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Article updated: 8/9/2011 8:23 AM

Trichet sees markets in worst crisis since WWII

By

The head of the European Central Bank on Tuesday defended his institution's decision to help stabilize the bonds of Spain and Italy, but indicated that the ECB doesn't see itself as the eurozone's lead firefighter for long.

"It is the worst crisis since World War II and it could have been the worst crisis since World War I if leaders hadn't taken the important decisions," ECB President Jean-Claude Trichet said in an interview with French radio station Europe.

Trichet didn't directly confirm that the ECB has been buying up the bonds of Italy and Spain, saying only that his banks "is in the secondary market" for eurozone bonds and that it would release the amounts invested on Monday, as it does every week.

Yet the markets on Tuesday again showed clearly that the ECB was buying up the debt of the eurozone's third and fourth largest economies.

The yield, or interest rate, on Spanish 10-year bonds dropped below 5 percent, after approaching 6.5 percent just a week ago. The yield on Italian equivalents was at 5.1 percent, also more than 1 percentage point below where it was Monday morning before the ECB intervention.

The ECB head also indicated that his bank still sees the main responsibility for fighting the debt crisis with eurozone governments and not the central bank.

"I won't say" how long the ECB will buy bonds on the secondary market, Trichet said. "What we expect is that the governments do what we consider to be their job."

He said eurozone countries needed to implement recently taken decisions to allow their bailout fund to buy government bonds on the open market "as rapidly as possible."

Italy and Spain, meanwhile, have to deliver on their promises to cut their budgets as the central bank has demanded, Trichet said.

Despite the ECB's reluctance to take a central role in fighting the debt crisis, analysts have warned that it may not be easy for the bank to halt its bond-buying program once the eurozone bailout fund has been equipped with its new powers.

They caution that the (euro) 440 billion European Financial Stability Facility does not have enough money to intervene effectively on secondary markets to help large countries like Italy and Spain, and that divisions among countries, which all have to sign off on intervention, could delay any necessary action.

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