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Pleading for National Regulation in the Aftermath of the Subprime-Crisis: An Analysis of Germany and Spain

After all over the world banks stood and still stand at the edge of bankruptcy many governments intervened and bailed out most of them by providing public funds. For numerous observers this step was necessary to avert a total collapse of national economies although further moral hazards amongst market participants maybe the consequence. The subsequent debate about regulatory consequences is and the actions undertaken by states are mainly determined by the idea of a global supervision agency. While the bail-outs were chiefly granted by the governments on the national level the henceforth regulation should be organized on a global level. Global operating capital needs to be constrained by a "global sheriff."[1] , that is in brief the logic behind the line of argumentation.

In this paper I do not want to put the necessity of a global regulator into question. But as experience has shown so far, efforts to regulate financial markets internationally or globally were often marked by stagnation, ineffectiveness and half-baked outcomes. Further these efforts here and then quickly vanished into thin air immediately after they appeared.

Therefore I argue that prudent banking supervision on the national level can be considered – at least in the very aftermath of the crisis – more effective and is able to prevent national banks to establish risky business practices, which were more or less the trigger of the current financial crisis.

To underpin my argument I will compare Germany, a country whose financial sector was hit severely as the story of the IKB Deutsche Industriebank has shown in summer 2007 and where especially the Landesbanken are still suffering from major depreciations, and Spain, a country where the defaults of subprime mortgages had no direct noteworthy impacts on the national financial institutions and where banks like Santander and BBVA are calculating with high gains for 2008. The reason for the differences can be retraced to the business practices and areas in which the banks operated which are in turn constrained by the regulation practices maintained by the authorities and their competencies, respectively.

I will proceed as following: After giving some short empirical examples for the difficulties and problems connected with the global efforts and concepts so far, it will be my task to go back to the summer of 2007 and the crisis eve to provide a succinct depiction of the main mechanisms that triggered the crisis. Then I will bring up the empirical example of the IKB in Germany to point to developments and practices that finally lead to the financial disorder. These developments could have been prevented from appearing by proper rules that guarantee proper supervision. I will claim in the main part of the paper that in Spain the shortcomings occurred in Germany were absent due to the regulative system executed by the Banco de *España* which again is the reason for the well performing Banks in turbulent times at the financial market. Points of references will be delivered in both cases by the main actors of the central authorities.

Finally I will conclude that the conservative Spanish model should be taken into consideration if a state truly seeks for reasonable efforts to regulate its banking sector effectively and does not want to wait for the uncertain outcomes of bargaining on a global level and unequal implementation among states. Of course the essay will not lack speculations, which may sound sometimes "un-scientific" but unavoidable when investigating events that sometimes do not date back more than a month.

2. An International Regulator?

In his article "Eine neue Weltfinanzaufsicht muss her!" (We need a new global supervision agency!)[2] the former chancellor of Austria Alfred Gusenabuer argues that that the appearance of the crisis is strongly related to the failure of the community of states to properly regulate global financial markets. He claims that until now after every financial crisis in the recent times states made commitments to the financial industry by accepting their call for self-regulation by guaranteeing more transparency. The flaw was until now that states did not cooperate enough and pursued too many different interests. The threat of flight of capital was omnipresent and often softened the states tone. The Anglo-Saxon model of self-regulation was finally the result. To Gusenbauer this model, a full liberalisation of capital movement and a global financial system, can only be fully beneficial if in every country sanctionable minimum standards are executed. The 1999 Forum for Financial Stability was already a step in the right direction but the recommendations by the forum were unfortunately not binding. His vision is a democratically legitimised World-Finance-Organization that is able to execute legally binding sanctions and to formulate standards and oversee their implementation. For guaranteeing transparency it should maintain a credit register plus it should develop better early-warning systems and instruments for crisis management. Instead of founding a new organization he has the idea that the International Monetary fund could be able to undertake this task being already equipped with the necessary competencies. He underpins his pleading by stating that already for reasons of equality of competition all parts of the global financial market have to be captured by adequate regulation. Only then the instabilities of the market can be confronted effectively.

