Emergency Meetings Over German Bank Crisis

by Lothar Komp

German Chancellor Gerhard Schröder has had to call an emergency meeting with finance officials and bank heads on the severe threat of a blowout of the banking system. Both economic depression conditions, and Anglo-American geopolitical financial warfare, are contributing to the threat.

The German Finance Ministry declined comment, but according to a report in a weekly financial publication, the German government and the Bundesbank central bank were working out scenarios for holding off or responding to a crisis of the country's banking system, in an emergency meeting on Feb. 16. According to *Focus-Money,* this was a special gathering at Chancellor Gerhard Schröder's office in Berlin, involving the Chancellor himself, Economics Minister Wolfgang Clement, and Finance Minister Hans Eichel. The government officials had invited top bank managers to discuss what is clearly the worst crisis of the German banking system in 50 years.

It was reportedly decided at the meeting that Eichel, in close cooperation with the Bundesbank, will have to work out scenarios and possible counter-measures against major disruptions, including the collapse of a larger financial institution.

While the financial authorities of every member-nation in the Group of Seven—decidedly including the United States—should be doing the same thing, two factors are driving the German banks to the edge. First, the country is mired in a deep economic depression which is getting worse, with unemployment well over 10% officially and only exports and technology sharing with China and Asia generally keeping the German economy from complete breakdown. And second, the banking system, like Germany generally, is the target of Anglo-American financial warfare aimed at bringing down Social Democrat Schröder and replacing him with Iraq war-friendly Christian Democratic Union Chairwoman Angela Merkel.

The only effective defense against both problems, for Germany, is to throw out the European Union's Maastricht Treaty budget straitjacket and adopt the full "Eurasian Land-Bridge" and public infrastructure policy of Civil Rights Movement-Solidarity party leader Helga Zepp-LaRouche—who also catalyzed Germany's strong anti-war stand with her campaign mobilization of Summer 2002.

'Worst Year in History'

Both the inside collapse and outside attack are seen in the plunge of European bank and financial stocks. Germany's second-largest bank, HypoVereinsbank (HVB), is but one good example. HVB on Feb. 25 reported a disastrous fourth quarter of 2002. Chief Executive Officer Dieter Rampl said in a statement that last year was the "worst and most difficult year in the bank's history." During the fourth quarter alone, the Munich-based bank produced loss of 926 million euros, the biggest quarterly loss reported by any German bank since World War II. HVB had a particularly high exposure to failed German corporations as well as to victims of the Summer 2002 floods. For the first time in more than half a century, it had to eliminate dividend payments, and announced 9,100 layoffs.

That day the German stock market crashed to its lowest level since August 1996. Ever more escalating disasters in the banking and insurance sectors, and panic selling of specific stocks like ThyssenKrupp and Bayer, pushed the main DAX-30 stock index below the 2,500 mark; it has now erased more than two-thirds of its March 2000 peak value, making its crash almost as bad as that of the notorious Nasdaq or Germany's short-lived equivalent, the Neumarkt. In the wake of a geopolitically very suspicious downgrading of ThyssenKrupp bonds by Wall Street's Standard & Poor's rating service on Feb. 21, ThyssenKrupp stocks fell by 15% within just two trading days. This was reminiscent of the "leaked" phony e-mail of a Merrill Lynch London official, which almost destroyed Commerzbank in October 2002.

Stock prices of the Bayer chemical group suffered their biggest crash in decades on Feb. 25, down 14%, after a new U.S. lawsuit was filed over its Baycol drug. The *Financial Times* quoted the German lawyer Michael Witti representing the German plaintiffs against Bayer, saying bluntly: "Bayer is the first to experience the U.S.-German tensions [over war on Iraq]. The industry can now see what the Chancellor has brought them."

Major European firms are also having rough sledding this Winter. Allianz and Munich Re, the two giant insurance companies, according to reports, accelerated the European stock market plunge in late February, as the falling DAX triggered them to engage in a new round of forced stock sales, in order to protect their portfolios. In Switzerland, Swiss Re, the world's second largest reinsurer, announced on Feb. 26 that it will have to cut dividend payments for the first time since the San

The maker of the Transrapid magnetic levitation train system—vital to the Eurasian Land-Bridge potential for global recovery—had its bonds downgraded to "junk" status in a Wall Street financial warfare move on Feb. 21.

