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The Danes' consumption and saving patterns are still affected by the financial crisis

- High household debt amplifies fluctuations in private consumption and in the Danish economy
- Indebted households have concentrated on reducing debt since the financial crisis, while those with larger financial buffers have increased consumption since the crisis
- The generally low level of interest rates has buoyed up household consumption since the onset of the financial crisis

7-8 years after the onset of the financial crisis, it is still affecting the Danes' consumption and saving patterns. The vast majority of Danish households reduced their consumption immediately after the onset of the financial crisis, but since then diverging patterns have been seen for net savers and net borrowers among the households.

That is the conclusion reached by Andreas Kuchler, senior economist, and Simon Juul Hviid, economist, from Danmarks Nationalbank in a Working Paper that looks at consumption and savings behaviour in the period since 2007 – with a generally low level of interest rates.

All groups of households reduced their consumption immediately after the onset of the financial crisis, but since then the consumption ratios of net savers have returned to the pre-crisis levels. Conversely, net borrowers – especially those with high gross debts – have consolidated their finances at an increasing pace.

“This indicates that household balance-sheet adjustment is a relatively long process, which has extended into the beginning of the most recent economic upturn,” the two economists conclude.

The analysis shows that an economic crisis has a stronger negative impact on private consumption for households with high leverage than for those with

Development in consumption for savers and borrowers

Consumption as a per cent of disposable income



Note: Savers are defined as households whose liquid financial assets (bank deposits, stocks, and bonds etc. excl. pension savings) exceed their financial liabilities and vice versa for borrowers.

larger financial buffers. This means that the tendency for heavily indebted households to reduce their debts and increase their savings plays an important role in private consumption and hence the Danish economy for many years after the onset of the crisis.

Accordingly, the generally high indebtedness of Danish households may contribute to explaining the large fluctuations in the Danish economy, as well as the slow increase in growth.

The reason why indebted households have concentrated on reducing their leverage in recent years could be that households have changed their attitudes and gained a more realistic view of their own finances, influenced by factors such as lower expected income or uncertainty about the future income level.

Increased consumption among the households with larger financial buffers could be supported by returns and dividends on investments in equities and other assets, but rising house prices may also have played a role.

In spite of the low level of interest rates, private consumption overall in Denmark has been low since the start of the financial crisis. At the same time, the household savings rate has been high, which is an important factor in relation to understanding the long period of weak economic growth in Denmark, the authors point out.

The results of the analysis indicate that the lower level of interest rates in recent years has helped to buoy up private consumption so that it has not fallen as strongly as could have been expected.

Working Papers are the result of the research and development activities taking place at Danmarks Nationalbank. Working Papers are often of a preliminary nature and are aimed at contributing to the professional debate. All Danmarks Nationalbank's Working Papers can be found at www.nationalbanken.dk ([link](#)).

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