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> THE FACTORS AT THE ROOT OF THE HIGH FINANCIAL SAVING RATE WILL NOT PREVENT IT FROM FALLING IN 2025, BUT WILL CONTAIN IT.

ECONOMIC RESEARCH

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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

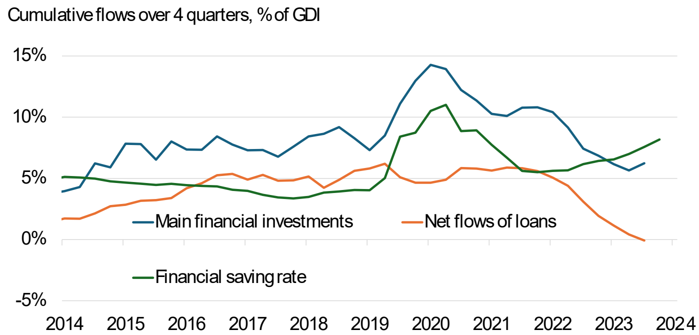


CHART 1 SOURCE: BANQUE DE FRANCE, INSEE, BNP PARIBAS CALCULATIONS.

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).

EDITORIAL

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.

Laurent Quignon

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.

Find our scenario and forecasts

GERMANY

Beginning of an improvement in activity? The composite PMI rose from 48 in December to 50.1 in January (according to the preliminary estimate), a 7-month high, driven in particular by services (PMI at 52.5), with an improvement in the manufacturing PMI, which nevertheless remains in contraction territory (44.1 compared with 42.5). This survey also suggests that net job losses (which began in June) will continue in January (albeit at a more moderate pace). At the same time, inflationary pressures on the price of inputs are likely to intensify.

FRANCE

Slight improvement. The composite PMI rose slightly but remains in contraction territory. Business surveys still point to weak momentum (INSEE business climate stable at 95, below its long-term average of 100), although other indicators point to relative resilience (rebound in business start-ups in November/December, up 5.7% in 2024 compared with 2023).

The forecast for investment in the manufacturing sector has deteriorated according to INSEE (balance of opinion down from +7 in October to -1 in January). The Finance Bill 2025 continues to be debated in Parliament. The additional consolidation effort will focus on central government spending, on a scale that makes the deficit target (5.4% of GDP) credible, at the cost of reduced support for investment and the environmental transition. The OAT-Bund spread has fallen back below 75 basis points.

UNITED STATES

Positive surprises. On the economic front, manufacturing output grew faster in December (+0.6% m/m after +0.4%), as did housing starts, which rose sharply to 1.499 million (+205k, annualised), the highest level since December 2023.

On the political front, Donald Trump's inauguration on 20 January was followed by almost fifty decisions with immediate effect. However, they do not extend to customs tariffs. The subject is on hold pending the outcome of an audit of the US trade deficit and negotiations by mutual agreement. The new President has declared a 'national energy emergency', which is part of a broad movement to increase the use of fossil fuels while halting support for the energy transition. Also of note is the US withdrawal from the Paris climate agreement, the World Health Organisation and the OECD agreement for minimum global corporate taxation. On Thursday 23 January 2025, US President Donald Trump issued an executive order banning establishment, issuance and promotion of a central bank digital currency in the United States.

JAPAN

The key rate is at its highest level since 2008. In line with our expectations, the Bank of Japan has decided to raise its key rate by 25bps. This is the first increase since July, taking the key rate to +0.5%. The decision was accompanied by an upward revision of the core inflation forecast (+0.5pp to +2.4%) for the 2025 fiscal year.

EURO AREA

The PMI indices improved slightly in January, but the momentum of contraction in industry remains strong. According to the flash estimate, the composite indicator is just back in expansion territory (+0.6 points to 50.2). Still in contraction territory, the manufacturing index gained 1 point (46.1), while the services index fell by 0.2 points (51.4). Consumer confidence in the euro area rose very slightly in January (+0.3 points to -14.2) after two months of decline, according to preliminary figures from the European Commission.

