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How the End of Negative Rates Boosted Demand for Fixed-Term Deposits in the Eurozone

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Abstract

This paper examines how the European Central Bank's (ECB) decision to end its negative interest rate policy in 2022 catalyzed a sharp increase in demand for fixed-term deposits across the Eurozone. Drawing on macroeconomic theory, behavioral finance, and empirical data from the ECB and national central banks, the study explores the mechanisms through which interest rate normalization reshaped depositor incentives and restructured the funding profiles of banks. The analysis highlights how the reintroduction of positive nominal and real deposit rates restored the traditional liquidity–yield trade-off, prompting households and firms to re-engage with term deposit products after a decade of distortionary monetary policy. The findings underscore the role of interest rate policy in influencing savings behavior, monetary transmission, and banking system stability, and offer critical insights into the long-term implications of unconventional monetary policy regimes.

Keywords: fixed-term deposits, financial stability, negative interest rates

1. Introduction

The European Central Bank's (ECB) decision to terminate its negative interest rate policy in July 2022 marked a turning point in the trajectory of monetary policy in the Eurozone. Since June 2014, the ECB had maintained a negative deposit facility rate, making it one of the first major central banks to implement such an unconventional tool in response to persistent deflationary pressures and sluggish post-crisis recovery. The rationale was clear: by penalizing banks for holding excess reserves at the central bank, policymakers aimed to incentivize lending, stimulate investment, and encourage consumer spending. However, this era of ultra-accommodative monetary policy came at a cost—particularly for savers and the structure of retail banking products.

Under negative rates, traditional deposit-taking institutions were faced with a compressed interest rate margin, limiting their ability to offer competitive returns on savings products. This was especially evident in the case of fixed-term deposits, which typically require locking funds for a period in exchange for higher returns. With policy rates below zero and yield curves flattened, banks had little incentive to attract term deposits. As a result, households and firms shifted toward holding more liquid, zero-interest-bearing overnight deposits, effectively undermining the role of time deposits as a savings instrument.

The reversion to positive nominal rates beginning in mid-2022—a response to escalating inflation across the Eurozone—swiftly reconfigured this landscape. For the first time in nearly a decade, fixed-term deposit products began offering meaningful returns. This reignited interest among retail and institutional savers, especially risk-averse segments of the population who had grown wary of financial markets during periods of heightened volatility. As the ECB continued its tightening cycle into 2023, the incentive to secure guaranteed yields over 6–12 month horizons drove a surge in fixed-term deposit volumes across several member states.

This paper explores the economic mechanisms through which negative rates affected depositor behavior, the transition dynamics following the policy reversal, and the observed uptick in demand for fixed-term deposits.

Drawing on empirical findings and policy analyses from ECB reports, national central banks, and academic studies, the discussion also addresses the broader implications for financial intermediation, bank funding structures, and monetary transmission. By situating the recent trends in a longer historical and theoretical context, this analysis sheds light on the complex interplay between interest rate policy and household saving preferences in a post-crisis monetary regime.

2. Background on Negative Rates and Depositor Behavior

The European Central Bank's (ECB) adoption of negative interest rates in 2014 marked a historic deviation from traditional monetary policy frameworks. The decision to set the deposit facility rate below zero was part of a broader arsenal of unconventional tools—including large-scale asset purchases (quantitative easing), forward guidance, and targeted long-term refinancing operations (TLTROs)—designed to fight deflation and rekindle lending in a sluggish post-crisis environment.

At its core, the move was a response to persistent undershooting of the ECB's inflation target and stagnating growth across southern Eurozone economies. Traditional rate cuts had exhausted their utility, bringing policy rates near the zero lower bound (ZLB), thus necessitating more experimental mechanisms. In theory, negative interest rates would: Penalize banks for holding excess reserves with the ECB; Encourage banks to extend more credit to households and firms; Depreciate the euro by reducing returns on euro-denominated assets, thereby boosting net exports; Lower real interest rates via reduced nominal rates in the presence of low inflation expectations. These policy objectives clashed with the structural realities of the European banking and savings culture.

