Focus
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French households channelled more savings into regulated products than market-based investments

Annual flows of French household savings stood at the same level in 2014 as in 2000. Between these two dates, real estate investment was almost stable while financial savings rose sharply before falling back to their initial level. The main beneficiaries were products with favourable tax treatments and regulated returns (regulated savings accounts, housing savings plans and life insurance contracts).

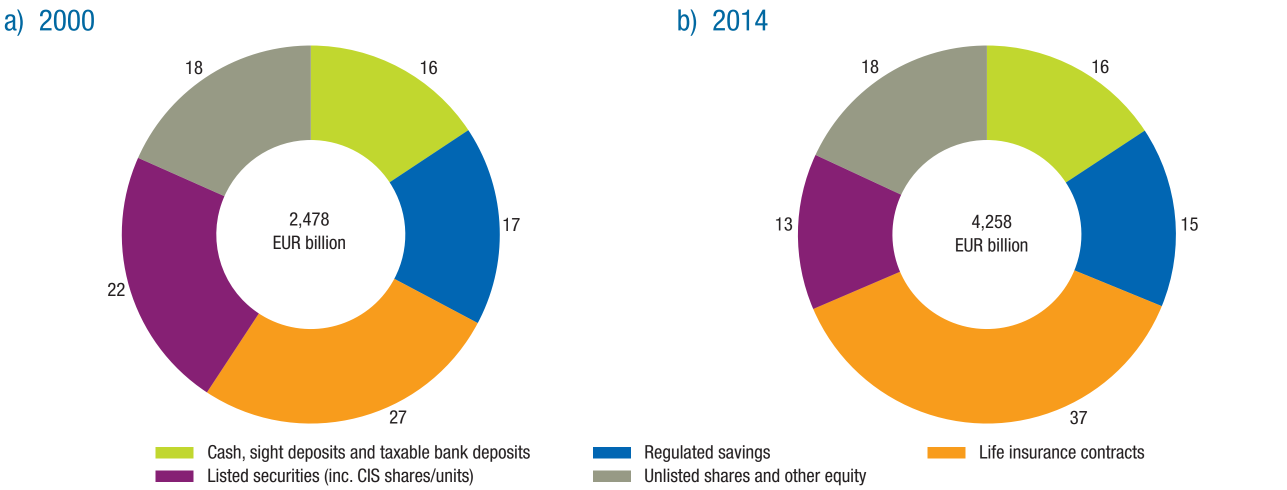
French household financial wealth represents over twice GDP, with a breakdown skewed in favour of products with favourable tax treatments and regulated returns

Over the past 15 years, French household financial wealth has increased considerably: at end-September 2014, it rose to EUR 4,258 billion at market value, or twice GDP, compared to GDP 2,478 billion in 2000. Households moved mainly into products with favourable tax treatments and regulated returns (regulated bank products and life insurance contracts), shifting away from direct securities holdings (equities, bonds and collective investment scheme – CIS – shares/units) (Chart 1). Thus, in 2014, regulated savings and life insurance contracts accounted for 52% of household financial wealth compared with 44% in 2000.

Bank products accounted for one-third of household financial wealth in 2000, followed by life insurance contracts at 27% (Chart 1). Benefiting from an advantageous tax treatment, the latter saw record net inflows in the first half of the 2000s, amounting to EUR 94 billion in 2006 out of total investments of EUR 141 billion (Table 1). In the same year, investments in bank products, mainly in regulated savings products, amounted to EUR 24 billion.

Charts 1 – Breakdown of French household financial investment by type of instrument

(% of total outstandings)



Sources: National Financial Accounts, Banque de France.

Table 1 – French household financial investment

(EUR billions)

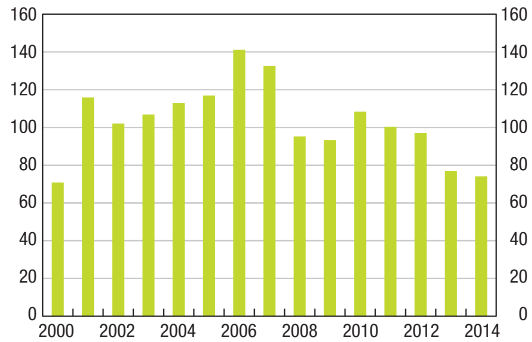
	Total financial investment	Bank investment	Non-bank investment	O/w life insurance contracts	O/w listed securities
2000	71	-8	79	68	-8
2006	141	24	117	94	14
2012	97	57	40	21	-5
2013	77	33	44	38	-17
2014	74	27	47	50	-13

Sources: National Financial Accounts, Banque de France.

