Analysis

Why are euro area households saving more than usual?

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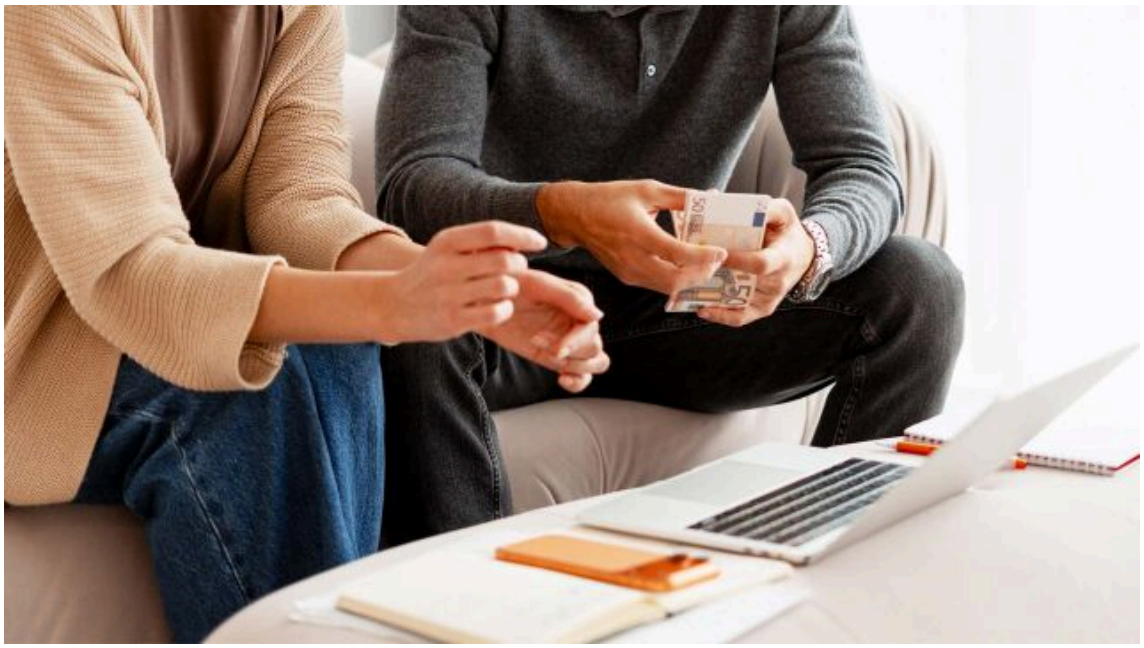


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Since the COVID-19 pandemic, the household savings rate in the euro area has been exceptionally high, which explains the slow recovery in private consumption. The savings rate has been driven up in particular by the decline in households' real wealth, higher interest rates and increased public deficits, and greater economic policy uncertainty also appears to have played a role. A rapid decline in the savings rate is unlikely without significant changes in economic conditions. Increased uncertainty due to the Middle East war and higher energy prices are instead slowing the recovery of private consumption and the return of the savings rate to its pre-pandemic levels.

