2. Variation in the net financial burden from 2008 to 2016

It is reasonable to assume that the current low interest rates in Europe will stay at similar levels for a long time. This situation, which has come about after an 8-year adjustment period, affects all stakeholders in the economy, both positively and negatively. We ask ourselves to what extent Spanish households have been affected, especially because of the way that the 12-month Euribor has fallen since its peak in late 2008. In general, Spanish families have benefited from low interest rates, which have essentially affected variable rates. Families saw the positive effect of a falling Euribor after a certain time delay. However, they have also been adversely affected by a poorer performance from their savings.

How have household income and expenditure changed?

In order to quantify this we need to analyse changes to the household financial burden, both in terms of mortgages and other debt, and in changes to income thanks to the accumulated savings in the household balance sheet. This analysis has two limitations:

- Aggregated debt and savings headings have been analysed and compared to analysis at a family level. Ideally this analysis should differentiate between families who are in debt and those that have savings, separating them into income and/or age bands. However, figures are not available for this.

- As far as the drop in the return on savings is concerned, it only includes the impact of lower interest rates on demand and term deposits. Income from other equity has not been taken into account, such as shares, pension funds and investment and debt funds, nor the transfer of assets from one to another in search of higher returns.

As well as the aforementioned fall in interest rates, analysis should also focus on the fact that in recent years, household indebtedness has decreased significantly. To September 2016, household credit stock fell by 20% from its high point in September 2010. There have also been changes as far as deposits are concerned – throughout this period, not only have they grown on an aggregate level but their make up has also changed, with demand deposits increasing at the expense of term deposits. The latter, which used to account for 60% of the total, now represent 35%.

Table 1

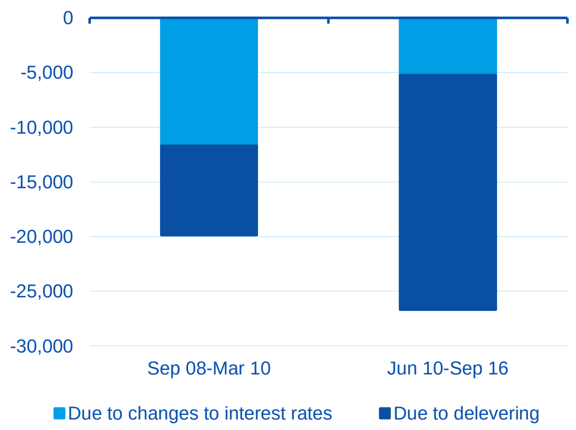
Variation in household income and expenditure – September 2008 to September 2016, € millions and % gross disposable household income (GDHI)

Expenditure			Income
Interest rate paid	-16,932	-22,520	Interest rate charged
(% GDHI)	-2.4%	-3.2%	(% GDHI)
Deleveraging	-29,610	792	Changes in stock deposits *
(% GDHI)	-4.3%	0.1%	(% GDHI)
Lower expenditure	**-46,542**	**-21,728**	**Lower income**
(% GDHI)	-6.7%	-3.1%	(% GDHI)
Freeing up of net income	24,814		
(% GDHI)	3.6%		

Source: BBVA Research based on Bank of Spain and INE

Figure 1

Variation in household income – September 2008 to September 2016, € millions and % GDHI



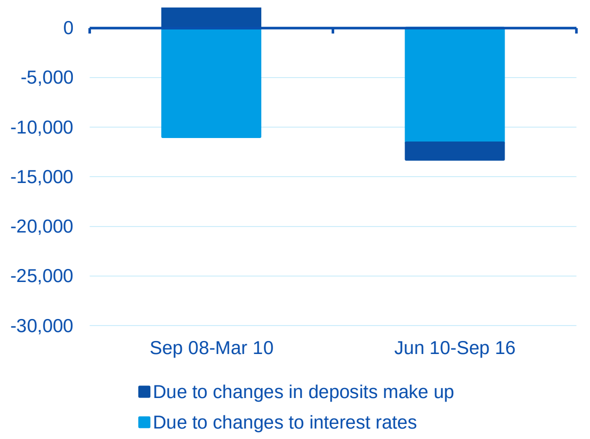
Source: BBVA Research based on INE

Since late 2008, Spanish families have seen their credit costs fall by almost 7% of their GDHI. Two thirds of this drop was due to deleveraging, with the other third the result of lower interest rates, freeing up nearly €47 billion of GDHI They have also seen income down 3% of GDHI, also due to lower interest rates. Families have therefore seen nearly €25 billion freed up, almost 4% of their GDHI (see Table 1).

The majority of savings in credit costs took place between September 2008 and the first quarter of 2010, a period when the 12-month Euribor fell more than 400 bps to 1.2%. From this point on, credit costs only fell as a result of deleveraging. Falling interest rates have more consistently been transferred to income over time (see Figure 2). However, it has to be borne in mind that for a period of time, Spanish institutions became involved in a "war for deposits", subsequently transferring part of their resources to more profitable products (promissory notes), which were not included in the analysis, meaning that household financial income and the changes thereto have been underestimated. The first phase of the process coincided with a period in which households cut their consumer spending, increasing savings which, to a large extent, was a precautionary move. This, together with the collapse in property investment, meant that Spanish homes went from needing credit to having capacity, using credit to accumulate financial assets: deposits and bonds mainly. Later, between 2010 and early 2011, families decisively reduced their borrowing.

Figure 2

Variation in household expenditure – September 2008 to September 2016, € millions and % GDHI



Source: BBVA Research based on INE

Table 2

Variation in expenditure based on debt type – € millions and % GDHI

	Expenditure of which:		
	total	for house purchases	consumer and other household credit
Interest rate paid	-16,932	-15,674	-1,258
(% GDHI)	-2.4%	-2.2%	-0.2%
Deleveraging	-29,610	-9,026	-20,584
(% GDHI)	-4.3%	-1.3%	-2.9%
Lower expenditure	**-46,542**	**-24,700**	**-21,842**
(% GDHI)	-6.7%	-3.5%	-3.1%

Source: BBVA Research based on Bank of Spain and INE

From the adjustment to expenditure, over 45% is the result of consumer credit and other types of non-mortgage financing, with families saving over €21 billion (see Table 2). The rest of the adjustment to expenditure is due falling mortgages, which have shrunk by almost €25 billion. Two thirds of this shrinkage is the result of lower interest rates.

To summarise, Spanish households have seen their net income change because a number of factors coincided. The joint effect of deleveraging and lower interest rates have freed up household resources on an aggregate basis, although this adjustment has been offset by the drop in return on savings. The majority of these net savings were seen between late 2008 and the first quarter of 2010, a period in which interest rates plummeted, coinciding with a drop in consumer spending, a rise in the savings and a collapse in investment.

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