2.1 Theoretical Contradictions and Real-World Frictions

Economically, the policy was consistent with New Keynesian models that incorporate liquidity traps and assume sticky prices. These models often predict that slightly negative nominal rates can support output and employment when fiscal stimulus is absent or constrained. However, the microeconomic frictions embedded in real-world financial markets—such as banking profitability constraints, depositor expectations, and regulatory capital requirements—complicate the transmission of these theoretical effects.

The practical inability of banks to fully pass on negative rates to depositors created a non-linear transmission mechanism, whereby credit supply incentives were weakened due to deteriorating bank margins. Banks earn part of their profit through maturity transformation—borrowing short and lending long—but negative short rates compress margins when long rates are also suppressed.

2.2 Erosion of Savings Incentives and Intertemporal Distortions

The decline of nominal deposit rates to near or below zero eroded the reward for saving and created intertemporal distortions in consumption-savings decisions. For households—especially in conservative savings cultures like Germany and Austria—this environment felt punitive.

Surveys conducted by the Deutsche Bundesbank during the negative rate period indicated that a majority of households were unaware of the ECB's rate policy specifics, yet experienced a loss of trust in savings products more broadly. This suggests that even without full understanding, the perceived injustice of low returns shaped household financial psychology and contributed to the declining use of fixed-term deposits (Grandi & Guille, 2021).

Low returns on bank deposits pushed savers into either riskier financial assets (e.g., mutual funds, ETFs) or physical assets such as real estate—fuelling housing booms in several Eurozone countries. This reallocation posed macroprudential concerns, as asset prices diverged from fundamentals, especially in urban housing markets.

2.3 Strategic Adaptation by Banks and Institutional Investors

Negative rates also forced banks to adapt strategically. While large commercial banks often shielded retail depositors from explicit negative rates, corporate clients and institutions were not spared. Many were charged custodial fees for holding large balances, leading to greater use of money market funds, government bonds, or alternative short-term investment vehicles.

Banks themselves turned to instruments like covered bonds and wholesale repo markets to compensate for the relative unattractiveness of deposit funding. This shift increased maturity mismatches and reduced reliance on traditional, granular, and stable retail funding, exposing the financial system to new types of liquidity risks.

2.4 Deposit Inertia and the Role of Trust

Despite negative incentives, deposit volumes remained resilient in certain countries, underscoring the behavioral phenomenon of deposit inertia. Cultural trust in banks, combined with the perceived safety of deposits under European deposit guarantee schemes, meant that many households retained significant liquid balances.

For example, in Germany and the Netherlands—where household saving rates are among the highest in Europe—bank deposit volumes actually increased during the negative rate period, despite real returns being persistently negative. This behavior, while seemingly irrational from a yield-maximization perspective, aligns with loss aversion theory in behavioral economics: the perceived risk of loss from alternative investments outweighs the dissatisfaction from earning zero (or near-zero) returns.

2.5 Macro-Level Consequences: Weaker Monetary Transmission

The muted response of bank lending volumes and the stubbornly low inflation during the negative rate regime suggest that the policy's transmission to the real economy was less effective than intended. As Koskinen (2019) concluded, the ECB's use of negative rates did support asset prices and eased financial conditions, but the bank lending channel—the primary intended vector—saw limited activation. Especially in low-growth, high-debt economies, the marginal cost of borrowing did little to stimulate investment if borrower confidence remained weak.

2.6 Setting the Stage for a Behavioral Rebound

The combination of constrained returns, compressed bank margins, and repressed depositor preferences created a latent demand for return-bearing savings instruments. The removal of negative rates in 2022 thus triggered not just a mechanical reallocation of funds, but a behavioral rebound, particularly toward fixed-term deposits that could finally offer positive, risk-free nominal returns. This built-up demand also explained the speed and magnitude of the shift in deposit compositions once the ECB's hiking cycle began, as detailed in later sections of this analysis.

3. Impact of the Rate Reversal

The European Central Bank's (ECB) decision to lift its deposit facility rate above zero in July 2022—its first hike since 2011—was not merely a technical adjustment, but a profound inflection point in Eurozone monetary policy. Coming after nearly eight years of negative interest rates and persistent monetary accommodation, this reversal marked the beginning of a new policy regime: one in which positive real interest rates returned, inflation expectations were recalibrated, and the foundational incentives underpinning household and institutional savings behavior dramatically shifted.