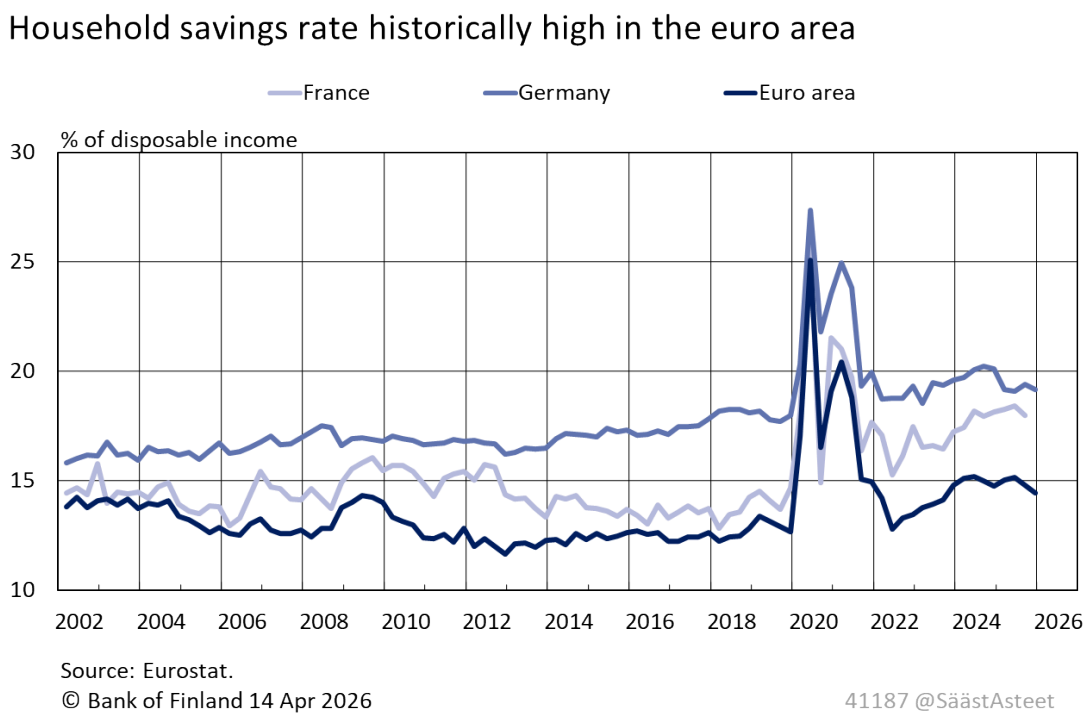


Savings rate still higher than usual in many euro area countries

In the aftermath of the global financial crisis, the gross household savings rate in the euro area initially remained stable at 11%–13% until the outbreak of the pandemic (Chart 1). During the pandemic, lockdowns temporarily prevented the consumption of services, disrupted supply chains for goods and led people to accumulate excess savings amid heightened uncertainty. As a result, the savings rate rose to unprecedented levels, exceeding 25% in summer 2020.

After the pandemic and lockdowns, the household savings rate briefly returned to its pre-pandemic levels, falling below 13% in summer 2022. However, the savings rate subsequently rose again. In 2025, it was already above 15%, higher than at any time before or since the pandemic years. As the household savings rate has stayed high, consumption growth has in turn remained sluggish.

Chart 1.

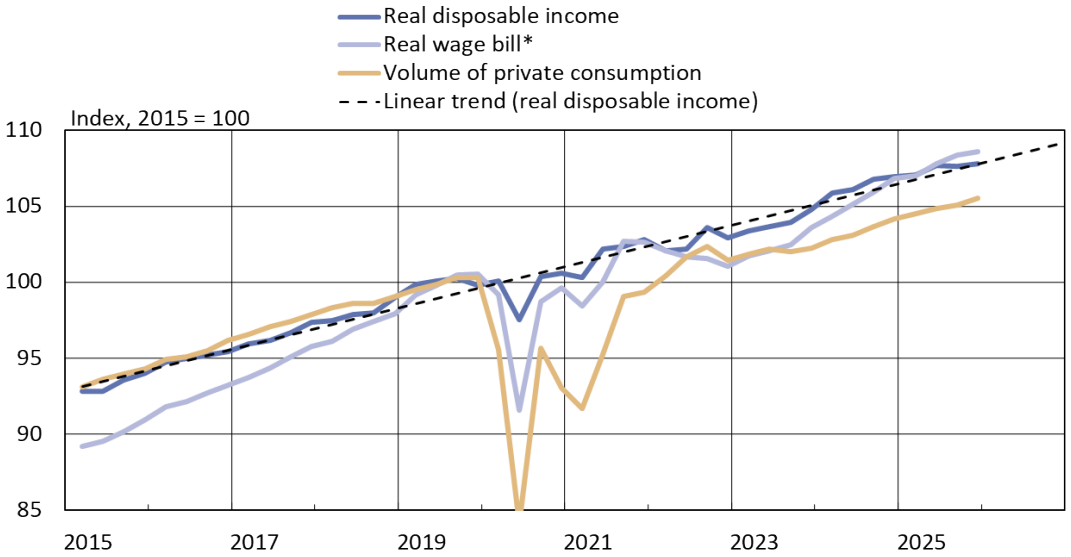


Gross saving is calculated as the difference between disposable income and spending on consumption, and the savings rate is the gross saving by households in proportion to their disposable income in the period in question.[1] The savings rate can therefore increase either as a result of an increase in the numerator (savings) relative to the denominator, or a decrease in the denominator (income) relative to the numerator

The post-pandemic increase in the savings rate has occurred as the result of savings having risen at a time when income growth has remained unchanged. Although real wage growth was temporarily weakened by high inflation, purchasing power was simultaneously supported by other factors. With the years of high inflation over, wage growth has now virtually caught up. Purchasing power and real wage growth have returned to their long-term trend levels (Chart 2). Private consumption, on the other hand, still remains below its pre-pandemic trend. Thus, despite income growth returning to its trend, this has not been reflected as an increase in consumption.

Chart 2.

