The distribution of wealth in Europe, and why we care

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Motivation of the HFCS

- Need to learn about **finances of European households**

- Cross-country dimension informative about **role of policies/institutions/shocks** (e.g. differences in home-ownership might impact transmission of monetary policy)
  - Help gain a better understanding of the **transmission mechanism of monetary policy** and
  - Allow studying the **impact of shocks on financial stability**

- Like other wealth surveys run by central banks, informative about **policy-relevant issues**, e.g.:
  - Distribution of debt burden / financial distress
  - Availability of liquid assets
  - Fixed-/variable-rate mortgages
  - Credit constraints
  - Home-ownership

The importance of micro data

- The **distribution** of household debt matters for its **sustainability**
  - **Sub-population** developments may cancel out / hide behind macro aggregates
  - Concentration of **debt holdings**
  - Need to know asset/income position of **indebted households**

- Identify **indebted** households in order to study
  - Determinants of **debt holdings**
  - The **effects** of monetary, fiscal, social policy
  - **Vulnerability** to shocks (income, asset prices, interest rates, etc.)

Objectives of the HFCS

- **Support policy analysis in all major functions of the Eurosystem**
  - Monetary policy and monetary analysis
  - Financial stability
  - Payment systems

- **Analyse impact of shocks, policies and institutional changes on HH sub-groups of particular policy interest:**
  - Lowest/highest income/wealth deciles
  - Over-indebted
  - Credit-constrained, etc.

- **Take into account heterogeneity of the household sector**
  - In modelling, research, policy prescription

Contrasting the HFCS with aggregate data

Aggregate data have…

- Increasing availability of euro area household balance sheets (Financial Accounts)

- Coverage of non-financial assets (housing) still experimental

- No information on distributional issues, but could be combined with survey
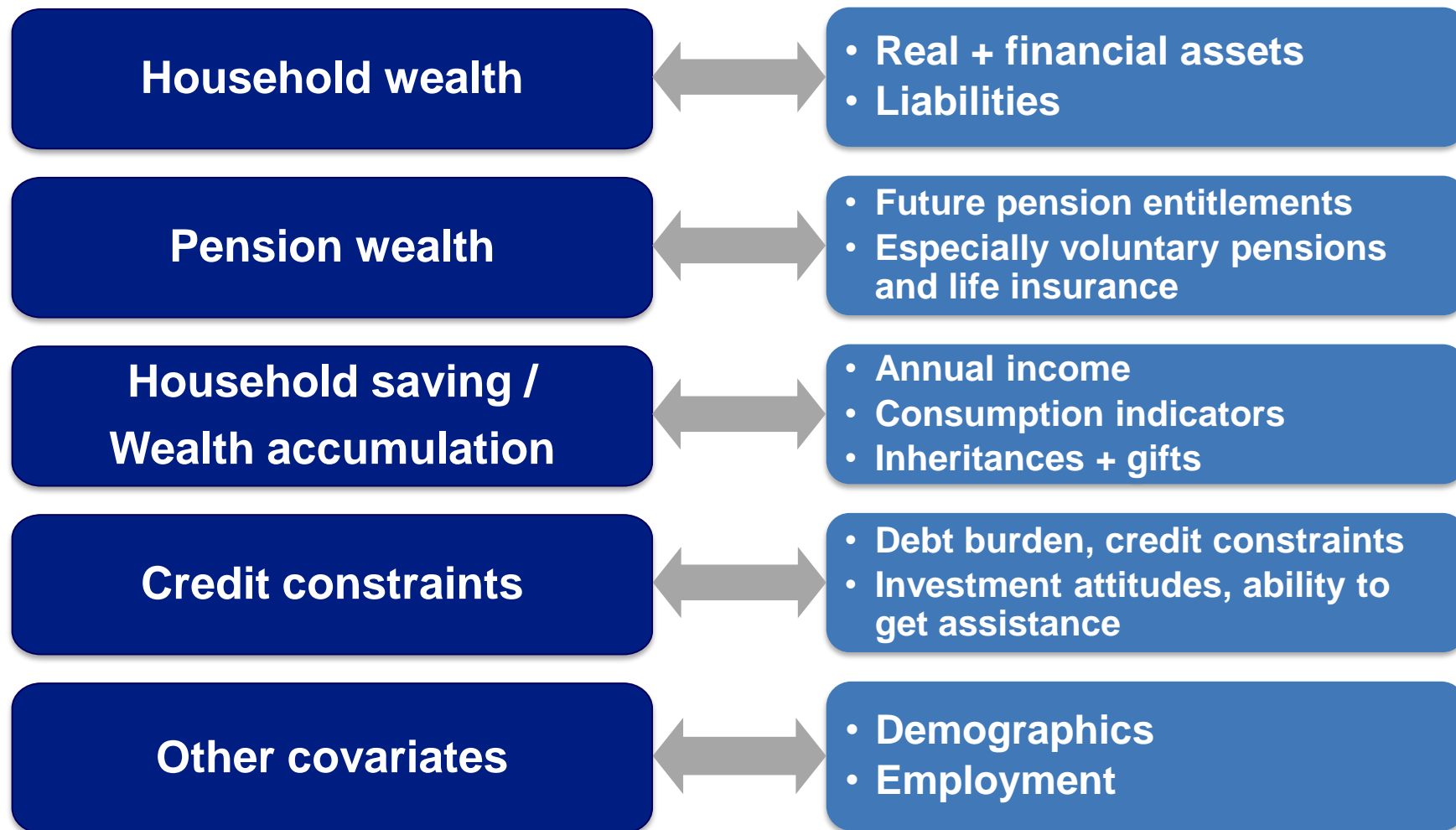
Micro data (HFCS) have…

