



EconoMag
Deutsche Bank©
by Alex Hurst

Hello and welcome to Economag, from EnglishWaves Radio, where we break down and analyze economics news from the past week.

So all week this week there's been one word dominating financial news, and sending shivers down the spines of stock market managers around the world. Deutsche. Or, Deutsche Bank, to be more exact.

*"It's been a rough day for financial stocks here thanks in large part
....."*

For decades investment banking - so the big deals to underwrite corporate mergers and acquisitions, and stock market initial public offerings - have been dominated by American banks. Goldman Sachs, Morgan Stanley, J.P. Morgan...names you've heard a thousand times before. But in the 1980's, when financial market deregulation happened in the US and the UK, Germany's biggest lender, Deutsche Bank, decided that it too, wanted in on the high stakes game. So it bought two prominent American and British investment banks, and by 2001, when it sold shares on the New York Stock Exchange for the first time, Deutsche Bank had become one of the world's ten biggest banks.

In the following decade, Deutsche Bank's stock price soared, much of that growth coming from risky lending that helped to cause the financial crisis in 2008. Since that market crash, a series of scandals and fines has kept Deutsche Bank's stock price depressed relative to other banks, leaving its market capitalization at only about \$18 Billion. And then, on September 16th, word leaked that US financial regulators from the Department of Justice were going to demand a \$14 Billion fine from Deutsche Bank for having sold certain mortgage backed securities against regulations before 2008.

That news didn't only cause the bank's stock price to plummet, it caused widespread worry about the European economy and the global financial system. See, Deutsche Bank doesn't have that much of its *own* money just sitting around to pay that fine - it has what most other banks, even massive ones, have. A huge amount of assets (so things it owns, accounts it holds), and an enormous amount of liabilities (loans that it has made, based on those assets). And with a such a low market capitalization, raising money by

selling new shares would be difficult to do, and the bank would be forced to either sell assets or look to the government for help.

The problem there, is that the German government had ruled out providing a taxpayer rescue to the bank, because doing so would most likely hurt chances Angela Merkel would have for her re-election, as well as expose the government to charges of hypocrisy after it has insisted that shareholders bear the brunt of losses at other European banks that have been in trouble, specifically banks in Greece.

Then, on Friday, September 30th, more news emerged that Deutsche Bank was close to a deal with US authorities. That deal would see the bank settle for \$5.5 Billion, only a third of the number originally reported. With that news shares zoomed back up, leaving some analysts thinking that the week of worry was ultimately no more than just that.

So thanks for listening, and we'll see you next week for more economics news broken down.