

HOUSEHOLD SAVING IN WESTERN EUROPEAN COUNTRIES. A GENERAL OVERVIEW*

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Abstract

A key factor to economic recovery and development is household saving. Keeping this in mind, the present paper aims at analysing the evolution of the saving rates of selected Western European countries for the period between 1995 and 2011. The focus was on identifying groups of countries with similar saving rates and socio-economic characteristics. Due to the way in which the groups were formed in our analysis, we were able to highlight some similarities within groups and divergences between groups, from which the conclusion that saving behaviour is determined by a combination of economic, social, demographic and cultural factors may be drawn.

Keywords: household saving, cluster analysis, determinants of population savings

JEL Classification: C10, E21, O52

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1. Introduction

Ending the recession and economic recovery in the EU countries are complex processes that imply massive investments targeted towards increasing the productivity of the capital (human, physical and financial). Increasing capital productivity requires investments that have as main source both internal and external savings.

On the background of economic recession, the perspectives of finding external resources in circumstances when the internal ones are insufficient are gloomy, since most developed countries in the EU are overwhelmed by the debts accumulated for saving their own financial sectors during the peak years of the financial crisis (2008 and 2009). The states that have a surplus are few and the question is whether they are willing to loan and at what cost. Under these circumstances, internal savings are vital for the economic recovery of any country, thus the G20 decided to follow the evolution of savings at global level, using a set of economic indicators, among which the savings rate, public debt and current account deficit (Callen and Thiman, 1997).

The chances of economic recovery in the EU depend on the level of internal savings, since markets are dominated by vigilance against public debt and fear of inflation and level of national savings. Furthermore, because the main sector of a national economy that is saving is the household sector, enactment of financial policies that stimulate savings in this sector is fundamental for the governmental anti-crisis and economic recovery programmes (Denizer and Holger, 2000).

During the last three decades the economic and social evolutions in the EU countries shed new light on the importance of household savings. First, the severe deformation of the age structure of the population generates a strong pressure on the pension systems. The public social security systems are competing with private pension systems. Choosing the best pension system, repartition and capitalization, depends on the return associated to each type. The return of capitalization depends on the evolutions in the market of the respective funds, consequently, it depends on the evolutions of saving (Boutillier, et al, 2001) and those of the macroeconomic dynamic.

The Western European countries, starting from 2006 and for a few decades in the future, are confronted with a diminishing active population, which will have to support a growing segment of pensioners, the baby-boom in this area having been right after the Second World War and until the mid-1950s (Boutillier, Pansard și Setourne, 2001). Fortunately, as compared to Western Europe and simplifying things, based only on the demographic indicators, with no reference to the correlations with economic resources, Romania would

still have some time until 2032. Starting from this year the members of the generations born during the peak of the Romanian baby-boom (1967-1972) will begin to retire.

Secondly, the life model of the European citizen changed. There is more mobility between activity sectors, regions and countries. There are more business opportunities, a greater mobility in the occupational status and a greater flexibility of the working hours. All these determine an increase in uncertainty and need more flexible buffers than the traditional public insurance (Boesch-Supan și Brugiavini, 2002).

Thirdly, the financial market is constantly changing, the financial products offered are sophisticated and various, which raises the problem of developing financial education programmes for the population. Within this framework, saving must be approached not only quantitatively, volume-wise, but also structural, starting from the saving/investment instruments used.

Last, but not least, the uncertainty caused by the economic crisis determines changes in the buying and saving behaviours of the European citizen.

During the research process we concluded that the literature regarding saving is more than generous, most studies being written by researchers in the EU and the USA.

Thus, there are numerous ways of approaching the population saving process, but most regard saving, de-saving and capital accumulation in correlation with variables quantifying population ageing, economic growth and fiscal and monetary policies, as well as the macroeconomic equilibrium.

The present paper has the following two aims:

- To be a study on the evolution of the saving rates in EU countries and
- To classify the studied countries using cluster analysis.

