EUROZONE: A FEW REASONS FOR THE HIGH SAVING RATE

At the end of 2024, the household saving rate in the Eurozone was higher than it was before the COVID crisis. Among the four main economies of the Eurozone, France is no exception. Only in Spain and Italy has this trend been accompanied by an increase in investment in housing. In France and Germany, these additional savings are exclusively financial in nature. The factors at the root of the high financial saving rate will not prevent it from falling in 2025, but will contain it.

As a reminder, Keynesian theory defines savings as the portion of income that is not spent on consumption (gross saving in national accounts). The flow of gross saving is thus subdivided into a real component – investment in new housing – on the one hand, and a financial component – the share of gross saving not dedicated to investment in new housing – on the other. This is equal to the portion of income that is neither spent on consumption nor invested in new housing, in other words, the net lending position of households. Taking bank credit into account complicates the analysis somewhat, since credit flows are a resource, in the same way as income, likely to finance consumption, investment or financial investments.[1] Under national accounting conventions, credit flows are treated as a negative use when calculating the saving rate: they are deducted from financial savings. As a result, the net lending position is in a sense the hinge between non-financial accounts and financial accounts. In theory[2] it is equal to gross financial investment flows minus loans flows.

In France, since the third quarter of 2022, the proportion of their income that households spend on new investment has been falling, reflecting a fall in the real saving rate. This fall was initially offset by the rise in the financial saving rate until the end of 2023, but this has no longer been the case since 2024: the rise in the financial saving rate is greater than the fall in the real saving rate, leading to a rise in the overall saving rate. In the third quarter of 2024, this overall household saving rate stood at 18.2% of gross disposable income (compared with 17.2% in the fourth quarter of 2023), of which financial savings accounted for 8.8% (7.3%). That same quarter, in the Eurozone, the saving rate recorded its first fall after two years of uninterrupted rise (15.3% in the third quarter of 2024, after 15.6% in the second quarter and 14.6% in the fourth quarter of 2023).

As our chart shows, the rise in the financial saving rate in France does not always coincide with the rise in financial investment flows (as a % of income, see chart). On the contrary, the latter have been falling since 2022 under the influence of the contraction in credit flows and the resulting decline in money creation.

This observation can be extended to the main Eurozone countries, where the household debt ratio has been falling since the end of 2020, a process amplified by the rise in interest rates in 2022 and 2023.

IN FRANCE, THE HOUSEHOLDS' FINANCIAL SAVING RATE WAS SIGNIFICANTLY HIGHER IN 2023 AND 2024 THAN BEFORE THE HEALTH CRISIS

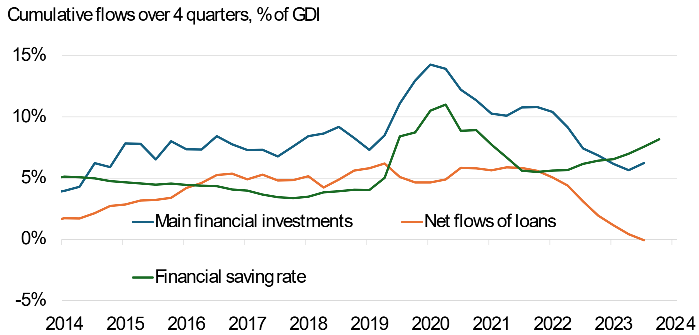

CHART 1 SOURCE: BANQUE DE FRANCE, INSEE, BNP PARIBAS CALCULATIONS.

Among the factors frequently put forward to explain the continued rise in the saving rate despite the disinflationary environment, the first is the Keynesian precautionary motive, due in particular to political and geopolitical uncertainties. Next comes Ricardian equivalence (anticipated tax increases) in a context of deteriorating public finances (Belgium, France, Italy). The Pigou effect is often invoked. It reflects the additional savings effort made by households wishing to rebuild the real value of their financial assets, eroded by the resurgence of inflation between 2021 and 2023. Another well-known phenomenon is the negative knock-on effect of the fall in house purchases, which weighs on consumer spending on home furnishings. This list can be supplemented by the significant increase in the share of financial income (which will, however, diminish as money market and regulated saving rates continue to fall in France in 2025), such as the €16.80 billion in interest paid on Livret A and LDDS passbook savings accounts in 2024, which are automatically credited to savings products and are more likely to be saved than consumed.

1 The use/resources balance of households is written as: Income+credit flows = Consumption+Investment+Financial investment flows. Gross saving is therefore equal to Income - consumption = Investment + Financial investment flows - Loans flows

2 In theory only, because in practice there is a greater or lesser statistical discrepancy from year to year due to the heterogeneity of the sources used to compile the non-financial accounts (by INSEE) and the financial accounts (by the Banque de France).

A few additional avenues can be explored. New loan production, particularly for housing, which was extremely dynamic during the period of low interest rates, is now reflected in relatively high repayment flows. Households repaying a loan see their bank deposits debited by the amount of the monthly payment: all other things being equal, their flow of financial savings is therefore unchanged and the repayment does not, at first glance, affect their financial saving rate. However, this view could clash with households' desire to preserve their financial investment flows – for the reasons given above – and therefore to reduce their consumption expenditure in order to do so. However, the influence of repayments on financial savings and consumption is called into question by an IMF working paper published in 2021.[3] Based on a sample of 39 advanced and emerging countries between 1980 and 2019, it suggests that, empirically, new loans play a much greater role in the evolution of credit flows than repayments. These same studies show that a reduction in household debt (measured by a fall in the debt-to-income ratio) is not systematically accompanied by a rise in the saving rate, particularly when the fall in debt comes from housing loans (and not consumer loans).

Finally, there is the so-called "down payment"[4] factor, which reflects the desire to save in order to build up a more substantial down payment with a view to purchasing a home or a durable good. This inter-temporal trade-off is undoubtedly more prevalent in countries where house prices have risen sharply since 2000 and remain historically high (France, Germany). Conversely, it is less significant[5] in countries where variable-rate loans are more widely distributed, which benefit more from the fall in ECB interest rates, which reduces the need to increase future down payments. This argument also applies to the automotive market, where the high cost of the transition to electric vehicles could encourage some households to increase their financial savings, with a view to building up a deposit before purchasing (or leasing) a more expensive vehicle.

These few factors justify saving rates, mainly financial, which are structurally higher than they were before the health crisis. On the other hand – and fortunately – these factors are not incompatible with reductions in saving rates as disinflation proceeds, provided that uncertainty, and in particular fears of unemployment, do not worsen. The extent of these reductions will largely determine the strength of the recovery in domestic demand in France and the Eurozone.

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3 Bouis R. (2021), "Household Deleveraging and Saving Rates: A Cross-Country Analysis", Working paper WP 257/21, October.
4 Browning, M., and Lusardi, A. (1996). Household Saving: Micro Theories and Micro Facts. Journal of Economic Literature, 34(4), pp.1797–1855.
5 This assumes that households do not anticipate, or only partially anticipate, that the effect of improved borrowing conditions on their ability to purchase a home is likely to be neutralised by rising house prices, in the presence of supply constraints.