



Banco de Portugal
EUROSYSTEM

Central Banks and Household survey data

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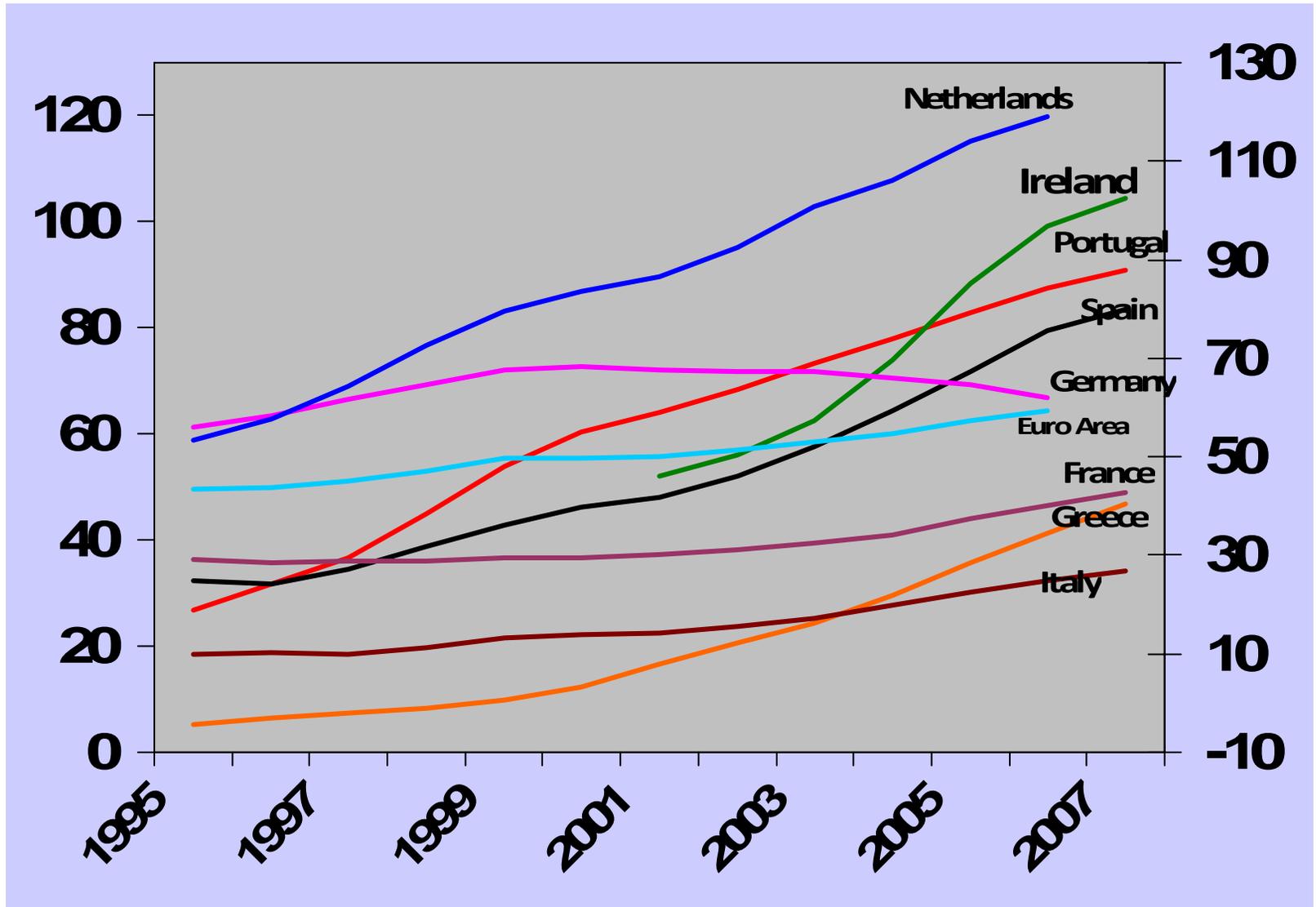


