Christa Hainz, Artem Marjenko and Susanne Wildgruber

How the ECB's Low-Interest Policy Impacts Firms: Results of the ifo Business Survey on the Effects of Negative Interest Rates for Bank Deposits

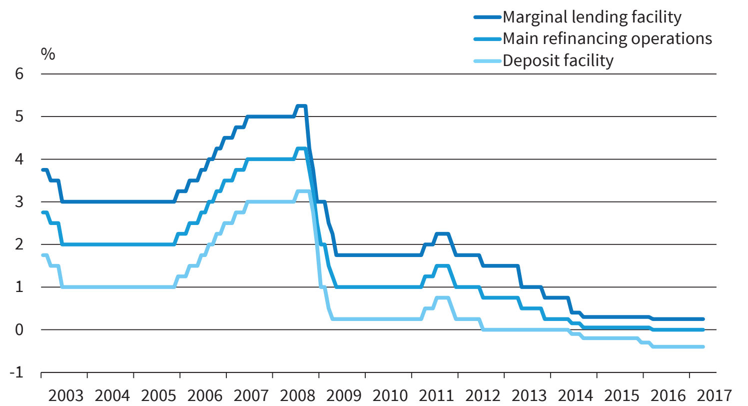
Christa Hainz
ifo Institute

Artem Marjenko
ifo Institute

Susanne Wildgruber
University of Munich

It is now almost ten years since the financial crisis started. As part of the response to the crisis, the ECB loosened its monetary policy and introduced several exceptional measures. The interest rate on the deposit facility was lowered to a negative level for the first time in June 2014 (see Figure 1). The background to this extraordinary monetary measure was the persistently low inflation in the Eurozone and the stagnation of lending by banks to companies. The introduction of negative interest rates imposed costs on banks depositing excess cash with central banks. This measure, combined with the lower interest income being generated from lending, has impacted the profitability of banks.

Figure 1
Interest Rates of the European Central Bank



Source: Deutsche Bundesbank. © ifo Institute

Some banks are passing the cost of the negative interest rates incurred on deposits with the ECB onto business customers. This is shown by the development of the effective interest rate on deposits at banks by non-financial corporations in Germany. Figure 2 shows that the effective interest rate for deposits with an agreed maturity of less than one year fell below zero last year for the first time. Currently (as of May 2017) this interest rate lies at – 0.05 percent. This figure also shows the development of the effective interest rate for overnight deposits, which is currently negative at – 0.01 percent. Rates for fixed-term deposits are also at historically low levels, with an effective interest rate of currently 0.3 percent.

SPECIAL QUESTION ON NEGATIVE INTEREST RATES IN THE IFO BUSINESS SURVEY

In June 2017, as part the ifo Business Survey, firms were asked whether they were confronted with negative interest rates on their bank deposits and, if so, which measures they were taking in response (see Box 1). The special question was part of the online version of the ifo Business Survey and approximately 4,000 companies in manufacturing, construction, distribution and other services sectors responded.

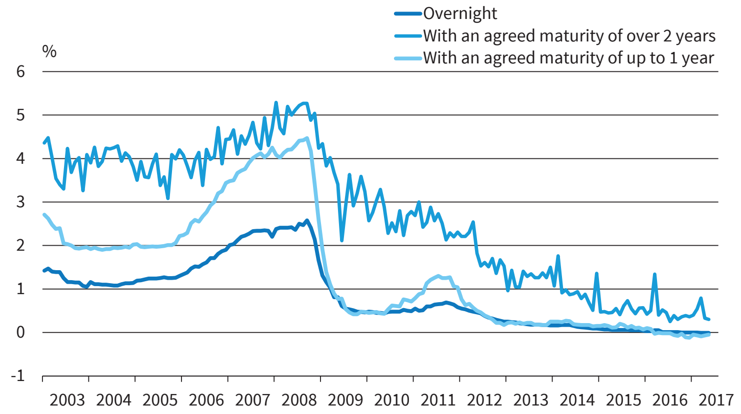
Almost one in five of the companies (18.9 percent) had been confronted with negative interest rates by at least one of their banks. The survey did not contain a question on the size of the negative interest rate. A figure often quoted in the media is – 0.4 percent. Assuming a fifth of all companies are paying negative interest rates on their bank deposits and the other companies are not receiving interest on their bank deposits, then an average interest rate on new deposits by companies of – 0.05 percent (as published by the Bundesbank) would mean that the negative interest rate for new deposits would average – 0.25 percent.

