

## Quick steps to seamless action

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**Abstract (Abstract):** Yesterday's move was seamless; even the wording of the banks' statements was co-ordinated, with common sentences referring to the "recent intensification of the financial crisis" that had "augmented the downside risks to growth".

The ECB's governing council had voted to keep rates unchanged as recently as last Thursday. But following that meeting Jean-Claude Trichet, ECB president, admitted the bank's policy-setting forum had discussed a cut in rates and signalled that a fall in eurozone inflation meant he had room to manoeuvre. "We are totally free to do at any time what we judge to be necessary to take into account the evolution of the situation in terms of the balance of risks to price stability," he said.

As Sushil Wadhvani, a former member of the Bank of England's monetary policy committee, put it: "In the past two or three weeks, the world really has changed . . . It was always predictable that the credit crunch would have an impact on the economy, but now it seems to have all come together: we have a combination of small businesses being hit plus leading institutions disappearing."

**Full text:** Co-ordination

Yesterday's co-ordinated rate cut was a story of steady progress being dramatically accelerated since the weekend.

The rate cuts after September 11 2001 were disjointed and left an impression of misunderstandings between the central banks.

But yesterday's move was seamless; even the wording of the banks' statements was co-ordinated, with common sentences referring to the "recent intensification of the financial crisis" that had "augmented the downside risks to growth".

The heads of the leading banks were in regular contact but that intensified on Monday and Tuesday as the possibility of a co-ordinated rate cut crystallised.

They had all started to think about cuts of 0.5 percentage points, and had shared their analysis.

Their moves would anyway have come close together; the question was whether it made sense to move simultaneously.

The Federal Reserve was unsure about how effective it would be for it to cut rates in isolation and was also worried about the effect such a move would have on the dollar. Co-ordinated cuts promised greater shock value and less currency risk.

It discussed the idea of globally co-ordinated cuts with the Bank of England and the Bank of Canada before approaching the European Central Bank, to put together a common approach among the Group of Seven countries. Japan backed the move but with its rates at 0.5 per cent already it was unable to join in.

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Over the weekend a bail-out of German property lender Hypo Real Estate had nearly failed and the four biggest European nations - Germany, France, the UK and Italy - could not agree a common line on the crisis.

As the working week started, markets were routed as fears spread about banks' ability to finance themselves and the knock-on effect on economic growth.

The ECB's governing council voted to cut eurozone rates by half a point to 3.75 per cent in a telephone

conference late on Tuesday.

They also agreed to hold publication of their decision another half day, until dawn in Washington yesterday, so they could move with the Fed and other central banks.

In doing so they set an example of co-ordination that the ECB believes European Union governments would do well to follow.

But the historic move has sent a strong message about the severity of the crisis.

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Michael Saunders of Citigroup said: "The main significance of this move is as a signal of intent. It is an acknowledgement by central banks of the scale of the problem, and from that will come further reductions in rates in the coming months."

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