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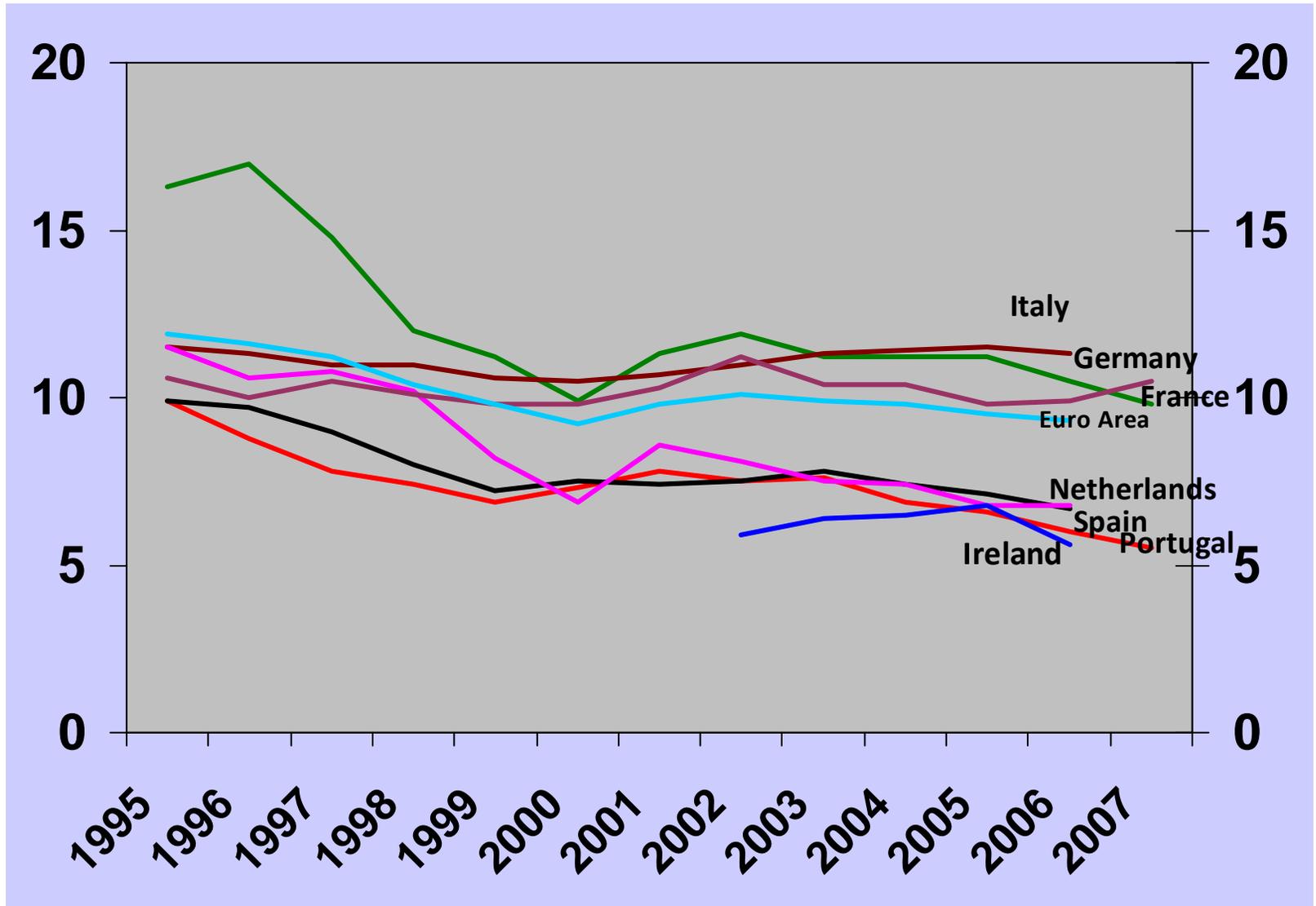
Summary

1. Importance of survey data for monetary policy and financial stability
 1. Determinants of consumption/saving
 2. Wealth effects and asset prices
 3. Portfolio decisions, ageing and retirement
 4. Indebtness: determinants and consequences
2. The Portuguese experience with survey data

