

Households at Risk in a Wealthy Country: Survey Evidence from Belgium

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This presentation

- ▶ Illustrates financial fragility of households in a wealthy and (relatively) egalitarian society like Belgium.

- ▶ Complements (macro) indicators with information from **micro survey data (Household Finance and Consumption Survey: HFCS)**, to identify **pockets of risk** in the Belgian mortgage market:
 - takes into account **distributional aspects** of debt and assets, with a special focus on the coverage of households' mortgage debt by (liquid) financial assets;
 - identifies the share of outstanding mortgage debt that is possibly at risk, and the parts of the population most affected, on the basis of **income and assets-related debt indicators**.

- ▶ Finds that:
 - some groups of households have problems servicing their debt out of their income and some lack the financial resources to cope with income loss;
 - households' financial wealth is (very) unequally distributed, and covers their outstanding mortgage debt only to a limited extent;
 - a severe unemployment shock could hurt many mortgage-indebted households, involving a significant part of total outstanding mortgage debt in Belgium.



Belgium: a rich and open economy in the core of Europe, with wealthy and healthy households

	Belgium	Euro area	United States
GDP per capita (\$)	45 000 \$	39 000 \$	52 000 \$
International trade to GDP (%)	164 %	106 %	28 %
Households' financial assets to GDP (%)	310 %	215 %	280 %
Life expectancy (years)	81.4 y	81.2 y	78.8 y
Home ownership rate (%)	70 %	69 %	63 %
Household debt to GDP (%)	59 %	59 %	79 %
Gini for income	0.27	0.30	0.40
Relative poverty rate	9 %	11 %	18 %

**Inequality and poverty are low to international standards,
with no signs of an increase in the past decade**



The Household Finance and Consumption Survey (HFCS)

- ▶ Harmonised survey covering assets (financial and real), debt (secured and non-secured), income (labour and other), demographics, ... at the household level.
- ▶ ESCB network now covering all euro area (and some other) countries, > 80 000 households (+/- 2 300 in Belgium).
- ▶ Data for two waves (2010 and 2014) are available, next waves ongoing or planned (2017, 2020, ...).
- ▶ **Income- and assets-related debt ratios at the time of the interview:**
 - Mortgage-loan-to-value ratio (MLtV);
 - Mortgage-debt-(service-)to-income ratio (MDtI and MDStI);
 - Liquid-assets-to-mortgage-debt-(service) ratio (LAtMD and LAtMDS):
divides the stock of a household's **liquid assets** (incl. deposits, mutual funds, bonds and listed shares; excl. non-listed business and pension wealth) by the outstanding amount of mortgage debt, or by the flow of monthly mortgage-debt service payments, at the time of interview.



Pockets of risk in mortgage debt of Belgian households, due to high mortgage-debt-service-to-income MDStI¹ and mortgage-loan-to-value MLtV² ratios

	Share in the population of mortgage-indebted households (%)	Share in total outstanding mortgage debt (%)	of which is mortgage debt with MLtV>80% (ppt)	Cumulative share in the population of mortgage-indebted households (%)	Cumulative share in total outstanding mortgage debt (%)	of which is mortgage debt with MLtV>80% (ppt)
Mortgage-debt-service-to-income ratio (MDStI):						
more than 50 %	6.3	12.7	3.0	6.3	12.7	3.0
between 40 and 50 %	2.0	5.5	0.9	8.3	18.2	3.9
between 30 and 40 %	4.5	6.7	2.9	12.8	24.9	6.7
between 20 and 30 %	19.3	23.9	8.5	32.1	48.9	15.2
20 % or less	67.9	51.1	5.0	100.0	100.0	20.2

Source: HFCS.

