

First results of the third wave of Belgium's Household Finance and Consumption Survey

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Introduction

In recent years, there has been an increasing effort to complement aggregate economic and financial data with sets of micro data, i.e. information at the individual firm or household level. While aggregate (macroeconomic) data are useful to observe the main trends in the economy, data at more granular levels can help to answer fundamental economic questions such as how vulnerable households are to shocks, or through which channels economic policies work.

The Household Finance and Consumption Survey (HFCS) is a European exercise, coordinated by the ECB and national central banks, sometimes jointly with the national statistical institutes, that responds to the aforementioned effort. Its goal is to build a dataset on household finances that makes European analyses and cross-country comparisons possible. Micro data add a great deal of value to aggregated data. By allowing us to identify differences across households (according to their demographic characteristics, type and level of income, wealth, debt burden, etc.), they make it possible to analyse the distributional impact of economic policy measures and to identify which policies are more effective, or which parts of the population may be at higher risk when the economy faces negative shocks. More generally, this survey contributes to a better knowledge of the Belgian and euro area economies, and of the impact of economic shocks as well as subsequent policy responses.

This article presents the first results of the third wave of the Belgian HFCS, which took place in 2017. The article is structured in five sections. The first presents the survey, the type of information it provides and its main methodological features. The second offers a very brief account of the macroeconomic and financial context around the time the survey was conducted. The third section is devoted to the assets owned by Belgian households, while the fourth focuses on their liabilities. The fifth section examines the distribution of income and wealth across households in Belgium, and the article ends with some provisional conclusions based on these findings.

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1. The HFCS

The Household Finance and Consumption Network (HFCN) was created in 2008 by the Governing Council of the European Central Bank (ECB). The HFCN is in charge of the design and implementation of the survey, as well as of analysis and diffusion of the data. At the European level, there have been three waves of the survey since its inception. The first wave of the Belgian survey took place in 2010. Since 2014, it has been conducted every three years.

In Belgium, the organisation of the survey falls under the responsibility of the National Bank of Belgium (NBB), with support from the National Register and STATBEL. Within NBB, the General Statistics and the Economics and Research Department cooperate closely to adapt the European questionnaire to Belgian characteristics, design the sample, and process and analyse the data. The fieldwork is outsourced to a specialist agency by public tender, although it is followed up closely by NBB. The survey is then conducted through face-to-face interviews with households.

For the third wave of the HFCS, 2 329 households replied to the questionnaire. The households contacted are selected randomly according to a stratified sampling design. The stratification of the Belgian population ensures that the survey incorporates to the maximum extent possible the heterogeneity across the country. Stratification criteria take into account the geographical dispersion of two publicly available sets of information: the cost of housing and the net taxable income by municipality, to ensure that households of different wealth and income levels are included.

The results of the different waves of the Belgian HFCS have been published in previous years (see Du Caju (2013) and Du Caju (2016)). The ECB has also made public the results¹, as well as several reports on the methodological aspects of the survey.

The remainder of this article focuses on the third wave of the survey and comparisons with the results of previous waves. Its goal is to present a first overview of the main results, while more detailed analyses of the data will follow in subsequent publications. As a general remark, it must be kept in mind that survey results are subject to the presence of margins of error which, in some cases, can become quite significant. However, even if there were to be a bias compared with aggregate statistics, the median and average values presented below can be considered as robust parameters that allow us to draw conclusions from these data.

2. Macroeconomic and financial context

The third wave of the Belgian HFCS took place in 2017. Demographic questions and questions about assets, liabilities and employment status refer to the moment when the interview with the household took place, while questions on income reflect the preceding year, 2016.

Over those years, the economic recovery was proving robust, both in Belgium and in the rest of the euro area. Growth picked up in 2017 in Belgium, mainly supported by domestic demand, while job creation accelerated. However, this took place against a background of subdued or negative growth in real wages.

¹ See ECB (2020a) and ECB (2020b) for the most recent results

On aggregate, household debt kept increasing as lending interest rates remained at record lows, while the share of loans in arrears declined. Outstanding mortgage loans hit a (then) record high and the growth in property prices accelerated somewhat. The economic recovery and low interest rates seem to have spurred investment in riskier financial assets (particularly investment fund units).

All in all, the Belgian economic environment was favourable in the two reference years for the third wave of the HFCS, particularly compared with the situation in the two previous rounds of the survey (in 2010, in the immediate aftermath of the global financial crisis, and 2014, after the euro area crisis). This context may be useful in interpreting the results presented in the rest of the article.

3. Assets

The survey asks households to provide exhaustive information about the assets they own, both their type and estimated value (in the view of the household). Assets are divided into two broad categories: real and financial. This section provides an overview of their distribution and worth.

3.1 Real assets

Real assets include physical goods owned by households, such as real estate properties, vehicles, valuable objects (jewellery, art, collections); self-employment business of households (any activity that provides an occupation for one or several household members) are also included in this category¹.

Most Belgian households (88 %) declared that they own at least one type of real asset. The most widespread are vehicles (77 % of Belgian households owned at least one in 2017), with a median value of € 7 000 – slightly lower, in real terms, than in 2014. The second most common type of real asset was the main residence of the household: 69 % of Belgian households owned their own home in 2017, with a median value of € 270 000 (3 % higher than in 2014). Since 2010, the share of households owning their home has been roughly stable. In contrast, the ownership rate of other real estate (which may comprise second residences, but also garages, plots of land and properties linked to a self-employment activity of the household) increased by 2.5 percentage points between 2010 and 2017.

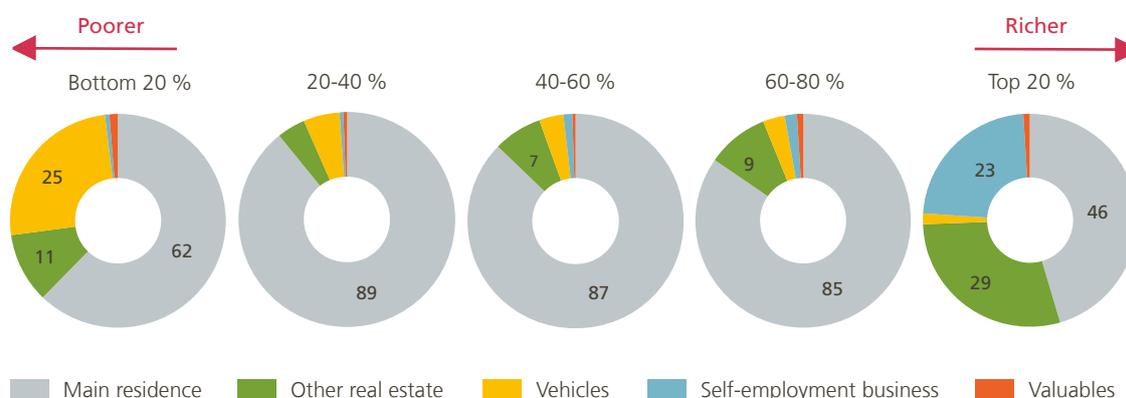
Chart 1 shows the relative importance of each type of asset across net wealth quintiles (i.e. five groups resulting from the division of the distribution of net wealth data into five equal parts; each of them assembles 20 % of the households, sorted from lower to higher net wealth). The figures used to calculate the percentages are the unconditional means for each quintile, i.e. the average calculated assigning a zero value to those who report not having such an asset. This allows us to assess how much each type of asset represents for each group. On the contrary, conditional means (and medians), as we will see below, take into account only those households who report having a specific type of asset, and can instead indicate how much a given asset is worth for a given (average or median) household that reports owning it.