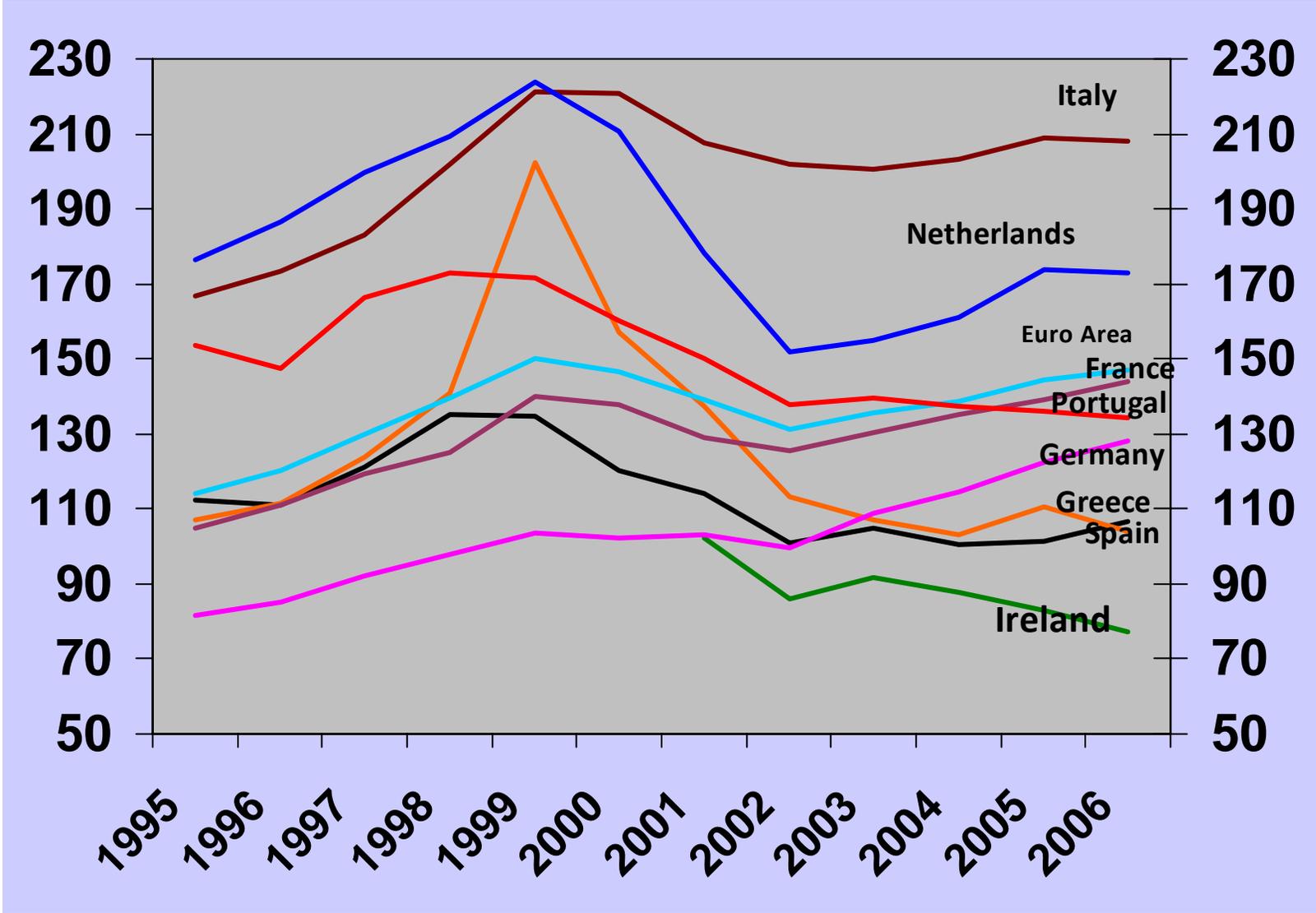
Household Debt in % of GDP



Saving Rates (in % of GDP)



Household Net Financial Wealth (in % of GDP)





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The Portuguese experience with the collection of survey data

- Portugal has collected survey data on household wealth every 6 years, since 1994
- Three editions of the survey: 1994, 2000, 2006
- Banco de Portugal in collaboration with Statistics Portugal
 - Banco de Portugal: sponsor, questionnaire design, interviewers training
 - Statistics Portugal: sample design, field work

