

Germany's Merkel criticizes central banks' approach in financial crisis

By Associated Press

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BERLIN (AP) — German Chancellor Angela Merkel has voiced skepticism about leading central banks' approach to tackling the economic crisis, suggesting that they may be storing up more trouble for the years ahead.

Merkel's comments come as the European Central Bank has faced criticism from some analysts for not being as aggressive as either the U.S. Federal Reserve or the Bank of England, both in cutting interest rates and in promoting measures such as bond purchases to boost the money supply.

However, the ECB said last month that it would begin to buy around euro60 billion (\$85 billion) worth of euro-denominated covered bonds — a low-risk type of asset-backed securities.

Merkel appeared to defend the ECB's more conservative instincts and raise questions about the Fed and Bank of England actions. "The independence of the European Central Bank must be preserved and the things that the other central banks are doing now must be reversed," Merkel said in a speech Tuesday, the text of which was posted on the government Web site.

"I view with great skepticism the powers that the Fed has, for example, and how, in the European area, the Bank of England has developed its own little lines," she said, adding that the ECB "also bowed somewhat to international pressure" with its decision to buy bonds.

"We must together return to an independent central bank policy and to a policy of good sense," Merkel said. "Otherwise, in 10 years we will again be standing at exactly this point."

She did not elaborate. Some analysts say that the aggressive action by the Fed risks unleashing inflation down the road.

The hope behind the ECB buying bonds is that it may raise prices of assets on bank balance sheets, keep prices from falling for too long or too far, and well as giving the banking system more funds to lend to homeowners and businesses.

Germany has long been a staunch defender of the ECB's independence and has traditionally taken a conservative approach to monetary policy.

Testifying in the U.S. Congress on Wednesday, Federal Reserve Chairman Ben Bernanke said, "I respectfully disagree with her views."

The U.S. and global economies, including Germany, faced an "extraordinary combination" of a financial crisis and serious economic downturn, he said.

"And in that context, I think strong action on both the fiscal and monetary sides is justified to try to avoid an even more severe outcome."

"We are comfortable that we can exit from those policies at the appropriate time without inflationary consequences," Bernanke said. "And therefore, we are comfortable with our policy decisions."

<http://www.latimes.com/business/nationworld/wire/sns-ap-eu-germany-central-banks,0,4993835,print.story>