59

Banks must take bigger losses on Greek loans, says German finance minister

Limit on writedowns rejected in run-up to EU meeting that is expected to allow Greece to default on half its debts

- Phillip Inman, and Helena Smith in Athens
- guardian.co.uk, Sunday 16 October 2011 20.00 BST
- Article history

German finance minister Wolfgang Schäuble said banks must be better capitalised to prevent an escalation of the eurozone crisis. Photograph: Ian Langsdon/EPA

German and French banks must accept bigger losses on their loans to Greece, the German finance minister has conceded, signalling his rejection of intense lobbying by Deutsche Bank for only limited writedowns on loans to Athens.

Wolfgang Schäuble said banks must be better capitalised to prevent an escalation of the eurozone crisis and collapse of the financial system.

"We need better regulation and we also need a better capitalisation of banks, which is what we are doing in the short term. Not everyone will like it, but it is the best way to ensure that we don't have an escalation in the crisis due to a collapse in the banking system," Schäuble said.

His comments come ahead of an EU council meeting next weekend that is expected to allow Greece to default on at least 50% of its debts and unveil a "bomb proof" firewall to protect other vulnerable countries.

Schäuble admitted banks had lost trust in each other and were refusing to conduct normal lending – either to other banks or commercial businesses.

But a demand for further writedowns could force several governments, including Angela Merkel's Berlin administration, to nationalise or part-nationalise several institutions.

Belgium, in particular, has come under pressure in recent weeks following concerns that it will need to spend billions of euros rescuing its banks despite already pumping €5bn (£4.4bn) into Franco-Belgian group Dexia.

Up to 30 banks in the eurozone may need extra capital after writing off Greek debt.

BlackRock, the US investment firm, said an investigation of Greek banking found that some the country's major institutions will need to be temporarily nationalised should a default be agreed.

The Greek prime minister, George Papandreou, issued an impassioned plea at the weekend for a "viable solution" to the debt drama wracking Europe, telling his EU counterparts that failure would lead to "catastrophe".

With Athens descending into chaos as Greeks step up strikes, protests, sit-ins and walkouts, the embattled socialist leader appealed for patience, telling the nation there could be no easy exit from the worst crisis to hit the country in modern times.

"Greece is not Atlas who can bear all of Europe's problems on its shoulders," he said, alluding to the EU dithering that has been widely blamed for failing to solve the crisis. "No European country could do that – not even Germany," he told the mass-market weekly Proto Thema.

Papandreou, who faces a crucial parliamentary vote this week on a new round of belt-tightening measures ranging from pay and pension cuts to layoffs in the public service, said the time had come, once and for all, to tackle the issue at the centre of the crisis: Greece's colossal debt.

In an admission that took many by surprise last week he said the issue of lightening the country's debt load had not only become a top priority but was "where the big problem lies".

As part of a Franco-German plan to avert a disorderly default, eurozone finance ministers have signalled they will ask banks to accept losses of up to 50% on Greek bond holdings. It is seen as the only way of stemming a crisis that now threatens the global economy.Eurozone officials have said openly that a "haircut" of as much as 60% for Greece's private creditors is under consideration – almost three times that agreed in July when EU leaders approved a second bailout for the country.,On Sunday German media reported that the head of Deutsche Bank, Josef Ackermann, who is also chairman of the global banking lobby, was engaged in ferocious behind-the-scenes negotiations to write down Greek debt by 50%.At €360bn, the Greek national debt is projected by the International Monetary Fund to peak at 179% of national income next year. A wave of protests, increasingly violent strike action and the takeover of government buildings, has brought a sense of lawlessness to the country, with ministers unable to enter their offices.Government officials say Greece will run out of cash by 10 November if it is not given a fresh instalment of aid by international lenders, who have become increasingly critical of Athens' failure to implement economic and structural reforms.

With a two-day general strike due to begin on Wednesday, Papandreou has turned his own office into a crisis centre for ministers who increasingly complain of being under siege.