The macroeconomic backdrop was one of inflationary acceleration, fueled by pandemic-driven supply disruptions, the Russian invasion of Ukraine, and an ensuing energy price shock. In this environment, the ECB pivoted aggressively to restore price stability, but in doing so, it also revived long-dormant mechanisms of intertemporal financial decision-making. One of the most visible and immediate manifestations of this shift was the surge in demand for fixed-term deposits (FTDs) across the Eurozone.

3.1. Restoration of the Deposit Rate Curve and Return of Yield-Based Saving

The policy rate hikes effectively restored the traditional shape of the retail deposit interest rate curve. Under negative rates, the curve was often flat or even inverted, offering little to no additional yield for locking up funds. As the ECB raised its deposit rate—eventually reaching 4% by late 2023—banks regained room to differentiate their offerings. Financial intermediaries began offering attractive interest rates on term deposits with maturities ranging from 3 to 24 months, aligning again with the classical yield-for-illiquidity trade-off. According to Voogt (2024), the widening interest rate spread between sight deposits and FTDs was the key driver in reigniting household saving behavior. This structural correction not only revived fixed-term deposit issuance but also restored trust in bank savings products, long undermined by years of zero or negative returns.

3.2 Broad-Based Acceleration in Fixed-Term Deposit Uptake

The depositor response was swift and substantial. ECB data and national central bank statistics showed a steep increase in the volume of fixed-term deposits beginning in Q4 2022, cutting across multiple demographic and institutional categories. Noteworthy examples include: Germany: A traditional savings stronghold, saw over €200 billion in new term deposits within 12 months—an increase equivalent to more than 25% of its prior five-year cumulative growth. Spain: Domestic banks reported a 43% rise in new term deposit contracts in 2023, supported by regional banks and cooperative savings institutions. Netherlands: FTD inflows overtook overnight deposit growth for the first time since 2012, reversing a decade-long trend. These figures reflect not just a cyclical shift, but a structural rebalancing of household and SME liquidity management strategies.

3.3 Strategic Repositioning Among Banks and Competitive Dynamics

The normalization of rates sparked a competitive realignment among banks. Digital-only and challenger banks—lacking legacy deposit bases and benefiting from leaner cost structures—were early movers, offering term deposit rates above 3% as early as Q1 2023. Their agility forced traditional institutions, including large universal banks, to match these rates or risk deposit flight.

This competition marked a reawakening of price discovery in retail banking, suppressed during the years of rate compression. ECB research (Kerola & Koskinen, 2019) highlighted a resurgence in deposit rate dispersion, with inter-bank spreads on identical maturity products widening up to 150 basis points by mid-2023.

From a strategic funding perspective, banks used this opportunity to stabilize liabilities, as fixed-term deposits provide a more predictable maturity profile and lower volatility compared to wholesale funding markets.

3.4 Behavioral Recalibration: From Passive Holding to Yield Seeking

The depositor response was also deeply behavioral in nature. The normalization of policy rates triggered what can be described as a "savings reactivation effect"—a shift in mindset driven by years of suppressed return expectations suddenly giving way to real, observable gains.

Three behavioral levers were particularly influential: Inflation salience: With Eurozone inflation reaching double digits in 2022, households became acutely aware of the erosion of purchasing power. Term deposits offered psychological reassurance—a visible hedge, even if imperfect, against inflation. Mental accounting: The reintroduction of non-zero nominal returns created a sense of normalcy, legitimizing previously dormant saving habits and reorienting short-term consumption plans. Social proof and peer benchmarking: Media attention on high-yield offers, social network chatter, and bank marketing all contributed to a bandwagon effect. Depositors were no longer indifferent; they were in competition to lock in rates. This marked shift reinforces the idea that monetary policy does not operate in isolation—its transmission depends on cognitive, cultural, and informational dynamics within the population.