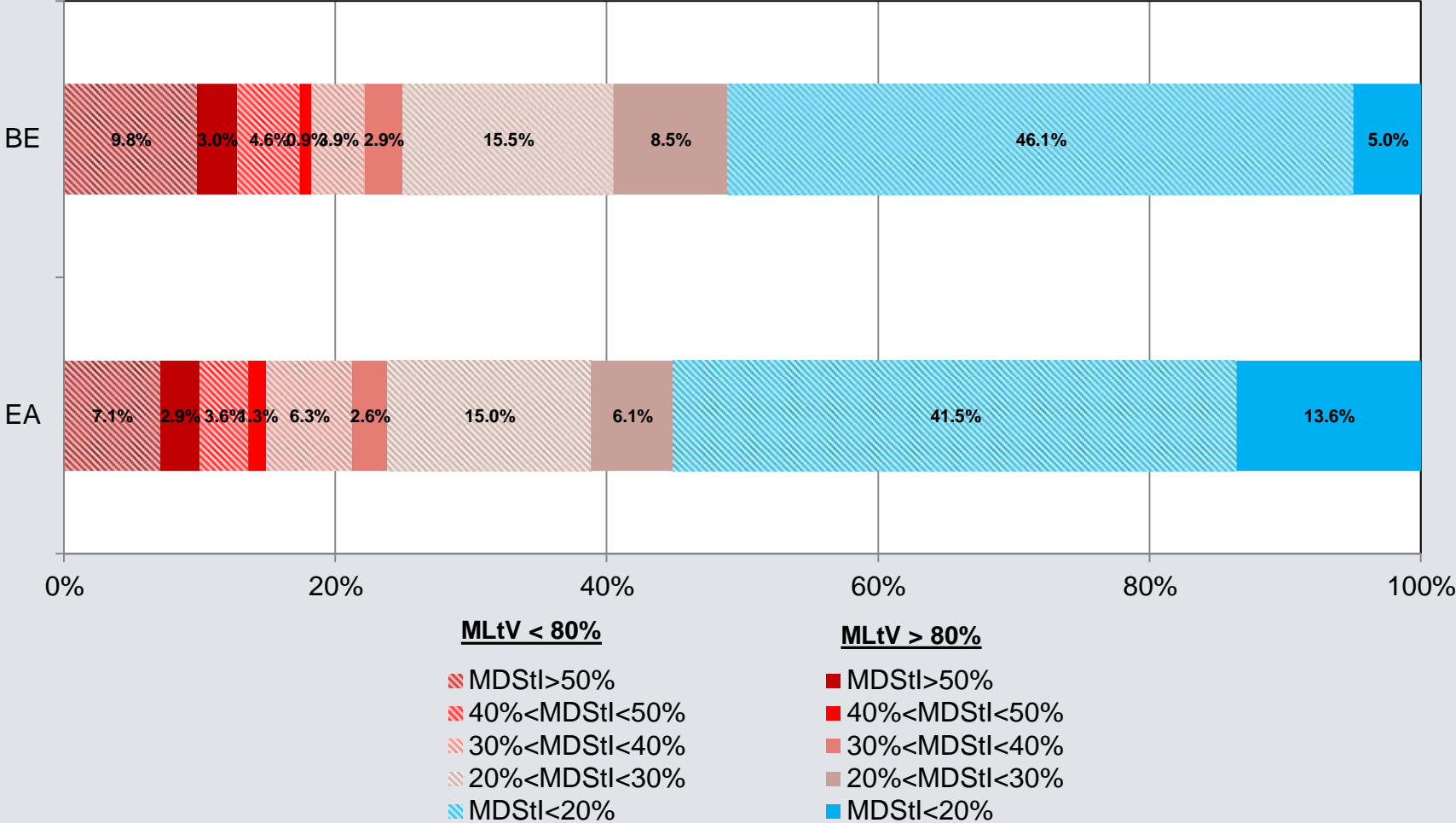
¹ The flow of monthly mortgage-debt service payments divided by the flow of total monthly gross household income, at the time of interview. Indicates which part of its income a household needs to periodically service its mortgage debt.

² A household's outstanding mortgage debt divided by the (self-assessed) value of its real estate, at the time of interview.



Similar pockets of risk in the euro area

Percentages of outstanding mortgage debt in Belgium and in the euro area, according to mortgage-debt-service-to-income MDSt¹ and mortgage-loan-to-value MLtV² ratios



Source: HFCS.

