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Quarterly Review on Savings in Europe

January 2010

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1 Overview

After the trauma of the financial crisis exacerbated by the failure of Lehman Brothers in September 2008, European savings began to recover progressively to normal levels in the second quarter of 2009. However, the new regime remains very different from that of previous years and the gradual return to equilibrium remains fragile.

Household incomes have been maintained after the crisis by a massive increase in social transfer payments, which have partly offset the reduction in salaries. A significant part of these support payments have gone into savings. The most significant changes were those which affected Spanish and British households. After having had the lowest savings rates amongst the larger countries of continental Europe, the Spanish have reduced their indebtedness and accelerated their savings rate to more than 20% of disposable income. For the same reason, the British also increased their savings rate, but in a lesser proportion and the latter remains below the European average.

The volume of household financial investments rose with effect from the second quarter, but in different ways for different types of products. Interest in short-term deposits reduced, because the remuneration from these products is no longer as attractive as it was when rates were pushed higher by the tensions on the inter-bank market, to levels often greater than those for long-term savings. Households are leaving more cash balances earning little or nothing on their sight deposits, and they are again moving towards long-term investments - life insurance, pension funds and banking products (particularly the French Property Savings Plan – ‘PEL’), in an economic context where uncertainty over retirement financing is once again at the centre of public debate. In line with the stock market recovery, investors are again beginning to buy (or to sell fewer) long-term investment funds. The Spanish, the French and the British appear furthermore to have built up their listed investment portfolios by net purchases on the secondary market, since the primary market was lifeless in 2009.

For the year 2010, uncertainty prevails over the durability of the weak upturn in the property market, on which all the savings and indebtedness variables depend. The cost of financing is low and the number of transactions appears to be on the increase. The volume of financing offered by the banks has increased a little, particularly in the United Kingdom, with interest rates for which the margin over risk-free rates has been reduced. But the European countries face the new year with differing outlooks, in particular where their tax and economic support policies are concerned. The demand for credit and the funds available for financial and property investment will depend heavily on the trend in household income, which will be negatively influenced by increases in taxes and reductions in social transfer payments.