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Assets in Europe – the impact of the low interest rate policy

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1. Introduction 2

2. Critical analysis of the ECB study.....3

3. Impact of low interest rates on Europe's savers 11

4. Summary 18

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1. INTRODUCTION

The longer the eurozone recession drags on and policymakers remain forced to labor away in "crisis mode", the louder the chorus of debate on the possible side effects of the emergency measures. It is not just austerity measures, haircuts or moves to liquidate ailing banks that are at the center of this debate; more and more attention is being focused on the ECB's monetary policy.

As can be said of a whole host of other issues, too, Europe is divided over the issue of extremely low interest rates. Whereas in the south of the continent, the general opinion is that, as is apparent from its (relative) economic strength, Germany is reaping the benefits from the crisis in general and the low interest rates in particular – after all, the German state is currently able to refinance its debt more cheaply than any other country – in Germany itself, it is increasingly savers who are stepping up to the debate – i.e. shifting the focus to the potential losers. There is no doubt that a policy that forces interest rates down to below zero in real terms harms creditors and benefits debtors.

Generally speaking, private households make up the largest group of creditors in an economy – their financial assets by far exceed their liabilities - while the state and the corporate sector fall on the side of the debtors. So looking at Europe as a whole, it appears safe to assume that Germany's households – which are considered to be especially wealthy and keen to save into the bargain – are being hit particularly hard. Or are they? At any rate, the latest study conducted by the ECB on the assets of private households reaches the astonishing conclusion that Germany's private households are among the poorest in the euro area. And if we accept this conclusion, then it is safe to assume that the current monetary policy should not deal too much of a blow to them either: after all, there is not much you can take away from someone who does not have a great deal to start with.

Some of the data used in the ECB's asset study is, however, already a good few years old and the study is not focused on an international comparison either. So it is worth taking a closer look at how the eurozone's assets are actually distributed – and, as a result, asking what sort of impact the low interest rate policy is having on the individual countries.

The following chapter will put the ECB's study and its results under the microscope; additional statistics will be used to "adjust" the data so as to arrive at a picture of private household assets in the euro area that is more in line with reality. We will then delve into the impact of the low interest rates by estimating both the interest income that has been lost to date and the interest payment burden that has been lifted off the shoulders of private households. This will form the basis for a well-founded appraisal of the extent to which savers in the individual EMU countries are "afflicted". The last chapter summarizes all of the results.

2. CRITICAL ANALYSIS OF THE ECB STUDY

The main strength and, at the same time, the biggest weakness of the ECB's study on eurozone assets is the fact that it draws upon direct household surveys. This means, on the one hand, that it paints a picture of the asset situation as perceived by the households themselves – and it is this self-perception that ultimately determines the consumption and savings decisions that these households make, which is what the ECB was aiming to understand better with this study. On the other hand, self-disclosure is a method that can prove to be a major source of error: ignorance, for example on the market value of their properties, or other motives, such as a fear that the data on their assets will be disseminated for further use, could motivate the individuals surveyed to provide false information. So the asset values revealed by the survey are not to be trusted unconditionally and without reservation.

In actual fact, a number of inconsistencies can be found lurking in the data: in Greece, for example, only around three-quarters of households have a bank account – but the same proportion have a car and own their own apartment or house. In Spain, on the other hand, there are far more homeowners than households with their own car – an astonishing development, even if we make allowances for the Spanish real estate boom.[1] A few more examples: the value of private cars in is much higher in both Italy and Cyprus than it is in Germany. Self-employed people in Austria provide an average self-employment business wealth value that is almost ten times higher than the value reported in Germany.

While there is no questioning the sociological interest factor of these evidently unrealistic self-assessments of the respondents' own assets, they are extremely problematic when it comes to trying to understand how assets are actually distributed in the eurozone. They highlight how important it is to use the values produced by the ECB's study only as an initial guide; further adjustments have to be made.

Large countries and average values

Before we make these "adjustments" further below, there are two important preliminary remarks: the three small countries of Luxembourg, Malta and Cyprus have been left out of the comparison of the individual EMU countries. There is a good reason why these three countries can be found at the pinnacle of the ECB study's wealth pyramid – their data is distorted: the small size of their populations means that the figures supplied by rich foreigners living there become much more significant. The high asset values in these countries say little about the wealth of the local (autochthonous) population and much more about how appealing they are to highly paid financial specialists or wealthy (Russian) businesspeople. The right point of comparison for, say, Luxembourg would be Munich or Frankfurt, but not Germany as a whole.[2]

Second, the figures we have used below are average, as opposed to mean, figures. Mean figures are usually reliable for the purposes of international comparisons because they eliminate any extreme differences in distribution. But when it comes to assessing assets in the euro area countries, these values have one glaring shortcoming: in two countries, Germany and Austria, the proportion of homeowners is less than 50%, i.e. your average household in both countries does not own property. Since, however, property is by far the

