



## HOW DO INFLATION AND THE RISE IN INTEREST RATES AFFECT MY MONEY?

**Inflation is a general increase in the price level of goods and services, over a period of time. Put simply, you can buy less today than you could yesterday with the same amount of money.**

**To control inflation, central banks increase the interest rates they charge on loans to commercial banks. Commercial banks then pass on these higher rates to their clients.**

**This means that inflation can affect:**

- your loans;
- your savings
- your financial investments;
- your pensions\*;
- your insurance;
- any other financial products you have.

\* In this fact sheet, "pensions" does not cover state pension schemes.



### What is the impact of inflation and rising interest rates on my current and future loans and savings?

When interest rates rise, the cost of the money you borrow is higher: you may pay higher interest rates on new loans and potentially be able to borrow less than before. The impact on your existing loans may also vary depending on whether you have a fixed-or variable-rate loan. You may expect your savings to grow because of the interest payments paid by your bank on your saving accounts. However, with these savings, you will only be able to buy more than before if the real interest rate is positive. [See the sectoral factsheet for more details.](#)



### What is the impact of inflation on my current and future financial investments?

You should take inflation into account in your investment strategy. Inflation reduces real returns on financial investments and erodes your purchasing power. In other words, your investments may be worth less when you need to use them. Inflation can affect different kinds of financial instruments differently. [See the sectoral factsheet for more details.](#)



### What is the impact of inflation on my pensions and insurances?

Inflation may impact your insurance costs (your premium), your coverage and your pay-outs. Inflation risk will be present throughout your retirement. No matter how long you have contributed, your pension savings may not be adjusted to the rate of inflation. [See the sectoral factsheet for more details.](#)



# 5 key steps to keep in mind to handle your finances in a context of inflation and rising interest rates



## 1

### **Know how much you are spending and on what**

Inflation increases the cost of living. So, it is a good idea to check whether you need to adjust your spending. Do this before making any financial decisions. It will help you better understand and plan your finances and use your income efficiently. Here are a few tips to make a simple budget:

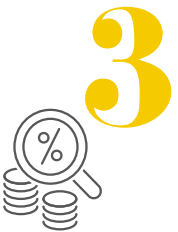
- List all your **monthly/annual income and expenses** and check your bank and debit/credit card statements from past months. Many websites and apps offer budgeting tools which can help you create a budget. For example, have a look at an online calculator available in your country. You can also ask your bank or financial advisor if they can help you.
- Do not forget to include occasional expenses (e.g., if you need to repair your car) and to have a financial safety cushion for unpredictable expenses. (e.g., to replace a household appliance that broke down).



## 2

### **Prioritise your spending and plan your budget**

When you know all your income and expenses, you can figure out your **balance** and assess if you can pay all your expenses and have enough left for savings. Then, when planning your budget, first establish your financial priorities: mortgage/rent, gas/electricity, food, bills, etc. Next, check how you can pay your remaining expenses (e.g. using more affordable alternatives) and how you can reduce them, if needed and if possible. Always budget for your priorities first and then plan the rest of your income. If possible, use automatic payments for fixed expenses. Always aim to spend less than you earn.



## 3

### **Pay attention to the different fees**

Many financial products such as credit cards, bank accounts and insurance life products, charge fees. While some are unavoidable, check whether any fees can be reduced or avoided.

For example, always ask your bank about the **different fees available** and the **exact fees** that apply to your bank account.

Likewise, if you have any financial investments such as investment funds (e.g. Undertakings for Collective Investment in Transferable Securities (UCITs)), always compare the costs to see if there are any cheaper alternatives available.



## 4

### **Seek advice to adapt your financial plan**

You might be wondering how to manage your finances in times of high inflation. You could consider contacting an authorised **financial advisor**. It can help you make more informed decisions. For example, to evaluate the need to update your profile and reassess the suitability of your investments; or in case you would like to end your life insurance earlier, to make sure you do not pay excessive penalty fees.

If you are struggling with your loan payments, contact your bank or your lender as soon as possible to find a solution and potentially benefit from debt advice. This could save you from paying penalties for late payments and avoid arrears and foreclosure. It could also ensure you do not face restrictions if you want a new loan.