¹ The value of self-employment businesses does not include the value of real estate property linked to these (instead, this is accounted for as “other real estate property”).

Chart 1

Holdings of real assets by net wealth quintile

(%, unconditional means)



Source: NBB (HFCS III).

For most households, the main residence was the most valuable asset they own (including both real and financial assets). However, ownership is not distributed equally across households: 38 % of households in the lowest income group were owners of their home in 2017, while this share rose to 92 % of the 20 % in the highest income group. Across the net wealth distribution, while 96 % of the richest¹ 20 % owned their main residence, only 3 % of the poorest 20 % households lived in a home they owned. The value of the properties also varied (the median value of homes of the richest households was 73 % higher than that of the poorest). Across age categories, 50 % of the youngest households (below 35 years old) owned their home; for those where the reference person² was older than 35, this rate rose to about 72 %, peaking between 55 and 64 years old (75 %). Households where the reference person is unemployed or otherwise not working (for instance due to permanent incapacity) – not being retired – have the lowest ownership rates (32 % for the unemployed; 38 % for other non-working households). Half of the richest 20 % of households also had other real estate properties on top of their main residence (up from 47 % in 2014).

One out of nine Belgian households reported owning self-employment businesses – a 2.5 percentage point increase from 2014. The conditional median value of such activities more than halved between the two waves of the survey. Yet at the same time, the conditional average value of self-employment businesses rose notably. Such trends are not inconsistent with each other: these simultaneous developments may reflect the fact that, in the latest wave of the survey, a higher number of smaller businesses were reported (this could include, for instance, activities which complement the main job of a household member), while the value of bigger businesses increased strongly. Similarly, in this case, it is not clear whether such large businesses had experienced a genuine increase in value over the previous three years, or whether the survey captured their value better. In any case, given that only a small minority of the population own self-employment activities, together with the difficulties inherent in assessing the value of such assets, the uncertainty surrounding the estimates is high (the standard deviation amounted to almost half the median value).

1 For the purposes of this article, "rich" and "poor" refer to net wealth of households, not to income received.

2 The reference person is defined according to the international standards of the Canberra Group. It can be loosely identified with the highest income earner of the household. See UNECE (2011) for more details.

3.2 Financial assets

The second category of assets comprises financial instruments held by households, from bank accounts to mutual funds and shares in businesses. The conditional median amount of total financial assets fell noticeably between 2014 and 2017, while the conditional average declined to a much lesser degree, as losses were greater in the lower half of the distribution¹.

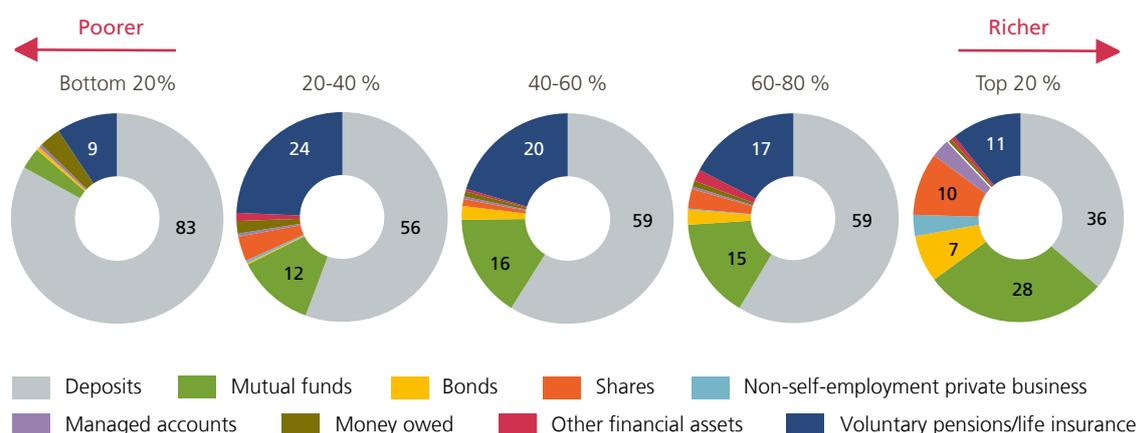
Almost all Belgian households (98 %) reported having at least one type of financial asset in 2017, typically a sight account, with a median value of € 1 600. The next most widespread category was savings accounts (75 % of households), with a considerably higher median value (around € 15 000). The median amount of cash deposited in these two types of accounts decreased, however, compared with 2014.

As well as being the most widespread type of asset, bank deposits (including both types of accounts) were also the single most important financial asset quantitatively: amounts held in them represented almost 68 % of total financial assets on average. Nevertheless, at the extremes of the distribution there were strong differences: deposits amounted to 83 % of total financial assets for the poorest 20 % of households, but to only 36 % for the richest 20 %.

Chart 2

Holdings of financial assets by net wealth quintile

(%, unconditional means)



Source: NBB (HFCS III).

However, the amounts in bank accounts reported in this survey may suffer from incompleteness, due to possible oversight by households (forgetting to report some secondary accounts, including those of children) or underestimation or under-reporting of the amounts deposited in them. The amount on the sight accounts may also depend on the time of the month when it is reported, i.e. when the survey is taken (household bank deposits may be at their maximum at the end of the month, after wages and pensions are paid, which is also the reference period for national financial statistics). Overall, the survey-derived total volume of deposits in sight accounts amounted to only 49 % of the total as recorded by the national financial accounts (this percentage rose to 76 % for savings accounts).

¹ National financial accounts showed, instead, an increase in households' financial assets between 2014 and 2017. Several reasons can explain this different trend, including the fact that the survey may not reach some of the wealthiest households, the difficulties for households to assess the worth of certain assets, in particular when due to changes in market values, the differences in scope (the household sector is broader in the national financial accounts, including non-profit institutions serving households) or the differences in period of reference (wealth evolves along the year while national accounts give a picture at the end of a year or a quarter) are probably the most determinant.