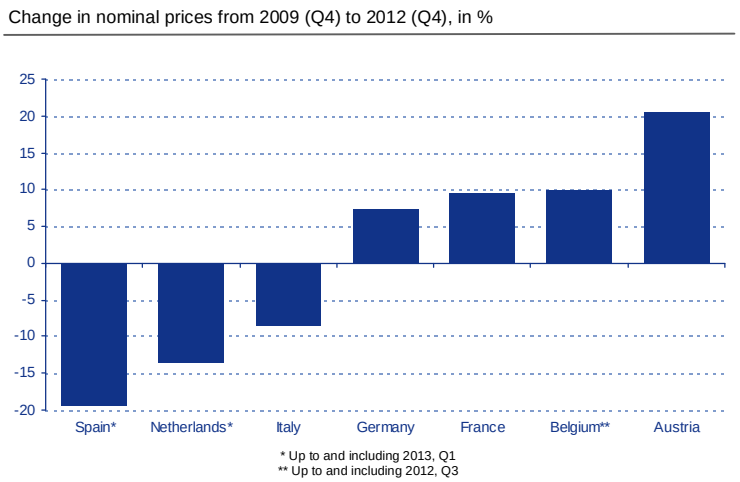
[1] The only other country with this sort of imbalance is Slovakia, although this is likely due to the wave of privatization that followed the demise of the socialist regime.
2 For reasons relating to data availability, Finland, as well as the two eastern European EMU countries, Slovenia and Slovakia, have also been left out of the equation. In terms of average asset values, these countries also come bottom of the league in the ECB's survey alongside Greece and Portugal.

most valuable asset in all countries, the mean value is particularly low in this respect. A comparison of the data for Germany and the figures for France highlights the distortion this causes: the home ownership rate in Germany stands at 44% and is slightly higher in France, at 55%. While this difference is significant, it is not a particularly discernible one compared with the values for Italy (69%) or Spain (83%). Nevertheless, it has a huge impact on the mean value for Germany, which is not even half the value for France (EUR 51,400 versus EUR 115,800): so are the Germans less than half as rich as the French? The average values tell a different story entirely: here, too, the German value (EUR 195,200) falls short of the value for France (EUR 233,400), but the gap is much smaller, with average German households being attributed with as much as 84% of the average assets of their French counterparts. So it would appear more effective to use average values in order to capture the asset situation in Germany, in particular, compared with the other EMU countries.

Property value adjustments

The biggest asset class by far is real estate, which accounts for just under 70% of total private assets in the euro area. Two things stand out about the real estate asset figures supplied by the ECB's study: first, the major differences in ownership rates referred to above and second, the widely diverging values. In both cases, Germany is closer to the bottom of the rankings - which is likely to be an accurate reflection of the situation, at least in terms of the general trend. Special historical (two World Wars, former East Germany) and institutional (social housing) factors explain why the number of homeowners in Germany is actually relatively low. At the same time, the prices of houses and apartments are (still) moderate in an international comparison. Since the study was conducted (2010), however, house prices in the euro area have shifted considerably, in two opposite directions (see Figure 1).

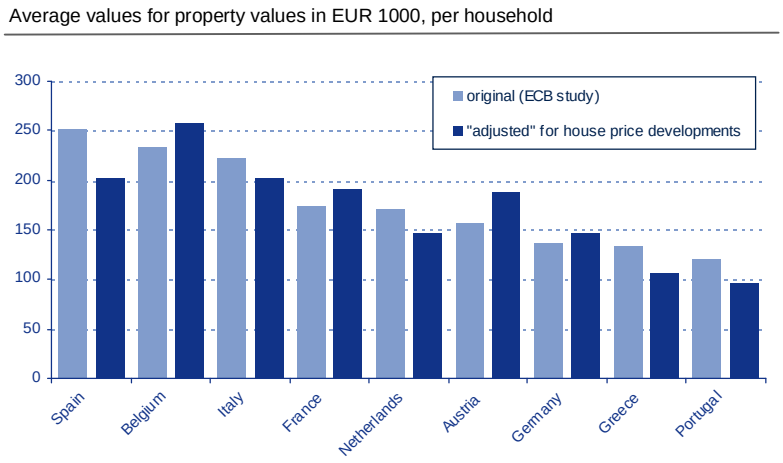
Figure 1: Change in house prices since the end of 2009



Source: The Economist house-price index.

These changes in value should be echoed in the asset assessment. As a result, in order to arrive at a rough approximation of current price developments, the average values for property ownership (both residential and other properties) have been "adjusted" to reflect the price developments that have been observed. The developments in Greece and Portugal have been assumed to be similarly negative to those in Spain. Figure 2 shows the new average values.

Figure 2: "Adjusted" average values for property assets



Source: ECB, The Economist house-price index; own calculations.

At first glance, the changes in value do not appear to be particularly severe, but the relative price structure has already shifted considerably as a result. Whereas real estate prices in Germany were originally only around half as high as in Spain or Italy, post-adjustment they now come in at more than 70% of this value. At this point, it is important to remember that even the "adjusted" values only provide an updated snapshot. The different trends seen in recent years are expected to continue in the future and may even become more pronounced: while Germany's real estate markets still offer upside potential, the same can hardly be said for Belgium and France; the French market, at least, is already showing signs of correction. So without any action having to be taken on Germany's part, the "asset gap" separating it from many other euro area countries is likely to continue to narrow over the years to come.

The other real assets included in the ECB's study – cars, valuables like jewelry and the business assets of the self-employed – are, unsurprisingly, far less significant than real estate: they account for only just under 14% of total assets, with business assets making up the lion's share, at 10%. And these values, in particular, reveal the most blatant inconsistencies; not only in respect of the mean Austrian values, which are far higher than all of the others. It is equally puzzling why, for example, Italian business assets are worth less than one third of the mean value of the same assets in Portugal, Spain or France, all of which come in at roughly the same level, around EUR 50,000, meaning that they are twice as high as the value of the same assets in Germany. Evidently, an accurate valuation and allocation of business assets is a very tricky task indeed. Even the ECB concedes that it is often impossible to clearly allocate the business assets of the self-employed to either private households or the corporate sector.[3] Given these methodological difficulties and the fairly insignificant role played by this asset group on the whole, it would therefore appear sensible to cut these other real assets out of our further analysis.

