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Financialisation of households in East-Central Europe: The view from the non-academic reports

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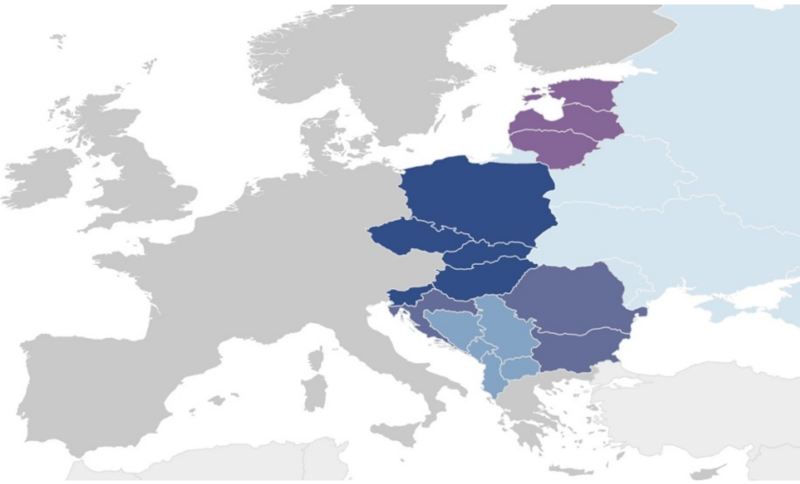

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GEOFIN Working Paper No. 10

Financialisation of households in Eastern and Central Europe: The view from the non-academic reports.

Alicja Bobek

Abstract:
This Working Paper is an overview of grey literature on the financialisation of households in Europe. Even though the term 'financialisation' is not frequently used in non-academic reports, examining households' engagement with financial institutions and financial products has been gaining increased interest over the past few decades. This is especially the case in the context of the post-2008 economic downturn. While the literature is mainly focused on 'Western' Europe, the analysis of the situation in East-Central Europe (ECE) has also been emerging. The main themes include households' 'investments', households' involvement with debt and credit, housing and mortgages, over-indebtedness, and foreign currency lending. In addition, trust in financial institutions, as well as financial literacy and education, also constitute a strong feature in these reports. Finally, even though most of the authors argue that increase in household debt in this region is inevitable and constitutes part of the 'catching-up' process, there are also those who point out that over-indebtedness poses potential threats to households' well-being, and to the overall financial stability of the region. All these themes will be explored in detail in this paper.

Keywords: financialisation of households; non-academic reports; East-Central Europe; debt and credit; FX lending
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1. Introduction: household financialisation in the non-academic literature

This Working Paper provides an overview of grey literature on financialisation of households in Europe, with a special focus on East-Central Europe (ECE). This overview complements an earlier GEOFIN Working Paper No. 2 (Bobek, 2019) which provided an in-depth review of *academic* literature on financialisation of households. Financialisation of households has become a subject of interest for different non-academic institutions, including banks, policy makers, and policy analysts. Quite interestingly, the term 'financialisation' itself is not often used in published reports. Nevertheless, the analysis included in the relevant literature can frequently be classified as describing process of household financialisation. While there is a wide range of theoretical, methodological and analytical approaches deployed in these reports and commentaries, these can be generally categorised into the following thematic groups (1) general literature about the use of financial products and the interaction between household and financial institutions; (2) the analysis of households investments, savings, assets and wealth (3) the analysis of household debt and credit, with two sub-categories: (a) housing and mortgages and (b) foreign currency (FX) lending and loans specific to housing and (4) financial literacy, financial education, and trust in financial institutions. The following table provides detailed examples of the non-academic literature broadly classified into these categories:

[TABLE 1 HERE]

It needs to be emphasised that the large proportion of the analysis of European households is either focused on the 'Old' European Member States (which in this report, following the international literature, are referred to as 'Old' EU or 'Western Europe'), or the Eurozone countries. The literature examining the New Member States (here referred to as the East-Central Europe (ECE) countries/region or 'Eastern' Europe) is still emerging and remains underdeveloped. As it will be discussed in this paper, much of the grey literature perceives the financialisation of households in this region as 'positive' and as an inevitable part of the economic transition. Nevertheless, particularly after the 2008 economic downturn, some authors have raised important questions related to this process. These include issues related to households' over-indebtedness, and the potential financial burden posed on households by retail banks operating in this region.

This Working Paper will discuss the following themes in detail: households as 'investors', households as 'debtors' and the issue of financial trust and financial literacy. In addition to a general overview of households' credit and debt, the second theme includes three sub-sections related to (a) housing debt and mortgage markets; (b) foreign currency lending and (c) over-indebdness and debt burden. While the general literature on household finances is not discussed in detail, selected literature on this subject can be found in Table 1.