Table 1

Ownership and value of household assets

(in % of households, in € thousands (2017 equivalent) and change between HFCS II and HFCS III)

	Participation rate (in %)			Conditional median				Conditional mean			
	HFCS I	HFCS II	HFCS III	HFCS I	HFCS II	HFCS III	In % change	HFCS I	HFCS II	HFCS III	In % change
Total assets				282.3	278.7	279.9	0.4	416.7	387.3	411.6	6.3
standard deviation				(9.7)	(9.4)	(10.4)		(13.6)	(14.3)	(21.5)	
Total real assets	89.8	88.5	88.3	248.5	262.4	260.8	-1	329 255	335 440	366 087	9
standard deviation	(0.9)	(1.0)	(0.9)	(8.0)	(5.9)	(5.3)		(9.5)	(14.2)	(21.6)	
HMR	69.6	70.3	69.3	282.4	261.7	270.0	3	308.5	283.0	294.9	4
Other RE	16.4	18.5	18.9	196.6	187.4	197.8	6	268.8	296.0	335.6	13
Vehicles	77.2	76.2	77.1	7.0	7.3	7.0	-4	11.2	10.8	11.3	5
Valuables	15.4	12.6	12.7	5.6	6.1	6.8	11	18.7	21.1	21.8	3
Self-employment business	6.6	8.5	10.9	56.5	59.9	24.7	-59	242.4	329.0	403.7	23
Total financial assets	98.0	97.9	97.9	29.9	29.8	25.8	-13	123.6	92.3	90.1	-2
standard deviation	(0.3)	(0.5)	(0.5)	(1.8)	(1.8)	(1.8)		(9.4)	(4.4)	(5.7)	
Deposits	97.7	97.5	97.7	11.3	13.1	11.5	-12	43.0	37.0	39.6	7
Deposits: sight accounts	97.3	97.1	97.3	1.5	1.8	1.6	-11	4.9	5.2	7.5	45
Deposits: saving accounts	76.5	76.6	74.5	13	17	15	-10	49	40	42	4
Mutual funds	17.6	21.0	21.3	23.0	30.1	35.9	19	79.1	102.6	98.7	-4
Bonds	7.5	7.8	2.9	34.8	13.0	22.3	72	213.0	41.3	164.8	299
Non-self-employment private business	0.5	1.0	1.4	218.8	32.6	1.7	-95	332.5	212.9	147.0	-31
Publicly traded shares	14.7	11.0	9.8	5.8	10.5	9.9	-6	75.8	55.1	65.6	19
Managed accounts	0.6	0.6	0.9	40.9	49.0	30.5	-38	123.8	135.3	204.2	51
Money owed to households	7.7	6.7	5.2	2.5	6.6	5.0	-23	20.6	17.4	13.6	-22
Voluntary pension plans / life insurance contracts	43.3	44.4	42.9	22.4	17.5	15.3	-13	41.4	28.1	24.5	-13

Source: NBB (HFCS).

Note: Values in € for 2010 and 2014 are adjusted for inflation relative to 2017.

Recourse to the most sophisticated financial instruments remained low: while around 40 % of households had voluntary pension plans or life insurance contracts (five percentage points less than in 2014), only 21 % (a similar share as in 2014) reported that they owned mutual funds (the median amount invested in these was higher than at the time of the previous wave, though), and investment in bonds, shares and non-self-employment private businesses remained uncommon. However, the very reduced sample of households that own such assets makes the estimates of the amounts subject to considerable uncertainty. This may help explain the strong movements in their conditional median and mean values across waves.

4. Debt

Half of Belgian households reported having some sort of debt in 2017, an increase of five percentage points from 2014. The median value of indebted households' liabilities jumped by an even higher amount (31 %) in the same period, reaching € 68 100 in 2017. The median value of mortgage loans, held by 37 % of Belgian households in 2017 (2.5 percentage points more than in 2014), rose by 22 %, to € 100 000. Additionally, more households had mortgages linked to other real estate property (although they remain a minority: 5.2 %, half a percentage point more than in 2014, and two percentage points above the 2010 share), with a strongly rising median value. Over one-fourth of households had other types of debt, a percentage slightly up from those of previous waves, although median values of this type of liabilities trended down.

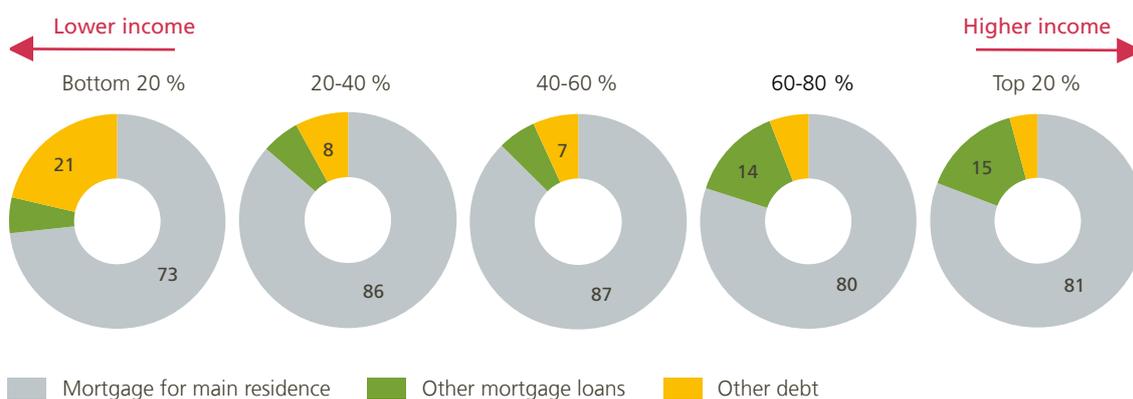
As is the case for assets, debt is not equally distributed across households. Focusing specifically on mortgage loans, there are notable differences between younger and older households (49 % of the households headed by a person younger than 35 had mortgage debt in 2017, compared with 57 % of those between 45 and 54 years old, and only 1 % of those older than 75), as well as between income categories (7 % of the households in the lowest income quintile, compared to 68 % of those in the highest), and across employment status (6 % of households where the reference person was retired, 19 % of those not working and the unemployed, but around 60 % for those working).

Mortgages on the household's main residence represent the most important type of debt across the income distribution. Yet the relative importance is lower for the lowest quintile, due to the reduced share of households that have a mortgage in this group. Other types of debt (consumer loans, for instance) are relatively more important for this category. At the other extreme of the distribution, mortgages on other property loom larger for the 40 % of households with the highest income.

Chart 3

Holdings of debt by income quintile

(in %, unconditional means)



Source: NBB (HFCS III).

Access to debt (and, in particular, to mortgages) is strongly correlated with the income level of the household. This observation holds even when we exclude retired households from the sample (they often have a relatively low income but have repaid mortgages in full). Non-retired households in the lowest income category had a slightly lower probability of having a mortgage in 2017 than in 2010 (for the rest of the income distribution, the probability had, by contrast, increased since 2010).

Chart 4

Debt participation rates by income quintile

(in %, excluding households where the reference person is retired)



Source: NBB (HFCS III).

Almost one-fourth of Belgian households had applied for credit in the three years before the survey took place (an increase of almost six percentage points over the previous wave of the survey). Of those who applied, 5 % saw their request denied or were granted a smaller amount than asked. 2.6 % of all households did not apply for credit due to perceived credit constraints. In total, adding up these two groups, 3.5 % of Belgian households were constrained in their access to credit in 2017, slightly less than in 2014 and 2010.

Across the income distribution, the top 40 % of households had fewer constraints and had also applied for credit most. Less than 8 % of households in the bottom 20 % had applied for credit between 2014 and 2017; for 27 % of these, this resulted in either a refusal or the granting of a lower amount than requested. The share of credit-constrained households was higher among those headed by a person who was unemployed at the time of the survey (15 %), by a person younger than 35 (10 %), and for households in the lowest net wealth quintile (9 %).

Households' debt burden

The correlation between income and access to credit (and housing loans in particular) may appear, at first sight, as undesirable, in so far as it can be seen as curbing the chances of the households with lower earnings to obtain access to property. However, excessive household debt can be crippling for a household that has insufficient means to repay, and has also been seen as one of the causes of the 2008 great financial crisis¹.