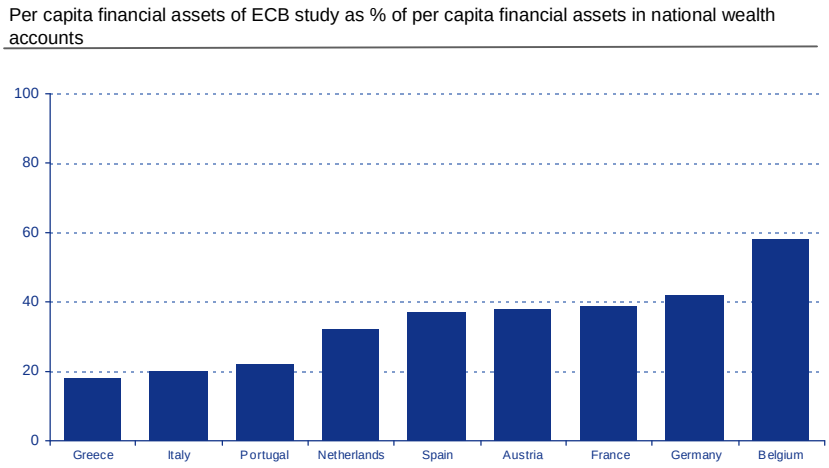
New values for financial assets and liabilities

Private households should find it far less difficult to put a value on their own financial

3 "Probably the most significant issue (...) is the treatment of business wealth and the sector delineation of especially self-employment businesses.", in: ECB, The Eurosystem Household Finance and Consumption Survey - Methodological report, April 2013, p. 93.

assets. But it would appear that the tendency not to "declare" assets is most pronounced for this asset group. This is, at least, the only way to describe the outcome of a comparison between the ECB study and the national wealth accounts. Although different definitions and sector allocations are likely to be one of the factors at play here, the discrepancies are so huge – some of the values produced by the ECB study only amount to 20% of those reported in the wealth accounts – that it is impossible to pin all of the blame on methodological problems (see Figure 3).

Figure 3: Comparison of financial assets in the ECB study and the national wealth accounts

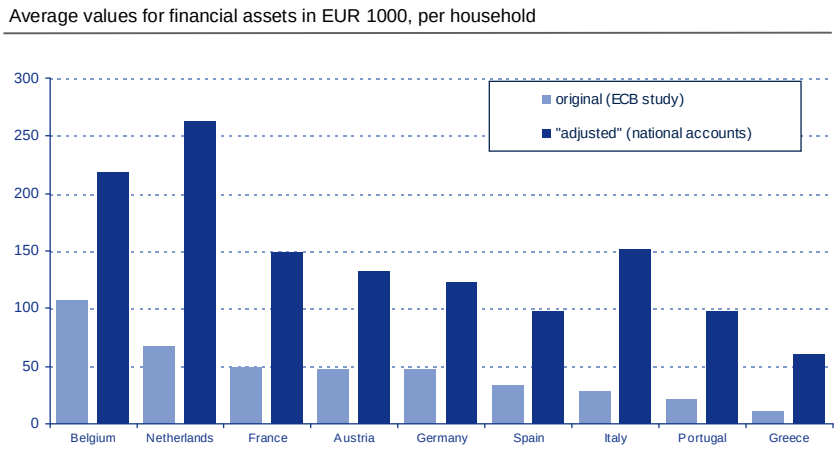


Source: ECB, The Eurosystem Household Finance and Consumption Survey - Methodological report, April 2013, p. 97.

As a result, it would appear best not to trust the ECB's values when it comes to assessing financial assets, but rather to take the information provided by the macroeconomic wealth account, adjusted to reflect the relevant household size, as a basis. Although this renders the approximation of eurozone assets rather "sloppy" from a methodological perspective, this method should be better at mirroring reality than the values supplied by the ECB's survey. Another advantage of this method is that we can use values for 2012, i.e. values that are much more up-to-date, an aspect that is not to be underestimated, at least not as far as assets held in equities are concerned. Figure 4 compares the values that have been "adjusted" in this manner to the original values from the ECB's study. What is striking here is not only the fact that – as expected – the values are much higher, but also the fact that the order of the countries has changed slightly, with the Netherlands and Italy now faring much better. As far as Dutch households are concerned, the reason is likely to lie in the very high proportion of insurance policies and pensions, which are paid only insufficient attention in the ECB study.[4] In Italy's case, on the other hand, the high proportion of (volatile) securities in asset portfolios is likely to be a decisive factor.

[4] The ECB study "includes only the current termination value of (funded) private pension plans, i.e. excluding public and occupational pension plans and social security funds, while part of these assets (namely participation in plans other than social security schemes) are included in the National Accounts." in: ECB, The Eurosystem Household Finance and Consumption Survey - Methodological report, April 2013, p. 94-95. Occupational pension assets, in particular, play a major role in the Netherlands.

