LIETUVOS BANKAS

REVIEW OF THE SURVEY OF THE FINANCIAL BEHAVIOUR OF HOUSEHOLDS

2

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REVIEW OF THE SURVEY OF THE FINANCIAL BEHAVIOUR OF HOUSEHOLDS
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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 their financial situation, 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.

REVIEW OF THE SURVEY OF THE FINANCIAL BEHAVIOUR OF HOUSEHOLDS

The financial situation and behaviour of households[1] *has significant influence on the stability of the financial system of Lithuania. According to Bank of Lithuania data, in September 2013 household loans from the banking sector accounted for 43.8 per cent of the entire loan portfolio, while deposits — 61.7 per cent of total deposits. Aiming to respectively assess the financial habits of households, the reasons for their formation, assessment of the future, surveys of the financial behaviour of households were prepared in 2013. The Review of the Survey of the Financial Behaviour of Households*[2] *is aimed at identifying the saving and borrowing habits of households and the reasons for them, to find out how households assess their current financial situation. The Review also includes questions about the future expectations of households — changes in their financial situation, saving and borrowing plans. This Survey is conducted biannually.*

The Review, prepared on the basis of the survey, consists of 4 parts. The first part presents a summary of the data on household saving habits (reasons for saving, possibilities to save, saving means, saving plans) 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, change 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 reason and incentive for the decision to save or borrow. The fourth part analyses the assessment of the future of households: factors that raise concern as well as information on how households perceive changes in housing prices. In the Survey, the terms "respondent" and "household" are synonymous. Vilnius, Kaunas, Klaipėda, Šiauliai, Panevėžys and Alytus are referred to as the largest cities, other cities and regional centres — as other cities, whereas rural locations and farmsteads — as villages.

SUMMARY

- The main part of the respondents manage to save every month and use liquid saving instruments for holding their savings in order to secure against possible deterioration of their financial situation. Possibilities to save are determined mainly by income size, age and place of residence of the respondents. Within the upcoming six months saving will not change significantly and the choice of saving means will be similar to those currently preferred by households. Nearly half of the surveyed households do not plan their budget.
- Slightly more than a third of the surveyed households have some sort of financial liabilities, mostly consumer or housing loans. Only a small part of those surveyed plan to borrow in the future. The type of liability depends on the place of residence of the respondents — in the largest cities housing loans and financial lease are more common.
- More than half of those surveyed with financial liabilities believe that in the upcoming six months their financial liabilities will be a burden. This is the most common opinion among households for whom their financial liabilities had also been a burden in the previous six months.
- The surveyed households are not inclined to change the terms and conditions of their financial liabilities. Nevertheless, the number of households intending to make use of the environment of low interest rates in the next six months increased. In taking out a consumer loan, fast credit or signing a leasing agreement, households pay most attention to favourable lending terms and conditions.
- In taking decisions on saving and borrowing, households are guided by personal experience or the experience of their friends; specialised publications of analytical character and public comments of experts often do not have any impact.
- In the past six months the surveyed households were mainly concerned with the rising prices of food products and utility bills. These factors will continue to be a source of major concern in the near future. There was a slight decrease in the number of households concerned about the likely decline in their income within the next six months.
- In assessing changes in housing prices, the respondents mainly reported that the prices would remain stable; however, the number of those expecting an increase grew as compared to the first half-year of 2013.

[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 among members of a household are not necessary,

[2] The Survey was conducted on behalf of the Bank of Lithuania and conducted by the public opinion and market research company *Sprinter tyrimai* in September–October 2013. 1,007 households were surveyed.

SUMMARY OF THE SURVEY RESULTS

Chart 1. Distribution of the amount saved per month
(% of total surveyed)

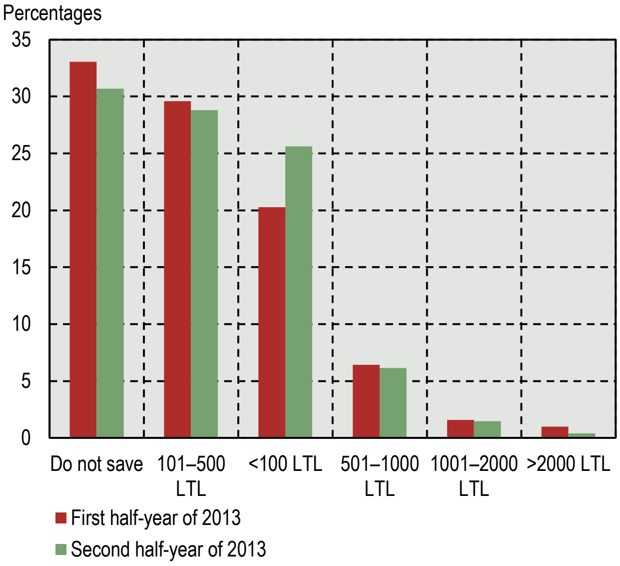


Chart 2. Reasons for saving
(% of all who save)