Main characteristics of the Portuguese survey

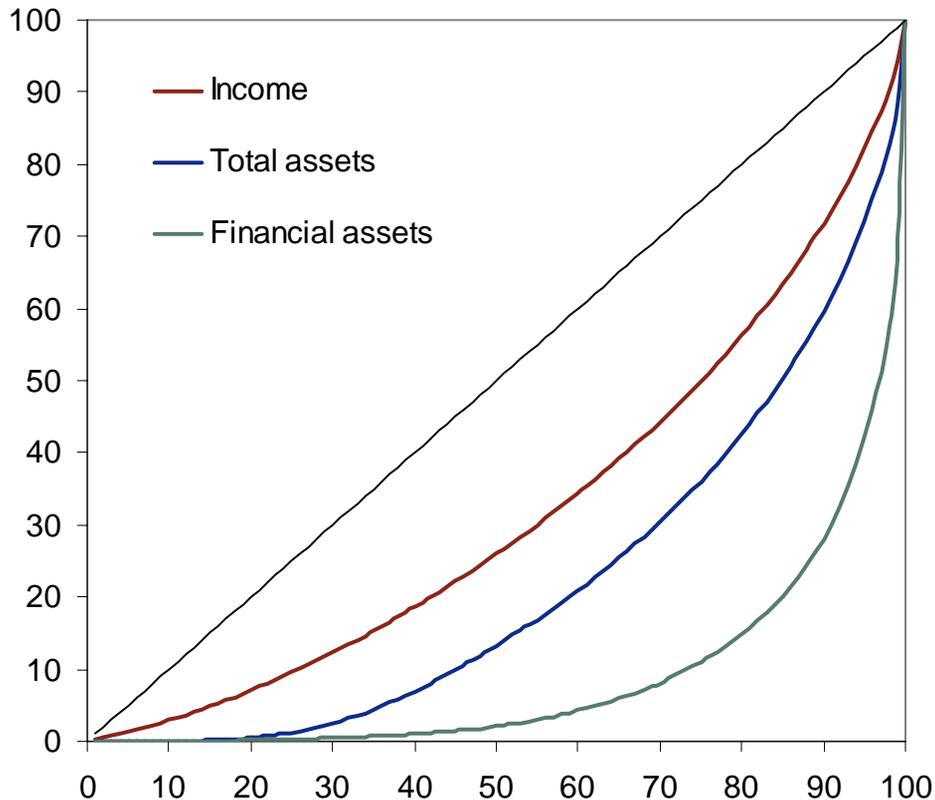
- Probabilistic, relatively large sample (no oversampling of the wealthy)
- Interview mode: computer assisted personal interview
- Stable questionnaire, despite minor changes: allowing comparisons of data over time
- Contents: detailed non-financial and financial assets, and debts; also detailed on income and expenditure (because of joint survey)
- Definitions in line with national accounts standards (ESA-95): allowing international comparisons
- Carried out jointly with another survey (employment survey in first wave; household budget survey in second and third waves)
 - Advantages: easier to get households' trust; combining wealth data with detailed information on labour situation and/or income and expenditure was less costly
 - Disadvantages: sample not specifically designed to the collection of wealth data
- Database: 3 cross-sections (no panel dimension)

Overview of main uses of Portuguese survey data

- Analysis of distributional aspects of households' wealth and debt
- Insights on estimating aggregates, namely housing wealth
- Evidence on loan maturities
- Characterisation of household indebtedness
- Characterisation of indebted households
- Sensitivity to shocks

Assessing asymmetry

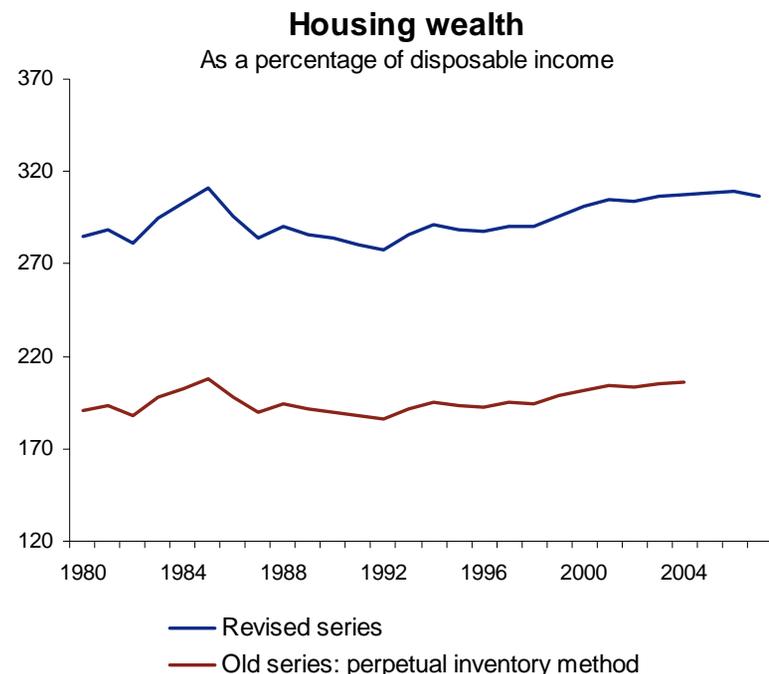
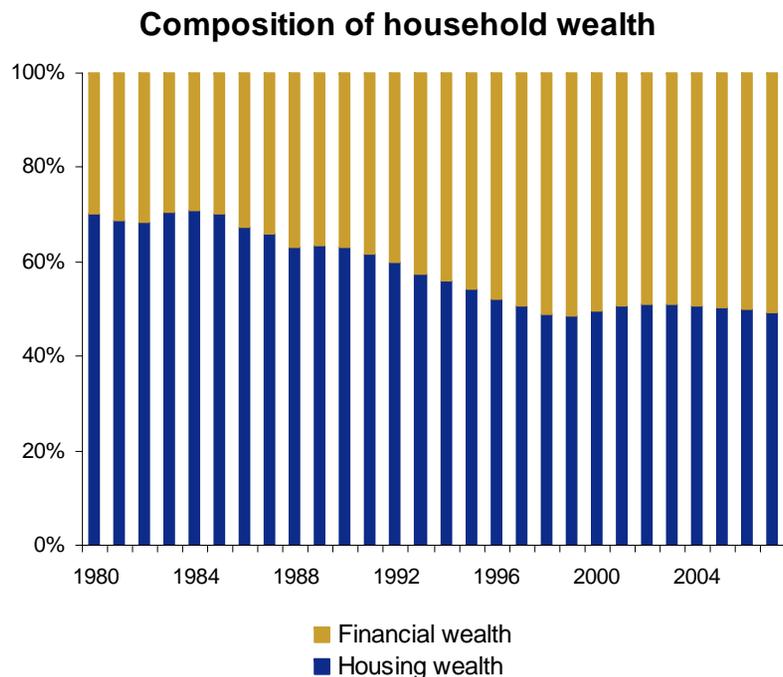
Lorenz curves



