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Rates, not roses

The long goodbye to zeronomics and its implications for the private and public sector in the Eurozone

Executive Summary



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- **2022 marked the end of the era of negative interest rates. But the turnaround has not yet reached all parts of the economy.** While interest rates for new deposits and loans to households followed the lead of central banks – though at a great distance – the overall impact on outstanding amounts is hardly detectable: In the Eurozone, interest rates on deposits increased by 4bps in 2022 over 2021, but continued to decline on loans, albeit by a meagre 3bps.
- **Although the impact on the economic sectors is still muted, given different maturities, changes can already be detected. The government sector, borrowing predominantly on markets, is already starting to feel the pinch: Net interest payments jumped +19.8% to reach EUR207bn in 2022, the highest level since 2017.** This is the result of the combination of slightly rising interest rates on liabilities (+20bps) and an even bigger public debt mountain (+4.7%). However, from 2008 to 2022, the government sector in the Eurozone remained one of the winners of the negative interest rate policy: Annual changes in net interest payments cumulate to total savings of EUR405bn.
- **The corporate sector was the other big winner, but also had to cope with a rising interest bill in 2022: The plus of EUR11.6bn (+9.4%) brought net interest payments back to the pre-pandemic level.** However, since 2008, its annual interest bill at the Eurozone level nearly halved to an estimated EUR136bn in 2022. Cumulated annual changes amount to a whopping EUR1,424bn.
- **Private households in the Eurozone find themselves on the losing side of negative interest rates but the situation remained more or less unchanged in 2022.** Over the years of negative interest rates, households' net interest income plunged ever deeper into the red (-EUR 111bn in 2022), despite the facts that their asset overhang increased massively – debt restraint met strong savings – and that the interest rate differential narrowed in their favor. Cumulated changes amount to -EUR537bn. This happens when yields on your asset holdings drop close to zero (0.5% in 2022).

- **The other big loser is financial companies, mainly banks. However, the turnaround already arrived: Net interest income rose by +7.8% or EUR33bn in 2022.** The reason for this is the slight improvement in margins (+2bp) – which can move the needle, given the sheer size of the sector’s balance sheet. Since 2008, however, its net interest income declined by EUR114bn to an estimated EUR460bn in 2022; cumulated changes amount to a whopping -EUR1,281bn. The main culprit was the shrinking margin as the interest rate differential narrowed to the sector’s detriment.
- **Adding up all sectors by country leads to some surprising results. The biggest one: Germany has benefited from the era of negative interest rates to the tune of 6.6% of GDP.** The main reason for this is the massive savings of the government sector. So be careful what you wish for. Like the preceding era, the following years of normalization in which the interest rate turnaround will increasingly be felt by all economic actors may produce some unexpected winners and losers, too. The marathon to adjust to higher rates has just begun.



Scan the QR code and access the app to look at the relevant data for any of the 9 countries analyzed in this report.



Photo by Ricky Kharawala on Unsplash

You ain't seen nothing yet (almost)

It actually happened: In July last year, the European Central Bank (ECB) raised interest rates for the first time in more than a decade. Galloping inflation forced the monetary guardians to end their ultra-loose monetary policy and return the focus to their actual mandate – monetary stability. For the first time after eight years of zero or even negative interest rates, the key interest rates in the Eurozone have turned positive. This has a direct impact on economic actors: On the one hand, savers are starting to receive rising interest income on their assets again; on the other hand, financing is becoming more expensive for borrowers.

Before looking at the changes in net interest income, our preferred gauge for assessing the impact of the negative interest rate policy (NIRP) on the different sectors (see box), one question needs to be answered first: Has the interest rate turnaround really reached the economy yet? Looking at households, the answer is yes and no. The weighted average interest rate on new loans¹ has already climbed in some countries: The increase in the course of 2022 (January to November) ranges from a mere 24bps in France to 97bps in Germany; the average in the Eurozone amounts to 58bps. Though noticeable, this increase trails

¹ Lending for house purchase and other lending. The calculation is based on the bank interest rate statistics published by the ECB.

the change in policy rates, which surged by +250bps in 2022. The picture is very similar when looking at new deposits². Here, the range of increases reaches from a mere 5bps in Portugal to 106bps in Finland (see Figure 1).

On the other hand, in the outstanding loan business³, rising policy rates have not yet had an impact. In fact, on average in the Eurozone, interest rates have even fallen further in the past year – albeit only minimally by

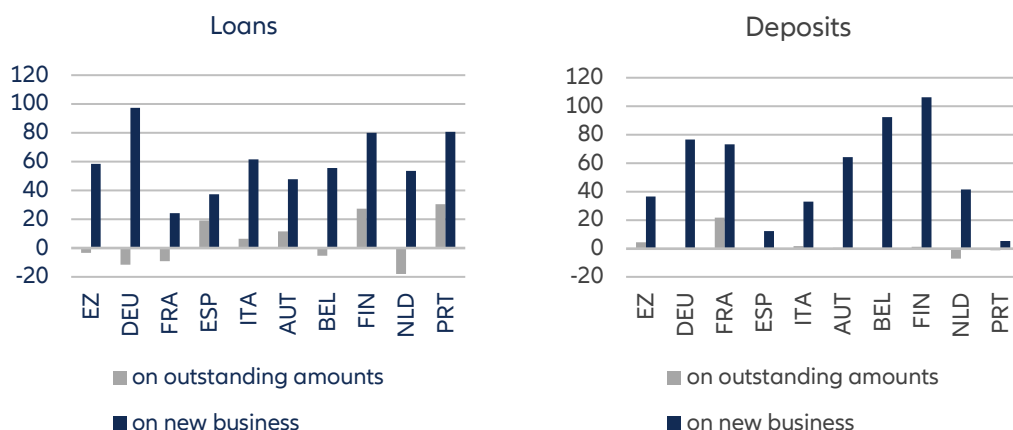
3bps – thanks to predominantly long-term fixed interest rates. Only in two countries, namely Finland (+27bps) and Portugal (+30bps), have average interest rates on loans already increased by more than 20bps. This is due to their relatively high share of variable-rate loans. It is the same on the deposit side⁴: The overall increase is hardly noticeable at all (+4bps in the Eurozone); only in France do we find an increase of more than 20bps (see Figure 1).

² Deposits with agreed maturity only.

³ Lending for house purchase, credit for consumption and other lending.

⁴ Deposits with agreed maturity, deposits redeemable at notice and overnight deposits.

Figure 1: Changes in interest rates for households' loans and deposits on new business and outstanding amounts, 2022* over 2021



*January to November
Sources: ECB, Allianz Research

Box: Net interest income

Net interest income is the difference between interest income (e.g. household interest income from bank deposits and bonds) and interest expenses (e.g. household interest payments on loans).⁵ We calculate the net interest income for the four sectors of the economy: the government, non-financial corporates, households and financial corporates; for the first three sectors, net interest income is normally negative – i.e. they are net interest payers.