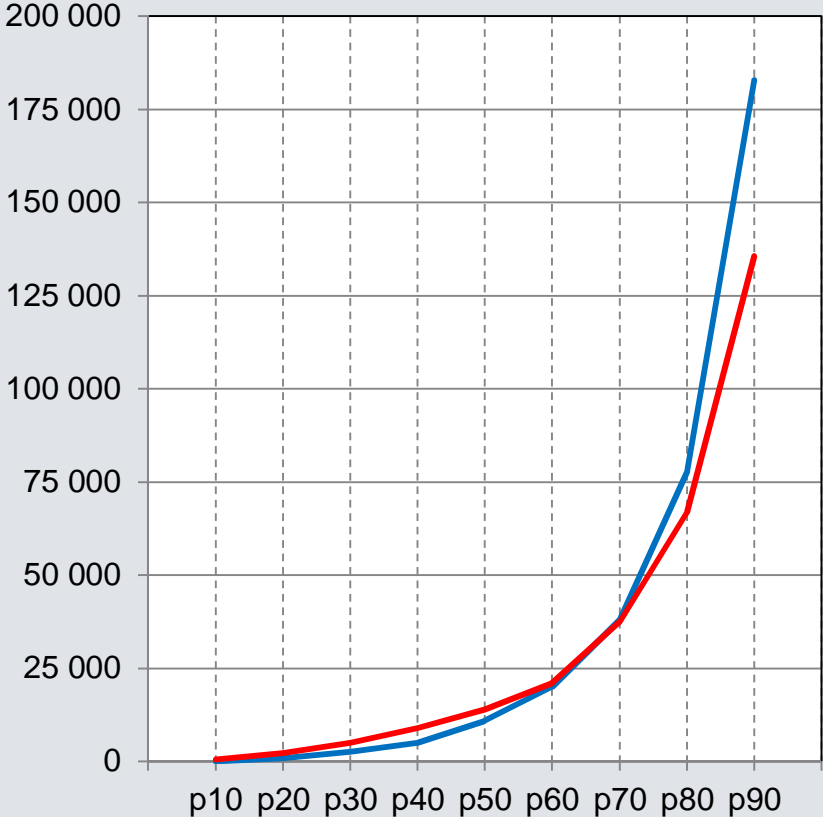
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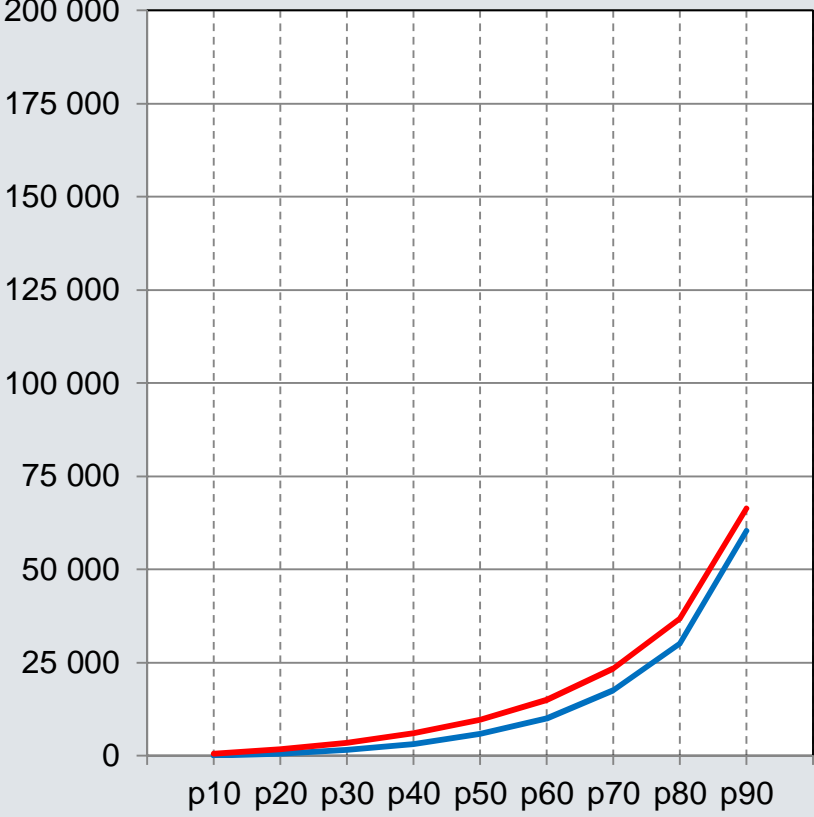


Households' liquid financial assets¹ are unequally distributed

Liquid assets in Belgium (>150 %GDP)
(percentiles in euro)



Liquid assets in the euro area (>100 %GDP)
(percentiles in euro)



— Households without mortgage debt — Households with mortgage debt

Source: HFCS.
¹ A household's liquid assets are composed of its money holdings in deposits, mutual funds, bonds and listed shares.