2. Household wealth, 'investments,' savings and assets

It has been argued that household wealth is an important indicator of economic well-being as it 'allows individuals to smooth consumption over time and to protect them from unexpected changes in income' (OECD, 2018: 6). As noted by several authors, there are various factors influencing households' saving rates and portfolio choices. These include, for example, labour market situation and wage levels (European Commission, 2018; UniCredit, 2011), trust in the banking system (Rahmanov, 2015; Brown and Stix, 2014) or income inequalities (Rubbico and Freytag, 2018). Welfare state provisions can also impact savings rates on national level: as discussed by the ECB (2016), precautionary savings tend to be lower in countries where the state provisions are more generous. These factors are important to monitor, especially in relation to public policy, and in the context of potential (future) economic downturns, ageing societies and pension reforms (Beckamnn and Mare, 2017; Benartzi and Thaler, 2013). Furthermore, the age-group of a household can be of importance (e.g. the older the household the more assets it has) (ECB, 2016). Household's wealth can also fluctuate depending on property markets: for example, in some European countries, households' balance sheets have recently improved due to the rising house prices (European Commission, 2018).

Within the Euro area, household net wealth was negatively impacted by the financial crisis (ESB, 2016). Furthermore, while recent data shows that it has improved since the downturn (DeBondt et al., 2020), the distribution of net wealth tends to be skewed towards the top 10 percent of households (ECB, 2016; OECD, 2018).Within the European Union, there are two main differences between the 'Old' EU states and the ECE countries. These are: the levels of savings as well as the types of savings (ECB, 2016; OECD, 2018; Revoltella and Mucci, 2004; Brandemeir et al, 2017; Brown and Stix, 2014). Quite importantly, the levels of savings in the ECE region remain significantly below the rates observed in Western Europe. For example, by 2016 net assets per capita accounted for 58,910 Euros in Western Europe, and only for 4,150 Euro in Eastern Europe (Brandmeir et al., 2017). The following table illustrates changes in households' savings rates in the ECE countries since the late 1990s onwards:

[TABLE 2 HERE]

Major drivers behind the rising rates of savings in the ECE countries are usually related to the ongoing normalisation of the labour market, falling unemployment rates, and the actual, as well as expected, rises in disposable incomes (UniCredit, 2011). Quite importantly, however, the ECE countries can still be characterised by relatively high levels of informal savings (Beckmann, 2016; Demirguc-Kunc et al., 2015). It seems to be the case that households in this region often prefer cash over formal savings, such as bank deposits or savings accounts (Stix, 2013; Brown and Stix, 2013). One of the factors behind this can be linked to relatively lower levels of trust in the banking system in the region, as (in general) households tend to have more formal savings if the banking sector is perceived as strong and stable (Rahmanov, 2015; Balloch et al., 2015). Furthermore, it has also been argued that the gradual improvement in the labour market situation results in the increased consumption and the subsequent increase in lending (UniCredit, 2011).

In relation to portfolio choices, bank deposits constitute the largest share of financial assets in the ECE region, while Western European households are more likely to invest in pensions and insurance (Brandmeir et al, 2017). Finally, there is strong evidence that households in the ECE region often prefer to hold their deposits in foreign, rather than domestic currency. For example, in 2012 around 75 percent of bank deposits in Serbia and Croatia were denominated in foreign currency – predominantly Euro; this can be explained as demand-driven phenomenon and can be linked with lower expectations towards the local currency (Brown and Stix, 2014).

3. Households as debtors: credit and debt

Household debt has been gaining increasing interest of researchers and policy makers. Not only it can have influence on individuals' well-being, but it can also impact stability of financial systems (Rinaldi and Sachis-Arellano, 2006; Siermienska, 2014). This issue gained more interest after the 2008 financial crash, as growing number of households became vulnerable to the risk of not being able to cope with their debt accumulated during the boom (Fondeville et al., 2010).

In general, household debt in the European Union region has been rising since the late 1990s. It reached its peak in the 2000s when the debt-to-income ratio across the EU increased from 73 percent in 1999 to 97 percent in 2009 (Ahearne and Wollf, 2012; Andre, 2015). Since the financial crash this ratio has decreased (Bouis et al, 2013; MGI, 2015). However, this pattern did not affect all the countries equally (Chmelar, 2013). Furthermore, while the share of indebted households has also been recently declining, this has been mainly the result of the debt decline in the upper tail of the wealth distribution (ECB, 2016; 2020)

Most authors agree that debt acquisition is a normal and inevitable behaviour for most of households in highly developed countries (Betti et al, 2001). It is argued that debt is commonly used by households to maintain consumption and living standards over their life course (Falanga, 2015). The most common theoretical framework behind this rationale refers to the so-called 'life-cycle model', which links consumption, savings, and credit with life-cycle factors and with economic conditions (e.g. Ando and Modigliani, 1963). Within this framework, access to credit is a crucial aspect for the optimization of cash flows and the well-being of households (D'Alessio and Lezzio, 2013; Beck and Brown, 2012; Chmelar, 2013; Falanga, 2015). With no other obstacles for obtaining credit, households borrow in the anticipation of future incomes, while credit is considered as a transfer of consumption over time (ECB, 2016; Chmelar, 2013; Ando and Modgiliani, 1963; IMF, 2017). For example, mortgages allow people to buy houses or apartments, preventing them from over-spending their incomes on rent (OECD, 2018). In general, this model provides a positive view of debt, and assumes that debt should display an inverted U-shape model with the peak around the 35-44 age group (ECB, 2016; OECD, 2018). However, while debt is usually perceived as 'normal' or almost desirable, the 2008economic downturn (and the increase in private sector debt) also led to suggestions that the rise in debt may result in lower growth and can rise the likelihood of a financial crisis (Alter et al. 2018; IMF, 2017). Households can also sometimes use debt to maintain consumption beyond their means, which can consequently lead to the credit bubble and possible financial crash (Bubbico and Freytag, 2018).

