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Germany: Commerzbank will pay off most of its debts to the state

Martin Lessing, the president of Germany's Commerzbank, announced on 6 April that the bank intended to pay off most of its debts owed to the state which it had incurred to counteract the crisis by June. This decision to repay the debt much earlier than planned is an effect of this institution's good results, and most of the funds for the repayment will be provided by the shareholders. If this declaration is fulfilled, the credibility of the German financial market will improve significantly.

Commerzbank, Germany's second largest bank (after Deutsche Bank) was forced as a result of the financial crisis to ask the state for assistance. In January 2009, it received 18.2 billion euros because it was at risk of insolvency due to the high costs of its earlier takeover of Dresdner Bank. Besides Commerzbank, similar assistance was also requested by the banks WestLB and Hypo Real Estate, and five other financial institutions received state loan guarantees.

At the beginning of this year, Commerzbank declared it would repay only 1.6 billion euros of the bailout. However, the good market situation made the company's executives change their minds. They announced that a decision to pay off 14.3 billion of the 16.2 billion euros of its debt by June 2011 would be taken at the general meeting of shareholders in May this year. The remaining debt would be repaid by 2014 at the latest.

One of the motives behind this earlier repayment is the desire of company executives to regain bonuses and also to pay dividends to the shareholders. This is impossible when the state holds a stake in the bank's capital. <pop>