

Reuters

## **Banks must repay state aid to avoid "time bomb": Kroes**

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AMSTERDAM (Reuters) - Rising state debt is a "time bomb" that could bring down banks if governments default on state bonds, Europe's competition commissioner said on Saturday.

The high level of debt taken on by governments, as they pumped billions into ailing banks to keep them solvent during the financial crisis, is "not only a burden for future generations," EU Competition Commissioner Neelie Kroes said.

"It could also be a time bomb," she told the Amsterdam Financial Forum, a conference backed by the Dutch central bank (DNB) and other Dutch organizations.

"Sovereign debt default could not only bring down a government but also a bank or series of debtors," Kroes said. "We need to remove two layers of risk -- the risk of a government default and government risk from a bank collapse."

Dubai spooked financial markets on Wednesday when it said two of its flagship firms wanted to delay repaying billions of dollars in debt.

Speaking at the same forum, Harvard Professor Niall Ferguson said Dubai's debt problems were a clear sign that the crisis was not yet over.

"We should prepare ourselves for years of upheaval. The latest development in the Gulf region illustrates this," Ferguson said.

Kroes said banks, through restructuring and the restoration of healthy competition, should repay governments quickly and remove the risk of government default.

"We need to get banks off state support quickly," she said.

Eventually, Europe's banks should become stronger and healthier through restructuring, Kroes said.

"Our plan is shaping strong banks from weak ones," Kroes said. "Banks need to get back to products that they actually understand. The message is, 'business as usual' is over."

Kroes singled out Dutch financial group ING (ING.AS) as an example of an overhaul that will result in a healthier bank.

Amsterdam-based ING is splitting its banking and insurance operations while selling off up to 8 billion euros in assets, and is selling shares at a steep discount to repay half of the 10 billion euros in state aid it got last year.

"We haven't been too harsh. I believe we essentially helped ING to do what it needed to do anyway. ING realized this through their 'Back to Basics' strategy," said Kroes, who was recently re-appointed as a commissioner although she is leaving the competition portfolio.