Figure 4: "Adjusted" average values for financial assets



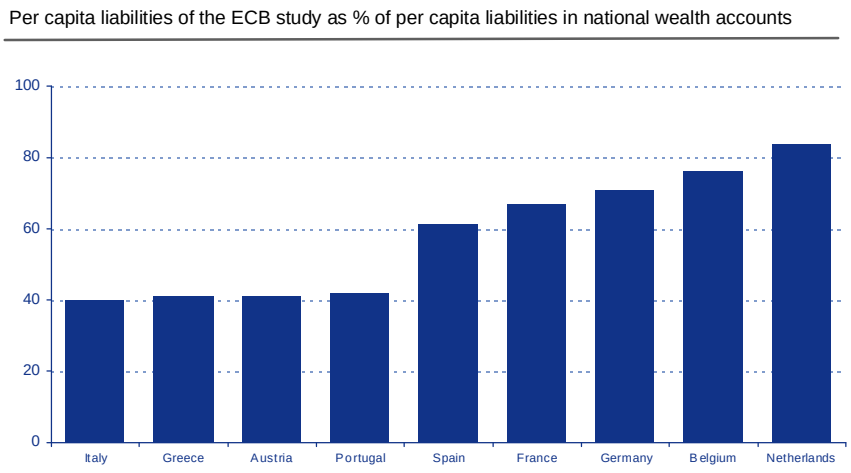
Source: ECB, Allianz Global Wealth Report; own calculations.

When it comes to liabilities, too, it should not actually be hard for the households surveyed to provide truthful information. "Actually" being the operative word. But a comparison of the mean values for mortgage loans and the mean values for homes produces staggering results. In the eurozone, this implicit loan-to-value ratio comes in at 37%[5]; in Spain, the figure is much lower again at 31%. If this were a reflection of the actual situation, the current real estate crisis would be having little effect on households and banks: households would have enough equity to weather even a dramatic drop in prices; banks would not need to fear any losses after the realization of collateral. On the other hand, the value for Germany is above average at 42%. So was it Germany's banks that were too laid back with their mortgage lending decisions prior to the crisis? This runs contrary to the general opinion that mortgage lending, in particular, is a conservative, restrictive process in Germany – one of the reasons why the German real estate market did not overheat.

The suspicion that the figures provided on liabilities tend to underestimate household debt is also confirmed by a comparison of the values produced by the ECB study and the macroeconomic wealth accounts: once again, the results of the survey are only a fraction of those supplied by the wealth accounts (see Figure 5).

[5] "Loan-to-value ratio" for households that took out a mortgage for their home; see ECB, The Eurosystem Household Finance and Consumption Survey – Results from the first wave, April 2013, p. 65-66.

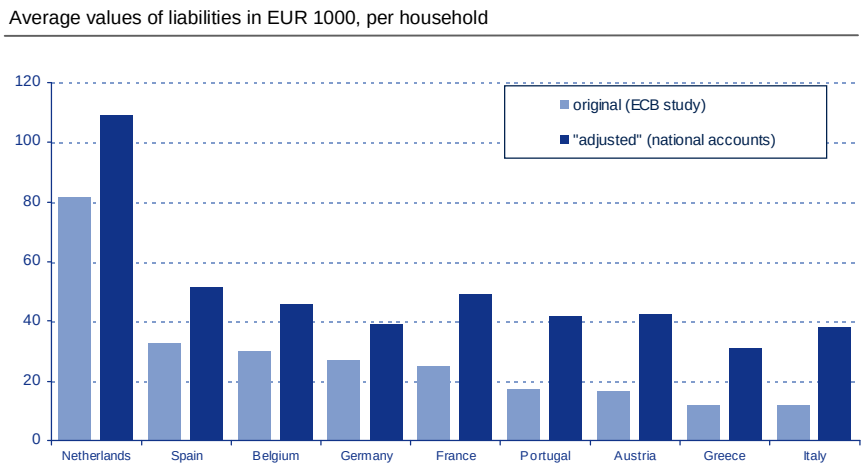
Figure 5: Comparison of liabilities in the ECB study and the macroeconomic wealth accounts



Source: ECB, The Eurosystem Household Finance and Consumption Survey - Methodological report, April 2013, p. 97.

Although the discrepancy is not quite as blatant as it is for financial assets, it still makes sense to once again apply the more up-to-date 2012 values from the wealth accounts. Figure 5 shows the extent of the adjustment. What is striking here is that it is not just in peripheral countries like Italy or Portugal that the "adjustment" is fairly sizeable: the same applies to "core countries" like Austria and France. This can be interpreted as an indication that personal debt is certainly not just a problem facing the crisis-ridden countries. Indeed, the highest level of debt in the eurozone, also in relation to GDP, can be found in the Netherlands.

Figure 6: "Adjusted" average values for liabilities



Source: ECB, Allianz Global Wealth Report; own calculations.

Realistic net assets of private households in the euro area

By "adjusting" the real values for financial assets and liabilities, we can now calculate the new average values for the net assets of households in the eurozone. Figure 7 shows the results.

Figure 7: Net assets - old and new

Average values for net assets in EUR 1000

Country	ECB Study
Belgium	338.6
Spain	291.4
Italy	275.2
Austria	265.0
France	233.4
Germany	195.2
Netherlands	170.2
Portugal	152.9
Greece	147.8

Country	Adjusted
Belgium	429.7
Italy	315.7
Netherlands	300.2
France	291.2
Austria	278.3
Spain	248.6
Germany	230.8
Portugal	152.7
Greece	135.4

Country	Adjusted (per cap.)
Belgium	186.0
Netherlands	135.2
Austria	130.7
France	130.0
Italy	124.8
Germany	113.1
Spain	92.8
Portugal	56.3
Greece	51.3

Source: ECB, Allianz Global Wealth Report; own calculations.

At first glance, the changes do not appear to be very significant. Without the three small states of Luxembourg, Malta and Cyprus, Belgium is the uncontested leader of the pack, with Germany further down towards the bottom of the league table. At second glance, however, it is possible to pinpoint major shifts.

