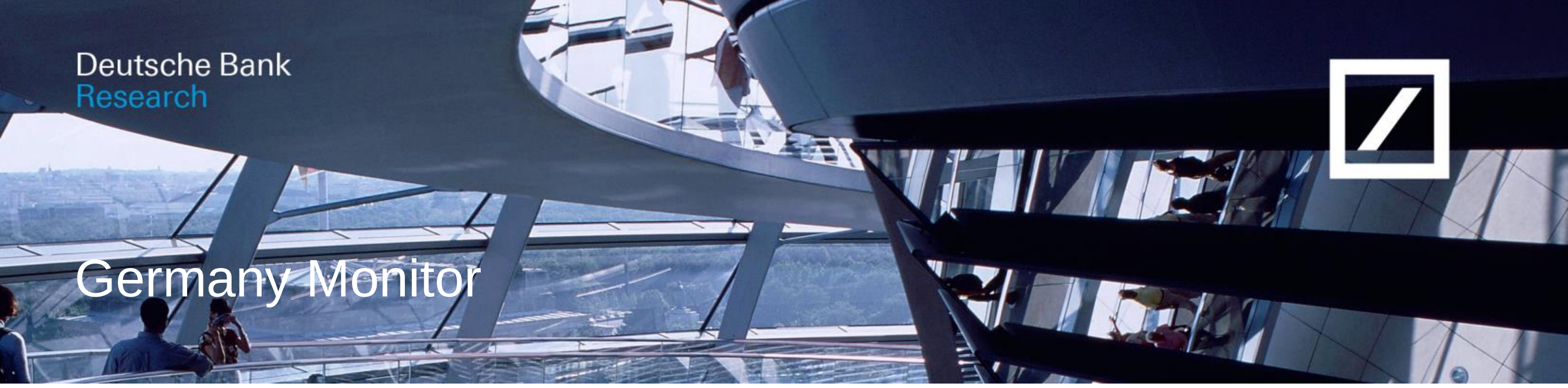

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Bank deposits in Germany: Highly sticky

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Recent tensions in the US and European banking sectors have brought traditional deposits and their stability as the most important refinancing instrument into focus. However, at least in Germany, core private-sector deposits remain a very reliable source of funding, for various reasons.

Growth in German deposits from private households had been strong for over a decade, thanks to an overall benign economic situation of substantially rising employment and wages. In 2022, though, households added only EUR 54 bn in new deposits, roughly half the increase of previous years. The annual growth rate fell from over 5% to a meagre 2.1%. The decline was mainly driven by inflation, which rose from 5.3% in December 2021 to more than 10% in the course of 2022 (before a statistical revision). Rising living costs constrain the ability to save, particularly for lower-income households who mostly hold their reserves as deposits. In addition, inflation is pushing the real interest rate on deposits deeply into the red, making them even less attractive as an asset class. In Q1 2023, deposit volumes will probably have decreased, also due to seasonal effects.

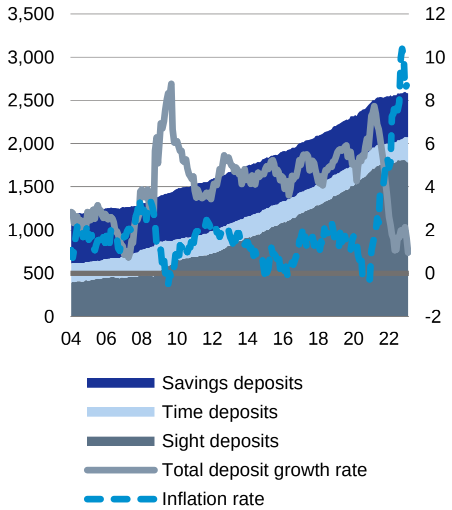
Households have started to manage their deposits more actively. Interest rates on time deposits have risen considerably, much more than for other deposit categories. Accordingly, households have started to shift money from sight deposits into time deposit accounts. For years, the difference in rates had been minuscule, so households had preferred liquid sight deposits at the expense of time deposits and savings deposits.