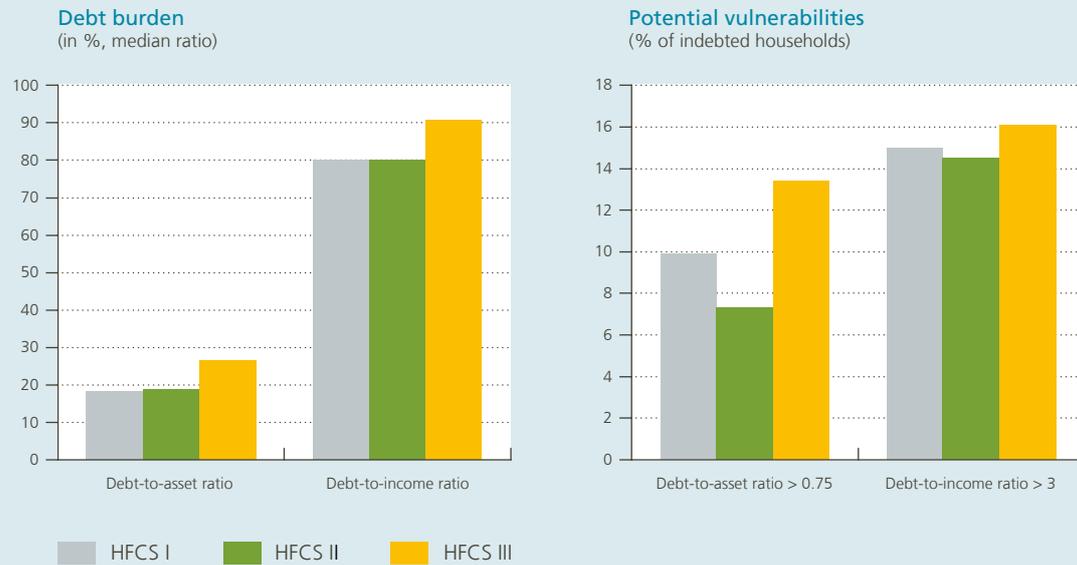
Indeed, a household with elevated debt in proportion to its income and assets is vulnerable to the impact of external shocks (such as job loss), as its repayment capacity could become severely limited. In such a case, the household could be forced to sell the property in order to clear its debt. In an even worse scenario, the shock could affect a larger part of the economy and translate into the sell-off of large number of dwellings due to households' inability to pay back their debts. At the extreme, the sale of the property might not be enough to clear the entire debt – a dramatic circumstance for any individual household. Moreover, if such a situation were to become widespread, for instance following a large and generalised shock, sizeable amounts of unpaid debts could strongly limit the capacity of banks to provide lending to the rest of the economy. For this reason, the ratios between a household's debt and its capacity to repay (as measured by its income on the one hand and the value of its assets on the other) must be carefully monitored.

Between 2014 and 2017, these two relationships worsened somewhat in Belgium. The (median) ratio between debt and total assets rose by almost eight percentage points: in 2017, debt amounted to 26 % of total household assets, up from 19 % three years before. This could indicate that households were obtaining larger loans, relative to the value of their assets, probably because they were able to obtain mortgages with a lower level of assets (smaller savings upfront, for instance). Loosening credit standards enhanced by the low interest rate environment and strong competition among banks in the mortgage market may have contributed to this trend.

¹ See, among others, Mian and Sufi (2014).



Indicators of debt burden and debt vulnerabilities



Source: NBB (HFCS).

The ratio of debt to income of households also rose between 2014 and 2017. For the median household in 2017, total debt outstanding represented just above 90 % of its gross annual income (this ratio was lowest for the bottom 20 % of the income distribution, and highest for those in the fourth quintile).

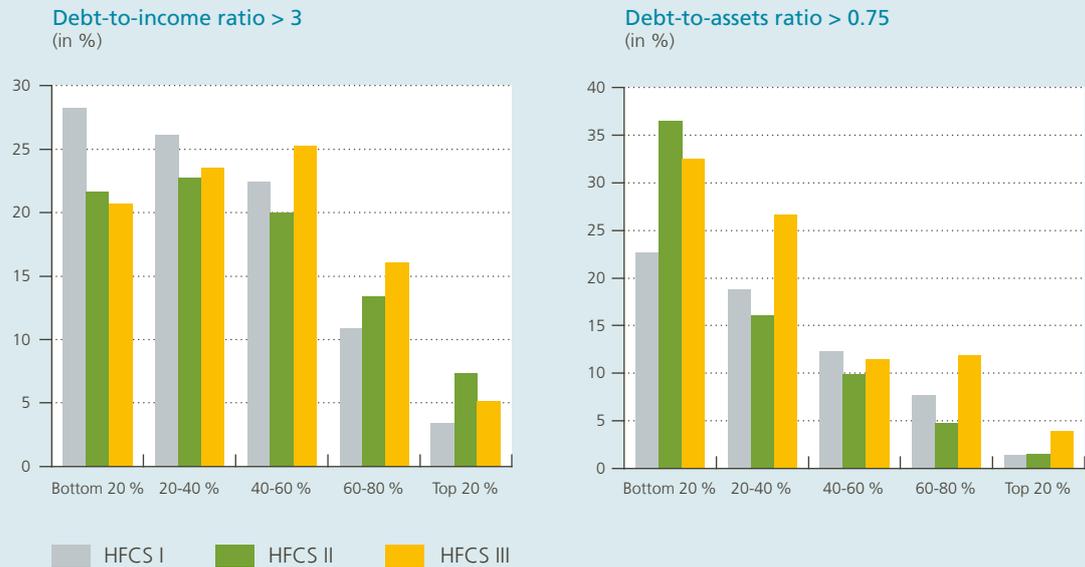
The percentage of households with elevated values of debt relative to their assets or income also rose. In particular, the share of households with debt greater than 75 % of the value of their assets jumped by 4.5 percentage points between the survey's second and third wave, and stood at 13 % in 2017. Regarding the debt-to-income (DTI) ratio, 16 % of the Belgian households (two percentage points more than in 2014) had debt that was at least three times bigger than their annual income². These households could, in principle, be more vulnerable to a shock to their income or the value of their assets, to the extent that this could imperil their ability to manage their debt.

Across the income distribution, the share of households with high debt-to-income ratios increased in the third and fourth quintiles compared with 2014, while it improved for households at the bottom and the top end of the distribution. High debt-to-asset ratios have become more common across the entire distribution, except for the 20 % of households in the lowest income group. The increases have been strongest in the second and fourth quintiles (the highest share of households with elevated DTA ratios remained in the bottom quintile, at one-third of indebted households).

¹ For 2 % of households, both indicators were above these threshold values.



Share of households with elevated debt-to-income and debt-to-assets ratios



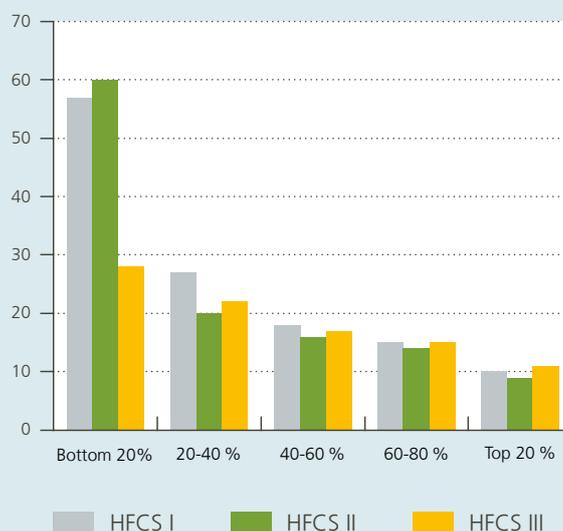
Source: NBB (HFCS).