## 5

### **Be aware that central bank interest rates may impact you**

Central banks often raise interest rates to counter high inflation. If you have a variable-rate loan, this will push up the interest payments you have to make. Keep up to date with central banks' announcements. This will prepare you for potential changes to your loan repayment.



## What does high inflation and rising interest rates mean for new loans?

**High inflation and rising interest rates may make your new loans more expensive and less accessible.**

When inflation is high, there is a significant increase in prices of goods and services. Central banks usually increase their interest rates to tackle inflation and this influences interest rates charged by commercial banks on your loans.

This means that you need to be more careful with your money and avoid taking out loans that could stretch your budget. Make sure you will always have enough money to pay your loan instalments.

For example, if you want to buy something large, like a car, it will cost you more as car prices will be higher. And if you need a loan to finance your car, you will have to take out a higher loan and pay more interests on it. You may as well face more difficulties in obtaining a loan from a bank and in repaying it.



## What is the impact of high inflation and rising interest rates for loans with fixed or variable interest rates?

**High inflation and rising interest rates will make your variable-rate loans more expensive.**

The impact of high inflation and rising interest rates on instalment credits such as mortgages, car loans and personal loans may vary according to the **type of interest rate**: fixed or variable interest rates.

If you have a **fixed-rate loan**, it means that you have agreed with your bank a stable interest rate for a given period of time. When interest rates rise on the market, the interest rate on your loan will remain the same and your instalments will not rise.

If you have a **variable-rate loan**, the interest rate on your loan will move up or down in line with interest rates on the market. When inflation is high, banks' interest rates may rise. As a result, the interest rate on your loan will also increase, and you will pay higher instalments.



## What does inflation and rising interest rates mean for my savings?

**Inflation might be good for your savings but pay attention to the real interest rate.**

If you save money in the form of cash, it will neither grow nor shrink. But in times of high inflation, your purchasing power will drop. This means that with your money you will not be able to buy as much as before because goods are becoming more expensive.

By contrast, if you save your money in a savings account, in principle, you can expect your savings to grow because you are supposed to receive higher interest payments from your bank on your savings account. However, the benefits of any interest rate rise in the context of high inflation do not necessarily mean that interests paid by your bank on your savings will be high. Bear in mind that the compensation amount is often lower than the inflation rate so the **real interest rate** may not always be positive.





# 4 steps you can take to deal with the impact of inflation and rising interest rates on your loans and savings



## 1

### Always compare interest rates

Compare loans by looking at the **annual percentage rate of charge (APRC)**. This is the yearly rate charged for a loan. It takes all fees and other additional costs into account.

Keep an eye on the interest rates on your savings and compare several options to proactively manage your savings.



## 2

### Check for depositor protection

Check that your savings are held with a bank that is **authorised in the EU**, as this allows you to benefit from depositor protection of up to EUR 100 000 per person in case your bank fails.



## 3

### Assess the pros and cons of loans with fixed versus variable interest rates to choose the best option for you when you take out a new loan

#### **FIXED-RATE LOANS**

- A fixed-interest rate loan will most likely be more expensive and you may be tied to this interest rate for a long period of time. However, if interest rates increase, your monthly loan instalments will remain the same.
- The good thing is that if market interest rates fall, you have the choice to renegotiate your loan or transfer it to another bank or another credit provider, to obtain more favourable borrowing and repayment conditions. Just note that you need your bank's agreement to renegotiate the loan and you might also have to pay a fee in addition to the other expenses.

#### **VARIABLE-RATE LOANS**

- If you to take out a variable rate loan, carefully consider how your monthly payments might be affected by possible interest rate rises in the future.
- Ask your bank or credit provider **how your monthly payments would change** if interest rates were to go up (e.g. interest rate goes from 2 percent to 3 percent). Would you be able to afford those payments?



## 4

### Pay particular attention to risks of over-indebtedness

In the context of high inflation, before you take out a loan, consider the impact of debt repayment on your monthly/annual budget and whether there is a need to reduce other expenses (where possible). Check your ability to repay your debt, do not borrow excessively, and only take out loans that you can repay.

If you think you are going to have problems repaying your loans, contact your bank or credit provider as early as possible to look for solutions. This could save you from paying penalties for late payments and from future restrictions in obtaining a new loan.