2. Evolution of saving in the European Union

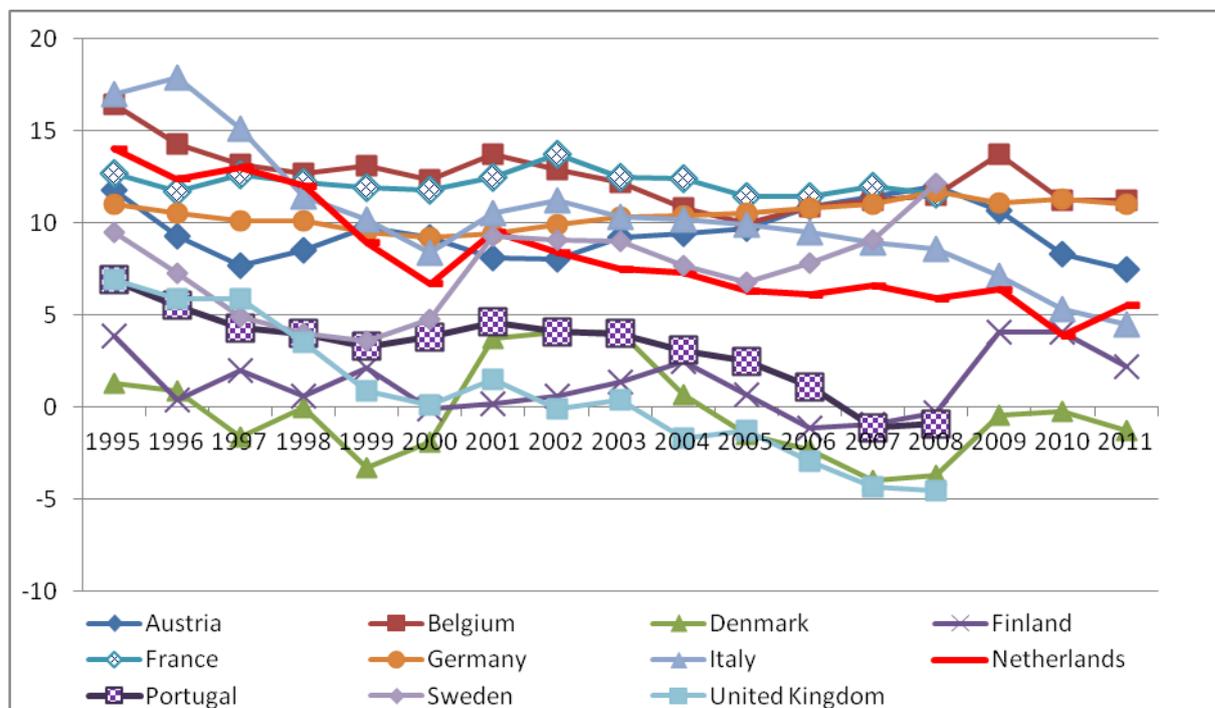
The indicator that allows for the time and space analysis of the household saving process is the net saving rate, computed dividing the household saving by the household disposable income.

The time period analysed was 1995-2011 and the group of countries studied comprises the following countries: Austria, Belgium, Denmark, Finland, France, Germany, Italy, Netherlands, Portugal, Sweden and United Kingdom. Only Western European countries members of the EU were introduced in the group. The choice of the first year of the period strictly depended on data availability.

From analysing the graph (see Figure 1), we may assert that there are countries with a higher propensity to saving (Austria, Belgium, France, Germany, Italy, Netherlands), with

saving rates above 10%, and countries with low propensity to saving (Denmark, Finland, Portugal and the United Kingdom).

Figure 1. The evolution of the net saving rate in the EU during 1995-2011



Source of data: OECD : Economic, Environmental and Social Statistics

The only country with a constant behaviour regarding saving is Germany. The other countries have fluctuating evolutions, the household answers, quantified through the saving rate, being different according to the signals in the economic environment, during booms or recessions.

3. Forming the country groups based on similarities

Since the analysis of the saving rates dynamic during 1995-2011 suggests that the propensity for saving allows for the classification of the countries in various types, we decided to use cluster analysis.

