Pills

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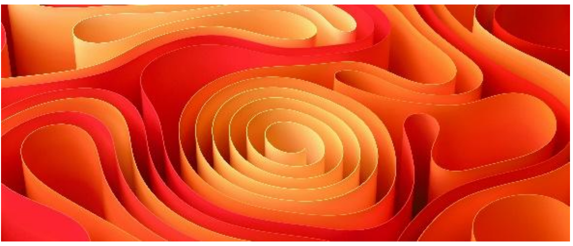

TOPICS:

IRRBB & Liquidity risk

SOURCE:

European Central Bank

ECB: Bank Deposit Pricing in the Euro Area

- This paper examines **why bank deposit rates in the euro area responded only weakly to ECB policy rate increases** between 2007 and 2024, particularly during the 2022–2024 tightening cycle. Although policy rates rose sharply, banks increased overnight (sight) deposit rates much more slowly, resulting in limited pass-through to savers.
- The authors find that this weak pass-through **is primarily driven by depositor behavior rather than bank-specific characteristics**. As interest rates increased, higher-income households and larger firms - typically more sensitive to interest rate changes - shifted funds into higher-yielding savings products. This left banks with a larger share of less rate-sensitive depositors, increasing banks' pricing power and allowing them to keep overnight deposit rates relatively low.
- The study also identifies **significant differences across depositor groups and countries**. Firms are generally more responsive to interest rates than households, while depositors in higher-income northern euro area countries are more rate-sensitive than those in southern countries. By contrast, factors such as bank size, capital ratios and market concentration explain relatively little of the observed variation in deposit pricing.
- From a **financial regulation and policy perspective**, the findings suggest that monetary policy transmission depends not only on changes in policy rates but also on the composition of depositors. The authors argue that policies promoting financial literacy and awareness of alternative savings products may strengthen competitive pressures in deposit markets more effectively than measures focused solely on banking market structure. They also note potential financial stability implications, as banks become increasingly reliant on a core group of less responsive depositors whose behaviour during periods of stress may prove less predictable.