# FINANCIAL INVESTMENTS



## What does inflation mean for me as an investor?

You should take inflation into account in your investment strategy.

Inflation reduces **real returns** on financial investments and erodes your **purchasing power**.

**Inflation and rise in interest rates can have different effects on different kinds of financial instruments:**

For example: Financial instrument X has nominal returns of 3% before inflation. If inflation is 5%: the real return is negative (-2%) and the purchasing power of the invested capital falls by 2%



### SHARES

The impact of inflation and the rise of interest rates on the stock market is not straightforward.

The general increase in the prices of goods and services may impact firms' profits, thus affecting the price of their shares on the market positively or negatively. For retail investors this is not easily predictable, as inflation will not impact the **share prices** of all firms in the same way.



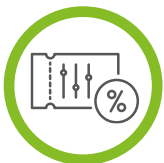
### FINANCIAL INSTRUMENTS WITH FIXED COUPON RATES

You may have financial instruments with fixed coupon rates. Many government or corporate bonds take this form. You will receive:

- a periodic fixed payment until the date the instrument reaches its maturity (coupon); and
- the repayment of the initial investment (nominal value) at maturity.

Inflation has an impact on these investments. At maturity, the amount received will be the same during inflationary cycles, but the purchasing power of this amount is reduced. In other words, the same amount will buy you less in times of inflation.

For example: Let's say that a three-year bond pays EUR 1000 every year. Inflation means that, in the third year, EUR 1000 will buy less than in the first and second year.



### FINANCIAL INSTRUMENTS WITH FLOATING COUPON RATES

You may have financial instruments with floating coupon rates such as variable-rate bonds. You will receive:

- a periodic variable payment until the date the instrument reaches its maturity (coupon); and
- the repayment of the initial investment (nominal value) at maturity

The value of the periodic coupon is variable, depending on various factors (for example, it could be linked to interest rates, inflation, etc.).

Inflation has an impact on the repayment received at maturity, which will be the same during inflationary cycles, but the purchasing power of this amount is reduced. The periodic coupon will vary and might be able to counterbalance the effect (or a part) of inflation. However, it is not always the case that coupon rate changes will reflect the current level of interest rates, nor that they will compensate the rate of inflation.



### INVESTMENT FUNDS

Investing in investment funds gives access to a portfolio composed by several financial instruments. The impact of inflation and the rise of interest rates on investment funds depends on the type of fund and the composition of its investment portfolio: types of asset classes, activity sector, etc.



# 3 steps you can take to deal with the impact of inflation and rising interest rates on your financial investments

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## 1

### Pay attention to the real return of your financial investments



When comparing investment opportunities or analysing potential risks and benefits of a financial instrument:

- always consider inflation risk and the possible effect it may have on the real value and **real return** of the investment
- keep in mind that inflation risk comes in addition to the **normal costs of investing** in financial products such as: entry and exit fees and transaction costs, etc. Compare the costs of your financial investments and check if there are cheaper alternatives available

Check or ask your financial advisor for information on costs and on net real returns (after total costs + inflation).

## 2

### Consider diversifying your investments



Always keep in mind the core tenets of investing:

- maintaining a well-diversified portfolio
- ensuring investments remain aligned with your goals

Diversifying the types of instruments invested in a portfolio might generate a high-enough return to counterbalance the impact of inflation.

Balanced portfolios including investment funds, shares and bonds may help hedge against inflation risk:

- Shares are subject to higher risks and variability compared to bonds, yet they typically provide higher expected returns, and the inflation effects are not clear cut as previously explained
- Bonds may be more directly impacted by inflation and subsequent increases in interest rates, yet their price is less volatile than the price of shares
- Investing in investment funds, such as Undertakings for Collective Investment in Transferable Securities (UCITS), might help diversifying your portfolio. These instruments not only eliminate the need to select individual shares or bonds, but also offer exposure to different major asset classes and economic sectors, depending on the composition of their investment portfolio

## 3

### Seek advice to adapt your investments



A financial advisor can help you make more informed decisions.

As an investor, if you have doubts on how inflation may impact your financial investment, discuss with an **authorised financial advisor**. During inflationary periods, you might contact a financial advisor who will evaluate the need to update your profile and reassess the suitability of your investments.