We use interest income and payments before Financial Intermediation Services, Indirectly Measured (FISIM, see appendix) and take changing volumes into account. This is because there have been changes in volumes in recent years, in some cases drastic, as a conscious reaction to the

⁵Claims from insurance companies and pension systems are not included as we are looking at income, not wealth, effects – otherwise, we would also have to include changes in bond prices and the (positive) impact of the low interest rates on shares and investment funds, for example. True, the development of assets held with insurance companies and pension funds depends to a considerable degree on the interest rate levels. Households do not, however, generate annual interest income from these assets, meaning that any gains do not yet end up in savers' wallets. In other words: these effects of the low interest rates will only affect savers later on, particularly when they start receiving retirement income. Although these long-term effects are likely to have much more of an impact than today's income gains or losses, it is still virtually impossible to quantify them.

low-interest-rate environment.⁶

We measure the net interest income of the four sectors in the individual Eurozone countries from 2008 to 2022.⁷ More specifically, to capture the development since the start of the monetary easing cycle, we cumulate the annual changes against the year 2008 and express the sum as percentage of GDP. This way, we are able to gauge the impact of the low-yield environment in just one key number. Thus, the intent of the paper is rather simple. No contra-factual development, no second-round effects but just taking stock of what really happened in terms of measurable financial flows. This way, it is a pure assessment of the negative interest rate policy, not over-burdened by macroeconomic assumptions that could sway the results in either direction.

⁶ In its calculations, the ECB, for example, looks only at the pure price/interest effect and leaves changes in stock out of the equation; it also uses interest payments after FISIM. Consequently, results differ considerably. See ECB (2017), Economic Bulletin, Issue 5 / 2017
⁷The (non-) financial accounts statistics for the year 2022 were estimated based on available data for the second and third quarter.



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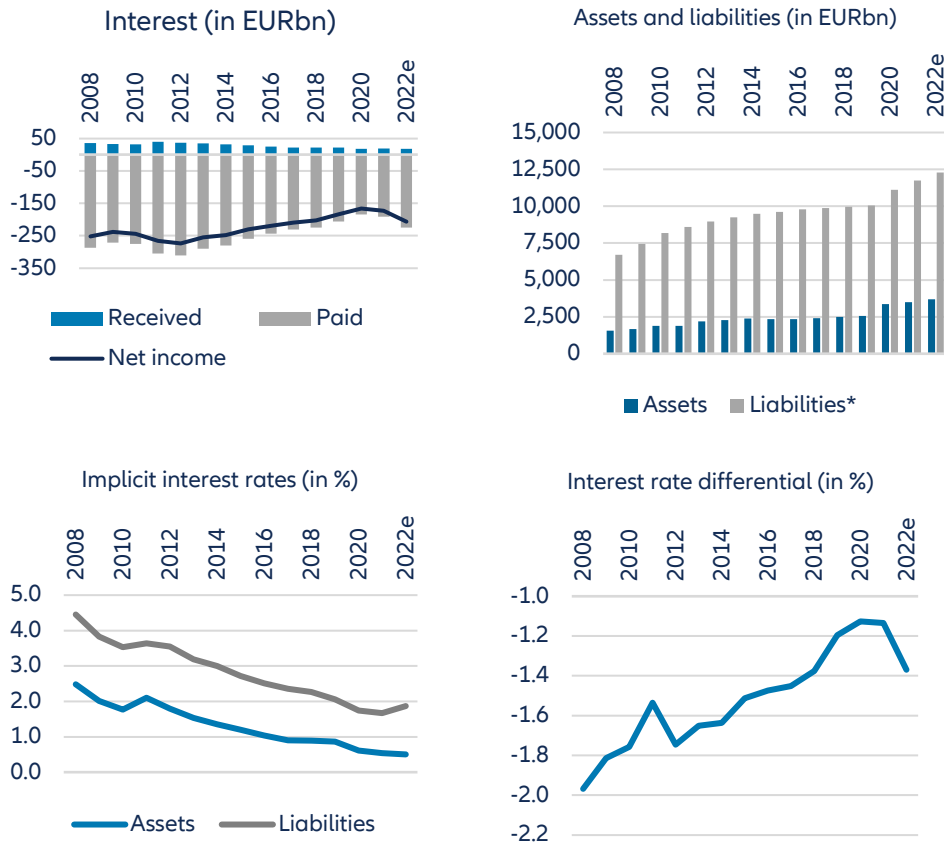
More debt for the buck: The government and corporate sectors

The government sector is one of the winners of the negative interest rate policy. Despite rising debt levels, net interest payments improved significantly: If we cumulate annual changes over 2008 to 2022, governments' total savings at the Eurozone level amount to nearly EUR405bn or 3.4% of GDP (accumulated annual shares). Given governments' balance sheets – containing only a few interest-bearing assets but on average almost four times as much in liabilities – it is no surprise that net interest income remains deeply in the red. But the improvement is nonetheless remarkable. By the end of 2020 – marked by the outbreak of the Covid-19 pandemic – net payments by governments (i.e. negative net interest income) had decreased by EUR86bn in the Eurozone compared to 2008; the turnaround since 2012, the peak of the euro crisis, is even more pronounced, amounting to EUR108bn (see Figure 2). The decisive moment for government finances was not the beginning of the monetary easing cycle during the Great Financial Crisis (GFC) in 2008 but rather the “whatever it takes” speech in 2012 by Mario Draghi, president of the ECB at the time, which ended the euro crisis and stopped the increase in interest payments of the crisis years before.

There is no doubt about the drivers behind this development. As liabilities grew by two-thirds since 2008, the net interest payments of governments would have deteriorated if falling interest rates had not prevented it. In fact, the fall in rates was tilted in favor of governments, as can be seen by the improving rate differential (difference between interest rates for perceived and paid interest): While the rate for perceived interest dropped by 187bps, the rate for paid interest fell by 271bps since 2008.

However, since Covid-19 and the energy crisis following Russia's aggressive attack on Ukraine, the picture has changed: A massive increase in debt as well as the ECB's (late) turnaround in its interest rate policy has led to a noticeable increase in net interest payments again. These are estimated to have amounted to EUR207bn last year – almost +20% more than in 2021. After the implicit interest rate for interest payments had fallen by an average of around 20bps per year since the end of 2008, it jumped by an estimated 20bps last year alone.

