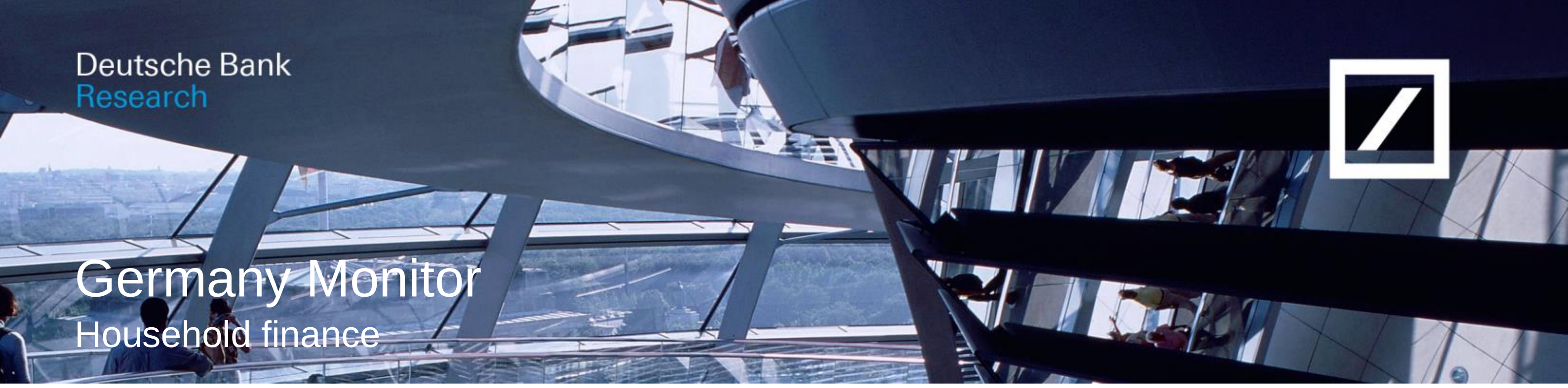

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Research

Germany Monitor
Household finance

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Drastic shifts in savings and borrowing in 2023 – mortgages could pick up in 2024

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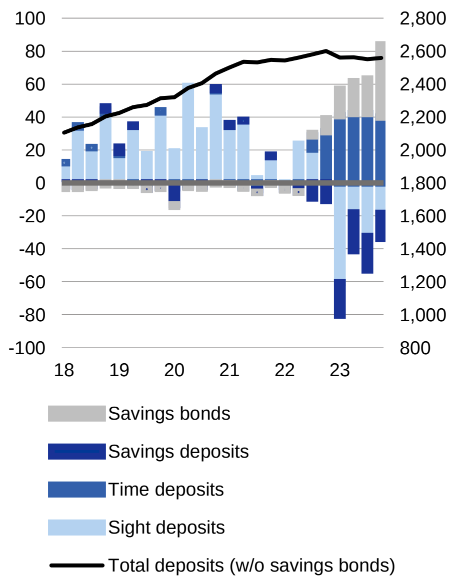
Over the course of this year, mortgage borrowing could pick up moderately, after it had flattened out in 2023. Overall growth of deposit products will probably remain modest. The reallocation from traditional bank deposits into higher-yielding products such as savings bonds is set to continue.

First reduction in retail deposits in 20 years

Bank deposits of German households fell by a striking EUR 43 bn (-1.6% yoy) in 2023. This looks like an abrupt trend reversal: households had continuously built and more than doubled their deposits to EUR 2.6 trillion over the past 20 years – through good and bad times. Measured in relation to GDP, this was an increase from 53% to 62%.

Private households in search of higher interest rates 1

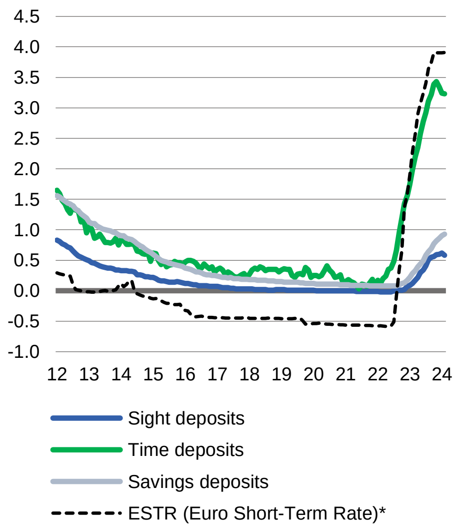
EUR bn, qoq (left), total outstanding (right)



