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Meager return on savings

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The low interest rate environment poses new challenges for investors. At first glance, German savers fared pretty well: the robust growth in financial assets seen in recent years continued in 2015 as well, with total household financial assets climbing to a record level. So at first glance low interest rates seem not to be a problem for German savers. But looking more closely, it becomes clear that this outcome is above all the result of major savings efforts. Despite mini interest rates, Germans stuck with their conservative investment policy – thus forgoing returns.

As the Deutsche Bundesbank announced today, household financial assets grew by 4.6% last year. All told, the assets held in bank deposits, securities, insurances and pensions reached an all-time high of EUR 5,318bn. Since 2012 the average annual increase comes in at 4.5%; per capita the increase adds up on average to almost EUR 10,000.

German savers have always pursued a conservative investment strategy. Last year households held a good 39% of their savings as cash or bank deposits, despite zero interest rates and real value losses. A further 38% was invested in insurances and pensions. By contrast, securities play only a subordinate role in the asset portfolio. Equities, fixed-interest securities, investment fund units and other certificates add up to only around 22% of the portfolio.

The upshot: savers were scarcely able to benefit from the valuation changes in the past, which feeds through into the measly return on assets. Since 2012 the nominal return has fallen from 4.0% to an estimated 3.1% last year.

In real terms the return on assets over this period shrinks to an average 2.3% a year. With stock markets booming, this performance is disappointing. In previous years only the Austrians fared worse in a European comparison. Even households in crisis-torn Spain and Portugal recorded real returns on their assets almost three times those of German households in recent years. This reflects the fact that their portfolio structure is geared more to risky assets such as equities. Returns on assets are not merely the result of prevailing market conditions, but above all a function of investment behavior.

Given the relatively stable growth in assets overall, these paltry returns here in Germany currently do not pose a serious problem, for two reasons: for one thing, Germans are still the most diligent savers in Europe, thanks to the humming economy and labor market. Secondly, German savers are benefiting from low inflation. But, in future, once inflation climbs back to the target figure of 2%, households will see their returns shrivel to practically zero.

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