Portuguese household savings rate at rock bottom: how concerned should we be?

- **The savings rate of Portuguese households has dropped in recent years, reaching an all-time low in 2018.**
- **This decline is associated with the strong performance of economic activity and the labour market in recent years, the lower levels of domestic uncertainty and the materialisation of consumption decisions that were deferred during the financial crisis.**
- **Looking ahead to the future, the more moderate growth in consumption and the recovery in household income will support a gradual improvement in savings.**

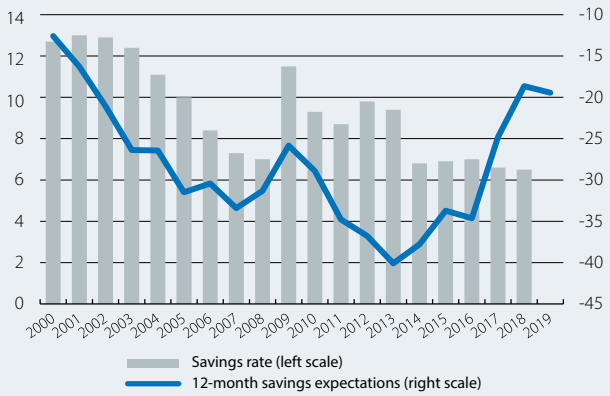
The savings rate of Portuguese households[1] reached an all-time low in 2018: 6.5% of gross disposable income[2] (see first chart), which contrasts with the euro area average of 11.9%. In fact, the Portuguese household savings rate has been in decline since 2001 (with brief interludes in 2009 and 2012 during periods of economic and financial crisis). Given the importance of savings for private investment and to mitigate the adverse effects of new demographic trends (such as population ageing), we must understand what factors could lie behind these low levels in the saving rate in Portugal and whether they should be cause for concern.

According to Portuguese households themselves, their main reason for saving is to provide protection against unforeseen events: saving as a precaution. This is natural, given that saving allows households to deal with income instability over the course of a lifetime and to maintain a stable level of consumption. In other words, savings make it possible to limit the impact of temporary fluctuations in income on consumption.[3] So it is understandable that precaution was the main driver behind the increase in savings in 2009 and 2012: these were years marked by a high degree of uncertainty and a decline in expectations for the labour market and household income (see second chart). Both of these factors contribute to the desire to save and, when added to the contraction of economic activity, this led to a drop in the consumption of durable goods,[4] as well as in the consumption of non-durable goods, which is normally more stable.

Starting in 2014, the improvement in economic and financial conditions helped to stabilise households' expectations. Since then, consumption has grown significantly, in excess of the growth in gross disposable income.[5] Thus, in a context with less uncertainty, a recovery in economic growth and better expectations in relation to the labour market, households began to materialise the consumption decisions that they had

Portugal: savings rate and 12-month savings expectations

(% of gross disposable income) *Index (annual average)*



Source: *CaixaBank Research, based on data from the National Statistics Institute and the European Commission.*

Portugal: savings rate and unemployment expectations *

(% of gross disposable income) *(Index)*

Note: ** The unemployment expectations reflect the difference between the percentage of households that expect unemployment to increase over the next 12 months and the percentage that expect it to decline.*
Source: *CaixaBank Research, based on data from the National Statistics Institute and the European Commission.*

1. The term «households» includes family households, individual entrepreneurs and non-profit institutions serving households. This broad classification is used due to the absence, as of the date of this document, of data on the savings rate relating exclusively to family households in 2018.
2. National accounting data.
3. See Bank of Portugal (2016). « An interpretation of household saving rate developments in Portugal ». Economic Bulletin for May.
4. *Ibid.*

5. On average, nominal consumption grew by 3.5% between 2014 and 2018, while gross disposable income increased by 2.7% over the same period.

postponed during the financial crisis, especially those relating to the consumption of durable goods (such as cars).

Should we be concerned about the current levels of saving?

