

## Commerzbank as part of the government drama act



Commerzbank has been making headlines recently, following the German government's decision to gradually sell off its state-owned shares in the bank, prompted by the large deficits in the federal budget.

Earlier this year, for the same reasons, the federal government had already begun selling off its shares in Deutsche Post (now DHL Group). Both sales make sense from a regulatory standpoint.

However, the Commerzbank sale attracted particular attention when the buyer turned out to be Italy's UniCredit. The Milan-based institution subsequently acquired further shares on the open market and announced its intention to pursue a full takeover.

Since then, nerves have been frayed in Germany's coalition government. While Chancellor Scholz characterized the situation as an inappropriate and hostile takeover, Finance Minister Lindner responded by abruptly halting any further sales of state-owned shares.

The Commerzbank saga illustrates the long-standing disarray in Germany's financial market policy. One key issue is the structur-

ally weak profitability of German banks. The country is considered oversupplied with credit institutions, and this problem is exacerbated by the state's dominant role in the financial market. Through a nationwide network of savings banks, several state banks, fund manager Deka, and development bank KfW, the government controls much of the sector. Meanwhile, larger private banks, such as Dresdner Bank, Bayerische Vereinsbank, and Bayerische Hypotheken- und Wechsel-Bank, have sought shelter under other institutions.

Europe's most valuable banks are now headquartered in countries like France, Italy, Spain, and the UK. Even Europe's largest banks are dwarfed by their American counterparts, exposing a significant transatlantic divide. The US enjoys a massive capital market and widespread prosperity, while Europe, particularly Germany, lags behind. In fact, some individual American stocks have a higher market value than the entire

German stock market. Apart from a misunderstood aversion to risk, this disparity largely stems from Germany's pension system, which, unlike many other countries, has long relied on intergenerational contracts and consistently rejected capital market-backed systems. As demographic shifts – known for decades – have strained the system, it has become increasingly clear that Germany's model has failed. The current, tentative steps to introduce an equity-based pension are fifty years overdue and severely underfunded. This German "special path" has proven misguided, diminishing the wealth of its citizens. Wealth reports published regularly present an unflattering but accurate picture of the situation.

Moreover, Commerzbank shares, like those of most major German corporations, are predominantly held in the portfolios of American institutional investors. This reflects Germany's weak equity culture. If Commerzbank's share-

holders decide to accept an attractive takeover offer from UniCredit, there would be no regulatory grounds for objection. However, it would be absurd if German taxpayers, who have already incurred significant losses with Commerzbank shares, were once again called upon to bail out the country. Such a scenario would expose the much-touted European bank consolidation as little more than empty rhetoric.

Sincerely yours,

Fund managers and co-investors

A handwritten signature in black ink, appearing to read 'Christoph Bruns Ufuk Boydak', written in a cursive style.

Dr. Christoph Bruns Ufuk Boydak

This text was originally published in German.

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