The most frequent response by firms confronted with negative interest rates was to negotiate with their bank. Almost half of the affected companies (48 percent) responded in this manner. A total of 36 percent of affected firms responded by switching to other banks that do not (yet) charge negative interest rates. Partially switching deposits to other banks also enabled companies to avoid paying negative interest rates by lowering the amount of deposits at one bank below the threshold that incurs negative interest rates. 30 percent and 29 percent of firms, respectively, switched funds to other financial assets and repaid loans or moved funds within the corporation. 11 percent of firms also reported investing more and/or earlier. This implies that policies

Figure 2

Effective Interest Rates on Non-financial Corporations Deposits

New business over time



Source: Deutsche Bundesbank. © ifo Institute

that negotiated with a bank also switched banks, suggesting that in these cases negotiations did not yield a mutually acceptable compromise.

DIFFERENCES BETWEEN GERMAN FEDERAL STATES AND FIRM SIZES

On average, almost 19 percent of survey participants were confronted with negative interest rates by their banks. Figure 4 shows the share of impacted companies categorised by the German federal states in which they are located. In Hamburg, North Rhine-Westphalia, Bavaria, Mecklenburg-West Pomerania, Saxony and Thuringia, the number of affected companies lies above the average share. In Saxony, for example, almost 30 percent of the surveyed firms reported being affected by negative interest rates.

Furthermore, the impact of negative interest rates varied by company size. Of the firms surveyed, only 10 percent of small companies (with less than 50 employees) had been confronted with negative interest

do are not merely have monetary implications but are also impacting the real economy. Eight percent of firms accepted negative interest rate charges. Very few companies reported increasing cash holdings (4 percent), while 7 percent of firms answered that they resorted to other measures beyond those given as answer options in the survey (Figure 3).

Most companies have undertaken multiple measures to address the situation. Almost a third of firms

Box 1

Special Survey Questions on Negative Interest Rates

a) Has your firm been confronted with negative interest rates on deposits by at least one of your banks?

Yes
No (continue with d.)

If so:

b) What measures have you undertaken to avoid paying negative interest rates?
(Multiple choices possible)

- ☐ No action – accepted negative interest
- ☐ Negotiated with the bank
- ☐ Changed to another bank that does not (yet) charge negative interest
- ☐ Increased cash holdings
- ☐ Switched to other financial assets and/or paid back loans
- ☐ Moved funds within the divisions of the firm
- ☐ Increased investments or moved them up in time
- ☐ Other, please specify: ....

c) All in all, negative interest rates affect our earning position

Strongly
Less strongly
Minimal or no impact

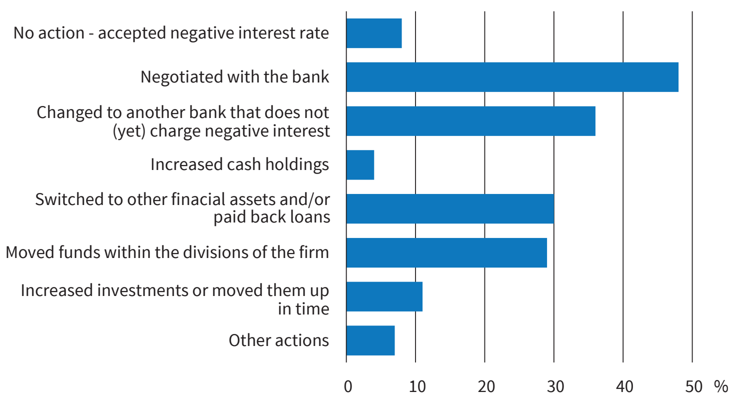
d) How many banks do you refer to as main bank(s)?

0
1
2
3
4
More than 4

Note: Question d) is used as a control variable for research purposes and does not relate to the negative interest rate issue.

Figure 3

Firms' Measures to Avoid Negative Interest Rate



Note: Multiple responses possible.
Source: ifo Business Climate Index Survey June 2017.

strong impact of negative interest rates. For 53 percent of the firms, negative interest rates had minimal or no impact (see Figure 6). Companies that were strongly affected by negative interest rates were more likely to negotiate with their bank (60 percent) and/or move funds within the company. These firms were also more likely to adjust their investment behaviour. Over 20 percent of the firms that reported being strongly affected by negative interest rates invest more and/or earlier. Only 10 percent of companies that reported minimal or no burden on their earnings position undertook similar action. However, 45 percent of these firms still conducted negotiations with their bank, which indicates that a significant number of companies are not willing to accept negative interest rates as a given, even when they experience only minimal or no impact on their earning position.

