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PRESS RELEASE

Household debt: evolution and distribution
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By making simultaneous use of macro-economic data (from the national financial accounts) and micro-economic statistics (from the Household Finance and Consumption Survey (HFCS) and the Central Individual Credit Register), this article takes a closer look at the evolution and distribution of Belgian household debt in comparison with the euro area. In particular, it focuses on identifying certain groups of households with a problematic debt position, using various liquidity ratios: debt-to-income ratio, debt-service-to-income ratio, and solvency ratios: debt-to-asset ratio.

The macro-economic statistics show that the debt situation of Belgian households is fairly favourable compared to the euro area. Thus, the debt ratio of Belgian households (56.5% of GDP) at the beginning of 2014 was lower than in the euro area (63.7% of GDP). On average, the various debt ratios are below the euro area level. That is particularly the case for the solvency ratios as a result of the substantial assets held by Belgian households. However, over the past ten years the debt of Belgian households has risen sharply: in nominal terms, it doubled to € 217 billion at the beginning of 2014, and the debt ratio has risen from 40 % to 56.5 % of GDP, narrowing the gap with the euro area.

However, the micro-economic data reveal that there are certain groups of borrowers with a vulnerable debt-to-income ratio, in a proportion roughly the same as in the euro area. Households with a debt-to-income ratio of more than 3 represent 15% of households with debt in Belgium and 16% in the euro area. In both Belgium and the euro area, households with a debt-service-to-income ratio of more than 0.4 represent 8 % of households with debt. Furthermore, it is evident from the HFCS data that it is mainly young and low-income households that face relatively high debt in relation to their income. Thus, more than a third of households with debt in the lowest income quintile have a debt-service-to-income ratio of more than 0.4: they spend more than 40 % of their household income on debt payments. However, these groups make relatively little use of the credit market, and if they have debts, it is often in the form of small loans, so that the macro-economic or prudential implications are not necessarily important.

Of the households with outstanding mortgage loans, it is the youngest low-income groups that have the highest debt in relation to their income. However, most of those households do not face an excessive volume of debt as a ratio of their assets. Among households with at least one non-mortgage loan, it is again the younger low-income households that often have high or excessive debt-to-income ratios. Furthermore, many of those households have insufficient assets covering the debt. This group of households therefore has the highest risk of default, especially in the event of a negative income shock.

The sustainability of the debt position of Belgian households is relatively more sensitive to income shocks than in the euro area. Factors relevant here are that certain groups already have relatively high debt-to-income ratios, and that it is mainly the younger groups that have a high debt burden. Younger people have generally not yet acquired sufficient assets that they can turn into cash if they encounter a negative income shock.

The data from the Central Individual Credit Register confirm that a higher proportion of younger people have to contend with arrears on loans. For this group there is also a closer link between the arrears and the unemployment situation, illustrating their sensitivity to income shocks. The income sensitivity of younger people is reflected primarily in consumer credit. The importance of income and the labour market is also evident from the high (positive) correlation between the aggregate arrears and the unemployment situation. Thus, the rise in arrears since the crisis mirrors the rise in unemployment fairly closely with a lag of a few months.

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