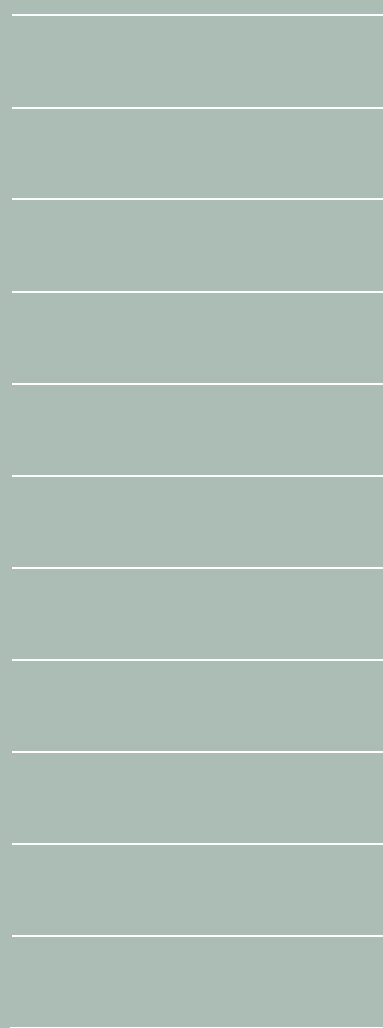




LIETUVOS BANKAS

REVIEW OF THE SURVEY OF THE FINANCIAL BEHAVIOUR OF HOUSEHOLDS

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REVIEW OF THE SURVEY OF THE FINANCIAL BEHAVIOUR OF HOUSEHOLDS 2013/1

The Review of the Survey of the Financial Behaviour of Households is devoted to defining the saving and borrowing habits of households and the reasons for doing so, to find out how households assess their current financial situation. The Review also includes questions about the future expectations of households—changes in financial condition, saving and borrowing plans.

In preparing the Review of the Survey of the Financial Behaviour of Households, data from a survey of households, conducted on behalf of the Bank of Lithuania, was used.

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REVIEW OF THE SURVEY OF THE FINANCIAL BEHAVIOUR OF HOUSEHOLDS

The financial status and behaviour of households¹ has significant influence on the stability of the financial system of Lithuania. According to Bank of Lithuania data, in 2012 household loans from the banking sector amounted to 43.4 per cent of all loan portfolios, while deposits—62.2 per cent of all deposits. Aiming to respectively assess the financial habits of households, the reasons for their formation, future assessment, in 2013 the Survey of the Financial Behaviour of Households was first prepared. The Review of the Survey of the Financial Behaviour of Households² is devoted to defining the saving and borrowing habits of households and the reasons for doing so, to find out how households assess their current financial situation. The Review also includes questions about the future expectations of households—changes in financial condition, saving and borrowing plans. This Survey is conducted periodically two times per year. Its goal—to ascertain the financial behaviour tendencies of households.

The Review is comprised of 4 parts. The first part presents a summary of the data about household saving habits (reasons for saving, possibilities to save, saving instruments, saving plans in the future) and their relationship with other factors. The second part addresses financial liabilities: their types, reasons for borrowing, assessment of the liabilities burden, discharge of liabilities on time, reasons for not implementing them, amendment of the terms and conditions, decision to borrow within the upcoming 6 months. The third part of the Review summarizes the financial condition of households. Data is presented on the income of households, planning of the most important earnings and expenses, behaviour of households when lacking funds, the reasons and incentives for the decision to save or borrow. The fourth part analyses the future assessment of households: factors that raise concern, as well as information on how households assess the changes in housing price developments. In the Survey, the terms “respondent” and “household” are synonymous.