As generally expected, debt levels in the ECE countries have been rising as an inherent part of the 'catching up' process' with the West (Andre, 2015; Chmelar, 2013; Sainsot, 2015). However, similarly to the levels of savings, household debt in the ECE region also remains 'behind' that of the Western countries, with overall lower percentage of indebted households (OECD, 2018). During the early transition period, the situation in the ECE countries could be compared the post-war Western Europe, with low mortgage penetration and underdeveloped (or even non-existent) consumer credit (Chmelar, 2013; Coricelli et al, 2006; Sainsot, 2015). Since then, retail lending (including household lending) in this region has been growing rapidly (e.g. Andre, 2015; Backe and Zumer, 2005). This shift was parallel with changing market conditions; however, it also prompted an ongoing debate whether such growth is sustainable (Coricelli et al., 2006).

It has been argued that such increase was, among other factors, caused by the privatisation of the housing stock, increased availability of credit and the rising expectations in relation to the growing earnings (e.g. Chmelar, 2013). The following table illustrate these changes in comparison to the indebtedness level in other EU countries:

[TABLE 3 HERE]

While the growth of household debt has been affecting countries across the ECE region, this process occurred at a different level and a different pace, depending on geographical location (Backe and Zumer, 2005). This was especially the case of the continuous development of the mortgage market (Beck and Brown, 2012). Quite importantly, partially due to the relatively high levels of interest rates in this region, some countries experienced a rapid expansion of the FX lending. This had significant economic consequences during and after the financial crash (see also below). Furthermore, the growth of credit also seemed to have an unequal character within the ECE states. It has been argued, for example, that while access to credit widened across the region, foreign banks entering the market were 'cherry picking' their clients. According to this strategy, the banks were not serving 'less profitable' sectors, and instead focused on wealthy households with full employment (Andre, 2015). This potentially had further consequences, for example in relation to housing or, more generally, financial inclusion.

Housing-related debt and mortgage markets in the ECE region

Within the European context, mortgages are the largest component of household debt (Ahearne et al., 2012; Georgarakow et al., 2010; Ehrmann and Ziegelmeyer, 2014) and can account for up to 85 to 86 percent of the overall household debt (ECB, 2016; 2020). Mortgages also constitute a significant proportion of bank lending (ECB, 2009). Interestingly, real estate debt is often associated with assets rather than liabilities (OECD, 2018). However, this is not always the case, especially during the downturn, when the property value decreases (ECB, 2016; OECD, 2018). Highly indebted households can therefore become vulnerable to negative shifts in property prices. In this context, house prices also tend to negatively impact consumption levels of such credit-constrained households (European Commission, 2011)

Furthermore, the outstanding balance of mortgage debt often remains higher than the non-mortgage debt (ECB, 2016).

Across the EU, homeownership tend to vary greatly. The following table illustrates these differences:

[TABLE 4 HERE]

As illustrated by the above table, while the ECE countries tend to have the highest rates of owner-occupation (see also OECD, 2016a), mortgage uptake rates remain much lower when compared to the 'Old' EU states. This situation is strongly related to the pre- and post-transformation housing systems in this region. Similarly to other types of modern financial products, mortgages were almost non-existing before the systemic transition in the ECE countries, as well as during the early stages of this transition (Bohle, 2017; Chmelar, 2013). During the state socialism, housing markets were controlled by the states and the dominant form of ownership was public housing (Palacin et al, 2005). This has changed during the 1990s, when housing was privatised, resulting in the high levels of homeownership without a mortgage.

Despite such high levels of homeownership in the ECE countries, households in this region are still likely to experience poor housing conditions, including overcrowding and high risk of poverty and social exclusion (Voinea, 2017). They also face relatively higher levels of housing-related expenditure (Palacin et al., 2005) as substantial percentage of homeowners spend more than 40 percent of income on housing costs (Rosenfeld, 2015; Andre, 2015).

Furthermore, most of the countries in this region can be characterised by expanding mortgage markets (Melches, 2017). This expansion, which is a relatively new phenomenon, has also been perceived as a key factor behind economic prosperity and political stability in the region before the financial crisis of 2008 (EBRD, 2007; IMF, 2006.) House prices in the ECE countries have also been increasing recently: for example, between 2011 and 2018 house prices in Budapest more than doubled (EMF Hypostat, 2019). Similarly to the overall rising levels of debt, this is often perceived as a 'positive' sing of the economic growth. It should be emphasised, however, that there are potential risks related to over-borrowing within the mortgage market, especially if unemployment levels rise or if household assets depreciate (Georgakow et al., 2010). This, coupled with the rapid increase in household debt, leads to financial vulnerability (European Commission, 2018). As this is trend is relatively recent, more exploration of the expanding mortgage markets in this region will be required.

