

CUT INTEREST RATES, CUT THEM NOW, AND CUT THEM HARD



CNBC
ANNA MARTIN

AT LAST, European authorities seem to be launching a pincer movement to tackle the recession that is now upon us. It's about 15 months too late, but let's not be bitter. On one front, governments and EU big-

wigs arm themselves with talk of fiscal stimulus. And on the other, interest rates are under fire.

It's about time too. For months, the trading and investing communities have been arguing that the European Central Bank (ECB) and, until a little while ago, the Bank of England, have been waging the wrong battle entirely, focusing on inflation. Now, economists, equipped with data proving recession, have been echoing their battle cries. The message is simple – cut interest rates, cut them now, and cut them hard. But will the ECB listen? We will have to wait until Thursday to find out.

On the fiscal side, the EU publicity stunt that we saw last week should be applauded for its grand ambition and posturing. I was amused to read that Joaquin Almunia, Europe's economic and monetary affairs commissioner, hopes that the announcement of the pan-European coordi-

nated stimulus, will enable “one plus one to equal three”. I hope the maths of the fiscal plan are a little more sound.

In fact, the EU's plan lacks teeth. National governments still hold all the cards on tax policy, and much of the muscle in infrastructure spending. Out of the EU's planned €200bn stimulus plan, only €30bn will come from EU level funding.

Meanwhile, in the UK, our part of the fiscal stimulus plan has been fleshed out to the tune of £20bn and Lord Mandleson has swung into action to meet troubled industries. The car sector faces obvious problems and in the US, Detroit's Big Three are still trying to persuade Washington to bail them out. No such demands were made by car makers in the UK I'm told.

They want banks to lend again, that's all. But I get the sense they will take more if it's offered. It's a dangerous path to tread – if we give govern-

ment the power to decide which sectors are to be sacrificed and which are to be saved. Where does that battle end?

Anna Martin co-anchors European Closing Bell and Europe Tonight weekdays on CNBC.