Figure 2: Governments: interest income and payments and their drivers, 2008-2022, Eurozone

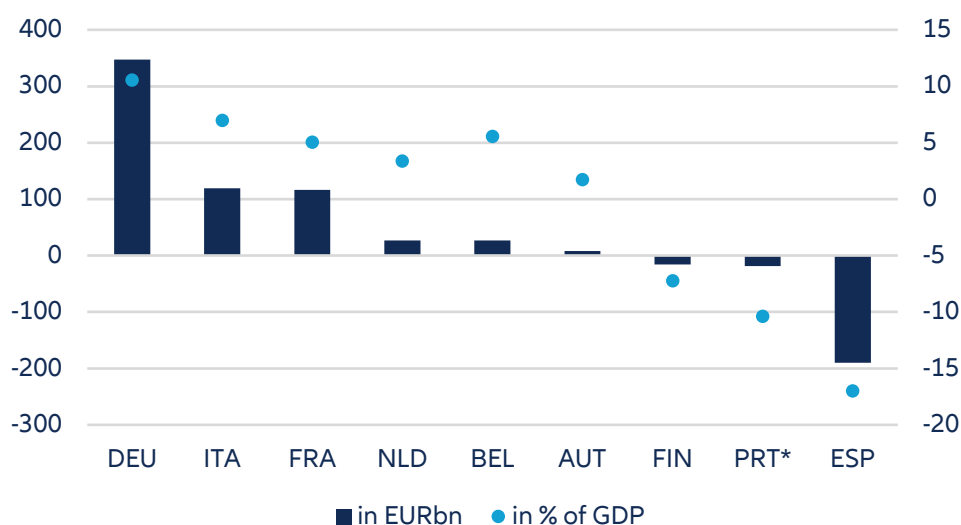


*Nominal values
Sources: Eurostat, Allianz Research

Somewhat surprisingly, not all governments were able to improve their net interest payments, despite the steep fall in interest rates since the financial crisis (see Figure 3). The reason: Debt levels were rising everywhere – and in some places quite dramatically. In Spain, for example, public debt increased more than threefold between 2008 and 2022 and nearly threefold in Finland, while it more than doubled in Portugal. These rising debt levels ate up the savings from lower interest rates.

The German state, however, sits on the other end of the spectrum. Alongside the Netherlands (+27%), Germany was the country with the lowest debt growth since 2008, clocking an increase of +52% until 2022; implicit inte-

rest rates fell by nearly four-fifths until 2021. As a result, Germany was able to improve its (negative) net interest income the most among all the countries in focus, both in absolute and relative terms. Against the stereotype of a spendthrift government, the Italian state was the third most parsimonious during this period, with public debt increasing by “only” +59%. Although the decline in interest rates was not as pronounced as in Germany – rates were almost halved – this kind of debt restraint was enough to trigger a sizeable interest-burden relief, especially since interest rates were nowhere higher in 2008 than in Italy (4.8%).

Figure 3: Governments: cumulated changes in net interest income by country, 2009-2022, in % of annual GDP (rhs) and EURbn (lhs)

*2009-2021.

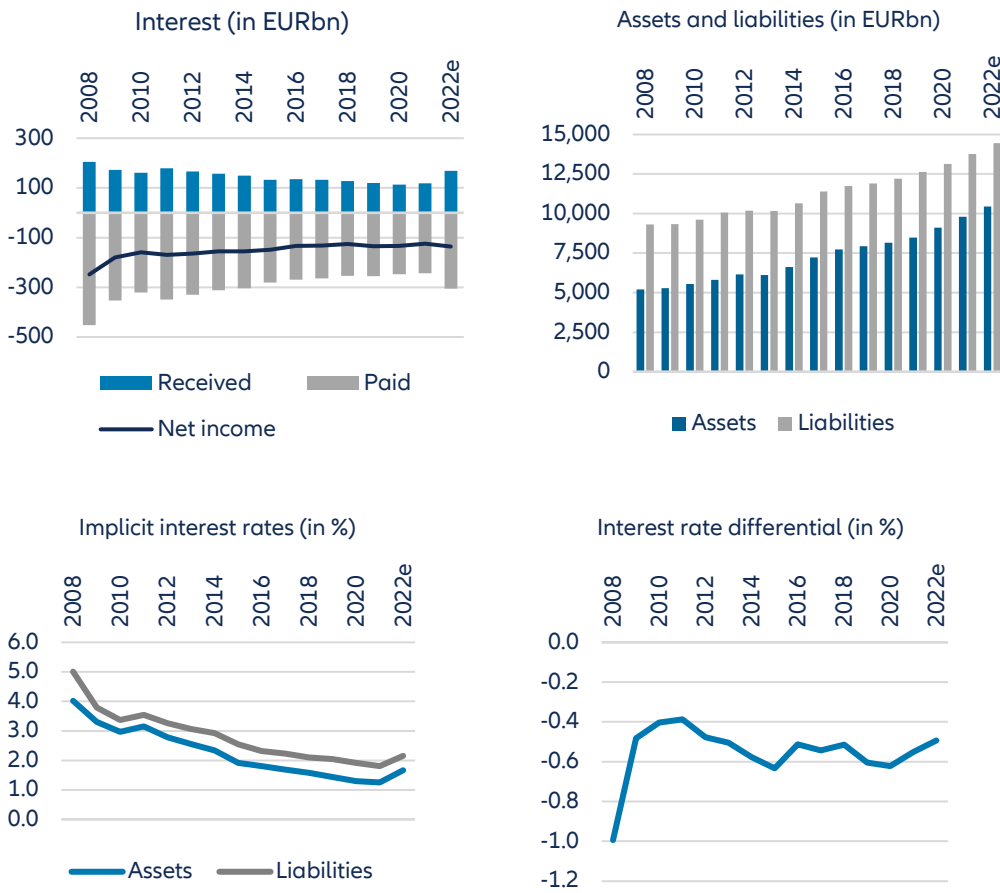
Sources: Eurostat, Allianz Research.

The other big winner of ultra-loose monetary policy was the corporate sector, reflecting its role as a net borrower. Since 2008, its annual interest bill at the Eurozone level nearly halved to an estimated EUR136bn in 2022. Cumulated annual changes amount to a whopping EUR1,424bn or 13.1% of GDP. Similar to the situation of governments, non-financial companies hold more liabilities than assets, although the liability-to-asset ratio is not as extreme: It stood at 1.4 in 2022, down from 1.8 in 2008; over that period, assets grew noticeably faster than liabilities.

As can be seen in Figure 4, the corporate sector benefited mostly in the direct aftermath of the GFC when interest rates on corporate debt plummeted by around 122bps in 2009 alone. This is a striking difference to the case of sovereign debt, where rates generally declined more gently. This reflects the fact that long fixed-interest periods are not widespread in the lending business with companies so interest rate cuts can be passed on quickly. Since then, however, interest rates on both sides of the balance sheet moved more or less in parallel, with a decline of around 160bps each.

Interest payments continued to fall in almost every year after that, albeit more slowly. There are two drivers for this development: The fall in interest rates, which was more pronounced on the liability than the asset side – 285bps vs 235bps – resulting in an improved interest rate differential, and a noticeable growth differential between assets and liabilities. While assets grew by as much as +5.1% per year since 2008, liabilities increased by “only” +3.2% p.a. In the last three years, however, both asset and debt growth accelerated significantly in a long-term comparison: The average annual growth climbed to +7.2% and +4.6%, respectively. Against the backdrop of rising debt levels and the changing interest rate environment, net interest payments are expected to have grown by +9% last year.

