

Bundesbank fears relapse as German banks face €90bn fresh losses

The Bundesbank has told German banks to take advantage of renewed confidence while they can to prepare for likely losses of €90bn (£81bn) over the next year, warning that the delayed shock waves of the economic crisis still pose a major threat to global recovery and bank finance.

By [Ambrose Evans-Pritchard](#), International Business Editor

Published: 5:23PM GMT 25 Nov 2009

Comments 17 | [Comment on this article](#)



The Bundesbank said German banks alone will have to write down 50bn to 70bn euros of loans over the next year

The venerable bank said in its Stability Report that the world had narrowly averted a "virtually uncontrollable" collapse in the late summer of 2008. While the credit system has partly stabilised, the underlying problems "are still far from being overcome" and money markets are not yet functioning properly.

"It is already clear that the financial system will be severely tested going forward. Downside risks remain pre-dominant," said the report.

The danger is that a long phase of stagnation and rising job losses in the West sets off "spiralling loan losses in both industry and in the residential and commercial real estate markets. In such an unfavourable scenario, negative feedback between the real economy and the financial system could gain added momentum."

The Bundesbank said the next wave of bank write-downs will come from loan book losses as the default rate on lower-tier companies tops 14pc in the US and 12pc in Europe. German banks alone will have to write down €50bn to €70bn of loans over the next year.

Losses from sub-prime securities are mostly in the open already. Further write-down from collateralised debt obligations (CDOs) - mostly tranches of mortgage debt packaged as securities - are likely to be €10bn to €15bn.

Dominique Strauss-Kahn, the head of the International Monetary Fund, told *Le Figaro* on Wednesday that banks worldwide have so far admitted to just half of the \$3.5 trillion (£2.1 trillion) of likely damage.

"There are still large hidden losses: perhaps 50pc tucked away in balance sheets. The proportion is higher in Europe than in America. The history of banking crisis, notably in Japan, shows that there won't be healthy growth again until the banks have been cleaned up completely," he said.

The Bundesbank report came a day after Berlin agreed to inject up to €4bn to rescue WestLB, the country's third largest state bank. Commerzbank, HSH Nordbank, and Bayern LB have all run into trouble, requiring large bail-outs that have angered German taxpayers. The state Landesbanken emerged as the most reckless, building large liabilities 'off-books' through Irish-based investment vehicles.

Paradoxically, Europe's bank problems help explain why the euro has risen to a 15-month high of \$1.51 against the dollar. Hans Redeker from BNP Paribas said distressed banks are having to sell assets overseas and repatriate the money to shore up their capital base, pushing the euro towards the pain barrier for many European exporters.

<http://www.telegraph.co.uk/finance/financetopics/financialcrisis/6654352/Bundesbank-fears-relapse-as-German-banks-face-90bn-fresh-losses.html>