Text Paper

ECB rebukes governments over crisis planning

Proposals fall short of 'quantum leap'

By Ralph Atkins in Frankfurt

Eurozone governments have been formally rebuked by the European Central Bank for failing to agree sufficiently ambitious plans to prevent future crises in Europe's monetary union.

Reforms proposed so far did not amount to the "quantum leap" in the economic governance of the 16-country region that the ECB was demanding, Jean-Claude Trichet, ECB president said.

His comments confirmed the ECB's disappointment that its own radical proposals were not adopted, and highlighted its determination to keep the pressure on politicians to avert future crises on the scale seen in countries such as Greece or Ireland.

Mr Trichet said he was "not pre-announcing a catastrophe" for the eurozone in the future. But the ECB, as the euro's monetary guardian, felt "more intensely the importance of having the economic union functioning as well as possible". Since the launch of the euro in 1999, monetary policy has been in the hands of just the ECB – but fiscal policy has remained under the control of national governments.

Under Mr Trichet's leadership, the ECB has set out a plan for beefing up the European Union's budget rules and policing both fiscal and general macroeconomic policies. It regarded the past weakening of the "stability and growth pact", which sets limits on fiscal deficits and debt levels, as a grave mistake by eurozone leaders.

However, the ECB's governing council complained on Thursday that there would be "insufficient automaticity" in the policing of fiscal policies – in other words, politicians would retain too much discretion. It also regretted the imprecision of rules on reducing government debt ratios and weakness in the proposed system for monitoring and controlling macroeconomic policies.

However, the ECB president refused at his press conference in Frankfurt on Thursday to expand on the warnings he gave EU leaders privately about the new rescue scheme they are designing for future bail-outs. That reflected fears that public clashes between the ECB and governments would fuel market nervousness about the financial stability of some countries.

The ECB is worried that Germany's attempts to link the new rescue mechanism with procedures for debt restructuring will heighten speculation about a future default.

Angela Merkel, German chancellor, is keen to avoid her taxpayers paying the cost of future bail-outs. But the ECB's fears have been realised this week, with borrowing costs for Ireland and Portugal shooting up as investors took fright at the threat of them shouldering a greater share of losses.

Mr Trichet pointed out that the International Monetary Fund, when it addressed financial crisis, did not assume *ex ante* a need for restructuring a country's finances.

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