

## In 2023, wealth income is expected to be dynamic, driven by the rise in interest rates

Within the scope of national accounting, wealth income includes households' income from property and real estate. Households' property income corresponds to interest received on their deposits net of that paid on their loans, and also dividends and income from other investments (mainly life insurance). Real estate income includes real rents (for household landlords) or imputed rents (for owner-occupiers) received by individual homeowners, from which charges and property taxes are deducted. The national accounts record as interest paid or received by households any "pure" interest, calculated at the banks' refinancing rate, then enters the difference between this pure interest and the interest actually paid or received by households as a payment to the bank for a financial intermediation service indirectly measured (FISIM).

In 2023, wealth income in current euros is expected to increase by +15.8% and should contribute 3.1 points to growth of 7.4% in household gross disposable income (GDI). However, part of the growth in wealth income is due to the adjustment for FISIM. Without FISIM, wealth income is expected to increase by +9.0%, after +6.5% in 2022. This acceleration would appear to be due to the increase in net interest actually received, which should contribute +2.9 points in 2023 after +1.5 points in 2022. Growth in net interest income excluding FISIM is more pronounced in France than among our European neighbours, as savings, which are mainly regulated, have partially followed inflation, while outstanding property loans are largely set at fixed rates, and were contracted at a time when interest rates were low. Dividends and other investment income are expected to remain very dynamic, contributing +1.9 and +2.6 points respectively to growth in wealth income in 2023. Finally, the contribution of the real estate income of individual homeowners is expected to be more moderate in 2023 (+1.5 points), with weak annual growth (+2.2%) which can be explained by the capping of rent increases since 2022. Growth in property income in 2023 remains surrounded by forecasting uncertainty, however, especially for payments of other investment income.

In nominal terms and excluding FISIM, wealth income should contribute 1.7 points to the 6% increase in household GDI in 2023, with the main contribution still that of earned income (up to 3.8 points). In real terms, however, wealth income excluding the FISIM effect, is expected to be the main contributor to growth in the purchasing power of household GDI excluding FISIM in 2023, at around +0.8 points, while earned income should contribute +0.2 points.

### Wealth income comprises property income, real estate income and financial institution margins on deposits and loans excluding housing

Net wealth income received by households includes on the one hand income from property, namely interest received on deposits net of that paid on loans, dividends and other investment income (mainly life insurance). On the other hand, wealth income also includes the gross operating surplus (GOS) of individual homeowners. This income corresponds to rents received by owners, whether real (landlord) or imputed (rents they would receive if they were to rent out their properties), and adjusted for intermediate consumption and taxes net of subsidies (mainly property tax).

In addition, part of the services provided by financial institutions, connecting lenders and borrowers, is not invoiced to customers in the form of commissions or bank charges, but is incorporated into the interest collected or received. In order to measure this intermediation margin, other property income is thus imputed to households, called Financial Intermediation Service Indirectly Measured (FISIM). This imputation amounts to acting as if interest on bank deposits and

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loans were calculated at the interbank refinancing rate, which generally results in a surplus of disposable income. This surplus is then used by the holders of the loans or deposits to pay for consumption of financial services, also imputed, corresponding to the margins that financial institutions make on deposits and loans (difference between the interbank refinancing rate and the rate actually paid on bank deposits or loans). As imputed income and imputed consumption are equal, FISIM is neutral on the savings of economic agents.

### The FISIM adjustment enhanced the dynamism of wealth income in 2023

Between July 2022 and September 2023, the ECB gradually increased its refinancing from 0% to 4.5%, significantly increasing interbank rates and hence interest received and paid within the meaning of the national accounts.

Concerning deposits, the interest actually received by households has not increased as sharply as the interbank rates since they are largely regulated or fixed. Thus, the FISIM consumed by households on their deposits and the "pure" interest they receive increase substantially, which also increases GDI and households' final consumption. This increase in GDI does not therefore result in an

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increase in the purchasing power of households' GDI, because this income is entirely consumed by households as a product of financial intermediation services, the price of which is increased accordingly, leading to an increase in the household consumption deflator. This adjustment is also neutral regarding household savings, as the surplus imputed GDI is fully consumed.

