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Throngs of tourists spend millions of euros in Vatican City, but donations from around the world have dipped in recent years (Gregorio Borgia/AP)

Benedict eager to modernise arcane world of Vatican Bank

BY RICHARD OWEN

Averse to inefficiency, the Pope is forming his own team to control church finances

POPE BENEDICT XVI may be thought to have enough on his plate after his trip to Germany last week — not least placating the Muslim world over his remarks on Islam and jihad — but he is also turning to matters closer to home. Vatican finances and a long-awaited reshuffle of the Vatican bureaucracy are at the top of the list as he puts his own team in place.

Some might believe that the 79-year-old pontiff has taken his time, since a year and a half has passed since he succeeded John Paul II. However, by the standards of the Vatican, which thinks in centuries, the German-born Pope has moved relatively swiftly, aware that he will not have as much time to craft his legacy as his predecessor.

The process began on Friday with the replacement of Cardinal Angelo Sodano, the long-serving Secretary of State (papal Prime Minister) by Cardinal Tarcisio Bertone, Archbishop of Genoa and formerly No 2 to Cardinal Joseph Ratzinger, as Pope Benedict was known then, at the Congregation for the Doctrine of the Faith.

If doctrine and theology are close to the Pope's heart, so is organisational efficiency. He is said to relish a remark made by Pope John XXIII (1958-63), who, when asked how many people worked in the Vatican, replied: "About half." The target of Benedict's strategy is the Vatican Bank, properly called the Institute for Religious Works (IOR). Angelo Caloia, an Italian Catholic banker who is its long-serving governor, was provisionally reappointed this year, but the Pope has yet to confirm this. He may be replaced.

Also in his sights are the two other main arms of Vatican finance: the Prefecture for the Economic Affairs of the Holy See, headed by Cardinal Sergio Sebastiani; and the Administration for the Patrimony of the Apostolic See (APSA), under Cardinal Attilio Nicora.

For many the term "Vatican Bank" evokes memories of scandals involving Mafia financiers and money-laundering that Signor Caloia was brought in to clean up. The most notorious case involved the

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collapse of the Banco Ambrosiano, a Roman Catholic bank headed by Roberto Calvi, who was found hanging under Blackfriars Bridge in 1982. Calvi's death was ruled a suicide, but the case was reopened as a murder investigation.

Signor Caloia replaced Archbishop Paul Marcinkus, an American, who had presided over lax if not illegal financial dealings. He was sent back to the United States as a parish priest and died in disgrace.

By contrast, Signor Caloia is respected for his discretion and rectitude, but he is identified with the previous regime and the succession battle to be the new "God's Banker" is on. Almost unnoticed, the Pope has moved to end the Caloia era, removing Lelio Scaletti, Signor Caloia's right-hand man as director-general of the Vatican Bank, as well as other, lower-level officials.

Vatican finances may be cleaner, but they remain secretive, complex and less than transparent, with revenues lumped together under broad headings and little breakdown of balance sheets. Nothing annoys this pontiff more than bureaucratic duplication and there are rumours in the Vatican that the bank, APSA and the economic affairs prefecture may be streamlined or merged.

The cardinals in charge argue that Vatican finances are healthy, with the Holy See in the black after a series of annual deficits. This summer Cardinal Sebastiani said that, despite expenses of €7 million arising from the funeral of John Paul II and the transition to Pope Benedict, the Vatican closed its 2005 budget with a surplus of nearly €10 million.

According to Paolo Trombetta, the chief Vatican accountant, the millions of visitors who came to Rome for the transition — and who continue to flood in, not least from Germany — had a positive impact on the sales of Vatican stamps, coins, books and other souvenirs, offsetting papal transition expenses such as extra security and the bonuses traditionally given to Vatican employees to mark a papal death and election. The Vatican has also realised, belatedly, that it has marketable assets in the Pope, papal insignia and the rich art treasures of the Vatican Museums and is levying copyright fees on the Pope's publications and the use of images from its Renaissance art collections. Noting that the Vatican Publishing House ended 2005 with a surplus of €934,000, Cardinal Sebastiani said that it "has been entrusted with the guardianship of the copyright of all the documents by means of which the Supreme Pontiff exercises his teaching".

Vatican accountants can also point to profit in 2005 in the Holy See's investment sector of \$55 million, up from \$7.7 million in 2004. Improved exchange rates and higher interest rates have given the Vatican its healthiest bottom line for eight years, Cardinal Sebastiani says. Earnings on the Vatican's 30 buildings and 1,700 apartments in Rome produced additional revenue of \$65 million.

Vatican City, one of the world's smallest sovereign states, which costs \$250 million a year to run, closed with a surplus of €30 million. Yet hidden in the figures is the knowledge that donations to the Vatican from dioceses, religious orders and foundations around the world have dropped below \$100 million, a reflection of the crisis of faith in the Western world that Pope Benedict has made it his task to reverse. Donations from Catholics in his native Germany have held up, but those from wealthy American dioceses, such as Los Angeles, Boston and Chicago, declined in the wake of the scandals in the US over sexual abuse by clergy, with the Boston archdiocese even forced to sell its episcopal palace to pay for legal settlements to victims of abuse and their families.

