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German financial sector still struggling with the consequences of the crisis

On 10 September the German stabilisation fund of the financial sector (SoFFin) announced that it had granted the Hypo Real Estate (HRE) bank, one of the largest mortgage banks in Germany, further loan guarantees from public funds. At the time of the recent crisis this institution was the largest bank in Germany threatened with bankruptcy and in 2009 its shares were taken over by the state which provided guarantees for the sum of EUR 102 billion. The government expects that further guarantees worth EUR 40 billion will improve the solvency of HRE and that after remedying its finance the bank will be privatised again.

The reason for the bank's insolvency was the fact that it had invested its capital in American high-risk securities. In 2008 the German federal government, fearing HRE's bankruptcy, was forced to take on its shares and grant the bank loan guarantees. Despite the assistance provided, HRE was one of the financial institutions in Europe that failed to pass the stress tests run in July this year. The new guarantees will help increase aid from public funds for the bank of up to EUR 142 billion.

The information about further public funds allocated in support of HRE caused indignation from both MPs from the opposition and the coalition since SoFFin's management handed over another part of aid without informing MPs. They fear long-term use of public funds for the restructuring of the bank.

Despite the economic recovery – with the European Commission forecasting that Germany will be one of the fastest developing EU economies – HRE's poor results mean that the German financial sector is still struggling with the consequences of the economic crisis. <pop>