Gusenbauer constructs in his article the framework many experts and politicians are thinking of when it comes to global regulation. Although his ideas are quite reasonable it is noticeable that he leaves out the frameworks that existed already before the crisis took its course. Eventually there is no comparable branch that is as regulated as the banking sector but still the outcome is a global crisis which is incrementally taking over on the real economy. Some may still argue that the risky but highly profitable practices carried out by the banks, which I will explain in more detail below, are an outcome of the strict rules for regulatory capital Basel committee of the Bank for international Settlement. For others it is evidence enough that even Basel II, with the main modification 'the higher the risk the more regulatory capital has to be provided', did not went far enough yet, regarding the fact that it already was partly in effect at the end of 2006.[3]

According to LSE Professor Charles Goodhart the credit crunch was already forecast by the regulatory community and "The Bank for International Settlements had been predicting it for years and most other authorities had been warning about the underpricing of risk and the probability of a sharp reversal for some time."[4] For him the problem is not regulatory oversight but "the lack of counter-cyclical control mechanisms or instruments."[5] Although authorities foresaw they were not equipped with the tools to prevent it. Hence Goodhart claims that "the Basel regime for capital adequacy does nothing to constrain credit booms. Its effect, if any, on the crunch will be to deepen it further."[6]

What we can observe here is that on the one hand the idea of a central authority that regulates global markets must be capable of, as Gusenbauer shows, major competencies to punish effectively globally operating banks. With most of the other international commitments that constrain the economy of industrial nations, like Kyoto, it will be hard to guarantee an even implementation over the world, a fact that has already been criticised by Jamie Dimon CEO and Chairman of JP Morgan Chase.[7] In comparison the already existent frameworks first and foremost Basle I and II are in their effectiveness still debatable.

An example for an international regulation effort that is more or less drowning during these times is the "Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience" or elsewhere simply called the Draghi-report [8]. The report was elaborated by the Financial Stability Forum and is named after its chairman Mario Draghi, whose primary occupation is governor of the Bank of Italy. According to Jochen Sanio, President of the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin), the Federal Financial Supervisory Authority, the report provides answers to the big questions imposed by the Subprime crisis. Its 67 recommendations are in reality instructions that are to be implemented. The ministers of finance of the G-7 expected a brisk confirmation of operation, the most important ones already 100 days after the report was published, which meant July 2008. Besides supporting Basel II and an improvement of its first pillar, the minimum capital requirements for the major components the important function of the rating agencies has to be re-established and modified in their application. In addition the report claims that the capital requirements of monoline insurances, which especially in the USA meliorated borrowings to improve the ratings of the financial products in advance, have to be reconsidered. For Sanio the report defines the next stages for the upcoming regulatory tour de force and will hopefully be a watershed that confines the apologists of 'laissez-faire'. [9]

As we will see the main points of the Draghi-report are quite reasonable and meet the main requirements that would have been necessary to avert the main causes of the crisis. [10] Martin Wolf, editor and chief economics commentator at the Financial Times or points to the problem with this effort, which did by the way not gain much attention until now, by stating that if international regulation

is to be effective, it must cover all relevant institutions and the entire balance sheet, in all significant countries; it must focus on capital, liquidity and transparency; and, not least, it must make finance less pro-cyclical. Will it ever work perfectly? Certainly not.[11]

Of course a perfect regulation and a perfect market cannot be the aim. Risk, trust and instability will always be one of its main features. But different interests, the political and cultural institutions in the different countries will be a major hurdle not easy to clear for national policy makers.

Finally, the G-20 Summits are by now the first attempts to find a global solution between the head of governments of the major global economic acting states. The first summit was held in Washington D.C. while in 2009 the next in London is awaited. The major differences between the two will be the incumbent of the U.S. presidency, who will be for sure the major constructor of the global 'post-subprime' financial order. All the participants committed to a final "Action Plan to Implement Principles for reform"[12] The presented ideas are very much in line with the efforts presented hitherto. Even a reform of the IMF is envisaged as a future regulatory institution as in the Gusenbauer proposal. The Countries will take "urgent and exceptional measures to support the global economy and stabilize financial markets."[13] Rating Agencies have to be supervised more thoroughly while Hedgefonds have to be regulated more forcefully. More consumer protection will be taken into consideration via better information and clearer balance directives and even more strictness concerning management salaries are to be tackled. But after going through the paper one can state that the containing phrases describe some principle statements rather than concrete steps of implementation. If in the end tangible change is to be observed remains to be seen. According to 'Der Spiegel' many observers believe that Obama will be much more open-minded towards regulation, the strengthening of international regulation and smoking out tax shelters. But ambitious plans for a strong global regulation agency will still encounter decisive resistance after Obama took over the affairs of the state if we believe Brad Setser of the "council of foreign relations."[14]

