Consumer savings behaviour at low and negative interest rates

Author:Marco FeliciGeoff KennyRoberta Friz

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AbstractWe study interest rates transmission to savings at low and negative rates. Exploiting cohorts of consumers from a data-rich multi-country survey, we show how the strength of interest rate transmission to savings varies with the level of nominal interest rates. This response is positive when interest rates are high but declines steadily at lower levels. At very low levels, there is evidence that the savings response may even reverse sign. Such a “savings’ reversal” is consistent with the behavioural evidence on money illusion as well as with a negative signalling effect from policy announcements in a liquidity trap and may weaken the direct stimulatory effects from very low and negative rates. Consistent with this, the reversal appears to be causally related to central bank information shocks and concentrated among older consumers and consumers with lower educational attainment.JEL CodeD12 : Microeconomics→Household Behavior and Family Economics→Consumer Economics: Empirical AnalysisD84 : Microeconomics→Information, Knowledge, and Uncertainty→Expectations, SpeculationsE21 : Macroeconomics and Monetary Economics→Consumption, Saving, Production, Investment, Labor Markets, and Informal Economy→Consumption, Saving, WealthE31 : Macroeconomics and Monetary Economics→Prices, Business Fluctuations, and Cycles→Price Level, Inflation, DeflationE52 : Macroeconomics and Monetary Economics→Monetary Policy, Central Banking, and the Supply of Money and Credit→Monetary Policy