- To assess welfare trends it is relevant to understand how asymmetric wealth distribution is (as compared with income distribution for example)
- Focus on medians, which are more adequate than means as indicators of the typical value of the distribution
- Focus also on other relevant percentiles; the tails in particular offer extremely relevant information

Estimating housing wealth

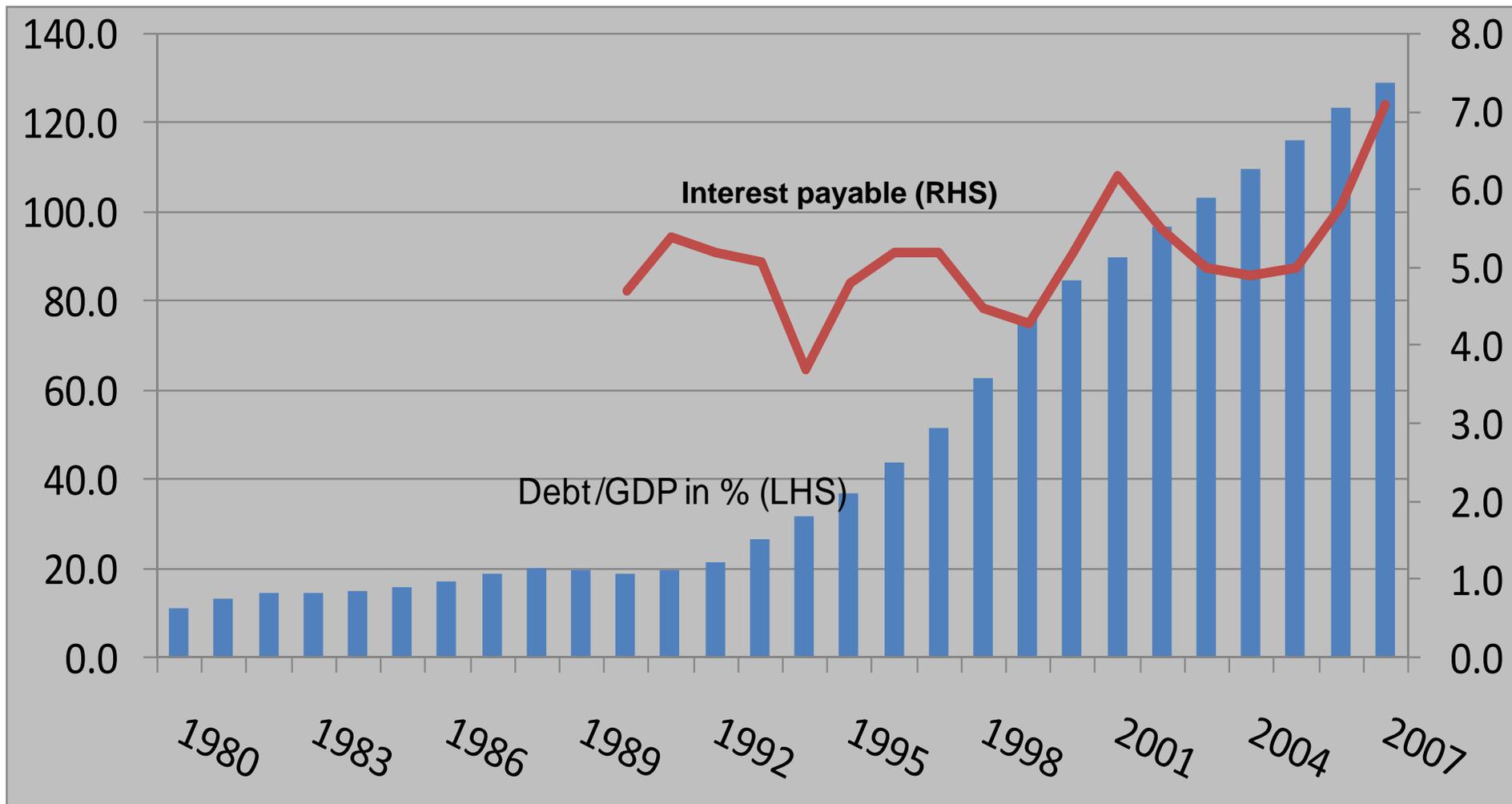
- Housing wealth is an important asset in household portfolio
- Aggregate housing wealth much more difficult to estimate than financial components of household wealth (for which direct information from counterparts is available)
- Revision of the series using survey data: more reliable figures (and more comparable with European standards)