Figure 4: Non-financial corporations: interest income and payments and their drivers, 2008-2022, Eurozone



Sources: Eurostat, Allianz Research

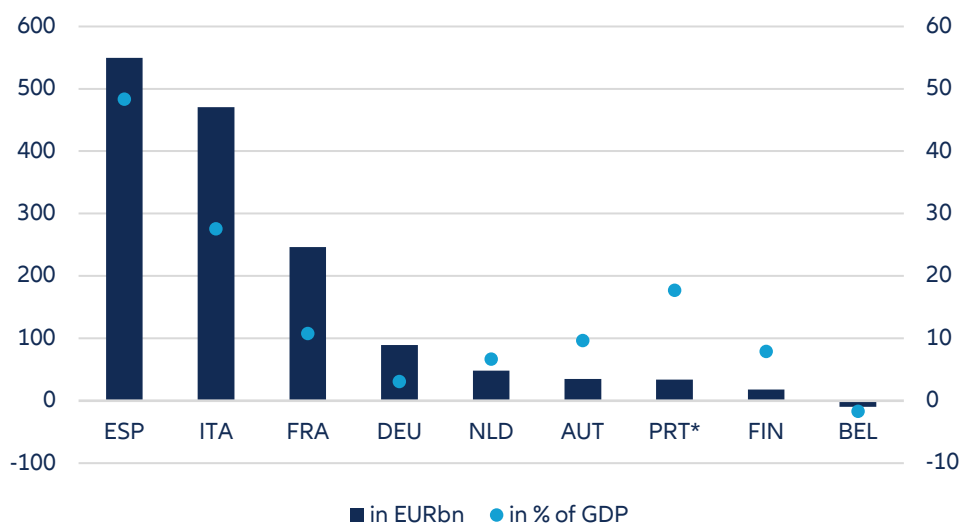
Except for Belgium, the corporate sector benefited from the low interest rate policy in all countries analyzed.

In the period from 2008 to 2022, interest rates on debt more than halved everywhere; in Spain, they dropped by 3.7pps and in Italy by a whopping 5.7pps.

However, the extent to which companies could lower their interest burdens also depended heavily on the adjustment of debt levels. Spanish companies, for example, reduced their loans by almost -13% until 2022; in Italy, debt growth amounted to only +6% since 2008. As a result,

companies from these two countries saw by far the biggest improvements in their net interest payments (see Figure 5), both in absolute and relative terms. On the other hand, gains from lower interest rates were almost completely eaten up from rising debt levels at Belgian companies. In contrast to the Eurozone as a whole, the Belgium corporate sector increased its liability-to-asset ratio from 1.1 in 2008 to almost 1.4 in 2018 and 2019. Since then, it shrunk again to around 1.2 in 2022.

Figure 5: Non-financial corporations: cumulated changes in net interest income by country, 2009-2022, in % of annual GDP (rhs) and EURbn (lhs)



*2009-2021.
Sources: Eurostat, Allianz Research.



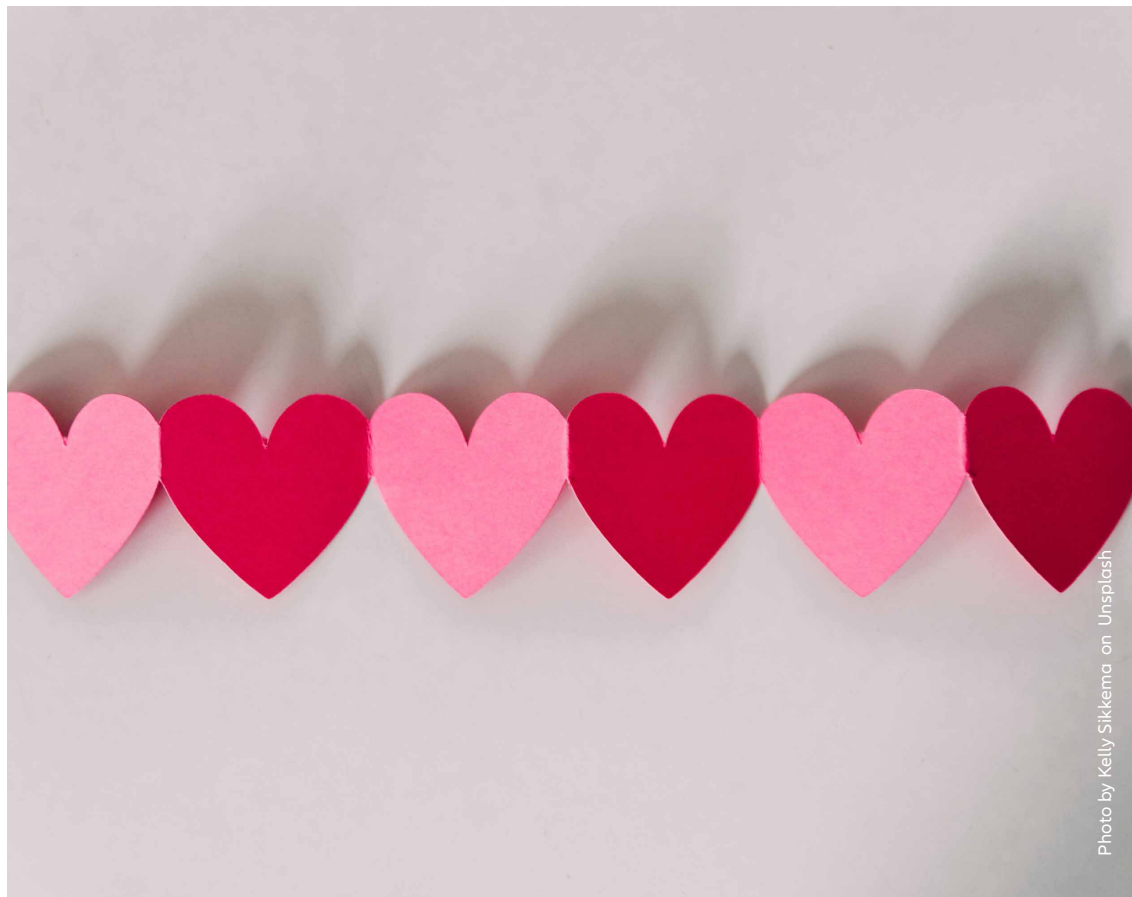


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Catching a falling knife: the household sector

Not surprisingly, private households⁸ in the Eurozone find themselves on the losing side of negative interest rates. They are an asset-rich sector but yields on their holdings have dropped close to zero (0.5% in 2022) while they still have to cope with an interest rate on their liabilities more than four times as high (2.1%). As a result, households' net interest payments plunged by EUR47bn (2022 over 2008) and cumulated changes amount to -EUR537bn or -4.9% of GDP.

On average, private households hold around one-third more assets than liabilities. Nonetheless, they used to have a negative net interest income as interest rates on liabilities are usually much higher than those on assets. Since 2008, the asset overhang has increased as assets grew at +2.6% on average p.a., slightly faster than liabilities (+2.0% p.a.). Piling into assets while yields are

falling like a stone can be seen as an attempt to stabilize interest income by countering plunging rates by bigger volumes. But this was a race households were doomed to lose. To stabilize interest income at the 2008 level with current interest rates, they would need five times as many assets as they own today; over the last 14 years, they would have had to increase their assets by +15% per year: hardly possible. Thus, in reality, interest income fell by -80% since 2008 to a mere EUR49bn in 2022. Thanks to falling interest rates, interest payments, too, declined since 2008 but "only" by -48% to EUR160bn. As a result, net interest payments sank deeper into the red (see Figure 6).

