

## ARE EUROPEAN HOUSEHOLDS RICARDIAN?

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Today's deficits are tomorrow's taxes. Therefore, it is logical for households to save rather than spend the public transfers they receive, since these are incurred through debt and will eventually need to be repaid.

### Suspicious, but no proof

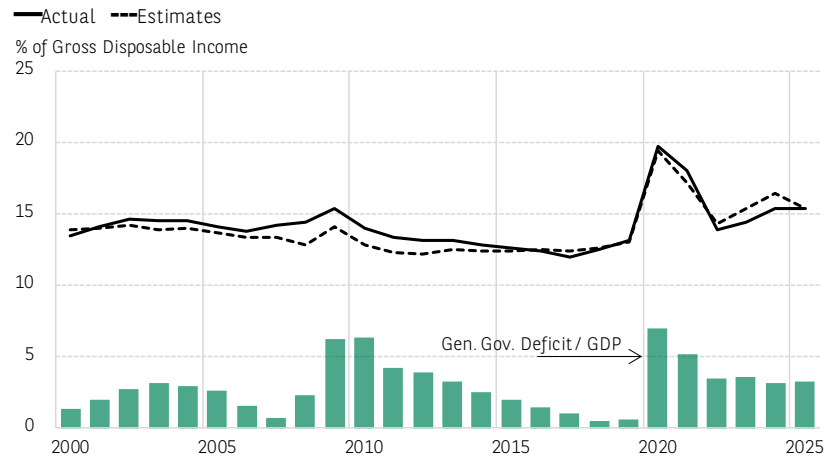
Although rational on paper, this "Ricardian" effect (named after the eminent English liberal thinker, David Ricardo) remains difficult to quantify in practice. Nevertheless, recent events in France seem to echo this theory. The ongoing discourse regarding the sustainability of public finances in general, and the pension system in particular, is prompting households to save at levels not seen in 45 years (18.9% of gross disposable income in the second quarter of 2025, according to INSEE). It remains to be seen whether this behaviour is a knee-jerk reaction to the current political instability or a reflection of a more enduring concern, extending beyond France, regarding the rising government debt.

To answer this question, it may be useful to compare the trends in savings with those of its traditional determinants, to ascertain whether any "Ricardian" behaviour is at play. However, the empirical analysis, shown in our graph and covering the last 25 years of the EMU (Economic and Monetary Union), provides no evidence of this. Statistically, changes in public accounts (as indicated by deficits or shifts in the debt ratio) do not significantly affect household savings, once disposable income, interest rates, and the unemployment rate (considered as a precautionary motive) are taken into account. This observation holds true for France and the euro area.

\*\*\*\*\*

The lack of an empirically measurable Ricardian effect can be explained by the fact that concerns about the financial health of governments is both variable across Europe (it may even have regressed in Italy) and relatively recent in France. To reduce the savings rate, the decrease in unemployment and real interest rates are significant factors. While not decisive, alleviating the uncertainty surrounding the future of public finances could be beneficial.

### AN ESTIMATE OF THE SAVINGS RATE OF HOUSEHOLDS IN THE EURO AREA



SOURCE : EUROSTAT, AMECO ; ESTIMATES BNP PARIBAS

Household savings in the euro area are analysed using annual data at constant prices for the period from 2000 to 2025 (with partial data available for 2025, as along with estimates from the European Commission).

The relationship is based on a single-step error correction model:

$$\Delta sr_t = 3.40 \Delta rdbr_t + 0.04 \Delta U_t + 0.01 \Delta rater_t - 0.34 [sr_{t-1} - rdbr_{t-1}] + c$$

(\*\*\*)
(\*\*\*)
(\*\*)
(\*\*\*)
(\*\*\*)

R<sup>2</sup> adj = 0.88; DW = 1.69; SER = 0.03.

where  $sr_t$  denotes real household savings (in log),  $rdbr_t$  denotes real household disposable income (in log),  $U_t$  denotes the unemployment rate, and  $rater_t$  is the real benchmark interest rate in Europe (yield on 10-year German bonds). Note that the Covid-19 shock (resulting in forced savings due to lockdown measures) was accounted for using an instrumental variable (set at 1 in 2020 and zero for the remainder of the estimation period).

All variables show the expected sign and are statistically significant at the 5% (\*\*\*) or 10% (\*\*) threshold. Despite several attempts (involving changes in the debt ratio and the total, primary or structural deficit of the public sector), the inclusion of a public finance health indicator does not yield statistically conclusive results.

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