In the three "crisis countries", Greece, Portugal and Spain, net assets have fallen dramatically in some respects, with all of the other countries reporting an increase: in the latter, the higher financial assets have been able to more than compensate for the corrections to real assets and liabilities. A per capita analysis also slices the asset situation in the eurozone into three clear groups. Belgium is the front runner – thanks to the high density of EU civil servants in the country? –, the broad mid-range is populated by the other core European countries, whereas Portugal and Greece have already been left behind and are sat languishing at the bottom. Spain is still a member of the middle group, but is at real risk of being "relegated", especially if house prices continue to slide. Developments on the real estate markets in general are likely to result in further changes in average net assets over the next few years. But even based on fairly extreme assumptions – house prices in Germany (and Austria) appreciate by 20%, prices in the rest of the EMU fall by another 20% – there are no fundamental changes in the overall picture: although this would see Germany overtake Italy, France and the Netherlands in per capita terms, it would remain in the middle of the rankings.

So the following conclusion can be drawn from the critical analysis of the ECB asset study: the headlines of "Germany - the poorhouse", which were based first and foremost on the mean values, are extremely exaggerated and out of sync with the reality in today's Europe. In reality, the "poor" are to be found – as expected – in the south of Europe, mainly in Portugal and Greece, with Spain also at risk of being sucked into the vortex of the crisis. On the other hand, however, Germany's households certainly do not rank

among the eurozone's "rich"; rather, they occupy a stable position in the middle of the rankings.

This means that Germany's pronounced economic strength is not reflected in the assets of the country's private households. There are two main reasons behind this: first, the low home ownership rate referred to above and second, the manner in which pension entitlements are secured (but not their amount). In Germany, the state pay-as-you-go system is still very dominant; in other countries like the Netherlands, supplementary funded models are already far more widespread. The difference: pension entitlements in the pay-as-you-go system are a promise made to the future generation to pay their pensions using current incomes; funded models, on the other hand, are already setting aside the assets that will be used to satisfy these entitlements in the future. So under one model, the funds that are counted as assets are already there, whereas under the other, there is nothing that can be counted as a tangible asset. If Germany is to rank among Europe's leaders in terms of private assets, too, in the future, then there is real need for (further) political action in both areas – promoting residential property ownership and supplementary funded retirement provision.

3. IMPACT OF LOW INTEREST RATES ON EUROPE'S SAVERS

Interest rates/the returns on risk-free bonds have been on the decline for 20 years or so. This has come in response to changes in the economic environment, lower growth rates in the advanced economies and low inflation expectations among investors. In the past, interest rate trends have been more or less justified in fundamental terms.

The current debate on "low interest rates", however, is not about this secular interest rate scenario, but rather about the developments since the financial crisis, which have been driven largely by unconventional monetary policy. Direct purchases of government bonds (or at least announcements of such purchases) in particular have, in some cases, pushed the real returns, i.e. those after adjustments for inflation, down to below the zero mark, even for long-term securities. It is true that the weak economy and, in particular, the disarray within the financial system may justify this crisis policy. But the longer we have to wait for these measures to bear fruit, the more the (harmful) side effects of this policy come to the fore. The debate is centering on savers, or rather the difficulties they are experiencing in accumulating assets in times of extremely low interest rates – something that is becoming more and more of a priority in light of demographic change and weak government finances. [6]

After the previous section concluded that Germany's savers are not quite as poor as the ECB's study, or the subsequent media reporting, suggested, we now want to look at how much (or little) of an impact the extremely expansionary and unconventional monetary policy is having on Europe's savers. Our analysis will focus on two asset components: bank deposits and bank loans, for three reasons:

- There are detailed statistics available for deposits and loans that record both their amount and the interest payable on them in a timely manner that is consistent for all EMU countries.

- The manner in which low interest rates impact deposits and loans is clear, making it easy to measure.

- Especially in the case of deposits, moves taken by central banks to slash interest rates result in immediate adjustments, i.e. savers feel the consequences right away without any real time lag.

Obviously, low interest rates also have an impact on the other asset components and their payment flows. Often, however, there is a lack of detailed statistics, for example on the composition and duration of private government bond portfolios. Most importantly, however, the impact is not always clear, because lower payment flows (interest payments) on the one hand are associated with increases in the underlying asset value on the other. The actual impact ultimately depends on investor behavior and takes some time to materialize in full. This also applies not least to assets held with insurance companies and pension funds (see box). In order to estimate how much of an impact the extremely expansionary monetary policy is already having on savers (and how much it is benefiting debtors), it would appear to make sense to concentrate on bank deposits (and bank loans).

[6] Some commentators believe that the low interest rate policy is tantamount to a sort of "financial repression", i.e. a deliberate, gradual "expropriation" of savers via negative real returns in order to restructure state finances. The question as to whether it is possible to manipulate interest rates in the long run nowadays, in a largely deregulated financial system, will only be answered when inflation starts to increase considerably again – and depending on how the central banks react.