UNITED KINGDOM

Activity remains fragile. According to the ONS, the number of employees in the UK fell by 46,922 (-0.2% m/m) in December, the biggest one-month fall since November 2021. The unemployment rate, calculated on the basis of the LFS, rose by 0.3 points to 4.4% over the period September-November 2024. The CBI's quarterly survey for the manufacturing sector points to a near-widespread deterioration in the leading indices for Q1 2025. The GfK consumer confidence index reached its lowest level since December 2023 in January (-5 points to -22). The PMI flash indices, meanwhile, looked better in January, but inflationary pressures are likely to regain ground in services. The composite index gained 0.5 points to 50.9, with an improvement in manufacturing (+1.2 points to 48.2 points) and services (+0.1 points to 51.2 points).

EMERGING COUNTRIES

Turkey: further normalisation. The general government budget deficit amounted to 5.2% of GDP in 2024, the same as in 2023. On the basis of nominal GDP growth estimated at 63% last year, central government debt as a percentage of GDP is now just 21%, compared with 25.4% at the end of 2023. The effect of the appreciation of the real exchange rate still far outweighs the deficit. Following the January monetary policy committee meeting, the central bank (CBRT) cut its key interest rates again from 47.5% to 45%.

COMMODITIES

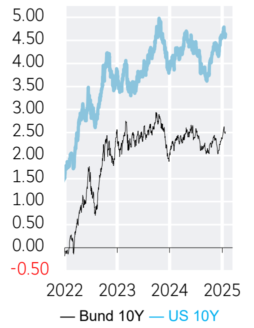
The global gas market is expected to continue to rebalance in 2025 after the supply shocks of 2022 and 2023, according to the latest quarterly report from the International Energy Agency. Nevertheless, geopolitical tensions will continue to weigh on the market in 2025. Growth in global demand is set to slow slightly (+1.9% compared with +2.8% in 2024), with Asia, and India in particular, accounting for more than 40% of this increase. After some delay, the implementation of new LNG production capacity in North America should enable growth in global supply to slightly exceed growth in demand (+2.1%). Barring exceptional geopolitical or climate-related circumstances, the risk to European supply should be brought under control in 2025, thanks in particular to substantial storage capacity and the increase in the quantity of LNG available on the world market.

MARKETS OVERVIEW

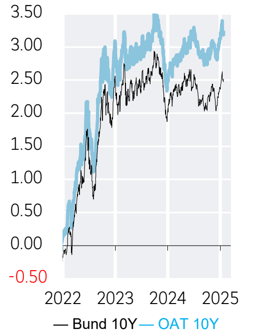
Bond Markets

Bond Markets	in %	in bps			
	24-janv.-25	1-Week	1-Month	Year to date	1-Year
Bund 2Y	2.30	+5.5	+21.1	+24.3	-67.9
Bund 5Y	2.33	+5.4	+24.1	+22.1	+7.4
Bund 10Y	2.55	+4.0	+22.0	+18.1	+24.2
OAT 10Y	3.22	+0.2	+16.4	+9.9	+47.7
BTP 10Y	3.55	+1.2	+15.7	+12.8	-19.1
BONO 10Y	3.15	+2.0	+16.7	+13.1	-6.4
Treasuries 2Y	4.27	-0.9	-7.1	+2.3	-20.2
Treasuries 5Y	4.42	+0.3	-1.6	+4.2	+34.1
Treasuries 10Y	4.62	+1.1	+3.9	+4.8	+44.6
Gilt 2Y	4.11	-5.3	-10.8	-3.7	-28.7
Treasuries 5Y	4.35	-4.2	-0.7	-0.1	+50.5
Gilt 10Y	4.64	-2.2	3.7	+6.3	+54.2