The variables used for the classification are:

- Rhs = the net saving rate of the households (the weight of saving in the household disposable income);

- Rgdp_cp = percentage increase of GDP per capita;
- gP65 = weight of the population aged 65 years and more in the total population;
- S = unemployment rate.

The data presented in Annex 1 are taken from the OECD data bases (for the net saving rate) and World Bank for the other variables.

Even if this type of analysis is a static one, we tried to show the changes in time by comparing the obtained clusters for the years 1995, 2000, 2007 and 2010. The choice for these years is justified as follows:

- 1995 is the first year for which data are available for the variables considered and the 11 countries in the study;
- 2000 suggests (see Figure 1) the end of a period of decreasing of saving rates and the beginning of a stagnation period. Also, the period 1995-2000 is characterized by constant increase in the GDP per capita;
- 2007 is considered the year before the crisis. We expect that the effects of the economic crisis become visible starting with 2008;
- 2010 is the last year with available data for a sufficient number of countries.

The annexes 2A, 2B, 2C and 2D show the dendograms obtained from the cluster analysis. Based on them, starting from similarities, we made the groups of countries presented in diagram 1. In 1995 the first group (Austria, Belgium, France, Germany, Italy and Netherlands) comprises the countries with saving rates above 10%, approximately 2.5% increases in the GDP per capita and around 15.5% elderly people in the population. The second group (Denmark, Portugal, Sweden and the UK) is formed by countries that, despite economic growth and low unemployment rate, have low saving rates. The third group is composed from Finland, with a low saving rate (3.9%), a large increase of GDP per capita, 3.6%, and a less aged population.

Between 1995 and 2000 most countries face strong decreases of the saving rates, Austria and Netherlands leaving the first group.

Diagram 1. Groups resulted from the cluster analysis

1995		2000		2007		2010	
Grup 1	Austria	Grup 1	Belgium	Grup 1	Belgium	Grup 1	Germany
	Belgium		France		France	Grup 2	Belgium
	France	Germany	Germany	Grup 2	Finland	Italy	
Grup 2	Italy	Grup 2	Italy	Grup 2	Italy	Grup 3	Austria
	Netherlands		Austria		Sweden		Denmark
	Denmark		Denmark		Netherlands		Netherlands
	Portugal		Netherlands		Portugal	United Kingdom	
Sweden	Sweden	United Kingdom	United Kingdom	United Kingdom	Portugal		
United Kingdom	United Kingdom	Finland	Finland	Finland	Finland		
Grup 3	Finland	Grup 3	Finland	Grup 3	Finland		

Between 2000 and 2007, although a period with economic growth and decreases in the unemployment rates for all countries, the saving rates do not increase. The exception is Sweden, which registers increases in the saving rate, moving thus in the first group.

The economic crisis of 2008 determines decreases of the saving rates in the countries of the first and the second groups, with the exception of Germany, which maintains its saving rate. It is interesting to note that Finland, the country in the third group, having small and even negative saving rates in 1995, 2000 and 2007, has a completely different behaviour after the crisis. The increase in the saving rate from -0.9% in 2007 to 4.1% in 2010 determines its movement to the second group.

On the other hand, since Germany kept its saving rate and maintained its percentage increase in the GDP per capita, it is the only country left in the first group in 2010.

4. Conclusions

Among the variables used in the cluster analysis, the saving rate varies the most both in time and from one country to another. Countries with a similar situation regarding the economic growth, the dependency ratio of the elderly or unemployment belong to a different group due to the saving behaviour of their populations. The reactions were divergent even in the context of the economic crisis. This situation leads us to the conclusion that in the process of identification of the determinants of saving one must not focus their attention only on demographic and economic variables. The propensity to save may be influenced by cultural factors or by the financial education of the population. Identifying these factors will help developing sets of policies aiming at stimulating saving specific for each country.

The household behaviour regarding saving is the result of economic policies and, thus, changes in the way the population acts depend on the impulses generated by the economic decisions regarding public expenses, monetary policy and facilitation of saving through financial products.