Asymmetric distribution of financial assets between mortgaged-indebted and other households

	Share in the population (%)	Share in liquid ¹ assets (%)	Median liquid assets (euro)
Belgium (+/- 70% homeowners)			
Households with mortgage debt	30.5	21.9	14 000
Households without mortgage debt	69.5	78.3	11 000
Euro area (+/- 60% homeowners)			
Households with mortgage debt	23.1	27.5	10 000
Households without mortgage debt	76.9	72.6	6 000

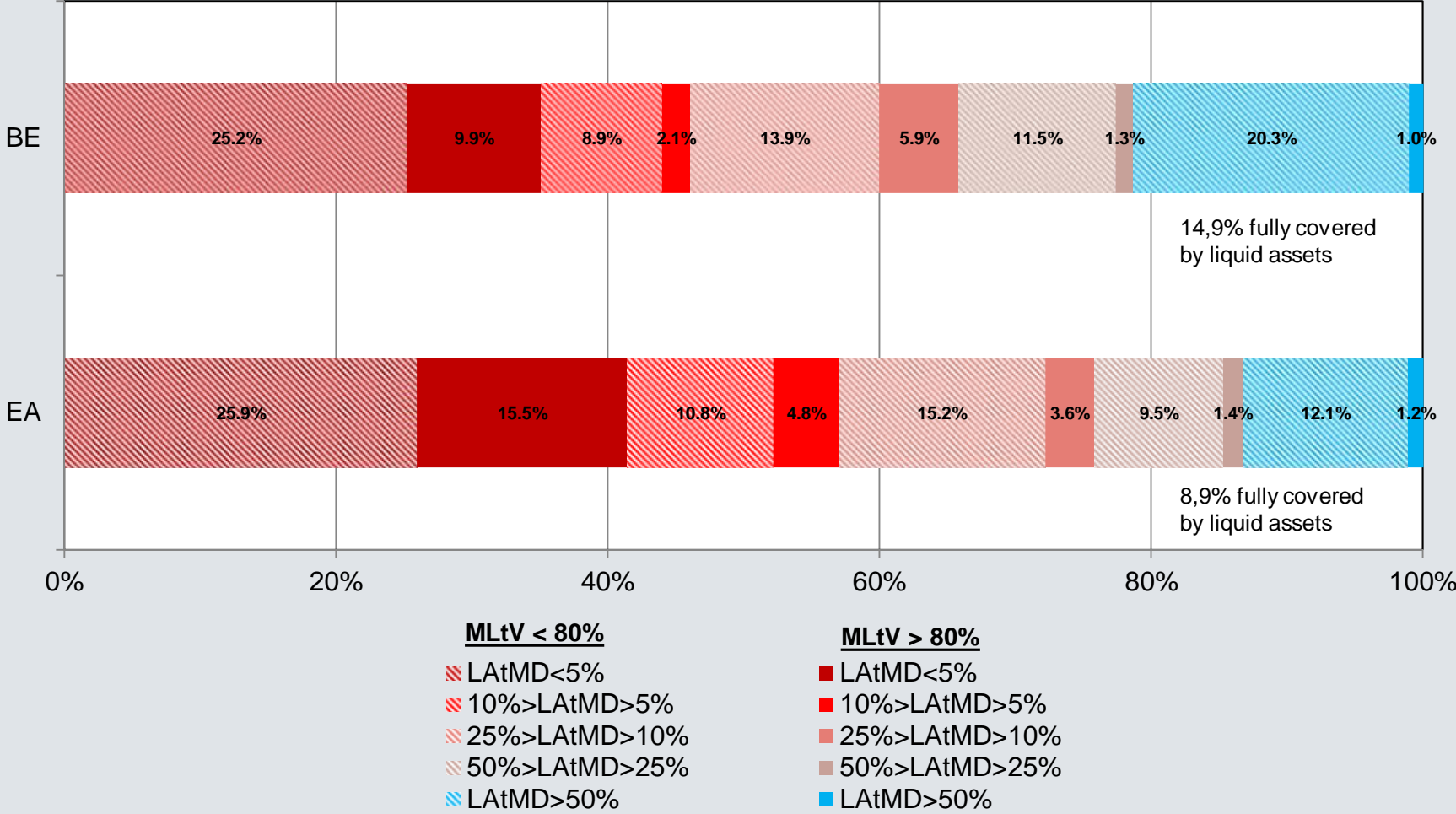
Source: HFCS.

¹ A household's liquid assets are composed of its money holdings in deposits, mutual funds, bonds and listed shares.