- **Distributions** across (groups of) households

- Subpopulation **react differently** (e.g. to house price shocks)

- How many households have **debt larger than assets**?

- **Heterogeneity** important for mon policy transmission and fin stability

The Eurosystem Household Finance and Consumption Survey (HFCS)

- Survey on **household balance sheet and more** (assets, liabilities, income, consumption) in the euro area

- **Ex-ante output harmonised** and general guidelines, but some differences in implementation across countries

- First wave carried out in **2009-2010**, published 2013, covering 15 euro area countries

- **Second wave** carried out **2013-2014**, publication foreseen December 2016, covering 18 euro area countries + Hungary and Poland

- 62,000 households in wave 1, increased to **85,000 households** (with 5 new countries)

- Data **available** for research purposes on the ECB website

Content: areas covered by HFCS

Household wealth	• **Real + financial assets** • **Liabilities**
Pension wealth	• **Future pension entitlements** • **Especially voluntary pensions and life insurance**
Household saving / Wealth accumulation	• **Annual income** • **Consumption indicators** • **Inheritances + gifts**
Credit constraints	• **Debt burden, credit constraints** • **Investment attitudes, ability to get assistance**
Other covariates	• **Demographics** • **Employment**

Households' assets in the HFCS

Non-financial assets

- **Household main residence**
- **Other real estate properties**
- **Vehicles**
- **Valuables**
- **Self-employment business wealth**

Partially covered, not comparable

- **Social security & occupational pensions**

Financial assets

- **Deposits**
- **Mutual funds**
- **Bonds**
- **Publicly traded shares**
- **Money owed to households**
- **Voluntary private pensions /whole life insurances**
- **Other**

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Debt burden

- HFCS allows studying **debt burden** among indebted households
  - Overall debt levels indicative for deleveraging needs
  - Which households are in the tails of the distribution?
    - Impact on financial stability / spill-overs to consumption in presence of adverse shocks

- Several indicators
  - **Debt to asset ratio** (resources to manage stock of debt)
  - **Debt to income ratio** (can debt be paid back from the flow of income?)
  - **Debt service to income ratio** (drain on current income)

