Portuguese Households' Savings in Times of Pandemic: a way to better resist the escalating inflation?

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Abstract

March 2020 confinement has shot Portuguese savings to historic levels, reaching 14.2% of gross disposable income in early 2021 (INE, 2021). To find similar savings figures we need to go back to 1999. With consumption reduced to a bare minimum, the Portuguese were forced to save. Households reduced spending more because of a lack of alternatives to consumption than for any other reason. The relationship between consumption, savings, and income has occupied an important role in economic thought [(Keynes, 1936; 1937); (Friedman, 1957)]. Traditionally, high levels of savings have been associated with benefits to the economy, since financing capacity is enhanced (Singh, 2010). However, the effects here can be twofold. On the one hand, it seems that Portugal faced the socalled Savings Paradox (Keynes, 1936). If consumers decide to save a considerable part of their income, there will be less demand for the goods produced. Lower demand will lead to lower supply, lower production, lower income, and paradoxically, fewer savings. On the other hand, after having accumulated savings at the peak of the pandemic, the Portuguese are now using them to carry out postponed consumption and, hopefully, to better resist the escalating inflation. This study aims to examine Portuguese households' savings evolution during the most critical period of the pandemic, between March 2020 and April 2022. The methodology analyses the correlation between savings, consumption, and GDP as well as GDP´s decomposition into its various components and concluded that these suddenly forced savings do not fit traditional economic theories of savings.

Keywords: consumption, GDP, inflation, pandemic, savings