Banks

European savers faced with interest rate divide

Claire Jones – FRANKFURT

Elke Freund left her job as head of mathematics at an insurance company three years ago to live off her savings. Since then, however, the 54-year-old from Hagen, near Dortmund in Germany's northwest, has found it tough. “It’s not much fun at the moment to be a German saver,” said Ms Freund. “Low interest rates mean it’s very difficult to make a good return on your investment."

After Ms Freund retired, the European Central Bank cut its key rate from 1.5 per cent to a record low of 0.05 per cent in September. That has hurt the average German, who puts away a tenth of their income, by lowering savings rates from about 1.6 per cent in 2O11 to 0.5 per cent today.

But ECB policy is only part of her problem. While the eurozone shares a currency, there is no common market for money. Cultural, financial and legal differences between member states have meant the rates offered for deposits and loans across the region have never been equal.

But this fragmentation has worsened sharply since the crisis. As trust in the financial markets vanished, none but the safest banks could borrow from their rivals. That drying up of the interbank market has not only created massive divergences around the region in the cost of securing credit - it has changed the market for deposits too.

“The ECB’s loose monetary policy does not work in local markets,” said Tamaz Georgadze, co-founder of SavingGlobal, a broker for term deposits across Europe, who first began to look closely at the divergences in rates in 2007. SavingGlobal research shows that today the most generous Italian bank will pay interest of 2.8 per cent on a one-year deposit of €10,000. In Germany, the highest interest rate available is 1.5 per cent, little more than half that amount.

ECB data indicate the average rate paid on deposits with maturities of less than a year varies spectacularly across the eurozone, from 0.3 per cent in Luxembourg and Latvia to 2.5 per cent in Cyprus.

SavingGlobal, set up a year ago, allows its customers to take advantage of higher rates in other countries. But different national requirements for opening bank accounts and language barriers prevent the average European from doing so without a broker.

Member states' banking rules, which often demand that global banks keep a subsidiary's deposits in the host country, exacerbate the divergences. This is not just a problem for savers. That deposits cannot easily flow across the region deprives banks in more troubled parts of the Eurozone of a valuable source of funding and curtails lending.

“There are big trade barriers and that creates problems because there are parts of the region where there is too little saving and parts where there is too much,” said Mark Wahrenburg, a professor at Frankfurt’s Goethe University.

Manfred Gehrke, a physical therapist from southern Germany, demands more action from politicians. “Banks are just doing their business and are not the only ones responsible,” he said.

One leap taken by lawmakers was the creation of a banking union in the aftermath of the region’s sovereign debt crisis. As a result, the ECB has become the head supervisor of the eurozone’s banks, a change which some hope will lead to regulation being set in the interests of the region as a whole and not individual member states.

Another important step was the deal last December on a uniform guarantee scheme on EU deposits. Under the arrangement, every EU state must pay out up to €100,000 to depositors if a bank fails, regardless of where the customer is from. In theory this should help deposit rates converge, as small savers will feel their money is equally secure across the region.

But depositors are concerned about whether or not all national governments will honour the new deal. “The big question is how secure everything is. The EU is supposed to cover up to €1OOk, but how would you know?” said Jens Pippig, managing director at ProSiebenSat. 1 Accelerator, a support programme for media start-ups. Mr Pippig, a 35-year old from Germany, added: “I think the German banks are much safer, so I would feel more comfortable putting most of my money with them.”