- All indicators calculated for **indebted households** only

Households' indebtedness

- 44% of euro area households have debt

- Considerably below US (75%)
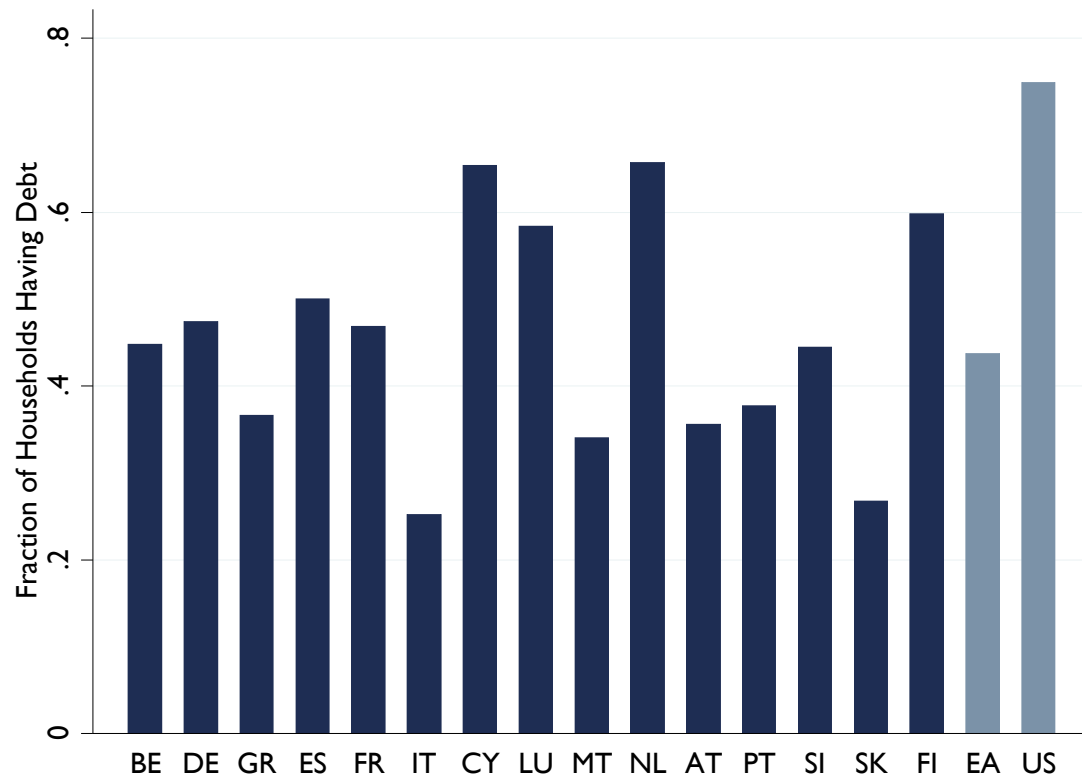
Source: HFCS, wave 1 & SCF (2010)

Fixed vs. adjustable interest rates

- Large cross-country variation in the use of fixed / adjustable interest rate HMR mortgages

- Fixed-rate loans have on average shorter maturity and smaller outstanding amounts

Share of adjustable rate loans in total value of HMR mortgages by country

Source: HFCS, wave 1

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www.ecb.europa.eu
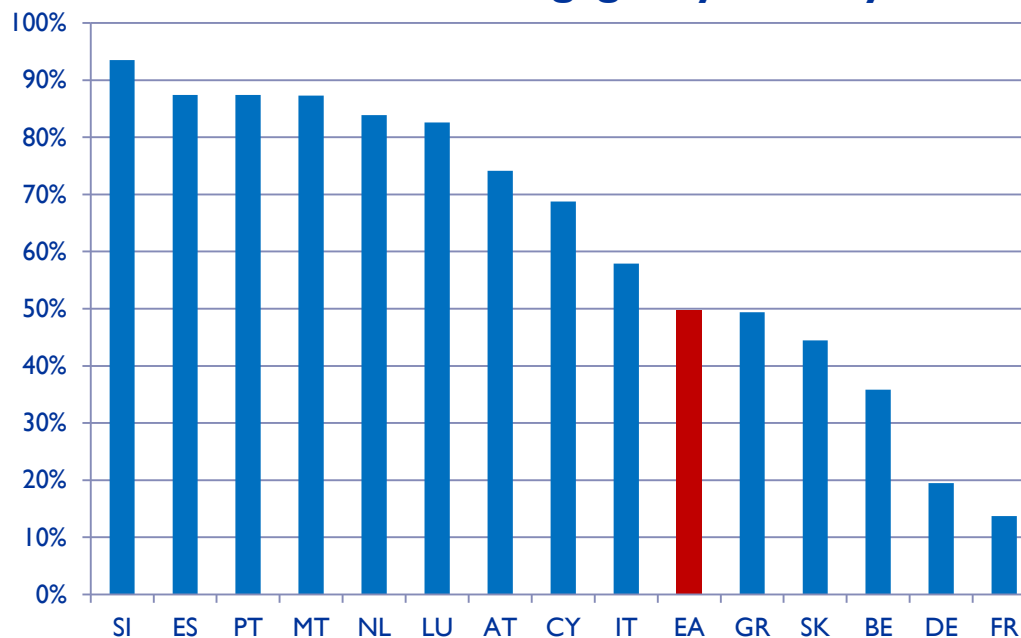
Debt burden - the prevalence of high debt service-to-income ratios

