ROSE
Financial Planning

EURO rates still falling!

Euribor (European Inter Bank Offer Rate) is the interest rate index which reflects the rates that banks provide loans to one another. Banks which borrow money from other banks can then use these funds to provide loans to other parties, in the main via mortgages.

When the Euribor rate increases the interest rate applicable to variable based loans and mortgages increases, as well as vice versa. There is a direct relation between the rate at which the lender borrows from the Money Markets and then how much they charge for lending.

At its peak in the autumn of 2008, a year ago, the Euribor annual rate hit a high of 5.6%. When the banks margin (profit) for lending was added this brought some mortgage rates up to well in excess of 6%. Since then, following the European Central Bank's decision to drive the cost of borrowing down to stimulate lending, we have seen rates fall dramatically. The ECB's base rate now stands at 1% and the annual Euribor just 1.35% .. and falling still.

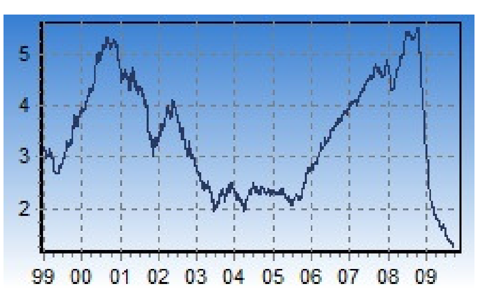
A point to note though! Lenders, in order to protect their profitability, have not passed all of the reductions on. Their margins have increased substantially so, whilst the base rate is well below its all time prior low point, the actual pay rate on mortgages is not so dramatic. Lower yes, but not as low as they would have been.

So where will Euribor rates go from here?

The ECB are, arguably, in a difficult position! On the one hand, they have to defend against inflation. That is the primary remit. The ECB is not in the position of increasing the base rate to meet the potentially dangerous and excessive inflation with certain member states economies, such as in Ireland. To do so would curtail the economical recovery that they are looking for in the other and majority of member countries. On the other hand, neither will they feel the need to reduce the base rate further; that would heighten inflation where it is already found.

The result then implies that the ECB will retain the existing base rate at 1% for some time and the next move will be up rather than down. But even then, the economy of Europe as a whole, is not likely to be so strong as to be able to suffer a dramatic rise, so rates will remain low for some considerable time yet.

A good time for borrowers of Euros!



Euribor 12 months rate – 1999-2009 (Source: http://www.euribor-rates.eu/euribor-charts.asp)

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