With the financial crisis, savings flows were mainly channelled into bank products, which reached EUR 57 billion in 2012 (Table 1). In contrast, net investment flows into life insurance contracts fell to EUR 21 billion in 2012 and recovered in 2013 to EUR 38 billion and in 2014 to EUR 50 billion. That year, investment flows declined slightly (Chart 2), as net inflows into life insurance contracts were insufficient to offset the slowdown in investments in bank products (EUR 27 billion) and net outflows of CIS shares/units. In 2014, bank products accounted for around one-third of total financial household wealth like in 2000, while life insurance contracts stood at 37%.

Chart 2 – Net annual French household financial investment flows

(EUR billions)

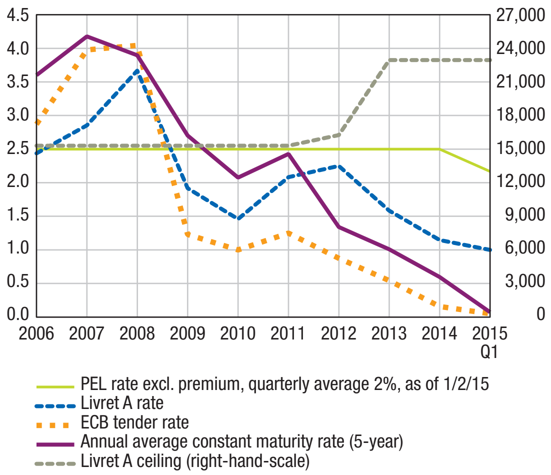


Sources: National Financial Accounts, Banque de France

Within bank products, the "Livret A" and the "Sustainable Development" passbook (LDD), which are totally liquid, not subject to tax or social security levies and are guaranteed by the State, have offered since 2008 a far higher return than the monetary policy rate (Chart 3). This advantageous rate, coupled with the extension of rights to market the Livret A to all banks at the start of 2009 and the increase in their ceilings in 2012, prompted savers to invest in these products after the financial crisis broke out (Chart 4). The same trend is observed for PELs (housing savings plans).

Chart 3 – Return on regulated savings passbooks and new housing savings plans

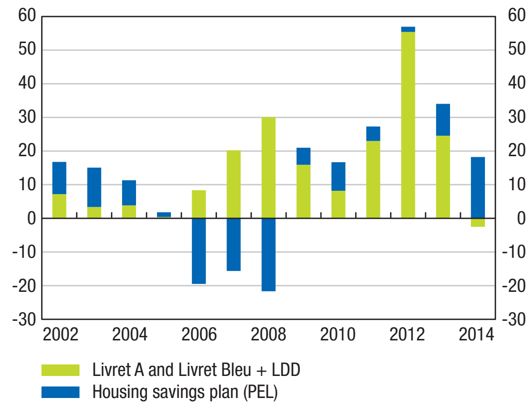
(rates in %) *(EUR)*



Source: Banque de France.

Chart 4 – Passbook savings accounts and housing savings plans

(annual net flows in EUR billions)



Source: Banque de France.

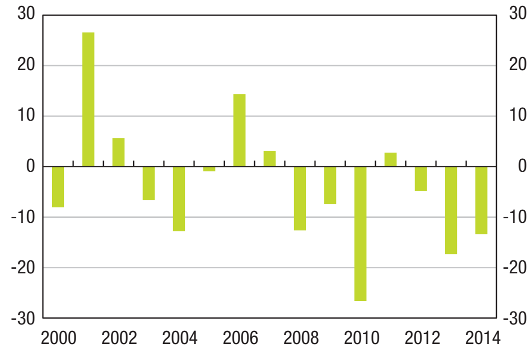
2

At the macroeconomic level, this may have contributed to a relative weakness of investment and innovation, which are nonetheless important for business competitiveness and hence for growth and employment.

At end-2014, Livret A passbooks with savings above the EUR 22,950 ceiling, because of interest capitalisation, accounted for no less than 20% of total outstandings. Sustainable development passbooks with over EUR 12,000 accounted for almost 50% of total outstandings. Regulated savings are more concentrated among relatively well-off households as they are not subject to tax. Moreover, the very high real rate of return on regulated savings dissuades households from making riskier investments, which are subject to less favourable tax treatment.

