

## **"European savers are suffering under ECB policy"**

### **- Stable mortgage markets require a targeted build-up of capital -**

At their annual meeting in Prague, the European bauparkassen criticised the harmful effects which the ECB's zero interest rate policy also exerts on housing markets. "The flight of investors towards real estate has driven up property prices in almost all European countries," said Christian König, Managing Director of the European Federation of Building Societies (EFBS). In Spain and Germany, for example, prices for residential property have risen by around 25 percent since 2015, in France by almost 10 percent, while Italy is the only European country with stagnating prices. In Czech Republic, residential property prices have even risen by almost 37 percent in the same period. In the EU, this increase is only outperformed by that in Hungary, where residential property prices have risen by around 40 percent since 2015. Although both countries do not belong to the eurozone, they cannot completely escape the influence of the ECB in their monetary policy. Housing markets, however, are very different from region to region. According to König, "problems are particularly noticeable in metropolitan areas. Here we see partially a doubling of purchase prices".

According to the EFBS, the income of private households in the eurozone countries under review rose only slightly in the same period. In Czech Republic, income growth was stronger but the prices for houses rose even faster. König: "At least in metropolitan areas, it is becoming increasingly difficult for normal-income households in most parts of Europe to fulfil their dream of owning their own house, despite extremely low interest rates". This can also be seen in the figures for the construction of owner-occupied homes, which, apart from a few exceptions, have reached a historically low level in many places.

In addition, the EFBS sees dangers for people's savings behaviour. Critics of the ECB's policy have often been told that only Germans have a problem with zero interest rates because they are over-cautious in their savings habits. "There was talk of Stupid German Money," König recalled. It had also been repeatedly claimed that the phenomenon of negative real deposit rates was nothing new.

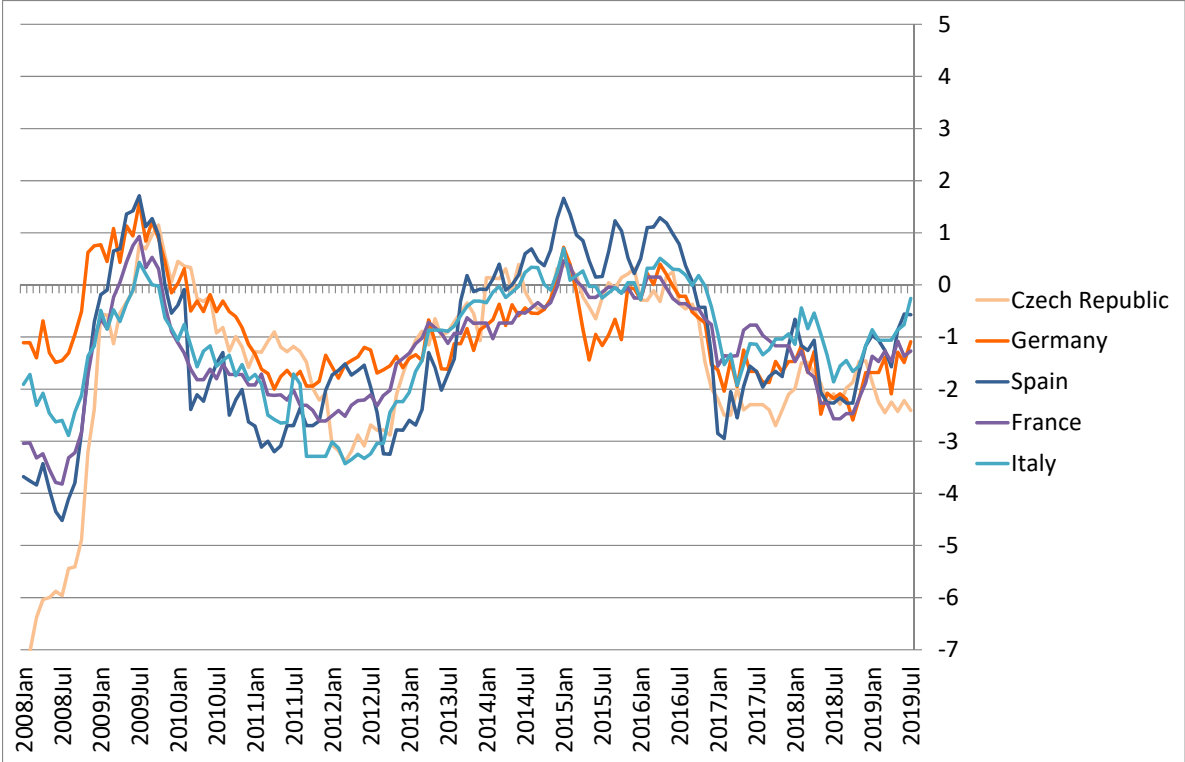
"Both statements are false," explained the EFBS director. "Not only German savers suffer from this zero-interest rate policy. All European savers are suffering". They hardly differ from each other in their investment behaviour. Secure forms of saving dominate in all countries. Today there are real negative returns for short-term deposits everywhere - in Spain and Italy, in Germany and France as well as in Czech Republic.

