



International Comparative Household Finance

Presentation at NIPFP

Tarun Ramadorai

April 2016



- ▶ Traditional finance: corporate decisions and securities markets.
- ▶ New area: **household finance**.

- ▶ Traditional finance: corporate decisions and securities markets.
- ▶ New area: **household finance**.
 - ▶ Home loans, equity trading, retirement savings, consumer credit.
 - ▶ Formal financial markets. Life after financial inclusion.
 - ▶ Common errors, policy, institutions.
 - ▶ Big data, global perspective.

- ▶ Traditional finance: corporate decisions and securities markets.
- ▶ New area: **household finance**.
 - ▶ Home loans, equity trading, retirement savings, consumer credit.
 - ▶ Formal financial markets. Life after financial inclusion.
 - ▶ Common errors, policy, institutions.
 - ▶ Big data, global perspective.
- ▶ A new subfield of this new field: International Comparative Household Finance.
 - ▶ See <http://www.household-finance.net>.

International Comparative HHF

Raison d'être



- ▶ Best data available anywhere, presuming household behaviour doesn't differ greatly.
 - ▶ From areas as different as Scandinavia and India.

International Comparative HHF

Raison d'être



- ▶ Best data available anywhere, presuming household behaviour doesn't differ greatly.
 - ▶ From areas as different as Scandinavia and India.
- ▶ Institutional differences permit better estimation of certain effects.
 - ▶ Refinancing in Denmark without constraints (Andersen, Campbell, Nielsen, Ramadorai, 2015).

International Comparative HHF

Raison d'être



- ▶ Best data available anywhere, presuming household behaviour doesn't differ greatly.
 - ▶ From areas as different as Scandinavia and India.
- ▶ Institutional differences permit better estimation of certain effects.
 - ▶ Refinancing in Denmark without constraints (Andersen, Campbell, Nielsen, Ramadorai, 2015).
- ▶ Natural experiments or different histories.
 - ▶ Indian IPO lotteries (Anagol, Balasubramaniam, Ramadorai, 2015, 2016).

International Comparative HHF

Raison d'être



- ▶ Best data available anywhere, presuming household behaviour doesn't differ greatly.
 - ▶ From areas as different as Scandinavia and India.
- ▶ Institutional differences permit better estimation of certain effects.
 - ▶ Refinancing in Denmark without constraints (Andersen, Campbell, Nielsen, Ramadorai, 2015).
- ▶ Natural experiments or different histories.
 - ▶ Indian IPO lotteries (Anagol, Balasubramaniam, Ramadorai, 2015, 2016).
- ▶ Effects of globalization on households.
 - ▶ London housing (Badarinza and Ramadorai, 2015).

- ▶ Best data available anywhere, presuming household behaviour doesn't differ greatly.
 - ▶ From areas as different as Scandinavia and India.
- ▶ Institutional differences permit better estimation of certain effects.
 - ▶ Refinancing in Denmark without constraints (Andersen, Campbell, Nielsen, Ramadorai, 2015).
- ▶ Natural experiments or different histories.
 - ▶ Indian IPO lotteries (Anagol, Balasubramaniam, Ramadorai, 2015, 2016).
- ▶ Effects of globalization on households.
 - ▶ London housing (Badarinza and Ramadorai, 2015).
- ▶ Explicitly comparative motivations:
 - ▶ Differences across countries might yield insights about economic drivers.
 - ▶ Culture, trust, or just institutional differences?

Comparing HH Balance Sheets



- ▶ An important first step is to do a systematic comparison of household balance sheets across countries.
 - ▶ Summarize variation in assets as well as liabilities.
 - ▶ Reveals many similarities, but also notable cross-country differences.
- ▶ Use household surveys which are broadly comparable from a wide range of countries (SCF, Euro HHF, Canadian SFS etc.)
- ▶ For these and other statistics and broader analysis, see Badarinza, Campbell, and Ramadorai (2016, *Annual Review of Economics*).

Comparing HH Balance Sheets

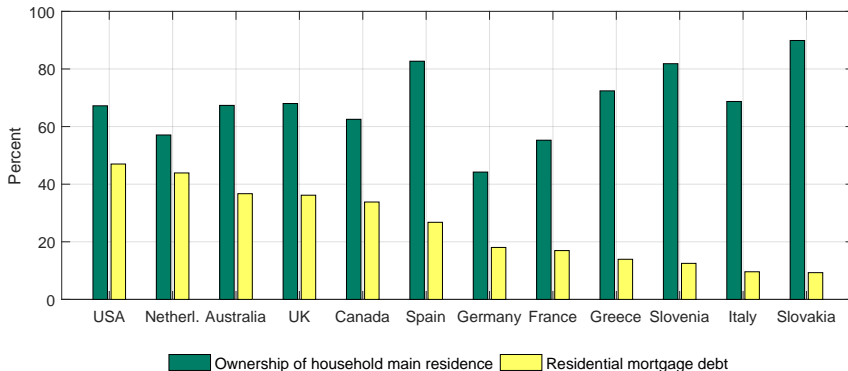


- ▶ An important first step is to do a systematic comparison of household balance sheets across countries.
 - ▶ Summarize variation in assets as well as liabilities.
 - ▶ Reveals many similarities, but also notable cross-country differences.
- ▶ Use household surveys which are broadly comparable from a wide range of countries (SCF, Euro HHF, Canadian SFS etc.)
- ▶ For these and other statistics and broader analysis, see Badarinza, Campbell, and Ramadorai (2016, *Annual Review of Economics*).
- ▶ Begin with summary statistics of selected household liabilities, then briefly move to assets.
- ▶ Following these broad summary statistics, a few observations about open and interesting directions in the literature.