SUMMARY

- A large part of respondents every month manage to save and use liquid saving instruments, seeking to insure against possible deterioration of the financial situation. Saving opportunities are determined most by income size; also they are affected by the respondents' age and place of residence. Within the upcoming 6 months, savings won't significantly change and the choice of saving instruments will be similar. More than half of the surveyed households do not plan their budget.
- One third of households that participated in the survey have some sort of financial liability, mostly it is consumer loans or mortgage. In the future, only a small part of those surveyed plan to borrow. The type of liability depends of the place of residence of the respondents—in big cities more common are mortgage or financial leasing. More than half of those surveyed, having financial liabilities, are able to save.
- A similar part of respondents assess their liabilities as a burden and don't hope for an improvement within the coming 6 months. The conditions of the financial liabilities of the surveyed households are rarely changed. In taking out a consumer loan, payday loan, or signing a leasing agreement, most attention is paid to favourable lending conditions.
- The issue of financial literacy is still important, because in choosing saving or borrowing those surveyed rely on personal experience or the experience of friends, while specialized, analytical publications and the comments of public experts often have little or no effect.
- Over the past 6 months, surveyed households were most worried about increasing utility bills and the prices of food products, these issues will be a source of concern in the future as well. In assessing the housing price developments, respondents indicated that prices will remain stable.

¹ Household—a separately living individual or a group of individuals living together in one home, who share their expenditure and collectively procure the necessary means to live. Familial or marital relations between members of a household are not necessary.

² The Survey was conducted on behalf of the Bank of Lithuania by *Sprinter tyrimai*, the public opinion and market research company between February to March 2013. 1,011 households were interviewed.

SUMMARY OF THE SURVEY RESULTS

Fig. 1. Distribution of the amount of savings per month (in %, compared to all surveyed)

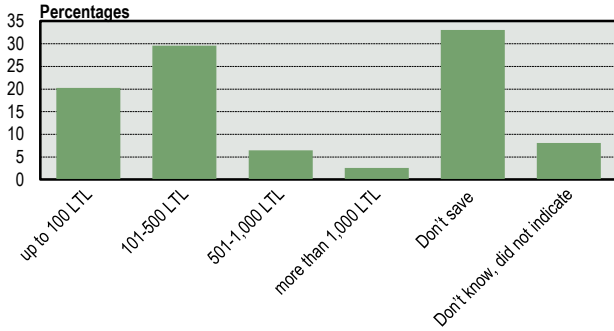


Fig. 2. Reasons for saving (in %, compared to all who save)

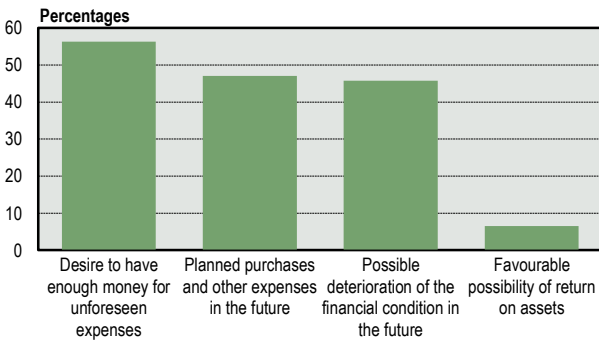
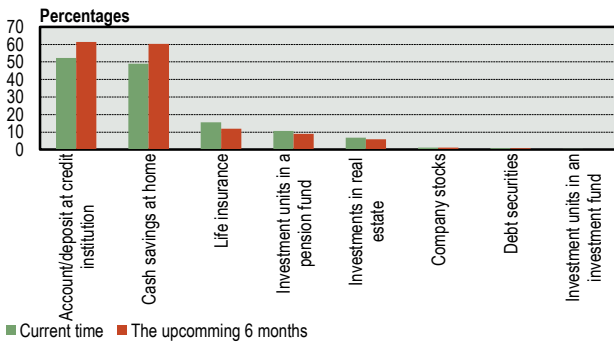


Fig. 3. Comparison of choices of types of saving instruments (% compared to all who answered that they save (will save))



1. Household saving habits

More than half of the households participating in the survey are able to save and plan to save in the future. 71.9 per cent of respondents, claiming that they have saved at this time, will continue to save within the upcoming 6 months (see Annex 1). Households with smaller incomes will also seek to save. 49.9 per cent of surveyed households claimed that presently they save up to LTL 500 per month (see Fig. 1). Rarely is anyone able to save more than LTL 1,000 per month, even those with larger incomes, although from the survey data we can see that there is a strong enough relationship between the income of respondents and saving opportunities, i.e. households with larger incomes save more (and more often) than those that earn less (see Annex 2).

