

The fluctuations in the saving rate of Spanish households since the onset of the crisis reflect how several factors, of variable strength and direction, have come together and influenced the consumption, saving and financing decisions of households in a particularly complex setting. In recent years, against a backdrop of subdued growth in household income, the saving rate in our country has fallen sharply to historically low levels. This decline has not been an isolated phenomenon in the euro area, where other countries have also shown a trend towards a lower level of saving (see Chart 1), especially those that were affected by a high degree of macrofinancial uncertainty during the crisis, such as Portugal and Ireland. This box reviews the available evidence on the decline in the household saving rate in recent years and its determinants.

At the start of the crisis, Spanish households had to make consumption, saving and financing decisions in a clearly adverse macroeconomic environment, characterised by a high degree of

uncertainty¹. In this context, the saving rate of households, as a percentage of their disposable income, rose by 7.5 percentage points (pp) between 2007 and 2009, to 13.4 % in 2009. Conversely, since 2010, this rate has fallen continuously and very sharply to below 6% of disposable income in 2017 (see Chart 2). Initially, the fall in the saving rate could be explained by factors such as the role of saving as a stabilising factor of the pattern of consumption over time which, in any event, diminished in aggregate terms, given the sharp decline in household income.

From 2014 on, however, household consumption began to increase, in a setting of strong recovery of employment. This upturn in the labour market led to a decrease in precautionary

¹ See Ó. Arce, E. Prades and A. Urtasun (2013), "Changes in household saving and consumption in Spain during the crisis", *Economic Bulletin*, September, Banco de España.

Chart 1
CHANGES IN SAVING RATE BY COUNTRY

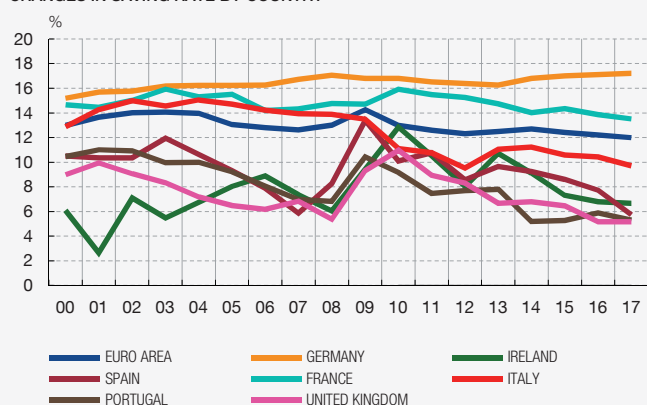


Chart 2
CONSUMPTION AND GROSS DISPOSABLE INCOME. Cumulative four-quarter data.

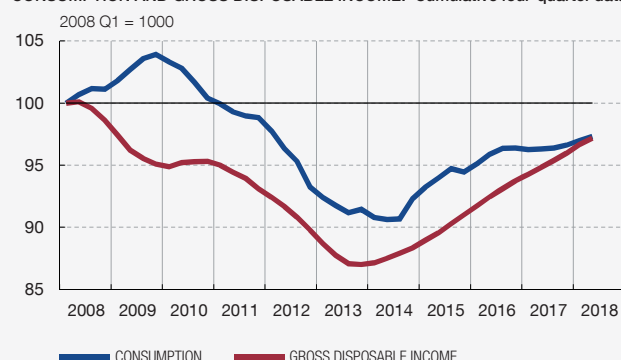


Chart 3
OBSERVED AND SIMULATED CONSUMPTION (a)

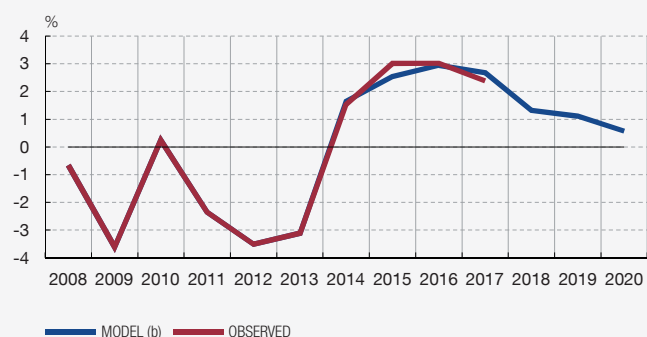
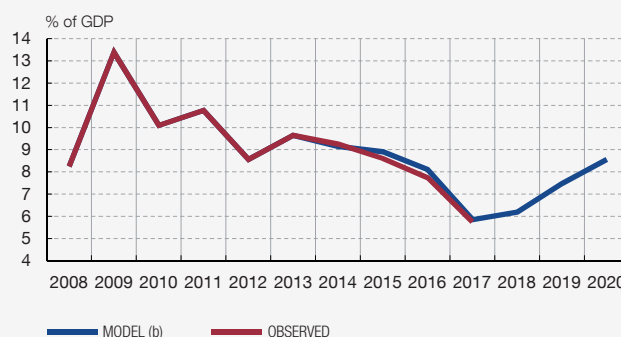