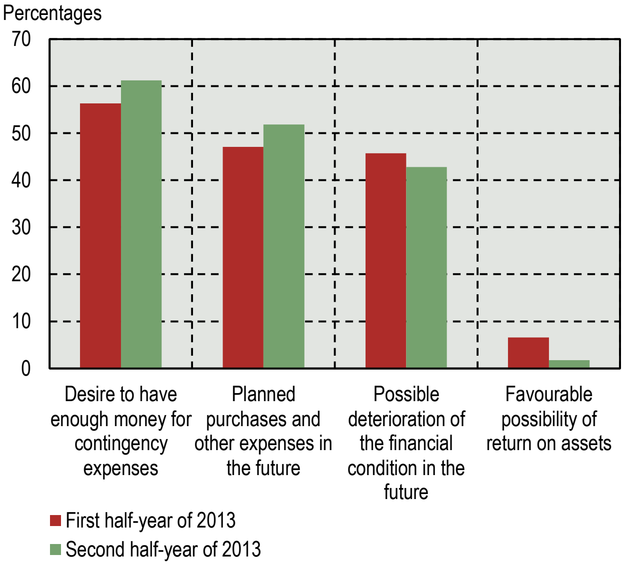
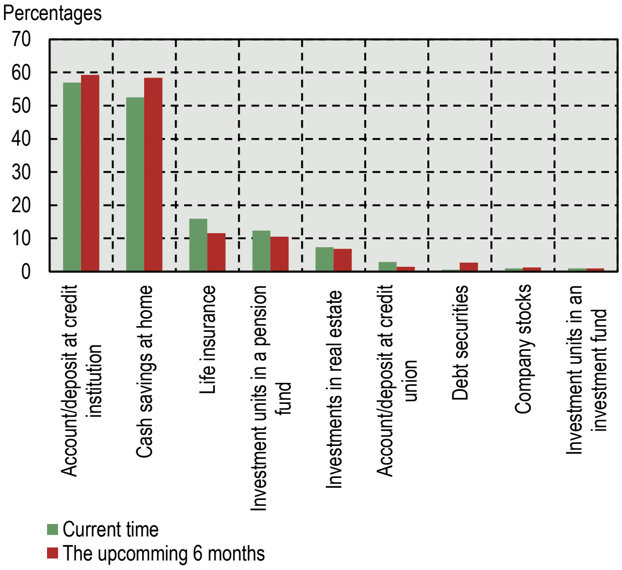


Chart 3. Comparison of choices of saving means
(% of those who responded respectively that they save or would save)



1. Household saving habits

More than half of the surveyed households manage to save and intend to save in the future. As compared to the first half of this year, the share of those intending to save in the upcoming six months increased from 58.9 per cent to 62.5 per cent, whereas three quarters of those already saving intend to save in the near future (see Annex 1). Households with lower income will aim to save as well: slightly more than half of the surveyed households, with an income of up to LTL 1,000 per member per month, claimed that they expected to save at least something in the upcoming half-year (see Annex 2). The share of households saving nothing amounted to nearly one-third (see Chart 1); however, as compared to the first half of this year, it contracted by more than 2 percentage points. The survey data suggests quite a close relationship between the respondents' income and possibilities to save, i.e. among the households that save more there are households with higher income (see Annex 2).

Households do not feel financially safe and mostly save not for a specific purpose but seeking to secure themselves against unforeseen factors such as a decline in income or contingency expenses (see Chart 2). Similar reasons for saving prevailed half a year ago; however, since then, the number of households saving for a specific purpose has increased somewhat (52%), and there was a decline in the number of those saving to secure against likely deterioration in their financial situation (43%).

Households opted mainly for non-risky saving means (see Annex 3). The most popular saving method among those surveyed is an account or deposit with a credit institution and cash savings held at home (see Chart 3). Saving via acquisition of corporate shares, debt securities or investment fund units is not popular. One third of the surveyed households use more than one saving means (one fourth half a year ago). Less cautiously investing and choosing more different saving means are households in the largest cities, also those of which at least one member has higher education. The surveyed households will continue investing their savings conservatively, whereas investment in securities will not be popular (see Annex 3)

2. Household borrowing habits

One third of surveyed households have financial liabilities, often of several types. In addition, households in the largest cities borrow more often (see Chart 4). Most often the respondents borrow for consumption and house purchase.

The composition of financial liabilities by a household's income has changed marginally over the half-year. Households with lower income more often than the respondents within other income groups take out fast credit loans and borrow from family or friends. Nearly one fifth of such households indicated having a loan from a small (fast) consumer credit company (see Chart 5). As income grows, the composition of financial liabilities changes: increasingly more households assume greater financial liabilities (loans for house purchase, financial lease). 52.8 per cent of the respondents claiming that they have financial liabilities reside in Vilnius, Kaunas and Klaipeda. More of them, as compared to residents of other locations, have a housing loan, have signed a financial lease agreement.

