The increase in bank deposits during the COVID-19 crisis: Possible drivers and implications

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Since the end of 2019, bank deposits of non-financial corporations (NFCs) have increased rapidly in Japan, the United States and many European countries, far above the average growth rates over the same period in the past five years (figure below, Panel A). In contrast, in the global financial crisis, corporate deposits declined amid the credit crunch and, in some cases, a delayed policy response. Deposits of households have also increased but to a smaller extent; though still, in many countries, at a faster rate than in the previous years or at the beginning of the global financial crisis (figure below, Panel B). This blog, based on the recently released OECD Economic Outlook, reviews possible reasons for, and the implications of, the increase in bank deposits.

Possible explanations behind the unprecedented increase in bank deposits

Several factors could explain the observed surge in deposits:

- Containment measures made some household purchases impossible (Boxes 1.1 and 1.2 in OECD, 2020) at a time when incomes were maintained by government support, thus increasing saving and bank deposits. This effect should be temporary and dissipate as containment measures are lifted gradually and pent-up demand is satisfied.

Indeed, so far, growth in deposits was concentrated in the March May period, when strict lockdown was in force in many countries. In the following months, until the recent reintroduction of containment measures, the rate of growth in deposits of both households and NFCs slowed in most countries, though it remained above the average rate over the same period in the past five years.

- Containment measures are likely to have particularly affected consumption of some high ticket services by high-income households, stimulating aggregate saving. High-income households tend to spend a higher share of their income on services that are heavily affected by containment measures, such as international travel, restaurants and cultural events. As the restrictions are likely to persist for some time, so does this motive for saving.

- High uncertainty about the pandemic and future economic prospects has strengthened motives for precautionary saving, discouraging investment and purchases of durable goods. For example, Mody et al. (2012) show that the change in the unemployment rate – a proxy for variation in economic uncertainty – boosts precautionary savings. These effects are likely to be more persistent.

- Amid disruptions to revenues, NFCs' preferences for holding cash have increased with the aim of raising their buffers and avoiding liquidity shortfalls. Cash hoarding has been facilitated by drawing on loan facilities (e.g. revolving credit lines), issuance of corporate bonds by large firms (Goel and Serena, 2020), and by government sponsored loan programmes. In November, the size of the resources made available to businesses through government-sponsored loan programmes (loans and guarantees) was above 10% of 2019 GDP in Canada, France, Germany, Italy, Japan, Spain and the United Kingdom. NFCs could have also reduced riskier