Households don't feel financially secure and don't save for a particular goal, but to protect themselves from unforeseen factors—drop in income or sudden expenses (see Fig. 2). Favourable possibility of return on assets are of interest to few households, this is evident in the non-risky saving instruments chosen by respondents (see Annex 3). The most popular ways to save, according to those surveyed, are an account or deposit at a credit institution or cash savings held at home (see Fig. 3). Saving by purchasing company stocks, debt securities or investment fund units is not popular. A fourth of households that save, participating in this Survey, have more than one saving instruments. Households in big cities, as well as those that have at least one member with a higher education, are more willing to invest and choose more varied saving instruments. Households that participated in the Survey will use conservative saving instruments in the future as well, while investments in securities will continue to be unpopular.

2. Household borrowing habits

One third of surveyed households have financial liabilities, often of several types. In addition, households in big cities borrow more often (see Fig. 4). On average, one household who has borrowed has two types of financial liabilities. Most often respondents borrow for consumption and mortgage. Households with smaller income often have consumer or other types of loans, or have borrowed from friends or relatives; one out of ten indicated that they have a payday loan (see Fig. 5). With the growth of income, the structure of financial liabilities changes: the number of households with payday loans, or those that borrowed from family and friends, decreases, large financial liabilities are taken more often (mortgage and leasing). 42 per cent of respondents that claim to have financial liabilities reside in Vilnius, Kaunas, and Klaipėda. They, more often than those who reside elsewhere, have loans for house purchase, have signed leasing agreements.

More than half of households that have financial liabilities claim that they are able to save (see Annex 4) Households with leasing or mortgage (i. e. having the largest income per member) are able to save most often. Respondents with financial liabilities claimed that they aim to save for planned purchases and other expenses in the future. It is important to draw attention that 36.5 per cent of surveyed households, having financial liabilities, are not able to save. This was most often indicated by respondents with payday or consumer loans, or those who were in debt to their friends or family.

25.4 per cent of households with financial liabilities indicated that they were unable to execute at least once over the past 6 months (see Fig. 6) The main reasons—increased living expenses (67.9%) and loss of a permanent source of income (24.4%) (see Fig. 7). Taking into account that the Survey was conducted in February–March it can be assumed that the increase in utility bills in the winter months greatly influence household budget.

Most of those surveyed (53.4%), having some sort of financial liability, claim that they are a burden for their households. Respondents with higher incomes and less financial liabilities are less likely to feel the financial burden. Households in villages or granges, compared to those from big cities, more optimistically assessed their financial burden (see Annex 5). This can be related to the types of financial liabilities—most respondents in villages and granges have consumer or other loans, or have borrowed from friends or relatives, while in big cities respondents more often have larger financial liabilities.

Households assess the burden of financial liabilities according to the current situation. Most of those surveyed, for whom financial liabilities aren't a burden, forecast that this will continue for the next 6 months (see Annex 6). Therefore, households, the financial situation of which is better, more optimistically assess the future prospects and hope to not lose their financial well-being. And those respondents who spend a larger part of their income for necessary expenses claimed that these liabilities will continue to be a burden for them.

