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**Round Table “Low Rates and Household Behavior”**

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*\* The views expressed are mine and do not necessarily reflect those of the Banque de France, the Eurosystem and Sciences Po. I gratefully thank Franck Sédillot for his help.*

- Results of a simulation using an Almost Ideal Demand System (AIDS) in the fashion of Deaton and Muellbauer (1980)
- Model similar to the one proposed by Blake (2004) on the composition of personal sector wealth in the US
- Here, applied to the shares of the various components of the French households' portfolio (Avouyi-Dovi *et al.*, 2019)
- Explanatory variables : yields (prominent role) but also wealth, demography...

# Asset shares

- Sight deposits
- Passbooks
- Other monetary assets
- Housing saving plans
- Equities
- Bonds and life insurance contracts in euros

- **Assumptions**

- ✓ Interest rates are kept at their current levels

- ✓ Inflation remains at 1.5 %

- **Baseline scenario** : real yields kept at observed levels in 1999-2016

<b>Real yields</b>	<b>Baseline (1)</b>	<b>Low rates (2)</b>	<b>(1)-(2)</b>
Sight deposits	-1.3	-1,3	0
Passbooks	1.0	-0.8	-1.8
Other monetary assets	0.7	-2.0	-2.7
Housing saving plans	1.4	-0.8	-2.2
Equities	7.6	7.6	0
Bonds and LI contracts in €s	2	0	-2.0

# Results

<b>Shares</b>	<b>1999-2016 (1)</b>	<b>Baseline (2)</b>	<b>Low rates (3)</b>	<b>(2)-(3)</b>
Sight deposits	11.9	10.1	13.0	2.9
Passbooks	16.6	16.9	16.2	-0.8
Other monetary assets	4.1	2.3	1.4	-0.9
Housing saving plans	6.8	7.4	7.4	0
Equities	15.9	13.9	15.5	1.6
Bonds and LI contracts in €s	44.7	49.4	46.5	-2.9

# Comments

## ■ Overall

- Sight deposits and equities substitute for passbooks, other monetary assets, bonds and life insurance contracts
- Housing saving plans unaffected in spite of lower yield

## ■ Explanations (on top of own yields)

- Equities and housing saving plans are complementary
- Equities and passbooks/other monetary assets/bonds and life insurance contracts are substitutes

## ■ Caveats

- Baseline extends previous trends
- No general equilibrium model : can we both have a return of 7.6% in shares (with reinvested dividends) and keep low rates for a protracted period?
- Not all components of wealth included in FAIDS: one can expect increased debt and reallocation towards real estate in low rate environment

# References

- Avouyi-Dovi S., Pfister C., Sédillot F. (2019), “A revisited financial almost ideal demand system : an application to the French household’s portfolio”, manuscript.
- Blake D. (2004), “Modelling the composition of personal sector wealth in the US”, *Applied Financial Economics*, 14, 611-630.
- Deaton A., Muellbauer J. (1980), “An Almost Ideal Demand System”, *American Economic Review*, 70 (3), 312-326.

# Annex

<b>Shares elasticities</b>	<b>SD</b>	<b>P</b>	<b>OMI</b>	<b>HSP</b>	<b>E</b>	<b>B &amp; LI</b>
Sights deposits	6,0	-1.5	0.3	-1.5	-0.2	-3,0
Passbooks	-1.5	5.4	-2.7	0.0	-1.3	0,1
Other monetary assets	0.3	-2.7	2.6	0,0	-1.0	0,8
Housing saving plans	-1.5	0,0	0,0	0.5	1.4	-0,3
Equities	-0.2	-1.3	-1.0	1.4	3.3	-2,3
Bonds and LI contracts in €s	-3,0	0.1	0.8	-0.3	-2.3	4,8