



# To the point!

Cross-Asset- and Strategy-Research

## Germany is saving the wrong way

And it's not because citizens wouldn't know better

Germans have a well-earned thrifty reputation. Indeed, they save like world champions. Data from the European Union shows that since the turn of the century households have had an average net savings rate of almost 11 % of disposable incomes. No other country in Europe is more frugal. For the EU as a whole, the rate was 7 %. The legendary consumption-happy US households had most recently a savings rate of close to 4 %! Considering Germany's rapidly ageing population and its underfunded [pension system](#), it is both desirable and reasonable to set aside significant nest eggs.

And surprisingly, high savings are achieved even though the income of many German households is so modest that it's hard to imagine how people can still put money aside.

### Germans are too risk-averse when it comes to saving

So far, so good. Then why is it that Germany doesn't even appear in the [top 20](#) for median wealth per adult in a global comparison? Belgium, Australia and Hong Kong lead the way. Shouldn't high savings also lead to more wealth? Unfortunately, the answer is no. Why? Because Germans keep saving the wrong way.

Savings mainly find their way into financial instruments that yield little return. Actually, during the past decade, hardly any return at all. Too large a portion of the Germans' savings is still stashed away in liquid, fixed-income instruments (think "savings account"). The share going into equities is only about one fifth. It has even declined since the beginning of the century! Among industrialized countries, only Japanese savers have a lower equity ratio. Also, saving in the form of real estate acquisition is

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## German citizens are the savings champions

Fig. 1: Inequality in Germany: share of total net wealth of private households (in %, 2021)



Source: Deutsche Bundesbank, Monthly Report April 2023, LBBW Research

not very popular in Germany: hardly any country has such a low percentage of households living in their own homes as Germany.

Since checking accounts, fixed deposits, and the like have low returns, the wealth of Germans grows very slowly. Also, because relatively few people in Germany, especially the wealthy, save in higher-yielding investments like stocks or housing, the wealth inequality is extremely high by international standards. Among the leading industrialized countries, the only place where wealth concentration is higher still is, no surprise here, the United States. In Germany, the poorer half of the population holds only 2% of net wealth (see figure on page 1).

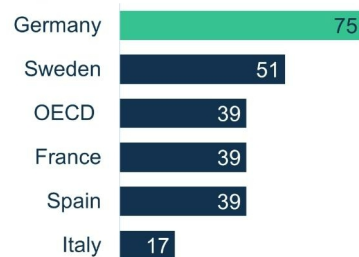
### This is not due to a lack of financial education

One might trace this to the fact that financial education is glaringly absent in Germany's school curricula. Those, like me, who already have grown-up children, may also have experienced that young adults are left to enter the job market without even the most elementary knowledge of financial investments, insurance or taxes. And while my kids had the benefit of an economist in the family, most do not. When it comes to teaching social sciences ("Politics and Economy") in German schools, the proportion dedicated to economics is all too often miniscule.

This explanation for saving the wrong way sounds plausible. But it's only half the truth. In fact, Germany ranks highly in understanding financial concepts (see figure on the right). In terms of financial literacy the Germans may be the one-eyed among the blind. And yet, the blind invest more effectively! Even among the wealthiest 10 % of households, investing in stocks happens in [just under half](#) of the cases. What Germany needs – not only in this regard – is: more courage!

## Germans shy away from stocks

Indicator Financial Literacy (100 = maximum)



Source: [OECD](#), LBBW Research

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