Household disposable income has grown broadly in line with its long-term trend – private consumption has not



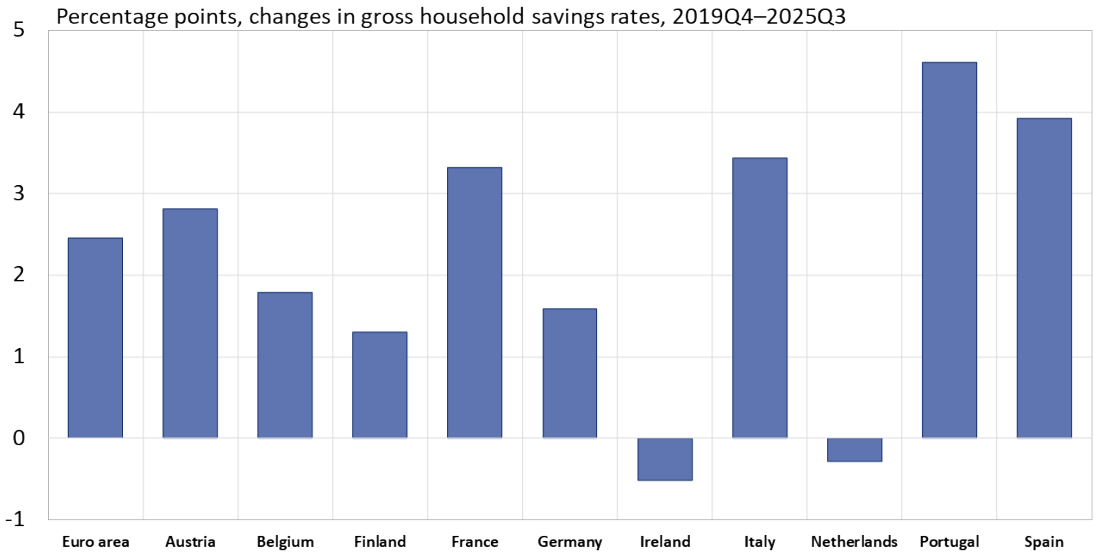
Deflated using the private consumption price index. * Excl. employers' social security contributions.
Sources: Eurostat and calculations by the Bank of Finland. 42727@Kulutus_Displ_W
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Although savings rates have increased fairly broadly across the member countries of the euro area, there are also country-specific differences.[2] The savings rate has risen substantially in Spain, Italy, Austria, Portugal and France (Chart 3). The savings rate is also higher than before in Belgium, Germany and Finland. By contrast, in the Netherlands and Ireland, the savings rate has already fallen close to or even below the pre-pandemic levels.

In Germany, the gross savings rate was already around 18% before the pandemic and has since risen slightly, to just under 20%. In Spain and Portugal, the savings rate has risen over the same period, from about 8% to 12% and to 13%, respectively.

Chart 3.

Gross household savings rates have risen in many euro area countries



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Changes in the savings rate in the euro area can be explained by various factors

The rise in the household savings rate in the euro area can be explained with the aid of several different economic theories. One of the most well-known theories on household consumption and saving is the permanent income hypothesis of Nobel laureate in economics Milton Friedman (1957). This posits that a household's consumption is based on its anticipated long-term income. According to this theory, transitory or unexpected income (such as bonuses) has only a very limited effect on household consumption.

The savings behaviour of an ageing continent such as Europe could also be explained using the life-cycle hypothesis. In its simplest form, this can be understood as a situation in which a household seeks to smooth out its consumption between the present and the future. This idea was developed further by another Nobel laureate in economics, Franco Modigliani, together with Richard Brumberg (1954). At the core of their research is the idea that because income varies at different stages of life, individuals typically consume more than they earn during youth and old age, whereas in middle age they save in preparation for retirement.

However, the behaviour implied by the life-cycle hypothesis appears to only partially correspond

to the reality in the euro area, especially in the case of pensioners. Some empirical studies find that pensioners tend to save more than other groups (e.g. Mäki-Fränti, 2018). This may be explained by, for example, the bequest motive, which is the desire to pass on assets to heirs or others after death. Irish survey data suggests that this desire to use savings to help fund intergenerational transfers may have increased in recent years (Boyd, Byrne and McIndoe Calder, 2025).

The source of income may also be a determining factor in whether it is channelled into consumption or saving. For example, a larger share of capital income is typically saved (Kolsrud et al., 2024; also Koskela and Viren, 1984). The household's overall income level – the income bracket to which it belongs – is also a factor in how big a share of income is saved on average. This means that income differentials may also affect the savings rate.

Part of household saving may also be explained by precautionary motives, that is, wanting to guard against different kinds of financial risks. Examples of such risks are unemployment and illness.

Households may also save for precautionary reasons due to various more general sources of future uncertainty. Among such uncertainties are those related to economic policy, geopolitics and trade policy, which are all currently very much evident in the euro area economy. The effects of these may also show up in various household confidence surveys. Recent studies have found that such uncertainties have a significant impact on household saving and consumption.[3]

