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Weidmann: Monetary Policy Can’t Solve Crisis

By William Horobin

AIX-EN-PROVENCE–Monetary policy can’t solve the euro-zone crisis and governments should focus on breaking implicit guarantees they make to banks, European Central Bank governing council member Jens Weidmann said on Sunday.

“Monetary policy has already done a lot to absorb the economic consequences of the crisis but it cannot solve the crisis,” Mr. Weidmann said in a speech at the Rencontres Economiques economic conference at Aix-en-Provence.

The best contribution monetary policy can make is ensuring price stability, he said.

It is essential to break the link between banks and governments that can ultimately weigh on public finances, Mr. Weidmann said.

“European banks hold too many of their own governments’ bonds,” he said, adding that capital rules for banks should be changed so sovereign bond holdings are risk weighted. “We need limits for banks’ exposures to sovereigns.”

Crisis resolution depends on a governments’ ability to make structural changes to economies–for example in areas of pensions or labor law, Mr. Weidmann said.

He agreed with ECB President Mario Draghi that such reforms may hurt vested interests but will increase fairness.