

# Eurozone debt crisis overblown: banker

**Media hype distracts attention from more serious public debt problem in US**

By **VEN SREENIVASAN**

[SINGAPORE] The eurozone debt crisis has been overdone in the global narrative, and distracts attention from what could potentially be a more serious public debt crisis in the US.

That is how Bertrand Grabowski, board director of Europe's DVB Bank SE sees it.

"The debt-to-GDP ratio in the US is much worse than it is in the eurozone," he said. "Greece is one-seventh of Germany. Germany, which accounts for 40 per cent of Europe's GDP is growing by 3 per cent. And why is China finding it easier buying Portuguese debt, but is baulking at Treasury bonds? These are the realities on the ground."

China said recently it plans to buy securities from Europe's most-indebted countries. Meanwhile International Monetary Fund forecasts suggest US federal government debt will climb to 99 per cent of gross domestic product this year from 93 per cent in 2010, while the euro region will total 87 per cent. And latest surveys show German business confidence increased by the sharpest amount in 20 years.

But Mr Grabowski added: "Of course the eurozone has real problems, but the bigger problem is the debt in the US. European household debt is way below the

levels in the US. Yes the problems in Europe are serious, but nowhere as bad as the Murdoch-controlled press makes it out to be."

Still, he sees policy makers and bankers on both sides of the Atlantic facing excruciatingly difficult choices.

"Do you ramp up qualitative easing or do you implement debt-reduction policies? Do you spur growth through spending or cut public budgets? The choices are tough."

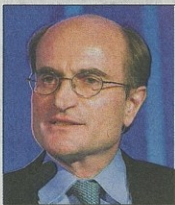
Still, liquidity is back in the system, though banks are lending selectively.

"Banks are tending to lend to better known brand-names. This means second and third tier corporates still face some credit crunch. Also in Europe, there is now a bias towards lending just to domestic or eurozone borrowers. It is a sort of quiet 'nod-and-wink' policy, not written up anywhere. For example, it is easier to finance an Airbus plane for a European carrier, compared to a Boeing plane for a foreign carrier."

Mr Grabowski should know, for DVB is the global leader in transportation finance.

As at end-Sept 2010, the bank had total assets of some 19.1 billion euros (\$33 billion) and a customer lending portfolio of 18.4 billion euros. Net interest income was some 147 million euros, while net fee and commission income was some 77 million euros.

Shipping finance accounted for some 53 per cent of its portfolio, while



**Mr Grabowski: Why is China baulking at US Treasury bonds?**

aviation finance was 29 per cent. Land transport – largely for rail – was just over 8 per cent.

"2010 was a good year, and we booked in an additional US\$2.5 billion in new lending," Mr Grabowski said. "The aviation side was largely driven by new orders and deliveries."

This was in sharp contrast to 2008 when most airlines stopped ordering planes. Going forward, the new big orders are coming from Asia and the US, where fleets average 15 years.

"We are going to see a lot of new deliveries in Asia in 2012," he said. "DVB is nicely positioned in this market."

Still, Europe accounts for the lion's share of DVB's portfolio at 45 per cent, followed by the US at 25 per cent. Asia's share is 22 per cent, but is the fastest growing.

Mr Grabowski said unlike other lenders who focus on cashflow, DVB focuses on aircraft value.

"We look at the asset,

which we think is a better way to weather the storms."

Mr Grabowski also sees increased business coming from the lessor side.

"New lessors are coming to the market, and this has been fairly active in the last 12 months due to backing by private equity funding," he noted. "We at DVB provide leverage for these start-ups."

"Many of these new lessors essentially want to scale-up quickly and go for IPOs, thus providing their backers an exit strategy."

DVB also has an investment portfolio of some \$500 million in a portfolio of 47 aircraft.

"I'd love to be able to double this in the next 2-3 years."

While aviation has picked up strongly, the picture for shipping is still murky, he said.

"It's a tough business. Unlike aviation, where there are only two major players, the shipbuilding industry is very dispersed with hundreds of builders across the globe. There is very large excess capacity building up as newbuilds in places like China come on-stream."

He sees downward pressure on rates worsening in 2011. But he added that DVB had adopted very conservative lending policies in shipping.

"We did not suffer as much during the downturn in 2008, and in fact made 90 million euro in profit on this portfolio. But there is no light at the end of the tunnel for the shipping industry yet."