The predeccesor of Obama, George W. Bush, accomplished that the action plan contains a clear commitment to free markets, free trade and the priority of growth. These principles are not restricted to the Republican Party, but are more or less a consensus across the two big parties. It is another question to consider this bad or good but it proves that the key actor in world politics and economy wants to provide a margin of discretion when it comes to regulation of financial markets. Whatever the concrete steps determined at the next summit will be, there will be major forces pleading against 'over regulation'. Facing this 'pluralism in a globalized world' but also dominance of certain actors it is questionable if regulation achieved on a global level will ever be that effective to prevent the occurrence of a financial 'earthquake' with an amplitude of a similar size.

But is there an appropriate way to avoid at least the direct effects of a chain of defaults in a deregulated global financial system on national banks? In this system most of the banks are operating globally but as one could observe since the summer of 2007 the direct effects of a bank facing bankruptcy would have been primary on the national economies, what forced the national governments to intervene. Of course it is not deniable that a 'second round' hitting the real economy of neighbouring or dependent countries would have been and will be the consequence.

3. The Crisis:

In the following section I will claim that national prudent regulation is an appropriate instrument to guard the national banks from direct impacts of highly risky business practices. For that intention I will depict briefly the causes of the crisis, first the general believes that set the groundwork for the development and second the technical dimension that finally triggered the meltdown. To bring an empirical example how failing regulation lead to the break down of a bank, I will show how the misery of the IKB took its course. Fittingly those consequences which are demanded in Germany after the events are exactly those which were taken into consideration in Spain. Hence I will show how the latter country successfully regulated its banks.

3.1 The Beliefs

In general we can state that three wrong beliefs led to the crisis: First, Modern capital markets became that progressive, that they will always be able to trade their debt certificates. Correspondingly banks loosened their standards for borrowers because it was alleged the risk can be sold. These practices increased returns, set other banks under pressure, higher and higher risks were hence taken. Second, many investors thought, that rating agencies were capable of functioning as a cost-saving compass, which is able to navigate through a complex financial system. Investors still bought complex securitizations in the beginning of 2007, because they still received the highest ratings, although most of them did not understand them.

Maybe the most important point: market participants thought that spreading of debts will set a secure groundwork for the financial system. The burden of possible non-payments of credits, is not bundled in one bank, but shared upon millions of investors. Hence it will be much easier for the system to absorb set backs. These three developments/beliefs culminated into a crisis that will be without a doubt a cesura in history.[15]

3.2 The Technical Level

On a more technical level the following happened: Risky real-estate credits were sold in sliced and diced financial products by the original lender. More precisely they were retailed to specifically found special purpose vehicles (SPV's) which received the resulting interest payments. Buying the products was again financed by issuing asset back securities (ABS). Non-payment risks were unevenly distributed among the ABS, they were tranched into senior and subordinated. The senior tranches received high credit ratings from the rating agencies, foremost Moody's and Standard and Poor's. The more risky tranches were sold to other SPV's which again applied the same procedure: financing by issuing collateralized debt obligations (CDO's), again the securities were tranched and again the rating agencies gave high ratings. Most of the market participants played the game because most of them thought that the highest tranche will never be reached by a crisis. This was also the reason why banks continuously gave credits to sub-prime borrowers because the risk was steadily resold. Several market participants were attracted by the flourishing business with the selling of mortgages what explains that banks from all over the world were interwoven when the crisis took its course.[16] „Things began to unravel once it became apparent that the housing bubble could not expand forever."[17] Due to the feared risks suddenly investors subtracted their money and the crisis was triggered. For George Soros the development after August 2007 was tremendous enough that he points out that "this is not a normal crisis" and further that "we are at the end of an era." [18]

3.3 What Went Wrong in Germany: the IKB

In Germany especially the IKB and some of the Landesbanken were hit directly by this abnormal crisis. Ironically these banks were by a major part owned by the state, which was for some commentators reason enough to argue that the state should not participate actively in the financial system and that it is evidence enough that the state should not regulate anything in the aftermath of the crisis. However UBS, Northern Rock in Europe and Lehman Brothers Ctitgroup etc in the US are private owned banks which makes this argument invalid.

