

THE ECB MAY DIG DEEPER INTO THE CRISIS TOOLBOX AS THE LEADERS HAVE A 'DATE WITH DESTINY'



The European Central Bank may delve even deeper into its toolbox yesterday to stimulate bank lending and fight off a recession as European's leaders gather to lay the foundation for a fiscal union. According to 53 of 58 economist in a Bloomberg News survey, the ECB policy makers meeting in Frankfurt will cut the benchmark interest rate by a quarter percentage point to 1 percent. They also may loosen the collateral criteria to give banks greater access to cheap cash and offer longer-term loans, said the three euro-area officials with knowledge of the deliberations. Only hours later, Europe's leaders will convene in Brussels for talks to frame the fifth "comprehensive" solution in 19 months to a debt crisis that's left Germany and France facing the threat of losing their AAA rating from Standard & Poor's. The ECB have said that governments must address the cause of the turmoil as it focuses on getting banks lending again rather than increasing purchases of indebted nations' bonds. "It's yet another date with destiny in the euro area," said Julian Callow, who is the chief European economist at Barclays Capital in London. "It's clear there won't be the ultimate resolution, but the proposals are going in the right direction. The markets seem to have finally understood that in the ECB's eyes it's up to governments to solve it, and it's worth noting that it's doing a lot on the banking side." At 1:45 pm in Frankfurt, the ECB announces its rate decision and President Mario Draghi holds a press conference 45 minutes later. The European Union leaders will meet for dinner at 7:30 pm in Brussels for talks that will continue tomorrow. Aside from that, the Bank of England will keep the size of its asset-purchase program unchanged at 275 billion pounds (\$431 billion) and leave its key rate at 0.5 percent, which is according to another survey of economists. That decision is due around noon in London. The ECB's insistence that the governments take measures to restore investor confidence appears to have paid dividends, with the Italian and Spanish yields plunging after Germany and France agree to move the 17-nation euro area toward a fiscal union, a stance they repeated on Wednesday. The French President Nicolas Sarkozy and German Chancellor Angela are proposing to amend the European treaties to tighten controls on the budgets. In a joint letter to the EU President Herman Van Rompuy, the leaders said that they want a decision by the close of their summit tomorrow so that the measures can be ready by March next year. Germany rejected the proposals to combine the region's current and permanent rescue funds, a German government official told the reporters in Berlin on Wednesday on condition of anonymity. The ECB must step up its bond purchases to stamp out the crisis, said Angel Gurría, who is the secretary general of the Organization for Economic Cooperation and Development. "The ECB is the ultimate weapon", and "has to be part of the solution," he said on Wednesday in an interview in Durban, South Africa. "You are using a slingshot, where is the bazooka?"