More than half of the households with financial liabilities claimed that they managed to save (see Annex 5). As compared to the first half-year of 2013, it can be seen that households with liabilities were a little less successful in managing to save (the respective share of those who managed to save was 57.1% and 58%), whereas for households with no liabilities the possibilities to save increased (the respective shares of those who managed to save were 60.6% and 65.5%). 40 per cent of the surveyed households with financial liabilities do not manage to save (half a year ago such households accounted for 36.5%). Least successful in saving are households with fast credit loans or consumer credit, or those who have borrowed from family/friends (see Annex 9).

20.7 per cent of households with financial liabilities reported that they were unable to discharge them at least once over the recent six months (see Annex 7). Half a year ago there were more respondents facing such challenges — 25.4 per cent. The main reasons for the default in liabilities include the increased cost of living (69%) and the lost regular source of revenue (26.8%) (see Chart 6). Their significance is similar to what it was half a year ago.

Half of those surveyed (50.4%) with any financial liabilities claim that they are a burden to the household. Respondents with a higher income and fewer financial liabilities feel the financial burden to a lesser extent. More optimistic in their perception of their financial burden than the respondents from the largest cities were also the surveyed households in villages (see Annex 6). This could be related to the types of current liabilities: most of the respondents residing in rural areas or farmsteads have consumer loans or loans for other purposes, or have borrowed from family/friends, whereas respondents from the largest cities more often have greater financial liabilities.

Chart 4. Types of financial liabilities (by place of residence)
(% of those residing in a respective place)

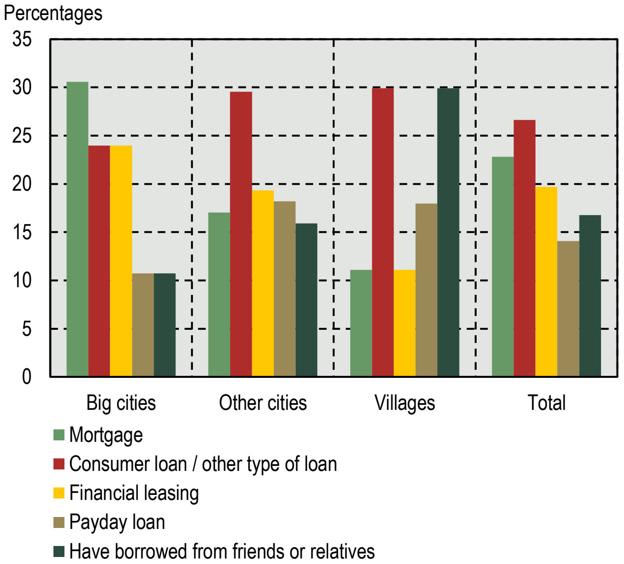


Chart 5. Types of financial liabilities (by income per household member)
(% of those within a respective income group)

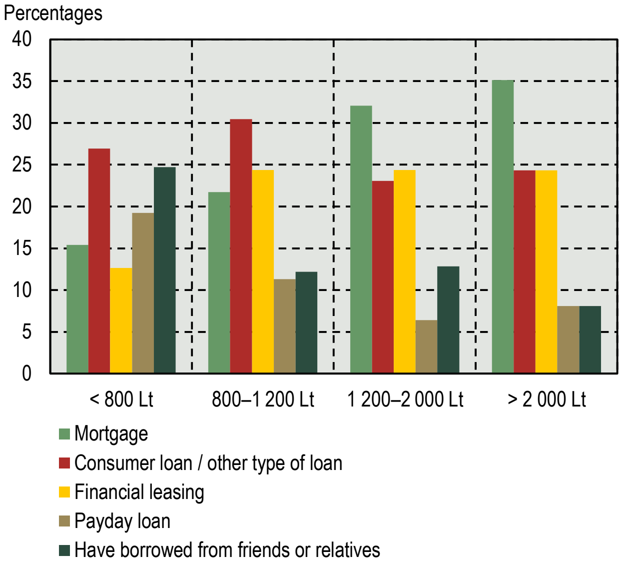


Chart 6. Reasons for default on financial liabilities by households
(% of all those who defaulted)

