Summary of conference discussion[1]

The household sector is becoming more important for central banks as a result of a number of factors. Households, together with non-financial corporations, are the key drivers of the economy. In addition, households and financial markets are becoming increasingly dependent upon each other as households attempt to improve the smoothing of their consumption across their lifetime and as financial markets develop services to facilitate this. The conference discussed the interaction between households and financial markets and agreed that a sound analytical framework is required to measure the financial position of the household sector. It was also recognised that central banks need to have access to data for this sector that are timely, methodologically consistent, and comprehensive.

It was felt that financial and national accounts data provide, in principle, a full coverage to assess the financial position of households, in terms of flows as well as stocks. They also provide information on the interaction between the household sector and the financial system more generally. At the same time, there is a need for more detailed information on household assets (wealth) and liabilities (debt), including on their distribution across income categories. Moreover, sample surveys are increasingly being used to gather information on specific financial transactions and positions of households. With respect to cross-border financial transactions involving the household sector, remittances have become important in many countries. As a consequence questions have arisen on which international methodological standards to use when compiling data on remittances.[2]

Statistical issues in the measurement of household wealth

The conference discussed whether existing international standards and definitions of household wealth are adequate and whether they can be applied in a flexible way without losing cross country comparability. It was recognised that some of the difficulties in measuring household wealth are caused by the complexity of the concept and a lack of agreement on the basic construction of the aggregates. These issues present challenges to efforts to improve existing standards and terms, and to create new ones. Furthermore, any changes in household wealth measures increase compliance costs for data compilers and may cause confusion for data users. A trade-off also has to be made between adapting national statistical data to international standards and ensuring consistency within countries between definitions of household wealth and those of other macroeconomic data.

The Luxembourg Wealth Study is an initiative to improve wealth accounting. The study defines uniform concepts, but aims for “exposed and flexible” harmonisation to permit cross country comparisons. Looking ahead, the OECD will collect data in 2008 on pensions and insurance to provide more accurate measures of this element of household financial wealth. It was recommended that there should be discussion in the future on national experiences in measuring household wealth to determine best practices and to encourage harmonised definitions.

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[1] The summary of the conference discussion was prepared by various staff members of the BIS Monetary and Economic Department, including those providing the Secretariat of the IFC. It does not necessarily reflect the views of the chairpersons of the respective sessions nor of the contributors or participants.

[2] The Irving Fisher Committee organised a session on remittances at the IAOS conference entitled "People on the Move" in September 2006 in Ottawa. The papers presented at this session will be published in IFC Bulletin No 27.

A number of specific issues related to measuring the wealth of households were identified at the conference. One relates to the informal economy and whether/how this could bias the measured financial position of the household sector. Another was the measurement of the value of unquoted shares. Finally, there may be a gap between the securities holdings of households identified by custodians and the figures reported through other sources by households. One reason for this may be that financial holding companies managing wealth of households are sometimes difficult to identify and/or that company registers may not always reveal the owners of enterprises.

Measurement issues with respect to household debt

The rapid increase in the value of household debt in recent years, both in industrialised and emerging market countries, appears to reflect rapid growth in mortgage debt. One issue that was identified was the need to properly measure mortgage debt denominated in foreign currency, which could significantly increase the foreign exchange exposure of households. A proper measure of this exposure is needed to evaluate how exchange rate volatility could potentially compromise macroeconomic stability and the soundness of the financial system.

Another issue that was discussed relates to securitised housing loans. Mortgage lenders can reduce their balance sheet risk by transferring loans to a special-purpose vehicle which issues securities against the loan pool. In many countries this securitisation has become very important. This may complicate the measurement of total mortgage debt outstanding as it no longer shows up on banks' balance sheets. It may also become more difficult to statistically measure the "funding" of mortgage debt.

Distributional aspects of household finances

Households are much less of a homogeneous group than generally believed. Indeed, their behaviour can vary greatly depending on their composition, the age of household members, their income bracket, their sources of income and borrowing and other characteristics. Central banks want to take this into account when analysing economic developments and anticipating households' reactions to changes in monetary policy. For example, central banks might be interested in information about the typical financial position of households which have taken out mortgage credit at variable interest rates.

There appears to be a paucity of timely official statistics on distributional aspects of household finances. Financial institutions have access to their customers' financial information in order to assess the distribution of credit risk among households (probability of default as well as loss in the case of default). However, this detailed information is not directly available to central banks.

Some central banks have therefore come to rely on household surveys or micro data bases to improve their understanding of the distribution of debt and wealth across income categories. This allows them to identify which types of households are more likely to be affected by adverse economic shocks. For instance, it may be important to know the age distribution of households. The life cycle hypothesis suggests that younger households should have a high value of debt and a low value of assets, while older households should have a low value of debt and a high value of assets. However, older households on pensions are likely to have smaller financial margins making them more susceptible to adverse economic shocks. Furthermore, there is evidence that financial innovation in industrialised countries has resulted in older households accessing equity from their homes by borrowing against it.

Using surveys to gather information on household finances

In many cases aggregate information on household financial positions is obtained indirectly, for instance through data from financial institutions. Alternatively, it is obtained in official statistics as a residual item. Sample surveys are increasingly being used to complement traditional sources for measuring the financial position of households. In many countries central banks have started to sponsor surveys of households (they conduct the surveys themselves, outsource them to a third party or attach specific questions to surveys conducted by national statistical institutes).

The conference discussed the benefits and challenges of household surveys. Surveys can be used to verify the consistency of, and cover particular gaps in, national and financial accounts data. The use of surveys is often the only way to gain insight into the distributional aspects of household finances. It also allows evidence to be obtained on particular financial transactions, such as housing equity withdrawal, and to determine how informed household borrowers are about the terms and conditions of their mortgage loans. Finally the development of surveys may strengthen cooperation between national agencies on survey design, coverage, and analysis.

Household surveys also pose a range of challenges for central banks. The latter often do not have the in-house expertise to design and conduct surveys. Also, the analysis and communication of survey results require particular skills that may be different from those associated with more traditional statistical analysis. Importantly, the conduct of surveys is time consuming and it may be difficult to use survey results in a timely way to construct national and financial account statistics. Consequently, some central banks have increased the frequency of their household surveys.

A major example of challenges discussed at the conference relate to the potential bias resulting from the reluctance of high-debt and high-wealth households to respond to surveys. Even if high-wealth households do respond to surveys, they tend to understate their income and assets. This has been confirmed by comparisons of survey data and financial accounts data, which revealed large discrepancies in the value of household assets. Though rich households can be over sampled, privacy laws may reduce the possibility of adequate coverage of these household strata.

The IFC intends to organise a number or regional workshops to analyse the use of sample surveys in the data compilation by central banks.