

“Households’ assets and debts should be listed in a register”

DN Debatt November 9 2022

How vulnerable are Swedish households, and how has the amortization requirement had an impact? These are questions we currently do not have good enough answers for, which makes it difficult to pursue a well-balanced monetary policy. Today, an inquiry is submitting a proposal to the Minister of Finance for a new register of Swedish households’ assets and debts, writes Roine Vestman, an expert in the inquiry.

Sweden has been producing world-leading statistics for a long time using data in registers about households and businesses. This data contains, among other things, information about Swedes’ health, business activities and socio-economic conditions. These registers are very useful because they help the government design appropriate policies in a number of areas.

Unfortunately, since 2007, the availability of statistics in one important area has progressed in the wrong direction: there is limited information on households’ assets and debts. Ironically, during this period of time this type of information has become increasingly important. Today, the inquiry SOU 2022:51 is submitting to the Minister of Finance a proposal for a new register with data on individual households’ assets and debts.

The inquiry proposes that Statistics Sweden be given the task of constructing and maintaining the new register. Financial institutions such as banks and fund management companies would be obligated to report certain information to Statistics Sweden, not unlike the obligation they had up until 2007 when Sweden eliminated its wealth tax to report information to the Swedish Tax Agency.

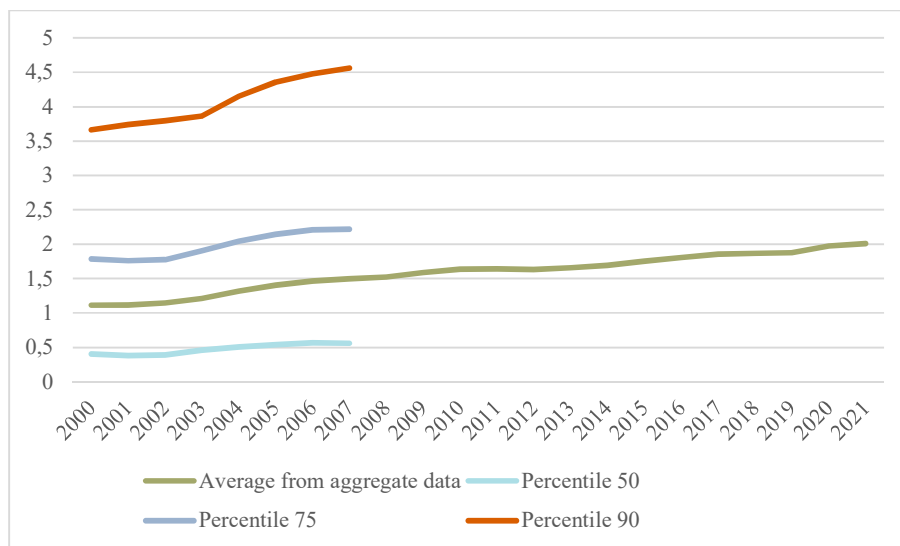
The inquiry proposes that the data in the register be anonymized and access to it highly restricted, limited primarily to economic policy analysis by the Riksbank and Finansinspektionen and to researchers following a customary ethical and confidentiality review. The data in the register will not have the precision necessary to be used for taxation, and the inquiry emphasizes in its proposal that this should not be allowed, either. In reality, it would be unfortunate if the proposal were to be associated with the reintroduction of a wealth tax because the register could provide considerable social benefit – it is a key component of the financial infrastructure. Norway and Denmark have maintained corresponding registers of households’ debts and assets for a long time. Denmark also abolished its wealth tax, in 1997, but kept the register. In both countries, central banks and researchers use the register.

The benefit of a Swedish register can be illustrated through three highly relevant and much-debated economic policy questions:

- How vulnerable have households become as their indebtedness has increased, and how can this affect the stability of the financial system?
- What have been the consequences – intended and unintended -- of Finansinspektionen’s amortization requirements?
- Should Sweden introduce a first-time homebuyer loan program, and if yes, which households should be eligible?

