Banking group HGAA stokes conflict between Vienna and Munich

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The decision of the Austrian government to no longer pay the debts of scandalized banking group Hypo Group Alpe Adria (HGAA) has led to serious conflicts between Vienna and Munich and, indirectly, with Berlin. German banks expect losses in the billions. Experts warn that confidence in European financial markets will be shaken.

On March 1, the Austrian Financial Market Authority (FMA) put a freeze on all loans issued by HGAA and stopped interest payments. The FMA cited an additional capital hole of €7.4 billion discovered by auditors as the basis for their decision.

The FMA will decide in the next year what will ultimately be done with the bank. Experts predict a debt reduction of up to 50 percent. That would also affect many German banks. According to a statement of the German Federal Bank, HGAA has debts of more than €7.1 billion outstanding. The Fitch rating agency therefore calculates as much as a 10 percent slump in annual profits for the German banking sector in 2015.

The Bavarian state government has reacted to the Austrian decision most fiercely. Regional bank Bayern LB has litigated since last November against the Austrian government for the repayment of €2.4 billion which HGAA allegedly owes. Now additional losses are threatened.

The Bavarian finance minister Markus Söder fumed that one currently hears the kinds of words from Vienna that otherwise “only come from Athens.” Vienna’s conduct was, he said, “a genuine vulnerability in the European financial architecture and, after Greece, could be the next big problem.”

Other German banks and insurance companies are also affected. These include the state-run German Mortgage Bank, the Dexia Municipal Bank of Germany, the Düsseldorf Mortgage Bank (already threatened with bankruptcy), as well as the Munich Reinsurance Company.

The HGAA is a prime example of the criminal machinations through which banks and corrupt politicians amassed billions until the financial crisis of 2008 washed them away and tore gigantic holes in the public sector, which are now being filled at the expense of the population.

The small Carinthian Regional Bank was hugely inflated under the right-wing Jörg Haider, who governed Carinthia from 1989 to 1991 and from 1999 until his death in 2008. Haider wanted to take part in the bonanza that accompanied the privatization of state property in Eastern Europe, in which HGAA spent years granting state guarantees for high-risk and dubious businesses in Eastern Europe and the Balkans. The Province of Carinthia was liable for unevaluated credit loaned to Serbia, Croatia, Montenegro and Macedonia, which exceeded the annual state budget many times over.

As the situation became increasingly precarious, Haider managed to sell the bank to Bayern LB for €1.6 billion, making Bayern LB majority owner. This was pushed through by the Bavarian government, which also wanted to enter the lucrative international banking business. Its representative at Bayern LB overlooked the fact that they had purchased a failing bank. How intentional this was has never been fully clarified. The acquisition of HGAA through Bayern LB has in any case profited several wealthy investors as well as the Haider government.

With the international financial crisis, the scale of losses through speculation and bad credit has come into focus. The HGAA has revealed itself as a black hole that swallowed up billions. Its “rescue” bled the Bavarian state treasury of nearly €4 billion. Bavaria

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contributed more than €12 billion altogether to save Bayern LB from a bankruptcy that also caused losses to other businesses.

In 2009, HGAA was facing imminent bankruptcy. The Province of Carinthia, with an annual budget of €2 billion, was unable to come up with the guaranteed €10 billion. Now the Austrian government, a social democratic-conservative coalition, has taken over the bank and transferred it to a "bad bank" called Heta. The previous owners—the Bayern LB, the Province of Carinthia and the Graz Mutual Insurance Company (GRAWE)—were each compensated with a single euro.

With the new financial gap of €7.4 billion, which auditors have called a "mystery," and the adjustment of payments, the HGAA crisis has undergone a qualitative change. As the *Süddeutsche Zeitung* wrote, financial circles agree that it "concerns not only Austria, but the fundamental question: How much is a state guarantee in Europe still worth, if Austria abused regulations?"

The government in Vienna has its back against the wall. Austrian banks are threatened with loss of their top credit rating. The ratings of the country's three largest banks will likely sink by as much as three places, to the range of "BBB," analyst Patrick Rioual explained in March in Vienna.

It is above all Austrian business and finance interests in Eastern Europe that are behind the crisis. At the beginning of the millennium, Austrian banks expanded into Eastern Europe and became the largest lending institutions there. Until the financial crisis, this resulted in big profits for the banks, but later two institutions—the HGAA and the Austrian Credit Union AG—were led to the brink of collapse.

This year the Austrian national debt will climb to about 89 percent of gross domestic product. In addition to this, the deficit may decrease more slowly than previously anticipated. In 2014, it rose to 2.4 percent of GDP.

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