Fig. 4. Types of financial liabilities (by place of residence) (% , compared to those residing in an respective place)

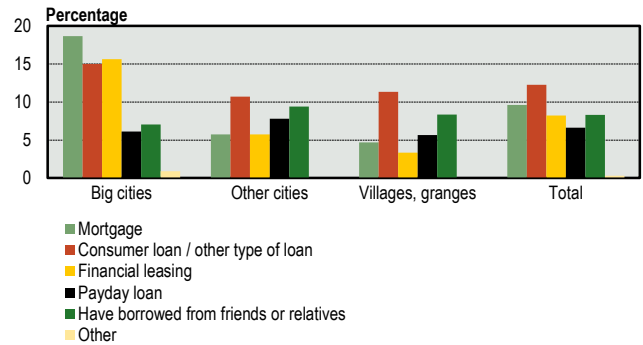


Fig. 5. Types of financial liabilities (by income per household member) (% , compared to those belonging to a respective income group)

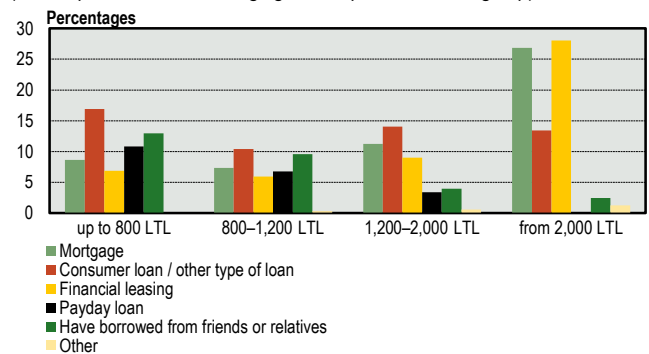


Fig. 6. Cases of financial default over the past 6 months (% , compared to those with financial liabilities)

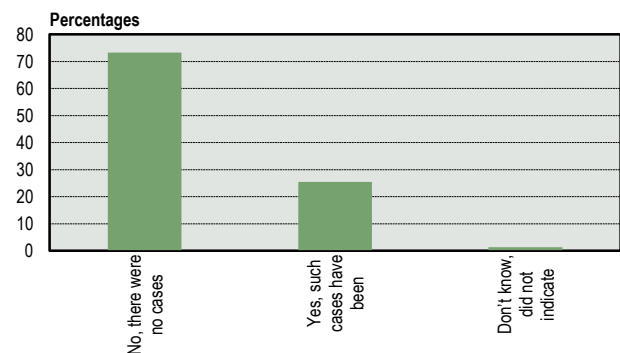


Fig. 7. Reasons for default of financial liabilities by households (% , compared to all who defaulted)

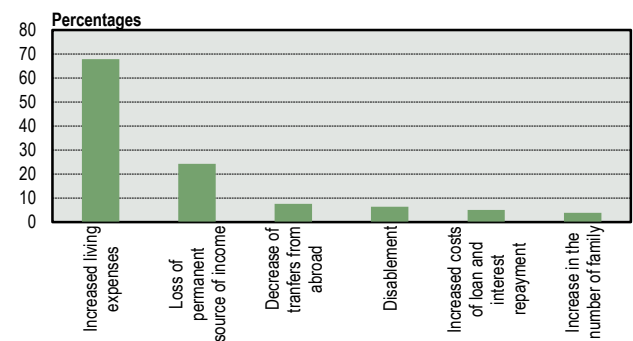


Fig. 8. Objective of households to borrow in the upcoming 6 months (in %, compared to all surveyed)

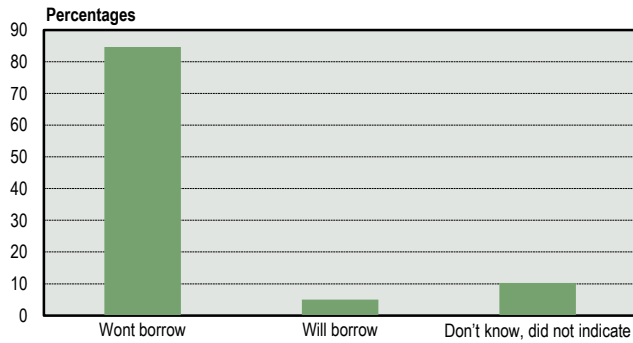


Fig. 9. Amended conditions and conditions intended to be changed (% , compared to those with financial liabilities)