Also buried in the budget is a rise in personnel costs from \$129 million in 2004 to \$155 million last year, partly because of delayed back payments to the Vatican pension fund. Meanwhile, Vatican Radio and television and *L'Osservatore Romano*, the Vatican newspaper, remain burdens on the budget because they take no commercial advertising.

Father Federico Lombardi, a Jesuit and the new head of the Vatican press office, who is also the director of Vatican Radio, moved towards greater transparency after his appointment over the summer by disclosing that the radio's deficit was \$30 million in 2005, a shortfall that he vowed to reduce by not replacing retiring workers and making greater use of new technology. The investment portfolio remains a closely guarded secret, except that it is divided into 80 per cent low-yield bonds and 20 per cent stocks. Cardinal Sebastiani calls this prudent. Some more forward-looking Vatican officials (who,

equally prudently, prefer to remain anonymous) have suggested the unthinkable: calling in an outside financial agency to manage the portfolio, which is believed to stretch from Milan to New York. As for who might direct such reforms, reports say that the Pope has sounded out Hans Tietmeyer, a former head of the Bundesbank, to head the Vatican Bank and perhaps even an amalgamated finance ministry. Dr Tietmeyer, who led the Bundesbank from 1993 to 1999, studied theology before switching to economics, is a member of the Pontifical Academy of Social Sciences and has two brothers who are priests.

The move has been tried before and thwarted by Vatican intrigues. According to insiders, six years ago Cardinal Edmund Szoka, former Archbishop of Detroit and the head of the economic affairs prefecture at the time, suggested Dr Tietmeyer as head of the Vatican Bank. He was foiled by Signor Caloia's allies, including Monsignor Stanislaw Dziwisz, John Paul II's powerful secretary.

Of course, John Paul II is dead and Monsignor Dziwisz is now Cardinal Archbishop of Krakow. Moreover, Pope Benedict is said to favour the idea of a fellow German with international credentials at the helm of Vatican finances.

The question is whether the modernisers can gain the upper hand this time around. As Cardinal Szoka acknowledged after his defeat in 2000: "In the end we are not a business or a corporation. We exist to fulfil the mission of the Church."

- The Vatican Bank, or Institute for Religious Works, is housed in the 15th-century Bastion of Nicholas V, part of the Vatican fortifications. It has 130 staff. The Vatican owns office buildings, palaces and basilicas throughout Rome
- "Peter's Pence" donations are not part of the budget as this money is for charity, disaster relief and aid to churches in developing countries. The Peter's Pence fund was €46.7m last year, up 15 per cent on 2004. About 30 per cent of it came from America
- Vatican City issues its own coins and stamps. It has used the euro since January 1, 1999. Vatican euro coins are sought after by collectors
- Oversight of all Vatican financial operations is by the 15-member Council of Cardinals for the Study of the Organisational and Economic Problems of the Holy See, set up by Pope John Paul II after Vatican Bank scandals of the 1970s and early 1980s

IN THE SPOTLIGHT

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Dr Hans Tietmeyer: German economist, regarded as a leading expert on European and world finance, much in demand as a speaker. Born 1931 in Westphalia, studied at universities of Münster, Bonn and Cologne. Initially planned to be a theologian, but switched to international banking and economics. In 1962 joined German Ministry of Economics, rising to Permanent Secretary after 20 years. A plot by Red Army Faction terrorists to kidnap him was foiled. Played key role in financial aspects of German re-unification. Member of the Board of Directors of the Bundesbank from 1990, president from 1993-99

Cardinal Sergio Sebastiani. President of Prefecture for the Economic Affairs of the Holy See. Former papal diplomat. Born Montemonaco, the Marches, in 1931. Ordained in 1956, 20 years later appointed Titular Archbishop of Caesarea in Mauretania and Papal Ambassador to Mauretania and Mauritius, then Ambassador to Turkey in 1985. Recalled to Rome in 1994, first put in charge of preparations for the Jubilee of the Year 2000 then in 1997 head of Prefecture for Economic Affairs

Angelo Caloia. Catholic banker from Milan, former president of Mediocredito Lombardo. Alarmed by the Vatican Bank scandals of the early 1980s, with allies he formed the Group for Culture, Ethics, and Finance to campaign for an end to financial immorality in the Vatican. Was approached by Pope John Paul II to take over the Vatican Bank, which he did in 1990. Later published a book, *White Finance*, accusing Catholic bankers of losing sight of Christian ethics. Has served three five-year terms as Vatican Bank head

Cardinal Attilio Nicora. Bishop Emeritus of Verona and President of

the Administration of the Patrimony of the Apostolic See. Born 1937, Varese, northern Italy. Studied canon law at the Pontifical Gregorian University in Rome and theology in Milan. Ordained 1964 and made Professor of Canon Law at the Theological Seminary at Venegano. Auxiliary Bishop of Milan in 1977 and from 1992-97 Bishop of Verona. Made President of APSA in 2002, the Vatican equivalent of chief financial officer. Close ally of Caloia

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