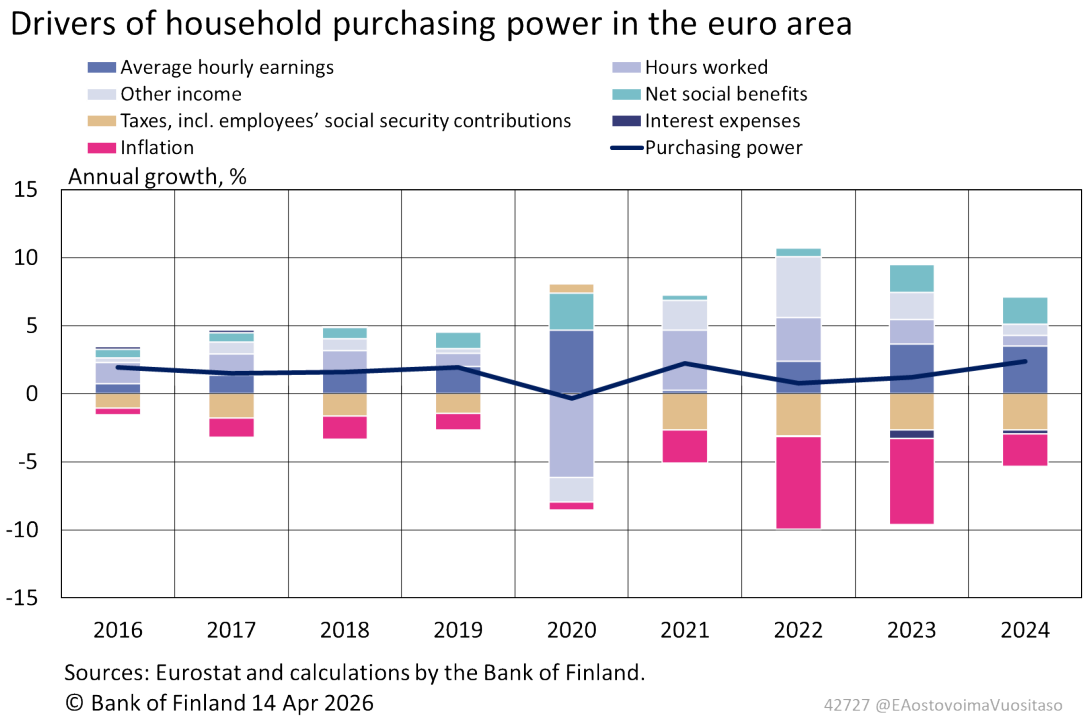
Larger public deficits and higher public debt levels since the pandemic may also help explain the rise in household savings rates in the euro area. This explanation is known as the Ricardian equivalence hypothesis. It assumes that households have an understanding of government budget constraints and therefore follow government/public sector deficits and debt over time. Households then prepare for future fiscal tightening by saving a larger share of their income than usual.[4]

Household income growth has been largely steady, but its drivers have varied over time

Both the theoretical and empirical literature emphasise that the composition of income is important for households' decisions on consumption and saving. For example, according to the permanent income hypothesis discussed earlier, households consume a larger share of changes in income perceived as permanent than of those perceived as temporary. Partly for this reason, households' consumption and saving decisions may be influenced not only by their purchasing power but also by the nature of the income that gives rise to the purchasing power. We therefore next examine the composition of household purchasing power and its evolution in recent years.

Household purchasing power grew steadily at an annual rate of approximately 2% in the second half of the 2010s, due in particular to low inflation. Purchasing power then varied considerably during and after the pandemic. High inflation, in particular, eroded income growth in 2022–2023. At the same time, however, other income and the rise in social benefits had the opposite effect on households' financial position. The increase in other income is particularly attributable to a temporary rise in corporate profit distributions, which resulted from prices increasing faster than wages. A further point worth noting is that before the pandemic, growth in hours worked played a significant role in underpinning household purchasing power, whereas from 2024 onwards this effect has almost entirely disappeared.

Chart 4.



The Chart above also shows that household purchasing power is affected by several variables. Although purchasing power remained broadly stable in the second half of the 2010s, its composition varied over time. In 2016, in particular, purchasing power strengthened mainly on account of an increase in hours worked, whereas the contribution from average hourly earnings was small. In 2019, the situation was the reverse, as average hourly earnings rose strongly, but the number of hours worked remained relatively stable. This underlines the fact that the relationship between purchasing power and the savings rate is not straightforward. For example, while the contribution of hours worked to purchasing power was negative during both the global financial crisis and the euro area sovereign debt crisis, the savings rate increased only during the global financial crisis.

The permanent income hypothesis discussed earlier may help explain this. During the global financial crisis, the contribution of social benefits to household purchasing power increased markedly, whereas no similar pattern was observed during the euro area sovereign debt crisis. The permanent income hypothesis would explain this by suggesting that households perceived the social benefits paid during the global financial crisis as temporary and channelled the additional income into savings. During the euro area sovereign debt crisis, by contrast, the changes focused on more permanent income components – wages and hours worked – with lower household income being directly reflected in weaker consumption. After the crisis, in turn, purchasing power increased strongly again without any change in the savings rate. In other words, the additional income went into consumption rather than into savings.