An additional indicator to assess the burden of debt on a household's repayment capacity is the debt-service-to-income (DSTI) ratio, the proportion between debt payments (including interest rate) and the household's (gross) income. For mortgage loans, the median DSTI ratio rose by 1.6 percentage points between 2014 and 2017, although developments varied across households. For households with the lowest levels of income, the mortgage DSTI ratio fell steeply from the very high levels observed in previous years, moving closer to the ratios of the rest of the income distribution. However, it should be noted that only 7 % of households in this income quintile have a mortgage (i.e. a very reduced sample).



Median mortgage-debt-service-to-income ratio by income quintile

(in %)



Source: NBB (HFCS).

Note: The figure for the first income quintile in the HFCS I excludes four outlier observations.

The mortgage DSTI ratio increased only very slightly for households in the remaining income distribution¹. For cases where this was coupled with a higher increase in debt levels than in revenue, this could be explained by more favourable loan terms applied to households – particularly lower interest rates, which can help reduce monthly payments due.

A DSTI ratio above 30% of gross income was extremely rare in Belgium in 2017. To some extent, this may be due to financial institutions avoiding granting credit when repayment would represent a larger share of a household's income. However, subsequent (unexpected) adverse shocks to households' sources of revenue (e.g. loss of an income-providing household member, unemployment) could push the DSTI ratio higher. Overall, 3% of households with a mortgage loan were looking at monthly repayments that exceeded 30% of their (gross) income. The share of households with very high monthly mortgage payments was the most elevated for those where the reference person was self-employed (20%). Across the income distribution, this share was higher for households in the middle of the distribution (6%, a two-percentage-point increase since 2014). Per type of household, single adults with children were those whose repayments took over 30% of their income: this was the case for 7% of households of this type (40% of households composed of a single-parent family had a mortgage). This percentage, however, was lower in 2017 than in 2014.

¹ The total debt-service-to-income ratio increased slightly for the 20% of households in the lower income group between 2014 and 2017, after a sizeable drop between the two first waves of the survey. Despite this rise, it remained lower in 2017 than for the rest of the income distribution



Mortgage debt-service-to-income ratio per type of household

(% of households)



Source: NBB (HFCS).

5. Income and net wealth

5.1 Income: trends and distribution

In the context of the robust recovery, rapid job creation and slowing wage increases experienced by Belgian households at the time of the survey, the median annual gross income of Belgian households went up by 1 % in real terms between the second and third waves of the survey (which relate to the years 2013 and 2016 respectively).

The concept of income used within the HFCS refers to the gross annual revenues of the entire household. Recording gross rather than net income facilitates the comparisons across countries: taxes and social security charges are not discounted. Social transfers (such as child benefits), unemployment assistance and other (public or private) transfers are included, whether regular (e.g. child alimony) or one-off (e.g. lottery wins). In principle, then, disposable income would be lower than the figures reported here.

While median incomes for the entire distribution inched up, not all types of households benefited equally. Median income, on the contrary, fell strongly for households composed of four members (-11 %), for those whose reference person's age was between 35 and 44 (-11 %), for those paying mortgages (-4 %), and for those where the reference person was either unemployed (-15 %) or self-employed. All in all, looking at the income distribution, the highest gains have been for the 20 % of households with the highest level of income and for the 40 % with the lowest level. Table 2 provides more details on the evolution of income across household characteristics.

Table 2

Income and distribution across households

(conditional median; in € thousands (2017 equivalent) and in % change between HFCS II and HFCS III)

	HFCS I	HFCS II	HFCS III	In % change
Total	38.0	43.1	43.5	0.9
Household members				
1	21.0	24.2	24.7	2.1
2	40.8	45.3	47.4	4.6
3	59.8	62.2	61.6	-0.9
4	69.6	85.2	75.7	-11.2
5	59.4	68.5	68.7	0.4
Age of reference person (ranges)				
16-34	36.1	50.8	49.0	-3.5
35-44	55.1	60.6	53.8	-11.2
45-54	53.0	60.5	58.6	-3.1
55-64	35.4	46.4	48.7	5.0
65-74	29.4	31.9	31.9	-0.1
75 or older	25.8	27.0	26.9	-0.4
Education level of reference person				
Up to lower secondary school	24.9	24.2	24.1	-0.3
Upper secondary school	36.8	41.2	41.3	0.4
University	57.0	61.1	60.1	-1.7
Housing status				
Owners – outright	36.0	40.0	39.7	-0.7
Owners – with mortgage	60.4	69.1	66.2	-4.2
Renters/other	24.6	27.0	26.1	-3.4
Employment status of reference person				
Employee	57.3	60.7	60.2	-0.8
Self-employed	67.8	61.9	56.5	-8.7
Retired	29.1	30.6	30.0	-2.1
Other not working	23.0	16.9	16.3	-3.6
Unemployed	18.9	19.6	16.6	-15.1
Income quintiles				
Bottom 20 %	11.6	16.3	16.9	3.5
20-40 %	24.5	27.6	29.0	4.9
40-60 %	38.1	43.1	43.5	0.9
60-80 %	60.7	64.3	64.7	0.7
Top 20 %	100.6	101.5	107.6	6.0
Wealth quintiles				
Bottom 20 %	20.2	21.4	22.0	3.0
20-40 %	38.1	40.3	42.6	5.7
40-60 %	39.9	45.7	47.6	4.1
60-80 %	53.8	55.2	50.4	-8.6
Top 20 %	57.6	63.2	69.3	9.7

Source: NBB (HFCS).

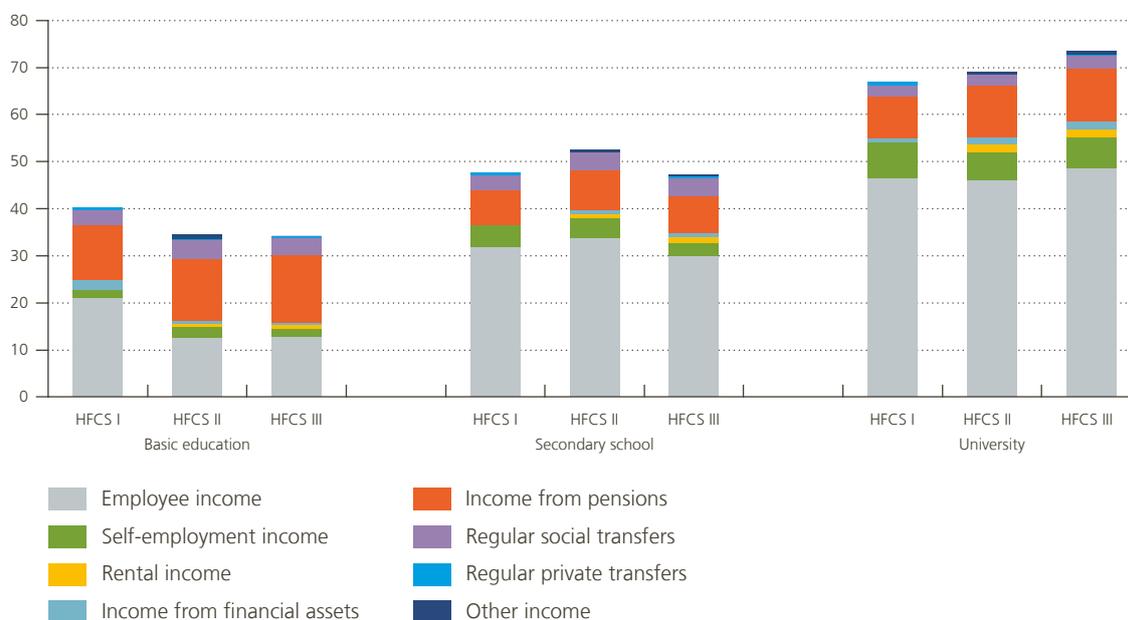
Note: Income in HFCS I was sometimes reported by households as net instead of gross. This may affect the figures and comparison with later waves of the survey. Values in € for 2010 and 2014 are adjusted for inflation relative to 2017.