Let me initially provide some general information about the IKB. Its main area of business is financing for small and medium enterprises in Germany. In addition to corporate financing, it also undertakes real estate financing. 38 % was owned by the KfW (Reconstruction Credit Institut) a government owned development Bank. When the state bailed out the IKB the KfW increased its share to 90,8%, which comes similar to a nationalization of the bank. Finally it was sold to Lonestar, wryly a private equity firm.[19]

On June 27, 2007 Josef Ackermann, CEO of the Deutsche Bank cancelled the credit line of the IKB which ultimately meant that the bank is bankrupt.[20]

What followed was the largest rescue mission in the history of the German Federal Republic. But what happened? One week before the phone call the IKB published its quarterly figures: the growth rate was predicted to be 39% and the profit expectations were about 280 m. But these numbers were only sustainable on paper. Until then nobody paid attention to the data of the „Rhineland Funding Capital Corporation."

This conduit invested on a grand scale into CDO-mortgages from the US. Due to the anticipated risks investors withdrew their money and the IKB had to jump in, because it guaranteed in case of emergency a line of credit about 8,1 billion Euro.

Hence, the IKB got into major trouble. The receivables became due, but the loans were not paid down since a while and the papers bought by the IKB were depreciated too.

Probably Analysts of the Deutsche Bank noticed that, informed their boss and he in turn draw the concequences. Although one week before the executive board told the public in the mentioned report that the engagements of the IKB in subprime mortgages will barley have no impact on the business. On July 30 the IKB issued a profit warning and the CEO was fired. Due to the mentioned optimistic press release the first customers filed lawsuits. In this situation the KfW jumped in and took over the line of credit. The bank was backed with 8,4 bn Euro by the government and the KfW.

To put it shortly: what went wrong? Was the supervising agency not watchful enough to prevent the IKB from engaging in risks that its managing could not estimate at all, was it lacking the competencies to do so or are the rating agencies to be blamed in which gave the ratings to the financial products the IKB respectively the SIV bought. Of course in this highly complex issue we can state that all these factors probably interplayed and even more have to be taken into consideration.

For Jochen Sanio the main problem is explained by the incentive structures the 'originate-to-distribute' model, the secutarization of debts, generates. By handing over the risks from the originator, the credit lending bank, to the ultimate buyer the principles of risk limitation are incrementally disregarded. Those who are able to limit the risk, the originators, are generally not interested to minimize the possibilities of credit default because this would reduce the number of borrowers and hence the profit potentials. The ultimate buyer, like the IKB is lacking the information to estimate the risk properly.[21] This explains the important role the rating agencies played because they were potential closers of the information gap. Elsewhere Sanio accuses the rating agencies used their monopoly for earning a pretty penny. The supervising agencies are not to blame for the failure because they trusted the ratings of the agencies like everybody else did. For him the managers who lost their jobs are consequently not the "bad guys" but the "clueless guys."[22] His solution is a new code of conduct which entails consequences like naming and shaming in public if an agency refuses its commitment.