Over-indebtedness and debt burden

While most of the reports emphasise 'positive' factors behind the growth of household debt in the ECE region, several authors point out that there are significant risks related to the possible 'over-indebtedness' (Andre, 2015; Falanga, 2015). It is important to emphasise that there is no agreed common definition of 'over-indebtedness' across the EU member states (CPEC,

2013) which results in challenges for using the term in international context (Eurofound, 2020). The definition can also vary depending on the institutions as public bodies (including governments) and private sources (e.g. consultancy firms or academics) tend to use different criteria for identifying 'over-indebted' households (European Commission, 2008). The following table provides a list of the most prominent definitions used in different European Union countries:

[TABLE 5 HERE]

Despite the differences between definitions used in various EU countries, the European Commission (2008) report identified several elements of a 'common' European operational definition of over-indebtedness. The following table summarises and defines these core elements:

[TABLE 6 HERE]

Furthermore, several studies identified common indicators and important dimensions of the over-indebtedness, including: economic aspects (amount to be repaid); temporal dimension (with medium to long-term issues usually taken into the account); as well as social and psychological dimension (D'Allessio and Iezzi, 2013; European Commission, 2008; Falanga, 2015). Over-indebtedness is thus considered to be a structural issue, as occasional financial difficulties or missed payments are not taken into consideration by most definitions (Eurofound, 2020; Falanga, 2015). In general, being indebted is considered as a normal behaviour (Betti et al., 2001). Nevertheless, while debt can help with the accumulation of personal wealth, high indebtedness can also result in financial vulnerability (IMF, 2017). Recent analysis of different measures of debt burden suggests that many Euro area households, for example, are heavily indebted in relation to their financial resources (ECB, 2016; Fondeville et al., 2010; Siermienska, 2014). Considering the fine line between 'positive' and 'negative' aspects of debt, it is important for policy makers to recognize what levels of debt (and the subsequent demands in repayments) can have negative impacts on households (OECD, 2018).

For that reason, it is also crucial to analyse the issue of over-indebtedness on the microlevel rather than just the aggreged measures (ECB, 2016; 2020). In relation to problematic debt, for example, it has been argued that not all over-indebted households experience financial problems (OECD, 2018). Quite importantly, however, debt burden may result in reduced standards of living and the deterioration of psychological well-being (CPEC, 2013). This is especially the case when the debt is increasing at a very fast pace, as it did during the pre-crisis period (EBRD, 2011). In addition, non-performing loans affect households' creditworthiness and limit their access to potential credit in the future (Gerlah-Kirsten and Lyons, 2015).

As analysed by CPEC (2013), a variety of indicators can be used for assessing levels of over-indebtedness in different EU countries. In general, it has been argued that households' over-indebtedness is distributed unevenly across, as well as within various European countries (European Commission, 2008; Eurostat Housing Statistics, 2015; Rosenfeld, 2015).

The uneven nature of over-indebtedness is also manifested in the ECE countries. For example, non-performing loans remain modest in Czech Republic and Slovakia but rose to around 15 percent in Hungary by 2012 (Andre, 2015). In terms of mortgage arrears in the ECE region, these had risen to nearly 5 percent in Hungary and 2 percent in Slovenia by 2014, but also fallen to around 1 percent in Poland (Gerlah-Kirsten and Lyons, 2015).

Furthermore, while over-indebtedness is not restricted to any socio-economic group, low income households, young families with children, and households with at least one unemployed adult tend to be more affected by debt (CPEC, 2013). Cultural attitudes towards debt also seem to play an important role for the perceived (or subjective) household debt burden. For example, some studies have shown the significance of household perception of their own debt *in relation* to the debt situation of others in their peer group (Georgarakow et al., 2010).

Finally, despite relatively lower levels of the debt-to-GDP ratio in the ECE region, many Eastern European households tend to suffer from debt burden to a greater extend when compared to other EU countries (Drometer and Oesingmann, 2015). This can be, at least partially, linked to the foreign currency (e.g. Euro or Swiss Franc) lending in the non-Euro ECE countries. As it will be explored in the following section, this form of lending expanded dramatically in these countries prior to the crisis when the 'cheaper' FX loans were offered to many households in this region.

Foreign currency lending: ECE phenomenon?

As previously argued, households in ECE region often have a preference to have their savings in foreign, rather than local currency (Brown and Stix, 2014). Many of the countries in this region can also be characterised by relatively high levels of foreign currency lending, most notably in the mortgages sub-sector (Backe and Zumer, 2005; Fiorante, 2011; Sainsot, 2015). This phenomenon has been described as 'francisation' or 'euroisation' of households' liabilities in the ECE countries (Chmelar, 2013). For example, in Estonia and Latvia, 70 percent of loans were denominated in foreign currency[1] (Brown and de Haas, 2011), while the share of FX loans also exceeded domestic loans in Bulgaria, Hungary and Romania (EBRD, 2010).

It needs to be emphasised that while FX loans were present across different European countries (including the 'Old' EU states), their nature differed. For example, FX loans denominated in Swiss Franc were issued mainly to non-resident enterprises in such countries as Germany or Luxembourg, but applied almost exclusively to households' mortgages in Austria, Poland and Hungary (Andre, 2015; Brown et al., 2009). Overall, private sector debt denominated in foreign currency tended to be significantly higher in the ECE countries and remained below 5 percent in Western Europe, compared to, for example, 50 percent in

[1] As FX loans in Estonia and Latvia were mainly issued in Euro, this applies to the pre-2011 circumstances (these two countries joined the Eurozone in 2011)

Bulgaria and Romania (Drometer and Oesingmann, 2015; ESRB, 2015). FX lending also seemed to be more extensive in those ECE countries which had fixed exchange regimes and pegged currencies (Backe and Zumer, 2005). Finally, currency in which loans were denominated also varied. Baltic States had the highest rates of FX lending in Euro, while such loans in Poland and Hungary were mainly denominated in Swiss Franc; at the same FX loans were practically absent in Czech Republic and Slovakia (Barrell et al., 2009; Beckmann et al., 2010).

