

RELEASE IN PART B5
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**From:** Sullivan, Jacob J <SullivanJJ@state.gov>  
**Sent:** Saturday, September 8, 2012 2:54 AM  
**To:** H  
**Subject:** From Bob for lunch tomorrow

Here is an update on the European crisis for S's background for the lunch tomorrow. If, as your email notes, LaGarde will be there this might be useful:

The European Central Bank has announced that it will engage in what is known as Ordinary Monetary Transactions -- OMT. (These really are not ordinary, but that is the term they are using).

OMT will involve the ECB buying sovereign bonds with maturities of up to three years indirectly on secondary markets with no specified quantities or target yield, provided the sovereign has accepted the conditions of a reform program, under the same terms as other creditors.

OMT will focus on the lower end of the yield curve, as the most effective way of repairing a fragmented European monetary area and restore the ECB's ability to use monetary policy to achieve price stability. The seniority waiver is vital if private investors are to continue buying government bonds -- ie if there is a rescheduling the private sector will not be put at a disadvantage vis a vis the ECB.

The ECB has said that what it calls OMT are within the ECB's mandate. President Mario Draghi insisted on this yesterday to answer German objections that it is tantamount to financing governments directly by printing money.

However, he also said there were "two legs" to restoring euro-area equilibrium, OMT and individual government action to correct their policy mistakes.

Whether in the end a more integrated EU evolves, he said, will depend on governments, not central bankers. Draghi confirmed his pledge to "do whatever it takes" to pursue a single monetary policy in the euro-area, maintain price stability and preserve the euro.



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