Characterising household indebtedness

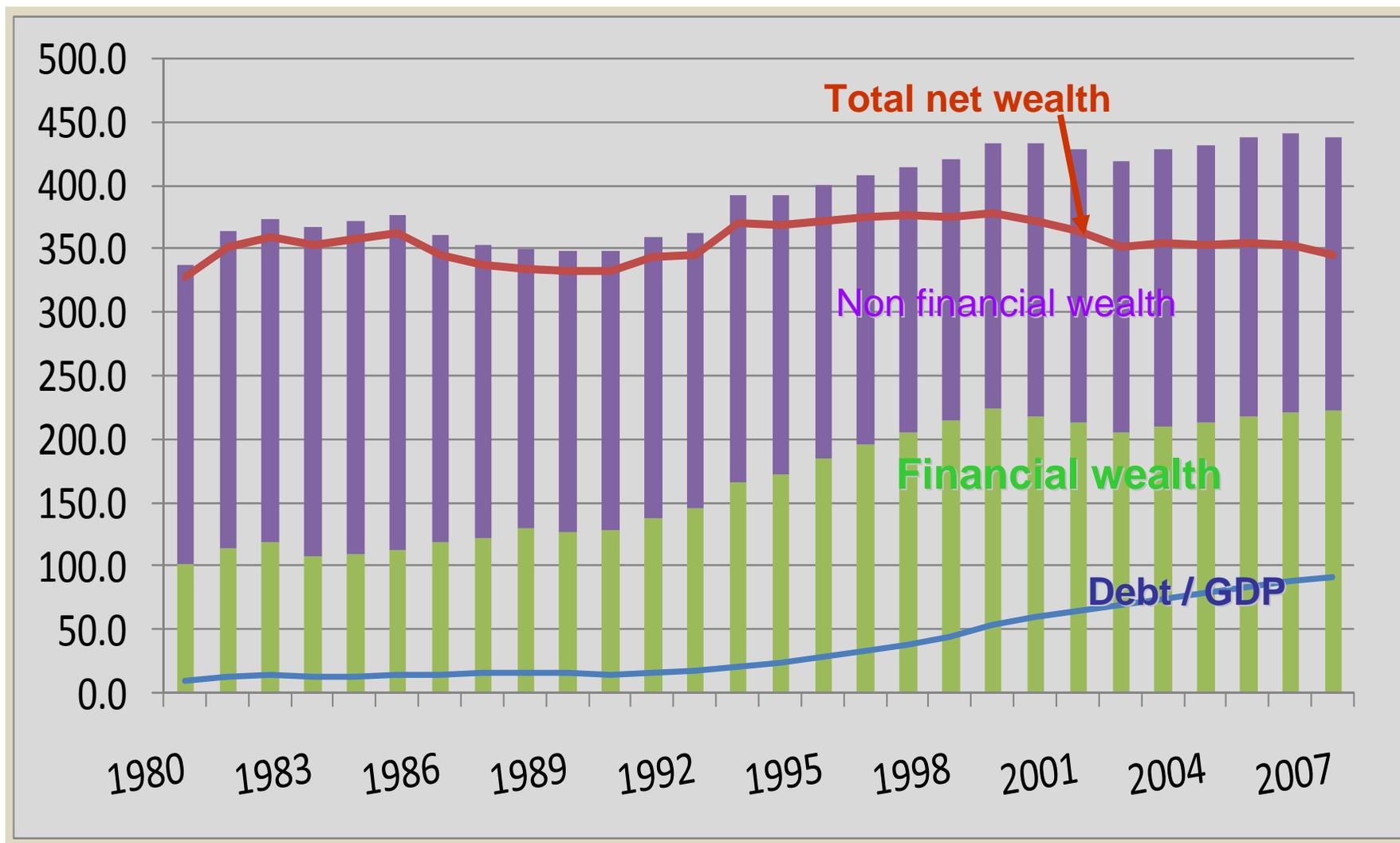
- The increase in household indebtedness has been an issue of concern in the euro area and Portugal is not an exception in this matter
- Portuguese households debt as a percentage of disposable income:
 - 37% in 1995; 85% in 2000; 129% in 2007 (higher than euro area average and most euro area countries)
 - Convergence process: nominal and real interest rates sharp decline
 - Factors on the supply side