Chart 5 – Investments in the form of direct holdings of listed securities (equities, bonds and CIS shares/units)

(annual flows in EUR billions)



Sources: National Financial Accounts, Banque de France.

Another tax-exempt regulated savings product, the housing savings plan (PEL) enjoys a very attractive return of 2% (not including the State premium) for contracts taken out since 1 February 2015 (Chart 3). Since PEL accounts opened before this date offered even higher returns, this product has seen a recovery in inflows since 2009 (Chart 4).

Contrary to income from regulated savings and life insurance contracts, other capital income from direct holdings of riskier investments (equities, bonds and CIS shares/units) does not enjoy a favourable regulatory and tax treatment. Consequently, beyond annual fluctuations stemming from economic developments, French households are shifting away from direct securities holdings (Chart 5). Cumulatively, over the period 2000-2006, which was marked by wide swings in stock prices - the bursting of the dotcom bubble followed by a rapid recovery in stock prices - French households purchased EUR 18 billion in listed securities, including in the form of CIS shares/units. But, cumulatively, over the period 2007-2014, they were net sellers of these securities in the amount of EUR 76 billion. In particular, owing to competition from Livret A passbooks, Sustainable Development passbooks and PEL, money market fund shares/units have seen cumulative outflows of EUR 64 billion since 2009.

Furthermore, households invest in the equity capital of unlisted companies. Net transaction flows of this type are difficult to accurately assess but represent substantial amounts: on average around EUR 14 billion per year since 2000.

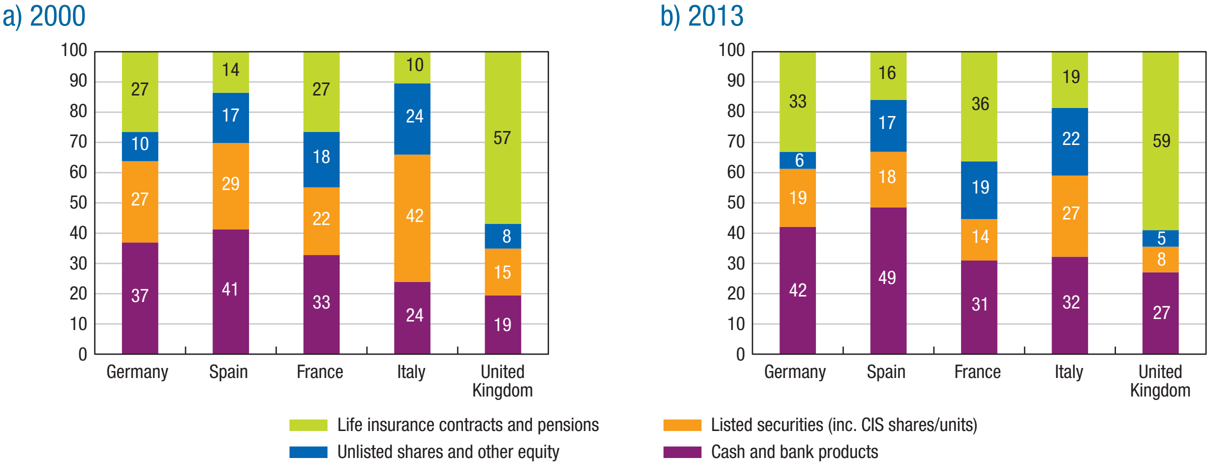
The breakdown by type of household financial savings investment varies significantly across European countries

The breakdown of household financial savings investment outstandings in major European countries shows fairly marked national specificities, mainly due to institutional factors. In this respect, France differs in that deposit rates are highly regulated and there are no pension funds for which life insurance contracts act as a substitute. In the United Kingdom, UK households investment heavily in pension funds, giving them an important role in the funding of pensions. In Spain, households invest much of their savings in bank products, whereas in Italy households favoured securities and mainly government bonds before the crisis. Germany is the country with the most balanced breakdown of bank products, securities and life insurance contracts (Chart 6a).

In general, following the crisis, household investment behaviour converged across countries: the relative amount of bank deposits, life insurance contracts and pension fund assets tended to increase (Chart 6b) while that of listed securities

Charts 6 – Structure of household investment

(outstandings, % of total investment)



Source: Eurostat.

declined. Over the 2007-2013 period, in all countries, households shifted out of CIS and only French households continued to buy bonds. The value of Italian and Spanish households' bond portfolios declined as government bond yields rose. In addition to the fall in prices, the decrease in the share of listed securities in UK household portfolios can also be explained by the fact that they significantly scaled back their investments in listed shares at the start of the crisis.

