Bundesbank Backing For Bail-In Hints at Imminent Bank Crisis

by the Editors of the *Strategic Alert*

Aug. 26—In an abrupt about-face, the Bundesbank, the German central bank, has now endorsed the EU scheme of bail-ins, to be carried out by a single, supranational resolution authority, as opposed to sovereign national governments. In a speech in Salzburg Aug. 18, Bundesbank board member Andreas Dombret called for rapid implementation of the Single Resolution Authority: "I firmly believe we should entrust a newly established European institution with resolution powers as laid out in the Recovery and Resolution Directive [of the June 27 EcoFin meeting]. It must become a strong and independent body with full decision-making powers."

Deutsche Wirtschafts Nachrichten (German Economic News) commented: "So far, the Bundesbank had held off on the issue. If it now dares to come out of cover, one is led to conclude that some banks are on fire. After the general elections, depositors' participation in the risks of their bank may come faster than they would like."

Dombret complained about the delay in adopting the bail-in scheme by individual EU countries: "Implementation efforts therefore have to be treated as an urgent matter in all jurisdictions. We would have to pay dearly for any delay. To summarize, we cannot accept any excuse for deviations from timely implementation."

The Looming Crisis

Why the urgency? *Deutsche Wirtschafts Nachrichten* poses the question, and answers: "A glance at banks' balance sheets brings clarification. The liabilities of banks in the Eurozone amount to 250% of total economic performance. Liabilities are higher then alleged assets. Spanish bank debts alone amount to 305% of GDP, or about 3.3 trillion euros. The balance sheets of the banks indicate risks which are a multiple of government debts. They amount altogether to 9.3 trillion euros."

Since states have no more money, depositors are called upon to save the banks. As Dombret said in Salzburg: "the bail-in is 'in' and the bail-out is 'out'!"

Dombret, who worked at Rothschild, J.P. Morgan, and Bank of America before going to the Bundesbank, also made a point of attacking proposals to reintroduce a Glass-Steagall-style measure, i.e., the separation of commercial from investment banking.

He explained the principle: "The idea is to create a category of rather traditional banks whose customers would be protected by deposit insurance schemes. On the other hand, those banks engaged in riskier and more volatile business could not rely on deposits, nor would they be rescued at the taxpayers' expense. In addition, the separation could simplify group structures. This would facilitate risk management and supervisory scrutiny as well as resolution, if need be.

"However, as the boundaries between various banking activities are fluid, it is difficult to draw a clear line between them. Consequently, structural interventions in banks' business models must be carefully designed."

Translation: Former Rothschild/Morgan official Dombret thinks that separating banks is "difficult," while stealing depositors' money is much easier.

A Greek Trigger?

One trigger for the "bail-in" theft in Germany could be the crisis in Greece. Finance Minister Wolfgang Schäuble hinted in that direction at an election event of his Christian Democrats in Ahrensburg on Aug. 20, where he said that later this year, there would have to be a discussion of "Greece's need for another program," because the country will not be able to stand on its own feet, when the current, second program expires in 2014. That program would involve, besides more draconian austerity, a new "haircut" on Greek debt, now largely held by the European Financial Stability Facility (EFSF), the European Stability Mechanism (ESM), and the European Central Bank (ECB) (i.e., by the governments that are guarantors of those institutions).

The amount Germany would have to bail in is enormous: Schäuble himself recently told the Bundestag it was in the range of EU95 billion. The *Frankfurter Allgemeine Zeitung* wrote, however, on Aug. 21, that Germany would have to foot the bill for at least EU122 billion, and prominent bailout critics such as Prof. Hans Werner Sinn of the Munich-based IFO Institute estimate a minimum risk of EU533 billion.