European savers would also lose money almost without exception if they deposit money for more than two years. Italy is the only exception among the countries considered here. "However, this phenomenon is a novelty," König made clear. Before 2016, there had practically always been positive real returns in the countries of the Eurozone, at least for longer-term deposits.

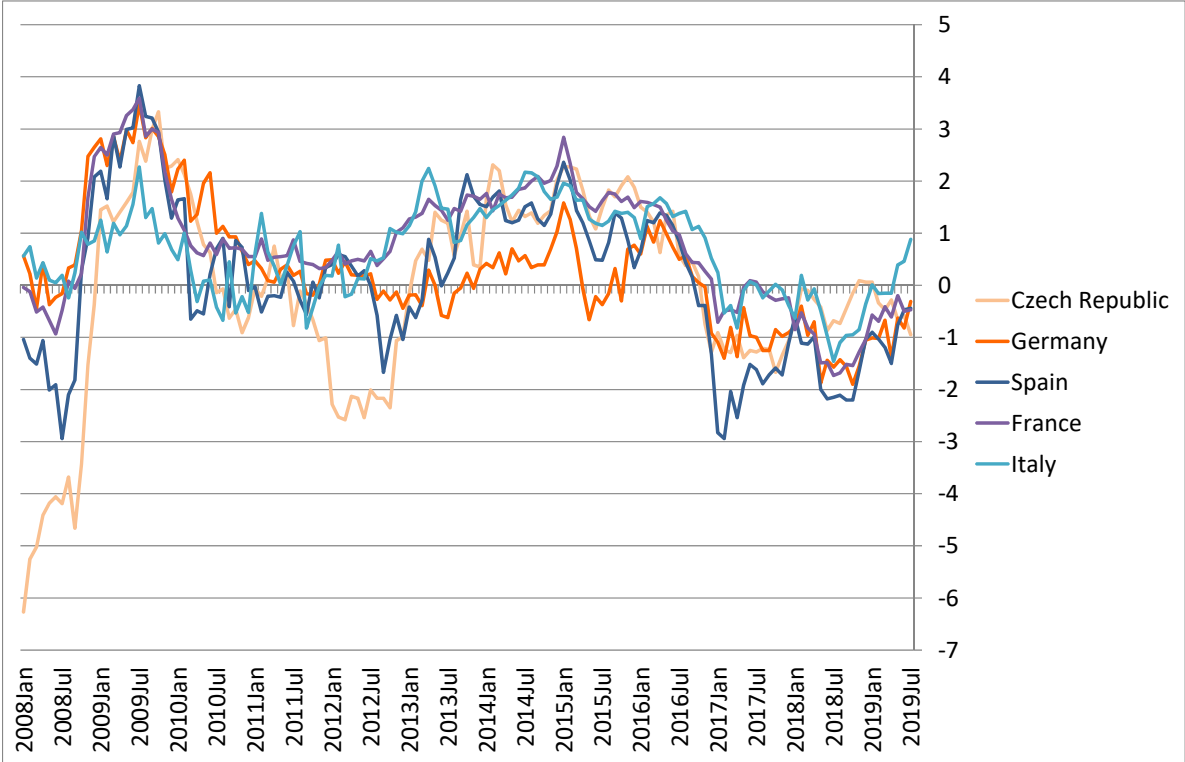
If this development is not reversed, the motivation to save could suffer overall. For the housing markets, this is also of great importance because saving means building up capital. "Capital", said König, "is, however, indispensable for households with a normal income and who want to finance solidly". It reduces the debt burden and increases the chance of being debt-free at retirement age. "Saving today means investing tomorrow, when the real estate markets are no longer so overheated. Today's savings thus contribute to the long-term stability of housing markets and the construction sector." It is to be hoped that the new ECB leadership will take a closer look at the long-term risks of its current monetary policy.

**Charts: Real Deposit Rates**

**a) Overnight Deposits**



**b) Deposits with agreed maturity, Over 2 years**



Source: ECB (MFI Interest Rate Statistics)