Until 2016, there is no clear trend detectable in the interest rate differential. During the years in the build-up to the euro crisis, some (stressed) banks tried to attract funds with higher deposit rates. However, rates on loans continued to slide. The result was an improving rate differential. With the easing of the euro crisis, this

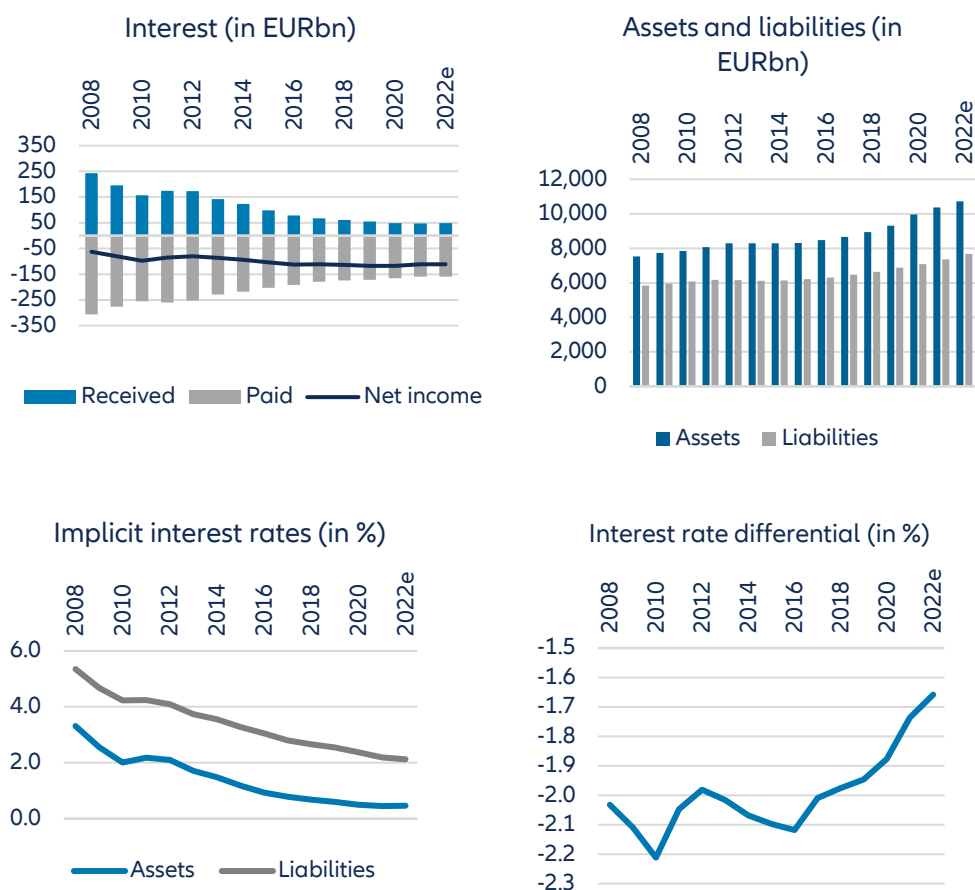
⁸ Including non-profit institutions serving households (NPISHs).

development was reversed. Only since 2016 do we find a clear and continuous improvement: interest rates on assets had not much room left to fall, while interest rates on liabilities continued to decline as old mortgage loans with high rates were increasingly replaced by new ones with lower rates.

During the height of the pandemic, households were forced to cut back on their consumption and thus significantly increased their savings. As a result, net interest payments started to improve. Since the end of

2019, the interest-bearing assets of households rose by an average of just under +5% per year, while the increase in liabilities was “only” +3.7% on average. Despite rising asset values household interest income continued to fall in absolute terms. But at an average of -3.8% per year, the decline was slightly less pronounced than that in interest payments. Even the significant rise in interest rates on new loans last year has not yet stopped the improvement in net interest payments as almost 85% of total household debt in the Eurozone consists of long-term mortgage loans.

Figure 6: Private households and NPISHs: interest income and payments and their drivers, 2008-2022, Eurozone



Sources: Eurostat, Allianz Research

The situation of private households in the individual countries is very heterogeneous (see Figure 7). In no other grouping is the influence of behavioral change likely to play a greater role. A case in point is the marked deterioration in the net interest income of Italian households: The main trigger was the accelerated reduction of the large bond portfolio. Between 2008 and 2021, savers sold debt securities worth a net EUR617bn; the share of this asset class in total financial assets shrunk by nearly 17pps to only 4.3%. As a result, interest-bearing assets decreased by around -8%; in fact, Italian households were the only ones in the Eurozone that owned less assets at the end of 2021 than in 2008. However, the changing interest rate environment seems to have stopped this trend: As reported by the Bank of Italy, on balance, households bought debt securities again in the first three quarters of last year. The slump in interest-bearing assets combined with the strong decline in interest rates (-80%) led to a decrease in interest income by -81% since the financial crisis. Although paid interest also dropped significantly by -55%, net interest income even fell into negative territory in 2022 for the fourth year in a row – from around EUR37bn in 2008 to -EUR3.6bn. However, thanks to their above-average asset-to-liability ratio (2022: 2.1 compared to 1.4 on average in the Eurozone), Italian households still have the “best” i.e., least negative, net interest income in the Eurozone: In per capita terms, their net interest payments of -EUR60 last year was far better than the Eurozone average (-EUR330). In the Netherlands, the minus even amounted to EUR1,290 per capita. The Italian state may be over-indebted, but Italian households are clearly not.

Households in Austria, Belgium and Germany, too, find themselves on the losing side. Blame this on a preference for liquid investments and long fixed-interest periods for mortgage loans, which delayed the pass-through of lower interest rates. Adding insult to injury, interest rates on deposits and bonds declined faster than those on loans, particularly in Belgium, where received interest rates were slashed by -85% and paid ones by “only” -47%.

