

EUROPE SHOULD UNLOCK EXCESS SAVINGS FROM COVID-19 RESPONSE

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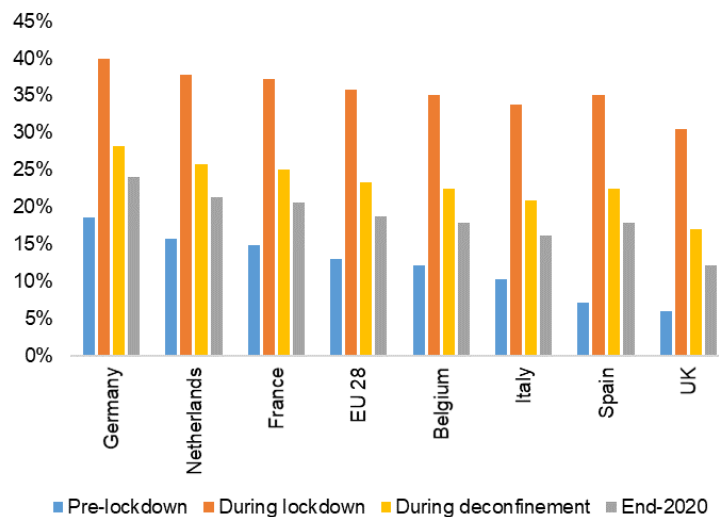
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We estimate that in Europe, household saving rates could increase by as much as +20pp to 36% on average in Q2 2020 (see Figure 1). This means EUR1.3tn of additional savings, or 10% of GDP. Total savings could peak at EUR2.3tn. In 2009, savings in the EU28 jumped by EUR100bn, with a total of EUR1.1tn of total savings (annualized) seen at the trough of the crisis.

Covid-19 lockdowns has made consumption in many areas – from eating out to travelling – literally impossible. Private consumption is set to drop like a stone, by an estimated 35% on average during the lockdowns. To add to this, we estimate that 40% of the active population will be placed on partial unemployment, which will in part protect their income, yet lead to a loss of 20% to 40% of their disposable incomes; total household income may thus decline by 8% to 16%. In general, the saving rate would increase by +5pp for a fall of household total income of 5% and a drop in private consumption of 10%.

Figure 1 – Saving rate by country, % of gross disposable income



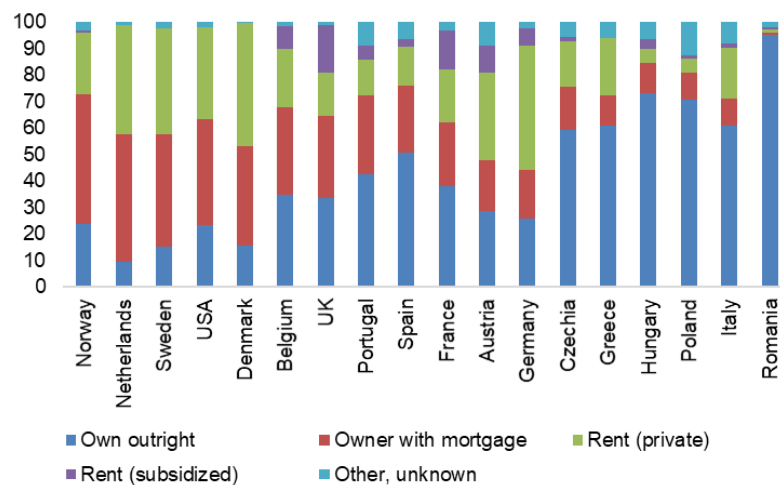
Sources: Eurostat, Allianz Research

During the progressive de-confinement, precautionary savings could become an issue: Saving rates to remain +6pp above pre-crisis levels at 21% at end-2020. This means about EUR400bn, or 3% of GDP. In turbulent times, households become more risk-averse and may shy away from consuming or investing. These precautionary savings take a toll on economic activity, keeping it below potential. Excessive or precautionary

savings tend not to be deployed as long-term capital but to sit in bank deposits. Banks are likely to tighten credit conditions and be reluctant to make new loans in times of crises. During the de-confinement process, we estimate private consumption will remain 10% to 15% below pre-lockdown levels as we expect on average one third of employees on partial unemployment could lose their jobs.

As long as there is no effective vaccine against Covid-19, countries remain vulnerable to new outbreaks of the pandemic, which would lead to repeated lockdown and restart phases. The obvious reaction of households will be to hike up savings, notably in those countries with high levels of household debt and rising unemployment (Nordic countries, Netherlands, the UK, and to a lower extent France, Belgium, Spain and Portugal, see Figure 2).

Figure 2 – Share of households by housing tenure types, in %



Sources: OECD, Allianz Research

Policy-makers should focus on policies to unlock savings. Confidence first: Tests, masks, sanitary protocols and treatments and vaccines will help create a conducive environment for dissaving:

- **Targeted and supplementing existing schemes.** Partial unemployment and public guarantees schemes, very effective in crisis time, may fuel precautionary savings through fear of job loss, and tighter credit conditions. Avoiding windfall and deadweight effects could help finance specific public investment (green, digital, R&D) with high multipliers - including cuts in corporate and labor taxes, rather than consumption taxes or transfers.
- **Adaptive social protection.** It is imperative to overcome households' reservations against investing excess savings, for example for old-age provision. The key to success is appropriate products – combining safety, flexibility and long-term performance – as well as more investments into financial literacy, easy access to wealth management and support for low- and middle-income earners, to avoid 2009 mistakes.
- **Structural fluidity.** Fiscal multipliers and propensity to consume are dependent on the relative size of a given country's domestic market, wage flexibility, size of automatic stabilizers and the level of its stock of debt.

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