Households' liquid assets cover part of their outstanding mortgage debt, but only to a limited extent

Percentages of outstanding mortgage debt in Belgium and in the euro area, according to liquid-assets-to-mortgage-debt LAtMD¹ and mortgage-loan-to-value MLtV² ratios



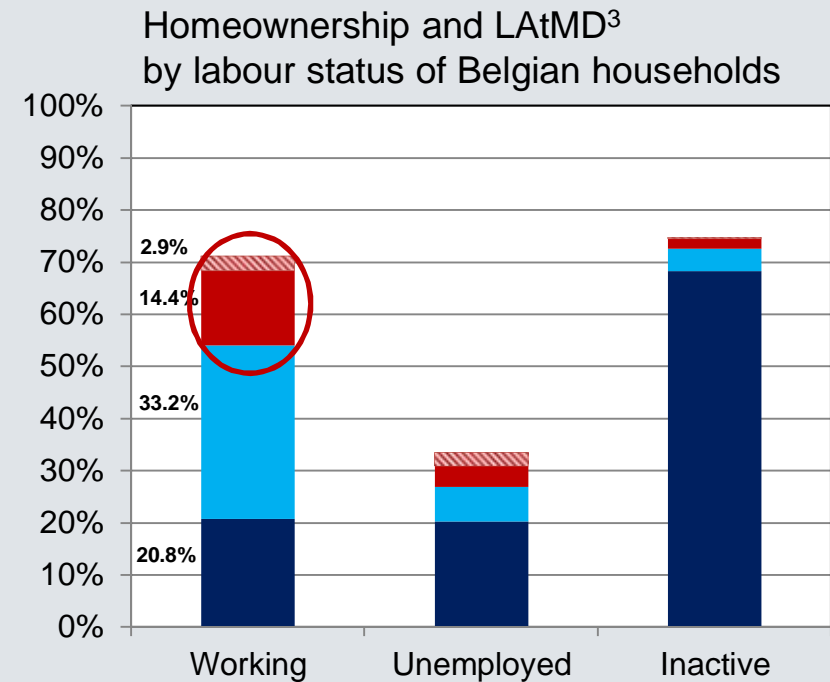
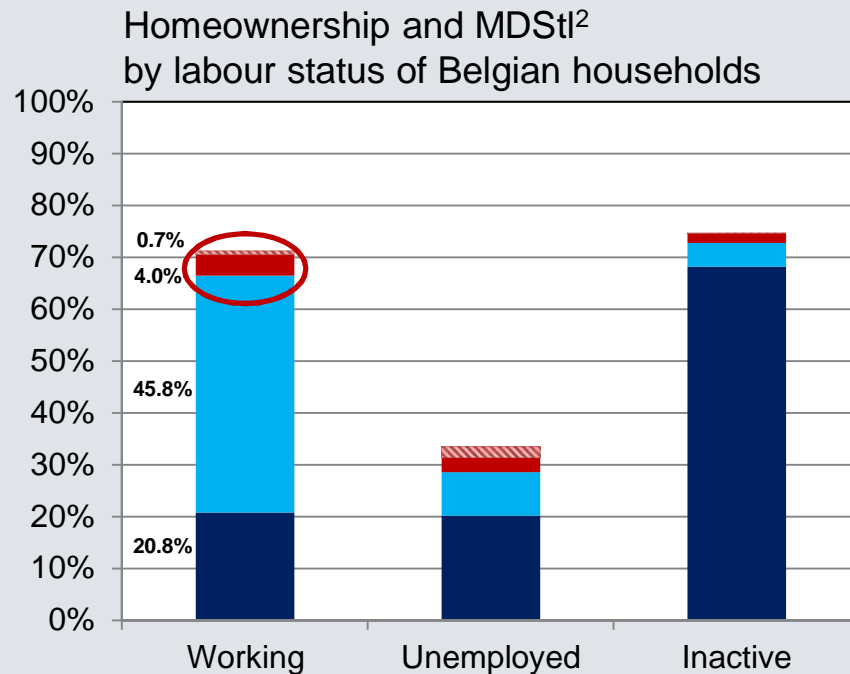
Source: HFCS.

¹ The stock of a household's liquid assets divided by the outstanding amount of mortgage debt, at the time of interview. Indicates the part (percentage) of a household's outstanding mortgage debt that could immediately be repaid with liquid assets.

