

Problematic debt situations in Belgium: indicators and profile of the population at risk

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The study of debt situations and problematic indebtedness is particularly relevant in the context of poverty and social exclusion (European Commission, 2002: 57; European Commission, 2004: 33; Jehoel-Gijsbers, 2005; Linden & Hoff, 2003; Mitchell, Mouratidis & Weale, 2005). Debt situations can be the cause as well as the result of poverty, income insecurity and social exclusion – besides of other reasons. A debt situation can be the result of a (temporary) inability to get by because of specific events (e.g. the loss of a job, a divorce, a long illness), because the income is too low for a decent living standard, or because of overspending. A debt situation can also result in poverty and social exclusion when the payment of financial obligations (invoices, credits or other obligations) represents a considerable part of the budget, limiting the disposable income. Then, the consumption of the household (of essential goods) can be reduced, new credits can be contracted or the household incurs (more) overdue payments. These ways of dealing with a limited household budget can also appear combined.

Moreover, the debt situation of a household can have a baleful impact on the different domains of a person's life. Debt situations can provoke financial stress and material deprivation. Debts can undermine a person's physical and mental health as well as his subjective well-being (Balmer et al, 2006; Nettleton & Burrows, 1998). Stress, fear and depression often appear (Vallins, 2004). Debts can also constitute a barrier for employment. They further also have an impact on social relations (inside and outside the family), may result in social exclusion or have a stigmatising effect on the person concerned (Vallins, 2004). Debts may also trigger far-reaching situations, such as attachment of earnings or goods, eviction from home or – when persons have a secured mortgage – loss of the collateral security (e.g. a house).

The debt situation of a household is the result of various combined factors such as the total disposable income of the household, the assets, the reasons for contracting a credit (e.g. for buying a house, for a surgery), life events (loss of a job, divorce, birth of a child, death of a partner, long illness, ...), personal capacities and attitudes of the members of the household (e.g. financial management and counting capacities, attitude with regard to credit) and market-related factors (e.g. access to credit, knowledge, information and publicity on credit services).

At European level, overindebtedness is put forward as an important theme related to social exclusion (Atkinson et al, 2001; European Commission, 2002: 57; European Commission, 2004: 33; Social Protection Committee, 2001:4). Yet no common European indicators on debt situations exist in the OMC on Social Protection and Social Exclusion (European Commission, 2006a)². Nevertheless, on the basis of the EU-SILC, European target variables have been defined, namely on the occurrence of overdue payments for consumer debts, for mortgage or rent and for energy and utility invoices (electricity, water, gas) and on the subjective

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² We remark that recently a research under the authority of the European Commission has been done to define a common European operational definition of overindebtedness (European Commission, 2008).

assessment of the burden the monthly payment for consumer debts represents. Belgian EU-SILC has some extra questions on the debt issue. This paper will explore valid and reliable indicators on problematic debt situations based on these Belgian questions and investigates what these indicators tell about the profile of the persons living in these households.

The outline of the paper is as follows: The paper starts with a brief description of the data and the methodology used. The following chapter covers consumer credit. We draw a profile of the persons living in households with consumer credits, we examine the determinants of having credit and define indicators on problematic consumer indebtedness. Then, we consider arrears, namely a comprehensive indicator for arrears related to human rights and the determinants of these types of arrears. After that, we consider the relationship between the indicator for problematic arrears and the indicator on problematic consumer credit, and poverty. Finally, we examine what the indicators tell about the profile of persons with problematic debt situations and to which extent these groups differ from the known groups at risk of poverty and social exclusion.

The annexe contains methodological remarks.

1. Data and methodology

We examine data of the Belgian EU-SILC survey 2004³. SILC stands for Statistics on Income and Living Conditions and is the successor to the ECHP (=European Community Household Panel). This instrument collects population representative data on the income and the life circumstances, such as health, employment, housing etc. of a representative sample of the population. Every year a core of EU-agreed data are collected in all EU member states, according to common guidelines and instructions, in order to guarantee maximum comparability. The Belgian SILC survey includes questions on debts in accordance with the earlier mentioned European target variables. In addition, Belgian SILC includes specific Belgian questions on the debt issue.

The Belgian EU-SILC has both merits and limitations for the analysis of the debt situation of a household. A first limitation is that the number of questions concerning consumer credits included in the SILC is too minimal to obtain a detailed image of the consumer credit situation of a household. When mapping a household's debt situation, numerous factors should be taken into account: the number of credits, loans or arrears, who the debtor is (the household, the partners⁴ or one or more individual persons), the characteristics of each of the loans, the credits or the invoices that have to be paid (the total amount that has to be paid back, the periodicity of the payment, the amount of the periodic payment, the interest and interest rate and other characteristics of the contracts), the number and duration of overdue payments plays, etcetera. Another drawback is that financial assets are not questioned. This is a limitation because a debt and the payment of this debt are probably less seen as a burden when the household has assets, especially moveable assets (e.g. a savings account). However, SILC does not include data on financial assets, but it does include information on the earnings from assets. The latter are included in the calculation of the household income. Furthermore, the best way to measure all household debts is to question every adult of the household. Though, Belgian EU-

³ This survey is conducted by the Directorate General Statistics and Economic Information of the Federal Public Service Economy, SMEs, Self-employed and Energy. The sample basis is the national register (excluding collective households).

