

## ECB'S POLICY MAKERS SAY THAT THEY CAN'T DO MORE TO STEM FINANCIAL CRISIS

European Central Bank policy makers have come out and said that the bank can't do much more to stem the region's sovereign debt crisis, suggesting that they are reluctant to significantly ramp up bond purchasing to lower Italy's borrowing costs. "Not much more can be expected from us, it's up to the governments," Governing Council member Klaas Knot, who actually heads the Dutch central bank, told a few of the lawmakers in The Hague today. Three other policy makers have also publicly rejected some of the calls for more ECB intervention and two further officials, who spoke out on the condition of anonymity, said that the central bank has no further plans to make its purchase programs unlimited. Bond yields in Italy, which is the third-largest economy in the 17-nation euro region, have surged above the 7 percent level that led Greece, Portugal and even Ireland to seek out bailouts from the Europe Union and International Monetary Fund. With the politicians still unable to find a solution to the debt crisis that has raged for at least two years, the ECB is being asked to step into the breach to hold Europe's monetary union together. The central bank, which last week cut interest rates, lends banks as much cash as they need and has also announced a second round of covered-bond purchases. The 40 billion-euro (roughly \$55 billion) program started yesterday, said two people with familiarity with the matter at hand. In addition, the ECB has so far bought 183 billion euro's of government bonds from the debt-strapped nations, purchases are said to be aimed solely at ensuring its interest rates are transmitted on financial markets. In order to prevent the purchases from fueling inflation, its sterilizes them by draining the same amount of money they create from the banking system. The ECB can maintain its bond by buying as long as it can continue to remove the same amount of money from the system says Knot. "The bigger the portfolio, the more difficult that becomes," he said. "Interventions can only have a temporary and very limited effect," added Knot. Rabobank economist Elwing de Groot estimates that there is a "natural limit" of 300 billion euro's in government bond purchases that the ECB can sterilize. Some politicians and economists have called on the ECB to commit to buying as many bonds as it takes to calm markets, as yields soar to euro-highs above 7 percent in Italy. This week, Irish Finance Minister Michael Noonan said that the ECB must stand ready to provide a "firewall" as the debt crisis escalates. The ECB is "not the lender of last resort, and I would not advise European governments to ask the ECB to become the lender of last resort," said Stark in Frankfurt last night. "This will mean that the ECB will immediately lose it's



independence."