# INSURANCE/PENSIONS



## What does inflation mean for my insurance and private pension\* ?

**Inflation may impact your financial situation and reduce your purchasing power now and in the long term.**



Take time to consider your options before taking important decisions on your insurance and private pension products (e.g.: temporarily stop paying in contributions to your pension or your regular premium life insurance product, not renewing an insurance product or terminating your insurance-based investment product early), because these decisions can also impact your financial situation now and in the future.

It is important to have an overview of the insurance policies you have and of what do they cover, before making decisions on them. Bear in mind that the price of the insurance product is not necessarily the most important factor.

Consider seeking help/advice. Indeed, seeking advice on your insurance product can help you to consider your current and future needs and the potential consequences of a decision (e.g. penalty fees for ending an investment early, no adequate insurance coverage for your home/car).



## How could inflation affect my life insurance product or private pension?

**Inflation may mean your investments are less profitable for you.**



It can lead to you having less disposable income now or in the future based on the returns on your investments and private pension.

For example, when you leave or retire, the amount you have saved in your pension pot, no matter how long you have contributed, may not be adjusted to the rate of inflation: your purchasing power could therefore be reduced.

If you decide to surrender your life insurance early or temporarily stop paying into a regular premium or savings product, because of your immediate financial needs, you may have to pay penalty fees and may have less income or savings in retirement or later in life.



## If I own non-life insurance products such as home or car insurance, how could inflation impact those products?

**Inflation may affect your insurance costs (your premiums), your coverage and the pay-out you receive for a successful claim.**



For example, from one year to another, your car insurance premium can significantly increase, notably due to the rise in the cost of car repairs.

In some cases, inflation could have a direct impact on whether the compensation for any losses covered by your policy is sufficient for your needs. Take home insurance as an example. After a claim, the pay-out from your policy might not be sufficient to cover the cost of materials for repairs or rebuilding all or parts of your home.

N.B. In this factsheet, state pensions are not covered. Private pension refers to workplace and personal pensions.



# 3 steps you can take to deal with the impact of inflation and rising interest rates on your insurance products and private pensions

## 1



### For all types of insurance products and private pensions, avoid taking hasty decisions

Be wary of letting a period of rising prices dictate your decisions on whether to take out essential insurance products, such as home insurance. Sometimes, the **consequence** of not doing so can lead to riskier outcomes than you might have foreseen.

So do not just compare prices, also compare coverage. Find the right policy for your needs.

Keep in mind that before taking an important decision on your insurance products, you could consider seeking advice from your financial advisor.

Private pensions have a long-term horizon. Keep in mind that saving less now to have more immediate income, means less pension in the future, which may not match your retirement needs.

## 2



### For life insurance products and private pensions, adopt a long-term perspective

You should not look only at the short-term impact of high inflation, but consider that in the long-term the situation will change

It is important to keep in mind that a life insurance policy that is an insurance-based investment product is normally bought with a perspective of investing for a medium to long term period.

- Do not take rushed decisions based only on the current rate of inflation.
- The value of some investments can fluctuate over time due to frequent changes in financial markets.
- Keep in mind that today's value is not the tomorrow's value.

If you approach a **financial advisor** for advice, bear in mind the following:

- The financial advisor is required by law to always act honestly, fairly and professionally with your best interests in mind.
- The financial advisor should help you to make an informed choice when buying a life insurance policy or investing more money in an existing one.
- If you are already approaching retirement and considering buying a **lifetime annuity**, you could also consider an inflation-linked annuity, which will protect your annuity against inflation. This product will start at a much lower rate, but it will help you avoid any inflation risk in the future.
- If you are advised to invest in a range of different types of assets to get higher returns and beat the high inflation, ask your financial advisor about the type of fees which you need to pay and about the risks.

## 3



### Adapt your coverage for non-life products

If you need to save money, rather than deciding not to renew an existing policy, you could consider:

- Only choose the most essential coverage.
- Increase the rate of the **policy excess** (this is the amount of money you agree to pay towards the overall cost of any claim).
- Check if you are already covered for the same risk under a different policy (including credit cards).

Look around the market and compare quotes from different insurance providers, but be careful not to decide only based on price. Check the types of coverage offered.