The rapid expansion of the FX lending in the ECE region can be explained by both, supply and demand (Steiner, 2011). For example, it has been argued that this phenomenon was linked with the increased presence of the foreign banks in this region, their expertise, and their access to funding (e.g. Backe and Zumer, 2005; Beck and Brown, 2012; Bakker and Gulde, 2010; Bohle, 2017). However, studies have shown that there was no evidence of foreign banks 'pushing' for more FX loans in the ECE countries (Brown and De Haas, 2011). In addition, Swiss Franc loans in these countries were offered by both, foreign owned and domestic banks (Brown et al., 2009). Nevertheless, it is possible that some banks 'promoted' the new and 'cheaper' FX loans 'in order to get market share, despite possible risk that borrowers might default' (Steiner, 2011: 11). In fact, it was often the case that the domestic currency loans were more 'expensive', and therefore FX denominated mortgages seemed more attractive for many customers (OECD, 2010; Steiner, 2011).

Despite the overall 'promotion' of the FX loans before the financial crisis, most authors now agree that the sharp increase in these types of loans can pose a threat to the economic stability in this region (e.g. Barrell et all, 2009; Brown and De Haas, 2011). While short-term effects of the FX loans seemed to be unproblematic, it has been argued that they posed a systemic risk, including major effects on financial systems in some of the ECE countries (Chmelar, 2013). On household level, this became an issue with respect to the Swiss Franc loans' expansion, and the subsequent domestic currency depreciation (Drometer and Oesingmann, 2015). Finally, some analysts suggest that the ECE households with an FX-denominated loan were generally in a more vulnerable position compared to those with domestic-currency loans (EBRD, 2011).

4. Trust in financial institutions and financial literacy

The issue of financial trust and financial literacy on individual level have been gaining increasing attention amongst policy makers as well as amongst representatives of financial institutions. It has been perceived as crucial in 'times where increasingly complex products are easily available to a wider range of the population' (Klapper et al., 2015: 4), and in the context of increased importance of financial services for everyday lives of households in highly developed regions, such as the EU (European Commission, 2016). This has been especially the case after the economic crisis, when the 'low levels' of financial literacy and the lack of understanding of financial products became apparent (European Parliament, 2015). Some reports also emphasised the need to promote 'responsibility' in making financial decision on a household level (e.g. EESC, 2011). Financial education has thus been perceived as crucial for individuals. According to some of the literature, financial education can provide protection from financial markets which offer a wide range of products without always informing customers about the associated risk (EESC, 2016).

The following table shows the rates of financial literacy across the European Union:

[TABLE 7 HERE][2]

Financial literacy is also deemed to be important in relation to savings and investments held by households. It has been argued, for example, that the more financially educated the household is, the more likely its' members will choose a bank account with higher financial returns (Deuflhard et al., 2015). Furthermore, low income households are less likely to be 'investors' which makes them more vulnerable during the downturn (Bucher-Koenen and Ziegelmeyer, 2011).

Due to the perceived importance of financial literacy, educational programmes promoting this set of 'skills' are often offered for different societal groups, including, for example: young people and children in Austria, disadvantaged groups in Poland, or potential pension products' buyers in Sweden (Habschick et al., 2007). It has also been argued that financial education cannot be provided on a 'one-size-fits-all' basis and that needs to be tailored to national contexts (including financial systems and regulatory framework) in order to meet the need of individuals, especially those most vulnerable (OECD, 2013).

Trust also plays an important role for the interaction between households and financial institutions. As argued by some, the lack of use of financial products is not necessarily caused by the lack of access and thus so-called 'financial inclusion' can therefore be linked to cultural norms (World Bank and IBRD, 2014). The latter include trust in financial institutions. This is especially the case for the ECE region. For example, as previously mentioned, there is strong evidence that trust in the stability of the financial system results in a higher probability of holding formal savings (Beckmann and Mare, 2017). Furthermore, while customer service experience is the top reason for trusting banks in Western Europe, it is the institutional stability that ranks as the highest in ECE countries (EY, 2014). Together with financial literacy, trust also impacts potential investments in stocks (Balloch et al., 2015). The lack of trust in the local currency is also often a factor behind a preference for financial products denominated in foreign currency (Brown and Stix, 2014).

5. Conclusions

In general, most of the grey literature discussed in this paper regards the ECE households' increased engagement with financial products as a positive sign of 'catching up', and an important factor for the economic growth. However, some of the studies also examine possible negative effects of household financialisation, particularly in relation to over-indebtedness and financial burden.