In recent years, the increase in savings has also been reflected in household wealth. The household savings rate started to rise in mid-2022, after which household indebtedness has no longer increased at the usual pace (Chart 6). Savings have been used not only to reduce the build-up of debt but also to accumulate wealth. Household wealth has grown particularly strongly in the form of bank deposits and equity investments (Chart 5). In contrast, the accumulation of fixed assets, such as residential property assets, appears to have slowed considerably since mid-2022.

Chart 5.

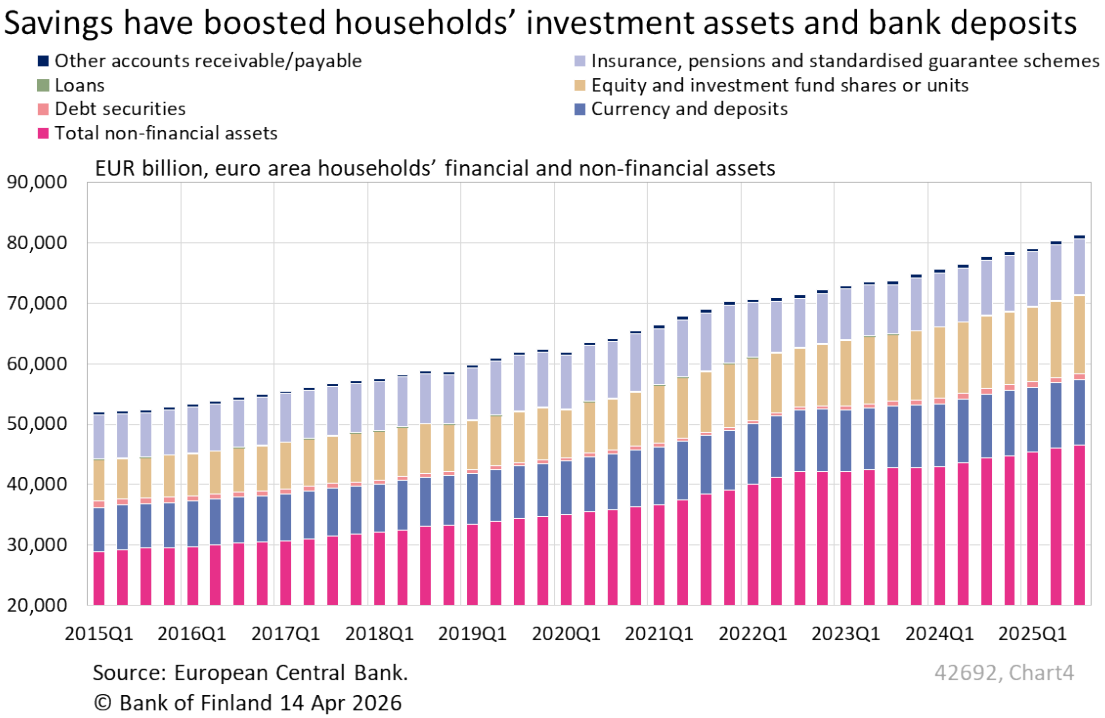
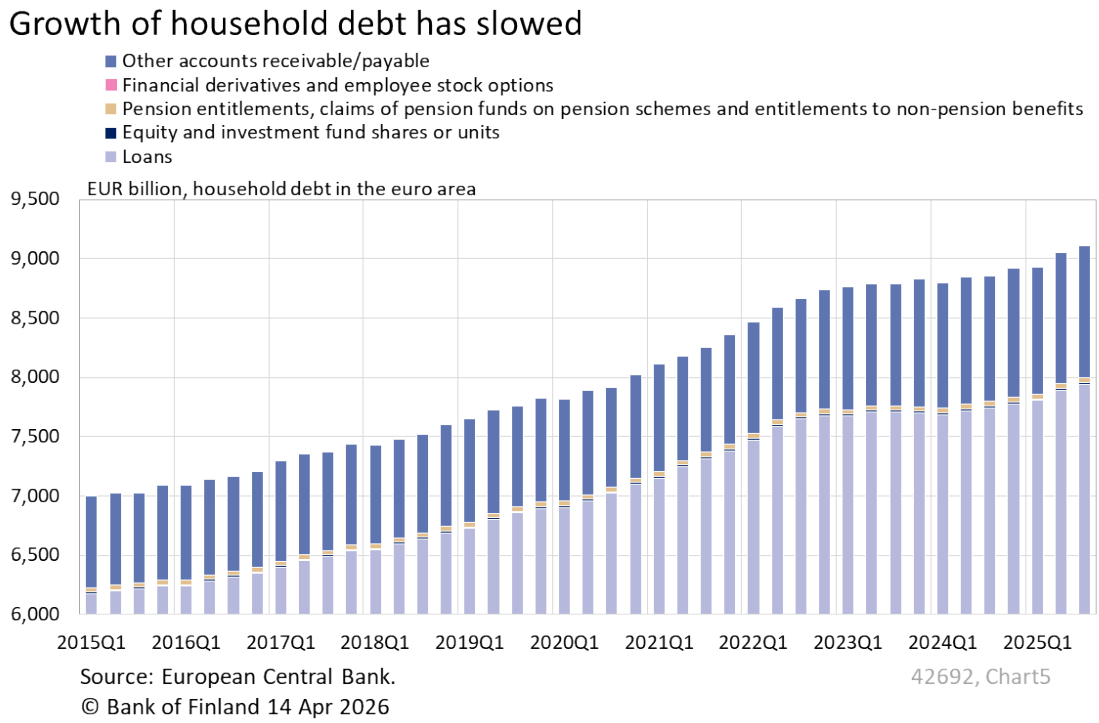


