Flash Economics

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Europeans ought to save even more

Household savings rates in the euro zone are high (15.2% of disposable income as of Q1 2025), resulting in a significant current account surplus for the euro zone (1.8% of GDP in Q1 2025). However, the need for increased investment (for the energy transition and digital transition, and to finance disruptive innovations) and increased military spending, which amounts to around 5.5% of GDP, far exceeds the size of the current account surplus.

This implies that even though the savings rate of households in the euro zone is high, they ought to save even more; that companies should reduce their dividends in order to self-finance more investments, and that governments need to transform current expenditure (social protection) into investments. This is even more true for France than for the euro zone as a whole.

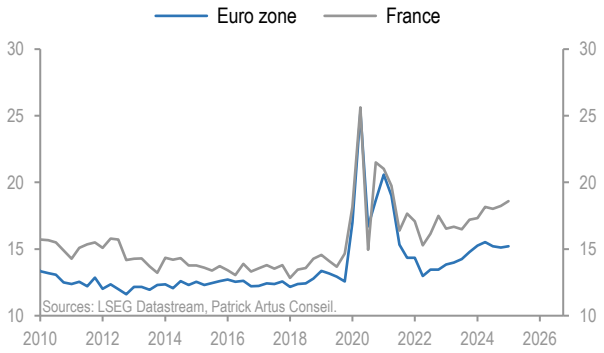
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The household savings rate in the euro zone is high, but overall savings in the euro zone are insufficient.

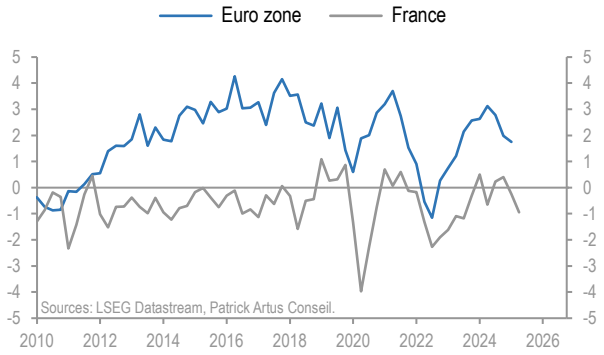
The savings rate of households in the euro zone (15.2% of their disposable income as of the first quarter of 2025) is high, and **this is even more true for French households** (with a savings rate of 18.9% as of the second quarter of 2025), **Chart 1**.

Chart 1
Gross household saving rate (as %)



This high household savings rate allows the **euro zone to run a current account surplus**, and France to run a slight surplus in 2024, which turned into a slight deficit in 2025 (**Chart 2**), despite the size of the public deficit, which could have led to a much larger external deficit.

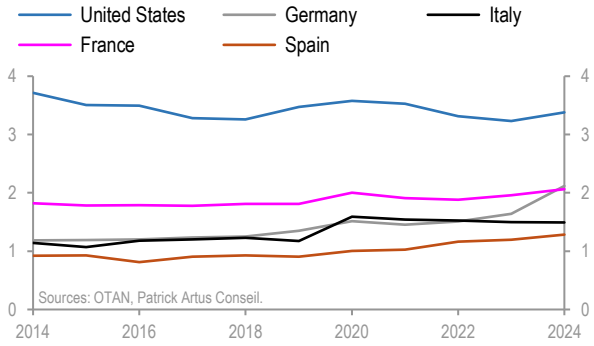
Chart 2
Current account balance (as % of nominal GDP)



But we know that the euro zone (and France) ought to:

- **significantly increase investment** in energy transition, digital development, education, and training; Mario Draghi's report estimates this additional investment requirement at €800 billion per year for the entire European Union over a period of 10 years;
- **significantly increase military spending** (**Chart 3**), in order to build credible defense capabilities.

Chart 3
Military expenditures (as % of GDP)



If the necessary increase in investment represents 4.6% of EU GDP, and that of military spending 1% of EU GDP, the **increase in these outlays far outweighs the European current account surplus**; in France, the current account balance will start 2025 with a slight deficit (around 1% of GDP); **if these additional investments were carried out, they would result in a considerable external deficit.**

We can therefore see that the nation's savings rate should actually be higher in the euro zone, and even higher in France, in order to finance these additional investments.

How to increase the nation's savings rate?

There are three ways to increase the nation's savings rate.

1. Further increase the household savings rate

There are frequent complaints that high household savings rates are weighing on consumption. **However, the pressing need is not to support consumption but to increase investment**, in new technologies (**Chart 4**), energy transition, education (given the shortcomings of education systems, **Table 1**), military equipment, etc.