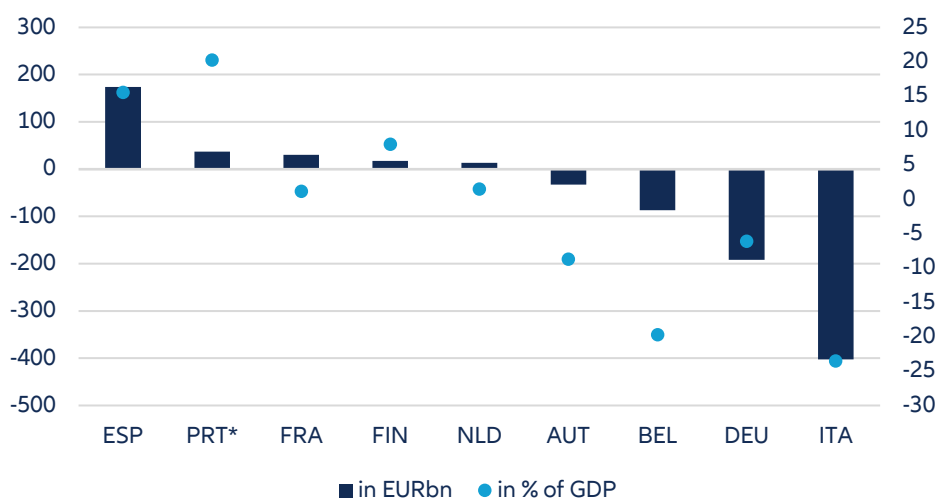
The big winners are Spanish and Portuguese households. Besides positive price effects, the changes in volume have contributed to the substantial interest rate gains of households in Spain: The marked increase in deposits (+46%, 2022 over 2008) – which counted for 39% of total savings in 2022 – put a damper on the drop in interest income, while the reduction in loans (-20%) accelerated the drop in interest expenses. As a result, Spanish savers turned a debt overhang (asset-to-liability ratio of 0.8 in 2008) into an asset-overhang in just five years (1.1 in 2013) and ended up with an asset-to-liability ratio of 1.5 in 2022. The developments in Portugal followed a similar trajectory: rising assets held in deposits (+60%; 44% of total savings) and declining liabilities (-8%) more than halved the negative net interest result. The asset-to-liability ratio jumped from 1.1 in 2008 to 1.7 last year.

French, Finnish and Dutch households also benefited from the negative interest rate environment – albeit to a much lesser extent. The latter two are the most indebted in the Eurozone: Over the period under consideration, household debt was on average 80% higher than assets in the Netherlands and 43% higher in Finland.

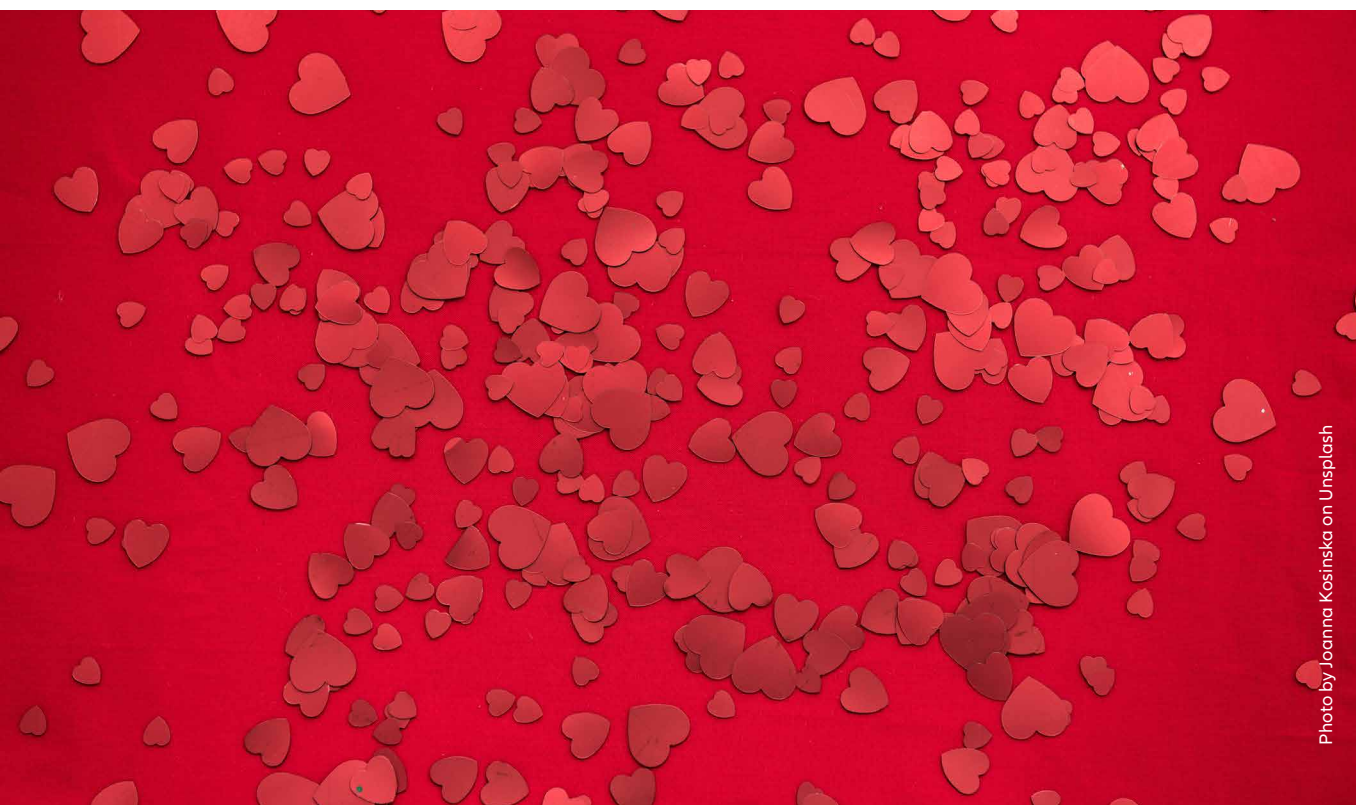
This should be a “good” position to benefit from falling interest rates, which do good to borrowers but harm to savers. However, net interest payments in the Netherlands did not change dramatically because interest income and expenses fell more or less in sync with each other. This is due to a relatively parallel development in volumes (rising in each case) and interest rates (falling in each case). The Finnish story is slightly different. Besides their big debt-overhang, Finnish households also recorded the steepest fall in interest rates on loans within the Eurozone.

