The ECB and the German saver

by Michael Heise

German savers are cheesed off. They blame the ECB for the fact that for some time now around EUR 2 trillion stashed in bank deposits has generated practically no interest and in real terms is declining in value. There are mumblings of creeping expropriation. Switching to safe government or corporate bonds doesn’t help as yields here have in many cases actually slipped into negative territory. This all percolates down into life insurance policies and pension funds. The decline in returns here is slower because investments from better days when interest rates were higher are still on the books, but it is emphatic because future annuities and lump-sum payments have to be covered by investments today. So, savers are the losers. And as many calculations have shown, the advantages for borrowers when it comes to acquisitions or real estate purchases cannot offset this by a long way.

The ECB counters that it is not the main culprit behind the drop in yields. It was a reaction by the capital markets to weak growth, extremely low inflation and a global savings glut. That is indisputable. But nor can it be denied that government bond purchases and other ECB measures contributed to the slide in yields. Simple models show that ECB policy is likely to have pushed yields on 10yr German government bonds down by around 1 percentage point since early 2015. Super-loose monetary policy was required to kick-start growth and employment and thus also benefited the German saver, or so the argument continues. That is not convincing. There are far stronger factors behind the pickup in the economy in the eurozone and Germany: low oil and commodity prices and purchasing power gains thanks to price stability; immigration; wage restraint, productivity increases and structural reforms in former crisis countries; headway by businesses and banks on repairing their balance sheets.

Nonetheless, an imminent turnaround in monetary policy is not on the cards. Concern would probably be too great that rate hikes might jeopardize the valuation gains seen in government bonds and on stock markets and trigger turmoil. For policymakers this means that they need to find ways to address the adverse side effects of low interest rates, above all on retirement planning. The political reflex is to jack up public pensions. That would be highly dangerous as it would undermine the very future of the pension system. With interest rates where they are today, private provision is more important than ever if living standards are to be more or less maintained. Policymakers should therefore focus their efforts on improving the conditions for company pensions and providing incentives and support for people on low earnings and with patchy work biographies to make their own provision. One of many possible measures would be a decision to increase the threshold for the amount of retirement savings individuals can have before these are offset against their basic pension.