² A household's outstanding mortgage debt divided by the (self-assessed) value of its real estate, at the time of interview.



The unemployed¹ have more problems repaying their debt, but pockets of working households are also at risk



- ▨ Mortgaged homeowner with MDStl > 30% and MLtV > 80%
- Mortgaged homeowner with MDStl > 30% and MLtV < 80%
- Mortgaged homeowner with MDStl < 30%
- Outright homeowner

- ▨ Mortgaged homeowner with LAAtMD < 10% and MLtV > 80%
- Mortgaged homeowner with LAAtMD < 10% and MLtV < 80%
- Mortgaged homeowner with LAAtMD > 10%
- Outright homeowner

Source: HFCS.

¹ Households are categorised according to the labour status of the reference person into working (employee or independent), unemployed and inactive (retired and other inactive).

² The flow of monthly mortgage-debt service payments divided by the flow of total monthly gross household income, at the time of interview. Indicates which part of its income a household needs to periodically service its mortgage debt.

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Mortgage debt at risk is relatively concentrated with young and low to middle-income households

Concentration (%) of mortgage debt according to households' income quintile and age group¹ in Belgium

Outstanding mortgage debt						
	-34	35-44	45-54	55-64	65+	
I	1.7%	1.1%	0.9%	0.6%	0.3%	4.6%
II	1.3%	0.9%	1.5%	1.0%	0.5%	5.2%
III	6.6%	4.5%	3.7%	1.4%	0.3%	16.5%
IV	8.0%	10.8%	6.5%	1.4%	0.4%	27.1%
V	6.9%	22.8%	13.3%	3.7%	0.0%	46.7%
	24.4%	40.0%	25.9%	8.1%	1.6%	100.0%

Outstanding mortgage debt with MDS_{it}² > 30%						
	-34	35-44	45-54	55-64	65+	
I	6.8%	4.0%	3.5%	2.3%	0.6%	17.2%
II	3.4%	2.9%	4.3%	2.9%	1.1%	14.6%
III	13.1%	2.8%	5.2%	0.2%	0.1%	21.4%
IV	7.0%	6.6%	7.1%	0.2%	0.1%	20.9%
V	0.0%	21.1%	4.7%	0.0%	0.0%	25.8%
	30.3%	37.4%	24.8%	5.5%	2.0%	100.0%

Outstanding mortgage debt with LA_{tMD}³ < 10%						
	-34	35-44	45-54	55-64	65+	
I	4.2%	1.5%	2.0%	1.8%	0.9%	10.4%
II	2.8%	2.6%	3.8%	1.9%	0.3%	11.4%
III	6.4%	6.1%	4.9%	2.1%	0.4%	19.8%
IV	6.4%	13.5%	9.0%	1.4%	0.0%	30.3%
V	6.0%	15.3%	5.4%	1.3%	0.0%	28.1%
	25.8%	39.0%	25.1%	8.5%	1.7%	100.0%

Source: HFCS.

¹ Households are categorised according to the age of the reference person.

