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PRESS RELEASE

Low interest rates and their impact on Belgium's households

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In reaction to the financial crisis and subsequent recession that hit the global economy from 2008, the ECB has been pursuing extremely accommodating monetary policies, reflected in unparalleled reductions in interest rates and liquidity injections on a massive scale. Property and financial asset prices have also gone up as a result.

This rather unusual environment has impacted Belgian households' incomes, wealth and financial behaviour. For one thing, lower interest rates have heavily eroded net interest income, as interest revenues have plummeted while loan burdens have remained more or less stable relative to disposable income. At the same time, though, households did lock in positive valuation effects on their assets, which somewhat cushioned the adverse rate cut impact on income.

In macroeconomic terms, lower financial income has put a brake on households' disposable income in a virtually uninterrupted way between 2009 and 2016. However, this has not prompted households to pull in the reins and make concomitant cuts in their spending; instead, they have saved less. As lower interest rates eroded financial income, they have served rather as a redistribution mechanism at the expense of households with incomes largely derived from wealth and in favour of households with little or no property income and mostly deriving their resources from labour.

Microeconomic surveys confirm that the low interest rate environment, coupled with revaluation of assets, has had diverging effects on different households depending on the level and the composition of their wealth. Although the most well-off households, which typically have a great deal of financial wealth, have been the hardest hit by falling returns, they have also benefited most strongly from positive valuation effects, i.e. gains on their asset portfolios. Middle-wealth households, often owner-occupiers, have mainly benefited from lower interest charges, which have amply made up for the loss in savings income. Lastly, households in the lower wealth quintiles, which typically do not own their own homes and have little or no financial savings resources, faced relatively few effects from the low interest environment, positive nor negative.

The composition of savings reveals that new financial investment has typically focused on riskier products, reflecting households' search for yield. At the same time, net inflows into accounts and deposits remained positive, suggesting high levels of uncertainty. The latter category plays into private individuals' need for precautionary saving and may suggest that they are staying on the sidelines to await better opportunities.

Meanwhile, the low interest rate environment has been favourable to property investment by households, with related spending on real estate other than the household main residence having also gone up. The funding of these investments has led to an increase of the household debts.

This confluence of trends may carry certain risks, such as a default risk on loans due to a negative income shock for households, or interest rate risks due to an uptick in rates increasing their repayment burdens. Some categories of households and types of loans – specifically those about which macroprudential authorities have issued specific recommendations – may be more affected by such risks.