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German banks demand billions more from the government

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Just three months after the adoption of a €480 billion "rescue package" for German banks, pressure is growing on the federal government to make billions more available in order to shift the burden of the bank's speculative losses onto the population as a whole.

The background to the fresh demands for cash are recent reports of the record losses notched up by major German and international banks.

In the US, Citigroup, once the world's biggest bank, recorded losses of $8.3 billion in the last quarter of 2008; it has now been split into two banks. Merrill Lynch, the investment concern taken over by Bank of America, lost $15.3 billion over same period and Bank of America itself lost another $2.4 billion. To prevent the collapse of Bank of America, the US government intervened with the injection of an additional $20 billion, plus government guarantees of $118 billion.

In Britain, Royal Bank of Scotland (RBS) anticipates a total loss of £28 billion (€31 billion) for 2008—the biggest loss in British economic history. Prime Minister Gordon Brown, who was praised last October as "saviour of the banks," reacted on Monday with a further "rescue package" totalling an estimated £350 billion. This is on top of the £500 billion already granted the banks in October.

In Ireland, the government decided last Friday to nationalize the country's third biggest bank, the Anglo Irish Bank, in order to save it from bankruptcy.

In Germany, Deutsche Bank registered a record loss of €4.8 billion for the last quarter of 2008. For all of 2008, the bank's losses total €3.9 billion. Just one year ago the bank registered a profit of €6.5 billion.

The losses on the part of Deutsche Bank came as a shock following a string of assurances from Deutsche Bank chief executive, Josef Ackermann that the bank was sound and better prepared for the crisis than its rivals. It has now emerged that, due to its high dependence on investment banking, Deutsche Bank has been particularly hard hit by the international financial crisis.

In terms of its balance sheet, Deutsche Bank's capital reserves are extremely small and its debt ratio is clearly higher than those of its competitors. While in the past this helped secure the bank a high yield on equity, in view of its recent high losses, the bank is threatened with running out of money. It is now unable to raise sufficient capital on its own to complete its planned purchase of Postbank. Instead it is financing the takeover with its own shares, meaning that the previous owner of Postbank, Deutsche Post, now becomes a shareholder

in Deutsche Bank. Bearing in mind that Deutsche Post is partly owned by the German state, this means that the latter now has a direct share in Deutsche Bank.

Hypo Real Estate Bank, which has already suffered huge losses and been subject to a government bailout, also revealed gaping new holes in its balance sheet. Consequently, the national bank rescue fund (Soffin) increased its guarantees to the bank from €30 billion to €42 billion this week.

The main source of the stream of new losses for the banks is the enormous sum of "toxic securities" on their balance books. Formerly it was possible to make spectacular profits from speculation on such securities. But following the bursting of the stock market bubble they are impossible to sell. And no one is prepared to predict whether they will ever possess any value in the future.

The banks have only reluctantly revealed the true extent of these toxic debts on their balance sheets. Speaking to the *Berliner Zeitung*, finance expert Hans-Peter Burghof said the banks hope that "if they announce their losses gradually they will also receive state aid on a gradual basis.... If they had revealed their losses all at once it may have been such a gigantic amount that no politician would have granted aid."

The losses notched up by Deutsche Bank, however, point to the situation at other banks. "They augur very badly for the next weeks and months," commented the *Financial Times Deutschland*. "If Germany's leading bank is so deeply enmeshed in the slump, then how does it look for chronically weak candidates? Demands for help on the part of credit institutes are apparently already stacking up at the state rescue fund—Soffin."

According to a report in *Der* Spiegel, a poll of the country's 20 largest credit institutes revealed that they hold "toxic securities" totalling a sum of around €300 billion, of which just a quarter has been written off. The remainder is listed in the books as "illusory values." The German Finance Ministry assumes that the sum of German banking junk bonds could total €1 trillion. At the same time, the next imminent risk—i.e., a massive loss of credit due to the economic recession—is not even included in these figures.

The Finance Ministry, which initiated the poll of credit institutes, has refused to confirm the figures published by *Der Spiegel*. Like the banks, it is also trying to conceal the real extent of the crisis. One reason is a series of elections this year, including to state parliaments, the European election this summer, and the federal election due this autumn. Under these conditions, none of the governing parties has any interest in pointing out the real extent of the crisis.

Behind the scenes, the banks are exerting enormous pressure for their losses to be covered by the public purse and the taxpayer. For weeks, lobbyists for the banks, and first and foremost Deutsche Bank chief Josef Ackerman, have been arguing for the setting up of a so-called "bad bank"—a sort of state-backed garbage dump for toxic debts. The Federation of German Banks, which represents private banks, and the prime minister of the state of Baden-Württemberg, Günther Oettinger (Christian Democratic Union, CDU), also support the demand for a state sponsored "bad bank."

Such an institution would buy up toxic securities from the banks, which would then be rid of their worthless bonds and could take up new business opportunities. The risk for the losses resulting from the junk bonds would be covered by the public purse. According to analyst

Konrad Becker of the private bank Merck Finck, “It would be the most brazen way to privatize profits and socialize losses.”

According to the *FAZ* newspaper, what is at stake are “inconceivable amounts,” with the possibility of 10 banks in Germany alone depositing up to €1,000 billion in the “bad bank.” Federal Finance Minister Peer Steinbrück (Social Democratic Party) estimates that such a bank would need start-up capital of €150-200 billion.

There are grave reservations in political circles about burdening taxpayers with bank losses in such a brazen manner. Finance Minister Steinbrück rejected the “bad bank” idea, stating: “How could I possibly appear before the German parliament with such a proposal? The public would think we are crazy.”

The banks, however, have substantial leverage when it comes to extortion. According to finance expert Burghof, “The ability of the banks to extort society as a whole is enormous.” “We cannot keep our economy running without capital exchange between the banks.” And following the experience of Lehman Brothers, nobody was prepared to risk the collapse of another large bank.

The “emergency parachute” for the banks—decided by the German government in October—could soon prove to be inadequate. It made €400 billion available to the banks in the form of guarantees. However, Germany’s 10 biggest banks must make the same sum available merely to cover their outstanding debts for the next 12 months. The total sum of outstanding debt for the next three years is estimated at around €900 billion.

Normally repayment takes place via undertaking new loans, but the loans market has virtually run dry. In the last quarter of 2008, German banks were still able to acquire loans up to a value of €30 billion. Since the start of this year, however, only €4 billion has been made available. Without new loans the banks are unable to give credit, which in turn intensifies the recession.

It is therefore likely that the government will give way to pressure from the banks and put further billions at their disposal. The resulting enormous budget deficits must then be redeemed by cuts in social expenditures and attacks on the welfare fabric.

Other proposals under discussion include securing the banks’ losses in a manner similar to that just undertaken by the British government. This would mean that the state would have to put up huge sums to cover the losses, but in the long-run the result is the same: the costs for the banks’ junk bonds will be passed onto the public. The banks would be rid of their toxic debts and could return to making profits.

A solution to the crisis is only possible if those responsible for the financial disaster are held to account, the power of the finance oligarchy is broken, and the banks are expropriated and put to the service of society as a whole, under democratic control. None of the parties currently sitting in the Bundestag is prepared to take such steps. Without exception, including the Left Party, they all voted last October in favour of the government’s “rescue package,” which they described as “inevitable.” There can be no doubt that they will once again capitulate and yield to the pressure from the banks.

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