Trichet Seen Burying Ailing Nations With Interest-Rate Rise

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Jean-Claude Trichet's shot against inflation may end up inflicting collateral damage on Europe's most cash-strapped economies.

Primed to raise its benchmark interest rate this week for the first time in almost three years, President Trichet's European Central Bank again faces the conundrum that its monetary policy rarely suits all 17 members of the euro area, where the kaleidoscope of growth ranges from record expansion to recession paired with a sovereign-debt crisis.

The upshot may be that the normalization of rates from a record low of 1 percent will disproportionately hurt Spain, Greece, Portugal and Ireland, while failing to nip inflation threats in Germany. Such uneven fallout risks exacerbating the two-speed European recovery and dealing further damage to the bonds of so-called peripheral nations. Credit Suisse Group AG is warning investors away from the region's stocks and banks partly because of concern the ECB is making a policy mistake.

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