Working Party on Financial Statistics

Household Wealth in Selected OECD Countries from 1980 to 2011: what do the data tell us?

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This document has been prepared by Riccardo De Bonis (Bank of Italy), Daniele Fano (University of Rome Tor Vergata) and Teresa Sbano (Pioneer Investments) and will be presented under item 5 of the draft agenda

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Household Wealth in Selected OECD Countries from 1980 to 2011: what do the data tell us?

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Agenda

- The new interest in financial wealth time series

- Main results
  - Aggregate household wealth across countries
  - How can we explain differences?
  - Composition
  - Convergence
  - Debt

- Concluding remarks: economic implications
The new interest in financial time-series

- Understanding the long-term causes and consequences of the financial crisis
- Addressing households’ life-cycle challenges
- Assessing the impact of financial innovation, savings rates, price effects and other factors
Hurdles

- Discontinuities in time series due to the introduction of SNA 1993
- Decline of interest for Financial Accounts in the “great moderation” era

Our paper examines Eight Oecd Countries and bridges the gap for households
Looking ahead, a brighter future

- Oecd now systematically provides series since 1995

- While SNA 2008 imply some typical time-series discontinuity issues (more detailed item breakdowns and some re-allocations), these should however have a minor impact, especially if addressed at the moment of implementation.

- The longer the time series available, the more relevant the analytical results.
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Six distinct periods in aggregate household wealth across countries
How can we explain differences in levels across countries?

Four main and partly interrelated factors (see also last slide):

- participation to financial markets,
- social security systems,
- substitution effects between real and financial wealth
- financial flows effects
Per capita rankings may differ from financial assets to GDP rankings!

Italy vs France: the recent differentials in GDP growth rates have had an impact.
Composition: structures and trends

- USA
- Canada
- France
- Germany
- Italy
- UK
- Spain
- Japan

Deposits
Bonds
Shares and other equity
Insurance and Pension funds
Sigma-convergence measures whether countries tend to become more similar in terms of deviation from the benchmark over the time.
• A break point in the early Nineties: a moment of acceleration in financial liberalization
• A second break point after 2000: burst of the dot-com bubble and the Euro
• Apparent divergence after 2008 does not mark a break point
N.B. We have used a Chow test (F statistic at the 5% level of significance)
Debt: Spain, UK, USA excesses; German and Japanese restraint; France and Italy still moderate
Financial Net Worth relative to GDP: Japan and the US at the top, followed by the UK, Italy and Canada.
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Some conclusions

- The **difference between market-based and bank-based financial systems** remains, though **convergence** across countries has occurred.
- **Life insurance and pension funds** have had a consistent growth in all the countries.
- The role of **deposits and traditional banking** has continued to decline up to the financial crisis but without convergence across countries.
- The **explosion of household debt** before the crisis has not affected all countries and has come to a stop.
Further scope for long-run and broader enquiries

- The period we have examined (31 years) may appear long (certainly enough for statistically significant analyses), but also too short (a lot of important facts have occurred in the immediate post ww2 period, Raymond Goldsmith tried to go back as far as 1688).

- In the long run, financial wealth is linked to the accumulation of saving and is influenced by asset price effects (capital gains and losses, the more so as the stock of wealth increases).

- Total net worth (including real wealth and net of debt) is an important and more complete and informative indicator.

Sufficiently long time-series and full-scope statistics are therefore key to sound economic analysis!