

New indicators on over-indebtedness in Switzerland

Martina Guggisberg, Stephan Häni, Swiss Federal
Statistical Office (FSO)

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Indicators on over-indebtedness

- National Monitoring on Poverty: comprehensive information on poverty in Switzerland
 - SILC standard indicators on presence of debt and arrears (module)
 - Demand for new indicators on over-indebtedness
- Over-indebtedness means that households have to reduce their standard of living in order to meet their debt obligations
- **Objective indicators** inspired by OECD Wealth Distribution Database ([Balestra & Tonkin, 2018](#)):
 - Share of population with a debt-to-income ratio > 3
 - Share of population with a debt-to-asset ratio $> 75\%$
- **Subjective indicator** based on standard EU-SILC question on debt burden:
 - Share of total population declaring that debt is a heavy burden
- Disaggregation by income quintiles and poverty status (national definition)



Data collection

- No comprehensive data available on the monetary value of wealth and debt in Switzerland (no participation in HFCS and no register or tax data)
- 2020 and 2022: experimental CH-SILC module collecting monetary value of household wealth and debt in addition to EU-SILC module on wealth and over-indebtedness
- Questions on monetary value of debt are asked after detailed questions on the presence/absence of different types of debt:
 - Total amount of mortgage(s) on main residence
 - Total amount of mortgage(s) excluding main residence
 - Estimation of total amount of household debts excluding mortgages
 - Estimation of total amount of payment arrears of the household
- Swiss speciality: monetary value and debt burden are asked on household level, but presence of debt is asked in individual questionnaire

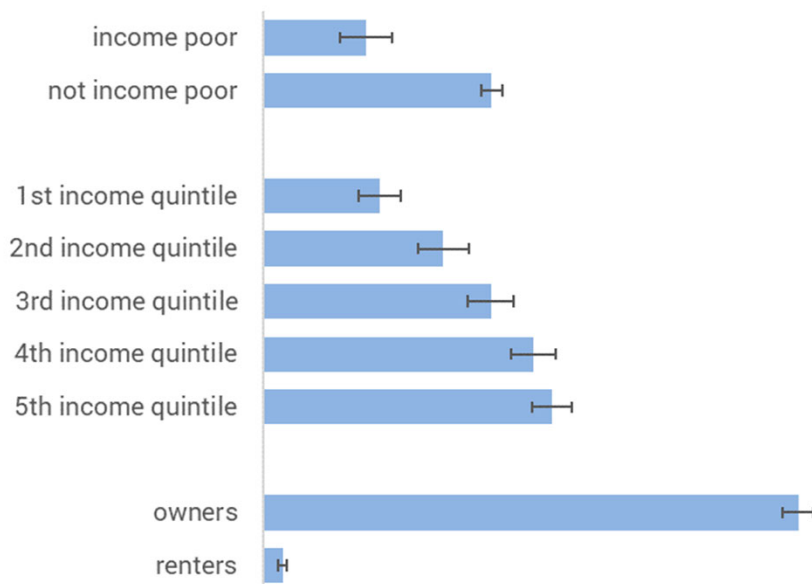


Data editing and imputation

- Plausibilisation of values of debt with individual information on presence of debt, information on types of debt, reasons for taking up debts, debt burden, etc.
- Imputation with Random Forest
- Challenges:
 1. Individual and household information are not always consistent
→ prioritisation of individual information
 2. More missing values than donors for monetary value of payment arrears
→ monetary value of arrears is not considered in objective indicators
→ data collection must be reassessed in the future
 3. Debt burden: large differences in answering behaviour between years with module on over-indebtedness and years without
→ only module years are considered
- No analyses on total amount of debt, debt distribution etc.