In most of cases, there has been an emphasis on the East/West division within the European Union. As it has been argued in the literature, ECE countries emerged from undeveloped

[2] Data presented in this table is based on the S&P Global FinLit Survey. For the purpose of this survey, the following knowledge of the following concepts was measured; knowledge of interest rates, interest compounding, inflation, and risk diversification. For more details see Klapper et al. (2015).

financial system, with mortgage market and retail banking developing from a low base. While most of the indicators still place the ECE countries 'behind' the rest of the EU in terms the use of financial products, these markets have been developing in the ECE region at a very rapid pace. The nature of this process can be summarized by the following graph:

[FIGURE 1 HERE]

Quite interestingly, typologies and categorisations of the ECE countries are also under-theorised in comparison to the Western European counterparts. The only striking exception relates to FX lending, which seems to be particularly an Eastern European phenomenon.

Finally, there are some sub-national differences explored within the literature. These are mainly focused on structural variations and examine how different groups across the social strata engage with banks and financial products. This issue is also examined in relation to financial literacy and financial trust, which seems to be of a great importance for households in the ECE region.

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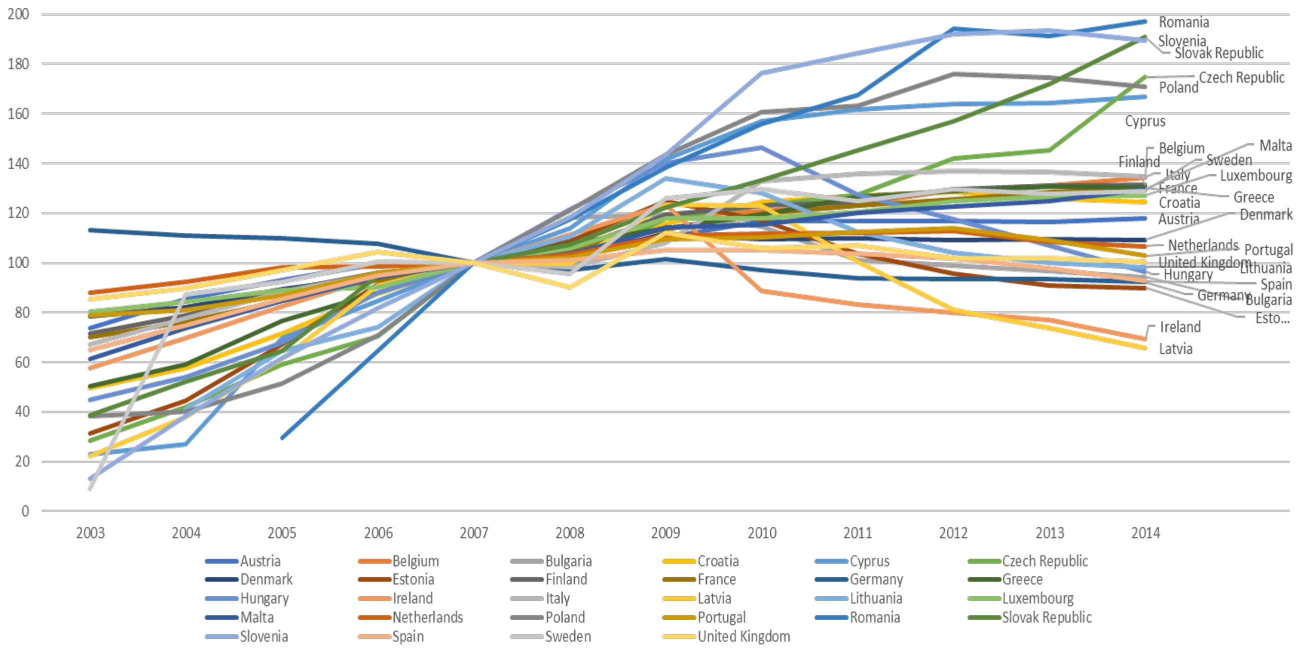
FIGURES

Fig.1. Outstanding residential loans to GDP ratio, European Union (2003-2014), Index (2007=100)



Source: EMF Hypostat, 2015 data. Author's own elaboration. https://hypo.org/app/uploads/sites/3/2017/01/Hypostat-2015-FINAL-lighter-web-version.pdf (last accessed on 29 June 2018)

