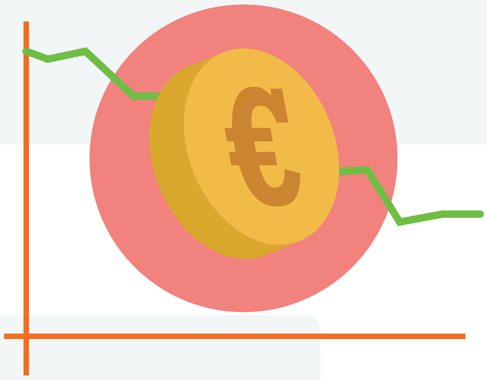
# Why low rates?

## What is the cause of low interest rates?

1. Economic growth is weak and inflation in the eurozone remains well below 2%, its new 'normal' level.
2. In line with its role, the European Central Bank (ECB) is trying to boost inflation through very low interest rates. This is to discourage saving and encourage spending. It is also seeking to encourage business investment through low-cost financing. However, consumer spending and business investment boost economic activity and, ultimately, inflation.
3. In 2014, it even decreased most short-term interest rates to below zero to further boost the economy and inflation.



## What are the consequences for the financial markets?

1. Interest rates on the financial markets are extremely low. Even most of the so-called 'risk-free' rates are negative.
2. Borrowing money has never cost so little, but having financial means and keeping them in cash is penalised by a negative interest rate.

## What about banks?

As a reminder, a bank finances loans to businesses and individuals by borrowing money itself:

- from the financial markets or directly from the ECB
- from customers who entrust their savings to them in the form of deposits.

Today, the difference between short-term and long-term interest rates is small: the interest rates on loans (usually long-term) granted by banks are not much higher than the ones at which they borrow money (usually short-term) to fund those loans. However, this difference has historically been the main source of income for a bank.

This is compounded by the fact that banks are not allowed to apply negative interest rates if they use customer deposits as a source of finance. In particular, the law imposes a minimum interest rate of 0.11% on regulated savings accounts (without taking into account the taxes that banks pay for savings accounts).

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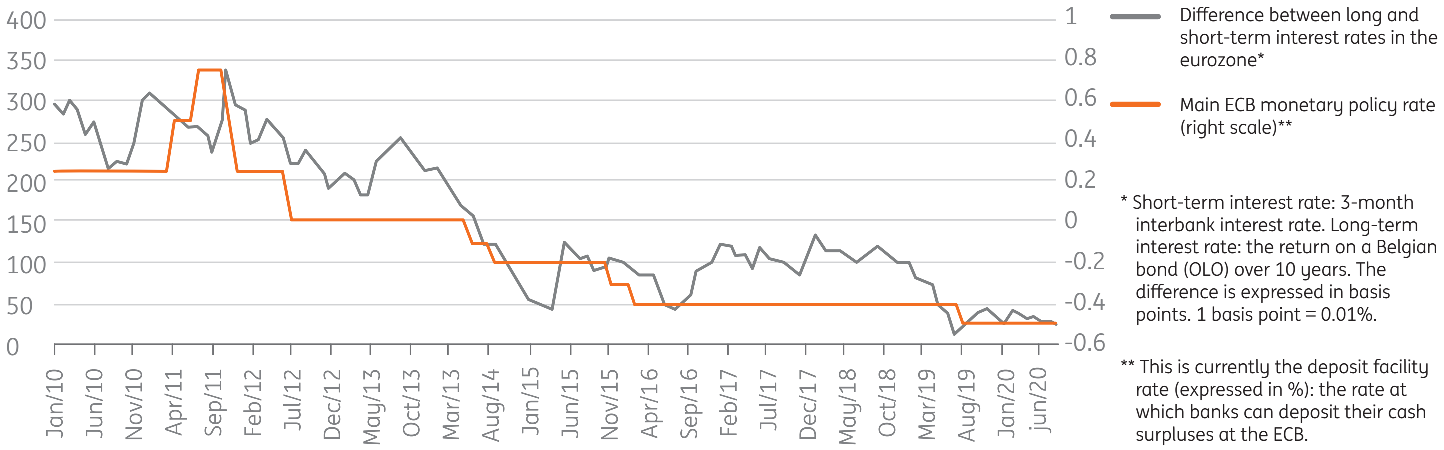
# Short and long-term interest rates are low




* Short-term interest rate: 3-month interbank interest rate. Long-term interest rate: the return on a Belgian bond (OLO) over 10 years. The difference is expressed in basis points. 1 basis point = 0.01%.

** This is currently the deposit facility rate (expressed in %): the rate at which banks can deposit their cash surpluses at the ECB.

## Will this change?

Most forecasts were based on a long period of low interest rates. The corona crisis will not help:

- This year's strong negative growth risks pushing prices down further.
- Inflation will therefore remain very weak, even negative.
- In response, most central banks will cut their rates.
- Even if the interest rate in the eurozone is already well below zero, another cut in the ECB's interest rate cannot be ruled out.


## What should you do?

**Spend?** That would keep the economy going which it certainly needs with the coronavirus crisis. Remember to always keep a cash reserve in case of an emergency.

**Save?** It is usually recommended to have the equivalent of 3 to 6 months of income in the form of cash. Even if very low interest rates mean a negative return in real terms depending on inflation.

**Invest?** Taking risks, according to your investor profile, on the financial markets or in property can in the long-term lead to a potentially higher return.

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