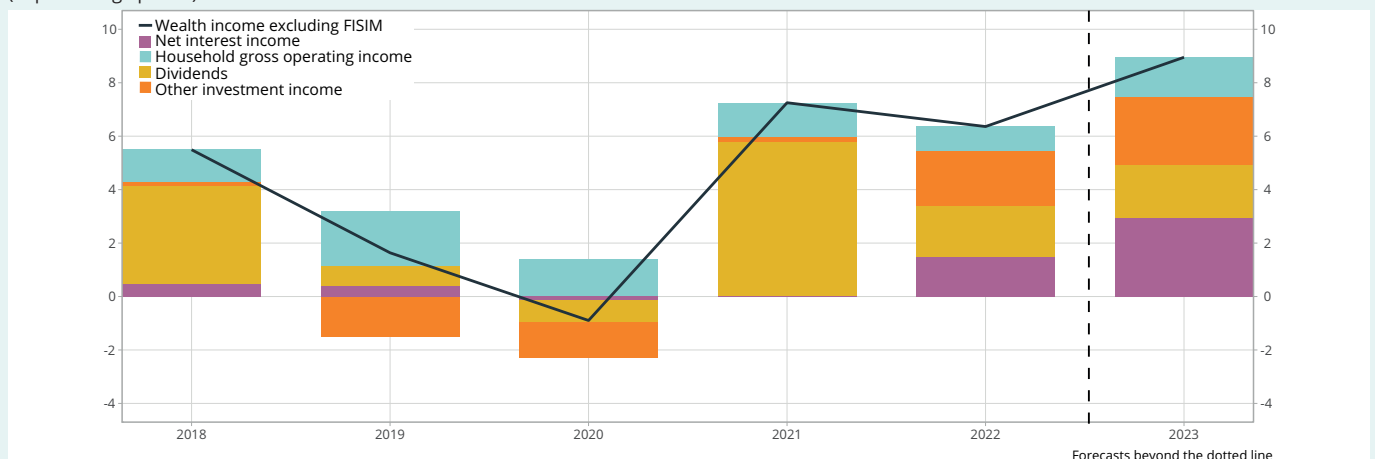
In contrast, concerning loans excluding housing loans, the margin has contracted since 2022, since the interbank refinancing rate has evolved faster than the average rate paid by households, the result being a drop in FISIM consumed by households on these loans. "Pure" interest paid by households then increases, having a downward impact on GDI, but this decline only slightly alleviates the sharp increase in deposits, as the mass of non-housing loans is significantly less than that of deposits.

Concerning housing loans, the margin also contracts, with the average rate on outstanding amounts evolving much more sluggishly than the interbank rates since real estate loans have for the most part been established at a fixed rate throughout the borrowing period. However, unlike deposits and loans other than housing, this drop in the intermediation margin does not affect household gross disposable income (GDI). In fact, these intermediation services are consumed by households as intermediate consumption in their housing service production activity. The decline in the intermediation margin then results in a drop in this intermediate consumption, and therefore an increase in real estate income via the GOS of pure households, which is completely offset by an equivalent drop in imputed property income.

All in all, the FISIM adjustment is expected to contribute 7.3 points to nominal growth in wealth income in 2023 (+15.8%), or almost half of the contribution.

## ► 1. Contributions to annual growth in wealth income (excluding FISIM effect)

(in percentage points)



**How to read it:** in 2023, net interest, excluding the FISIM effect, contributed 2.9 points to growth in wealth income excluding FISIM.

**Source:** National accounts and INSEE forecasts.

## Excluding FISIM integration, property income is expected to be dynamic again in 2023

Excluding the FISIM effect, wealth income in current euros is expected to pick up by +9% in 2023 after +6.4% in 2022 (► Figure 1). This acceleration, after two already vigorous years, takes place in a context of high inflation and a sudden rise in the ECB's base interest rates. It is driven by income net of interest from household loans and deposits, which are expected to contribute around +2.9 points to the rise in 2023 (after +1.5 points in 2022). The contribution of dividends and other investment income looks set to maintain its high level (+4.5 points after +4 points in 2022). The contribution of the GOS of pure households, reflecting income drawn from real estate assets (real or imputed rents), is expected to be more moderate and increase only a little in 2023 (+1.5 points, after +0.9 points in 2022).

