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Subprime to cost banks \$400 billion

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The amount was put forward by the German finance minister and is almost four times more than first estimated.

The global financial industry may have to accommodate losses of around \$400 billion, almost four times more than first estimated, following the collapse of the US subprime market.

This amount, which is equivalent to around €285 billion, was put forward by the German finance minister, Peer Steinbrück at the end of a meeting this weekend in Tokyo with the financial leaders of the seven most industrialised countries in the world (G7) where it was insisted that the banks must be transparent and explain the real size of their losses so as to re-establish confidence.

Mario Draghi, governor of the Italian central bank, also quoted by the Financial Times, stressed that the next fortnight would be “crucial” since “we are going to see the first audited accounts (from banks) since this crisis began”, Draghi acknowledged that in extreme circumstances, governments and public coffers may have to inject some capital into the banks, but underscored that this scenario should only be considered after trying all other market solutions. The Tokyo meeting was dominated by the crisis triggered by the American subprime and its implications on the real economy. Hank Paulson, US treasury secretary, acknowledged that the current context – tighter credit, a devalued real estate market and high oil and inflation – is especially uncertain, but he said he was convinced that the United States would not go into recession. “I believe we are going to continue growing”. Paulson recognised, however, that the US economy was going to slow down and that there would be a knock-on effect on the entire global economy, which would slow down or worse.