



OBSERVATOIRE DE L'ÉPARGNE EUROPÉENNE

**CONFIDENTIAL**

# **Quarterly Overview of Savings in Europe**

**February 2009**

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## 1. Overview

The **financial crisis**, which began during the summer of 2007, deepened the following year and drastically worsened in September 2008 when Lehman Brothers failed.

The following tables show the main trends regarding the behaviour of European households during the **first phase of the crisis**, from October 2007 to September 2008. Firstly, the French continued their effort to save, more than other European households. Conversely, during these twelve months the British reduced their investments, while during the third quarter withdrawals exceeded new investments.

**Secondly**, we observed a transfer in all countries of investments in securities and mutual fund shares towards banking products (sight deposits and term deposits). This change is sharper in the United Kingdom. The British are still selling listed shares, bonds and mutual fund shares while they massively increase their investments in banking deposits. Italian households buy bonds and sell mutual fund shares.

<b>Net investment of European households by assets category October 2007 - September 2008</b>					
<i>In € Billion</i>					
	<b>Germany</b>	<b>Spain</b>	<b>France</b>	<b>Italy</b>	<b>United Kingdom</b>
Currency and deposits	74.7	68.7	49.3	69.9	107.5
Securities (bonds shares and funds)	-6.9	-24.1	-6.5	16.4	-88.2
Life Insurance and Pension funds	58.6	8.7	83.4	-8.8	35.3
<b>Total</b>	<b>126.4</b>	<b>53.4</b>	<b>126.2</b>	<b>77.5</b>	<b>54.7</b>

Source: Quarterly Financial Accounts

<b>Net investment of European households by assets category per inhabitant October 2007 - September 2008</b>					
<i>In euros</i>					
	<b>Germany</b>	<b>Spain</b>	<b>France</b>	<b>Italy</b>	<b>United Kingdom</b>
Currency and deposits	909	1,518	773	1,173	1,757
Securities (bonds shares and funds)	-84	-532	-102	275	-1,442
Life Insurance and Pension funds	713	192	1,307	-148	577
<b>Total</b>	<b>1,537</b>	<b>1,178</b>	<b>1,979</b>	<b>1,300</b>	<b>893</b>

Source: Quarterly Financial Accounts

During **the last quarter of 2008**, these trends became more pronounced. British banks more than recovered outflows from building societies. In France, not only regulated savings bearing exceptionally high real interest rates, but also taxable savings accounts recorded massive investment flows. Conversely, the outflows from UCITS accelerated, but in different ways. French money market funds have attracted cash investments from companies and individuals. In Germany, redemptions have been massive, more from institutional investors than from individuals.

**Real estate funds** were more resistant than UCITS, except in Spain where the redemptions of some funds were suspended.

**Long-term savings** have also experienced strong pressure. In France, savings on life insurance products became negative in the fourth quarter. In Spain, the government gave the authorization to unfreeze pension savings for the unemployed. In Italy life insurance and pension fund benefits became more important than contributions, and in the United Kingdom pension funds experienced at the same time the devaluation of assets and an extremely weak surplus of contributions over the sum of benefits and funds' investment revenues.

Concerning **credit to individuals**, subject to statistical uncertainty due to the freezing of the securitized market and to the carry-trade by issuers of the loans they securitize, the amount of housing loans began to fall drastically in the United Kingdom in December. In other countries credit also started a net slowing down, although significantly less than in the United Kingdom. This slowing down, which is of more concern to European households at this stage than companies, seems to result from both supply and demand factors. In all countries, banks have to sustain credit in order to receive money from the government rescue packages. However, the conditions of uncertainty about the economy, the rise of unemployment and the threat to households' income are hampering the demand of consumer credit and real estate purchases.