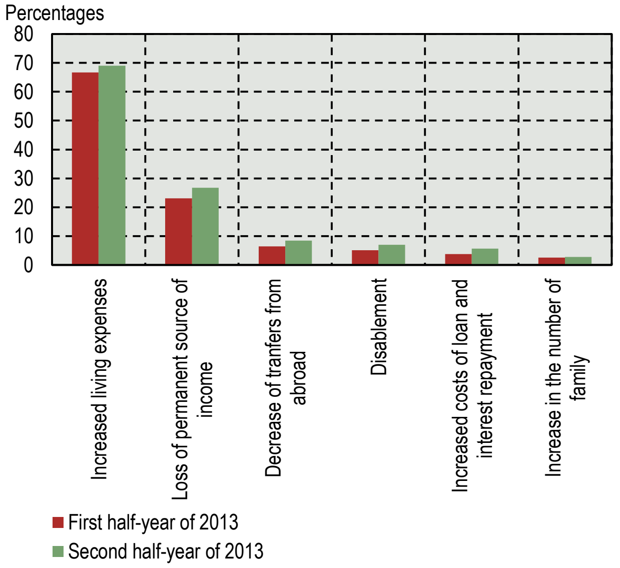


Chart 7. Objective of households to borrow in the upcoming 6 months
(% of total surveyed)

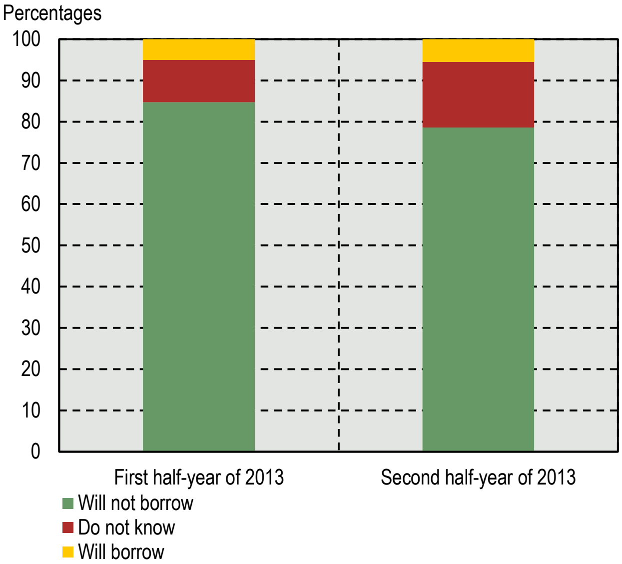


Chart 8. Changed conditions and conditions intended to be changed
(% of those with financial liabilities)

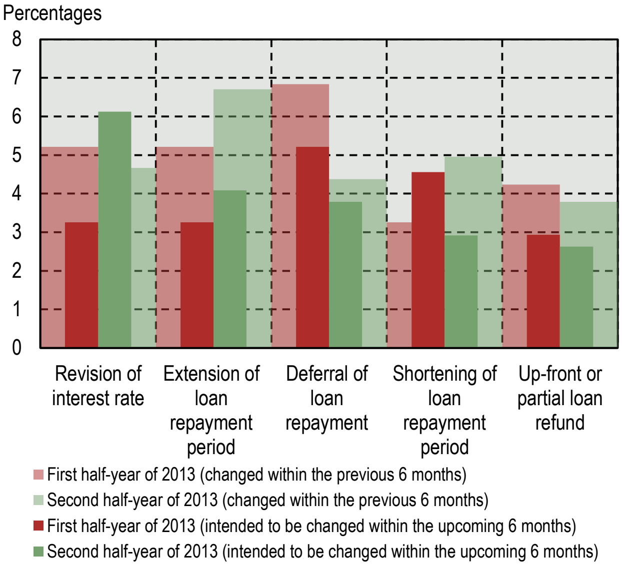
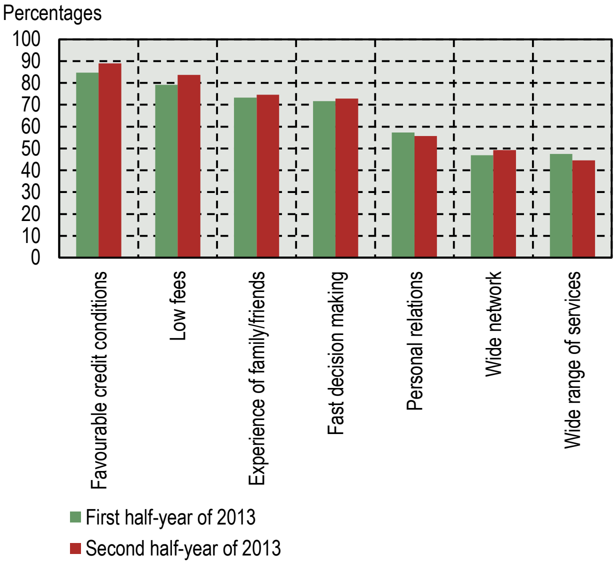


Chart 9. Significance of criteria in choosing a credit institution
(% of those with financial liabilities)



The households assess their future burden of liabilities according to the current situation. As was the case half a year ago, most of those surveyed, for whom their financial liabilities are not a burden, project that it will remain so in the upcoming six months (see Annex 8). The households whose financial situation is better are more optimistic in perceiving their prospects for the future. Those respondents who allocate a better part of their income to basic expenses claimed that these liabilities would further remain a burden to them (see Annex 11).

