

# DANMARKS NATIONALBANK

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BANKING AND MORTGAGE LENDING, INTERESTS, NOVEMBER 2018

## Business deposits grow despite negative interest

In October 2018 Danish sole proprietors and non-financial corporations increased their bank deposits to kr. 409 billion. This is an increase of 7 per cent compared to the year before. At the same time the share of business deposits with a negative interest increased from 43 to 55 per cent.

On average the interest rate is -0.5 per cent on the part of businesses' deposits which has a negative interest. Therefore, businesses pay around kr. 1 billion in interest. However, on average they also receive 1.1 per cent in interest on the part of their deposits with a positive interest rate and that gives them an income of around kr. 500 billion. Hence,

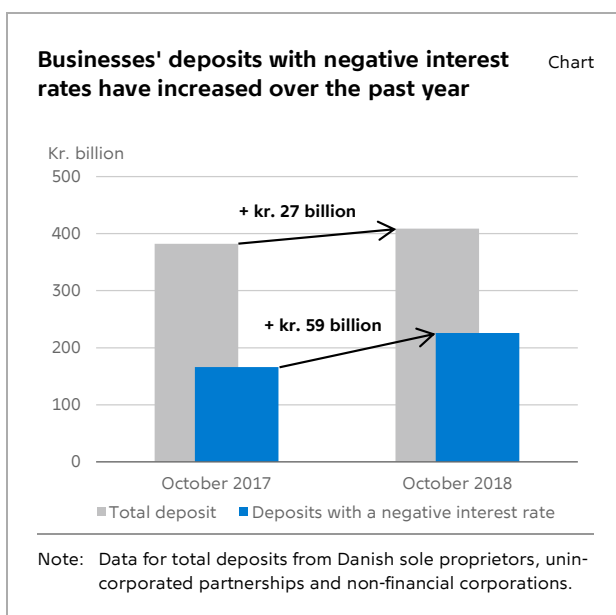
businesses have net costs at around kr. 500 billion on their deposits.

This information stems from Danmarks Nationalbank's semi-annual survey on negative interest rates which in October 2018 covered 16 of the largest banks equivalent to 95 per cent of all deposits from Danish businesses.<sup>1</sup>

The growth in deposits is due in particular to increasing economic activity and a decreasing spread between the deposit rate and the rate on bonds. Businesses hold deposits in order to make transactions. As economic activity grows and the need for transactions increase the need for deposits increase as well. As the spread between deposit and bond rates narrow the costs of e.g. holding deposits relative to bonds or servicing existing debt decrease. Hence, it is more attractive to hold liquid deposits than the less liquid alternatives.<sup>2</sup>

Businesses are not the group of bank costumers that are most affected by negative deposit rates. For example are 86 per cent of the insurance and pension sector's deposits with negative rates. Although a few banks have announced the possibility of charging negative rates on deposits from private costumers if the low interest rate environment continues, private costumers are still not being charged negative rates on their deposits.

[CLICK HERE FOR FURTHER INFORMATION](#)



<sup>1</sup> See all published figures from the survey here ([link](#)).

<sup>2</sup> Pedersen, Erik Haller and Jonas Ladegaard Hensch, Low interest rates boost bank deposits, *Danmarks Nationalbank Analysis*, no. 9, July 2018 ([link](#)).