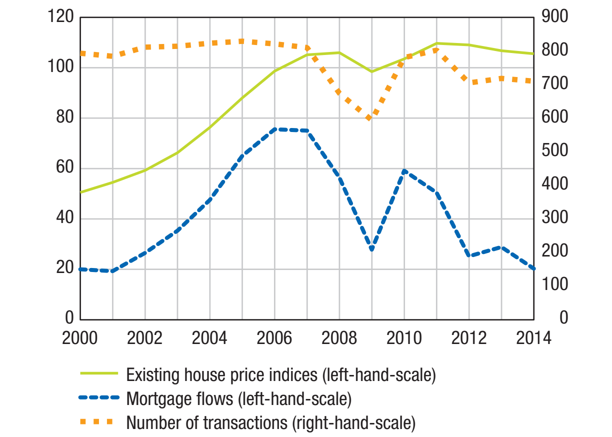
In France and in general in the euro area, real estate investment has declined in France since the financial crisis

Savings are defined as the unconsumed part of income. They are mainly used to make financial investments and repay loans, especially mortgages.

Indeed, housing loans constitute the bulk of household debt. In France, over the 2000-2006 period, the average annual increase in such lending (EUR 41 billion) underpinned a high volume of transactions in the secondary market[1] as well as growth in new dwelling construction, against the backdrop of rapid price rises: over this period, prices rose by an average annual rate of 11% for existing dwellings and by 7% for new dwellings. Mortgage lending slowed down during the crisis; net flows fell to EUR 28 billion in 2009 (Chart 7). It recovered in 2010 thanks to the decline in interest rates and was underpinned in 2011 by the easing of credit standards for interest-free loans (creation of the PTZ +). However, 2012 was marked by both a reduction in tax

Chart 7 – Housing loans and housing market activity in France

(net flows in EUR billions) *(thousands of units)*

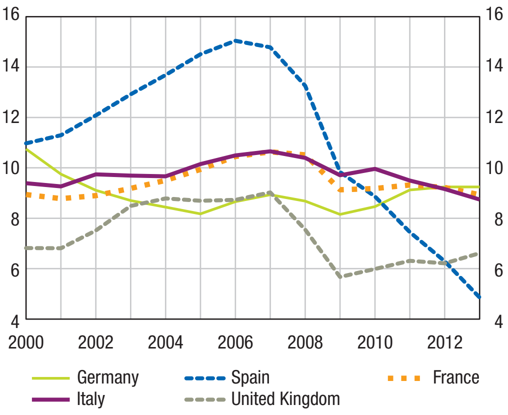


Sources: CGEDD based on DGFiP (MEDOC) and notarial databases, Insee and Banque de France.

1 *Transactions on the housing market comprise sales of existing dwellings (secondary market). Existing dwellings make up the bulk of the housing market, and are an indicator of housing market activity. However, household real estate investment only includes property purchases that increase the housing wealth of all households, mainly new dwellings. Therefore, housing transactions between households, mainly in the secondary market, are not taken into account. In this case, if a purchase is financed by a loan, the seller increases his/her financial wealth by an equivalent amount to the loan taken out by the buyer. Overall household wealth is thus unaffected.*

Chart 8 – Household investment rate

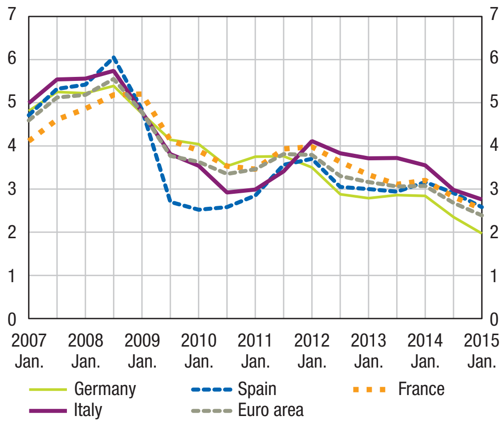
(% of gross disposable income)



Source: Eurostat.

Chart 9 – Mortgage lending rates

(%, average weighted by new credit flows)



Source: European Central Bank.

incentives (first restrictions of access to the PTZ, with the PTZ + being limited to new dwellings) and the start of a fall in prices (in December 2012, the prices of existing dwellings fell by 2% year-on-year) causing certain potential buyers to postpone their purchases. Consequently, household demand for housing loans decreased in 2012 (EUR 25 billion), falling to half that of 2011 (EUR 50 billion). In 2013, mortgage flows recovered slightly to stand at EUR 29 billion, a level similar to that observed in the early 2000s. Despite record low interest rates, they declined again in 2014, to stand at just EUR 20 billion, on the back of the weak household income growth (Chart 10), whereas the prices of existing dwellings lost 2.5%.