Sources: Deutsche Bundesbank, Deutsche Bank Research

Rising interest rates especially for time deposits 2

Interest rates for new deposits, %, until February 2024



*until September 2019 calculated based on EONIA

Sources: ECB, Deutsche Bank Research

Yet Germans did not stop saving. At the same time as reducing deposits, they invested a record EUR 100 bn in savings bonds. Despite the legal nature as bank-issued securities, savings bonds are a close alternative to savings deposits or time deposits. Usually, savings bonds are covered by deposit insurance. Required minimum investments are low which makes them attractive for retail clients. The funds are committed for a certain period, typically mid- to long-term, at a fixed interest rate. If added to households' traditional deposits (as done by the ECB), investments in savings bonds overcompensated the lower balances on deposit accounts and led to an increase in total "deposit" products of EUR 57 bn. Still, this is a modest figure compared to previous years.

Households shift funds to higher-yielding products

Higher rates have helped to keep deposits attractive. But a significant spread caused households to shift at large scale from sight deposits (EUR -129 bn) and savings deposits (EUR -78 bn) into time deposits (EUR +165 bn). Even though rates on new sight deposits and savings deposits increased to 0.6% (+0.5 pp yoy in December) and 0.9% (+0.7 pp), respectively, the gap to time deposits (3.3%, +1.8 pp) widened further. Reflecting market expectations about future ECB rate cuts, rates for time deposits with maturities below 12 months surpassed those for medium-term maturities during Q4. Not surprisingly, the lion's share of new time deposits fell into that first category. Households wishing to lock in interest rates for a longer period may have opted for savings bonds. Those with a 3-year maturity, for example, offered around 3% p.a. at various points throughout the year.

Consumption could prevail over savings going forward

Households' overall savings rate (comprising deposits and an array of other financial assets) rose to 11.4% in 2023, i.e. above the long-term average of nearly 11%. Households continued to put money aside, while the nominal rise in disposable income was swallowed by inflation (6% each). Precaution in uncertain times may have been the main reason. This year, households could benefit from real income gains of about 1.5% as nominal wages are set to rise and inflation is expected to ease (to 2.2%). Also, consumer confidence has stabilized and could improve further. Households may feel more at ease to spend, and private consumption could recover. This might show up in a lower savings rate.

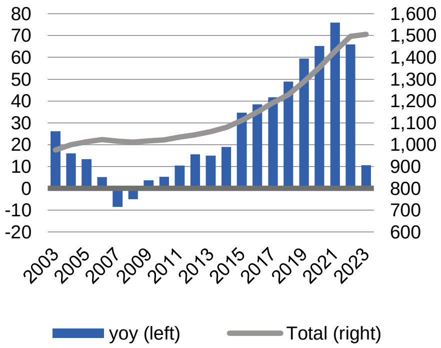
With regard to households' bank deposits, last year's trends are expected to continue in 2024, with a subdued growth in traditional deposits and savings bonds flourishing. Households are likely to keep shifting funds from sight deposits into higher-yielding products. Sight deposits still represent two-thirds of total retail deposits although they return 2.7 pp less than time deposits. Before the financial crisis, they accounted for only one-third, with a smaller spread between sight deposits and time deposits. Time deposits and savings bonds are set to grow. Households may try to fix current rates before ECB cuts feed through to the market. Indeed, latest data for February already shows that average deposit rates have not risen further.

Retail credit boom came to an end as mortgage borrowing collapsed

In 2023, the credit boom fuelled by low interest rates came to an end. Households in Germany still took out a net EUR 10.5 bn in new loans and now owe banks EUR 1.5 trillion (equals 37% of GDP). But it was only a minuscule