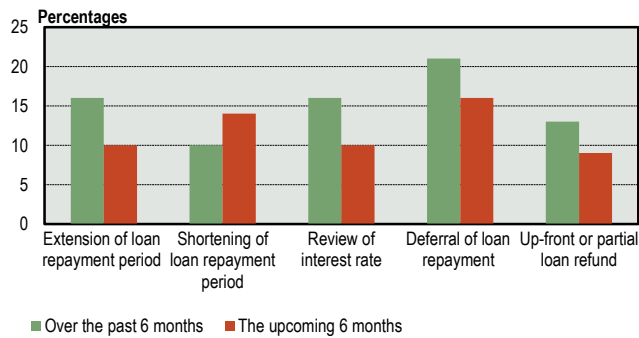
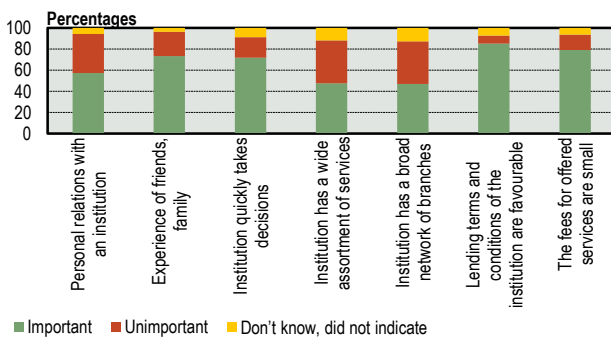


Fig. 10. Reasons for choosing one or other credit institution (% , compared to those with financial liabilities)



Surveyed households over the upcoming 6 months do not plan to borrow (see Fig.8). Although the low interest rates on the markets encourage people not to save, borrowing does not grow due to the conservatism of credit institutions and the households themselves. From the results of the Survey we can see that only 5 per cent of households plan to borrow and most of the borrowed funds will be used for purchase durable goods or home renovation. It should be noted that one out of ten households participating in the Survey indicated that they don't know whether they will borrow.

In contacting a financial institution, respondents aimed to decrease the burden of the loan. 19.9 per cent of those households surveyed that had loans over the past 6 months changed the conditions of their financial liabilities (see Fig. 9). Respondents that felt a financial burden attempted to improve their situation by contacting a credit institution regarding the changing of the conditions of their financial liabilities. Those surveyed sought to decrease their monthly instalment—they used the possibilities of loan repayment deferral, extension of the repayment period—or they asked to review the interest rate. In the future, respondents will heavily change the terms and conditions of financial liabilities. Terms and conditions will most often be amended by those who, within the past 6 months, at least once were unable to fulfil their undertaken liabilities. It is noticeable that the conditions of financial liabilities are more actively changed by those households that have at least one member with a higher education. This shows that financial education is necessary—households have to be more interested in their possibilities to improve the conditions of their liabilities.

In assuming financial liabilities it is important that the chosen credit institution offers favourable lending conditions. This was indicated by 85 per cent of surveyed households having financial liabilities (see Fig. 10). In addition, households pay a lot of attention to the other services fees provided by credit institutions, take into account the experiences of friends and family. Households in big cities more often than others thought it is important that credit institutions quickly take decisions (see Fig. 7). For households that participated in the Survey, in choosing a credit institution, the broad network of the institution's branches and the assortment of services aren't particularly important factors.

3. Assessment of the financial situation of households

The main income of most surveyed households is comprised of wages. 68.2 per cent of households claim that their main source of income is wages (more than 61% of all income), while others receive a large part of their income from additional sources—individual activities, pensions, grants or other social benefits, transfers from abroad, etc. (see Fig.11). It should be noted that one out of three households indicated that they receive income from two or more sources.

The surveyed households don't think that their financial situation will worsen in the future (see Fig. 12). Most respondents, when asked to evaluate the changes in income and necessary expenses over the upcoming 6 months, indicated that their household incomes and necessary expenses will remain practically unchanged. In general, one out of four surveyed households think that their financial situation will improve, i.e. that their incomes will grow faster than their expenses or their incomes won't change while their expenses drop. The least number of changes was expected by households in villages.