The main part of the surveyed households will not borrow in the upcoming six months (see Chart 7). Only 5.6 per cent of households are going to borrow (0.6 per cent more than half a year ago). As was the case half a year ago, most of the borrowed funds are intended to be used for the acquisition of other durable goods or housing reconstruction. Almost every sixth of the surveyed households reported that it did not know whether it would borrow (half a year ago — every tenth).

Households with loans that applied to financial institutions for changing the terms and conditions of their liabilities aimed to reduce their loan burden. Households applied to credit institutions mainly for extending their credit term; fewer surveyed applied for deferring their loan repayment. 23.3 per cent of households with financial liabilities applied to credit institutions asking to change the terms and conditions of their financial liabilities (half a year ago — 21.5%, see Chart 8). Households with financial liabilities in the future will tend to enjoy more the benefits of low interest rates: the share of the surveyed that are going to apply to credit institutions for the revision of their interest rate doubled as compared to the first half-year of 2013. Unlike half a year ago, the terms and conditions will mostly be changed by those that, in the previous six months, discharged all their financial liabilities assumed on time. As it was half a year ago, the terms and conditions of financial liabilities were changed more actively by households with at least one household member with higher education.

In choosing a credit institution, households mainly focus on whether the lending conditions are favourable or not. 88.9 per cent of those surveyed reported that this was an important criterion in choosing a credit institution (see Chart 9). Households also pay great attention to the size of service fees, the opinion of acquaintances (family, friends). The range of services and size of the institution's network in choosing a credit institution are the least important criteria.

3. Assessment of the financial situation of households

A major part of the income of most of the surveyed households consists of wages. 91.1 per cent of households claimed that their major source of income was wages (over 61% of total income), others receive a substantial portion of their income from additional sources—individual activities, pension or other social benefits, remittances from abroad, etc. (see Chart 10). A third of the respondents reported receiving income from two or more different sources.

The main share of households believes that their basic expenses and income will not change (see Chart 11). Asked to assess changes in their income and basic expenses over the upcoming six months, most of the households reported that their income and basic expenses would not change. There are almost 12 times as many households claiming that their expenses will increase than those claiming that they will decrease. On the other hand, there are more than 2 times as many households projecting income growth than those projecting a decline in them. Growth in basic expenses is projected by those households that are projecting a decline or a non-decline in income (see Annex 12).

When short of money, the surveyed households would endeavour to cut their expenses and avoid using the services of enterprises providing fast credit services (see Annex 13). When facing difficulties, as was half a year ago, borrowing from family or search for additional income would be popular. The attitude towards sale of assets is not changing either — households tend to not undertake this measure. When experiencing financial difficulties, they would avoid becoming credit union members and borrowing from them. This method of addressing financial issues is more attractive only than loans from fast credit enterprises.

Nearly half of the surveyed households (48.3%) report that they do not plan a family budget — major income and expenses over the upcoming six months. Family budget is planned more often by households with higher average income (see Annex 14). Income and expenses over the upcoming six months is planned mainly by residents of the largest cities within the age group of 46 and above. Households with at least one person with higher education tend to plan their income somewhat more than those with no persons with higher education.

The households' choice of saving or borrowing is mainly determined by personal experience (see Chart 12). Most of the respondents reported that their choice would mainly be determined by personal experience (91.5%; in the first half-year this was indicated by 87.9%) and the opinion and advice of acquaintances (72.6%; in the first half-year — 71.8%). These factors are significant for households in villages in particular. Public comments of experts are less important to the respondents (the answer "not important" was chosen by 41.1% of the surveyed), an even larger share of those surveyed (46.1%) reported that their choice is not influenced by specialised publications of analytical character (market surveys).

Chart 10. Types of household income
(% of total surveyed)

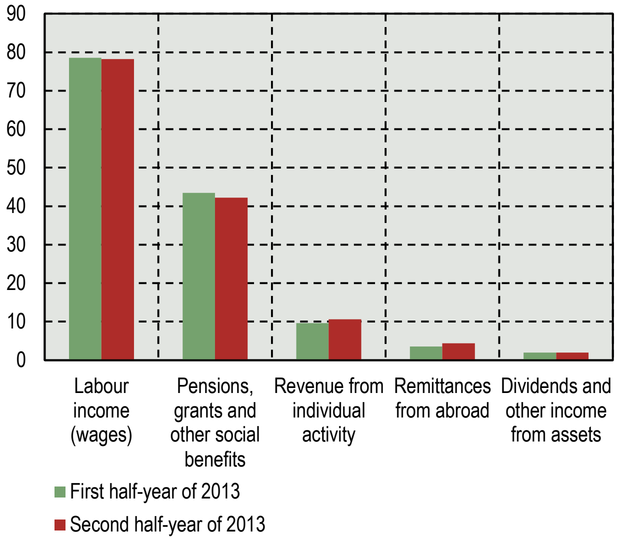


Chart 11. Assessment of changes in income and expenses over the upcoming 6 months
(% of total surveyed)