Chart 6.



Empirical analysis: why have households increased their savings?

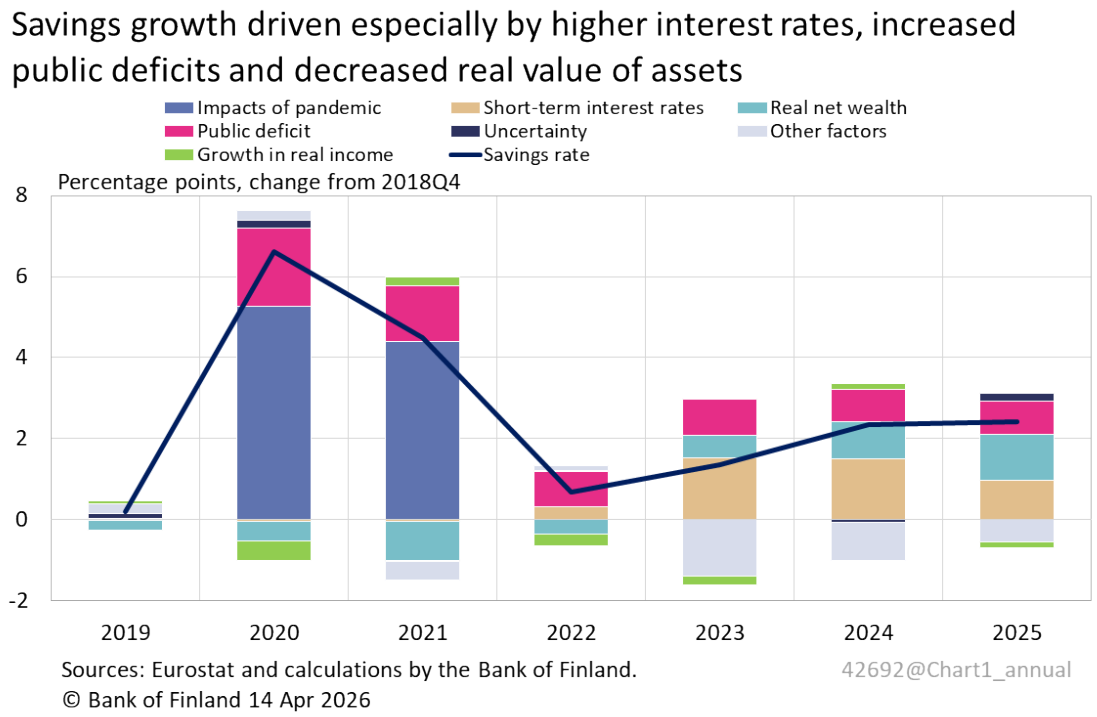
The following assessment uses a fixed effects model applied to panel data for 1999–2025 to examine the factors influencing household saving decisions. The data covers the original group of countries that joined the euro area, except for Ireland.[5, 6] The use of a panel model allows country-specific differences to be taken into account in examining savings rates.[7] The aim is to analyse the economic factors influencing households' consumption and saving decisions. It is important to note, however, that some of these factors – such as real assets and short-term interest rates – may reflect the same macroeconomic fundamentals.[8]

Chart 7 illustrates the estimated effects of various factors on the savings rate throughout the reference period. The results indicate that the increase in the savings rate is currently being driven most strongly by higher short-term interest rates, the rise in general government deficits and a decline in households' real net wealth. These findings align with assessments by the European Central Bank (2024) and the European Commission (2024), which identify the rise in interest rates and the reduction in real wealth as key factors behind the savings rate remaining above normal.[9] Overall, our estimates correspond closely with Staal's (2023) analysis of the OECD countries. The

results indicate that the following economic theories each partly explain households' saving decisions: consumption smoothing over time, the permanent income hypothesis and the Ricardian equivalence hypothesis.[10]

The model suggests that the increase in real incomes and in overall economic uncertainty (measured by the World Uncertainty Index) appear to have had only a minor impact on savings since 2019. However, the impact of uncertainty appears to have intensified in 2025, suggesting that households are increasing precautionary savings in response to various risks. In reality, the impact of uncertainty may be even greater than observed here, since the uncertainty indicator used is based on general economic policy uncertainty derived from literary sources. The direct uncertainty faced by households – such as the risk of unemployment – is therefore not fully accounted for.