Aggregate household assets and debt have been reported for a long time in Statistics Sweden's Financial Accounts. This data is sometimes used to assess both financial stability and the impact of monetary policy. However, our calculations illustrate just how inadequate this data is and why a register is needed.

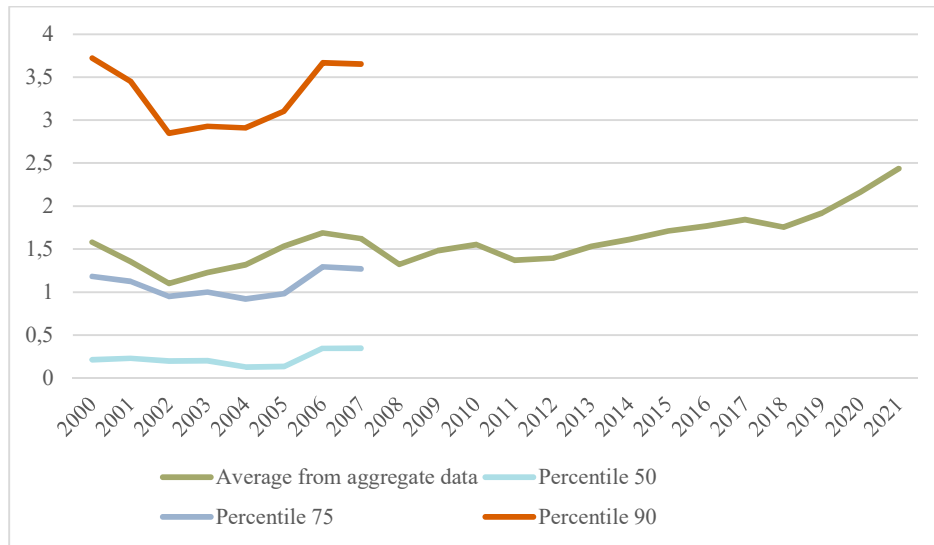
The first graph shows that the household debt-to-income ratio, i.e., household debt divided by disposable annual income, in fact differs greatly depending on the household group being studied. During the period 2000–2021, the average debt-to-income ratio increased from 1.11 to 2.01. However, the cross-sectional distribution in the debt-to-income ratio for specific groups of the population is just as important as the average for most issues related to economic policy.



Most people realize that households’ debt-to-income ratios vary a lot – the ratio is influenced by where and how someone lives and their age. For the period 2000–2007, it is possible to use detailed wealth data from Statistics Sweden, similar to what a new register would contain, to calculate the debt-to-income ratio for each individual household. For this short time period, we see that the debt-to-income ratios of the 25 percent most indebted households was increasing faster than the average.

Such changes in the cross-sectional distribution have an impact on how the economy functions; for example, how the Riksbank’s increases in the policy interest rate affect different households. After 2007, however, we know very little about how the debt-to-income ratios have continued to develop for individual households, which makes it more difficult to pursue a well-balanced monetary policy.

The second graph shows the corresponding development of household liquid assets (financial assets excluding pension savings and housing) divided by disposable annual income. It is a good measure of the household buffer to cope with unforeseen events.



The graph shows that this ratio, when based on the average from aggregate data, does not accurately reflect the situation of most households. Between 2000 and 2007, 75 percent of households had a smaller savings buffer than the average suggests. Half of all households have a savings buffer that is less than four months of disposable income (in other words, a ratio of less than 0.33).

Since there is no register data after 2007, we know very little about how these savings buffers have developed for different types of households and how many households today have a very small buffer. We also do not know whether the amortization requirements have crowded out buffer saving of this kind. Nor do we know how many first-time home buyers are in need of a government starter loan, which means there is a risk that the accuracy would be low. Other current issues, such as the most accurate design of household support for increased electricity prices and the review of the guarantee pension, can also be added this list.

I encourage the Government and all parties in the Riksdag to thoroughly familiarize themselves with the inquiry and not to view it as relating to the taxation of wealth. We would all benefit from this registry.