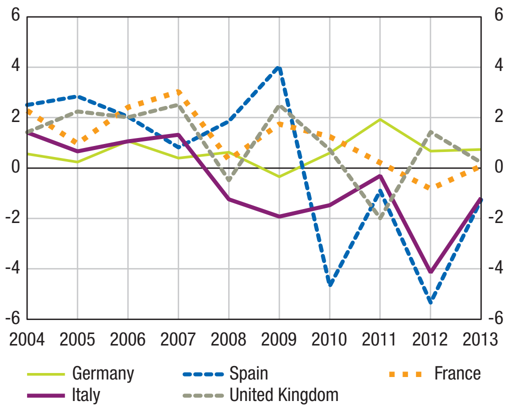
Therefore, since 2012, the housing market has been lacklustre, with the recovery in new mortgage flows in 2013 mainly reflecting large-scale loan repurchases and renegotiations that year, associated with the low level of interest rates.

In addition to the fluctuations stemming partly from frequent changes in regulations and taxation, the household investment rate has declined since the 2008 financial crisis. In the other major euro area countries, it also fell in Italy and plummeted in Spain while it rose in Germany (Chart 8). The United Kingdom, whose household investment rate is structurally lower than that of the other major EU countries, saw a significant fall as of 2007, followed by a slight improvement since 2009.

Household investment decisions are determined by different factors, in particular the level and expected future house price and interest rate trends as well as the income level and expectations. In France, the accommodative monetary policy of the ECB resulted in a sharp decline in the cost of credit for households but, since 2008, mortgage lending rates have been slightly higher than the euro area average (Chart 9), reflecting in particular the high rates on regulated savings products. In Spain, despite the continual drop in borrowing costs, household investment fell sharply as a result of the repeated declines in real disposable income since the crisis with the exception of Germany and the United Kingdom (Chart 10).

Chart 10 – Changes in real disposable income

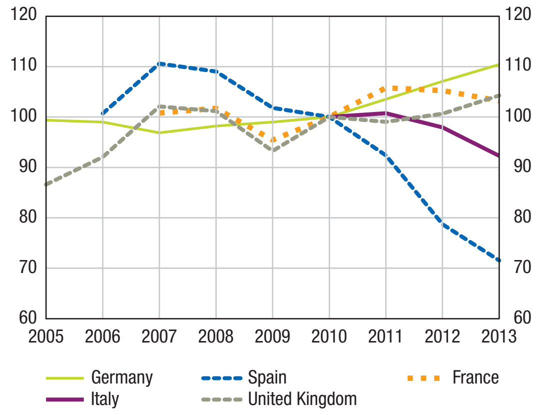
(%)



Source: Eurostat.

Chart 11 – House prices

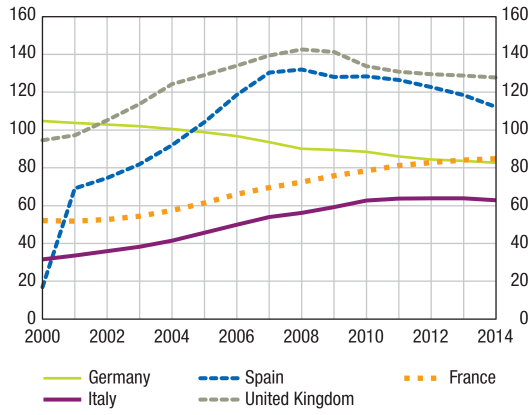
(100 = 2010)



Source: Eurostat.

Chart 12 – Household debt

(% of gross disposable income)



Source: Banque de France.

Investment rates are also sensitive to changes in house prices. In particular, the decline that followed the outbreak of the financial crisis prompted many buyers to postpone their purchases, which contributed to keeping the property market subdued, with the exception of Germany and the United Kingdom (Chart 11).

Since the 2008 crisis, differences in household debt ratios across the major EU countries have tended to narrow (Chart 12). Debt ratios have fallen in the countries where they were the highest (United Kingdom, Germany and Spain) before the crisis, but they continue to rise in France were they were lower. In Italy, trends were similar to those of France up to 2011, then they declined very slightly afterwards.