Debt-to-income ratio

debt-to-income ratio > 3, including mortgage

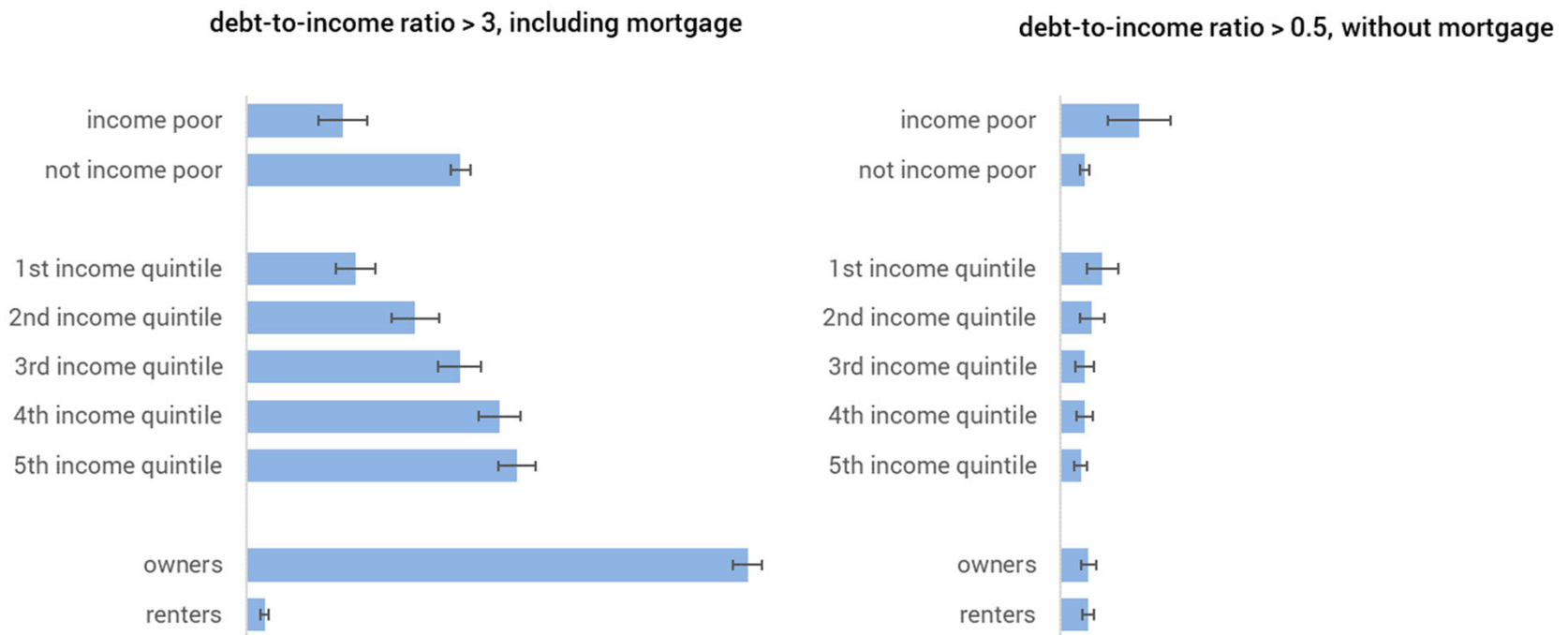


- Debt-to-income ratio is higher for high income households
 - Results primarily reflect high property prices and high mortgages in Switzerland
 - Indicator refers more to future risks than to current debt problems
- supplemental measure needed

Note: Ratio of household debt to yearly disposable household income unpublished results, hence no scale is given

Source: FSO, SILC 2022, experimental data

Debt-to-income ratio (II)

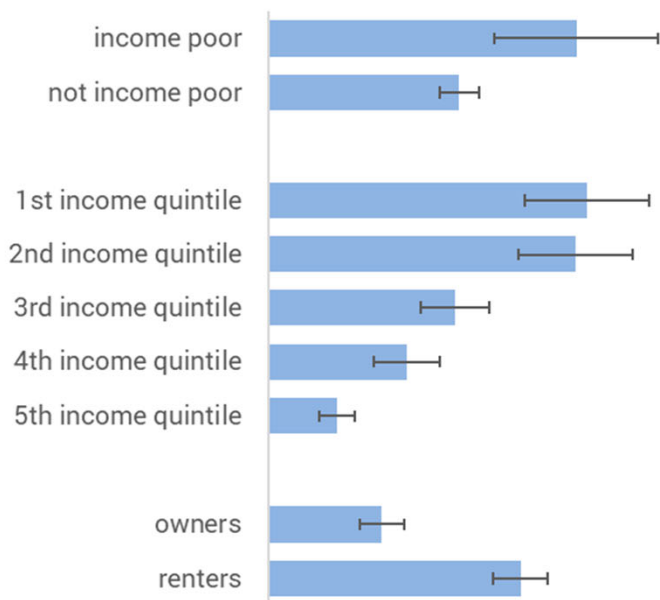


Note: Ratio of household debt to yearly disposable household income unpublished results, hence no scale is given