- Debt service-to-income ratio measures the drain of debt servicing on current gross income

- 9% of euro area indebted HHs have debt service-income ratios > 0.4

  - Somewhat below US
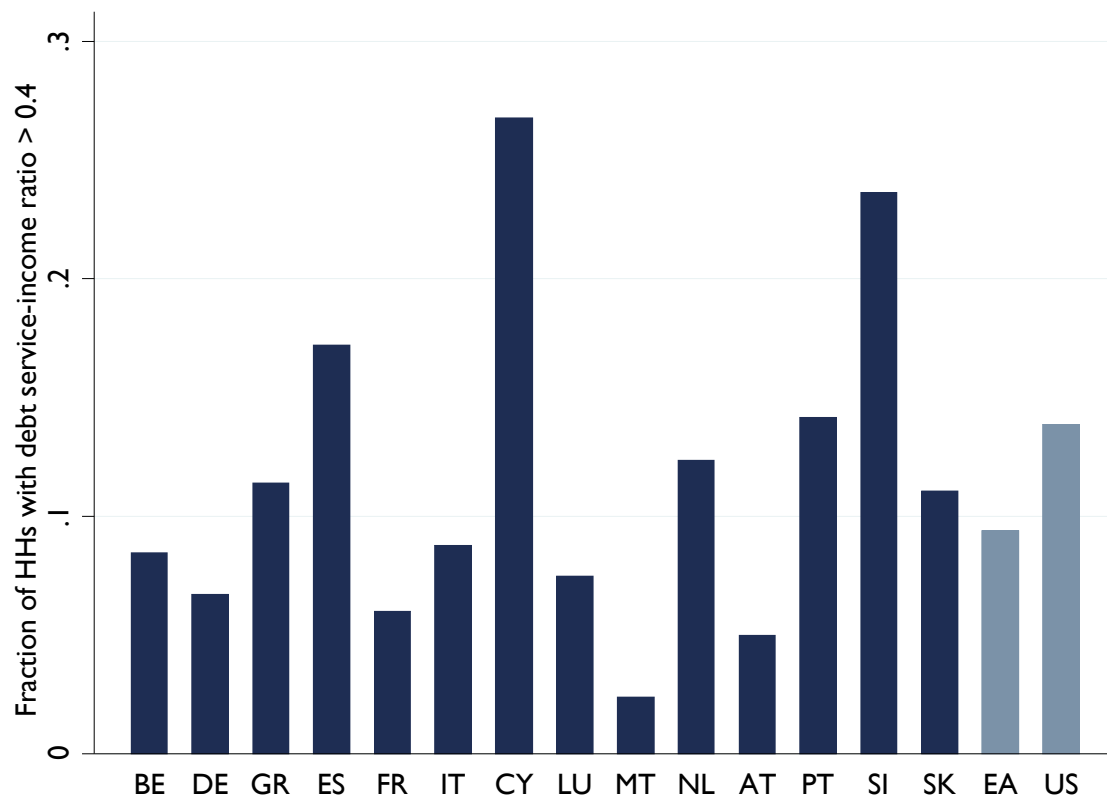
Source: HFCS, wave 1 & SCF (2010)

Debt burden - the prevalence of high debt service-to-income ratios, by income quintiles