Chart 4
OBSERVED AND SIMULATED SAVING RATE (a)



SOURCES: INE, Eurostat and Banco de España.

a Projection dating from 2013 Q4. Observed income and wealth.
b Income, wealth, and financial conditions projections are the ones presented in this Economic Bulletin.

saving, given the improved prospects of obtaining and maintaining a job. In addition, the increase in employment income entailed a clear boost to consumption, but had less impact on saving, in view of the changes in the composition of the consumption basket desired by households following the constraints of the crisis. Specifically, households increased the weight of spending earmarked for the purchase of consumer durables, a type of spending that had contracted significantly during the recessionary period, since it was less essential and thus easier to cut back on and postpone². This led to a rebound effect on spending on such goods and services, which is estimated to have slowed the recovery of saving.

Lastly, it is worth mentioning that developments in lending are also estimated to have influenced the path of saving in the last decade. The sharp fall in the consumption of durable goods at the beginning of the crisis seems to have reflected, in addition to the aforementioned voluntary reduction in purchases of this type of goods, a worsening in the conditions of access to financing for Spanish households³. In view of the greater difficulties to obtain credit, the reliance of the consumption of goods on household income increased significantly, directly affecting the saving rate. In parallel, since the beginning of the crisis, the level of household indebtedness has undergone a significant correction, which, in the most recent period, has led to a reduction in the weight of debt servicing, enabling households to maintain their consumption levels, with a lower rate of saving.

2 See J. M. Gonzalez Mínguez and A. Urtasun (2015), "Consumption dynamics in Spain by product type", *Economic Bulletin*, September, Banco de España, and M. Martínez Matute and A. Urtasun (2017), "The recovery of private consumption in Spain by product type and household", *Economic Bulletin*, 2/2017, Banco de España.

3 See Box 7, "Recent developments in the consumer credit market in Spain", in this quarterly report.

In short, in recent years, a broad set of factors have contributed to maintaining a low saving rate, which has, in part, underpinned household consumption. However, in the coming years, the household saving rate can be expected to return to levels that are closer to historical averages, as some of these determinants lose momentum.

To illustrate this, Charts 3 and 4 show the dynamic forecasts⁴ obtained with the model⁵ for total consumption and household saving, beginning in 2014 Q1, and the changes actually observed in consumption and the saving rate. As the charts show, the path of the saving rate observed in the 2014-2017 period is fairly close to that envisaged by the model, which reflects the developments in its determining factors. Looking ahead, to the horizon for 2018 to 2020⁶, and in a scenario of a slowdown in household income growth, moderation of durable goods consumption and less favourable financial conditions, the saving rate can be expected to increase, according to this analysis.

4 Conditional on the observed paths of income, wealth and financial variables.

5 Results obtained using a VECM-type model, which includes the main determinants mentioned earlier. According to this model, consumption, employment income and wealth (financial and non-financial) are closely linked variables in the long term, that also interact in the short term, in which financing conditions are incorporated as an additional explanatory variable. The model contains equations for the consumption of durable and non-durable goods, employment income and non-financial wealth. See T. Sastre and J. L. Fernández-Sánchez (2005), "Un modelo empírico de las decisiones de gasto de las familias españolas", Working Papers, No. 0529, Banco de España, and T. Sastre and J. L. Fernández-Sánchez (2011), "La tasa de ahorro durante la crisis económica: el papel de las expectativas de desempleo y de la financiación", *Economic Bulletin*, November, Banco de España.

6 The projections for income, wealth and financial conditions are those presented in the updated Macroeconomic projections for the Spanish economy (2018-2020).