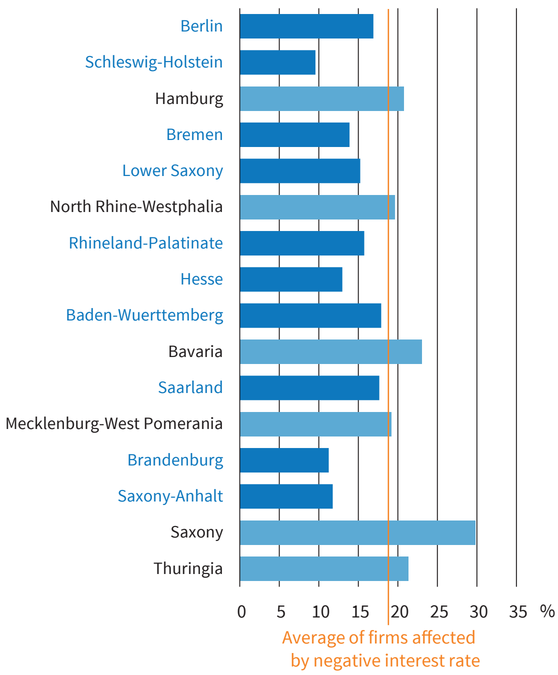
rates. For medium-sized enterprises, it was 26 percent and for large companies (with at least 250 employees) the number was 29 percent (see Figure 5). These results seem plausible as banks only impose negative interest rates on deposits that exceed a specific threshold. Larger and, apparently, medium-sized enterprises are more likely to exceed this threshold than small companies.

IMPACT ON EARNING POSITION

Eight percent of firms affected by negative interest rates reported a strong impact on their earning position. 39 percent of the firms stated that they felt a less

Figure 4

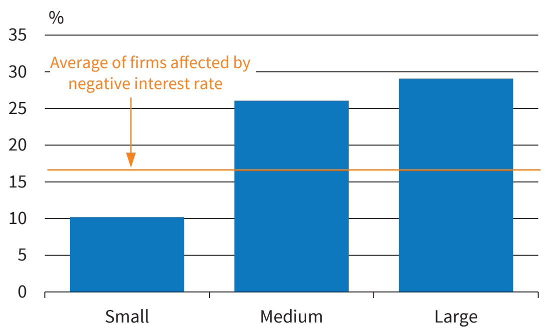
Share of Firms Impacted by Negative Interest Rate Classified into German States



Source: ifo Business Survey June 2017.

Figure 5

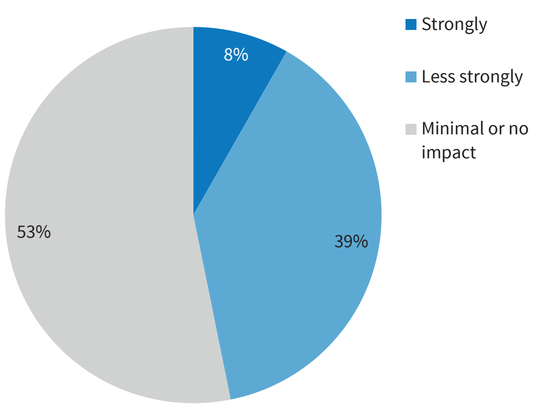
Share of Firms Affected by Negative Interest Rate by Firm Size



Source: ifo Business Survey June 2017.

Figure 6

Burden of Negative Interest Rates on Earning Postion



Source: ifo Business Survey June 2017.

CONCLUSION

Analysing the responses to the special question in the ifo Business Survey shows that one in five companies was confronted with negative interest rates on their bank deposits. If affected, most companies try to avoid negative interest rates. The most common response is to negotiate with the bank, as well as to move deposits to banks that do not (yet) charge negative interest rates. Other responses include shifting funds between financial investments or within the firm, as well as increasing investment activity. Regarding policy implications, the latter response is especially interesting since it indicates that the negative interest rate policy of the ECB does not only have monetary implications, but it also has an impact on the real economy.