When lacking money, surveyed households would try to decrease expenses and avoid the services of payday loan companies, as well as selling their assets (real estate, investments) (see Annex 8). Respondents that are unable to save, when lacking money, more often choose borrowing from family or friends, use their prior savings or look for an additional source of income.

Almost half of surveyed households (49.5%) indicate that they do not plan their family budget, i.e. their most important earnings and expenses over the upcoming 6 months; 5.4 per cent didn't know whether they'd do so or didn't answer this question. The family budget is less often planned by households with small incomes (see Annex 9). Earnings and expenses over the upcoming 6 months are planned most by those who have higher incomes, live in the big cities and belong to the 30–39 age group, or at least one member of the household has a higher education. In examining the answers of the respondents a particular household model becomes clear—that which doesn't plan its most important earnings or expenses, currently is not saving and not planning to do so in the future. Respondents of this model earn lower incomes and rarely live in the big cities.

The choice of households to save or borrow is most determined by personal experience (see Fig. 13). When asked what influence on the decision to save or borrow would be by different factors, most respondents indicated that their choice would most be influenced by personal experience (88%) and the opinion and advice of their acquaintances (72%). These factors are especially important for households in villages and granges. The comments of public experts don't seem very important to respondents (the answer "unimportant" was chosen by 43% of those surveyed), while an even larger part of respondents (49%) indicated that their choice is not influenced by specialized, analytical publications (e.g. market reviews). This shows that the media influences the public greatly, that they trust the opinion of their peers and lack interest in the economic situation. Only those households that earn larger incomes or which have a member with a higher education, more often are interested in the public comments by experts and specialized, analytical publications.

Fig. 11. Types of household income (in %, compared to all surveyed)

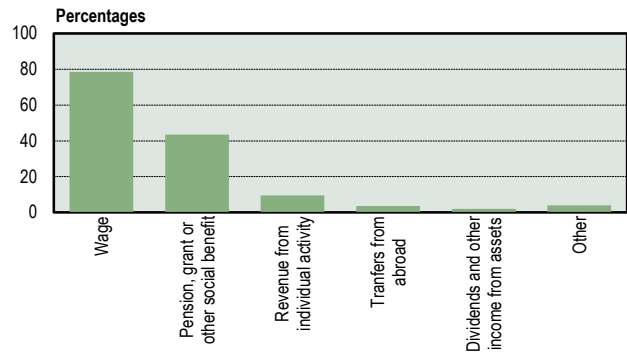


Fig. 12. Assessment of changes in income and expenses (in %, compared to all surveyed)

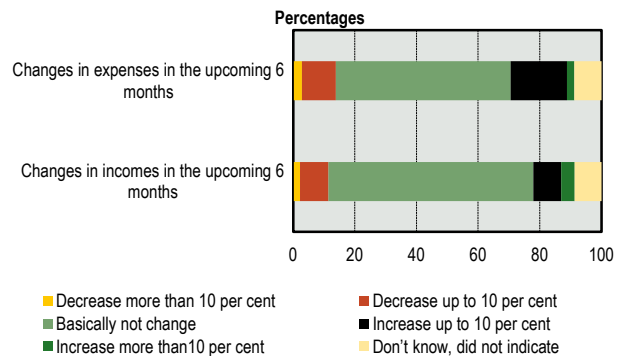


Fig. 13. Factors determining the choice of save or borrow (in %, compared to all surveyed)

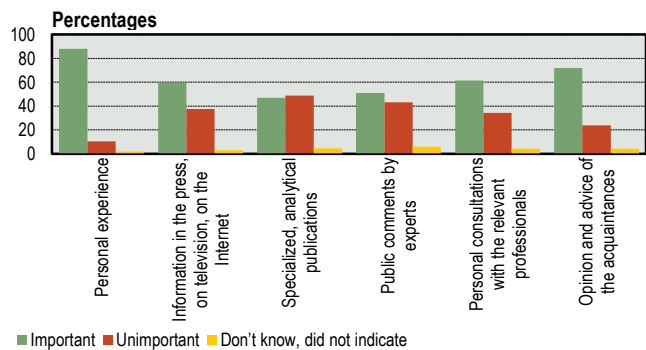


Fig. 14. Factors over the past and upcoming 6 months that most worry households (in %, compared to all surveyed)