Household Liabilities

Mortgages vs Home Ownership

Home ownership rate and mortgage indebtedness



Household Liabilities

Mortgages vs Home Ownership

Residential real estate holdings and mortgage debt



Household Liabilities

Mortgages vs Home Ownership



- ▶ On the asset side, homeownership rates are generally above 50%.
 - ▶ Exception is Germany, where renting is famously common.
 - ▶ What explains this preference for owning vs renting across countries?

Household Liabilities

Mortgages vs Home Ownership



- ▶ On the asset side, homeownership rates are generally above 50%.
 - ▶ Exception is Germany, where renting is famously common.
 - ▶ What explains this preference for owning vs renting across countries?
- ▶ Substantial cross-country variation in indebtedness, as seen in mortgage debt participation.
 - ▶ Perhaps surprisingly, Southern Europe generally very low on HH indebtedness.
 - ▶ Southern Europe appears to have higher household housing (and other) net wealth than Germany.
 - ▶ A reflection of financial underdevelopment (cash vs mortgage purchases)?
 - ▶ National and household wealth, public vs. private assets, and bequest motives.

Household Assets

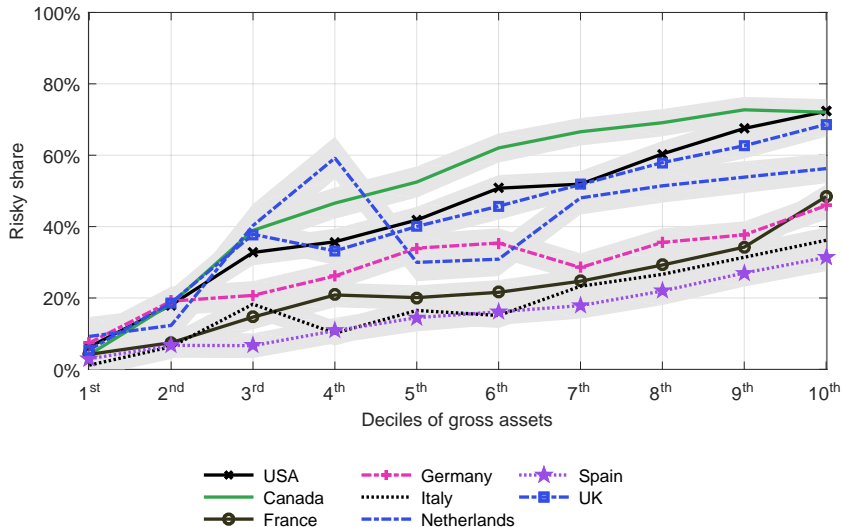
Deposits and Risky Asset Participation Rates

Household participation in financial assets



Household Assets

Risky Asset Participation Rates by Wealth



- ▶ Deposits are by far the most prevalent form of formal financial participation.
 - ▶ Primary focus of emerging market efforts
 - ▶ e.g., Indian PM Jan Dhan Yojana, with target of 75 million enrolments, 15 million on first day.
 - ▶ Reporting issues can bedevil surveys (for e.g., Greece).
Administrative data is the gold standard.
 - ▶ (Artavanis, et al., 2015).

- ▶ Deposits are by far the most prevalent form of formal financial participation.
 - ▶ Primary focus of emerging market efforts
 - ▶ e.g., Indian PM Jan Dhan Yojana, with target of 75 million enrolments, 15 million on first day.
 - ▶ Reporting issues can bedevil surveys (for e.g., Greece).
Administrative data is the gold standard.
 - ▶ (Artavanis, et al., 2015).
- ▶ Risky assets:
 - ▶ Low overall participation rates on average.
 - ▶ Reflects differences based on income, but visible cross-country differences, even controlling for income.

- ▶ A number of interesting patterns have emerged in the statistics we have just seen.
- ▶ To make more progress in international comparative household finance, we need to dig deeper.
- ▶ Explore the sub-components of household balance sheets.
 - ▶ Mortgages
 - ▶ Consumer credit
 - ▶ Risky assets
 - ▶ Pensions and retirement savings
 - ▶ Insurance
- ▶ Survey in Badarinz, Campbell, and Ramadorai (2016) outlines the current state of the international literature in these areas.

- ▶ A more “micro” direction is to ask how common behavioral patterns manifest themselves in different countries:
 - ▶ Inertia.
 - ▶ Inattention.
 - ▶ Loss Aversion.
 - ▶ Overconfidence.
 - ▶ Reinforcement Learning.
- ▶ Common determinants in all countries, or correlated with culture, trust, institutions, or governance structures?

Conclusion and Future Directions



- ▶ International comparative household finance – a growing sub-field of a fast-growing field of finance.
- ▶ Broad patterns emerge from household balance sheets, highlighting differences and similarities across countries.
- ▶ Work on understanding how household-level choices differ across countries is extremely useful - and will eventually need to connect with the macro patterns into which they aggregate.
- ▶ More work on Indian household savings coming in the India Policy Forum 2016 (Badarinza, Balasubramaniam, Ramadorai).