Interest rates in the euro zone

Saving disgrace

BERLIN

The variation in deposit rates in Europe is both puzzling and worrying

WHY earn 2% on your savings when you can rake in 0.5%? Peculiar as it sounds, that seems to be the view of many Germans. Despite national anguish at the determination of the European Central Bank (ECB) to keep interest rates at rock-bottom, very few of them are taking the opportunity to earn higher returns by opening accounts elsewhere in the European Union. It is yet another indication, if any were needed, of how the integration of European financial markets has gone into reverse since the crisis.

Interest rates, for both deposits and loans, differ widely among the countries using the euro (see chart). In many cases, the same bank pays depositors different rates of interest in different countries. Deutsche Bank, for example, offers 0.1% for a one-year term deposit in Germany, and 0.75% for the same account in Italy. In theory, such discrepancies should evaporate, as banks move money from places where there is an excess of savings to spots where there is an undersupply. In practice, local regulators impede this, even though banks throughout the euro zone are now overseen by the ECB, which is supposed to take a broader view.

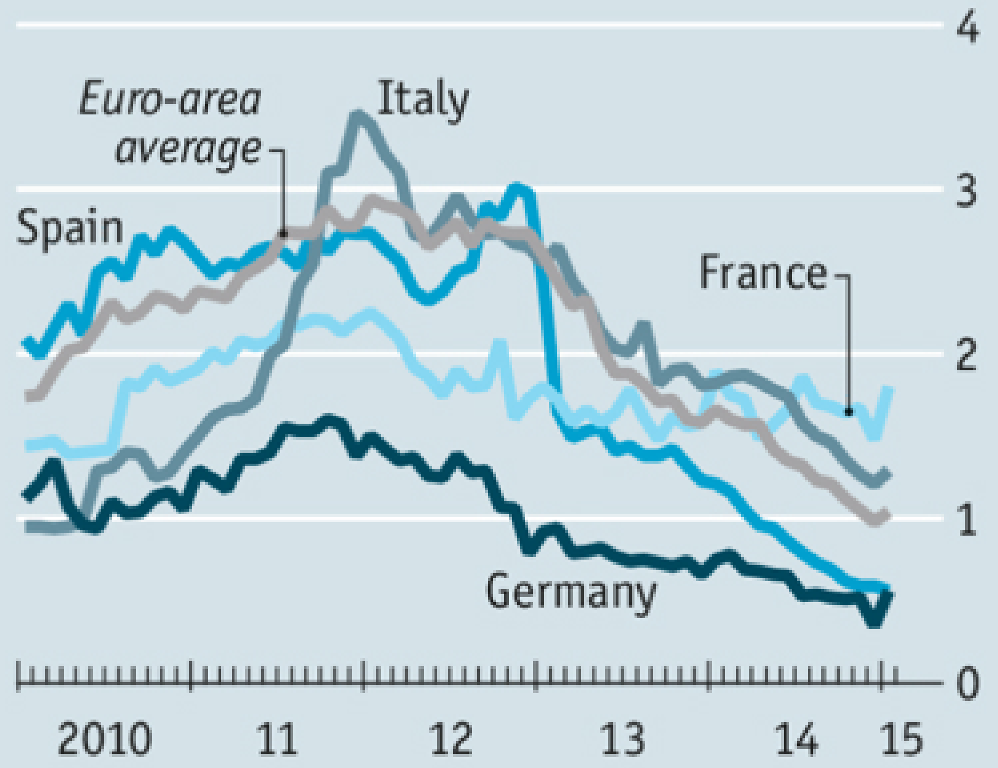
In theory, too, depositors should have no qualms about putting money in any country in the European Union. After all, all European governments guarantee deposits of up to €100,000 ($106,000). Although these guarantees depend on the solvency of the governments providing them, not even the most crisis-racked EU countries have reneged on them so far.

Moreover, investing across borders is easy. Firms such as SavingGlobal, based in Berlin, allow Germans to open as many accounts elsewhere in Europe as they like without ever visiting a branch, much less learning Portuguese.

Unaccountable

Average interest rate for new deposits

Personal accounts, maturities of up to one year, %



Source: ECB

There is no bureaucracy beyond having to identify themselves at a post office; accounts can be managed online. It even offers euro accounts in EU countries outside the euro zone, to do away with the risk of big currency movements. The differences in returns are large: in Italy, the company's best-yielding one-year account offers 1.6%; in Portugal, it is 2%.

This should appeal to Germans, who have stashed about €2 trillion, some 55% of GDP, in ordinary bank savings and term deposits (most steer clear of investing in houses and shares). Yet SavingGlobal, the biggest such firm, has just 17,000 customers. And even they are more inclined to put money in Italy, at a relatively low rate, than in Poland, where both banks and the government have a higher credit rating. In supposedly rational Germany, in other words, emotion seems to play a bigger part in decision-making than logic. ■