Chart 5 shows the composition of income by source and by level of education of the reference person.

Chart 5

Sources and evolution of income, by education level of the reference person

(in € thousands (2017 equivalent), unconditional means)



Source: NBB (HFCS).

Note: values in euros for 2010 and 2014 are adjusted for inflation relative to 2017.

The differences across the level of education of the reference person indicate that, for households where that person has a lower education level, pensions are a prominent source of income (that is, it is likely that many of these households consist of retired persons). Employee income (e.g. wages, bonuses, overtime pay, tips) is the most important source of income for the other two groups of households. Compared with pensions and employee income, self-employment income is a relatively minor component for all three groups.

Across age categories, revenue when first accessing the labour market was lower, increased over time until around retirement age, and dropped afterwards. In the years covered by the survey in Belgium, the peak in income seems to be reached when the reference person of the household is between 45 and 54 years old¹. Between 2014 and 2017, however, the survey points to a small increase in the revenue of households with a reference person older than 55 and younger than 64. This is consistent with the increase in labour participation for that age category observed in the aggregate statistics² and the postponement of the retirement age. Income decreased, however, for households where the reference person was in their late thirties or early forties (which seems to be due to a fall in employee income).

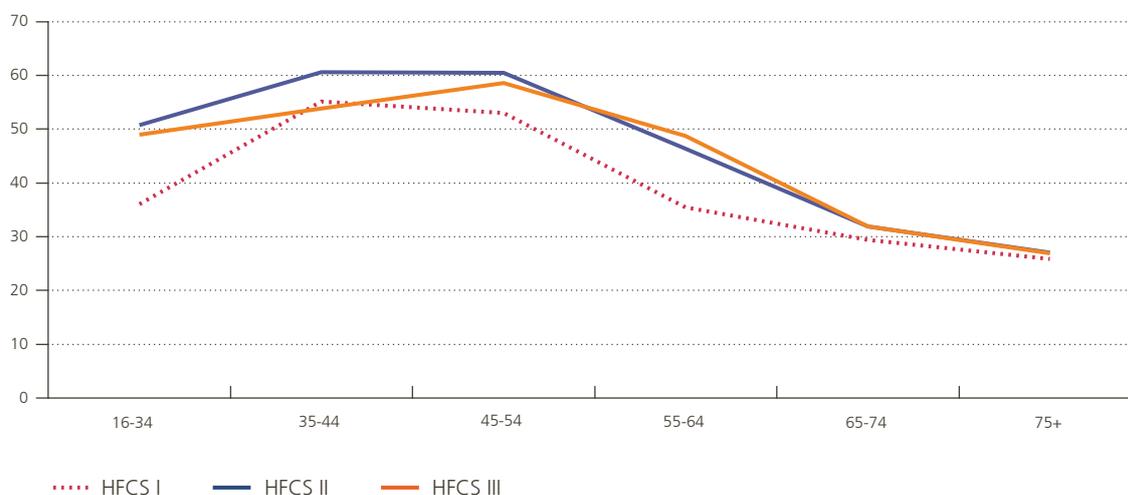
1 The average retirement age in Belgium was 59.9 for men and 59.2 for women in 2014; it rose to 61.7 and 60.5, respectively, in 2017.

2 Participation in the labour force of persons older than 55 rose by almost six percentage points between 2014 and 2017, to reach 51% (for the population as a whole, the rate was 68% in 2017). See <https://www.nbb.be/en/publications-and-research/employment-statistics-trends/labour-market/participation-rate-age-gender>.

Chart 6

Income per age of the reference person

(conditional median; in € thousands (2017 equivalent); age ranges in years)



Source: NBB (HFCS).

Note: Values in euros for 2010 and 2014 are adjusted for inflation relative to 2017.

Just over half of Belgian households indicated that their income exceeded their regular outgoings. For households at the bottom end of the income distribution (the lowest quintile), however, this percentage fell to just below 30%. Among households where the reference person was unemployed in 2017, it dropped to 20%. Overall, a higher proportion of households felt able to obtain financial assistance from friends or relatives in case of need: for the entire sample, two-thirds of households thought this was the case for them, although this possibility was again less available to households with lower income or wealth (39% and 32%, respectively).

Household surveys are not suited to provide an accurate measure of inequality in a country. One of the main reasons for this is that the wealthiest households and those with the highest income usually do not respond to this type of survey¹. This implies that inequality indicators are underestimated. Another caveat is that, as mentioned above, the uncertainty and error margins around the value of some kinds of assets or income sources increase when these assets or sources are very uncommon. Keeping in mind these limitations, the survey can still provide some indications of the trends in inequality for the rest of the distribution. The survey also provides a better understanding of the distribution of heterogeneity according to the other dimensions that it covers.

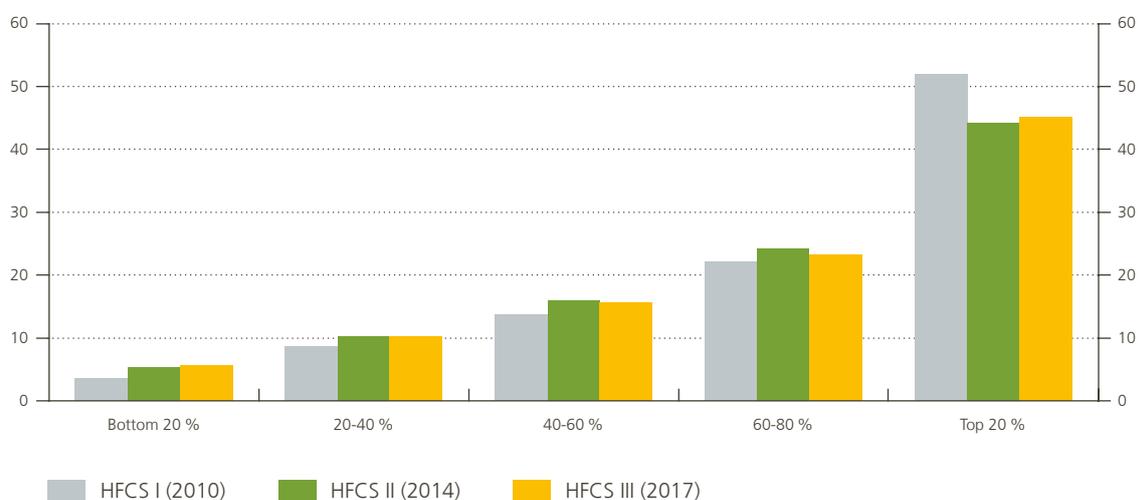
All in all, the distribution of income remained relatively unchanged between the second and third waves of the survey, with the top 20% of earners taking 45% of the total gross income. Households in the 90th percentile (i.e. whose income exceeded that of 90% of the country's households) earned 2.5 times the median household income, a share slightly higher than in 2014 (2.4). At the same time, the median household made 2.6 times the amount of households in the 10th percentile.

