François Villeroy de Galhau: Identifying various forms of savings in France

Speech by Mr François Villeroy de Galhau, Governor of the Bank of France, at the 25th Parliamentary Conference on Savings, Paris, 2 February 2016.

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It gives me great pleasure to take part in this 25th Parliamentary Conference on Savings. Before answering your questions, I'd like to share with you an observation followed by a few possible avenues for thought.

I First, the observation, which is that here in France, we have plenty of savings, but not enough goes towards financing investment and hence growth.

a) France certainly doesn't lack savings. It has one of the highest household saving ratios in the euro area, at 15.2%[1] in the third quarter of 2015 compared with 12.7% for single currency bloc. The vast majority of these funds are invested in property; however, nearly 7% of household income is channeled into financial investments. At end-September 2015, close to EUR 4.4 trillion were invested in financial products – that's twice the size of French GDP.

b) That said, ***French*** **savers are increasingly opting for safer forms of investment**, primarily bank deposits and regulated savings products, which are highly liquid, and euro-denominated life insurance products, essentially bond funds: 63% of household financial assets in Q3 2015 compared with 56% in 2006. The share of household wealth invested in risky assets[2] is much higher in the euro area than in France (89% of GDP in Q4 2014, versus 74% for France), and nearly three and a half times higher in the United States (250% of GDP). A large part of the gap with the United States can be attributed to the significant role played by US pension funds; however, rates of share ownership are also markedly higher among US households than they are in France.

c) ***On the one hand, this means that French savings generate smaller returns,*** especially in the current low interest rate environment; ***on the other, it also undermines France's economic growth potential***, as insufficient savings are used to finance innovative business investments – an area which requires large amounts of capital, particularly equity capital. Let me just give you a few figures by way of comparison: in the United States, the net equity of non-financial corporations amounts to 123% of GDP, compared with an average of 52% in the euro area, which is less than half, and 66% in France. The challenge is therefore this: how can we encourage French savers to take on a greater, sensible amount of risk in order to better finance our economy? The question is even more relevant in light of our current financial and monetary policy stance: interest rates are low and are likely to remain so for a significant length of time. You shouldn't see this as too accurate a prediction of the future path of monetary policy; rather it's what is right today for our current level of inflation, for the state of the economy and for growth. Low rates provide an incentive to diversify savings, but, as we all know, this raises important challenges. Therefore, without claiming to have any clear-cut answers, I'd like to suggest three avenues worth exploring in this important debate.

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[1] Gross average over four quarters.

[2] Risky assets are defined here as debt securities, listed shares, unlisted shares and other equity interests, shares in non-money market funds, shares in pension funds and shares in unit-linked life insurance products. Risk-free assets include cash, sight deposits, term deposits, shares in money market funds and shares in euro-denominated life-insurance products.

II We need to act in two main areas, while taking one essential precaution.

a) ***First we need to gradually pass the decrease in interest rates through to the returns on risk-free investments.*** This is why I proposed lowering the interest rate on new French housing savings plans (PEL), which since yesterday has been set at 1.5%; it's also why we need to continue lowering the returns on life insurance savings invested in euro-denominated funds, in addition to the cuts already announced this year.

b) ***The second focus for action is the development of new savings products.*** Let's be clear on this: French and European savers aren't going to become Americanised in their savings behaviour or appetite for risk. These transatlantic differences have historical, cultural and sociological roots. And it's not our role to go into them here, even less try to change them. However, the French debate would be made much easier ***if we distinguished clearly between the two main objectives underlying savers' aversion to risk: security and liquidity***. With regard to security, or capital protection, this is something that is important for savers. Genuine risk-taking, with all the potential gains it entails, will only ever be for a minority of investors. In the case of liquidity, however, increased life expectancy, lower pension replacement rates and the greater health risks associated with living longer are all pushing French savers to adopt longer and longer investment horizons. We need to be able to offer them suitable savings products: ones that are less liquid, with or without a long-term capital guarantee, and that allow savers to benefit from the higher returns offered by equities over the long term. A crucial point is to avoid any tax distortions that might mean these products are penalised more than liquid and risk-free investments. This level playing field in terms of taxation should also apply to the companies that are financed: in other words we need to avoid making debt financing more attractive than equity financing.

c) The third focus is a precaution: it is vital that we ***increase transparency and provide savers with more information on the risk/return profile of their investments over different time horizons***. Financial intermediaries' role is precisely to pool individuals' savings, and transform safe liabilities – i.e. savings – into riskier assets – i.e. investments. But it is also the role of financial professionals to inform their customers about the type of investments they are making, including via multi-vehicle life insurance policies (and notably unit-linked policies). As for disintermediated financing, such as crowdfunding, which is attracting increasing numbers of savers, this is indeed a useful tool, but customers need to be informed of the risks they are taking and encouraged to diversify their assets.

Let me conclude with two more general remarks:

– To better identify "the various forms of savings on offer" – the topic of today's conference – we also need to look at the issue from different perspectives: a French perspective, of course, but also a European perspective, as many of the solutions we need can be found at this level. I am convinced that by combining the work of the European Commission's Capital Markets Union, the Juncker Plan and the Banking Union, we can create a genuine Financing and Investment Union within the euro area, one that benefits both savers and businesses alike. This is another promising channel for improving the allocation of household savings, the pooling of risks and the financing of the economy.

– This debate on savings is both technically complex and impassioned – deservedly so as it concerns the wealth of ordinary French citizens. Parliament has worked extensively on the issue, publishing a number of vital reports. It is not my role to decide when or how we go about it, but I firmly believe our country needs to take a dispassionate look at the way it saves. Savings are one of our foremost resources and they are in abundant supply; business investment is one of our foremost needs. We mustn't miss out on this opportunity in the current context of low interest rates.

Thank you for your attention and please feel free to ask any questions.