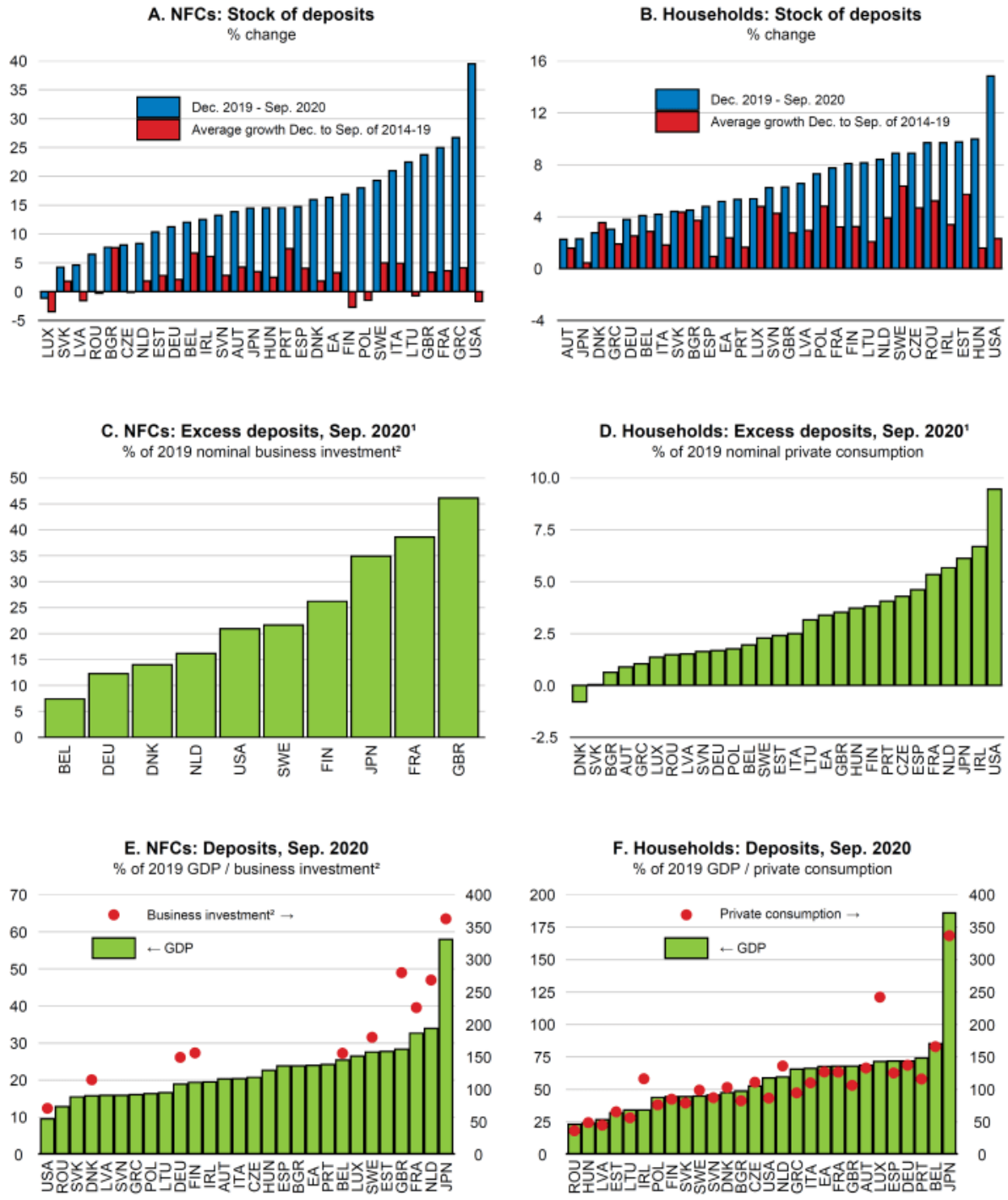
financial investments (e.g. in money market funds).

- Crisis-related tax deferral measures have helped households and NFCs to increase liquidity but may also have encouraged them to set aside money to meet postponed tax obligations. Tax deferrals are officially estimated to be high in some countries, exceeding, for example, 13% of GDP in Italy (including the effect of the moratorium on payments to private companies) and close to 5% of GDP in Japan.

Possible implications

A reversal in any of the above factors may result in additional investment and consumption, boosting aggregate demand and accelerating the economic recovery. Back of the envelope calculations show that “excess” deposits are large relative to pre-crisis business investment, potentially indicating a sizeable future impact on investment (figure below, Panel C). For households, “excess” deposits are relatively small relative to private consumption (figure below, Panel C), but both household deposits and consumption are much larger relative to GDP (figure below, Panels E and F), potentially implying a bigger aggregate impact.

Figure. Selected indicators about bank deposits



Note: Based on deposits for domestic residents. For Japan and the United States, the latest available data are from June 2020, and the reference period for comparison is December to June.
1. Excess deposits are calculated as a difference between the September 2020 level of deposits and the level implied by the average percentage change over the past five years (December to September) applied to the December 2019 level.
2. Business investment data are available only for the countries shown.
Source: OECD Economic Outlook 108 database; Bank of Japan; European Central Bank; US Federal Reserve; and OECD calculations.

However, there are several reasons why these excess savings may not boost aggregate private demand beyond negative confidence effects. For example, the distribution of deposits may be skewed. If the increase in NFCs' deposits has been driven by a few large firms that benefitted from the crisis,

particularly in the technology sector, excess deposits are unlikely to stimulate future economy-wide investment. Similarly, if the increase in household deposits has been mostly driven by high income households with a relative low marginal propensity to consume, then a reduction in uncertainty and containment measures would not necessarily lead to a broad-based strengthening of consumption. Moreover, firms could use excess deposits to settle payments due to other companies, creditors or tax authorities.

References

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