Chart 4
ICT investment including software
(in value terms, as % of nominal GDP)

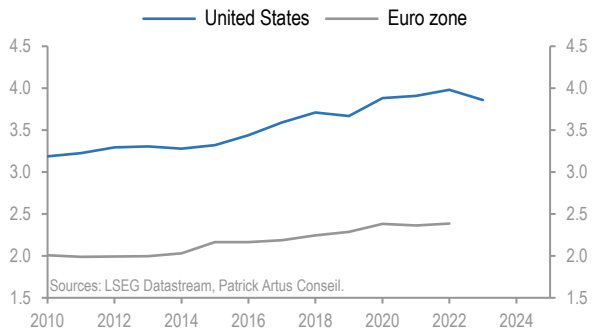


Table 1: Results of OECD PISA surveys (overall score, by decreasing score in the 2022 survey)

Country	2009	2012	2015	2018	2022
Japan	529	540	529	520	533
Korea	541	542	519	520	524
Finland	543	529	523	516	495
Denmark	499	498	504	501	491
Austria	487	500	492	491	486
Belgium	509	509	503	500	486
Germany	510	515	508	500	482
Netherlands	519	519	508	502	480
France	497	500	496	494	478
Portugal	490	488	497	492	478
Spain	484	490	491	482	477
Italy	486	490	485	477	477

Source: OECD

We will therefore have to accept saving further, consuming less, and investing more. Economic policies shall no longer be appraised solely on the basis of their effect on consumption.

2. Reduce dividends and share buybacks to give companies the capacity to invest more

To support business investment (half of the additional investment recommended by the Draghi report is public investment, half is business investment), **European and French companies will have to agree to lessen shareholder return** (**Charts 5A/5B**) in order to be able to invest more.

Chart 5A
Dividends distributed by non-financial corporations (as % of nominal GDP)

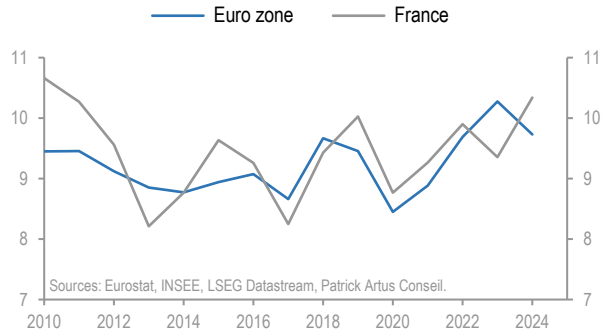
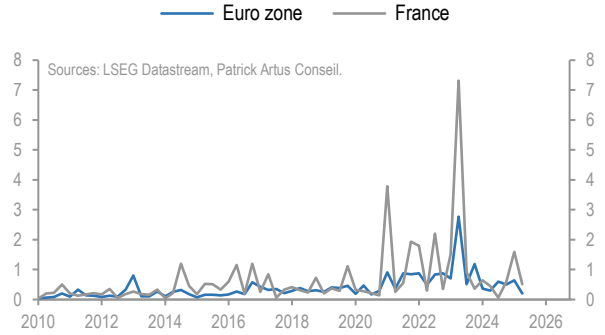


Chart 5B
Equity repurchases by non-financial corporations (as % of nominal GDP)



3. Transform public transfer expenditures into public investments

The final option for increasing national savings and investment is to **convert part of public transfer outlays** (**Chart 6A**) **into public investment expenditure** (**Chart 6B**).

Chart 6A
Public expenditure on health and social protection
(as % of nominal GDP)

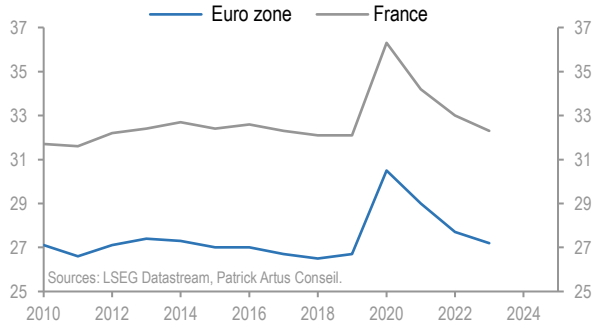
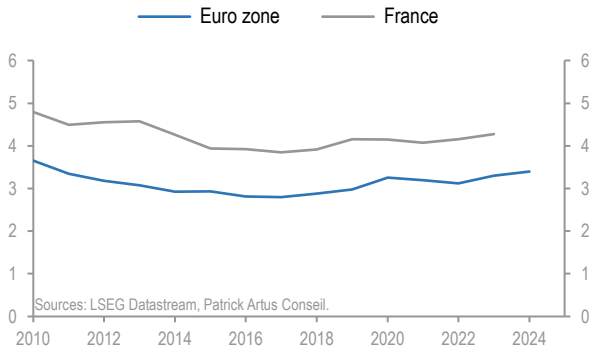


Chart 6B
Public Investment (as % of nominal GDP)



Summary: stop wanting to consume more

Economic developments (such as increases in household savings rates) and public policies are still judged primarily on the basis of their effects on household consumption.

But the urgent need is not to stimulate consumption but to stimulate investment (public and corporate), as the Draghi report has shown.

To invest more, it will be necessary for:

- households to save more, to prevent the increase in investment from creating an external deficit;
- companies to pay their shareholders less, to have the capacity to invest more;
- governments to transform public transfer outlays into public investment spending.

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