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Overview of Savings in Europe

August 2017

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1. OVERVIEW

Financial environment savings trends identified at the end of 2016 continued rising at the beginning of 2017 in the Eurozone. Interest rates stabilized at very low levels. Those who own shares directly or indirectly continued to benefit from the rise of equity markets. Wages are rising in a world with almost no inflation. The situation is quite different in the United Kingdom post-Brexit-vote. The British have regained confidence. But at the same time, real incomes, trimmed by inflation and heavier taxes, stagnated or fell. The equation could only be resolved by an increase in credit. An increase in the use of credit was also recorded in France and Germany where housing loans were also spreading. Consumer credit was becoming more widespread, particularly driven by car hire purchase.

In the Eurozone, savings rates were not really impacted by the monetary policy of the ECB. They were negative in “a cash-basis” methodology in the United Kingdom.

Holdings of bank savings products continue to stagnate or decline in a majority of countries. France and its regulated savings always remunerated at 0.75% are the exception. In addition, Housing savings products (PEL) with a higher return, still attracted savers. In Germany, the periodic survey by the association of private building societies (Verband der privaten Bausparkassen) reveals that housing acquisition projects are a growing motivation for the saving act. At the same time, wealth building strategies that have been permanently deflected by the 2008 financial crisis mistrust have become a minority.

Direct ownership of securities has not yet restarted. In Italy, where individuals have long held large bond portfolios, Prometeia estimated that the decreasing of household bond portfolios will continue to benefit all forms of assets managed by professionals.

On the regulatory front, the implementation of the Solvency II directive changed the way in which insurance technical reserves were valued. Above all, it has encouraged intermediaries to promote unit-linked products at the expense of euro-denominated contracts, which require too much capital and are costly when assets have a performance below the rates guaranteed or expected by savers.

The landscape of retirement savings also evolves, in a more dispersed order. The automatic affiliation of employees to a pension fund continues to be deployed in the United Kingdom. It translated into significant additional savings. The Italians also allowed an automatic affiliation through branch agreements. However, the effect is more limited because only employers have to contribute under these agreements. Attitudes about the legal age of retirement also diverge. In France the plan for notional pension rights is accompanied by a promise not to change the legal age of retirement. In Italy, which has also opted for a notional system that inspired the French project, the legal retirement age was raised to 66 years and seven months to ensure the sustainability of the pay-as-you-go system. The Belgian legislator now prevents active individuals from claiming their pension rights earlier than the legal age whereas the Italians are setting up an early exit option to encourage savers in the accumulation period.