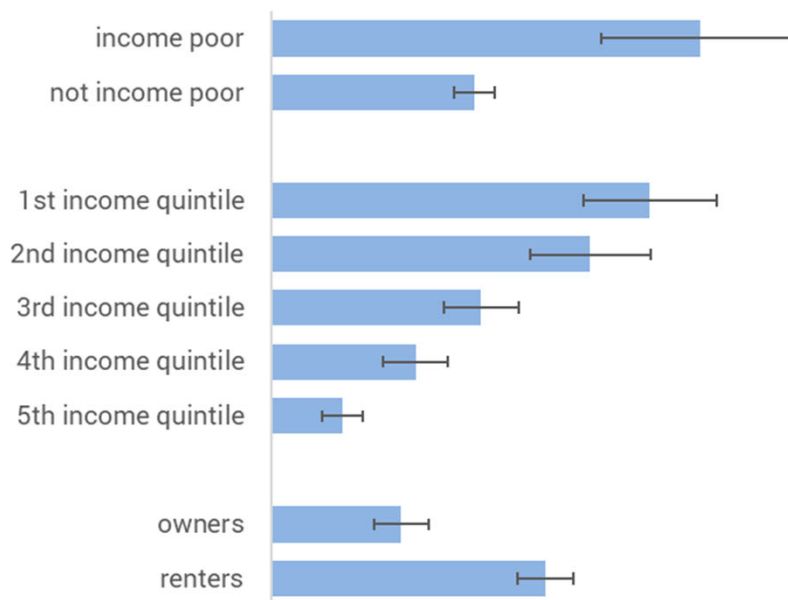
Source: FSO, SILC 2022, experimental data

Debt-to-asset ratio

debt-to-asset ratio > 75%,
including mortgage and real estate assets



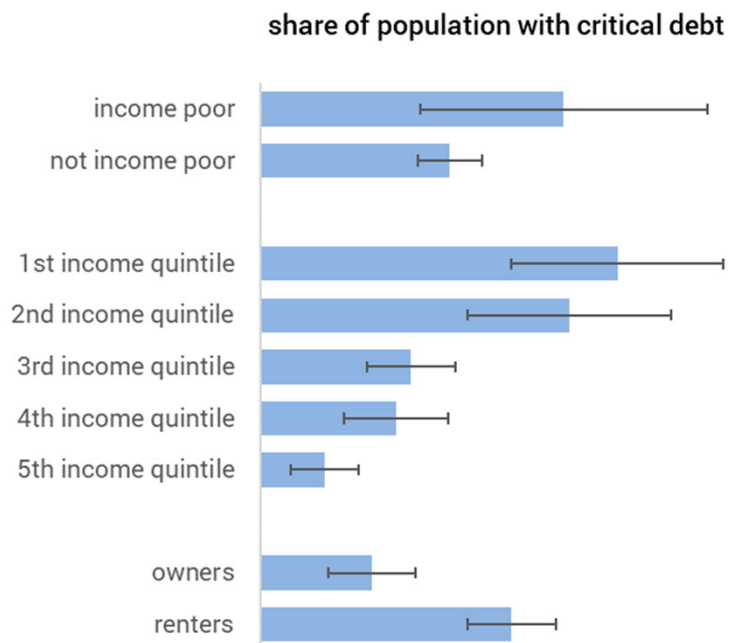
debt-to-asset ratio > 75%,
without mortgage and real estate assets



Note: Ratio of household debt to gross household wealth unpublished results, hence no scale is given

Source: FSO, SILC 2022, experimental data

Subjective indicator



- Critical debt = debt repayment is a heavy burden
- No consideration of housing-related debts
- Percentage of total population
- Assumption: missing or inconsistent information on debt burden is likely limited to households where debt burden is not high

Note: Repayment or interest payments of non-housing related debts are a heavy financial burden to the household, as a percentage of the total population

Source: FSO, SILC 2022



Conclusions

- Debt-to-income ratio is mainly driven by mortgages and highest for high income households, reflecting high property prices and high mortgages in Switzerland.
- Without mortgages, debt-to-income ratio is much lower in general, but relatively higher for low-income households.
- Debt-to-asset ratios are higher for low-income households, with or without consideration of mortgages and real estate assets.
- Objective indicators on over-indebtedness refer more to future risks than to current debt problems (exception: debt-to-asset ratio excl. mortgages)
- Persons living in low-income households are more likely to report that debt obligations place a heavy burden on their household.



Thank you for your attention!

Contact information:

- Federal Statistical Office
Martina.Guggisberg@bfs.admin.ch, Stephan.Haeni@bfs.admin.ch
- National Monitoring on Poverty
Anna.Koukal@bsv.admin.ch