## Excluding the FISIM effect, net interest received by households increased sharply in 2023

Interest received excluding the FISIM effect is expected to be up by +80% compared to 2022 (► Figure 2). This rise is due mainly to the upturn in the rates paid on households' deposits since 2022, especially for regulated savings. After hitting a historic low of 0.5% before 2022, the interest rate for the Livret A savings account was significantly increased in 2022 and 2023, affected by the rise in inflation, and reaching 3% in February 2023. The average rate of return on all deposits also recovered in 2022 and 2023, in the wake of the Livret A, but with rather less vigour (► Figure 3a). Interest rates for some deposits are fixed and do not change according to inflation or interbank rates: this is particularly the case for cash deposits, or for Housing Savings Plans (PEL).

Interest paid by households is expected to increase much more moderately. This interest mainly includes

interest on home loans (which represent about 90% of outstanding household loans). Although rates on new housing loans have picked up substantially since 2022, reaching 3.8% in Q3 2023, the average rate on all home loans is increasing much more slowly (► **Figure 3b**) since in France the majority of loans for housing are fixed loans: their rate is defined when the loan is taken out and remains unchanged throughout the duration of the

loan. Regarding other loans (mainly consumer loans), the average rate is also less dynamic than the increase in base interest rates, although the rates for consumer loans adjust more quickly than those for home loans.

The rise in inflation and interest rates in 2022 and 2023 therefore concerns the stock (or at least part of the stock) of deposits, although it mainly concerns only the flow

## ► 2. Wealth income by level and annual growth since 2019

	levels (in billions of euros)					Annual growth (%)				
	2019	2020	2021	2022	2023	2019	2020	2021	2022	2023
<b>Wealth income including FISIM</b>	<b>284</b>	<b>281</b>	<b>300</b>	<b>322</b>	<b>372</b>	<b>1.4</b>	<b>-1.2</b>	<b>6.8</b>	<b>7.2</b>	<b>15.8</b>
Wealth income excluding FISIM	278	276	296	315	343	1.6	-0.9	7.3	6.4	9.0
Of which net interest excluding FISIM	-16	-16	-16	-12	-2	6.7	-2.2	0.4	27.4	80.1
Of which dividends	42	40	56	61	67	5.0	-5.3	39.8	10.0	10.0
Of which other investment income	42	39	39	45	53	-9.0	-8.9	1.2	15.6	17.8
Of which GOS of pure households excluding FISIM	209	213	217	220	224	2.7	1.9	1.7	1.5	2.2
FISIM adjustment	6	5	4	7	30	-3.3	-14.0	-17.8	68.0	321.8

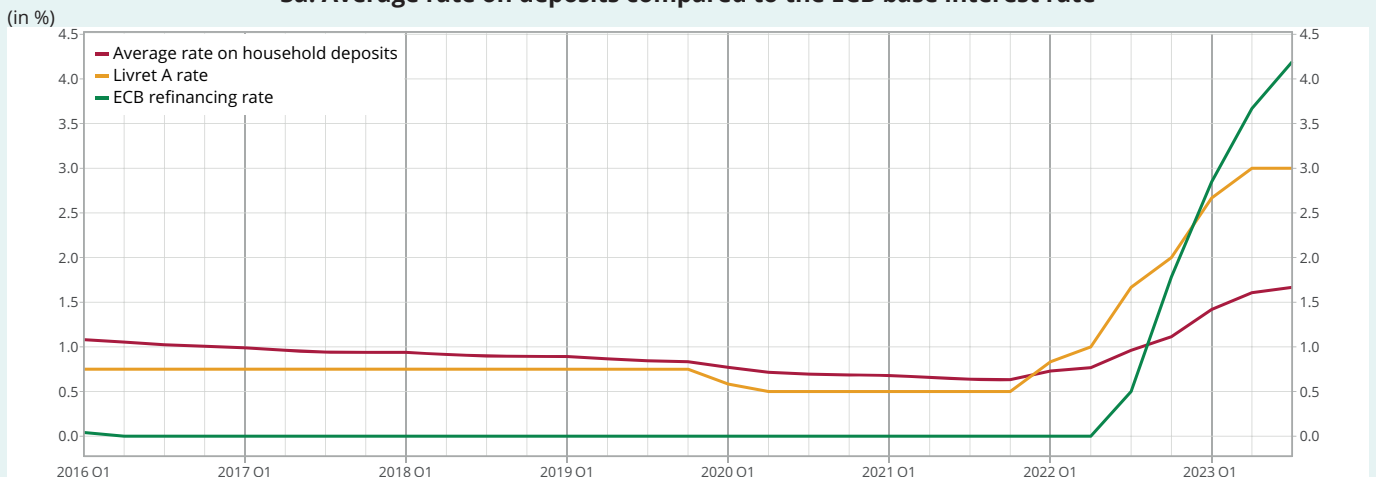
■ forecast.