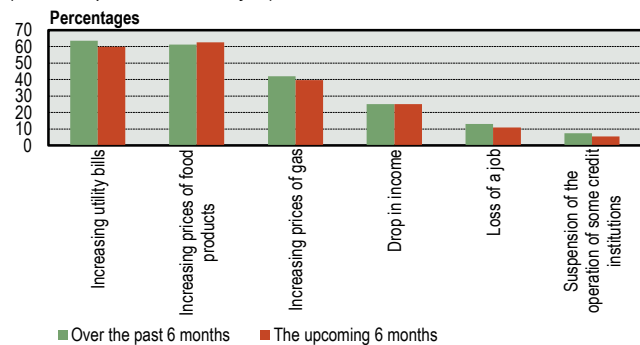
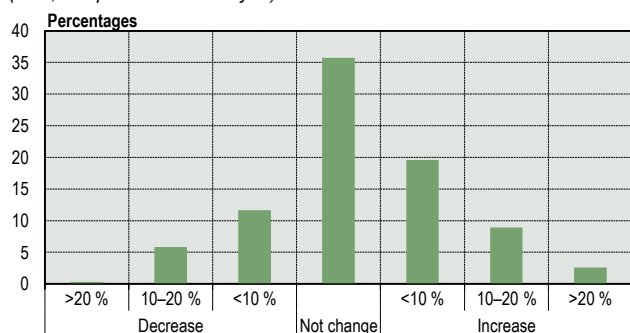


Fig. 15. Assessment of housing price changes (in %, compared to all surveyed)



4. Assessment of the future of households

Households are most worried about increasing utility bills and the prices of food products (see Fig. 14). In the Survey households were asked to indicate what worried them most over the past months and what will worry them over the upcoming 6 months. Most often increasing utility bills, food product and gas prices were indicated. It should be noted that a drop in income or loss of a job worried most the households that had a lower income per member per month. The suspension of the operation of some credit institutions did not really worry the surveyed households.

35.6 per cent of those surveyed think that housing prices stabilised and will not change over the coming 6 months (see Fig. 15). In assessing the changes in housing prices it should be noted that there is an influence in the place of residence of respondents. Respondents residing in the big cities, more often than those living in other cities, hope for a change in prices (see Annex 10)—respondents living in Vilnius more often indicated that prices will rise, while those living in Kaunas and Klaipėda—that they will drop. Households with a mortgage more often projected that housing prices will drop.

The Review was prepared by the Financial Stability Department of the Economic and Financial Stability Service of the Bank of Lithuania

Annexes

Annex 1. The choice of households to save within the upcoming 6 months (by current saving)
(%, compared to all surveyed)

Will aim to save within the upcoming 6 months	Currently the household saves			Total
	Yes	No	Don't know, did not indicate	
Yes	71.9	25.2	31.7	53.2
No	17.8	59.6	34.2	32.9
Don't know, did not indicate	10.3	15.3	34.2	13.9
Total	100	100	100	100

Annex 2. Types of financial liabilities (by income per household member)
(%, compared to all surveyed)

Average income per month per 1 member, LTL	Saves, LTL					Doesn't save anything	Don't know, did not indicate
	up to 100	from 101 to 500	from 501 to 1,000	more than 1,000	total		
up to 800	20.9	27.0	3.6	0.7	52.2	42.8	5.0
800–1,200	25.1	24.2	4.2	0.8	54.4	38.9	6.8
1,200–2,000	16.3	47.8	7.9	4.5	76.4	20.8	2.8
More than 2,000	13.4	45.1	19.5	13.4	91.5	3.7	4.9
total	20.3	29.6	6.4	2.6	58.9	33.0	8.1