Life insurance, low interest rates and savers

Life insurance is commonly considered to be a victim of extremely low interest rates, with the reduced guaranteed interest rate being held up as proof in this regard. But low interest rates on risk-free investments do not mean that the returns on life insurance have to fall automatically and to the same extent; they "merely" mean that it is more difficult, but not impossible, to generate high (real) returns in this sort of environment. So the actual maturity payment made under an insurance policy is also far more relevant to savers than the guaranteed interest rate. And this is where a different picture emerges; these maturity returns are much higher than the mini interest rates paid on German government bonds and still come in at 5% in some cases (for long-term policies). Life insurers cannot, however, escape the interest rate environment completely unscathed and the downward trend for returns over the past few years is also reflected in the maturity payment – albeit to a much lesser extent and subject to a certain time lag. This is because life insurers have various options available to them in order to defy the low interest rate environment. First, the long-term nature of their investments provides a "natural" cushion against current fluctuations. Second, investment portfolio restructuring provides a degree of protection against falling (risk-free) returns, for example by attaching a higher weighting to corporate bonds or bonds from emerging markets; alternative investments such as infrastructure investments also continue to offer attractive returns. Due to the long-term focus of their business model, life insurers can also invest in illiquid investments, i.e. in precisely those areas that offer good opportunities in times of crisis. Last but not least, life insurers benefit – at least in the short term – from increases in the values of the bonds they hold, which can be seen from the marked increase in hidden reserves. So ultimately, while the low interest rate policy currently being pursued by the ECB is making it more difficult for life insurers to identify investments offering sufficient returns, this has not yet had any real impact on their customers' funds to date.7 The more prolonged the period of low interest rates, however, the more will be shaved off the maturity payment, too.

Interest rate losses on the deposit side

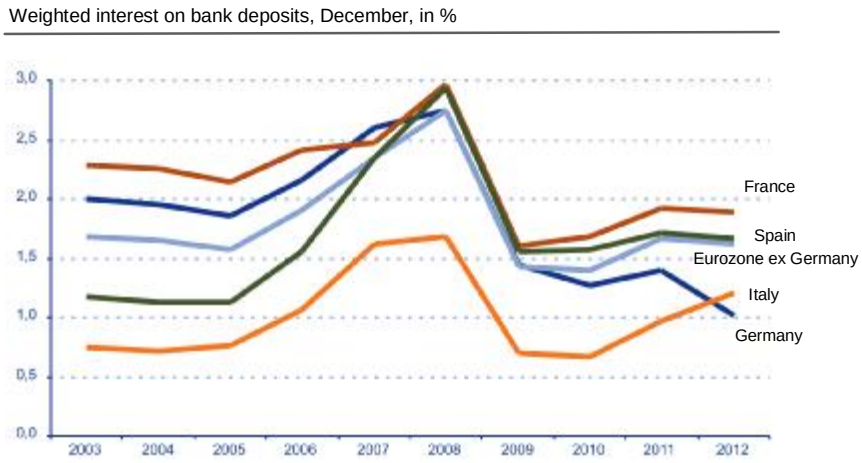
The following evaluation is based on the EMU interest statistics, which have been recording deposits, loans and the interest payable on these since 2003. Figure 8 shows the development in weighted deposit interest [8] during this period for Germany and the rest of the eurozone, as well as for France, Italy and Spain.

What is striking from the statistics is that deposit interest in Germany has been diverging from the development seen in the rest of the euro area since the crisis emerged. Until around 2009, the development remains more or less in sync – the only aspect that stands out is the dramatic reaction of Spanish interest rates to the key rate hikes in 2008 – but from 2010 onwards, deposit interest rates continue to fall in Germany while they start to stabilize again in the other countries. There is an explanation for this, one that appears paradox at first glance: the relative strength of Germany's banks.

[7] The Association of German Insurers (GDV) puts the income lost by German life insurers due to interest rates at EUR 4bn in 2012; this corresponds to 0.27% of the entitlements that German households have vis-à-vis insurance companies.

[8] The statistics cover the following deposit categories held by private households: overnight, with agreed maturity and redeemable at notice; the interest is weighted based on the proportion of the deposit category in question and is calculated as at December 31 in each case.

Figure 8: Development in deposit interest rates since 2003



Source: EZB, EMU interest rate statistics.

German banks, which are bolstered by Germany's solid state finances, generally rank among the euro area's most stable. This means that they can benefit from the low interest rates as they currently have favorable refinancing options available to them (unlike, for example, many of the banks in the south of Europe). The other side of the coin is that German banks are able to pass the prevailing low interest rates on to their customers, whereas other banks are prepared, for a lack of other alternatives, to still offer customers relatively high interest rates on their deposits. In this respect, the development in deposit interest rates reflects the change in government bond yields and once again highlights the symbolic ties between the banking sector and the state.

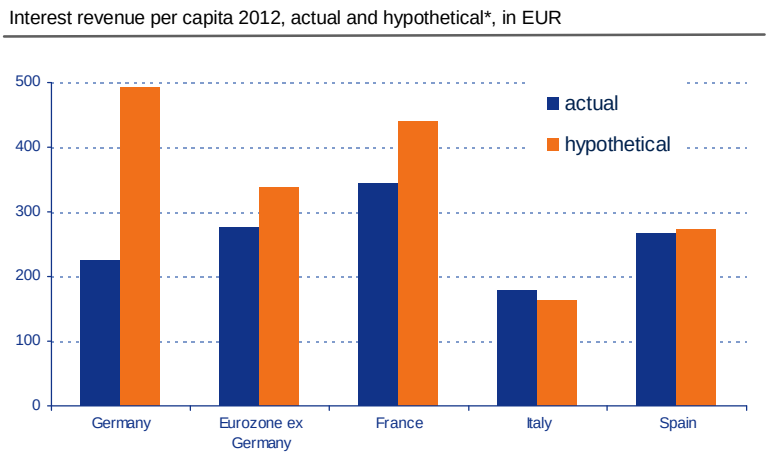
Savers, on the other hand, are reacting to these low interest rates by moving further and further "towards liquidity": the proportion of overnight money deposits, expressed in relation to total bank deposits, has increased from around 30% to 47% (end of 2012) in recent years. This sort of development cannot be seen in any other EMU country. This marked German preference for liquidity adds further fuel to the flames of the low interest rates. Ultimately, deposit interest rates in Germany are 60 basis points lower than the average level for the other countries; prior to the crisis, by contrast, Germany still had a lead of around 30 basis points.

