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German banks need additional capital

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The European Banking Authority published the results of another stress test of European banks. Among 70 banks 13 German ones were tested and a gap in capital worth EUR 13.1 billion was revealed. It had previously been estimated that German banks are missing only approximately EUR 5 billion. Such a high level of capital deficit places Germany in 4th position after Greece, Spain and Italy in the EU and this level is twice as high as in France. It is Commerzbank which is facing the biggest problems as its capital shortfall amounts to EUR 5.3 billion. European banks have to put forward a proposal to cover capital shortfalls by 20 January 2012. In recent days rating agencies further lowered the ratings of the largest European insurance companies, including Germany's Allianz. In response to the financial trouble of Germany's financial institutions, the German Ministry of Finance is preparing a law which will enable the state to forcibly buy shares in banks facing financial problems.

Commentary

- German banks do not fulfil new financial stability criteria which commit them to keeping higher reserves. The government fears the resulting negative impact on the economy. In 2008-2009 many companies had problems financing their investments. Germany's consent to the possibility of increasing assistance from the European Central Bank to financial institutions may stem from concerns about the capacity to grant loans to companies, including export loans granted by German banks.

- Despite the continuing good economic situation in Germany the condition of financial institutions may become a barrier to the growth of the German economy. Attempts at restructuring banks – which have engaged too recklessly in risky investments in US property sector and in bonds issued by the countries of the Southern part of the eurozone – have been underway for two years now. The extent to which the German banking sector is dependent on the eurozone is one of the crucial reasons for Germany to commit to saving the project of the common currency.

- The information about the large capital shortfall in Commerzbank confirms speculations about its worsening financial problems. As a result, the state could take over the control package of shares in the bank from the current 25% of shares, which would be the third loan granted by the state to Commerzbank and would force the federal government to introduce a radical financial restructuring programme in the bank. So far Commerzbank has perceived Poland and Germany as its priority markets. However, it cannot be ruled

out that, confronted with a deep crisis, the bank will decide to sell off its Polish divisions – Commerzbank owns BRE Bank (including mBank and Multibank).