- Prevalence of high debt burden decreases with income

- Indebted low-income households particularly vulnerable

Share of indebted households with debt service-income ratios > 0.4

	Euro Area	United States
1st income quintile	36.0	25.8
2nd income quintile	13.1	18.5
3rd income quintile	8.9	15.3
4th income quintile	5.3	11.0
5th income quintile	3.9	4.2

Source: HFCS, wave 1 & SCF (2010)

The distribution of net wealth and income Euro area vs. US

- **Wealth and income in euro area more evenly distributed than in US**

  - Top 10% HHs hold 50% of total net wealth in EA, 74% in US

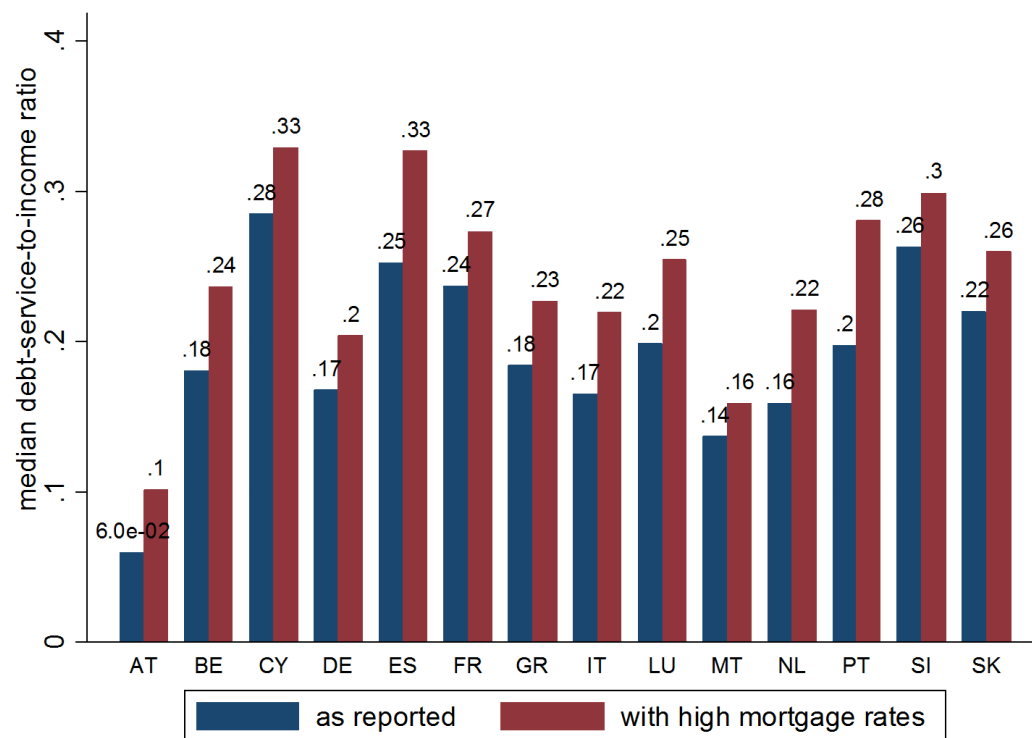 - Top 10% HHs hold 31% of income in EA, 44% in US