Debt and Interest charges (in % of Disposable Income)



Portugal: Household Indebtness and Wealth

(% of GDP)



Characterising household indebtedness

- Identifying the factors behind household indebtedness

Participation : probit mode

Level of indebtedness: tobit model

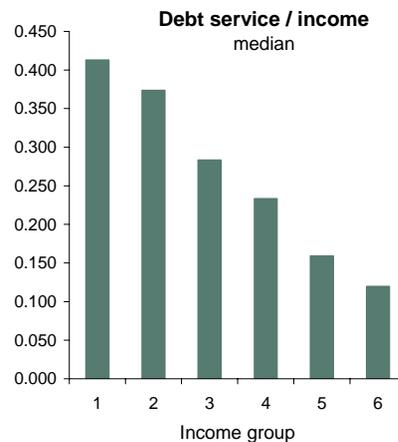
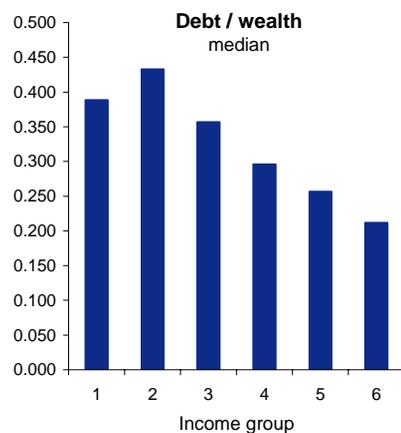
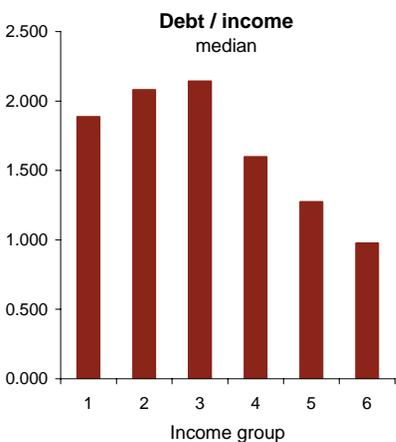
The probability of holding debt and indebtedness:

- Increases with income
- Peaks in 30-40 age group
- Is lower for families with 1 or 2 members
- Is lower for households in the lowest education group (there is evidence that in Portugal education proxies job category)
- Less stable labour situations are associated to lower probability of holding debt

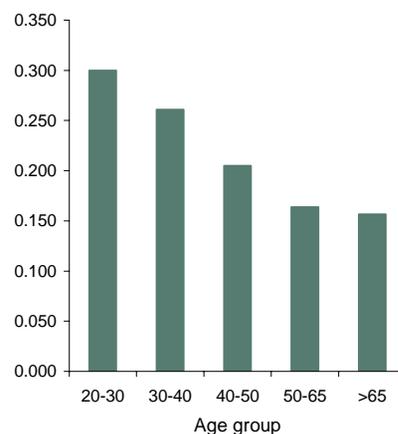
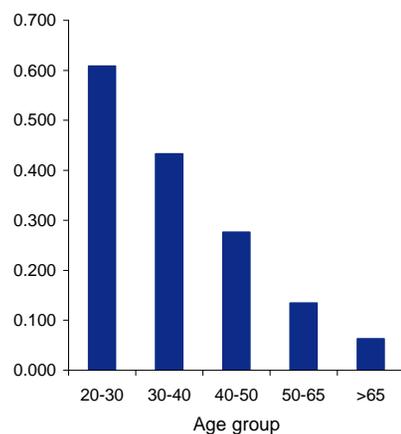
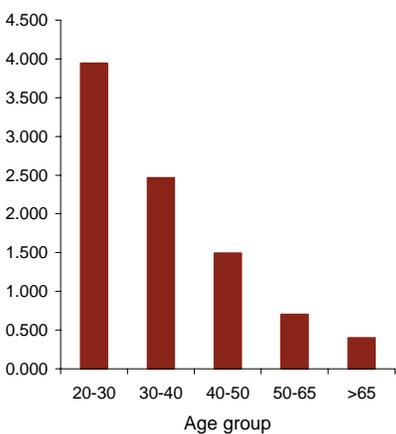
Characterising household indebtedness

- Pooling 2000 and 2006 data, the results suggest that
 - The probability of holding debt, indebtedness and debt service ratio of indebted households increased between the two years
 - Access of the youngest households to “other than housing loans” increased
 - Effect of education and labour market situation is stronger in 2006