Regardless of deeply negative real rates and a lower capacity to save due to rampant inflation, in uncertain times, households tend to keep their deposits steady or even increase them in order to be prepared for unforeseeable expenses. Instead, they might cut back on non-necessary consumption.

Bank deposits in Germany: Highly sticky

Household deposit growth slowing in 2022 due to inflation 1

Outstanding volumes in EUR bn (left), rates in % yoy (right), until February 2023



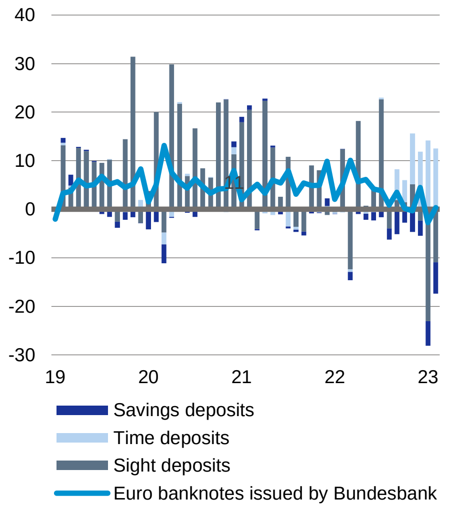
Sources: Bundesbank, Deutsche Bank Research

In past crises, German households did not withdraw significant amounts of deposits. Partly, this may be the result of a lack of suitable alternatives. Even in October 2008, when cash issuance by the Bundesbank jumped by EUR 18 bn, this only equalled 1.3% of total retail deposits. Spikes in cash issuance were lower still during the pandemic shock and the Russian attack on Ukraine. But cash is an inconvenient substitute for bank deposits, for safety reasons. And while money market funds are available in Germany, they have never been successful in the retail market and are probably not widely known. In addition, the diverse three-pillar structure of the banking industry with limited capital market exposure of unlisted savings banks and cooperative banks may underpin client confidence in the stability of the system. Likewise, deposit insurance supports trust in the sector. So far, deposit insurance schemes have always made good on their promise to reimburse insured retail deposits in case of bank failures. Insured deposits (of up to EUR 100,000 per individual or non-financial company) have not suffered losses. In total, EUR 2.1 tr of deposits were covered by deposit insurance in Germany in 2021[1], compared to total deposits of households and companies of currently EUR 3.5 tr.

So far, outstanding retail deposits in Germany have not declined on a yoy basis, living up to their reputation as a highly reliable and resilient source of bank funding: steady as they go.

Households started to shift from sight deposits into time deposits in 2022 2

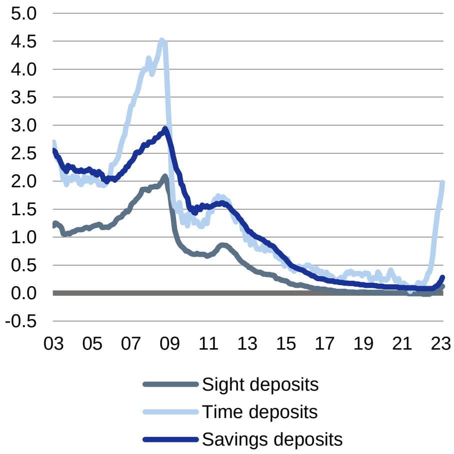
Deposit flows and banknotes issued in EUR bn per month, until February 2023



Sources: Bundesbank, Deutsche Bank Research

Household deposit rates diverge 3

%, until February 2023



Sources: ECB, Deutsche Bank Research

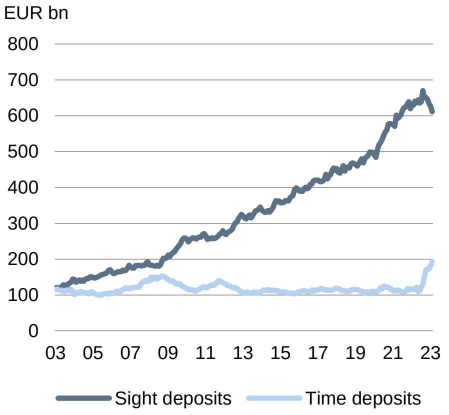
On the corporate side, the picture is not much different. System-wide deposit growth is robust throughout good and bad times for the economy, sizeable shifts between the different types of deposits notwithstanding.