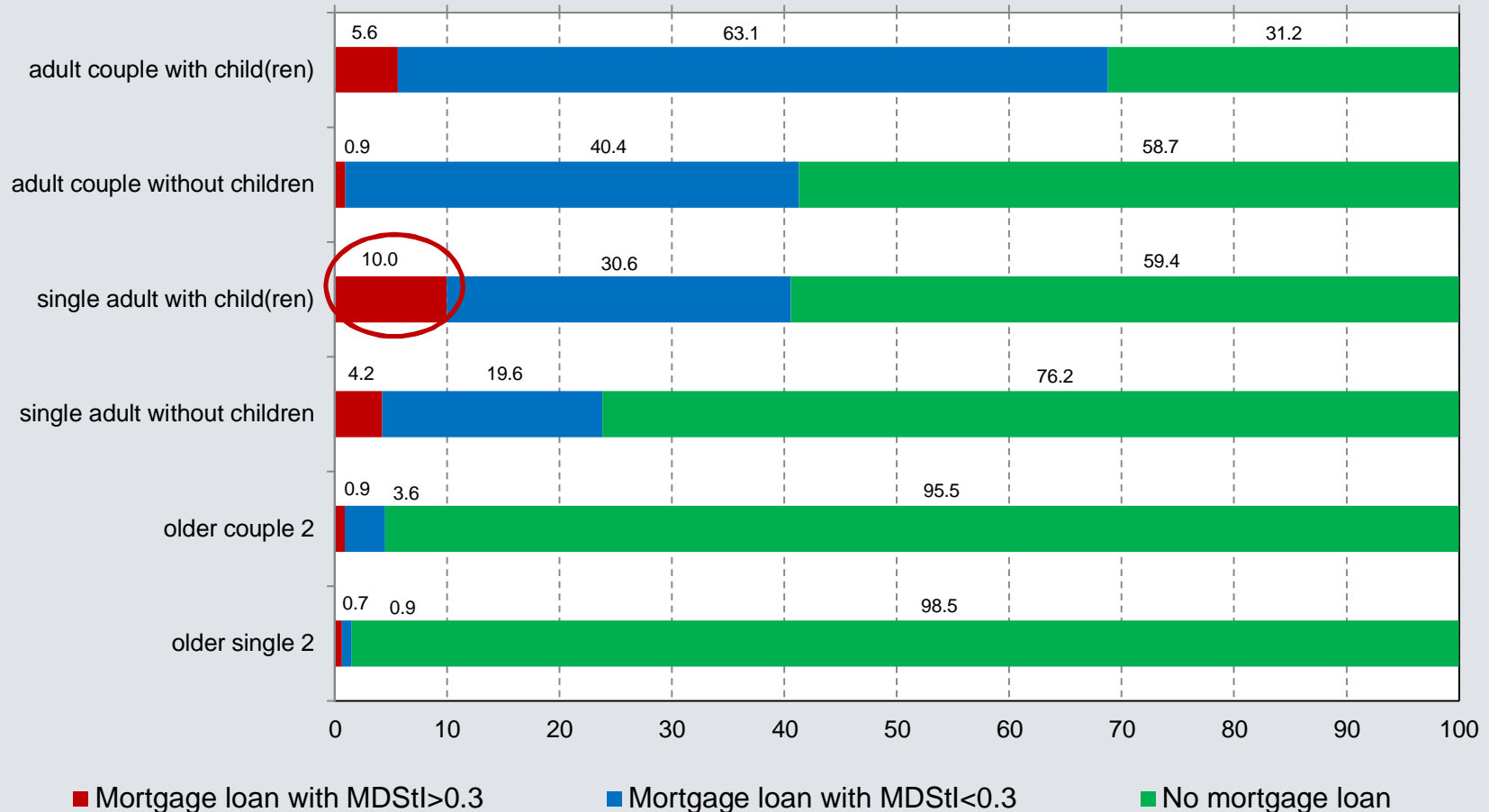
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Especially single parents are vulnerable

(Mortgage-debt burden (MDStl¹) for different types of households, % of total households per type)



Source: HFCS.

¹ The flow of monthly mortgage-debt service payments divided by the flow of total monthly gross household income, at the time of interview. Indicates which part of its income a household needs to periodically service its mortgage debt.

² At least one person is 65 years or older.



We provide more (multivariate) econometric evidence on:

- ▶ Socio-demographic (age, income, labour or family status, ...) **profiles of household indebtedness** (holding, amount, interest rate), related to institutions and credit market characteristics:
International Journal of Central Banking, June 2016.
- ▶ The role of labour status and demographics, and the **impact of unemployment shocks on (changes in) household over-indebtedness**:
European Central Bank Working Paper N°1908, May 2016.

Related evidence for other countries includes:

- ▶ Albacete et al. (2014), Bank of Austria
- ▶ Ampudia et al. (2016), Journal of Financial Stability
- ▶ Costa and Farinha (2012), Bank of Portugal
- ▶ Kelly et al. (2017), Central Bank of Ireland



Main findings

- ▶ Pockets of risk exist in the Belgian mortgage market, due to households facing high (income or asset related) debt ratios, similar to the euro area.
- ▶ Part of households' outstanding mortgage debt is covered by financial assets, but because financial wealth is (very) unequally distributed, it covers outstanding mortgage debt only to a limited extent, even in a wealthy and egalitarian country like Belgium.
- ▶ Although only few working households in Belgium have problems servicing their debt out of their income, a significant part of them lacks the financial resources to cope with income loss. Single parents, young and low to middle-income households are relatively more vulnerable.
- ▶ Survey data (e.g. HFCS, SCF) can shed a light on these pockets of risk, because they collect debt, real assets, financial assets and income, for the same individual observation unit (i.e. the household).



Thank you!

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