Retail credit boom came to an end 3

Total loans to private households, EUR bn

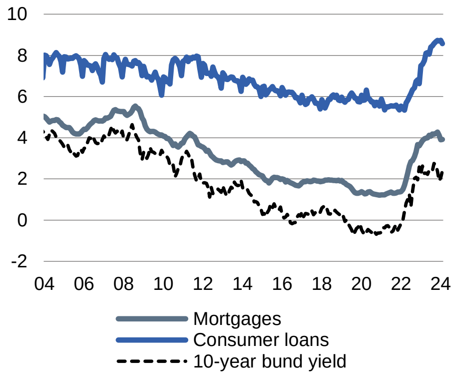


Sources: Deutsche Bundesbank, Deutsche Bank Research

Drastic shifts in savings and borrowing in 2023

Lending rates may have peaked 4

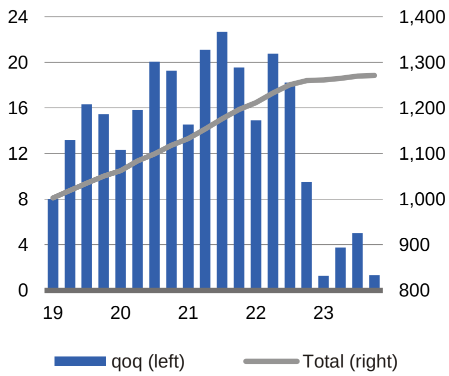
Average interest rates for new loans in %



Sources: ECB, Deutsche Bank Research

Mortgage growth collapsed in 2023 5

EUR bn



Sources: Deutsche Bundesbank, Deutsche Bank Research

annual growth of 0.7%, after the previous year's 4.6%. A slump in mortgage growth drove the meagre result – they account for 84% of total retail loans outstanding.

In fact, net borrowing for house purchases almost stalled in 2023 (EUR 11.4 bn, +0.9% yoy), while rates for new loans peaked at 4.3%. Affordability of housing (price plus interest expense in relation to disposable income) had worsened dramatically in 2022 when mortgage rates more than doubled. Affordability largely remained at this level in 2023. Financing costs rose again but were to some extent compensated by a 7% decline in house prices (average for houses and flats, new and existing). This was the strongest annual decrease on record, albeit from a very high level after years of substantial price increases. Households also benefitted from a rise in nominal disposable income. However, higher living expenses reduced their financial leeway. Thus, overall, fewer people could buy a home instead of renting one. Fewer transactions and a slump in housing construction led to a collapse in new mortgages by the end of 2022, which continued in 2023.

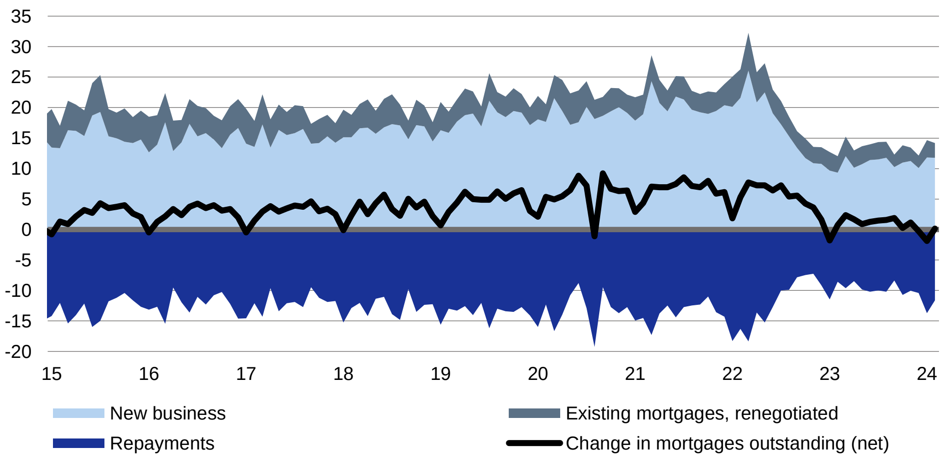
Low point might have been reached

Mortgage borrowing seems to have flattened out though as monthly volumes of gross new loans have stabilized. Besides, repayments declined compared to previous years which is why the total mortgage stock did not decrease. The redemption rate came down to 9% (12% in 2022).

Results from the Bank Lending Survey also indicate that the lowest point may have been reached. While banks reported shrinking mortgage demand throughout 2023, they saw it improving in Q1 2024. At the same time, the share of institutions with growing numbers of rejected mortgage applications has plummeted from 21% to 7%. Banks on aggregate reported lower margins for average mortgages in recent months. For the current quarter, 39% of banks are reckoning with rising demand and only 11% expect to tighten their credit standards.

