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.

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.