Growth in deposits from non-financial corporations[2] has averaged a strong 6.2% p.a. over the past 20 years, and even accelerated to 10.6% p.a. since the onset of the coronavirus pandemic. Corporate deposits as a share of GDP have thus almost doubled from 11% in 2002 to 21% today.

1 Source: EBA.
2 Euro-area counterpart, as this allows for a breakdown by type of deposit. Domestic counterparts account for more than 94% of the EMU total.

Bank deposits in Germany: Highly sticky

Corporate deposits outstanding 4



Source: ECB

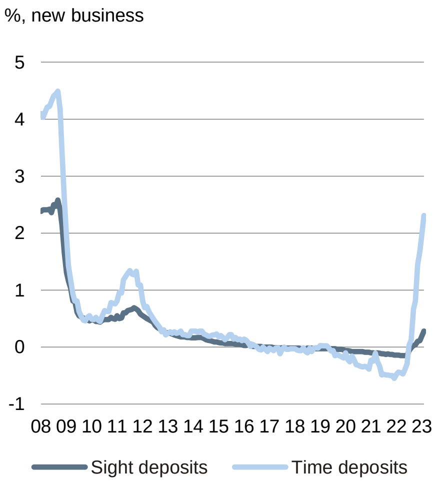
Corporate deposits essentially comprise two categories: sight deposits and time deposits. While time deposits remained virtually flat for most of the past two decades, sight deposits grew consistently.

Only when rates on time deposits turned positive in late summer last year did volumes pick up, while inflows into sight deposits slowed as their rate level remained close to zero. The substitution effect was pronounced with the former surging by EUR 66 bn since September and the latter falling by EUR 57 bn, as total outstanding corporate deposits continued to climb.

Corporate deposits exhibit a certain seasonality, with flows typically strong in autumn and weak in Q1. This year is no exception so far, but also no outlier, in that the 3-month moving average deposit flow stood at EUR -4.3 bn in February. This is a similar figure to both February 2020 and February 2021 (last year might have been impacted by the looming Russian invasion of Ukraine) and it follows a long-term pattern that existed even before the financial crisis.

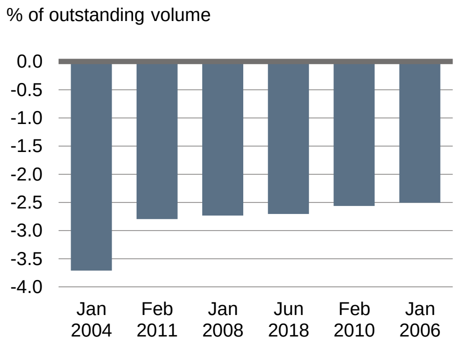
Monthly corporate deposit outflows have always been relatively limited – at maximum, less than 4% of outstanding volumes, which does not indicate substantial volatility, especially given that corporate creditors may move funds quicker than retail customers. Most of the largest outflows have historically also taken place at the beginning of the year, and occurred a long time ago. In the past decade, outflows were higher than 2.5% of the total only once, compared to 5 such occasions in the 10 years before. In all these instances, outflows were more than offset by strong inflows in the preceding or following months.

Corporate deposit rates 5



Source: ECB

Maximum monthly corporate deposit outflows 6



Sources: ECB, Deutsche Bank Research

What happens in the case of an exogenous macro shock? While there is always the risk of deposit withdrawals in such a scenario, when financial stability was in focus during the financial crisis or the European sovereign debt crisis, companies did not react by pulling deposits from banks. When the real economy was shaken such as during the pandemic or the energy crisis last year, firms even stocked up on liquidity and bank deposits surged.

Bottom line, we see no signs of *current* abnormal funding volatility or of *potential* stress to come due to corporate deposit outflows from German banks. Deposits remain a sticky business, at least for the industry as a whole, while the above evidence suggests individual institutions could attract more deposits if needed by offering better conditions than their competitors.

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