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Unsustainable

By Paul Gibson

You work your heart out all week, get home late, get up early every morning. But what do you have to show for it? A house, an apartment, maybe a car... Can you really afford all those expensive things any more?

Just this past week, interest rates jumped another hurdle, leveling off at 3.25% for the entire Eurozone. As interest rates begin to slowly rise at previously unknown rates, the amount of money every Spanish family has to face their monthly payments is less and less.

In a report dated October 2, 2006, EU authorities said that the average Spanish family is falling deeper and deeper into debt. The EU has issued a warning to the Spanish authorities categorizing the situation in Spain as "unsustainable" growth. And just today, they have published another interesting fact about the use of Visa credit cards. The amount of money that Spanish consumers took out on their Visa credit card has increased by 15% in just one year.[1]

What does this mean for the future? Spanish consumers (that's you and me) will have to dig deeper and deeper into our pockets to find those precious *céntimos* to pay back our student loans, make our car payments, or God forbid, make our mortgage payment.

Mortgage rates have just risen by an approximate 80 euros a month. But the bad news does not stop there. The statistics used in this study are the ECB (European Central Bank) rates, not the interbank rate, which is now at 3.74% and expected to rise to 4% by the end of the year. This is the actual rate that is used to determine how much your bank may raise the interest on your mortgage.

So let's recap here for a moment. The actual increase in mortgage rates is going from its previous level of 2.4% to a whopping 4% in less than a year. That means an annual increase of 1.5% on your mortgage. This doubles the interest you have to pay.

Be careful though! This may not necessarily be your case. It all depends on the amount of your mortgage, and the number of years you have left to pay it off.

So now who's laughing? No one. All of this begs the question: where are we... where are you… going to find the money to pay for all of this? Salaries aren't changing any time soon... and as consumer spending and savings decrease, the logical conclusion is that we are headed for a recession. That's right, the "R" word.

Hey, we are not alone either. I mean, Ireland, Holland, and Luxembourg are up to their ears in debt, around 70% of their Gross National Product (GNP).

But I am sure we will find a long-term solution. I mean, we will probably ignore everyone anyway and continue to ask for more and more loans, to pay off mortgages with black market money (with our other mortgage), and so on and so forth. We can just wish it all away. Better yet, we could just whisk it all under the carpet and act like nothing is happening. Doesn't that sound like a good idea? So the next time you go to the supermarket, you can rehearse answering that question: "Will that be cash or credit?" And with all that practice you have, you will undoubtedly respond: "CREDIT, OF COURSE!"

[1] *Cinco Dias*, online version. October 2nd and October 6th. For more information, go to www.cincodias.es