

German banks show poor results in 'stress tests'

On 23 July, the Committee of European Banking Supervisors (CEBS) published the results of European banks' 'stress tests'. From among the 91 tested institutions, 6 banks failed the tests, including Germany's Hypo Real Estate. Other German banks on average also did worse than the European mean grade. The test results prove that numerous German financial institutions may not survive without state assistance should the crisis return.

The 'stress tests' were aimed to check the possible financial condition of European financial institutions in case of a recurrence of the crisis. The worst-case-scenario envisaged: economic growth in the EU lower by 2 percentage points than in the European Commission's forecasts, a fall in stock-exchange indices and state bond prices, and a continuation of the high unemployment rates. Germany's Hypo Real Estate failed the test, and the results achieved by other German banks were far from good. The average result of the German banking sector was worse by 1 percentage point than the European mean grade (9.2%). Moreover, the *Financial Times* wrote that several German banks had not revealed all data required in the tests and thus achieved a better result.

The test results achieved by German financial institutions indicate that the risk of a significant deterioration of their situation still exists. One reason for that are the big losses sustained by them during the crisis and the danger posed by high-risk assets held by them, such as Greek bonds. <pop>