However if the rating agencies were the main delinquents in the IKB tragedy and the whole crisis on a large scale, is still contestable. To quote Goodhart again the rating agencies, which are usually paid by the originator "depend so extraordinarily heavily on their reputation for honesty and straight dealing, that the payments mechanism would not have led them to shade their ratings in favor of the originator." Further he argues: "There is certainly as yet, no reliable evidence that the ratings agencies and the whole system is beyond reproach."[23]

The paradox that neither failures of the Bafin nor the irresponsible behavior of the rating agencies are the cause for the disaster seems is also one for the German Minister of Finance Peer Steinbrück when he stated at a speech in front of the most important figures of the national financial system that why a traditional medium-sized business bank like the IKB or the Saxon Landesbank participated in the business as far as they did is not explainable to him. Of course everybody asks about the supervisory Agency Bafin, which belongs to the portfolio of the Federal Ministry of Finance, and possible failures, but according to Steinbrück it can only act properly by identifying risks and remove them if they show up in the balance sheets. But if one has the freedom of choice to participate in the risky business by establishing special interest vehicles, he argues, that do not appear in the balance sheets "in places I never heard of before, then we have a problem."[24]

To understand the problem in the case of the IKB we have to think from an actor-centered view. The profit opportunities by lending credits to medium-sized business corporations were probably not even close to the rate of return of equity which was possible by establishing the above mentioned business model, which was around 25%. The solution to achieve such margins was easy because the model was widely accepted in the realm of finance and on the other hand it was possible to participate discreet and unobserved by keeping the SPV's off-balance. Of course places were chosen to establish these vehicles where taxes are low and supervision sloppy. The 'special purpose' was finally to engage in business areas that actually did not belong to the traditional business domain. In the case of the IKB the SPV made a Credit Default Swap with 'its' bank, in which the SPV was the insurance that overtook the default risks.[25]

To sum it up: the international system provided business models that were highly incentive for many managing boards, in Germany especially for banks that traditionally were no investment banks. The risk was accepted due to the possibility to deal with these secutarizations off-balance and to the fact that many did not now what they are buying. The problems emerged because the BaFin did not point to the potential outcomes if a default chain would emerge. Much more important the bank was able to take part without underlying the risks with sufficient net equity. In Germany the structure of the competencies of the BaFin did not enable the institution to force the banks to certain capital requirements.

4. The Case of Spain: What Went Right?

In Spain, as we will see, the bankruptcy of the IKB would have been hardly possible. Here the Banco De Espana is the at the same time the major regulator, which is maybe already an advantage regarding the fact that in Germany the BaFin, which is a patchwork of former different agencies, and the Bundesbank share the task of supervision. In a speech at the "Circulo Financiero" the Governor of the Banco de Espana Miguel Fernández Ordónez explains the regulation model that prevented the banks from facing bankruptcy in times when other banks in Europe were suffering severely. The behavior of the Spanish supervisors was before the crisis often marked as nitpicking and conservative. When the strict rules were introduced into the system the banks of course moaned albeit they support them now.[26] In the beginning the instructions were internationally regarded as excessive and were smiled at as less innovative. The tables are about to turn bearing in mind that the originate-to-distribute model was praised as highly innovative and effective instrument of risk management initially on the one hand and the efforts for more regulation today on the other.

In the above mentioned speech five major points of which four are of interest in this paper of the Spanish exceptionalism are made. The first plain and simple explains that the "highly fashionable"[27] business model was not adopted in Spain. Here the model "has continued to be a traditional banking one with closeness to bank customers, detailed knowledge of them and the forgoing of links over time being some of its characteristics."[28] Of course Spanish banks also used asset secutarization as a business "in itself but a mechanism to obtain additional funding."[29] Here the risks were not distributed to the market but were maintained on the balance sheets of the banks "granting financing, and the perverse incentives under the originate-to-distribute model were thus avoided."[30]

The second lesson is about the use of the complex securitized products with lacking transparency and difficult assessment. More precisely about the business with the CDO's and ABS what I described above. He points to the fact that the evaluation models for these products did not work well meaning that the basic error was that managers invested in products whose risks were not completely clear. But not all secutarizations are so complex and pose these valuation problems. The Spanish financial institutions invested in straightforward secutarizations which are exemplified by their use of "well-diversified, granular portfolios made up of homogenous assets." In Spain where no subprime market segment evolved, "the quality of the securitized assets is very high."[31] The investment in excessively risky products has been avoided and led to an absence of absolute exposure to US subprime mortgage.

