



# ROSE

Financial Planning

## EURO interest rates still fairly stable .... just!

The decision by the European Central Bank (ECB) to increase its base rate by 0.2% to 1.25% was widely expected and certainly discounted by the money markets.

The ECB walks a difficult road; its primary remit is to control inflation and with a target of just 2% and RPI way over that, it calls for a tightening of policy. BUT the danger, especially to those economies already under the cudgel (Greece, Ireland, Portugal and Spain), is that higher borrowing rates are only going to make things worse!

We are now seeing the all-important (from a mortgage perspective that is) 12 Month Euribor trading at 2.10% giving rise to an average mortgage 'pay rate' closer to 4%. Still low in historic terms, but not what financially-stressed borrowers and economies need!

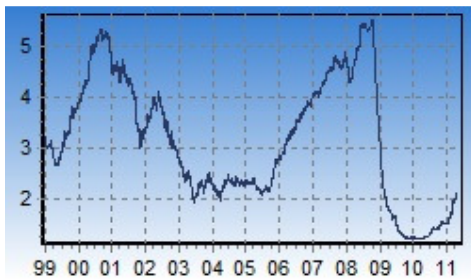
Euribor (European Inter Bank Offer Rate) is the interest rate index which reflects the rates that banks provide loans to one another. Banks which borrow money from other banks can then use these funds to provide loans to other parties, in the main via mortgages.

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, 2 years+ 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 ... but now we have a reversal!

So where will Euribor rates go from here?

Not to far or too quickly .. because of that balancing act of the ECB!



Euribor 12 months rate – 1999-2011 (Source: <http://www.euribor-rates.eu/euribor-charts.asp>)

**Mark Mountney, the proprietor of Rose Financial Planning, is a specialist mortgage brokerage in Spain. He is a qualified mortgage and financial adviser in the UK with some 16 years experience in managing his own firm. Mark was also a founder of The Association of Mortgage Intermediaries, the trade association for mortgage advisors in the UK with 28,000 members. See [www.rosefp.com](http://www.rosefp.com) or call 0034 677 874 948.**