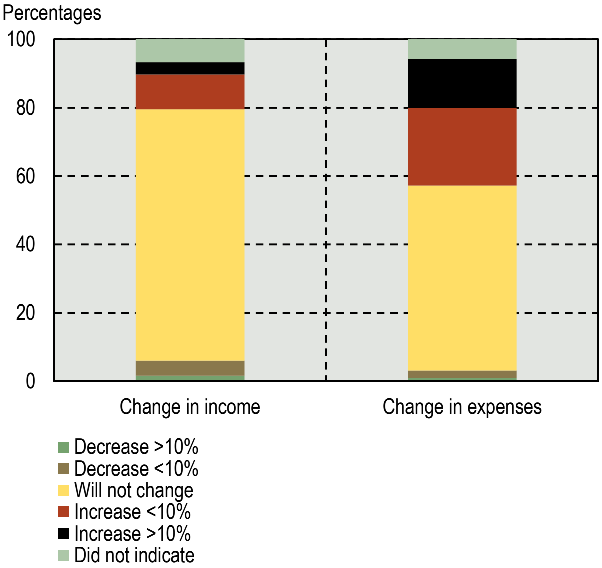


Chart 12. Important factors in the choice of saving or borrowing
(% of total surveyed)

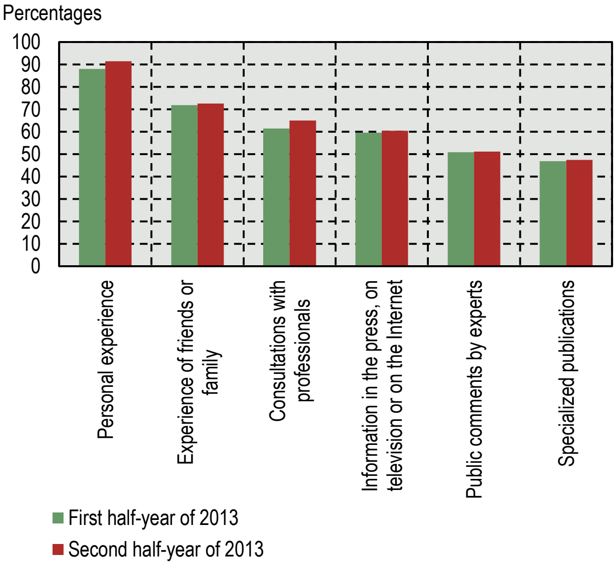


Chart 13. Factors to raise major concern for the households over the upcoming six months
(% of total surveyed)

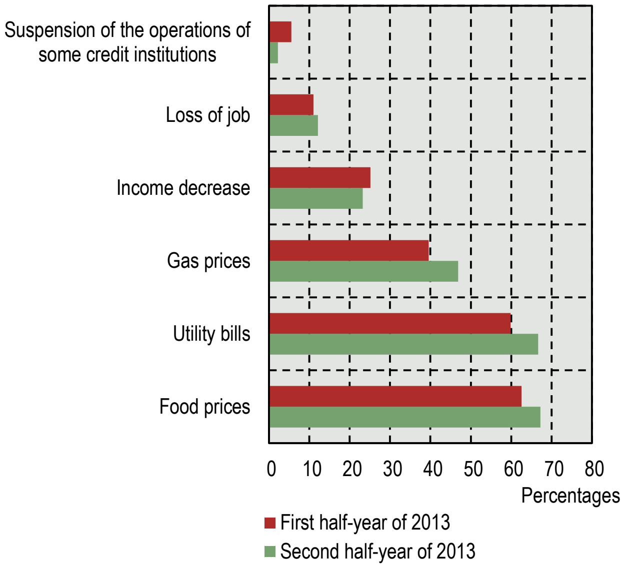
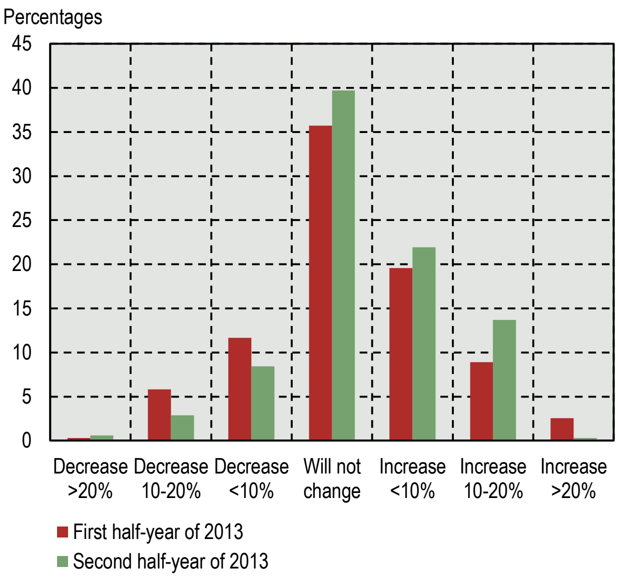