So what does this drop in interest rates equate to in euros? As far as Germany is concerned, this corresponds to interest income totaling EUR 18.5bn, or EUR 225 per capita, for 2012. By way of comparison: the per capita interest income in the rest of the eurozone amounts to EUR 276. Even the average Spanish saver, whose deposits are almost 30% lower, generates more interest than his German counterpart, at EUR 265.

In order to estimate the interest income that has been lost as a result of the ECB's crisis policy, this actual interest income for 2012 is compared with the hypothetical interest income that would have been generated if interest rates in 2012 had been on a par with the average level seen in the pre-crisis years between 2003 and 2008. The calculation produces a rather sobering result for Germany: at the pre-crisis interest rate level, the per capita interest income would have come in at EUR 491 per capita, meaning that each and every saver has lost out on an average of EUR 266 in interest; the loss incurred by Germany as a whole amounts to just shy of EUR 22bn.

Naturally, the figure put on these interest losses depends to a considerable degree on the assumptions regarding what an "appropriate" interest rate level, i.e. one left untainted by crisis policy, actually means. Although taking the average rates seen in the pre-crisis years is a good approach, other methods could also be used. As a result, what is also decisive is not the absolute level, but rather the comparison with other eurozone countries (see Figure 9). And it is in this respect that Germany fares particularly poorly: in the rest of the eurozone, the interest lost, calculated as set out above, comes in at only EUR 63 per capita, meaning that the interest losses in Germany are more than four times as high. In terms of deposits, it is therefore readily apparent that German savers, in particular, are feeling the heat of the extremely low interest rates, while in the rest of the euro area, the drop in deposit interest is less dramatic and the interest losses less hefty as a result.

Figure : A comparison of actual and hypothetical interest income



*calculated using average interest rate in pre-crisis years 2003 to 2008.

Source: ECB, EMU interest rate statistics; own calculations.

Interest rate gains on the loans side

These interest losses are, however, countered by interest rate gains, at least if we choose to look at savers as a whole, a category that also includes borrowers. After all, the policy adopted in response to the crisis has pushed down not only the deposit interest rates, but also the lending rates. But can the fact that reduced interest burden compensate for the loss of interest income?

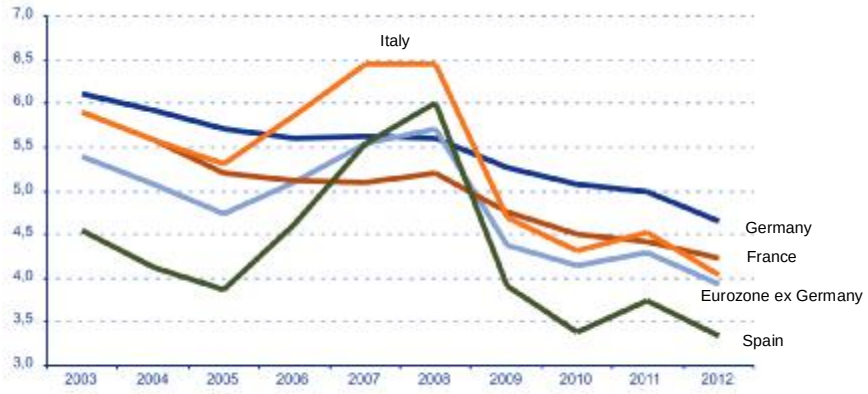
Before we answer this question, let us look at how lending rates[9] have changed since 2003 (Figure 10). Unlike with the deposit interest, these rates show no shifts within the relative interest rate structure. Instead, interest rate development has been relatively consistent throughout the entire euro area. The only phase that triggered varying reactions was the period characterized by interest rate hikes. In Italy, and particularly in Spain, the interest rate increases were more pronounced due to the variable rate models that apply there, although the increases were soon corrected again as the key rate started to fall. In Germany, on the other hand, which has traditionally been a fixed-rate country,

[9] The figures include home, consumer and other loans granted to private households; interest rates are again weighted based on the proportion of the loan category in question and are calculated as at December 31 in each case. The statistics do not include overdraft loans.

the development was far more steady. All in all, however, the interest rate differentials are more or less the same as they were prior to the crisis.[10]

Figure 10: Development in lending rates since 2003

Weighted interest rates on loans*, December, in %



*Housing, consumption and other loans; excl. overdrafts.

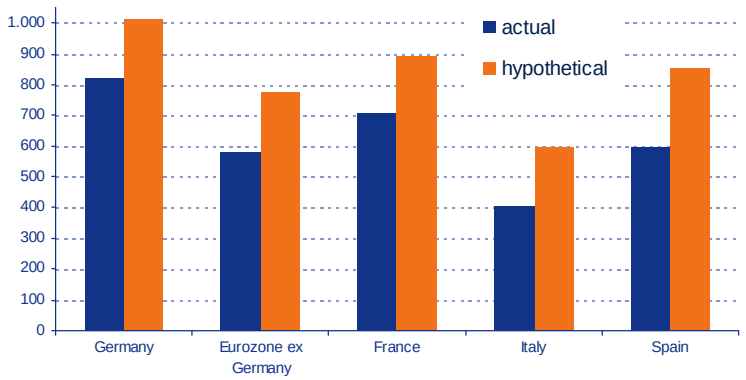
Source: EZB, EMU interest rate statistics.

