Abstract
The purpose of this paper is to generate and structure information on household indebtedness and show that “distribution matters”. It uses microdata from the EU-SILC (Statistics on Income and Living Conditions), which are available for all euro area countries and offer a relatively high degree of comparability, to examine the incidence of indebtedness of the household sector in the euro area. A better understanding of the individual degree of indebtedness and the characteristics of indebted households is an important step in exploring the consequences which the aggregate level of indebtedness and the shocks thereupon have for the transmission of monetary policy and for financial stability. Aspects covered in the paper include home ownership, debt incidence (mortgage and consumer debt), debt service and, financial distress, both at the euro area and country level. At the same, a comparison over time and against the US (based on the Survey of Consumer Finances) is also included. The estimates presented indicate that the level of exposure to household balance sheet problems appears to be contained in the euro area as a whole relative to other economic areas, such as the US. Indeed, the incidence of debt at the household level appears to be much lower in the euro area, in particular for mortgage debt (22.1% of households in 2007). This lower incidence applies not only to the overall figure but also to all income levels and age-groups considered. It is worth mentioning that the incidence of debt grows with income, i.e. indebtedness is concentrated among high income level households. At the same time, the debt service ratio estimated also appears to be low in the euro area relative to the US for the lowest income level groups, although, both in the euro area and in the US, it is much higher for low income level households than for those with high income. On the other hand, there is a high heterogeneity at the country level within the euro area – with a range in mortgage incidence and mortgage debt service between 10%-48% and 7.6%-25.1% respectively – that indicates that the exposure to household balance sheet problems is not equally distributed. However, risks associated to household balance sheets have increased between 2004 and 2007 in some specific groups. In particular, the debt service to income ratio has increased mainly for relatively low income households and in which the head of household is young, unemployed, migrant and with a low level of education. Moreover, the proportion of households with high levels of total housing costs relative to income has increased for relatively low income households and in which the head of household are migrants from outside the EU and with a low level of education. These negative developments are confirmed by the information on debtors with mortgage debt arrears, and extend the worries to the households at the lowest income level and to those in which the head of household is 65 years old and above, while that on debtors with consumer debt arrears points to the more significant increase in mid income households.