¹ The maximum value for net wealth recorded in 2017 was in the tens of million euros (far below the estimated worth in the billions for the very wealthiest in most countries). These households could also underreport their income or wealth (see HFCS, 2013).

Chart 7

Distribution of income across quintiles

(in %)



Source: NBB (HFCS).

Note: Values in euros for 2010 and 2014 are adjusted for inflation relative to 2017.

5.2 Net wealth

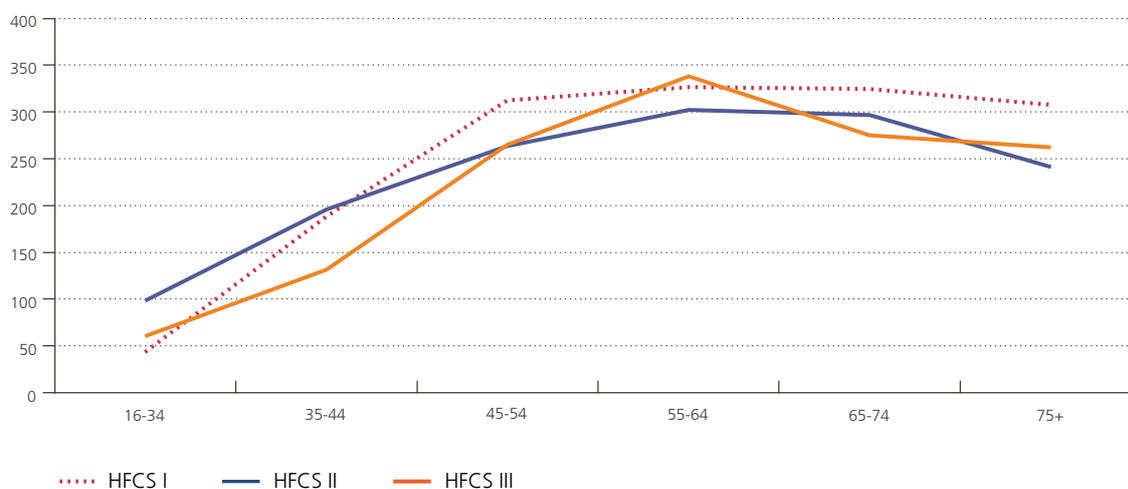
While median income increased between 2014 and 2017, median wealth (the total amount of a household's assets minus its debt) fell (by 6.8%) over the same period. As with income, not all households were equally affected. Net wealth fell more steeply for households where the reference person was unemployed (in fact, it more than halved), where the reference person had attained only a basic education level (by over 40%), where the reference person was younger than 45 (by around one-third), for households that did not own their home, and for those where the reference person was self-employed. All in all, households with the lowest income in 2017 saw the biggest drops in their net wealth between 2014 and 2017.

As is the case with income, the distribution of net wealth across age categories of the household's reference person seems to fit with the life-cycle theory: net wealth increases with age to peak for households on the verge of retirement, and drops slowly afterwards, as older households dissave (albeit moderately).

Chart 8

Net wealth per age of the reference person

(conditional median; € thousands (2017 equivalent); age ranges in years)



Source: NBB (HFCS).

Note: Values in euros for 2010 and 2014 are adjusted for inflation relative to 2017.

Negative net wealth was reported by 3.5 % of Belgian households, that is, their debts were higher than the value of all their assets. This percentage was higher for the unemployed (13 %), for households that do not own their main residence (11 %), younger households (8 %), large households (five or more family members; 7 %) and those in the bottom 40 % of the income distribution.

Table 3

Net wealth across households

(conditional median; in € thousands (2017 equivalent) and in % change between HFCS II and HFCS III)

	HFCS I	HFCS II	HFCS III	In % change
Total	232.9	228.1	212.5	-6.8
Household members				
1	121.2	132.1	122.3	-7.4
2	312.6	267.2	283.6	6.1
3	269.1	232.5	235.9	1.5
4	305.0	304.4	291.2	-4.3
5	190.8	241.3	230.0	-4.7
Age of reference person (ranges)				
16-34	43.3	98.4	60.3	-38.7
35-44	188.1	195.6	131.6	-32.7
45-54	312.5	263.8	265.0	0.5
55-64	326.8	302.3	338.1	11.8
65-74	324.6	296.7	275.0	-7.3
75 or older	307.8	241.0	262.3	8.9
Education level of reference person				
Up to lower secondary school	184.2	169.1	100.3	-40.7
Upper secondary school	204.0	206.7	167.7	-18.9
University	318.1	313.8	300.0	-4.4
Housing status				
Owners – outright	400.9	362.3	391.1	8.0
Owners – with mortgage	256.6	240.9	232.3	-3.6
Renters/other	8.6	9.5	6.5	-31.8
Employment status of reference person				
Employee	227.1	221.9	202.4	-8.8
Self-employed	422.4	527.9	412.4	-21.9
Retired	330.2	291.0	276.9	-4.9
Other not working	11.4	6.4	10.4	63.8
Unemployed	16.9	8.5	4.0	-53.0
Income quintiles				
Income I	34.8	26.9	10.9	-59.5
Income II	179.1	155.3	155.3	0.0
Income III	216.4	238.6	205.9	-13.7
Income IV	297.3	296.8	263.6	-11.2
Income V	424.4	369.5	418.8	13.3
Wealth quintiles				
Wealth I	3.2	2.3	1.9	-17.5
Wealth II	91.7	99.7	80.0	-19.7
Wealth III	233.4	228.2	212.6	-6.8
Wealth IV	406.3	368.5	363.7	-1.3
Wealth V	797.3	739.4	762.5	3.1

Source: NBB (HFCS).

Note: Values in € for 2010 and 2014 are adjusted for inflation relative to 2017.

The distribution of net wealth in Belgium suggests greater inequality than that of income. The poorest households hardly had any assets in their names, while the richest 20 % owned 64 % of the total net household wealth. As mentioned above, for most of the Belgian population, the main residence is the household's most valuable asset, while the mortgage loans associated with it are the main liability. The richest households show a much greater diversification in their assets, to the extent that the value of their homes (while higher in absolute terms than those of the rest of households) represents a much lower proportion of their total wealth. Taken together, other real-estate properties, self-employment businesses and a range of other assets (mainly financial) amounted to about 40 % of their wealth.

Chart 9

Average portfolio by net wealth quintile

(in € thousands (2017 equivalent), unconditional means)



Source: NBB (HFCS).

