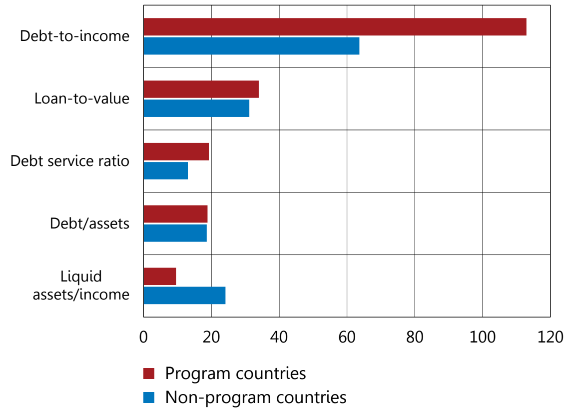
The households' financial status in the euro area and the economic crisis

This Box describes differences between measures of the financial status of the households[61] in various euro countries and how the differences have co-varied with the severity of the financial crisis in the various countries. Data indicates that households in countries that were hit relatively hard by the crisis often had higher debts, less liquid assets and higher interest expenditure in relation to income than in countries that were hit less hard. On the other hand, measures that specify the size of debts in relation to incomes show less co-variation with the severity of the crisis. Although the analysis in this Box is not exhaustive, it may act as a starting point for further studies of indicators of vulnerabilities in the financial status of the households.

Chart B3:1. The households' financial status
Per cent



Sources: ECB and the Riksbank

The economic crisis has left deep scars on Europe. Unemployment has increased and public finances have been seriously undermined in several countries. However, some countries have been hit harder than others. This Box uses recently-collected data on the financial status of the households, compiled by the ECB, to study differences and similarities between euro countries that were hit hard or less hard by the crisis. [62]However, there are no quantitative criterias to distinguish between those countries in the euro area that were hit "hard" or "less hard" by the crisis. This being the case we can instead study the differences between countries that applied for economic support from the EU and/or the IMF – so-called programme countries – and countries that did not – non-programme countries. The data covers the following countries (programme countries in italics): Belgium, Germany, *Greece*, *Spain*, France, Italy, *Cyprus*, Luxembourg, Malta, Netherlands, Austria, *Portugal*, Slovenia, Slovakia and Finland. Most of the data was collected in 2010.

The data shows that on average there are differences between programme countries and non-programme countries for different measures of the financial status of the households. The biggest differences relate to the debt ratio (debts as a proportion of income), liquid assets[63] as a proportion of income and the interest ratio (interest expenditure as a proportion of income). In general, the households in the programme countries have a higher debt ratio, a lower proportion of liquid assets in relation to income and a higher interest ratio. If, on the other hand, we compare the size of the households' debts relative to their assets or the leverage ratio (the size of the mortgage in relation to the value of the home) there are no significant differences (see Chart B3:1). Measures that include cash

[61] The term "measures of the financial status of the households" refers in this Box to measures that can be calculated on the basis of the households' incomes and balance sheets (including real assets).
[62] The Eurosystem Household Finance and Consumption Survey (2013), ECB, Statistics Paper Series No 2 April 2013. (http://www.ecb.int/pub/pdf/other/ecbsp2en.pdf). Although the key ratios used in this Box have been calculated by the ECB, all the conclusions are those of the Riksbank and should not be interpreted as the views of the ECB.
[63] In the data, liquid assets are approximately equivalent to financial assets (excluding pensions and insurance savings) minus debts that do not have housing as collateral (see the ECB's publication for a detailed definition of the underlying variables).

flows (that is incomes and/or expenditure) thus show considerable differences between programme countries and non-programme countries, while measures that only specify the composition of the balance sheet show small or no differences at all.

Although the comparison above indicates that measures that include cash flows are more informative than those that do not, it is important to remember that this comparison does not claim to be exhaustive. First, the data does not make a closer examination of the relations between causes and effects possible. For example, it is not possible to determine whether the low value of the households' liquid assets in the programme countries was due to the fact that households in these countries entered the crisis with limited liquid assets or whether the value of these assets was low because the households began to liquidise them already before the ECB began to collect data. Second, there may be other variables, such as the composition of the households' financial assets, the degree of foreign dependency in the funding of housing and the volume of previous housing investments, that are relevant in this context. The differences in key ratios described in the Box should therefore be seen as a starting point for a further analysis of the vulnerabilities in the financial status of the households, while isolated differences are not necessarily of decisive importance to macro-financial stability in an individual country.