**How to read it:** in 2019, dividends received by households amounted to 42 billion euros.

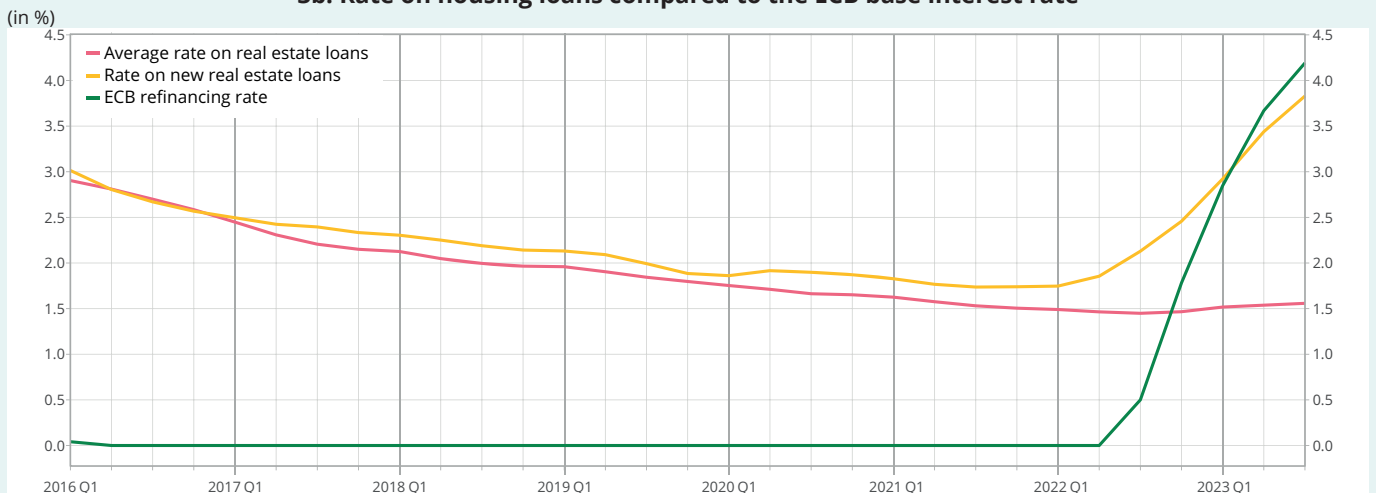
**Source:** National accounts and INSEE forecasts.

## ► 3. Average rates and new rates on deposits and housing loans compared to the ECB refinancing rate

### 3a. Average rate on deposits compared to the ECB base interest rate



### 3b. Rate on housing loans compared to the ECB base interest rate



**Last point:** Q3 2023.

**How to read it:** in Q3 2023, the average interest rate on housing loans to households was 1.6% while the rate on newly contracted housing loans was 3.8%.

**Source:** Banque de France.

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of new loans (especially new home loans). Thus interest received has bounced back strongly, while interest paid increased only slightly. However, it began to slow in late 2023, and is likely to be significantly less dynamic at the start of 2024, as the rise in interest rates is starting to be reflected in interest paid, whereas the rates for regulated savings are for the most part frozen (case of the Livret A in particular).

## The buoyancy of net interest income is unusual in France compared to other European countries

In France, the growth in interest received by households net of payments was stronger than in neighbouring European countries. On the one hand, interest received bounced back from the start of 2022 in France and Italy, while this upward trend began at the end of 2022 or the beginning of 2023 in Germany and Spain (► **Figure 4a**). This earlier increase in France can be explained by the greater proportion of regulated savings. Notably, the rate

for the Livret A savings account was partially indexed to inflation at the start of 2022, even before the rise in base interest rates. In addition, the rebound in interest paid was much more moderate in France than in its European neighbours (► **Figure 4b**). Here, housing loans are for the most part set at a fixed rate, which is much less the case in Germany and especially in Spain and Italy, where loans are mainly taken out at a variable rate (► **Focus**). Thus, in France, the increase in interest paid comes mainly from the flow of new loans, while in Spain and Italy, it is the entire stock of loans that drives up the interest paid.