3.5 Funding Resilience and Regulatory Endorsement

The increase in term deposit volumes was welcomed by regulators and financial supervisors alike. In a rising-rate environment, term deposits help insulate bank funding from short-term volatility, mitigating asset-liability mismatch risk. They also contribute positively to the Net Stable Funding Ratio (NSFR), a core Basel III liquidity metric designed to reduce bank vulnerability to short-term shocks.

In effect, the rise in FTDs complemented the ECB's broader goals of financial normalization, supporting not just inflation control but also balance sheet resilience at the institutional level. From a financial stability perspective, this shift helped re-anchor funding models toward a more stable, retail-centric base, reversing a decade-long drift toward wholesale interbank dependence.

3.6 Regional Disparities and National Response Patterns

Despite the overall trend, notable regional asymmetries emerged: France: Due to the popularity of regulated savings instruments like *Livret A*, the uptake of commercial term deposits was initially muted. However, by mid-2023, commercial banks began offering promotional rates to remain competitive. Italy: Retail savers, historically inclined toward cash holdings, embraced FTDs rapidly—especially via postal banks and credit cooperatives in rural regions. Austria and Belgium: High financial literacy and strong deposit insurance mechanisms catalyzed swift adoption, particularly among retirees and conservative investors.

These disparities underscore the importance of institutional context—including tax incentives, financial education, and the structure of national banking systems—in shaping how global monetary shifts translate into local financial behavior.

4. Empirical Analysis

To comprehensively assess the macro-financial impact of the ECB's pivot away from negative rates, it is essential to dissect how this policy reversal transmitted into the Eurozone deposit market. The transformation was not only visible in headline figures but also reflected profound changes in sectoral behavior, pricing strategies, and institutional funding models. Drawing from ECB datasets, national banking statistics, and emerging fintech market signals, this section uncovers the layered dynamics of this reallocation.

4.1 Growth Dynamics of Deposit Categories

During the era of negative interest rates, households and firms maintained elevated levels of overnight deposits due to the absence of alternative risk-free yield options. However, starting in Q4 2022, coinciding with the first of several ECB rate hikes, the substitution effect from overnight to fixed-term deposits (FTDs) became immediately evident.