Francisco earthquake in 1906. Investment bank Crédit Suisse will cut another 1,250 jobs after reporting a loss of 3.3 billion Swiss francs for 2002—the highest ever recorded by any European bank. And the huge Dutch food conglomerate Ahold had its stock evaporate on a leak that its U.S. subsidiary was committing gross financial fraud.

That such calamities are not only on the continent, was indicated on Feb. 25 when the British bank Abbey National announced its first full-year loss since it was founded in 1849.

A 'Bad Bank'

In another emergency move, Deutsche Bank proposed the establishment of a publicly financed "bad bank," which would buy up the "problem loans" that private German banks had made to the weakening *Mittelstand*, small and middle-sized industrial companies.

The *Frankfurter Allgemeine Zeitung* on Feb. 23 revealed more details on the Feb. 16 emergency summit in the Chancery, which had also included the top managers of Deutsche Bank, Dresdner Bank, HypoVereinsbank, DZ-Bank, WL-Bank, Allianz, Munich Re, and Kreditanstalt für Wiederaufbau (KfW). According to unnamed participants, Deutsche Bank CEO Josef Ackermann proposed that German banks should set up a new entity, a "bad bank," into which the banks would transfer all their problem loans—about 7 billion euros or more. This supposedly could prevent large write-offs which would further erode the banks' core capital. The scheme would require the government to guarantee the problem loans. The most first participants of the plan to clean up their credit portfolio would supposedly be Dresdner Bank, Commerzbank, and HypoVereinsbank. The head of DZ-Bank, which is in a very precarious state as well, welcomed the proposal.

Ackermann claimed that Deutsche Bank itself would not need to participate in this operation. Dresdner Bank has already set up an "Institutional Restructuring Unit" (IRU), into which it has transferred 17 billion euros of its problem loans, and ultimately plans to put up to 30 billion euros of loans and assets into this new unit.

The newspaper described the proposal as "unprecedented" in post-war German banking history. Top bankers in the German financial center, Frankfurt, denounced the plan as an admission that German banks are in a disastrous situation.

ThyssenKrupp Financial Warfare Case

A crucial indication of the geopolitical warfare complicating the economic depression, emerged on Feb. 21 when the large "blue chip" industrial and export firm ThyssenKrupp was downgraded to full "junk-bond" status. Standard & Poor's (S&P) announced that it had cut the long-term credit rating of Germany's largest steel producer by two notches at one blow, from "triple B" to BB+, a rating that belongs to "junk" territory. ThyssenKrupp stocks, in the first hours after the news broke, plunged by 7%; the risk premium on its corporate bonds almost doubled from 2.4% to 4.7%. Many investment funds in the world are not allowed to hold junk bonds, and will now be forced to sell off ThyssenKrupp corporate bonds. Any new bond emission by the company would now require the promise of much higher interest rates.

ThyssenKrupp has become the first European company to be hit by a new policy at S&P regarding pension liabilities. S&P recently decided to strike out at all corporations that do not follow Anglo-Saxon orthodoxy in financing pension obligations. According to this model, a corporation has to cover future pension obligations by setting up special funds invested into stocks or bonds. Most German corporations still stick to "pay-as-you-go" pension systems, backing up special pension reserves by fixed assets such as real estate and machines. In early February, S&P targetted a list of 12 European companies which the new policy threatens with a downgrade—but notably, it has not downgraded U.S. firms from General Motors on down, which have notoriously overstated and underfunded their pension funds throughout the 1990s.

ThyssenKrupp management "strongly" criticized the S&P decision and described it as "incomprehensible." Since the last S&P rating in 2001, the company's pension obligations—about 7 billion euros—have not changed at all. At the same time, ThyssenKrupp has reduced its net debt from 7.2 billion to 4.9 billion euros. The management said it might take legal actions against the S&P decision, and would not cut down on planned investments.

ThyssenKrupp is part of the consortium building the Transrapid magnetic levitation transportation system in China and Germany. This system (see *EIR*, Jan. 10, 2003), inaugurated on New Years' Eve in Shanghai, is vital to the entire Eurasian Land-Bridge development strategy by which, uniquely, Europe, Russia, China, and India can drive a recovery from the deepening world depression.