Chart 14. Assessment of changes in housing prices
(% of total surveyed)



4. Assessment of the future of households

Major concern for households stems from rising utility bills and food prices (see Chart 13). The surveyed households were asked to indicate what their major concern over the upcoming six months would be. The most often reported source of future concerns was food price increases and rising utility bills. Half a year ago, fewer surveyed households were concerned about these issues. As regards a decline in income or loss of job, more often concerned were households with less income per one member per month, while, overall, the concerns about the loss of income diminished over a half-year. Liquidation of credit institutions does not raise concerns for households.

Most of those surveyed (40%) think that the housing prices will not rise over the upcoming six months (see Chart 14). Over a third of the households are expecting price increases. Over the half-year, the number of households expecting price increases in the real estate market declined by 5.9 p.p., the number of those expecting their stabilisation increased by 4 p.p., and the number of those expecting their growth increased by 4.9 p.p. In the perception of changes in housing prices, the place of residence of the respondents has an influence. The respondents residing in villages more often than those residing in the largest cities expect that prices will not rise (see Annex 15). Vilnius stands out among all cities: 44 per cent of the surveyed households in the capital city expect price increases. Unlike half a year ago, the households with housing loans more often projected that housing prices would rise.

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

Annexes

Annex 1. The choice of households to save over the upcoming 6 months (by saving currently)
(% of total surveyed within a respective group)

Will aim to save within the upcoming 6 months	Currently the household saves			Total
	Yes	No	Don't know or did not specify	
Yes	76.5	12.6	68.1	56.3
No	13.8	67.0	10.1	29.9
Don't know or did not specify	9.7	20.4	21.7	13.8
Total	100	100	100	100

Annex 2. Household saving (by income per household member)
(% of total surveyed within a respective income group)

Income per 1 household member, LTL	The household will aim to save in the upcoming 6 months			Total
	Yes	No	Did not specify or don't know	
Up to 1,001	51.1	34.1	14.8	100
1,001–2,001	70.2	20.5	9.3	100
Over 2,001	65.8	21.1	13.2	100
Unspecified	57.0	26.0	17.0	100
Total	56.3	29.9	13.8	100

Annex 3. Available saving means (by place of residence)
(% of households that have managed to save in a respective location)

Saving means	The largest cities	Other cities	Villages	Total
Cash savings at home	48.5	70.1	43.8	52.5
Account or deposit with a bank	54.2	50.0	57.4	54.1
Account or deposit with a credit union	3.3	1.9	2.8	2.9
Life assurance	22.4	12.3	8.0	15.9
Investment units with a pension fund	16.7	9.7	7.4	12.4
Investment units in an investment fund	0.7	0.6	0.0	0.5
Debt securities	1.7	0.0	0.6	1.0
Investment in real estate	10.4	3.9	5.1	7.3
Corporate shares	1.3	1.3	0.0	1.0
Other	0.0	0.0	0.0	0.0
Unspecified	1.0	0.0	0.6	0.6

Annex 4. Saving means intended to be chosen over the upcoming 6 months
(% of total households intending to save)

Saving means	1st half-year of 2013	2nd half-year of 2013
Cash savings at home	60.2	58.4
Account/deposit with a credit institution	55.5	59.3
Account or deposit with a bank	–	57.9
Account or deposit with a credit union	–	1.4
Life assurance	10.8	11.6
Investment units with a pension fund	8.1	10.5
Investment units in an investment fund	0.2	0.6
Debt securities	0.7	1.0
Corporate shares	1.0	1.3
Investment in real estate	5.4	6.8
Unspecified	1.5	2.7
Other	0.0	0.2

Annex 5. Interdependence of household savings and financial liabilities
(% of total surveyed within a respective category)

Household savings	Have liabilities	Have no liabilities	Unspecified
Save	57.1	65.5	62.6
Save nothing	40.2	25.9	30.8
Unspecified	2.6	8.6	6.6
Total	100	100	100

Annex 6. Types of financial liabilities (by place of residence)
(% of those residing in a respective place)

Financial liabilities	The largest cities	Other cities	Villages	Total
Are a burden	52.0	61.6	39.2	50.4
Are not a burden	45.7	38.4	58.8	47.8
Unspecified	2.3	0.0	2.1	1.7
Total	100	100	100	100

Annex 7. Discharge of financial liabilities over the previous 6 months
(% of those with financial liabilities)