But as I have shown in the case of the IKB it was not only the direct investment in these products but often rather the participation in trading with the products via off-balance sheet structured investment vehicles. The latter are characterized as parallel banks without having own capital, e.g. the mentioned conduit, which is similar to SIV and SPV, Rhineland had 500 US$ own capital[32], supervision and access to the liquidity of the central bank. Although held as off-balance for special purposes they returned unwillingly after transferred to the market to the balance sheets. Spanish banks did not establish these vehicles because, according to the governor, they on the one hand were mainly engaged in traditional or retail banking rather than investment banking which gained enough profitability and hence the incentives for establishing off-balance vehicles were low. On the other hand and much more interesting for the purpose of this paper the Banco de Espana analyzed the risks assumed by banks from a consolidated practice.

Fourth and maybe most distinguishing is the procyclicality of banking regulation in Spain. The idea behind it is that Spanish banks have to build up higher reserves as a cache for times of recession. In other words the Banco demands that banks calculate automatically their provisions on the basis of the average credit defaults beyond the economic cycle. [33] More precisely the basic assumption is that financial market participants behave in a procyclical way, forgetting in favorable times "about the consequences of an excessive build-up in risks."[34] The best way to allay procycliality is to improve risk management. "The most procyclical banks are those incapable of properly managing their risks over the course of the cycle, so that when the cycle turns adverse, they have to react abruptly."[35] Here the role of provisions is crucial. The Banco de Espana measures the losses incurred due to credit risk. Flexibility in the calculation of risks enables procycliality to be reduced and makes the accounting standards more consistent with prudent risk management. The Spanish central bank lies down criteria that determine the provisions that should be made in relation to the losses incurred in operations like e.g. trading with subprime mortgages. "The level of provisions depends on the time elapsed since the default arose."[36] Hence the percentages applied in the calculation of specific provision increased by this regulation practice. The effect is that Spanish banks have greater strengths and room for maneuver to withstand a potential worsening of the conditions which they are pursuing their activity."[37] To put in numbers in Spain banks must cover 150% of bad debts which is ranked number one among the developed countries.[38] More concretely concerning the crisis the Financial Times reported that there were Spanish banks that asked to establish SPV's. The answer was merely that they could do it if they set aside the same amount of capital against assets in off-balance-sheet vehicles as they would against on-balance-sheet assets.[39] With this demand the incentive to establish off-balance vehicles was decreasing that much, that banks stayed away completely.

It was in conclusion the reason why in 2007 the savings deposits of the commercial banks and savings banks increased from 72,8 bn € to 328 bn €. The BBVA with 3565 subsidiaries, the densest network in the country, with more than 31 bn € new deposits was especially successful. For 2008 Santander is calculating profit in the realm around 10 bn €. [40]

The depiction of the practices proves that sound regulation can prevent banks from buying secutarizations and from establishing off-balance sheet vehicles; it can successfully constrain the greed generated by short-gain possibilities. Furthermore the numbers mentioned finally even show that a strict regulated national financial system can be even effective.

The numerous banking catastrophes appeared in the German system would have been not possible in Spain. The question remains if the Iberian model can be seen as a best practice model. Interestingly it was elaborated as a reaction to the Banesto crisis in the 1990's with its devastating impact on the Spanish economy. Hence I would claim that the model is, at least its groundwork, appropriate for national governments to react to the current financial crisis.

5. Conclusions:

Initially I assumed that national regulation in a globalized financial system is more effective than regulation on a global scale. The Spanish model proves that this claim is at least not wrong. Until now 'market causing' policies on an international level were easily feasible. The role of the IMF has proven this and even the European Union is an example that causing a single market is much easier to coordinate among states than to regulate it. As the investigation of the international bargaining has shown so far the outcome and the tangible efforts are still improbable.

Regulation of the market will remain an issue that is heavily connected to the question of will of governments. Several authors argued that governments are powerless towards the forces of financial globalization, the rating agencies are determining the behavior of states and so forth.[41] The alleged powerlessness was, as the crisis shows, wanted and if the governments are willing to regulate and modify the epoch of hedgefonds and global operating capital they will do so, maybe the era of investment banking already found an end. If it will finally be possible to create rules on a global level that are widely implemented and accepted would be a rather surprising result. Hence I claim that if a state wants to save its citizens from the effects of financial crisis at large scale the Spanish model is a reasonable solution, finding the fine line between free market ideology and over-regulation which in the end even may set wrong incentives.