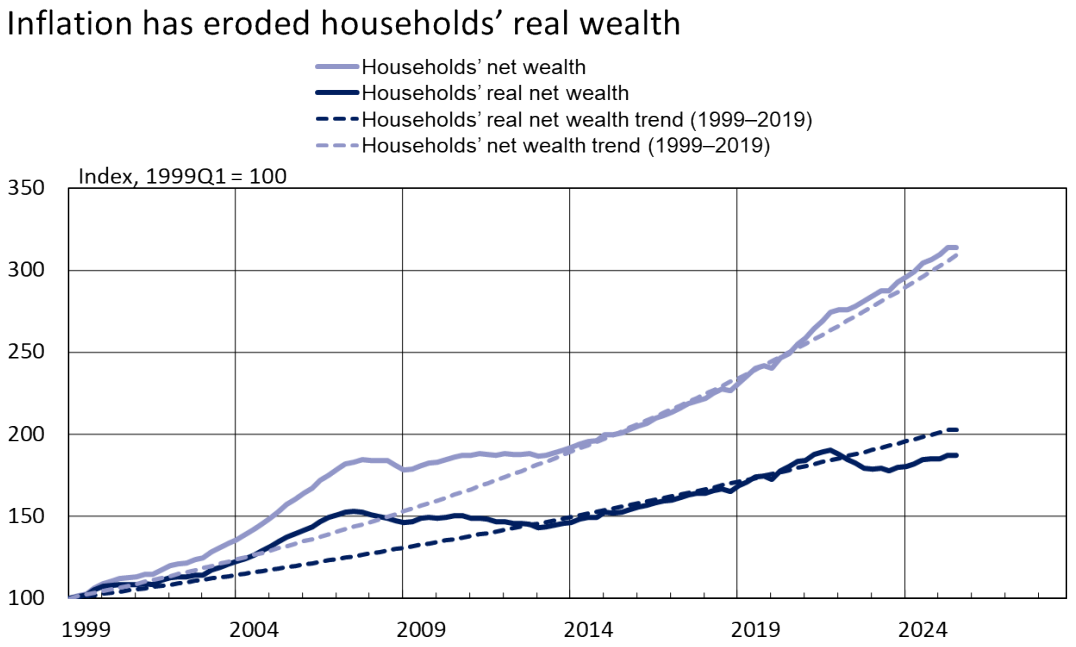
Chart 7.



Our results indicate that in addition to higher interest rates other important factors in savings growth have been the deterioration in household wealth due to inflation, and also Ricardian behaviour by households – that is, anticipation of a normalisation in public sector deficits and tighter fiscal policy in the future. Analysis by the European Central Bank (ECB) also indicates that a decline in real net wealth will cause an increase in the savings rate.[11]

Although households' net wealth in the euro area has also steadily increased in recent years, the surge in inflation that began in 2021 diminished the real value of households' residential property and investment assets (Chart 8) and interrupted the steady growth in wealth that occurred from 2013 to 2019. Due to inflation, households' real wealth in 2025 was around 8% below the earlier trend. Thus, households have significantly less wealth than before in relation to the general price level or their income level. According to our estimates, this may have contributed to higher household savings, which is reflected in the above-trend growth in nominal net wealth.

Chart 8.



Sources: European Central Bank, Eurostat and calculations by the Bank of Finland. 42692@Chart20
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Following the 2009 global financial crisis, economic growth was substantially reduced by balance sheet adjustments.[12] These balance sheet adjustments slowed private consumption growth for longer than initially thought, and this may well also be the case with the current adjustments being made. However, the post-financial crisis balance sheet adjustment differs markedly from the current situation. First of all, the need to adjust the balance sheets at that time stemmed from a rapid credit expansion (Cuerpo et al. 2015[13]). Secondly, this adjustment coincided with simultaneous fiscal consolidation prompted by the financial crisis, resulting in weak income and employment growth, low inflation and monetary policy that approached the zero lower bound.[14]

In contrast, the current need to adjust household balance sheets has arisen from a significant decline in real wealth value due to inflation. Nevertheless, income growth has remained strong,

and the labour market continues to be robust. Private consumption has also continued to show moderate growth. At the same time, despite the high level of public debt in the euro area, the same kind of pressure for strong fiscal consolidation that was felt during the financial crisis has not been evident.[15] This time, the consolidation of public finances is likely to occur more gradually. The impact of the accumulated household wealth on economic growth and investment is likely to be less strong and enduring than was seen with the deleveraging that followed the financial crisis.

