

ECB 'prepared' to act if needed

Liquidity

By Eric Sylvers in Rome

The European Central Bank still has tools at its disposal if governments do not heed its call to act to calm markets and stimulate growth, Ignazio Visco, a member of the ECB's governing council, said yesterday.

The central bank has not ruled out a third longer-term refinancing operation (LTRO), though one is not necessary at present, Mr Visco, governor of the Bank of Italy, said in a Financial Times interview.

He said: "I don't think there should be any doubt the central bank can do things if price stability is at risk, and if financial stability puts price stability at risk. There will always be things the bank can do."

When asked if the ECB might undertake another LTRO, he referred to the boy scouts' maxim, "Always be prepared", adding: "We'll see what happens and then decide accordingly. At this moment there is no liquidity problem so there is no need for another LTRO."

In a speech at the Bank of Italy's annual meeting yesterday, Mr Visco said the EU should intervene

directly to bail out troubled banks rather than leaving the job to national governments. The European Stability Mechanism (ESM), the bloc's rescue fund, should not be restricted to making emergency loans to governments, he said.

"There must be the possibility of intervening promptly in the securities markets and directly in favour of banks, with procedures that are more flexible and less penalising for the beneficiary countries that respect the rules of the union," he said. "It must be possible to make effective use of the significant resources already allocated by the member states."

Mario Draghi, ECB president, also signalled yesterday that he wanted the ESM in future to be used directly to recapitalise the region's banks.

Mr Visco went on to say that "the moral hazard of counting on help from others so as to persevere in the bad policies of the past needs to be prevented by strong political and regulatory pressure".

He followed Mr Draghi's call for EU leaders to clarify their commitment to the euro. This would "orient the markets' assessments in the same direction".