[1] http://www.independent.co.uk/news/business/news/soros-warns-systemic-failure-may-be-upon-us-773176.html

[2] http://www.zeit.de/2008/20/Eine_Weltfinanzaufsicht_muss_her

[3] http://www.bundesbank.de/bankenaufsicht/bankenaufsicht_basel.php

[4] http://iepecdg.com/DISK%201/Arquivos/Leiturassugeridas/080130Goodhart_Persaud.pdf

[5] Ibid

[6] Ibid

[7] http://www.ftd.de/unternehmen/finanzdienstleister/:Bankenkrise_Der_Streit_um_die_Kernkapitalquote/390238.html

[8] http://www.fsforum.org/publications/r_0804.pdf

[9] http://www.bafin.de/cln_116/nn_992414/SharedDocs/Reden/DE/2008/re__080515__pk.html

[10] http://www.imf.org/External/AM/2008/imfc/statement/eng/fsf.pdf

[11] http://www.ft.com/cms/s/0/7c0152b4-0afb-11dd-8ccf-0000779fd2ac.html

[12] http://www.g20.org/G20/webapp/publicEN/publication/communiques/doc/G20%20Summit%20Declaration.pdf

[13] Ibid

[14] http://www.spiegel.de/politik/ausland/0,1518,590690,00.html

[15] http://www.ftd.de/boersen_maerkte/aktien/:R%FCckblick_und_Analyse_Finanzkrise_hat_ersten_Geburtstag/394986.html?p=1

[16] The depiction of the crisis is mainly inspired by: http://www.dallasfed.org/research/eclett/2008/el0804.html and http://dokumente.linksfraktion.net/pdfdownloads/7753180988.pdf

[17] http://www.dallasfed.org/research/eclett/2008/el0804.html

[18] http://www.independent.co.uk/news/business/news/soros-warns-systemic-failure-may-be-upon-us-773176.html

[19] http://www.manager-magazin.de/unternehmen/artikel/0,2828,573493,00.html

[20] http://www.spiegel.de/wirtschaft/0,1518,497921,00.html

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[22] http://www.sueddeutsche.de/finanzen/516/442256/text/

[23] All: Goodhard, Charles, "The Background to the 2007 Financial Crisis,"*International Economics and Economic Policy*, Volume 4, Number 4, February 2008, pp. 331-346

[24] http://www.bundesfinanzministerium.de/DE/Presse/Reden_20und_20Interviews/060.html

[25] http://www.zeit.de/2008/47/Forum?page=1

[26] "Spanish Steps: A simple way of curbing banks' greed" *The Economist, U.S. Edition,* May 17 2008, Special Report Section

[27] http://service.gmx.net/de/cgi/derefer?TYPE=3&DEST=http%3A%2F%2Fwww.bde.es%2Fprensa%2Fintervenpub%2Fgobernador%2Fmfo140508e.pdf

[28] Ibid p.4

[29] Ibid

[30] Ibid

[31] Ibid

[32] http://www.faz.net/s/RubEC1ACFE1EE274C81BCD3621EF555C83C/Doc~EA783A77C46274265AD639EECB7F19034~ATpl~Ecommon~Scontent.html

[33] http://www.ftd.de/unternehmen/finanzdienstleister/:Eigenkapitalregeln-Im-W%FCrgegriff-von-Basel-II/452637.html

[34] http://service.gmx.net/de/cgi/derefer?TYPE=3&DEST=http%3A%2F%2Fwww.bde.es%2Fprensa%2Fintervenpub%2Fgobernador%2Fmfo140508e.pdf

[35] Ibid

[36] Ibid

[37] Ibid

[38] In comparison in the UK banks typically make provisions to cover 80-100% of their bad debts: http://www.guardian.co.uk/business/2008/sep/30/santander.bradfordbingley

[39] “Spanish Steps: A simple way of curbing banks’ greed” *The Economist, U.S. Edition,* May 17 2008, Special Report Section

[40] http://www.nzz.ch/nachrichten/wirtschaft/aktuell/spaniens_banken_als_musterschueler_1.671308.html

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