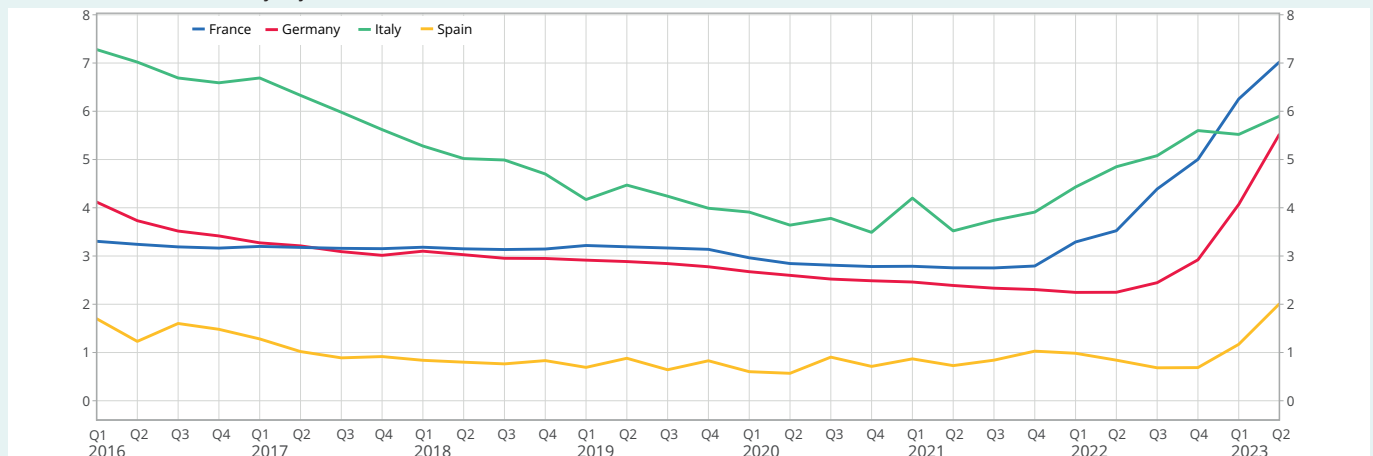
## Dividends and other investment income are likely to remain dynamic in 2023

Dividends received by households rebounded very strongly in 2021 (+39.8%) after their decline during the 2020 recession (5.3%). They remained dynamic in 2022 (+10%) and this is expected to continue in 2023 (+10% forecast) (► **Figure 5a**). Other investment income,

### ► 4. Interest excluding FISIM effect received and paid in different European countries since 2019

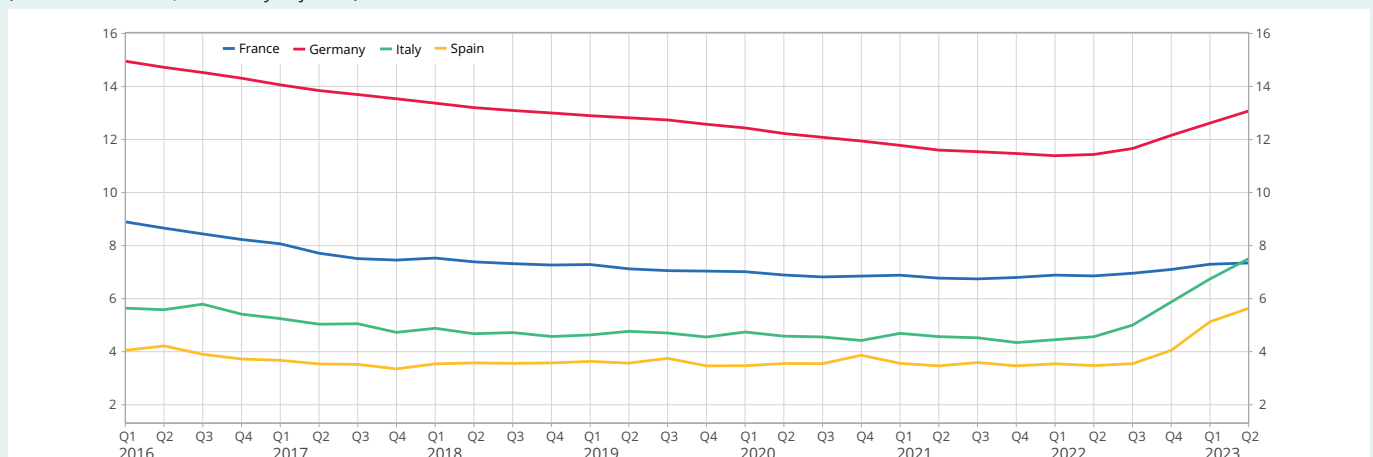
**4a. Non-FISIM interest received**

(in billions of euros, seasonally adjusted)