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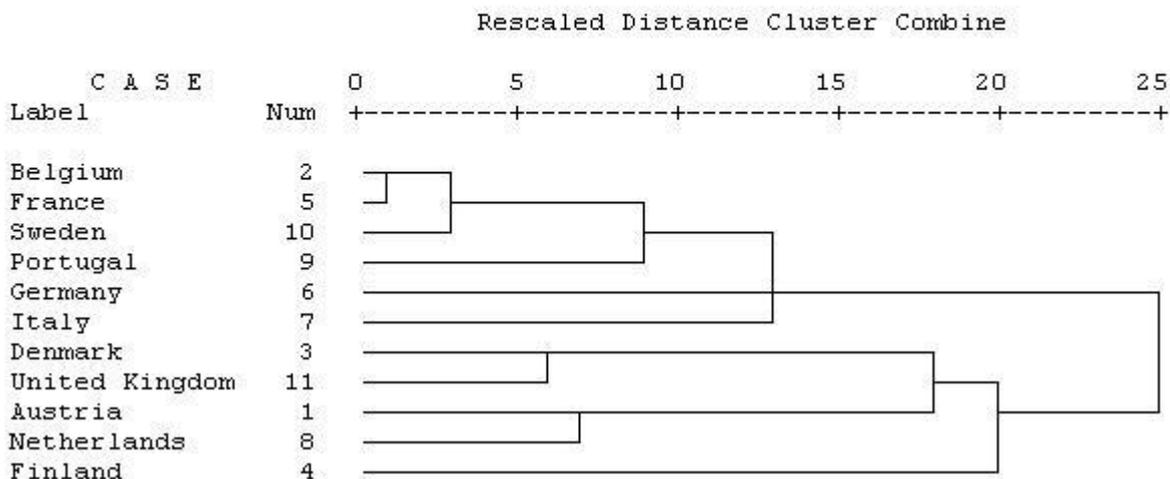
Annex 1.

Year	1995				2000			
Country	Rhs	Rgdp_cp	gP65	S	Rhs	Rgdp_cp	gP65	S
Austria	11,8	2,5	15,1	3,7	9,2	3,4	15,5	3,5
Belgium	16,4	2,2	15,9	9,3	12,3	3,4	16,9	6,6
Denmark	1,3	2,5	15,2	7,0	-1,9	3,2	14,8	4,5
Finland	3,9	3,6	14,2	15,3	-0,1	5,1	14,9	9,7
France	12,7	1,6	15,2	11,8	11,8	3,0	16,1	10,2
Germany	11,0	1,4	15,4	8,1	9,2	2,9	16,3	7,7
Italy	17,0	2,9	16,7	11,7	8,4	3,6	18,3	10,8
Netherlands	14,0	2,6	13,2	7,2	6,7	3,2	13,6	2,7
Portugal	6,9	4,0	14,9	7,2	3,8	3,4	16,2	3,9
Sweden	9,5	3,4	17,5	9,1	4,8	4,3	17,2	5,8
United Kingdom	6,9	2,8	15,8	8,6	0,1	4,1	15,8	5,5
Year	2007				2010			
Country	Rhs	Rgdp_cp	gP65	S	Rhs	Rgdp_cp	gP65	S
Austria	11,4	3,3	16,7	4,4	8,3	2,0	17,6	4,4
Belgium	11,2	2,2	17,3	7,5	11,2	1,3	17,4	8,3
Denmark	-4,0	1,1	15,5	3,8	-0,2	0,8	16,5	7,4
Finland	-0,9	4,9	16,3	6,8	4,1	3,3	17,2	8,4
France	12,0	1,7	16,5	8,0		1,1	16,8	9,3
Germany	11,0	3,4	19,8	8,6	11,3	3,8	20,4	7,1
Italy	8,9	0,9	19,9	6,1	5,3	1,3	20,4	8,4
Netherlands	6,6	3,7	14,4	3,2	3,9	1,2	15,3	4,5
Portugal	-1,1	2,1	17,4	8,0				
Sweden	9,1	2,6	17,5	6,1				
United Kingdom	-4,3	2,8	16,1	5,2				

Annex 2C

2007

Dendrogram using Average Linkage (Between Groups)



Annex 2D

2010

Dendrogram using Average Linkage (Between Groups)