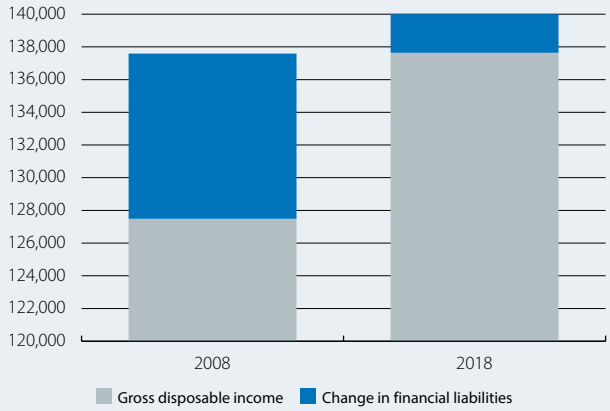
As households catch up with the spending decisions that were deferred in the past, consumption growth will resume a more gradual rate. At the same time, gross disposable income is expected to continue to recover over the coming years, in line with the increase in wages and job creation,[6] which exceeds the growth rate of consumption. As such, we can expect a recovery in household savings (albeit a gradual one).

Furthermore, it should be borne in mind that the reduction in household savings has not been accompanied by an increase in their financial obligations (see third chart). In fact, household debt has declined steadily.[7] This is down to the fact that households have accelerated the early repayment of debts, encouraged by the low interest rate environment and the limited availability of savings instruments offering high returns[8] (see fourth chart). On the other hand, credit growth has been constrained by the implementation of macroprudential measures[9] and, in the case of mortgages, higher housing prices.

Despite the expectation of a recovery in the household savings rate, there are other factors that should be taken into consideration. The statistics of the Bank of Portugal[10] reveal that 68% of households have admitted to having experienced difficulties in coping with their regular expenses in 2018 (versus an average of 45% for the euro area). According to data from Eurostat, meanwhile, 34.7% of households lack the capacity to cope with unforeseen financial expenses (versus 32.2% for the euro area). When combined with the ageing of the population (since the elderly are one of the age groups that save the least),[11] these factors suggest that the recovery in aggregate savings will be very gradual over the next few years.

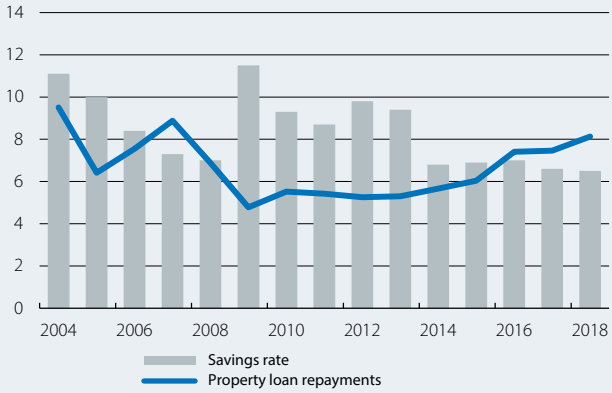
6. Nevertheless, job creation is expected to be more moderate going forward, given that the improvements registered in recent years were rather remarkable (employment grew by 3.3% in 2017 and by 2.3% in 2018).
7. In 2018, it stood at 95.4% of gross disposable income, substantially below the 126.3% registered in 2009.
8. The Bank of Portugal notes that a considerable portion of the savings of households that are in debt is used to make capital repayments. See note 2.
9. For more information on the macroprudential measures implemented by the Bank of Portugal in July 2018, see the article «Portugal: macroprudential measures and the state of the housing credit cycle» in the MR05/2019.
10. See Bank of Portugal (2019). «Financial Stability Report» for the month of June.
11. The IMF concluded that the savings rate in Portugal is worse than that of other European countries due, among other factors, to the high dependency ratio of the elderly, in addition to the high level of state expenditure on pensions and social protection schemes. See IMF (June 2019). «Selected Issues Paper: Household saving in Portugal».

Portugal: household resources
(EUR millions)



Source: *CaixaBank Research, based on data from the National Statistics Institute and the Bank of Portugal.*

Portugal: property loan repayments and savings rate
(% of gross disposable income)



Source: *CaixaBank Research, based on data from the National Statistics Institute and the Bank of Portugal.*

In short, the recent reduction in the household savings rate in Portugal reflects the recovery from the turbulent period of 2009 and 2012 and the current buoyancy of the Portuguese economy (with the resulting better expectations for the labour market). In addition, the low levels of saving are offset by the fact that household resources reached their peak in 2018. However, in a less favourable scenario, households' low levels of saving could make them more vulnerable to unforeseen changes in their income.

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