

# Already Holding Junk, Germany Hesitates

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[Germany](#)'s financial institutions hold some 28 billion euros, or \$37 billion, in Greek bonds, according to estimates by [Barclays](#) Capital, extrapolating from [International Monetary Fund](#) data.

Germany's regulators and many of its banks do not disclose precise figures, but an informal survey on Wednesday of the largest banks indicates that about half of that debt — rated as junk by [Standard & Poor's](#) since Tuesday — appears on the balance sheets of institutions that are owned or controlled by the German government.

And so Germany's exposure to Greek debt already exceeds, by far, the \$11 billion the country would lend to Greece as part of an initial [European Union](#) plan to help the country avoid default on its debt — though not the \$32 billion that may eventually be needed from Germany.

One institution, [Hypo Real Estate Holding](#), carries \$10.5 billion worth of Greek debt on its books. After a bailout last year, German taxpayers own Hypo Real Estate.

Germany's direct exposure to Greek debt underscores how the country's problems are very much Europe's problems. **"It's not just a question of paying for Greece's luxury pensions. There are intrinsically strong German interests as well,"** said Alessandro Leipold, a former acting director of the I.M.F.'s European department.

Greece's fiscal crisis, beyond threatening the credibility of the euro and the stability of the European economy, also could hit government budgets in a very direct way, potentially requiring them to pump even more money into banks they have already rescued.

"If the banks take a hit, then the German government will be involved again," said Jürgen von Hagen, a professor of economics at the University of Bonn.

German political leaders have rejected talk of restructuring Greek debt in a way that would force banks to share the pain, Mr. von Hagen said, because they know that their taxpayers would ultimately get the bill.

Germany is not the only European country that is exposed to Greek debt. France is Greece's biggest creditor, with \$67 billion in holdings, including \$9 billion held by the Bank of France, according to Barclays. Italy holds \$27 billion in Greek paper, followed closely by Belgium, the Netherlands and Luxembourg.

American banks held about \$16.6 billion in Greek debt at the end of 2009, according to the most recent data from the Bank for International Settlements, making their potential liability small by comparison.

The [European Central Bank](#) also holds Greek debt, which it accepts as collateral when lending to euro area banks. One question is what the central bank would do if the major ratings agencies continue to downgrade Greek debt, making the bonds ineligible as collateral. Some analysts expect that the central bank, which has already adjusted its rules to accommodate lower-rated bonds, would find a way to prevent Greek debt from being completely ineligible.

"The E.C.B., in principle, is always free to change its policy in the interests of financial market stability," said Jörg Krämer, the chief economist at Commerzbank.

Standard & Poor downgraded Spanish government debt on Wednesday, in the latest indication that the Greek problem is spreading. Investors “have now moved on to what appears to be a full-blown bond market crash across the periphery,” economists at [Royal Bank of Scotland](#) wrote on Wednesday in a note to investors.

Even if other governments do not default, downgrades still cut the value of their bonds on open markets and hurt the balance sheets of banks.

The case of Hypo Real Estate suggests that exposure to sovereign debt could be concentrated at a few German institutions that acquired too much risk. Hypo Real Estate’s debt holdings of Portugal, Italy, Ireland, Greece and Spain — all countries with fiscal problems — amounts to about \$52 billion.

Westdeutsche Landesbank, owned by state and local governments in northwestern Germany, had about \$16 billion in such holdings. As part of a drastic restructuring after the [financial crisis](#), the bank put all but \$1.3 billion of its paper from those five countries into a separate institution formed to dispose of the bad assets.

Commerzbank — whose major decisions can be vetoed by the government, which owns 25 percent of the bank — holds about \$4 billion in Greek debt.

In Spain, where the construction industry has collapsed, midsize banks have suffered the most. They have been struggling to clean up bad real estate loans on their balance sheets and could face another hit if their holdings of Spanish government bonds lose value.

“Spanish banks did not have direct exposure to toxic assets like the German landesbanks,” said Xavier Vives, a professor of economics at IESE Business School in Barcelona. “They had their own toxic assets.”

Spain’s big banks, which have so far escaped the worst of the financial crisis, could suffer if Portugal goes the way of Greece. Santander, based in Madrid, has assets in Portugal valued at \$64 billion, according to analysts at [Nomura](#) in London.

Even if Europe’s bigger banks are not heavily exposed to Greek debt, they could see a surge in bad loans in Greece if local companies experience a sharp economic downturn.

“There is the whole question about what you do about corporate borrowing, and there are implications for Germany as well,” said Leila Heckman, senior managing director at Mesirov Financial in Chicago.

[Deutsche Bank](#)’s chief financial officer, Stefan Krause, said Tuesday that the bank would feel the effects of a deeper Greek crisis.

“We don’t have much exposure to Greece directly. We are not concerned,” Mr. Krause said during a conference call with analysts. He added, “We could not completely isolate ourselves if the situation gets worse.”