Annex 3. Choice of saving instruments (by place of residence)
(%, compared to those residing in a respective place)

Saving instrument	Big cities	Other cities	Villages, granges	All of Lithuania
Cash savings at home	47.6	58.0	39.3	48.9
Account/deposit at credit institution	53.8	48.3	55.2	52.3
Life insurance	24.0	10.1	11.0	15.6
Investment units in a pension fund	17.3	6.8	6.1	10.6
Investment units in an investment fund	0.4	0.0	1.2	0.5
Debt securities	0.4	0.5	1.8	0.8
Corporate shares	1.8	1.0	0.6	1.2
Investments in real estate	8.9	3.9	7.4	6.7

Annex 4. Interdependence of household ability to save and financial liabilities
(%, compared to all surveyed in respective categories)

Ability to save	Have no liabilities	Have liabilities	Total
Save	60.6	58.0	58.9
Don't save	31.0	36.5	33.0
Don't know, did not indicate	8.4	5.5	8.1
Total	100	100	100

Annex 5. Assessment of the burden of financial liabilities (by place of residence)
(%, compared to those residing in a respective place)

Financial liabilities	Big cities	Other cities	Villages, granges	Total
There is a burden	59.0	55.3	42.7	53.4
No burden	38.5	40.8	51.2	42.7
Don't know, did not indicate	2.5	3.9	6.1	3.9
Total	100	100	100	100

Annex 6. Assessment of the burden of financial liabilities over the upcoming 6 months (by assessment of the current situation)
(%, compared to those with financial liabilities in the respective group)

Financial liabilities within the upcoming 6 months	Current financial liabilities			Total
	there is a burden	no burden	don't know, did not indicate	
Will be a burden	89.6	8.4	0.0	51.5
Won't be a burden	7.9	84.0	58.3	42.4
Don't know, did not indicate	2.4	7.6	41.7	6.2
Total	100	100	100	100

Annex 7. The importance of reasons in choosing a credit institution
(%, compared to those with financial liabilities, residing in a respective place)

Reason	Big cities	Other cities	Villages, granges
Personal relations with an institution	54.9	56.3	62.2
Experience of friends, family	70.5	72.8	78.0
Institution quickly takes decisions	75.4	70.9	67.1
Institution has a wide assortment of services	51.6	51.5	36.6
Institution has a broad network of branches	47.5	44.7	48.8
Lending terms and conditions of the institution are favourable	85.2	85.4	82.9
The fees for offered services are small	84.4	81.6	68.3

Annex 8. Priorities when lacking money
(Weighted average)

Priorities	Weighted average
1. Minimizing of expenses	7.15
2. Borrowing from friends/family	6.92
3. Use of savings	5.76
4. Search for an additional source of income (second job)	5.32
5. Use of credit card	4.56
6. Bank loan	4.14
7. Use of the services of payday loan institutions	3.34
8. Sale of assets (real estate, investments)	3.22

Note: the importance of the means is assessed by taking into account its weighted average (9—used first, 1—used second, 0—never used)

Annex 9. Planning of household income and expenses (by income per household member)
(%, compared to those belonging to a respective income group)

Planning of most important earnings and expenses	Average income per month per 1 member, LTL				Total
	up to 800	800–1,200	1,200–2,000	from 2,000	
Plan	37.4	41.1	60.7	69.5	45.1
Don't plan	55.8	54.9	35.4	28.1	49.5
Don't know, did not indicate	6.8	3.9	3.9	2.4	5.4
Total	100	100	100	100	100

Annex 10. Assessment of change in housing prices (by place of residence)
(%, compared to those residing in a respective place)

Place of residence	Change of house prices			
	will decrease	won't change	will increase	don't know, did not indicate
Big cities	29.4	30.0	27.8	12.8
Other cities	12.2	40.4	30.5	16.9
Villages, granges	12.3	36.0	35.3	16.3
Total	17.8	35.7	31.1	15.4