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Overview of Savings in Europe

May 2012

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1. Overview

In the first few months of 2012, differences in domestic economic trends were clearly noticeable in European savings behaviour. Saving rates were high in households from countries that succeeded in maintaining household incomes, such as Germany, France and Belgium, though this failed to alleviate concern for the future. In countries most affected by the crisis, such as Spain and Italy, habitants drew on reserves to lessen the impact of the recession. Savings rates in the United Kingdom remained below the European average, though were higher than during the credit bubble period.

The financial performance of investments also tended to deviate. Central banks provided cash to banks at low prices, which helped maintain housing credit rates at moderate levels. Nevertheless, investors who continue to invest locally despite European integration were affected in various ways by market trends. For example, in Germany, the fall in Bund interest rates and the Frankfurt stock market's performance with an unusual increase in housing prices, created a positive wealth effect for German investors. Elsewhere, total asset valuations suffered from a fall in stock market prices and an increase in long-term interest rates on government bonds, while on the plus side real estate prices decreased. An investor who invested in 2005 on the stock market which offered the best returns (Frankfurt), would have seen their portfolio rise nearly three times higher in value than an investor who had invested on the Madrid stock exchange, which offered the least amount of returns during this time. On the other hand, Spanish and Italian banks were, however, able to offer their clients much more advantageous interest rates on bank savings.

With regard to investment funds, the situation remained globally just as bad at the end of 2011 as in early 2012. The massive outflows on monetary funds slowed down during 2011 and appeared to change for the better in early 2012. However, long-term UCITSs continued to record important repurchases by investors. Within this gloomy context, it was, however, noted that there was at least a continual flow of purchases on funds made by British households.

Asset allocations reflected the pessimism felt by households. In Greece, even before fears of the country leaving the euro zone worsened in May, Greeks preferred to hold on to their money rather than placing it in their bank accounts. While France by no means experienced the same extent of problems, nor similar causes, it was noticeable that the French also preferred to hold on to their money. Other observations that are difficult to explain include why the French buy back their life insurance policies only to reinvest in part in savings accounts and short- or long- term deposit accounts. The seasonally adjusted financial investment rates fell sharply by 3 points in the last quarter of 2011; indicating the same shortfall in global savings.

In both housing and consumer sectors, the number of bank loans decreased, in some cases steadily, while in others more dramatically. France took the lead in terms of the number of bank loans granted in the first six months of 2011, however, it gradually tightened the issuing of new loans. The decrease in the number of files deposited with the debt commission in the first quarter of 2012 as compared to the same period in 2011 may be a reason for the decline in consumer loans.