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PRESS RELEASE

Recent changes in saving behaviour by Belgian households: the impact of uncertainty
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Compared to the euro area average, the savings ratio of Belgian households is relatively high; moreover, it has fluctuated widely in recent times. During the Great Recession the savings ratio reached a record high, but gradually subsided thereafter to a remarkably low level. Various structural and cyclical factors may account for these changes. Uncertainty generally has a significant impact on households' propensity to save, because greater uncertainty prompts households to step up their precautionary saving in order to cope with potential income shocks.

This article aims to gauge the extent to which uncertainty over the general economic outlook or income prospects is a contributory factor behind the changes in household saving behaviour. However, uncertainty cannot be observed directly and therefore has to be estimated. This article offers several approaches; in particular, it uses an uncertainty indicator based on the heterogeneity of the answers that consumers give to four specific questions in the Bank's consumer survey. These four questions provide information on the outlook for the next twelve months for the household's own financial situation, unemployment in Belgium, the economic situation in Belgium and the household's own ability to save.

An Error Correction Model is used to examine the significance of such uncertainty indicators for household saving behaviour. The model incorporates some possible long-term determinants such as disposable income, the share of labour income in total disposable income, real net financial wealth and the gross public debt (in % of GDP). The confidence and uncertainty indicators are added to the model, together with the real long-term interest rate which, in the short term, may cause the savings ratio to deviate from its long-term equilibrium.

The empirical results suggest that, in the long term, as the proportion of labour income rises, the savings ratio declines. In the light of that, the downward trend in the household savings ratio in 2000-2013 can be linked to the low return on capital, which caused a fairly steep decline in property income as a share of disposable income. It is also evident that, apart from general consumer confidence, uncertainty in household expectations, particularly in regard to the household's own financial situation, influences the short-term dynamics of the savings ratio and may therefore be part of the reason why that ratio deviates temporarily from the equilibrium level expected on the basis of the long-term determinants. For instance, at the start of the Great Recession in 2008 and 2009 and in the period 2012-2013, Belgian household savings exceeded that equilibrium level, and those periods of 'excess' saving can to some extent be traced to periods of mounting uncertainty.

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