Characterising indebted households



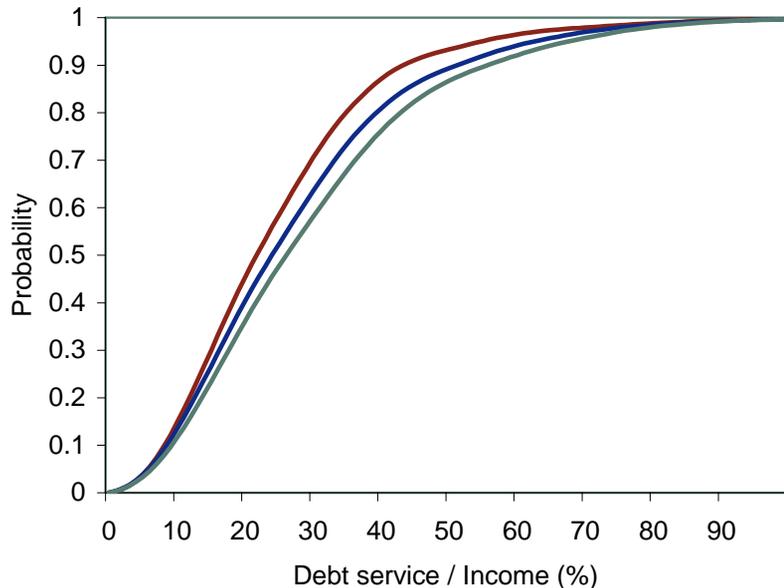
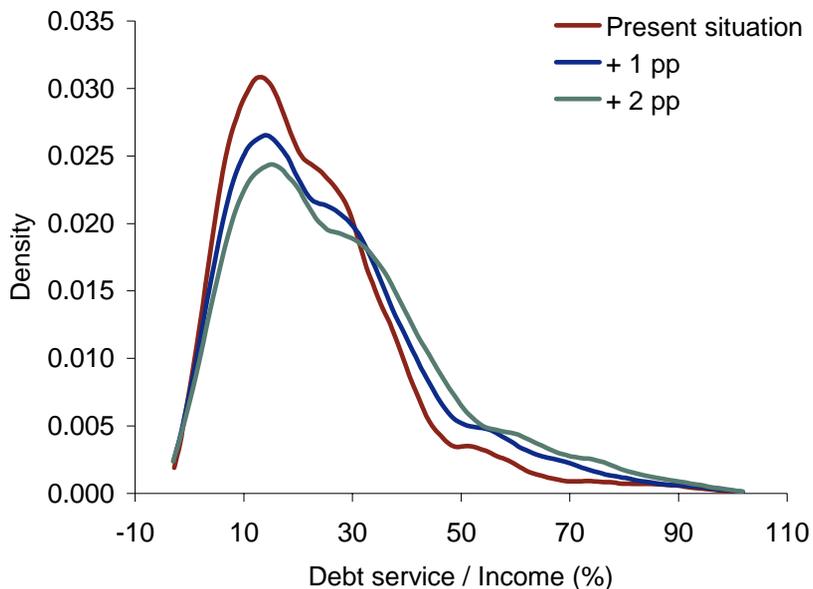
- Highest debt/income in the youngest classes
- Highest debt service/ income in the two lower income classes
- Debt/wealth relatively moderate in all classes



Sensitivity of debt service ratio to interest rates changes

- In Portugal variable interest credit contracts predominate: important to assess sensitivity of debt service to changes in interest rates
- Based on the distribution of the debt service ratio in the 2006 survey sample, the exercise simulates the effect of 1 and 2 p.p. increase in interest rates

Sensitivity of debt service ratio to changes in interest rates



Policy implications

Implications for both macroeconomic and financial stability policies

- **Survey results showed that, between 1994 and 2000, the increase in aggregate debt level was mainly explained by increasing access to credit of previously households without debt : this finding was important to understand why private consumption kept growing, in particular during the slowdown in economic activity after 2000**
- **Survey results also suggested that after 2000 the increase in aggregate debt level was brought about by an increased leverage of already indebted households**
- **Survey results suggest that:**
 - **For most indebted households, the debt service burden is relatively limited (in the first sub-period because of declining interest rates; afterwards partly because bank credit policies adapted**
 - **Increase in indebtedness was particularly marked among higher income and wealthier households**

The Future Eurosystem Household Survey

Enables analysis at the euro area level and helps in assembling euro area level aggregates

Allows individual country analysis and comparisons across euro area countries

Complies with high standards in design and implementation:

Oversampling of wealthy households; panel component allowing analysis of lifecycle and cohort effects; deep level of desegregation; frequency of 2/3 years.