

5 Central Banks Move to Supply Cash to Europe

By Jack Ewing and Stephen Castle

Sept. 15, 2011

FRANKFURT — Worried that Europe’s debt impasse posed a growing threat to the global financial system, the world’s major central banks moved Thursday to assure that European banks would not run short of cash as troubled nations like Greece and Italy sought to stabilize their economies.

The central banks, in a coordinated action intended to restore market confidence, agreed to pump United States dollars into the European banking system in the first such show of force in more than a year. Some banks have found it hard to borrow dollars as American lenders grew nervous about their financial condition.

Thursday’s action, coming almost exactly three years after the collapse of the investment bank Lehman Brothers, lifted global stock markets, sharply increasing the value of shares in banks heavily exposed to debt from Greece and the other struggling members of the euro zone. The euro, which had been falling in recent days, rebounded.

The central bank action came as European finance ministers and other policy makers were gathering in Wroclaw, Poland, for meetings on Friday and Saturday. The United States Treasury secretary, Timothy F. Geithner, who was scheduled to attend, was expected to urge European officials to act more aggressively to contain the sovereign debt crisis, which has already begun to undercut growth in Europe.

While the move will relieve some pressure on troubled banks, it does not address the underlying problems that made it difficult for the banks to borrow dollars on their own.

The central banks seemed determined to demonstrate that they would not hesitate to deploy their combined weight to keep the crisis from leading to a collapse of the euro zone.

“They are getting together and acting together,” Christine Lagarde, the president of the International Monetary Fund, said in Washington on Thursday. “To me, that is the most important message.”

But Ms. Lagarde also warned that policy makers had not done enough and suggested more action was needed. “We have entered into a dangerous phase of the crisis,” she said. There is still a path to recovery, she said, but it is “a narrow one.”

Jean-Claude Trichet, the president of the European Central Bank, called the move “a

clear illustration of our very close cooperation at the global level.” Noting that the collapse of Lehman three years ago could have provoked a depression, Mr. Trichet said, “We still have a long way to go to move beyond this crisis.”

The European Central Bank said it would allow banks to borrow dollars for up to three months, instead of just for one week as before, giving them breathing room for the rest of the year. The E.C.B. said it was acting in cooperation with the Federal Reserve of the United States, the Bank of England, the Bank of Japan and the Swiss National Bank.



Christine Lagarde, head of the International Monetary Fund, welcomed the move by the central banks, saying, "They are getting together and acting together." Michael Reynolds/European Pressphoto Agency

In recent days some European banks have faced difficulties in borrowing dollars, whether from other banks or from money market funds in the United States. There was fear that if they could not borrow dollars, they would be forced to cut off loans to American companies or sell dollar-denominated assets, perhaps forcing prices down in already unsteady markets.

The move was possible under deals between the central banks that were already in existence, and the Fed saw no need to make an announcement on Thursday.

While there now is more certainty that banks will have access to funds, deeper issues remain unresolved, including whether they have enough capital to withstand a possible default by Greece on its government debt.

An official forecast warned Thursday that growth in Europe would come “to a virtual

standstill” toward the end of the year. It predicted, though, that Europe would just barely avoid a double-dip recession.

The euro system, established in 1999, created a common currency for 11 countries, a number that has grown to more than 20. But it did not unify national finances. Over time, inflation and a failure to reform labor markets left most countries in the group uncompetitive with Germany but unable to regain competitiveness through devaluation.

That is a problem that some say Europe has yet to deal with.

“The lesson of 2008 and earlier crises is that the later you act, the more you have to do, and the more painful it becomes,” said Robert Zoellick, the president of the World Bank, in a speech Wednesday. “It is not responsible for the euro zone to pledge fealty to a monetary union without facing up to either a fiscal union that would make monetary union workable or accepting the consequences for uncompetitive, debt-burdened members.”

Analysts said they expected Mr. Geithner to press European ministers in Wroclaw to increase the resources available to their bailout fund for the euro zone countries. But even the expansion of the fund to 440 billion euros (\$611 billion), agreed to in July, has yet to be ratified. There is some worry that countries guaranteeing the bailout fund might themselves face doubts about their own credit.

“Part of the problem for policy makers is that they are still waiting for last big initiative to get off the ground,” said Peter Westaway, chief European economist in London for Nomura. “We’re all kind of on hold until then.”

Angela Merkel, the German chancellor, said Thursday during a visit to the Frankfurt Motor Show that her nation has “a duty and responsibility to make its contribution to securing the euro’s future.” But she added, stabilizing the euro area “won’t happen overnight or with any one-time thunderbolt.”

United States money market funds and other institutions have cut European banks’ access to about \$700 million in short-term loans over the last year, according to research by JPMorgan Chase and CreditSights.

European banks have only rarely used an existing one-week dollar credit line offered by the E.C.B. On Thursday, two banks borrowed \$575 million from the facility. The E.C.B. does not disclose the identity of the borrowers. The two banks were the first to tap the dollar credit line since August.

By making dollars available for a longer three-month period, the central banks are providing reassurance that ailing banks will not be dependent on the more fragile one-week funding. The E.C.B. will offer the dollars in three operations, starting on Oct. 14

and again in November and December. The other central banks will follow similar schedules. The Fed will not offer loans directly, but will provide dollars to the E.C.B. by way of a swap agreement. The borrowing banks must supply collateral in the form of bonds or other securities.