# HFCS-CESEE Workshop: How to use survey data for analyzing financial stability in CESEE countries

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The HFCS-CESEE Workshop hosted by the Oesterreichische Nationalbank (OeNB) on January 26 and 27, 2017, concentrated on the question "How to use survey data for analyzing financial stability in CESEE countries." During the workshop various possibilities of using Household Finance and Consumption Survey (HFCS) and similar survey data to analyze financial stability in Central, Eastern and Southeastern European (CESEE) countries were examined.

The *keynote address* delivered by Robert Stehrer (Director, The Vienna Institute for International Economics) dealt with household, wealth and income inequality. Stehrer pointed to the fact that households contribute two-thirds to GDP growth in the euro area. He proceeded with shedding light on the nexus between household wealth and consumption, elaborating on existing literature and theories. The last part of the keynote address focused on inequality. Overall, Stehrer concluded that when comparing CESEE countries with the euro area the main differences are the levels of household wealth. However, as he stated, there is less inequality in CESEE countries than in euro area countries. Moreover, he showed that wealth in Europe is much more unequally distributed than income. In the discussion that ensued participants raised the question whether real estate is the main source of wealth and whether the HFCS can capture wealth correctly.

Session 1 was dedicated to *household indebtedness*. Three presenters gave insights into the current situation in the euro area and in their home countries. Juha Honkkila (European Central Bank) gave an overview of indebtedness in the euro area from 2010 to 2014 based on HFCS data. One of his main statements was that the debt service burden in the euro area has decreased since 2010, mainly because of a decline in interest rates. Tamás Briglevics (Magyar Nemzeti Bank) presented information on the mortgage landscape in Hungary. He showed where data from the Hungarian credit registry and HFCS data match and where they differ. As an aside, he also stated that due to the conversion of foreign exchange loans in Hungary the outstanding volume of mortgages has been reduced by 10%. The last presenter in the first session was Tairi Rõõm (Eesti Pank). She offered insights into the financial situation of Estonian households and showed evidence from stress tests performed with HFCS data. Key findings are that bank profitability in Estonia is strongly affected by real estate price shocks, while the risks to financial stability from the household sector are seen as modest overall, based on Eesti Pank's analysis. As session discussant, Nicolás Albacete (OeNB) commented on the three contributions in session 1.

Session 2 dealt with *macroprudential policy* and its evaluation on the basis of microdata. Luminita Tatarici (Banca Națională a României) discussed the long-standing experience of the Romanian central bank in implementing loan-to-value and debt service-to-income measures. She showed how efficient these measures have been in ensuring that both debtors and creditors are able to cope with adverse shocks and pointed out that self-regulation by banks does not lead to the necessary risk-bearing capacities. Michael Sigmund (OeNB) discussed the paper after the presentation. Then, Piotr Banbula (Narodowy Bank Polski) examined the effectiveness of debt service-to-income measures in a benefit versus cost analysis. Based on simulations he assessed the desirability of certain debt service-to-income thresholds and showed that they can be an effective tool for macroprudential policy. However, it is crucial to bear in mind that, on the other hand, they also restrict financially sound households' credit opportunities. Esther Segalla (OeNB) served as the paper discussant. Subsequently, Gaston Giordana (Banque centrale du Luxembourg) presented a paper on the short-run side effects of macroprudential policy regulating mortgages. Using a welfare dominance approach he explained that despite the positive long-term effects there can be substantial costs in the short run. These direct and indirect short-run costs may prevent appropriate policies that would have positive long-term effects from being implemented. Sebastian Beer (OeNB) concluded the first day with a discussion of this paper.

*Session 3* addressed issues of *financial vulnerability*. Nathaniel Young (European Bank for Reconstruction and Development – EBRD) opened the session with a presentation on household loan decisions and local banking markets, which was the result of joint work with colleagues from the OeNB. The analysis was based on OeNB Euro Survey and EBRD BEPS II data. Main preliminary findings are that banks select households with solid, easily observable attributes for lending. This may cause other households to become discouraged and to decide not to apply for a loan. Furthermore, foreign banks, which perform less relationship lending, may be particularly selective. However, one workshop participant pointed out that it might be worth differentiating between different foreign banks as they might have very different strategies. Next, Nadežda Siņenko and Ludmila Fadejeva (both Latvijas Banka) presented a financial stability analysis based on two surveys, a national survey on indebted households as well as the Eurosystem Household Finance and Consumption Survey, and compared their results to results obtained on the basis of credit register data. They modeled different economic shocks and obtained effects generalized to the aggregate loan portfolio of Latvian households. Even though financial fragility has decreased in recent years there is still a considerable share of vulnerable households due to recent crisis developments. The two presentations were discussed by Teresa Messner (OeNB). Then, Mate Rosan (Hrvatska narodna banka) presented a three-step approach toward measuring households' financial distress (cluster analysis, binary dependent variable model and stress testing). Afterwards, Merike Kukk (Eesti Pank) presented her paper on "What are the triggers for arrears on debt?" based on a comprehensive panel dataset. One of her main findings is that income decline is an important trigger for arrears on debt (ability-to-pay theory). However, she also finds that the debt service ratio is equally important. The probability of arrears is lowest for loans granted in years of tight credit conditions and high house prices. Mariya Hake (OeNB) acted as session discussant for the latter two papers.

*Session 4* emphasized the importance of *financial literacy* for financial stability and highlighted the role of new financial technologies in this context. Also the OeNB's financial literacy programs were discussed. Maya Silgoner (OeNB) presented information on financial literacy gaps in the Austrian population based on an extended version of the recent OECD financial literacy toolkit. She showed how gender gaps in knowledge are mitigated by different behavioral patterns, and used an instrumental variable approach to establish the causal channel between financial knowledge and financial behavior. Andrej Cupák (Národná banka

Slovenska) presented similar results for Slovakia, derived from a financial literacy module in the Slovakian HFCS. He highlighted the connection between financial literacy and saving for retirement in Slovakia and also used a novel instrumental variable approach based on paradata from the survey's interviewers to establish a causal relationship. As in the case of Austria and in line with the literature, the causal effect increases significantly when using an instrumental variable approach, which points to a severe underestimation for classical control-based regression settings. Martin Taborsky (OeNB) concluded the second day of the workshop by discussing the two presentations and offering more insights into the OeNB's financial literacy program.

The presentations and the workshop program are available at:
https://www.oenb.at/en/Calendar/2017/2017-01-26-hfcs-cesee-workshop.html.