**4b. Interest paid excluding FISIM**

(in billions of euros, seasonally adjusted)



**Last point:** Q2 2023.

**How to read it:** in Q2 2023, interest excluding the FISIM effect received by households and NPISHs reached 7 billion euros in France. Interest paid excluding FISIM was 7 billion euros in France.

**Source:** Eurostat, INSEE calculations.

notably including life insurance, bounced back in 2022 after almost a decade of decline (► [Figure 5b](#)). In an environment of rising interest rates (interbank, fungible Treasury bonds), financial bodies have significantly increased the rates used in life insurance contracts and this rise in rates is likely to continue. Ultimately, despite the drop in funds collected from life insurance products, “other investment income” should remain very buoyant in 2023 (+18%). These changes that are forecast are nevertheless surrounded by uncertainty as they depend mainly on dividend distribution choices that are difficult to anticipate and on the multi-year provisioning decisions of bodies that can affect the upward or downward movement of rates paid.

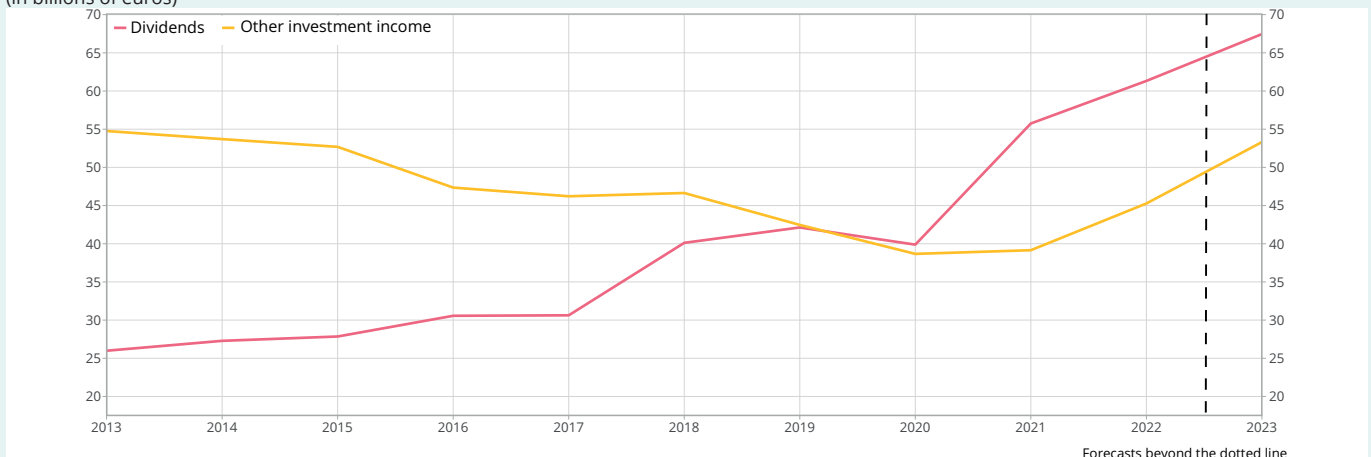
## Excluding the FISIM effect, income from real estate wealth is expected to increase much more moderately in 2023 than other property income

The gross operating surplus of pure households corresponds to the income drawn by household owner-occupiers from their housing service production activity, whether this housing is rented (real rent) or not (imputed rent), after deducting intermediate consumption and taxes net of subsidies. With the capping of rent increases for current leases since 2022,<sup>1</sup> homeowners’ rents (whether received or imputed) have picked up only slowly. In addition, real estate income is likely to be affected in 2023 by a strong rebound in the property tax,

<sup>1</sup> Article 12 of Law no. 2022-1158 of 16 August 2022 capping rent increases for current leases at 3.5% for mainland France and 2.5% in the overseas departments.