TABLES

Table 1: Selected non-academic literature on households' finances

Theme and subtheme	Selected literature
General literature on household finances	Becker et al, 2014; ECB, 2006; 2013a; 2013b; 2016; 2018; EBRD, 2017; European Commission, 2011; 2018; OECD, 2017b
Savings, assets, pensions	Allianz Dresdner, 2004; Beckmann et al., 2013; Beckmann and Mare, 2017; Brandmeir et al., 2017; Brown and Stix, 2014; CESifo, 2004; Credit Suisse, 2016; Domonkos and Simonovits, 2016; Dupont, 2004; Egert, 2012; Fultz, E. 2002; Hirose, 2011a; 2011b; Holzmann and Guven, 2009; ING, 2016; Natali, 2015; OECD, 2018; Rahmanov, 2015; Revoltella and Mucci, 2004; Rocher and Stierle, 2015; Sierhej, 2008; UniCredit, 2005; UniCredit, 2011
Debt and credit	Ahearne and Wolff, 2012; Alter et al., 2018; Andre, 2015; Backe and Zumer, 2005; Baudino and Yun, 2017; Beck and Brown, 2012; Bouyon and Gagliardi, 2018; Bubbico and Freytag, 2018; Chmelar, 2013; Coricelli et al., 2006; CPEC, 2013; EBRD, 2011; European Commission, 2008; Falanga, 2015; Fondeville et al., 2010; Georgiev, 2014; Gomez-Salvador et al., 2011; IMF, 2017; Jakubik and Reininger, 2013; Kiss et al., 2006; Liu and Rosenberg, 2013; Martin, 2016; Melches, 2017; Merikull, 2012; Main et al., 2015; OECD, 2017c; PWC, 2017; Revoltella and Mucci, 2005; Sainsot, 2015; Siermienska, 2014; Skarica, 2013; UniCredit, 2011
Mortgages and housing markets	Bohle, 2017; Bouyon, 2015; Bouyon, 2017; Deloitte, 2016a; Dubel and Rothemund, 2011; ECB, 2009; Ehrmann and Ziegelmeyer, 2014; EMF Hypostat, 2017; 2019; Figari et al, 2017; Georgarakow et al., 2010; Gerlah-Kristen and Lyons, 2015; Huidumac Petrescu and Stan, 2017; Navaretti et al, 2017; OECD, 2016a; Palacin and Shelburne, 2005; Pittini et al., 2017; Voineal, 2017; Walko, 2008; Ward and Fondeville, 2009
Over-indebtedness and financial burden	Andre, 2015; Betti et al., 2001; CPEC, 2013; D'Allessio and Iezzi, 2013; ECB, 2016; 2020; European Commission, 2008; Eurofound, 2020; Falanga, 2015; Fondeville et al., 2010; OECD, 2018; Siermienska, 2014
FX loans	Barrell et al., 2009; Brown et al., 2009; Brown and De Haas, 2011; EBRD, 2011; OECD, 2010; Steiner, 2011; Verner and Goyngyosi, 2018
Financial literacy, education and trust in financial institutions	Atkinson and Messy, 2012; Beckmann and Mare, 2017; Calvet et al. 2009; Deloitte, 2016b; EBRD, 2017; European Commission, 2016; EESC, 2011; 2016; European Parliament, 2015; EY, 2014; Habschick et al. 2007; Klapper et al., 2015; OECD, 2013; 2016b; 2017a

Table 2: Household savings as a percentage of GDP: CEE countries 1999-2013

	1999	2001	2003	2005	2007	2009	2011	2013
Bulgaria	2.04	5.18	3.23	6.1	7.27	3.68	4.91	3.59
Czech Republic	0.64	3.42	1.29	1.68	2.65	3.05	1.44	0.77
Estonia	3.27	3.52	1.53	5.02	2.83	0.63	3.08	2.1
Hungary	3.14	3.51	4.17	3.21	2.35	2.38	2.26	-2.37
Latvia	0.53	2.32	2.26	4.59	2.04	-0.07	0.13	0.71
Lithuania	2.26	2.78	1.94	5.82	5.17	1.6	-0.03	0.83
Poland	3.27	2.89	-0.35	1.65	2.09	3.76	3.66	2.24
Romania	3.33	3.8	1.7	2.33	6.26	2.88	1.55	0.95
Slovakia	3.33	3.1	0.65	0.09	3.31	-0.79	2.21	1.14
Slovenia	3.4	9.24	2.63	2.99	3.2	1.49	0.6	-0.84

Source: Rahmanov (2015, p.1-2)

Table 3: Debt to income ratio, European Union, 2005-2016

	2005	2007	2009	2011	2013	2015	2016
Euro area (19 countries)	87.0	93.5	96.5	97.3	95.5	93.6	93.3
Bulgaria	25.0	38.2	43.4	39.3	37.8	35.0	32.7
Croatia	47.6	60.3	60.3	61.5	:	:	:
Czech Republic	30.8	44.3	50.9	54.4	57.2	57.1	59.2
Estonia	59.5	87.2	93.0	81.3	70.7	68.6	69.7
Hungary	38.4	51.3	64.1	64.5	48.6	39.4	:
Latvia	45.1	72.3	71.8	68.6	49.9	39.9	37.6
Lithuania	20.4	43.5	45.4	39.4	34.9	35.3	35.6
Poland	22.6	35.7	48.5	56.3	56.1	60.3	59.9
Slovenia	29.6	40.6	44.6	46.9	46.8	45.1	44.6
Slovakia	20.3	30.2	36.4	43.3	49.6	57.9	63.1
Belgium	72.6	78.9	82.1	91.9	94.7	102.1	103.3
Denmark	230.2	252.7	269.8	265.5	253.8	246.0	244.0
Germany	98.0	92.4	89.4	85.9	83.8	82.6	82.7
Ireland	171.5	203.5	212.2	207.5	189.6	159.9	147.1
Spain	110.4	134.0	129.7	126.2	119.4	106.6	102.7
France	64.7	72.2	78.6	83.3	86.1	88.1	89.5
Italy	47.3	55.5	60.6	63.5	63.3	61.5	61.1
Cyprus	129.7	141.9	160.9	174.5	195.5	196.6	:
Luxembourg	102.1	124.8	133.1	143.9	146.9	159.7	164.0
Netherlands	200.7	216.2	223.7	228.8	218.6	215.8	212.9
Austria	81.0	82.2	83.6	86.5	83.3	84.7	84.3
Portugal	112.7	124.7	127.6	127.2	121.6	111.0	104.3
Finland	85.9	97.3	101.1	104.9	106.9	112.4	114.4
Sweden	121.8	129.0	140.1	142.7	145.6	153.0	155.9
United Kingdom	123.1	134.0	133.7	128.0	124.9	124.0	126.4