Bund 10Y vs US Treas. 10Y



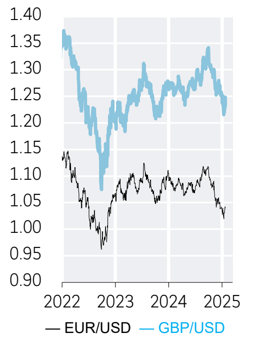
Bund 10Y vs OAT 10Y



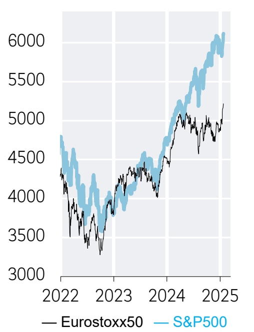
Currencies & Commodities

Currencies & Commodities	Level	Change, %			
	24-janv.-25	1-Week	1-Month	Year to date	1-Year
EUR/USD	1.05	+2.1	+1.2	+1.6	-3.5
GBP/USD	1.25	+2.3	-0.4	-0.3	-2.1
USD/JPY	155.72	-0.3	-1.0	-0.9	+5.9
DXY	111.99	+7.9	+11.5	+10.5	+6.1
EUR/GBP	0.84	-0.2	+1.7	+1.9	-1.4
EUR/CHF	0.95	+1.1	+1.6	+1.4	+1.1
EUR/JPY	163.78	+1.8	+0.2	+0.6	+2.2
Oil, Brent ($/bbl)	78.50	-3.1	+6.4	+5.0	-2.3
Gold ($/ounce)	2774	+2.1	+6.1	+5.7	+37.8

EUR/USD vs GBP/USD



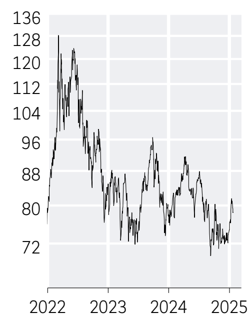
EUROSTOXX 50 vs S&P500



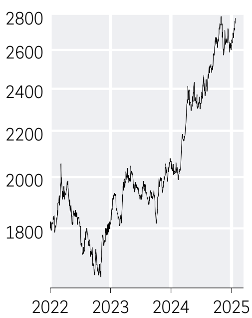
Equity Indicies

Equity Indicies					
World					
MSCI World ($)	3857	+2.1	+2.1	+4.0	+20.4
North America					
S&P500	6101	+1.7	+1.0	+3.7	+25.3
Dow Jones	44424	+2.2	+2.6	+4.4	+17.5
Nasdaq composite	19954	+1.7	-0.4	+3.3	+28.9
Europe					
CAC 40	7928	+2.8	+8.9	+7.4	+6.3
DAX 30	21395	+2.4	+7.8	+7.5	+26.7
EuroStoxx50	5219	+1.4	+7.4	+6.6	+14.4
FTSE100	8502	-0.0	+4.5	+4.0	+12.9
Asia					
MSCI, loc.	1430	+2.3	+1.1	-0.1	+10.0
Nikkei	39932	+3.9	+2.3	+0.1	+10.2
Emerging					
MSCI Emerging ($)	1090	+1.9	+0.5	+1.3	+11.0
China	64	+3.0	-1.4	-0.5	+24.2
India	977	-0.9	-5.3	-5.0	+5.3
Brazil	1271	+3.1	+7.1	+8.0	-24.9

Oil, Brent ($/bbl)



Gold ($/ounce)

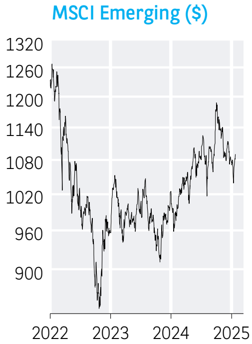


Performance by sector

Eurostoxx600		S&P500	
Year 2025 to 24-1, €		*Year 2025 to 24-1, $*	
+10.4%	Consumption Goods	+8.9%	Bank
+7.9%	Banks	+8.6%	Healthcare
+7.0%	Industry	+7.9%	Capital Goods
+5.1%	Commodities	+6.9%	Media
+5.1%	Oil & Gas	+6.3%	Semiconductors
+4.7%	Technology	+6.3%	Consumer Discretionary
+4.4%	Index	+6.0%	Energy
+3.6%	Construction	+5.8%	Real Estate
+3.5%	Insurance	+5.8%	Materials
+3.4%	Health	+5.0%	Utilities
+3.2%	Automobiles	+3.7%	Index
+2.9%	Chemical	+3.3%	Commercial & Pro. Services
+1.3%	Media	+2.9%	Retail
+0.3%	Telecoms	+2.0%	Pharmaceuticals
-0.2%	Travel & leisure	+0.8%	Automobiles
-0.9%	Food industry	+0.7%	Insurance
-1.1%	Real Estate	-0.8%	Telecoms
-2.2%	Utilities	-1.2%	Consumer Services
-2.4%	Retail	-1.6%	Food, Beverage & Tobacco
		-7.1%	Tech. Hardware & Equip.

MSCI World ($)

MSCI Emerging ($)



SOURCE: LSEG, BLOOMBERG, BNP PARIBAS

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French growth: still (slightly) positive?	EcoBrief	23 January 2025
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