECB will provide an effective liquidity backstop, enabling sovereigns to retain access to markets for a large portion of their funding needs,” Bruce Kasman, chief economist at JPMorgan Chase & Co., said in an Aug. 3 note to clients.
‘Moral Support’

Spain and Italy suggested that bailout requests may not be imminent or necessary.

Monti told Spiegel that he intends to stay in office until April 2013, when Italy is due to hold elections, and he hopes he “can save Italy from financial ruin until then, with the moral support of some European friends, and Germany foremost. But I say very clearly: moral support, not financial."

Spanish Economy Minister Luis de Guindos told ABC newspaper at the weekend that his country awaits details of the ECB’s bond-buying proposals before deciding whether to request aid. Both Italian Bank of Italy Governor Ignazio Visco and Minister for Economic Development Corrado Passera said in separate newspaper interviews that the country doesn’t need a bailout.

Visco told La Repubblica newspaper that markets had initially misunderstood Draghi’s comments.

“Not only did the ECB not take any steps backward, but it took decisive steps forward to correct the functioning of monetary policy transmission, and therefore of the stability of the single currency,” he told the newspaper.

European Vacation

There has been no official German reaction to Draghi’s statements, mainly because it’s vacation time across Europe.

Prime Minster Rajoy of Spain is in his native Galicia, German Chancellor Angela Merkel is walking in the Italian Alps, and French President Francois Hollande is staying at an official vacation residence in the South of France.

Euro-area finance chiefs won’t meet until Sept. 3 to discuss possible Spanish bond buying and the economic situation in Greece, Italian news agency Ansa reported Aug. 3, citing unidentified European officials. European governments would not confirm the meeting. The next meeting of the ECB’s governing council is scheduled for Sept. 6.

Draghi’s plans to reactivate the ECB’s bond-buying program prompted critical comments in Germany. Former ECB Chief Economist Otmar Issing said price stability is “massively threatened,” Frankfurter Allgemeine Sonntagszeitung reported yesterday, while Juergen Stark, Issing’s successor who is also now retired from the ECB, said the central bank is being asked to act outside its mandate, faces conflicts of interest and is losing its independence, the same newspaper said.

German Taxpayers

Hans Michelbach, a lawmaker representing the Christian Social Union, Bavarian sister party to Merkel’s Christian Democratic Union, said that elements of Monti’s comments are “anti-democratic.” He called on Draghi to spell out his plans, because “taxpayers have a right to know which risks the ECB has already heaped up in abusing its mandate,” according to an e-mailed statement.

German lawmakers have veto rights over bond purchases by the euro-area’s rescue funds, according to Norbert Barthle, CDU budget spokesman, who signaled in an interview last week that Merkel’s party would not oppose requests so long as rules are adhered to.

“Of course every government has to follow its parliament’s decisions,” Monti told Spiegel. “But every government also has the duty to educate the parliament” or risk making a euro-area breakup more likely, he told Spiegel.

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