For families, low interest rates and deleveraging are good news

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The current environment of low interest rates is expected to persist for quite some time, at least in Europe. This situation has affected Spanish households and businesses both positively and negatively. Specifically, the impact of the ECB's expansive policies has been positive for families, which have seen their borrowing costs fall by more than their income from deposits (other savings products are excluded from the analysis). The impact obviously varies from one household to another, depending on the structure of their finances: some families are more reliant on financing than others.

The impact on households has two components: prices and amounts. As for prices, on the one hand loans have become cheaper, mainly due to the special characteristics of the Spanish mortgage lending market, which is basically at variable rates, and on the other hand returns on savings products have fallen. As for amounts, there has been a necessary process of deleveraging and there has also been a shift in households' investment preferences, away from the promissory notes from which they ly sought returns and towards sight deposits, attracted by their liquidity. As a result of these trends between September 2008 and September 2016 there was a decline of nearly four percentage points in the net financial burden (borrowing costs net of income from deposits as a percentage of gross disposable income).

The reduction in financial expenses has been spread fairly evenly between the two kinds of lending to households, but the basic reasons have been different: for residential mortgage loans it has been due mainly to interest rate reductions, while for other lending to households (consumer finance, personal loans, etc.) it has had more to do with deleveraging.

This process has occurred uniformly over time. The sharp adjustments in one-year EURIBOR from the third quarter of 2008 to the summer of 2010 led to a reduction in financial costs, since most Spanish mortgage lending is referenced to this rate and revised annually. From that time until the third quarter of last year the reduction in financial costs came mainly from deleveraging.

The fall in interest rates has been reflected at a more measured pace in families' income from deposits. In the early stages of the crisis deposits were well remunerated, but subsequently families shifted savings into more profitable products (mainly promissory notes, excluded from the analysis), which were not subject to additional contributions to the Deposit Guarantee Fund (FGD in the Spanish abbreviation), thus partly offsetting the fall in income.

The first phase of the process coincided with a period in which households tightened their belts considerably and increased their (largely precautionary) savings. This, together with the slump in residential investment, led to households' overall net financing requirement swinging into surplus, which was used to accumulate financial assets, mainly deposits and debt. Later, between 2010 and early 2011, families decisively reduced their borrowing.

In the next few quarters, with interest rates expected to stay low, there will be no significant changes in households' net financial burden. Financial costs will remain at contained levels, rising slightly as a result of increased appetite for financing. Financial income from deposits will remain at similar levels to the current ones, unless households become less concerned with liquidity and start to look for more risky products offering higher yields. Therefore the ECB's expansive policies have a complex effect on the various economic agents, but in the case of Spanish families the net impact has been and will continue to be positive.