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PRESS RELEASE

The impact of low interest rates on household financial behaviour

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For most of 2010, short- and long-term interest rates were exceptionally low in Belgium. Nominal interest rates fell to historical lows. In real terms, only the low point of 1974 was lower. The yield curve was relatively steep.

We initially examined whether the low level of interest rates had an impact on individuals' overall financial transactions. Recently, interest rates' influence in the real world has been limited with respect to the overall volume of saving by individuals in Belgium. The reinforcement of individuals' saving behaviour and the related net formation of financial assets over the period 2009-10 appears largely attributable to economic uncertainty stemming from the financial crisis.

By contrast, interest rates play a certain role in individuals' selection of savings and investment instruments. Such is the case when they must choose between short-term and long-term instruments: there is a clear preference for long-term investments during periods of high long-term yields or when the interest rate cycle has begun a downward phase. During the few periods characterised by a relatively flat or inverted yield curve, individuals reduced their short-term assets because they expected a decline in long-term yields.

It is chiefly in choosing between short-term savings instruments that interest rates exert the most influence, as is evident in individuals' decisions whether to invest in term deposits or regulated savings deposits; the recent contraction in short-term yields clearly favoured the latter. The formation of claims on life insurance technical reserves and pension funds is spurred by the current level of interest rates, given that certain existing contracts offer a guaranteed return higher than the current market interest rate.

Lastly, interest rates have some influence over the liabilities undertaken by individuals, chiefly mortgage borrowings. Most notably, the number of mortgage loans increases considerably when interest rates are low. Furthermore, the low interest rate level can also result in higher residential property market prices, leading to increased use of mortgage credit. However, credit does not perfectly follow the trend in real estate prices, notably because of more restrictive lending policies on the part of banks.