Summary: A rapid fall in the savings rate is unlikely without significant changes in the economy

The household savings rate remains higher than normal in many euro area countries. The permanent income hypothesis is an economic theory that helps in understanding the observed trend, but the overall picture is explained by a wider array of factors.

Based on our analysis, the high household savings rate can be attributed to the decline in households' real wealth, higher interest rates and increased public deficits. A rapid return of the euro area's savings rate to its earlier level is unlikely without changes in economic fundamentals, since our results suggest that the primary explanations for savings are consumption smoothing over time and the permanent income hypothesis – that is, longer-term factors rather than short-term ones. However, increased uncertainty stemming from the Middle East war and the higher level of energy prices are more likely to hinder the recovery of private consumption and the return of the savings rate to pre-pandemic levels.

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Notes

1. In addition to disposable income, net changes in the capital of pension insurance funds are also taken into account, but this is mainly a technical adjustment. Disposable income is also affected by the purely accounting-related FISIM items (financial intermediation services indirectly measured), but their impact on the savings rate is likewise marginal from the perspective of the analysis in this article. Besides the gross savings rate, the net savings rate could also be examined, as this also takes account of households' consumption of capital. In this article, however, the savings rate is examined on the basis of gross saving, as it provides a direct picture of households' active decisions to consume and save. ↑

2. This article examines the savings rate in the euro area and in the original euro area Member States (EA-11, excl. Luxembourg), as data on the quarterly savings rate are not available for the new members. ↑
3. A classic study on the measurement of economic policy uncertainty and the impact of uncertainty on economic activity is Baker et al. (2016). According to their findings, an increase in economic policy uncertainty considerably reduces economic activity. There is also a large body of research on the effects of geopolitical uncertainty on economic activity. For example, Anttonen and Lehmus (2025) found that geopolitical uncertainty is, on average, negatively associated with economic activity in the short term. ↑
4. Household saving can also be affected by the extent to which households have imperfect information and how well they understand the nature of shocks; see Deaton (1977). ↑
5. Eurostat/OECD figures for household net wealth, which are a key factor explaining the savings rate in our model, are not available for Ireland. ↑
6. A panel model was used to analyse the variation in savings rates among member countries over time. The model takes account of permanent, country-specific structural differences by incorporating separate fixed effects. The explanatory factors include both country-specific variables and those common to all member countries. Country-specific factors include the public deficit, the trend deviation in household net wealth relative to disposable income, real income growth, the investment-to-GDP ratio and the World Uncertainty Index. Common factors include the short-term interest rate and an indicator variable representing the pandemic years. Alternative model specifications controlling for economic confidence, real GDP growth and inflation were also tested, but these did not have a significant impact on the results. ↑
7. See estimates made at the euro area level, e.g. Bobasu, A., Gareis, J. and Stoevsky, G. (2024), 'What explains the high household saving rate in the euro area?' ECB Economic Bulletin, 8/2024. ↑
8. The estimates therefore do not reveal which economic phenomena or shocks have influenced the explanatory variables and thus are the underlying causes of the increase in the savings rate. ↑
9. European Commission (2024), 'Household savings and wealth in the euro area – implications for private consumption', Winter 2024 Interim Forecast, Box 1.3. An analysis by the French central bank, Banque de France, attributes the rise in France's savings rate to several factors: households' efforts to smooth consumption over time; differences in marginal propensities to consume received income components – including higher interest income; the period of high inflation (decline in real values); and increased uncertainty (see: Bulletin de la Banque de France, 262/3, January–February 2026). ↑
10. Besides these, Staal (2023) reports that a higher old-age dependency ratio and lower social security levels are also associated with an increased savings rate. However, our data does not indicate that these are explanatory factors in the current increase in the euro area savings rate. ↑
11. Bobasu, A., Gareis, J. and Stoevsky, G. (2024), 'What explains the high household saving rate in the euro area?' ECB Economic Bulletin, 8/2024. ↑

12. See: e.g. ECB (2017), 'Private sector indebtedness and deleveraging in the euro area countries', ECB Economic Bulletin, Issue 4/2017, Box 5 and Kuvshinov, D., Müller, G.J. and Wolf, M. (2016), 'Deleveraging, deflation and depreciation in the euro area', European Economic Review, 88, pp. 42–66. ↑
13. Cuerpo, C., Drumond, I., Lendvai, J., Pontuch, P. and Raciborski, R. (2015), 'Private sector deleveraging in Europe', Economic Modelling, 44, pp. 372–383. ↑
14. According to Fornaro (2018), deleveraging accounted for a substantial portion of the euro area's slow GDP growth following the financial crisis and may have contributed to the euro area approaching the zero lower bound. See: Fornaro, L. (2018), 'International Debt Deleveraging', Journal of the European Economic Association, 16(5), pp. 1394–1432. ↑
15. Our results nevertheless show that the substantial public deficits have further increased households' need to save in order to guard against future fiscal adjustment. ↑

Keywords

euro area, households, saving