Berlin's role in banking crisis in spotlight

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The German government's role in the country's crisis-hit financial sector came under scrutiny on Friday, a day after Hypo Real Estate's chief executive quit the nationalised lender.

More details emerged of the departure of Axel Wieandt after 18 months of trying to turn round HRE, with insiders saying he was frustrated at the lack of independence and bureaucratic constraints imposed by Berlin.

One person described the bank as a "sub-sub-agency of the ministry of finance" and said the tight operational leash on the bank was causing problems: "You need to be entrepreneurial when you deal with such a huge crisis."

One issue was Mr Wieandt's impatience at not getting a decision from Soffin, the government agency that owns the bank, on a plan to give some mid-level staff more pay.

Bank insiders say "good people" are already being lost and Bernd Thiemann, chairman of the supervisory board, said he hoped the bank and government would come to agree over the €25m pay plan. He warned: "We need to make sure that, during this recovery, we don't lose people who are making a big contribution along the way."

The arguments reveal the tensions inherent in the German government's role in trying to oversee the operational performance of the bank while protecting taxpayers' interests.

Berlin, having nationalised HRE and bailed it out to the tune of more then €100bn ($134bn), knows the public would be furious at any suggestion of more money for bankers at HRE after it was at the heart of one of Europe's biggest banking crises.

The Organisation for Economic Co-operation and Development issued a strong warning about the parlous state of Germany's banking system, saying it was "worrisome" that so few banks had used a government scheme to spin off problematic assets. The OECD suggested mandatory stress tests of the banking system.

HRE, which plans to spin off up to €210bn of assets, on Friday reported a €2.2bn net loss for 2009 after losing €5.5bn in 2008. It again said it did not expect to return to profit before 2012.

Meanwhile, Landesbank Baden-Württemberg, the largest of the regionally owned Landesbank sector, revealed it lost €1.5bn in 2009 compared with a €2.1bn loss in 2008, and gave no promise of profit during 2010. Loan risk provisions jumped from €883m to €1.5bn.

Endorsing reforms demanded by European competition authorities, the OECD said the seven Landesbanken – controlled mainly by local governments – "no longer fulfil a public service function" and called for privatisations of the banks. Among other Landesbanken, WestLB and HSH Nordbank have also reported annual losses.

German banking supervision had been weak, the OECD said, saying the build-up of large stocks of liquidity at the Landesbanken after 2005 "should have rung alarm bells". Much of the surplus liquidity was invested in now toxic securities.

Fonte: Financial Times, London, Mar. 26th 2010, Companies, online.