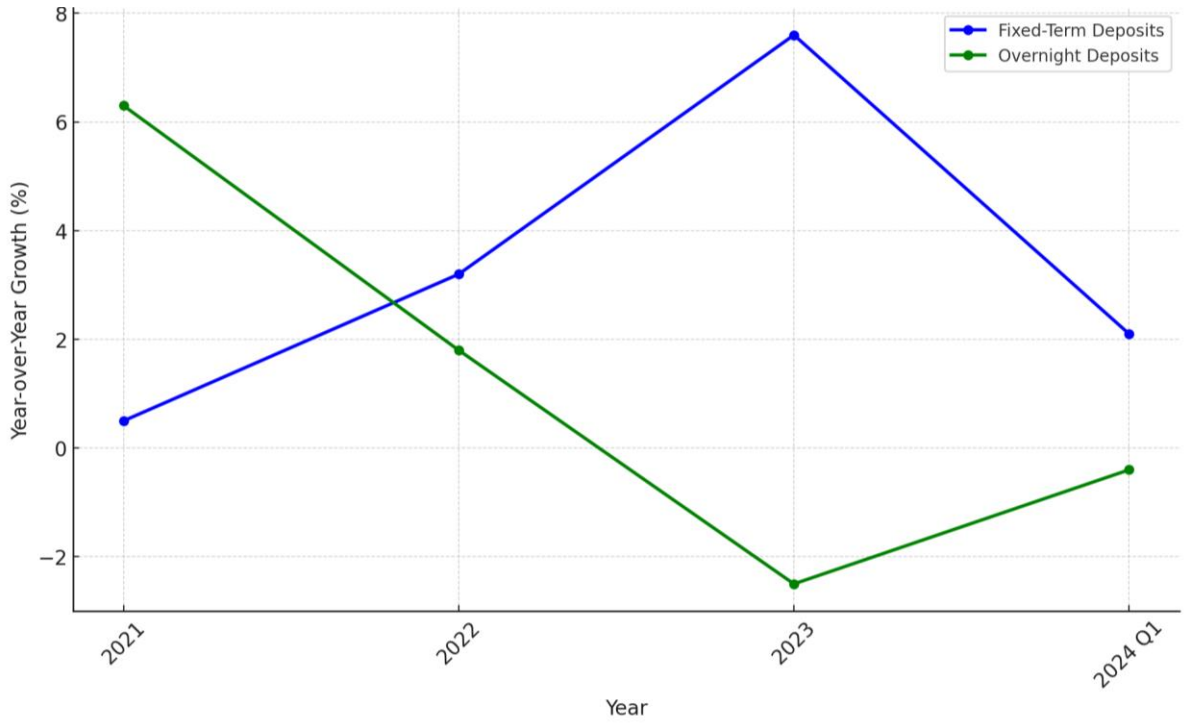

Figure 1. Annual Growth in Fixed-Term vs. Overnight Deposits, Eurozone Aggregate (2021–2024 YTD)

Source: ECB Statistical Data Warehouse; National Central Bank Aggregates.

The 2023 surge in FTDs corresponds directly with the most aggressive phase of the ECB's rate hikes, which took the deposit facility rate from 0.0% to 3.75% by September 2023. This shift reflects a combination of rising yields and improved market expectations regarding monetary policy predictability. At the same time, overnight deposits—once the preferred vehicle during the era of low rates—saw net outflows for the first time in over a decade.

4.2 Repricing of Deposit Instruments Across the Eurozone

The rate hikes filtered through to consumer deposit offerings with remarkable speed, especially in retail-focused banks. While the ECB's policy rate influences wholesale and interbank markets first, competitive pressures and a need to stabilize funding bases prompted banks to adjust deposit pricing rapidly.

Table 1. Average Retail Interest Rates on 1-Year Fixed-Term Deposits

Country	**2021 (%)**	**2022 (%)**	**2023 (%)**	**Δ (2021–2023)**
Germany	0.03	0.86	2.45	+2.42
France	0.08	0.94	2.22	+2.14
Spain	0.12	1.10	2.35	+2.23
Netherlands	0.01	0.65	2.18	+2.17
Eurozone Avg	0.06	0.89	2.29	+2.23

Source: ECB SDW; EBA Transparency Exercises; bankrate aggregators.

Crucially, in 2023 the real interest rate on deposits in select countries turned marginally positive, due to decelerating inflation. This dynamic—the crossing of the zero real yield threshold—was an important psychological trigger, especially for households previously disengaged from structured savings. Econometrically, the deposit rate pass-through—the extent to which policy rate changes transmit to retail deposit products—rose from ~15% under negative rates to ~45% post-2022 (ECB estimate, 2023). This jump reflects renewed banking system competition, depositor mobility, and institutional pressure to attract stable retail funding.

4.3 Market Structure and Institutional Dynamics

The extent and speed of deposit repricing varied by bank type, regulatory environment, and technological integration. Germany: Local cooperative banks and Sparkassen outperformed large commercial banks in early repricing due to regional trust networks and greater deposit stickiness. Spain: Fierce competition among mid-sized retail banks, combined with open fintech ecosystems, pushed term deposit offers above 3% by Q1 2023. France: State-controlled deposit vehicles (e.g., *Livret A*) initially absorbed much of the inflow, slowing the transition to market-priced FTDs until mid-2023.

Digital banks and neobanks catalyzed market transparency by offering real-time rate comparisons and fully online onboarding. This shifted depositor behavior from passive holding to active rate-chasing, particularly among younger savers and financially literate households.

4.4 Cross-Sectoral Evidence: Households vs. Corporates

ECB granular data further reveal differing behavior between household and non-financial corporate (NFC) depositors.

Segment	2021–22 Avg Growth	2023 Growth (YoY)	2024 Q1 Trend
Households	+0.4%	+6.9%	+1.8% (Q1)
NFCs	-0.1%	+3.2%	+0.6% (Q1)

Households—especially retirees, savers nearing retirement, and conservative investors—responded strongly to risk-free yield restoration. Non-financial corporations (NFCs), on the other hand, used FTDs more tactically for short-duration treasury management, driven by cash flow timing rather than return-maximization.

