OFF THE NEWS

New ECB Role: Governor of the Bank of Italy

Prior to the European Central Bank's 75-basis-point hike in short-term interest rates, President Christine Lagarde is under heavy criticism from ECB hawks and outside academics for running essentially the "European Central Bank of Italy."

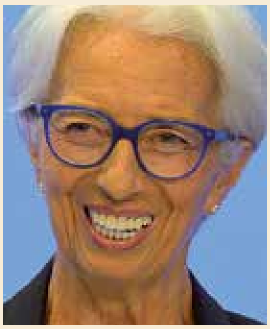
Critics said that recent data covering the ECB's sovereign bond purchases indicated that the country distribution of such purchases in June and July was "massively distorted" in favor of the eurozone periphery. Even before the ECB's new "Transmission Protection Instrument" inaugurated by the ECB Council at its July 21 meeting was activated, large amounts of money resulting from bonds maturing from the Pandemic Emergency Purchase Program and the older Asset Purchase Program had been channeled into new purchases of southern euro countries' bonds.

During June and July, for example, the ECB acquired Italian bonds amounting to €9.8 billion, Spanish bonds amounting to €5.9 billion, and Greek bonds amounting to €1.1 billion. In return, German bonds amounting to €14.5 billion have been sold from the stocks of the ECB, in addition to €3.4 billion worth of Dutch bonds. "If the ECB continues to purchase Italian bonds for the next year at the pace it has done the last two months," a strategist said, "that money would correspond to an amount equal to half the Italian budget deficit."

Lagarde nevertheless argued that a "fragmentation" of the euro area following too much diverging bond yields must be avoided in order to safeguard the "transmission," that is, the transfer of its monetary policy to all euro countries. However, private investors, both Italian and foreign, have shown little interest in Italian bonds given the dubious solvency of the Italian state. The reference by some economists to the "manageable burden" of the Italian sovereign debt, seen as a result of record-low interest rates and a long average maturity of the outstanding Italian debt, is not convincing private investors. "Italian bonds must either show higher yields or Italy must conduct more growth for more private investors to come on stream," a strategist said.

Nevertheless, the ECB because of external factors will not be allowed by governments to terminate its support for the southern countries. "In the face of the war in Ukraine, the western countries, and the European Union in particular, cannot display any weakness or division," the ECB leadership argues. Another argument put forth: Ending the ECB's support for Italy would lead to a right-wing extremist government takeover in Rome as soon as the September 25 elections.

All of which raises the question: If the ECB continues to raise short-term rates to counter inflation, does the central bank's role as "European Central Bank of Italy" intensify?



ECB President **Christine Lagarde:** *Forced to work under the constraint to today's new monetary politics.*

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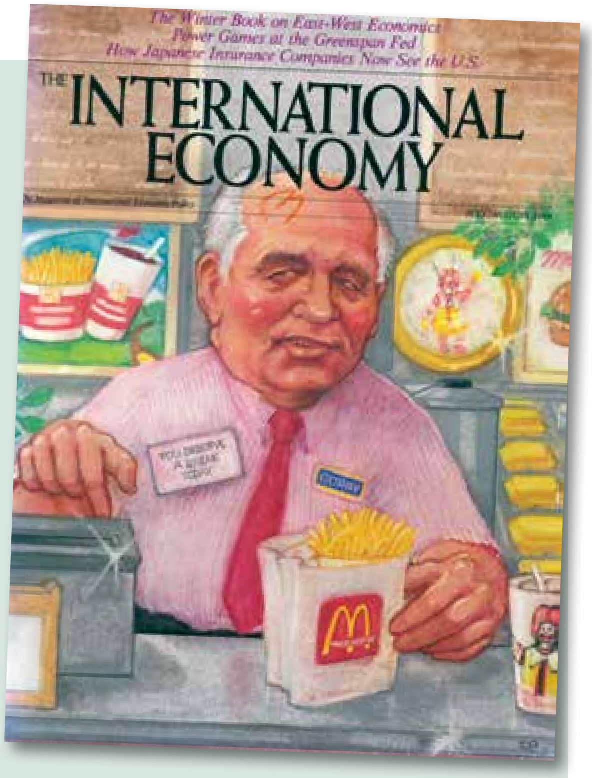
Making Change

With former Soviet President Mikhail Gorbachev's recent passing, we were reminded of *TIE*'s award-winning cover published during the summer of 1988. Gorbachev is pictured in command of the cash register at a Moscow MacDonald's fast food restaurant.

Inside the issue, articles discussed perestroika, the Jackson-Vanik amendment, and expanded U.S.-Soviet trade. The following year—1989—would bring democratic elections across Eastern Europe, the fall of the Berlin Wall, and German reunification.

And after that, 1990 would bring both the opening of Moscow's first McDonald's restaurant in January and a Nobel Peace Prize for Gorbachev in October, honoring his role in ending the Cold War.

Looking back, those few years remain unprecedented for the brisk pace of fundamental change in the international economy, a change that sadly has been reversed.



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