New business down by half compared to the peak, but mortgage volumes still growing in 2023 6

EUR bn per month, until February 2024

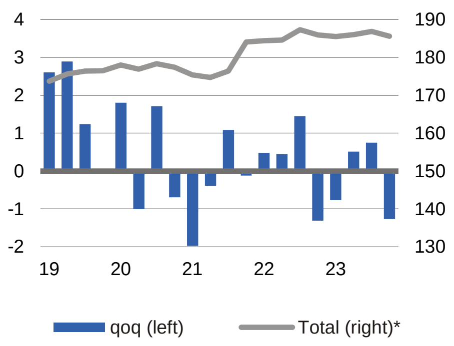


Sources: Deutsche Bundesbank, Deutsche Bank Research

In 2024 as a whole, outstanding mortgages might increase modestly. New mortgages granted are likely to pick up slightly as interest rates should roughly stay unchanged (they are down 0.4 pp from their high) and house prices are set to edge lower again. But this might help affordability not very much: prices

Lacklustre consumer loans 7

EUR bn



* Includes reclassifications in Q4 21.

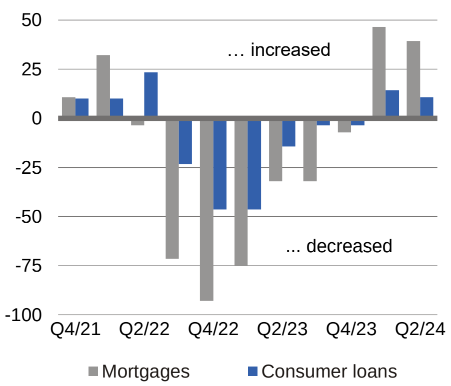
Sources: Deutsche Bundesbank, Deutsche Bank Research

declined the most for existing houses in 2023, while they remained relatively resilient for new ones (-8% vs -3% yoy). In the former case, some of the savings might then be needed to refurbish such property, especially in view of energy standards. As regards repayments, chances are that households will stay hesitant, and terms and conditions in mortgage contracts usually allow borrowers some discretion: many existing mortgages were concluded for long periods at fixed interest rates – below current deposit rates which makes early redemptions unattractive.

Consumer lending rates at record high

Growth in consumer loans has been lacklustre over the past few years. In 2023, the average interest rate rose strongly and hit a record 8.7% (+2.1 pp yoy) by year-end. Outstanding volumes declined by EUR 0.8 bn (-0.4%) as banks reported falling demand. On aggregate, they moderately tightened their credit standards and widened their margins. In Q1 2024, demand recovered slightly. This year as a whole, consumer lending is likely to remain sluggish given the high borrowing cost and subdued consumer sentiment.

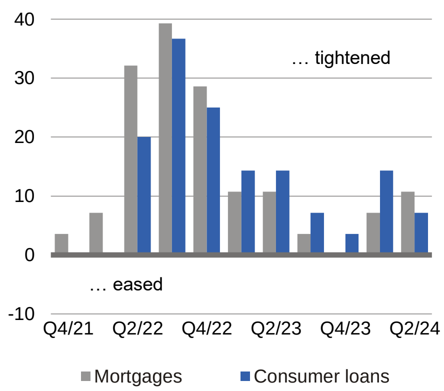
Bank lending survey: Credit demand* 8



*Q2/24 expected value

Sources: Deutsche Bundesbank, Deutsche Bank Research

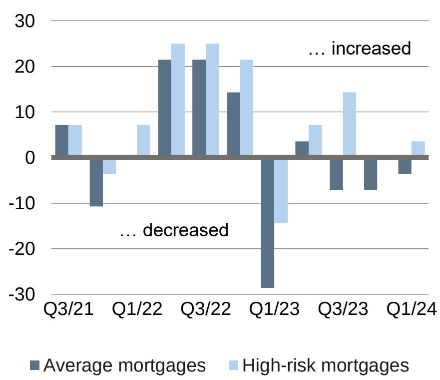
Bank lending survey: Credit standards* 9



*Q2/24 expected value

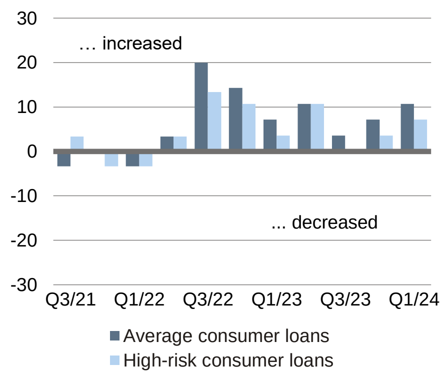
Sources: Deutsche Bundesbank, Deutsche Bank Research

Bank lending survey: Mortgage margins 10



Sources: Deutsche Bundesbank, Deutsche Bank Research

Bank lending survey: Consumer credit margins 11



Sources: Deutsche Bundesbank, Deutsche Bank Research

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