



OBSERVATOIRE DE L'ÉPARGNE EUROPÉENNE

STRICTLY CONFIDENTIAL

Overview of Savings in Europe

September

2012

Any representation or reproduction, in whole or in part, without the consent of the author is unlawful (Act of 11 March 1957, the first paragraph of Article 40). This representation or reproduction, by any means whatsoever, constitutes an infringement punishable by articles 425 of the Penal Code.

OEE MEMBERS

FOUNDING MEMBERS

Association Française de la Gestion Financière (AFG)

Autorité des Marchés Financiers (AMF)

Banque de France

Caisse des Dépôts

La Banque Postale

Amundi Asset Management

ACTIVE MEMBERS

BNP Paribas

BPCE

Confédération Nationale du Crédit Mutuel

CNP Assurances

Groupama Asset Management

Paris Europlace

Société Générale

Overview of savings in Europe

September 2012

Contents

1. OVERVIEW	5
2. ASSET PRICES AND SAVING BEHAVIOUR	6
2.1. Unfavourable interest rates to investors.....	6
2.2. Incomes decreased, heavier taxation	9
3. FINANCIAL INVESTMENTS	13
3.1. Holdings of bank notes decreased with incomes.....	13
3.2. Growth in bank savings accounts despite low interest rates	13
3.3. Doubling of British bond portfolios over 4 years	18
3.5. European household exposure to equities is still low	20
3.6. Growth in bond and real estate funds	23
3.7. Retirement savings promoted.....	31
4. CREDIT	36
4.1 Use of credit continued to decrease.....	36
4.2 France was also concerned by the decreased in housing loans.....	37
4.3 Consumer credit: fewer cases of over-indebtedness.....	41
5. NON FINANCIAL INVESTMENTS	44

Box list:

<u>Box 1: The profile of households who held at least a Livret A account at the current ceiling</u>	17
<u>BOX 2: OECD program on adequacy of resources on retirement savings.....</u>	34
<u>Box 3 : First-time homeownership scheme in the United Kingdom</u>	37
<u>Box4: Higher education financing system in the United Kingdom</u>	41

This document was written by Didier Davydoff and Laetitia Gabaut. Data was collected by INSEAD OEE Data Services (Li Qin and Michael Klages)

1. Overview

Unfavourable interest rates paid on bank savings products to investors, stock exchanges and real estate markets with returns deviating from one country to another, the increase of saving taxation to reduce public deficit, times are not easy for European investors. And yet, in Northern European countries (Germany, France and Belgium), where average incomes have remained steady despite rising unemployment, savings rates remained stable at high levels. However, in Spain savings rates continued to decrease, while in Italy they stabilised at a level much lower than those recorded nationally during the previous decade. In the United Kingdom, savings rates stabilised between 7% and 8% which is twice as less as those seen in Germany.

Holdings of banknotes and coins in bank accounts fell with incomes. Bank savings held on bank savings products or term deposits, whose interest paid was lower than inflation in Belgium and Germany and only just above in other countries, seemed to be savers preferred investment, except in Spain, where outstanding amounts decreased for this investment type. In France, outstanding amounts rose rapidly on Livret A accounts, and even more on taxable bank savings accounts and term deposit accounts, with more than 10% annual growth.

The increased ceiling of Livret A accounts should in theory encourage the growth of this product. Investors who hold a Livret A account at the current ceiling can draw on all other investment types, and possibly even on their income. Their holdings in financial products are more diverse and their wealth and income are more considerable than the overall French population.

Investors continued to avoid investing in shares, be it those held directly or through investment funds or unit-linked life insurance contracts. Heavier taxation on dividends and realised capital gains is unlikely to boost interest for these investments, which are considered too risky by most investors. Products considered less risky, such as real estate and bonds funds recorded important inflows. International monetary funds domiciled in Luxembourg declined, whereas those domiciled in Dublin increased steadily.

The real estate market experienced a major slow down throughout Europe: the demand for new homes and housing sales declined. While credit was relatively cheap, accessing it was difficult. The production of housing loans decreased, especially for first-time homeowners.

In Germany, the production of housing loans remained high, however, new loans, which traditionally last no more than 10 years in this country, barely exceeded repayments. Rental property investments partially took over home-buying. On the other hand, this investment type declined in France and the "Scellier" scheme will be replaced in 2013 by a new scheme that focuses more on social issues, but that might be less efficient.

Long-term financial savings (life insurance and pension funds) decreased in Spain, France, Italy and the United Kingdom. They were more resistant in Germany and Belgium. In several countries, current events focused on retirement savings. In Germany, the issue of retiree pauperisation was opened to public debate, while Riester individual retirement savings contracts capped at 15 million subscribers (effectively a much higher level than the 2 million subscribers of PERP in France). In the United Kingdom, a new workplace pension, that obligates companies to set up a retirement plan for all their employees or to subscribe to inter-professional scheme, intended to cover the 13.5 million households who have no more coverage other than the basic state pension, whose amount is very low.