Lorenz curve of net wealth / income, EA vs US
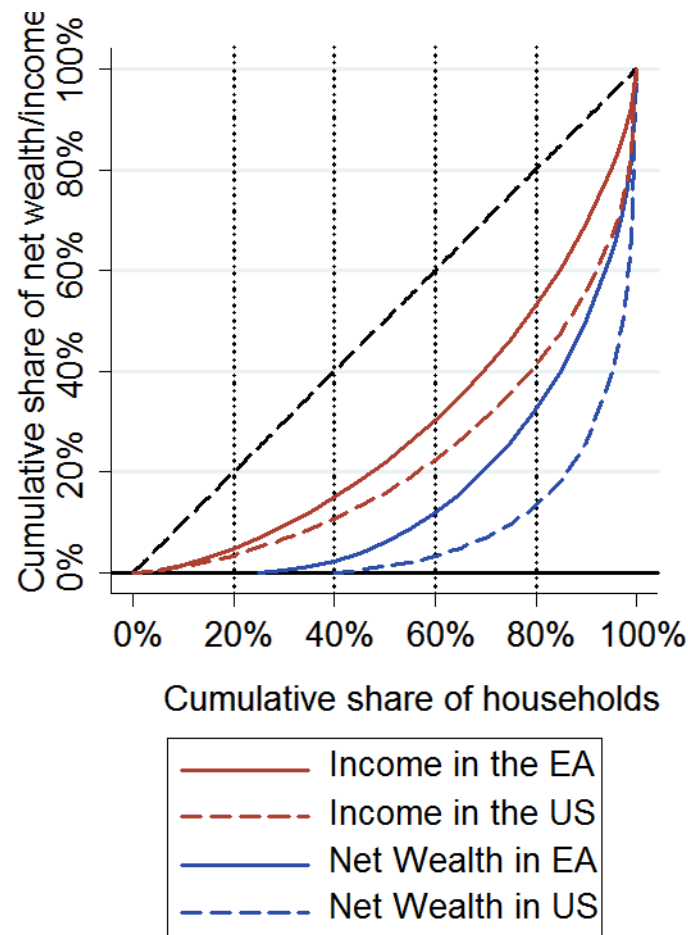
Source: HFCS, wave 1 & SCF 2010

# Example 1: Debt relief from the ECB's monetary easing

- Effect on median debt-service-to-income ratio among ARM holders, by country

  - Larger debt relief in several stressed countries

Source: Ehrmann and Ziegelmeyer (2014), HFCS, wave 1

Example 2: Heterogeneity after the Great Recession

- Ampudia, Pavlickova, Slacalek and Vogel (2016)
- Actual mortgage DSI ratios went up in some stressed countries
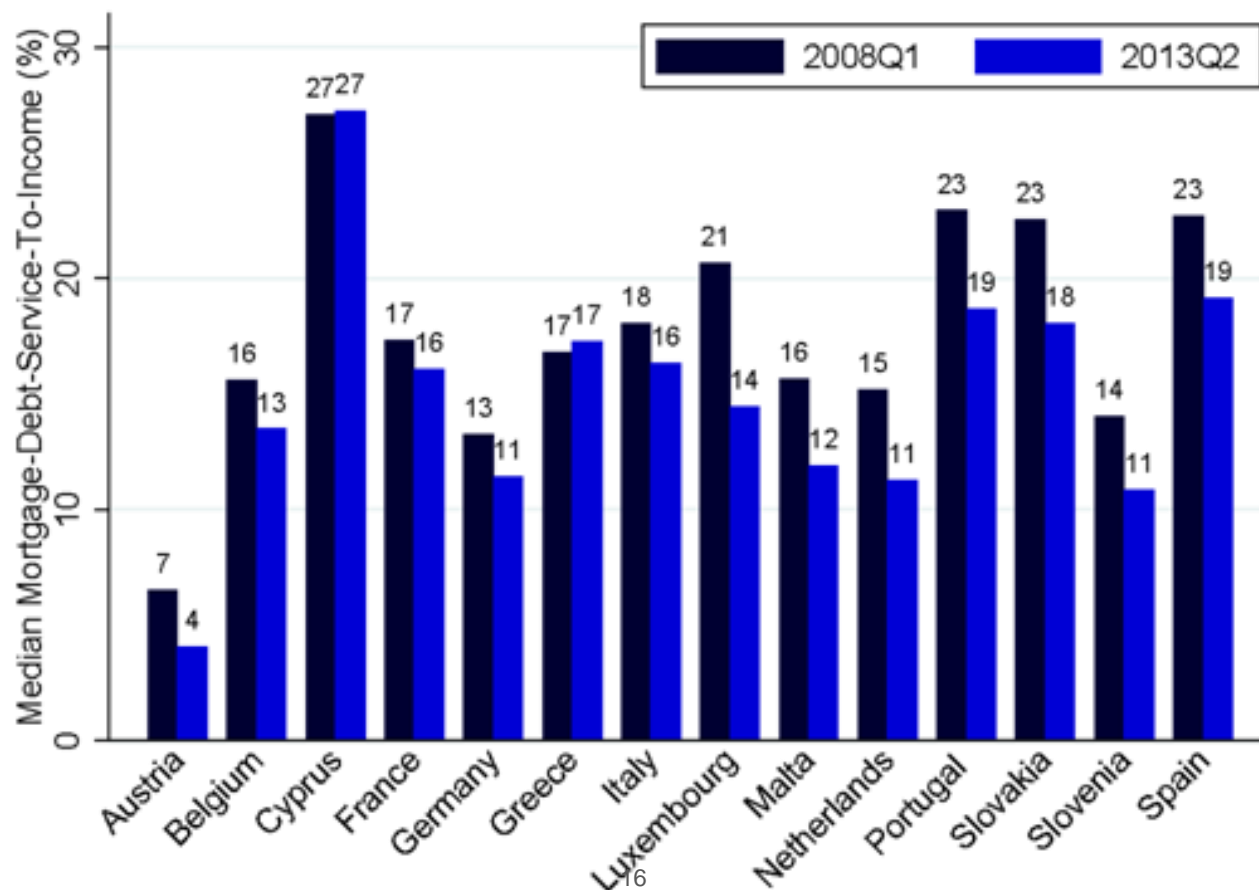
Home ownership across countries