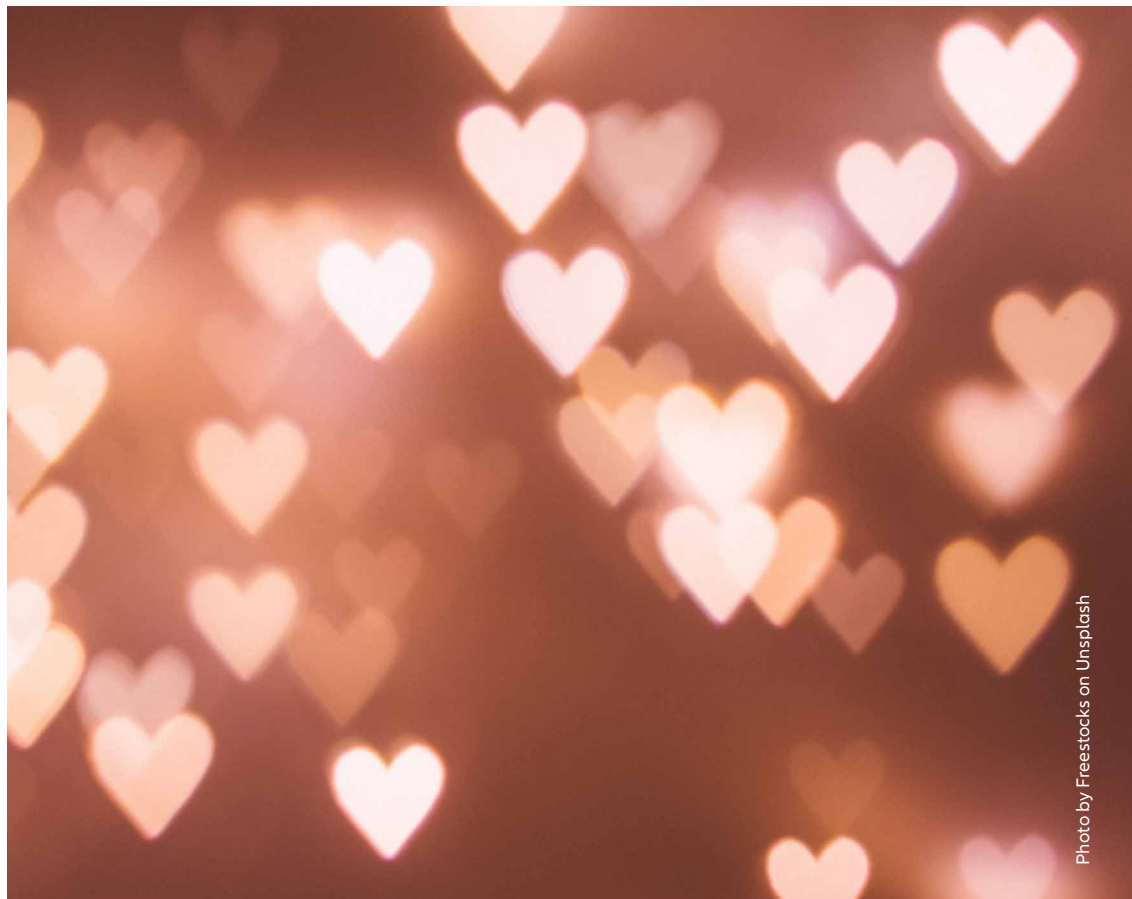
In France, households (still) have a modest asset-overhang: here, too, assets and liabilities have been developing largely in sync with each other in the long-term, as in the Netherlands. As a result, net interest payments have only changed moderately.

Figure 7: Private households and NPISHs: cumulated changes in net interest income by country, 2009-2022, in % of annual GDP (rhs) and EURbn (lhs)



*2009-2021.
Sources: Eurostat, Allianz Research





Shrinking margins: the financial sector

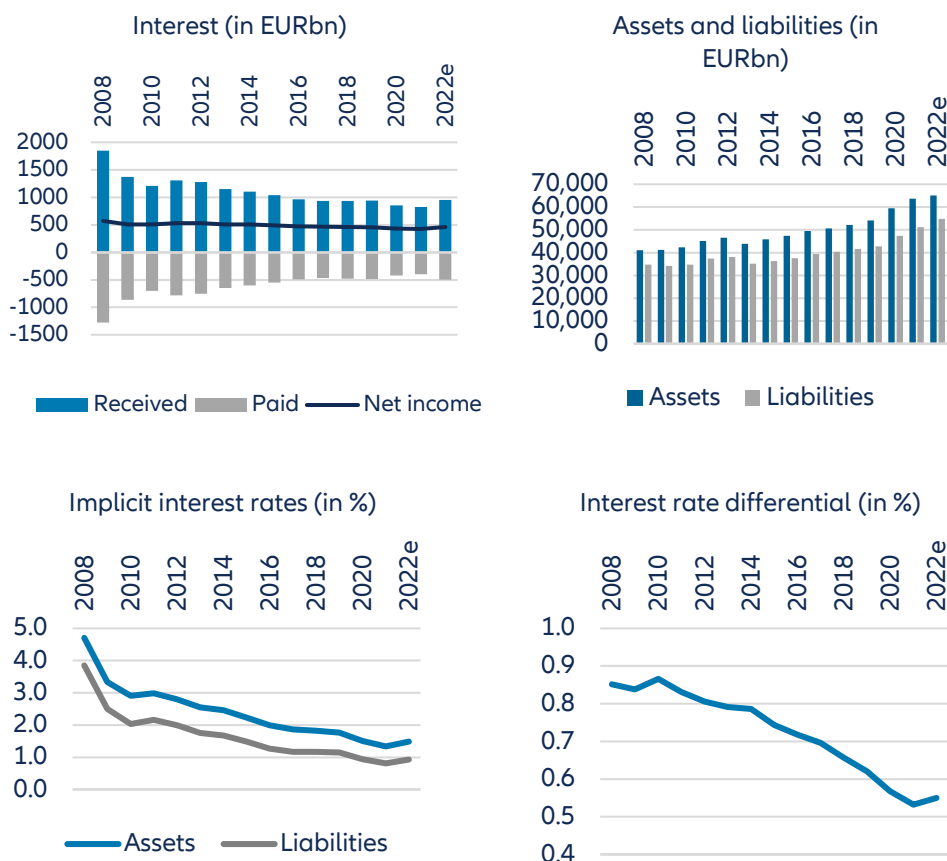
Financial companies, mainly banks, are the only sector with a positive net interest income as they boast both an asset overhang and a positive interest rate differential. However, the deterioration of the latter caused net interest income to decline by EUR114bn to an estimated EUR460bn in 2022. Cumulated changes amount to a whopping -EUR1,281bn or -11.6% of GDP.

Over the period under consideration, financial companies' assets grew in sync with liabilities (+3.3% each on average p.a.). This in itself should have led to at least stable net interest income. At the same time, however, the interest rate differential fell significantly as rates on received interest dropped by 322bps while rates on paid interest by "only" 292bps. The former might be attributable to the fact that banks piled into low-yielding assets such as sovereign bonds in recent years; the latter reflect the fact that banks usually enjoy the lowest rates of all sectors on their liabilities – the chunk of them being bank deposits – limiting the extent

to which they can fall. Although both received and paid interest declined as a result, the gap between them – the net interest income – became narrower in absolute terms (see Figure 8). This development clearly marks banks as one of the losers from the negative interest policy. This conclusion, however, has to be taken with a pinch of salt. Banks were the big winners of the boom that led to the GFC; with EUR574bn, the net interest income of Eurozone banks reached an all-time high in 2008. The decline thereafter can partially be seen as a sort of normalization as the conditions at that time were unsustainable in any case.

However, since last year, the picture has started to change again: As interest rates on the asset side increased faster than on the liability side – albeit only marginally (+14bps vs +12bps) – the downwards trend of the differential could be stopped. As a result, net interest income jumped by almost +8% to an estimated EUR460bn, reaching the 2018 level again.