### ► 5. Change in dividends and other investment income received by households since 2013 in France

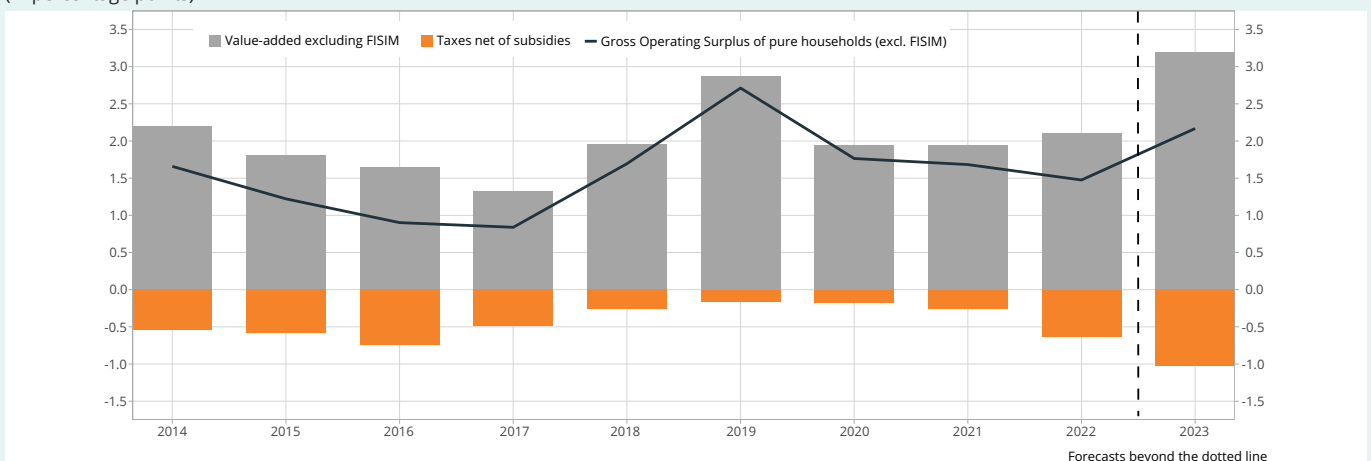
(in billions of euros)



**How to read it:** in 2019, dividends received by households represented 42 billion euros.  
**Source:** National accounts and INSEE forecasts.

### ► 6. Contributions to growth of the Gross Operating Surplus of pure households excluding FISIM

(in percentage points)



**Note:** the Gross Operating Surplus (GOS) of pure households corresponds to income drawn from the production of a housing service and therefore does not include their mixed income  
**How to read it:** in 2023, taxes net of subsidies are expected to contribute around -1 points to annual GOS growth for pure households excluding FISIM.  
**Source:** National accounts and INSEE forecasts.

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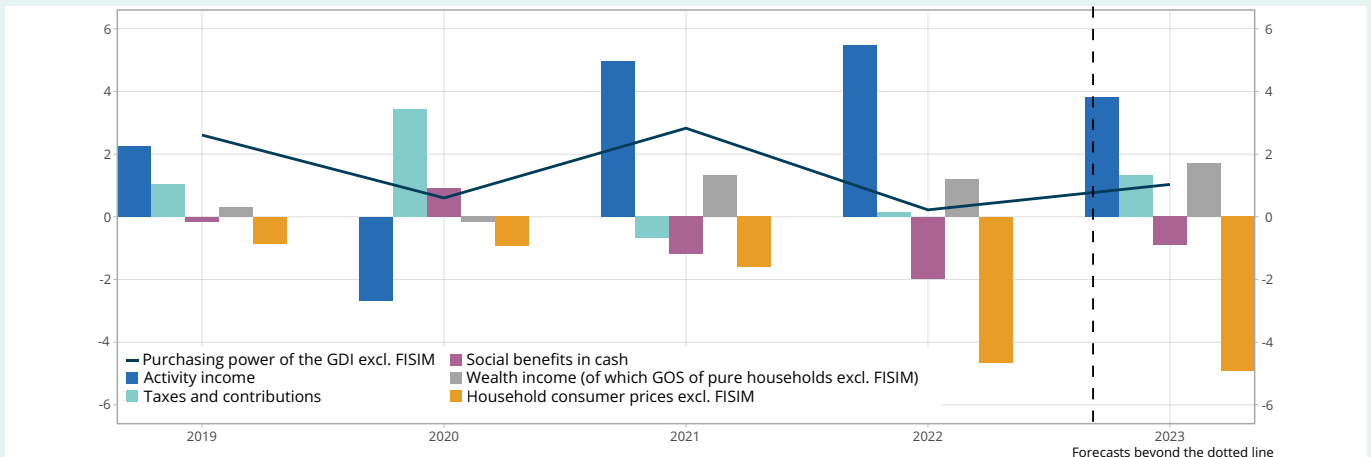
affected by the 7.1% revision of rental values to which are added rate increases voted in some municipalities. Finally, the gross operating surplus of pure households (excluding the FISIM effect) is expected to increase in current euros by +2.2% in 2023 after +1.5% in 2022 (► Figure 6).