Source: Eurostat, 2018; data [tec00104] – https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ilc_lvho02&lang=en (last accessed on 29 April 2018)

Table 4: Tenure status, European Union, 2016

	Owner with mortgage or loan	Owner, no outstanding mortgage or housing loan	Tenant, rent at market price	Tenant, rent at reduced price or free
Euro area (18 countries)	28.0	38.1	23.5	10.4
European Union (current composition)	26.6	42.6	19.9	10.8
Belgium	41.1	30.2	20.0	8.7
Bulgaria	2.6	79.7	2.9	14.8
Croatia	5.8	84.3	1.6	8.4
Czech Republic	19.4	58.8	16.0	5.8
Estonia	19.5	62.0	4.1	14.5
Hungary	16.3	70.0	4.3	9.3
Latvia	9.8	71.1	8.7	10.4
Lithuania	10.2	80.1	1.3	8.3
Poland	11.6	71.8	4.5	12.1
Slovenia	10.6	64.5	5.3	19.6
Slovakia	11.8	77.8	8.9	1.6
Belgium	41.1	30.2	20.0	8.7
Denmark	47.7	14.4	37.9	0.1
Germany	26.2	25.5	39.8	8.4
Ireland	32.9	36.8	13.2	17.1
Spain	30.9	46.9	13.8	8.4
France	31.0	33.8	19.2	16.0
Italy	15.9	56.3	16.8	11.0
Cyprus	20.4	52.0	13.4	14.1
Luxembourg	43.3	30.5	21.5	4.6
Netherlands	61.0	8.0	30.3	0.7
Austria	25.2	29.8	29.7	15.3
Portugal	36.7	38.5	12.9	11.8
Finland	42.0	29.5	13.0	15.4
Sweden	54.8	10.4	34.0	0.8
United Kingdom	35.5	27.9	18.0	18.6

Source: Eurostat, 2018, data: EU-SILC survey [ilc_lvho02] – URL: http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ilc_lvho02&lang=en (last accessed 15 June 2020)

Table 5: Core elements of a common European operational definition of over-indebtedness

Core common element	Definition
Household	Defined as *small group of persons (or one person) who share the same living accommodation, who pool some, or all, of their income and wealth* (derived from the European System of Accounts Methodology ESA 95)
Contracted financial commitments	Includes all financial commitments, such as: mortgage and consumer credit commitments, utility and telephone bills, and recurring rent payments. Informal commitments within families are excluded
Payment capacity	Defined as *capacity to meet the expenses associated with the contracted financial commitments.* In such case, over-indebtedness implies *inability to meet recurring expenses.*
Structural basis	Related to time dimension, as it implies that the definition must *capture persistent and ongoing financial problems and exclude one-off occurrences that arise due to forgetfulness, for instance*
Standard of living	*The household must be unable to meet contracted commitments without reducing its minimum standard of living expenses*
Illiquidity	*The household is unable to remedy the situation by recourse to (financial and non-financial) assets and other financial resources such as credit*

Source: European Commission, 2008 (p. 37)

Table 6: Selected national definitions of over-indebtedness

Country	Relevant institution/legislation	Definition used
Austria	Federal Ministry for Social Affairs and Consumer Protection	'Individuals or households can be regarded as over-indebted if after deduction of current cost of living expenses like food, clothes, rent, social and cultural needs/requirements, they are not able to discharge all payment obligations
France	*Commissions du Suredettement (Over-indebdness Commissions)*	"Over-indebtedness of individuals is characterized by the manifest inability of the debtor, who is acting in good faith, to face up to the whole of his/her non-professional debts due or accrued"
Germany	Federal Family Ministry (2004)	"a private household is over-indebted if its income over an extended period is not sufficient for servicing debt on time (after deducting costs of living expenses) despite a reduction of the standard of living"
Ireland	Money Advice and Budgeting Service (MABS)	"Households are over-indebted if they are persistently unable to meet from their income reasonable living expenses and deferred payments as they fall due"
Italy	Law n.3 2012 as amended by d.l. n.179 2012 and converted by Law n.221 2012.	Over-indebtedness is: "a situation of persistent imbalance between obligations and assets that can be promptly liquidated to meet them, and the definitive inability of the obligor to meet regularly its obligations"
United Kingdom	Citizens Advice (definition used implicitly by the government)	Household is over-indebted if they are "unable to pay their current credit repayments and other commitments without reducing other expenditure below normal minimum levels"

Source: European Commission, 2008; CPEC, 2013

Table 7: Rates of Financial Literacy in the European Union, 2014

	Adults who are financially literate (%)
Bulgaria	35
Croatia	44
Czech Republic	58
Estonia	54
Hungary	54
Latvia	48
Lithuania	39
Poland	42
Romania	22
Slovak Republic	48
Slovenia	44
Austria	53
Belgium	55
Cyprus	35
Denmark	71
Finland	63
France	52
Germany	66
Greece	45
Ireland	55
Italy	37
Luxembourg	53
Malta	44
Netherlands	66
Portugal	26
Spain	49
Sweden	71

Source: Klapper et al., 2015

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