Discharge of net liabilities	1st half-year of 2013	2nd half-year of 2013
There were cases of default	25.4	20.7
There were no cases of default	73.3	74.9
Unspecified	1.3	4.4
Total	100	100

Annex 8. Assessment of the burden of financial liabilities over the upcoming 6 months (by assessment of the current situation)
(% of those with financial liabilities within a respective group)

Financial liabilities within the upcoming 6 months	Are a burden	Are not a burden	Unspecified	Total
Will be a burden	84.4	22.0	0.0	53.1
Will not be a burden	10.4	74.4	100.0	42.6
Unspecified	5.2	3.7	0.0	4.4
Total	100	100	100	100

Annex 9. Dependence of successful saving on the type of financial liability
(% of those with financial liabilities within a respective group)

Able to save	Housing loan	Consumer loan or loan for another purpose	Financial lease	Total credits	Borrowing from family/friends	Have no financial liabilities	Unspecified	Other
Yes	67.6	56.3	70.5	49.2	48.0	65.5	25.0	66.7
No	29.4	42.9	27.3	42.9	52.0	25.9	0.0	33.3
Unspecified	2.9	0.8	2.3	7.9	0.0	8.6	75.0	0.0
Total	100	100	100	100	100	100	100	100

Annex 10. Importance of reasons in choosing a credit institution
(% of those with financial liabilities)

Reasons	1st half-year of 2013	2nd half-year of 2013
Personal relations with an institution	57.3	55.7
Experience of friends, family	73.3	74.6
Institution quickly takes decisions	71.7	72.9
Institution has a wide range of services	47.6	44.6
Institution has a wide network of branches	46.9	49.3
Lending terms and conditions of the institution are favourable	84.7	88.9
The fees for offered services are small	79.2	83.7
Other	3.3	2.9

Annex 11. The burden of financial liabilities in the future by share of household income for basic expenses
(% of a respective group of income share)

Income share of basic expenses	Financial liabilities within the upcoming 6 months			
	Will be a burden	Will not be a burden	Unspecified	Total
Up to 20%	66.7	33.3	0.0	100
From 21% to 40%	33.3	61.1	5.6	100
From 41% to 60%	46.4	50.0	3.6	100
From 61% to 80%	52.0	43.3	4.7	100
From 81% to 100%	61.2	35.7	3.1	100
Unspecified	30.0	50.0	20.0	100
Total	53.1	42.6	4.4	100

Annex 12. Dependence of changes in income and expenses projected by households (% of the group projecting income change)

Basic expenses	Income						
	Will decrease more than 10%	Will decrease to 10%	Will remain basically unchanged	Will increase to 10%	Will increase more than 10%	Unspecified	Total
Will decrease more than 10%	12.5	2.3	0.1	1.0	11.4	0.0	0.9
Will decrease to 10%	6.3	9.1	1.3	6.8	0.0	0.0	2.2
Will remain basically unchanged	18.8	34.1	59.8	39.8	51.4	36.8	54.1
Will increase to 10%	12.5	38.6	21.5	41.7	5.7	8.8	22.7
Will increase more than 10%	50.0	15.9	14.4	10.7	31.4	0.0	14.3
Unspecified	0.0	0.0	2.8	0.0	0.0	54.4	5.8
Total (% of surveyed)	1.6	4.4	73.6	10.2	3.5	6.8	100

Annex 13. Priority measures to be applied when lacking money (weighted average)

Priority: (9 — would use first, 1 — would use last, 0 — would never use)	1st half-year of 2013	2nd half-year of 2013
Would cut expenditure	7.16	7.57
Would borrow from family or friends	6.92	7.22
Would search for an additional source of income (second job)	5.32	5.62
Would use savings	5.76	5.54
Would use a credit card	4.57	4.88
Would take out a bank loan	4.13	3.58
Would sell property (real estate, investments)	3.22	3.12
Would take out a loan from a credit union	–	2.95
Would use the services of fast credit companies	3.34	2.65

Annex 14. Planning of household income and expenses (by income per household member) (% of those within a respective income group)

Expenses	Income per 1 household member, LTL				Total
	Up to 1,001	1,001–2,001	Over 2,001	Unspecified	
Planned	47.2	54.0	44.7	55.0	49.4
Not planned	49.8	44.7	55.3	43.0	48.3
Unspecified	2.9	1.4	0.0	2.0	2.4
Total	100	100	100	100	100

Annex 15. Assessment of changes in housing prices (by place of residence) (% of those residing in a respective place)

Place of residence	Change in the housing price			
	Will decrease	Will remain unchanged	Will increase	Unspecified
Largest cities	16.3	38.4	35.0	10.4
Other cities	10.6	35.7	37.6	16.0
Villages	6.6	45.2	35.9	12.3
Total	11.9	39.7	35.9	12.4