## Excluding the FISIM effect, wealth income is expected to make the largest contribution to gains in the purchasing power of GDI in 2023

Since the imputation of FISIM increases the contribution of wealth income to variations in households' GDI, this dropped from 3.1 points to 1.7 points in 2023 when

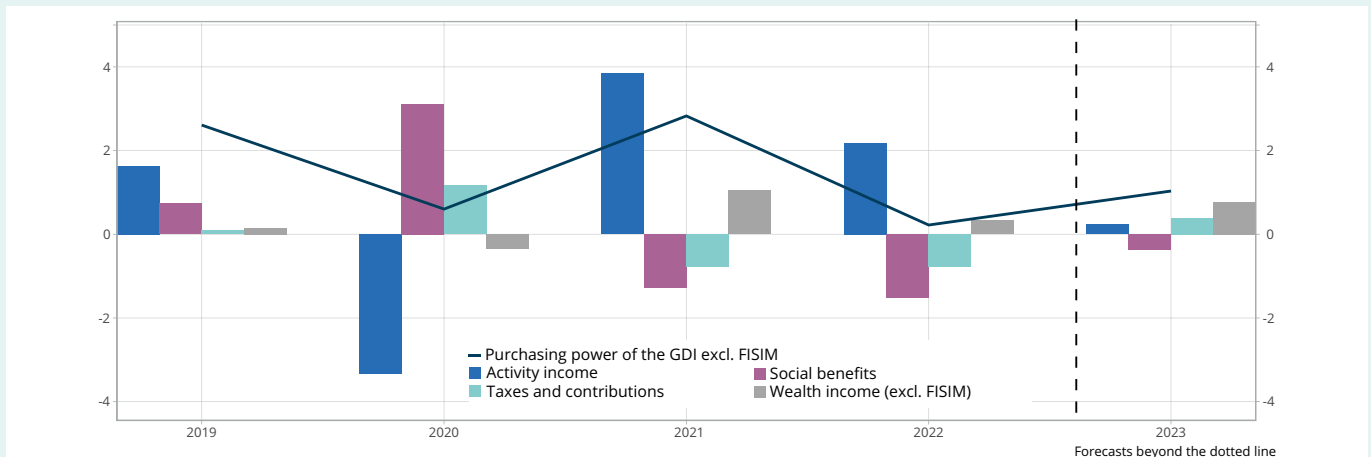
FISIM is subtracted from wealth income (► Figure 7). The momentum of the household consumption deflator is also very much reduced when FISIM is excluded from consumption, dropping from 6.5% to 4.9% as an annual average for 2023, i.e. a very similar change to that in inflation within the meaning of the Consumer Price Index. Finally, wealth income, expressed as a real value should increase more briskly (+4%) than earned income (+0.3%). Wealth income should therefore make the main contribution (+0.8 points) to gains in the purchasing power of households' GDI excluding the FISIM effect in 2023 (+1 point), whereas earned income is expected to contribute only 0.2 points (► Figure 8). ●

### ► 7. Variation in purchasing power excluding FISIM and contributions to variations in GDI excluding FISIM (percentage points)



**How to read it:** in 2023, wealth income excluding the FISIM effect is expected to contribute 1.7 points to growth in household GDI excluding FISIM. **Source:** National accounts and INSEE forecasts.

### ► 8. Contributions to change in the purchasing power of household GDI excluding FISIM (percentage points)



**How to read it:** in 2023, real wealth income, excluding the FISIM effect is expected to contribute 0.8 points to growth in the purchasing power of household GDI excluding FISIM. **Source:** National accounts and INSEE forecasts.