Germany softens bank 'stabilisation' package
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The German government softened some elements of its €500bn bank rescue scheme yesterday as arguments escalated over whether banks would be stigmatised for using the package.

In a decree adopted yesterday, the government said banks could apply to the newly created "financial market stabilisation fund" for debt guarantees without putting their businesses under the tutelage of the finance ministry.

The law setting up the fund, rushed through parliament last week, stated all banks seeking state support would have to accept farreaching government interference - including a ban on dividend payments, a cap on executive pay and an obligation to lend to small companies. Under the decree, which clarifies last week's law, banks that apply for a state guarantee would only have to submit their business model.

Stefan Olbermann, finance ministry spokesman, said: "This is to prevent banks that obtain guarantees from engaging in overly risky lending."

Only banks that require fresh capital or want to sell troubled assets to the fund in order to repair balance sheets would have to put a €500,000-a-year ($665,000, £389,000) cap on directors' pay, stop dividends and raise lending to business.

The watering-down underlines concerns that the original plan's tough hurdles could deter even troubled banks from joining the scheme in the absence of a mechanism forcing undercapitalised financial institutions to participate.

Such fears were highlighted by a row that broke out yesterday between government representatives and Josef Ackermann after the chief executive of Deutsche Bank was reported as having told an internal meeting last week he would be "ashamed" if Germany's largest bank had to use the rescue fund.

Thomas Steg, a government spokesman, said the comment was "extraordinarily worrying", and implied it could discourage Deutsche Bank's competitors from seeking help.

Klaus-Peter Müller, chairman of the federation of private-sector banks, said: "We should avoid stigmatising those that want to use the stabilisation programme."

Deutsche did not confirm Mr Ackermann's comments.

People close to the bank rejected the criticism aimed at Mr Ackermann and said his responsibility was to shareholders and the bank.

Banks that have accepted government help in other countries such as RBS in the UK have had a negative reaction from investors, partly because of conditions that the bank will pay no dividends until government support is repaid. Deutsche, which says its capital ratios are strong, would be unwilling to limit its room to manoeuvre by accepting government conditions.

By last night, no private-sector bank had confirmed it would take advantage of the guarantees for bank debt or fresh capital injections. The DSGV association of savings banks said German public sector Landesbanks - in many cases part-owned by savings banks - would use the scheme.

Germany has not compelled any banks to accept state help nor has it recommended banks hold higher amounts of capital, although it is believed to be considering this move.

Fonte: Financial Times, London, October 21 2008, Primeiro Caderno, p. 6.