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Greek precedent exposes banks, says Ackermann

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The precedent set by the restructuring of Greek sovereign debt risks leaving banks more exposed to future financial crises of other countries, according to the man who helped to orchestrate the so-called "private sector involvement" in the rescue plan for Athens.

Banks and other bondholders that volunteer for a 50 per cent cut in the value of Greek sovereign debt could set a precedent for other sovereign haircuts, according to Josef Ackermann, chief executive of Deutsche Bank and the eurozone's most prominent banking head.

He insisted the Greek PSI deal should be an "exception", echoing the language of other bankers and politicians.

"If you open up the Pandora's box, then who is willing to invest in sovereign risk?" he told the Financial Times.

"The violation of a risk-free asset class will have long-term consequences."

But the veteran Swiss-born banker also predicted voluntary agreements with private sector creditors would continue to be preferred to a "disorderly" sovereign default, which could trigger potentially disastrous claims on credit default swaps – insurance policies written against the risk of default.

Mr Ackermann said it was now clear that sovereign CDS were of less worth than before. "I don't think you'll see a [disorderly] default in any country. You'll always have a voluntary burden-sharing," he said.

The news came as France's Société Générale wrote down the value of its Greek bonds by 60 per cent, in line with its larger rival BNP Paribas's writedown last week, triggering a 31 per cent fall in third-quarter net profits to €622m ($861m). SocGen sacrificed its dividend for the first time to conserve capital.

Both the PSI and an accompanying order from regulators that 70 eurozone banks should raise €106bn in capital were central to European policymakers' October 26 package to tackle the crisis and address investors' concerns over bank balance sheets.

Mr Ackermann, a bridgehead between German chancellor Angela Merkel and the international banks as head of the Institute of International Finance, said he was sceptical that new capital rules would bolster investor confidence.

"Capital ratios are an important element," Mr Ackermann said. "But if you have a debt crisis on the periphery of Europe, you are factoring in a systemic risk that goes far beyond having some incremental capital. One percentage point of capital more or less is not really the decisive factor."

Mr Ackermann said investors remained wary of the eurozone because Greece and Italy had failed to set out credible plans to balance their budgets, and predicted a painful European economic recovery over "three to five years".