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# **Overview of Savings in Europe**

**January 2017**

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# 1. OVERVIEW

Unconventional monetary policies reduce the return on financial savings of European households. Interest rates on bank savings and capital-guaranteed life insurance products in euros continued to decline in 2016. Equity markets, which have been declining for the last two years, recovered only in the last quarter of 2016. Madrid, Brussels and especially Milan, penalised by banking shares, ended the year 2016 down from the end of 2015.

Disposable income is up in all countries. The largest increases were registered in Germany and United Kingdom thanks to increases in wages and in Belgium thanks to reductions in income tax. In UK, rising revenues fuelled an increase in consumption following fears of the Brexit. Savings rate is declining in this country. In the Euro Zone, savings rates remain at high levels.

Financial investments remain abundant but are slightly down in Germany and France. In Spain and Italy, the increase in financial investments remains to be confirmed: the swelling of current accounts and investment funds may signal an increase in consumption or turn into sustainable savings.

Outstanding bank savings products are down. Constrained by the monetary policy of central banks, banks have lowered the remuneration of their products. With the return of inflation in UK and Germany at the end of the year, many products have negative remuneration in real terms.

In Italy, mistrust of banks is adding to this European trend. The withdrawal from deposits, bonds and banknotes is accelerating in favour of investment funds and life insurance.

Guaranteed life insurance contracts still retain their advantage, but their profitability declines gradually. There are no significant transfers to unit-linked contracts. More generally, savers have not sought to improve their financial performance by investing directly or indirectly in equities.

Overall, unconventional monetary policy measures have not (yet) had the expected effects on saving behaviour.

On the other hand, the fall in interest rates on housing loans made it possible to offset the rise in house prices, particularly in Germany and Belgium. In Italy and France, households benefited from both a moderate rise in house prices and a lower cost of credit. Only British households were penalised by rates remaining at relatively high levels and the high cost of property. In all the countries, consumer credit rose again in 2016.

## Effects of Unconventional Monetary Policies: Theory and Reality

| Expected impact of unconventional monetary policies   | Are these effects proven?  |   |
|---|--|---|
|   | Yes  | No  |
| <b>Decrease in returns on monetary bank and life insurance products in euros</b>            | <p>The decline is general and all the more noticeable as inflation returns since the end of 2016.</p> <p>The ceiling on guaranteed rates on life insurance policies in Germany is lowered from 1.5% to 0.9% on 1 January 2017.</p>   | <p>In France, the importance of regulated savings and the competitive pressure in life insurance are slowing down the downward trend.</p> <p>Existing German life insurance policies continue to offer high guaranteed returns.</p> |
| <b>Investors are willing to take more risks to improve the performance of their savings</b> | <p>One in five Belgian households diversified their savings in 2016 by investing in the financial markets.</p> <p>In France, a certain shift in life insurance contribution flows from capital guaranteed contracts to unit-linked holdings was observed at the end of 2016.</p> | <p>The vast majority of European savers remain out of the stock market.</p> <p>Low fund raising shares subscription to equity funds.</p> <p>In life insurance, guaranteed contracts remain predominant.</p>                         |
| <b>The wealth effect and the low remuneration of savings induce households to consume</b>   | <p>The British saving rate fell by six percentage points between 2010 and 2016.</p>  | <p>The household savings rate in the euro area is not falling. Financial investments by the French and Germans were slightly up in the first half of 2016.</p>  |
| <b>Access to home ownership is facilitated</b>  | <p>In Germany, the rise in residential property prices is offset by the lower cost of loan.</p> <p>In Spain, Italy and Belgium real estate prices and rates have fallen since 2013.</p>  | <p>In UK, the cost of acquiring a home increased by 27% as real estate prices and loan rates increased. Despite the incentive policies, first-time buyers are squeezed out of the mortgage market by buy to let investors.</p>      |