This largely parallel drop in lending rates is also reflected in the calculation of interest gains in euros, which once again takes the average rates in the pre-crisis years as a point of comparison. Germany clocks up per capita interest rate savings of EUR 195 in this calculation, or a total of EUR 16bn for 2012. The per capita value for the rest of the EMU countries is virtually identical, at EUR 197. These interest gains are most pronounced in Spain at EUR 258 (see Figure 11), something that comes as little surprise if we consider the interest rate developments in Spain.

[10] In contrast to the situation with loans granted to the corporate sector, the monetary policy transmission mechanism therefore appears to still be functioning fairly well when it comes to home and consumer loans for private individuals.

Figure 11: A comparison of actual and hypothetical interest payments

Interest payments per capita 2012, actual and hypothetical*, in EUR



*calculated using average interest rate in pre-crisis years 2003 to 2008.

Source: ECB, EMU interest rate statistics; own calculations.

The decisive figure to look at in order to pinpoint how much the extremely low interest rates have impacted savers/borrowers as a whole is the balance of these interest rate gains and losses (see Figure 12). The result is clear-cut: in Germany, this balance is negative, whereas in the rest of the EMU, it is positive. Expressed in figures, each German citizen is losing out on EUR 71 on average, or EUR 5.8bn for the country as a whole. In the rest of the eurozone, savers have an extra EUR 134 in their pockets (just under EUR 34bn in total). The net interest gains are particularly plentiful in Italy and Spain, with citizens in these countries EUR 12.5bn and EUR 11.5bn better off respectively.

Figure 12: An overview of interest losses and gains

Interest losses and gains per capita in EUR

Country	Interest losses (forgone interest revenue)	Interest gains (saved interest payments)	Balance (gains minus losses)
Germany	-266	195	-71
Eurozone ex D	-63	197	134
France	-96	188	92
Italy	15	189	204
Spain	-8	258	250

Source: ECB, own calculations.

So the bottom line is: the extremely low interest rates are putting pressure on German households – and only on German households . In the rest of the euro area, on the other hand, the lower interest income is being more than offset by lower lending rates.

The last aspect, at least, is good news for the ECB's crisis policy. The measures taken by the ECB are bearing fruit at the level of private individuals, with the current monetary policy providing the private households in the crisis-ridden countries with relief. Nevertheless, and this is the bad news, the impact of the low interest rates varies considerably. While the pressure is being taken off the peripheral countries, the very same measures are placing an additional cost burden on the shoulders of German households. These diverging effects of the single monetary policy pose a further challenge to European monetary union. The more prolonged the period of extremely low interest rates, the more pronounced these differences will become. After all, they took on considerable dimensions in the space of only one year (2012). This means that there is an empirical basis for the German criticism of the ECB's policy from a saver's perspective and that this criticism is only set to become louder in the course of time.

4. SUMMARY

The asset debate has been the subject of intense media attention of late: first due to the ECB's study on private assets in Europe – which dubbed Germany the poorhouse of Europe – and second as a result of the policy adopted in response to the crisis and the resulting extremely low interest rates, which threaten to effectively expropriate savers. This analysis takes a critical look at both theories.

The fact that the ECB study was conducted as a survey mean that due caution has to be exercised when interpreting the data. This is highlighted by a comparison with the macroeconomic data, which identifies what are, in some cases, major discrepancies that cannot be explained by methodological factors alone.

Data "adjustments" and a look at the average per capita data (as opposed to mean household data) produce a completely different picture of the distribution of private assets in Europe: the "poor" are to be found in the south of Europe, mainly in Portugal and Greece, with Spain also at risk of being sucked into the vortex of the crisis.

On the other hand, Germany's households on the whole certainly do not rank among the eurozone's "rich"; rather, they can be found in the broad middle section of the rankings (together with Italy and France, for example) with average per capita assets of EUR 113,000. This means that Germany's pronounced economic strength is not reflected in the assets of the country's private households for two main reasons: first, the low home ownership rate and second, the limited prevalence of funded models to secure pension entitlements. If Germany is to rank among the European's leaders in terms of private assets, too, in the future, then there is real need for (further) political action in both areas.

In order to determine the impact that the crisis policy is having on Europe's savers, the evaluation concentrates on bank deposits and loans both for methodological reasons and for reasons relating to data availability. This process involves comparing the interest "lost" on the deposit side (interest losses) with the reduced interest burden on loans (interest gains). The average values for the pre-crisis years from 2003 to 2008 are used as a yardstick.

The result is clear-cut: in Germany, the balance of interest losses and gains of private households is negative, whereas in the rest of the EMU, it is positive. Whereas Germany's savers/borrowers are losing out on a total of EUR 5.8bn (per capita: EUR 71), their counterparts in the rest of the euro area are enjoying relief to the tune of just under EUR 34bn (EUR 134 per capita). The net interest gains are particularly plentiful in Italy and Spain, with citizens in these countries EUR 12.5bn and EUR 11.5bn better off respectively.

This conclusion is extremely ambivalent for the ECB's crisis policy. On the one hand, the measures taken by the ECB are providing the private households in the crisis-ridden countries with relief while, on the other, the very same measures are placing an additional cost burden on the shoulders of German households. These diverging effects of the single monetary policy pose a further challenge to European monetary union. The longer the period of extremely low interest rates, the more pronounced these differences will become. As a result, this criticism is only set to become louder in the course of time.

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