Note: Values in euros for 2010 and 2014 are adjusted for inflation relative to 2017.

Overall, the distribution of net wealth in Belgium remained relatively stable between 2014 and 2017, although showing a somewhat greater degree of concentration at the top. This observation, however, needs to be nuanced, as the error margins associated with some of the components that seem to underlie this development (in particular, the value of self-employment businesses and a large share of financial assets) are, as mentioned above, quite significant.

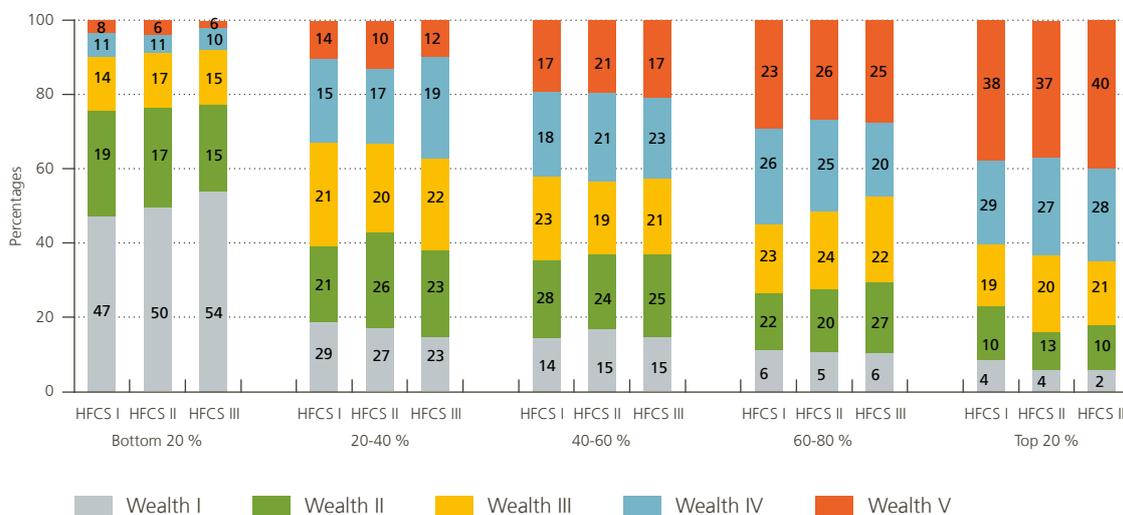
5.3 Joint distribution of income and wealth

Household income and wealth are strongly correlated, and seem to have become more so between 2010 and 2017: 54 % of the households in the bottom wealth quintile were also in the lowest income quintile, while 40 % of those with the highest wealth were also earning the highest revenues.

Chart 10

Distribution of net wealth across income quintiles

(in %)



Source: NBB (HFCS).

In contrast, there were very few households that found themselves at the top of one distribution and the bottom of another. This may happen if, for instance, retired households that have cumulated a high level of wealth receive low pension income. Some young households may also earn high incomes, but have not yet amassed much wealth. However, as the chart above shows, these cases are exceptional.

How will Covid-19 affect vulnerable Belgian households?

The crisis triggered by the arrival of Covid-19 in Belgium in 2020 will undoubtedly leave a mark on the economy and on households' financial situation. The impact on the latter will depend to a large extent on the magnitude of the shock to available income and wealth. This box attempts to shed some light on how the shock could play out, taking into account the situation of households as indicated by the third wave of the HFCS. Even though the data are from 2017, they may still be informative as to which conditions may make households more vulnerable, focusing, in particular, on the impact on available income.

The Covid-related crisis may cause a negative shock to the earned income of households whose work is disrupted by the lockdown measures (some sectors, such as the hospitality, events and travel industries being more affected than others, such as food retailing). For a given duration of the crisis, the impact will depend on the compensation measures adopted by the public authorities. Despite all the measures taken to support those who have had to stop working, few of them (only those with the lowest wages) will see their loss of income fully compensated, as the amounts provided are capped. Most households (including the self-employed, who may continue to face fixed costs, and households obtaining income from the informal economy) will most likely suffer a drop in income. The demise of a family member due to the disease may also cause an income loss. In some sectors where work demand rises, such as some parts of the food and medical industries, incomes may increase. The negative shock may be large enough to force some self-employment businesses into bankruptcy, with a subsequent fall in wealth. At the same time, price increases, mainly for essentials, and higher consumption linked to the lockdown (electricity, heating and food at home) may also dent households' disposable income. Yet some households – mainly those with higher income – may realise forced savings due to cancelled or delayed expenses.

Thus, despite compensation measures, some households may have to run down their savings or go into debt. One of the categories most affected by the crisis may be households that suffer income loss due to the lockdown and have difficulties saving in normal times: the latter is the case for 40 % of households where the reference person is working. Among those with the lowest income that are headed by a self-employed person (a category that is likely to be severely affected by the crisis), only 21 % of households reported that they were able to save, while 80 % had taken on debt. In the face of a negative income shock, households that do not own their home may also be more exposed (in ordinary times, a large proportion of these have regular expenses that exceed their income).

Households with high DSTI ratios may be also more vulnerable, particularly if they cannot benefit from a moratorium on debt payments and/or they receive only partial compensation for their income loss. As mentioned above, single-parent households exhibit high DSTI and, to the extent that they depend on a single income, they could have more difficulties in smoothing the impact. 6 % of households in the third income quintile – with a median annual gross income of € 43 500 – also have a DSTI ratio above 30 %, as do 20 % of households where the reference person is self-employed.

Conclusions

This article presents a first analysis of the results of the third wave of the Belgian HFCS, comparing them with those of previous waves. In the context of a continued, though moderate, economic recovery, characterised by falling unemployment and subdued wage increases, the income of Belgian households rose slightly between the second and third waves of the survey. The value of their real estate properties also went up, although the increase was more significant for properties other than the household's main residence. The value of the most widely held financial assets, such as bank deposits and pension or life insurance contracts, fell. Despite the drop in interest rates seen in recent years, riskier, more sophisticated assets that typically come with higher yields remained very uncommon.

Households' debt levels kept rising, driven by both a larger proportion of indebted households and higher borrowed amounts. In terms of outstanding amounts, the most important debt item was the mortgage on the household's home, although non-mortgage debt remained important for households at the bottom of the income distribution, while mortgages on other property also represented a sizeable part of the liabilities of the wealthiest households.

As a consequence, the debt burden increased, although with some heterogeneity. In particular, the ratio of debt to income fell for those households that earn less. This may help them to avoid becoming overstretched in the event of negative shocks to their financial positions. Debt-to-asset ratios rose across the board, possibly driven by eased credit conditions on bank loans. Overall, the share of monthly mortgage loan repayments, including interest, over income stabilised or even decreased, although some groups (in particular the self-employed, younger households and single adults with children) remain vulnerable.

Overall, the distribution of income and wealth remained relatively stable between 2014 and 2017. Over the same period, the survey indicates that the income and wealth distributions became more correlated. However, further analysis and additional data may help to better assess the trends in inequality in Belgium, particularly regarding net wealth.

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For more information about the HFCN and the HFCS:

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ECB website: https://www.ecb.europa.eu/pub/economic-research/research-networks/html/researcher_hfcn_en.html.