

# European Central Bank promises banks long-term cheap credit

By Stefan Steinberg  
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In a major break with its previous policy, the European Central Bank (ECB) promised last week to provide long-term cheap credit to European banks. The move was coupled with assurances given in the same week by the new governor of the Bank of England, Mark Carney, that British interests rates would remain at record low levels.

The statements by the heads of the ECB and the Bank of England mean that the international finance markets can continue to rely on virtually free credit to expand their speculative activities. The announcements came as direct response to hints from the US Federal Reserve that it would soon cut back on its own program of funding the banks with such credit. The declaration from the Federal Reserve led to an immediate increase in interest rates in Europe and the US, and a sharp drop in share prices.

In response to pressure from the markets, the head of the ECB, Mario Draghi, declared last Thursday that the ECB board had unanimously agreed to keep its key rate at which banks can lend money at 0.5 percent. Draghi went further and made clear there would be no about-turn on cheap credit in the medium term. Responding to the question of a journalist on the time frame of the ECB's lending policy Draghi replied: "It's not six months, it's not 12 months—it's an extended period of time".

As financial commentators have pointed out, this is the first time in history the head of the ECB has given an indication of the future direction of interest rate policy. Draghi's statement is a further concession to the banks and finance markets against the background of a renewed and deepening economic and political crisis in Europe.

One year ago the growing financial crises in a number of European states threatened the very

existence of the euro. Draghi responded at the time by promising "to do everything necessary" to stabilise the euro.

Since then the ECB has provided European banks with a virtually limitless credit line, enabling them to buy up the bad debts of their respective national governments. Draghi's latest comments, however, confirm that the ECB's massive expansion of credit to the banks has done nothing to relieve the fundamental problems confronting European economies. In fact, the situation is getting worse.

The continent is spiralling into recession as the austerity policies demanded by the International Monetary Fund, European Union leaders in Brussels and the German government bite deep into national economies. The savage cuts already enforced in Greece, Spain, Italy and Portugal have led to a massive decline in government revenues as businesses close and unemployment assumes record levels. As a result, the debt burden of all of these countries has actually worsened over the course of the past two years. At the same time, the popular resistance to austerity measures has led to political turmoil in a number of European countries.

In Portugal the finance and foreign ministers resigned last week, plunging the coalition government led by Prime Minister Pedro Passos Coelho, a Social Democrat, into chaos. In his letter of resignation, the Portuguese finance minister Vítor Gaspar cited as reasons for his decision increasing public opposition to austerity and a lack of support within the government for his policies.

The finance markets responded to the government crisis by driving up the interest rates for Portuguese government bonds. Coelho immediately responded by nominating a new finance minister pledged to press

ahead with further austerity measures. Immediately after the appointment of the new finance chief, the ECB's Draghi was obliged to intervene and declare that Portugal was now "in safe hands".

The German business newspaper *Handelsblatt* noted that the political crisis in Portugal, which prompted a 7 percent fall on the Lisbon stock exchange and a two percent loss on the German DAX, comes at the same time "the Greek government is struggling with the troika [the European Commission, European Central Bank and International Monetary Fund] to obtain payment of a further €8.1 billion tranche of aid and Cyprus still needs billions".

Previously, continued the newspaper, "the fires in Greece, Cyprus and Portugal had flared up at different times. Today the fact that all of these problems have re-emerged at the same moment is very troubling".

In addition to the three countries listed above, the economic woes of Europe's third and fourth biggest economies, Italy and Spain, continue to intensify. Italy is plagued by deepening recession, and the EU and Germany agreed to a further €800 million loan just last week to prop up Spain's ailing banking sector.

Summing up the response by European leaders last week, one chief economist admitted that the moves by the ECB and German government are a sign they are "back in crisis mode".

Despite the devastating consequences of their policies for tens of millions of Europeans, the ECB and the German government are intent on intensifying their program of social counterrevolution. An internal document from the German finance ministry cited a few days ago in *Der Spiegel* declares: "The weak economic situation in the euro zone is no reason to deviate from the dual strategy of ongoing fiscal consolidation (read: austerity) combined with structural reforms (read: destruction of social and employment gains)".

The latest policy announcement from Draghi of the ECB promising indefinite cheap credit is an expression of the increasingly reckless policy being pursued by central banks across the globe. In its most recent edition of quantitative easing, the US Federal Reserve has been providing American banks with infusions of \$85 billion a month. This largesse to the finance markets has been trumped by the actions of the Japanese government, which, earlier this year,

announced its own "shock and awe" money-printing program.

The world's major central banks have pumped an estimated \$7 trillion into financial markets over the past five years. Far from achieving the proclaimed aim of stimulating economic recovery, the policy of the central banks is fuelling increasingly aggressive currency wars between the major powers and encouraging the growth of speculative bubbles with repercussions potentially far exceeding the crisis of 2008.

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