Figure 8: Financial corporations: interest income and payments and their drivers, 2008-2022, Eurozone

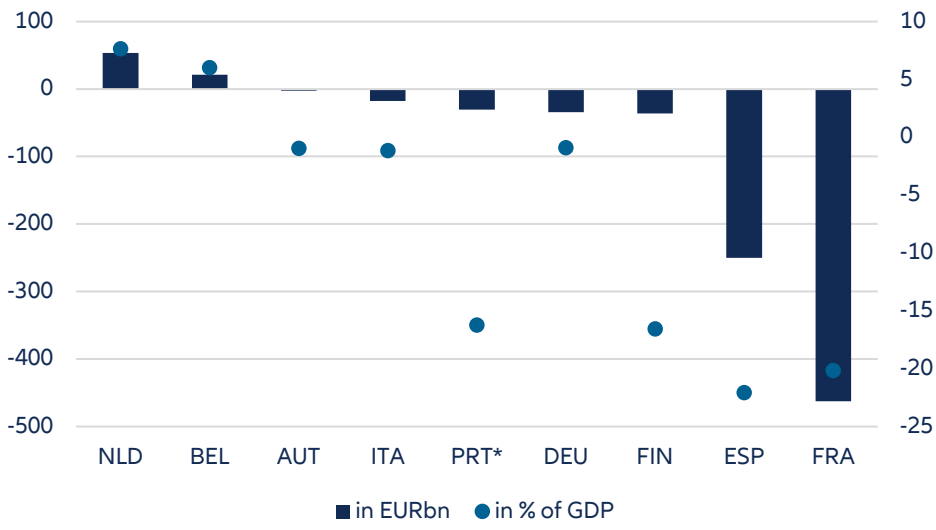


Sources: Eurostat, Allianz Research

Spanish banks, in particular, were hard hit as loan volumes even contracted for several years (see Figure 9, following page). Banks in France found themselves on the losing side as well, for two reasons: Firstly, liabilities outgrew assets slightly (+4.8% vs 4.4% on average p.a.) and secondly, rates on received interest dropped faster (-330bps) than rates on paid interest (-273bps). Italian banks, on the other hand, were able to cushion the blow from the corporate business as their domestic government bonds yielded still decent returns for most of the decade.

Only Dutch and Belgian banks were able to improve their net interest incomes. Among all countries analyzed, the Netherlands was the only one where banks significantly increased their asset-to-liability ratio (from 1.1 in 2008 to 1.3 last year). Furthermore, they managed to keep their margins relatively stable. Belgian banks, on the other hand, recorded one of the steepest falls in interest rates on liabilities (-3.6pps, 2022 over 2008) over the time span in focus.

Figure 9: Financial corporations: cumulated changes in net interest income by country, 2009-2022, in % of annual GDP (rhs) and EURbn (lhs)



Sources: Eurostat, Allianz Research



Photo by Laura Ockel on Unsplash

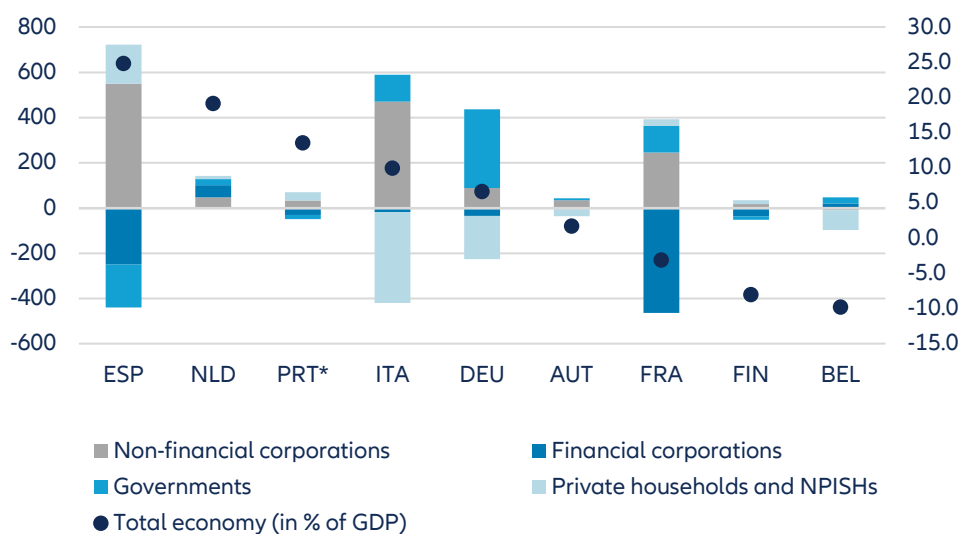
Not only the usual suspects

In view of these very different effects, it is hardly surprising that the overall benefit of low interest rates within the Eurozone is neither equally distributed nor follows the North-South divide (see Figure 10).

Spain and Portugal are not alone among the major beneficiaries; this list also includes the Netherlands (+19.4% of GDP). In the latter case, this is mainly due to the banks that succeeded – contrary to the general trend – in expanding their lending businesses. This list of “winners” is completed by Italy – where non-financial companies were the main drivers, more

than compensating for the losses of households – and Germany. Although the criticism of low interest rates was loudest in Germany, all in all the country has benefited, too, thanks mainly to the interest savings of the state. On the other hand, France (-3.1% of GDP), Finland (-8.0% of GDP), and Belgium (-9.8% of GDP) are surprisingly on the losing side. While in France and Finland it was mainly the weak development of banks’ net interest income that is to blame, in Belgium it was the deterioration in net interest payments of private households.

Figure 10: Total economy: cumulated changes in net interest income by country and sectors, 2009-2022, in % of annual GDP (rhs) and EURbn (lhs)



*2009-2021.

Sources: Eurostat, Allianz Research

APPENDIX - What is FISIM?

The national accounts refer to two forms of interest income and expenses: before and after “FISIM”, which stands for “Financial Intermediation Services, Indirectly Measured”. This is calculated by adding/deducting the indirect fees charged by banks as part of their lending and deposit businesses, calculated using models, to/from the interest payments actually made.

In other words, the national accounts assume that interest payments consist of two components: the “pure” interest and the price for the banking service (e.g. loan processing, deposit management etc.). This is why, for example, the interest income of private households is much higher after FISIM – after all, this income also settles any service fees relating to account management that the banks, however, conveniently withhold right away (which is why they are referred to as indirect fees). Interest expenses, on the other hand, are much lower, because part of the interest payments “actually” refer to the service fees for loan processing (which, however, are not directly reported by the banks).

The differences between the interest measurement before and after FISIM are by no means trivial as, for example, a glance at the German national accounts for 2021 reveals: According to these statistics, private households were faced with interest expenses of EUR46.4bn and earned interest income of EUR9.3bn in that year. In contrast, the figures after taking indirect bank fees into account are interest expense of EUR15.1bn and interest income of EUR23.6bn. This means that FISIM turns net interest income that is well in the red (-EUR37.0bn) into a sizeable surplus (+EUR8.5bn). This shows that the method used to calculate interest has a considerable impact on the result.

For the purposes of our analysis, to assess the impact of low interest rates on household finances, we do not believe that it makes much sense to look at interest income and expenses after the allocation of financial intermediation services indirectly measured. While this sort of breakdown might be consistent with the logic behind the national accounts, in the sense that it facilitates an estimate of the contribution to added value made by the banking sector, it does not reflect the reality of life for savers in any way. After all, savers do not live in a theoretical world; they are not interested in what could have been credited to their account at the end of the year if the indirect banking services had been taken into account. Rather, they are only interested in the funds that actually end up in their account. The same applies to their interest expenses, which no saver is likely to break down into pure interest payments and fees (after all, what formula would he or she use?). What is relevant is the amount that has to be paid to the bank every month.



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