This divergence reflects sector-specific opportunity costs and liquidity needs. Whereas households saw term deposits as income-yielding assets, NFCs treated them as temporary substitutes for money market instruments in a still-uncertain macroeconomic environment.

4.5 Forward Implications and Persistence

The question remains: is this a cyclical correction or a structural regime change in savings preferences?

Evidence points toward persistence due to: Monetary normalization credibility: The ECB's forward guidance has emphasized a sustained neutral or mildly restrictive stance, supporting stable term deposit offers. Depositor reeducation: Years of inertia gave way to widespread financial literacy campaigns and real-time digital comparison tools, reducing passivity. Bank funding recalibration: Institutions increasingly view retail term deposits as a strategic funding base—cheaper than capital markets and stickier than corporate accounts.

ECB research (Kerola & Koskinen, 2019) supports this view, arguing that the normalization of the deposit market enhances monetary policy effectiveness via improved rate pass-through, demand-side discipline, and credit allocation efficiency.

5. Conclusion and Policy Implications

The conclusion of the European Central Bank's negative interest rate policy marks more than a symbolic end to an era of monetary exceptionalism—it represents a structural realignment in the behavior of savers, financial institutions, and central banking itself. The resurgence in demand for fixed-term deposits across the Eurozone in the aftermath of the policy reversal illustrates how powerfully interest rate signals continue to shape financial behavior when they are allowed to function through market-based channels.

As interest rates normalized, households and businesses were once again able to assess trade-offs between liquidity and yield, reviving the traditional role of fixed-term deposits as vehicles for capital preservation and moderate return. This behavioral shift signals a reanchoring of financial expectations after nearly a decade of distorted incentives. Savers who had passively held liquid, low-yield instruments due to the absence of alternatives have actively re-engaged with structured savings products, reinforcing the fundamental economic function of interest rates as price signals for intertemporal choices. The increase in term deposit volumes—particularly among retail customers—has broader implications for macro-financial stability. Term deposits offer more predictable funding for banks and reduce rollover risk, thereby improving liquidity profiles in line with Basel III standards such as the Net Stable Funding Ratio (NSFR). In this way, rate normalization contributes not just to individual savings discipline, but to systemic resilience.

The Eurozone experience has made clear that while negative rates may be useful under acute crisis conditions—such as deflationary spirals or financial fragmentation—they are not without lasting side effects. One such effect has been the erosion of saver confidence and the disincentivization of traditional savings behaviors. These distortions are not instantly reversible; rather, they require a sustained period of stable, positive

rates to restore equilibrium. The lagged recovery in deposit behaviors across certain demographics and countries—such as older savers in Germany or small firms in Italy—indicates that some effects of the negative rate regime are inertial. The policy inadvertently punished prudence, reshaping financial norms that take time to reestablish. For this reason, future recourse to deeply negative rates must be approached with caution and an understanding of their long-run reputational and behavioral costs.

The re-emergence of fixed-term deposits also poses questions for central bank policy design going forward. If depositors are highly sensitive to negative returns—especially retail clients who are politically influential—then the policy space available for future use of sub-zero rates may be narrower than previously assumed. Indeed, as Kerola & Koskinen (2019) noted, even slightly negative rates are sufficient to stimulate credit, but deeper negative rates may yield diminishing or even counterproductive effects. The ECB and other central banks should thus consider augmenting their unconventional policy toolkits with mechanisms that minimize financial repression of savers. Options may include tiered deposit rates (as in Switzerland or Japan), targeted long-term refinancing operations (TLTROs), or explicit yield curve control—tools that can preserve bank profitability and encourage credit without penalizing savers indiscriminately.

The post-2022 experience in the Eurozone underscores a central lesson: market participants—including households—respond powerfully to clear, credible, and favorable monetary signals. The revival of fixed-term deposits in a positive-rate environment exemplifies the self-correcting nature of financial markets once distortions are removed. Central banks, while retaining flexibility, must recognize the limits of financial engineering and the importance of fostering sustainable savings behavior as a pillar of long-term economic health. In this new phase, the challenge is not only to control inflation or support growth, but to rebuild the trust and functionality of financial intermediation—trust that is rooted in the basic premise that saving is rewarded, not penalized.

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