- **Ownership of the household main residence varies substantially across countries**

  - EA average 60%, somewhat below US (67%)

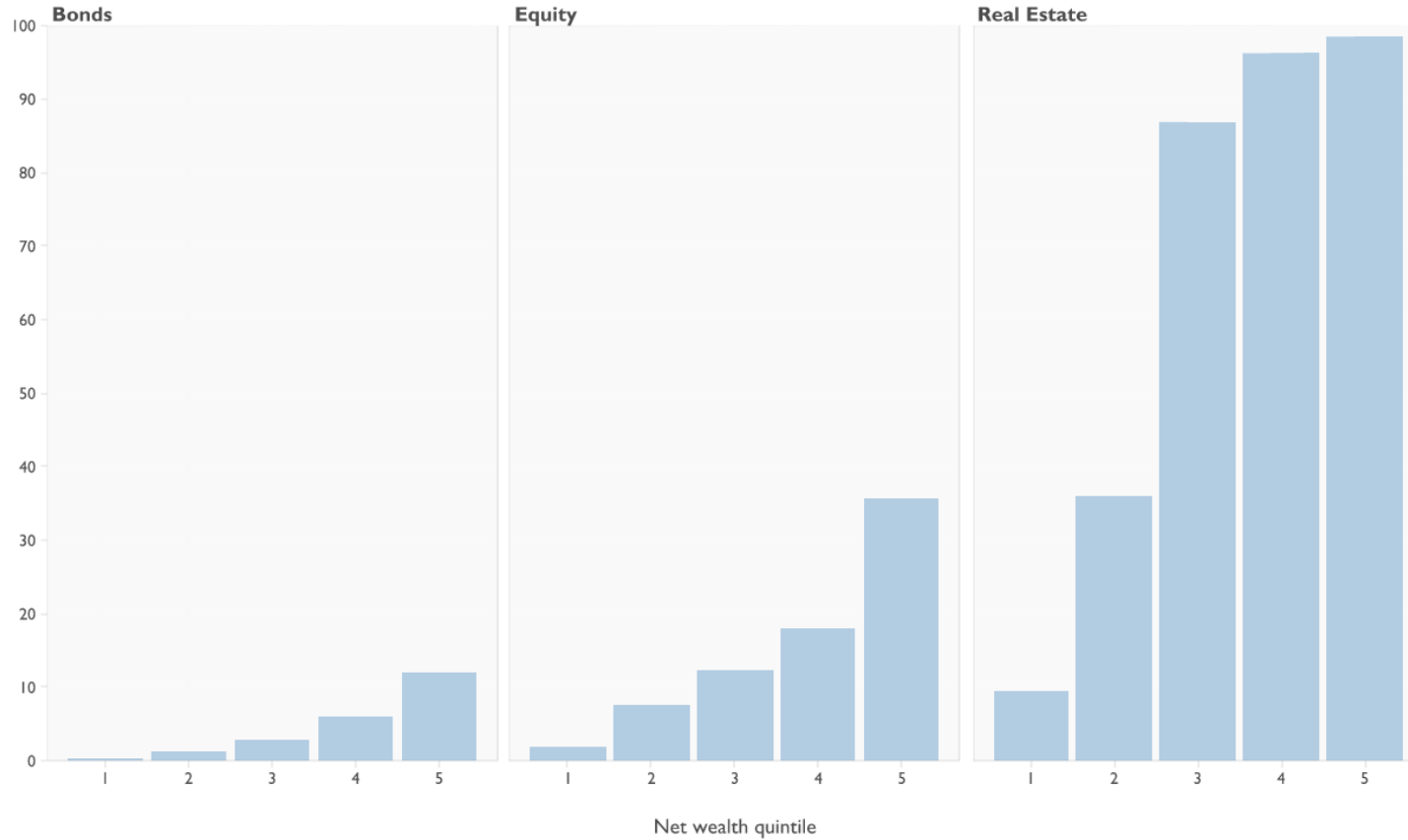 - <50% in DE and AT

  - >80% in ES, SI and SK
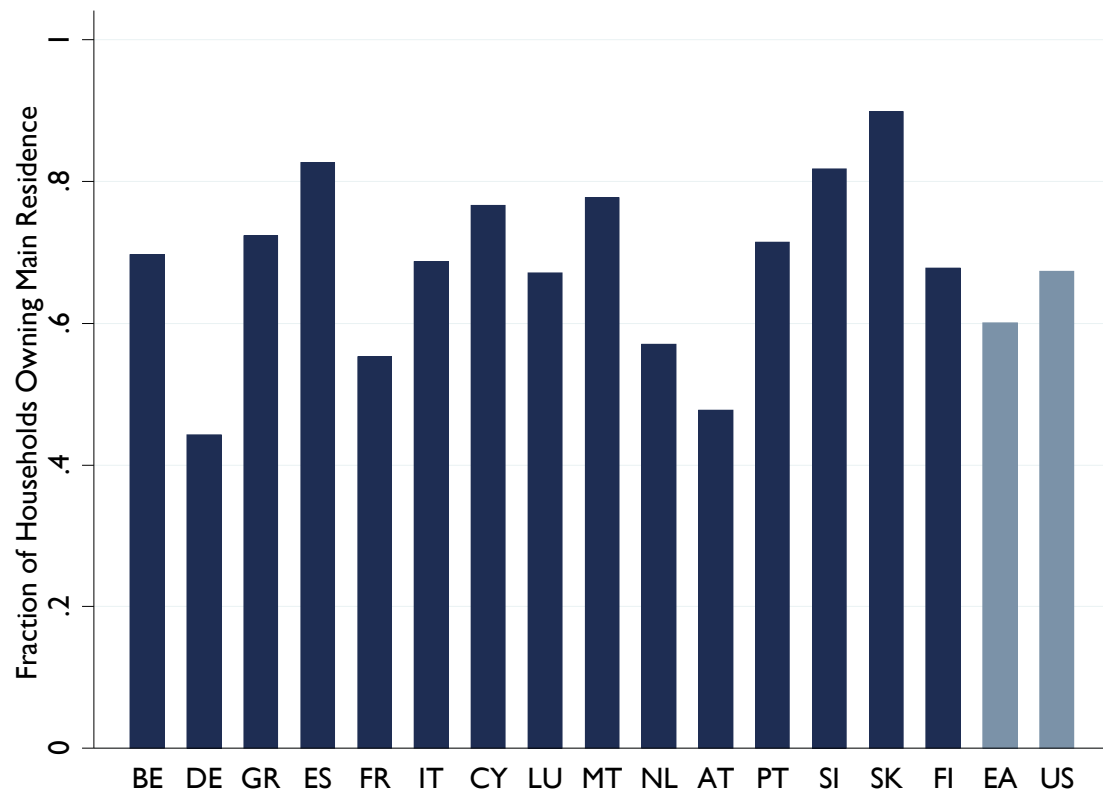
Source: HFCS, wave 1 & SCF (2010)

Distributional effects of monetary policy

Euro area household participation in financial asset classes

% of households holding respective financial assets

Source: Eurosystem Household Finance and Consumption Survey - preliminary data 2014
Note: 5th wealth quantile = wealthiest fifth of households