⁴ In Belgium, the matrimonial property regime also has an impact on the fact of whether or not being debtor.

SILC maps the debt situation relying on three questions asked to the reference person of the household, i.e. a question about having consumer credit, a question about the amount of monthly payment for consumer credit and a question about the number of arrears for various goods or services⁵. Nevertheless, the results of EU-SILC are –although not easy comparable– in line with the earlier ECHP findings and with credit data from the Belgian National Bank. By contrast, the EU-SILC data are the only recent Belgian representative household level data on credits and overindebtedness, which have in addition a European relevance. Another major advantage is that debt situations can be related to individual and household characteristics such as e.g. income, health or employment, enabling the examination of the profile of the indebted population.

This paper examines debt situations related to poverty and social exclusion. That is why we focus our attention on consumer credits and overdue payments. Mortgages are largely left aside. Economically as well as socially, a mortgage has another function. Mortgage payments can be considered as the constitution of assets, as mortgage is usually used in Belgium within a long term financial planning to acquire immovable goods, which normally keep their value⁶.

From a legal point of view, debts are contracted by individual persons. So, according to the form of cohabitation and the matrimonial property regime and only some adults of a household are liable. Nevertheless, we consider debt situations as a burden for the whole household, as these payments will affect the consumption and income security level of all persons of the household. In other words: children will also suffer from the debt burden of their father or mother. Hence, we describe the debt situations in terms of the number of persons (including children) living in a debt situation, and not in terms of the number of households⁷. Thus, a family of four persons that ends up in a problematic debt situation will weight four times more than a single person to which the same happens.

2. Consumer credit

2.1. Who lives in a household having consumer credit?

One fourth of all persons (25%) in 2004 in Belgium live in a household having consumer credit⁸. The average amount of the monthly payment is 372 €. Considering the total credit situation (included mortgage) about half of the population lives in a household without a mortgage or a consumer credit (Table 1). Slightly more than one quarter of the persons lives in a household that pays off a mortgage. About one eighth lives in a family which pays off consumer credits and a bit less than one eighth of the population's household has consumer credits as well as a mortgage.

⁵ We remark that the wording of the questions has also some shortcomings. For further details we refer to XXXX.

⁶ The Belgian authorities can also take over the mortgage payments for a certain period, when certain social risks occur. These circumstances do not apply for consumer credits.

⁷ To account for the number of individuals is in accordance with the recommendations of Atkinson, Cantillon, Marlier & Nolan (2001:29) on indicators for social inclusion in the framework of the Lisbon Strategy.

⁸ Having at least one consumer credit.

Table 1: Percentage of individuals living in households without consumer credits and/or mortgage (N=12971)

Situation of the household	% individuals
No consumer credits or mortgage	47.0
Only consumer credit	13.1
Only mortgage	28.4
Consumer credit and mortgage	11.5
Total	100

Source: Federal Public Service Economy, SMEs, Self-employed and Energy – Directorate General Statistics and Economic Information, SILC 2004, own calculations.

Consumer credits are unevenly spread over the population. Table 2 displays the distribution of the population having consumer credits according to various demographic and socio-economic qualities, and within particular categories, which percentage of the population has consumer credits.

Table 2: Distribution of the population in households having consumer credits and percentage of people within a category having credit

CHARACTERISTICS OF	Distribution of % of persons living in a household with consumer credits (N=12971)	% of persons in category living in a household with consumer credits (N=3232)
THE REFERENCE PERSON OF THE HOUSEHOLD		
Age		
16-24 years	1.9	34.7
25-49 years	73.1	32.7
50-64 years	21.3	20.7
65-74 years	2.4	5.6
75 years or older	1.3	4.1
Activity status		
Working	77.9	30.9
Unemployed	9.5	30.6
Retired	7.4	7.0
Other inactive	5.2	21.5
Civil status		
Unmarried	17.2	30.1
Married	67.8	24.8
Divorced	12.6	26.5
Widow(er)	2.4	8.9
Education level		
Low	32.7	23.3
Middle	41.1	28.4
High	26.2	21.8

THE MEMBERS OF THE HOUSEHOLD		
Age of the members of the household		
<16 years	25.2	34.2
16-24 years	12.5	27.3
25-49 years	45.7	30.9
50-64 years	13.6	18.9
65-74 years	2.1	5.5
75 years or older	0.9	2.9
THE HOUSEHOLD		
Work intensity of the household ⁹		
No dependent children, W=0	5.1	13.2
No dependent children, W<0<1	12.8	25.2
No dependent children, W=1	14.3	27.7
Dependent children, W=0	5.4	25.5
Dependent children, 0<W<0,5	6.0	39.7
Dependent children, 5<W<1	22.8	33.2
Dependent children, W=1	33.6	32.2
Household type		
Single person	8.0	14.2
2 adults <65	13.8	23.8
2 adults ≥ 65	2.2	5.1
Other households without children	9.4	23.5
1 parent, 1 or more children	6.7	28.8
Couple, 1 child	15.9	36.2
Couple, 2 children	19.4	30.6
Couple, 3 or more children	17.0	37.0
Other household	7.6	14.2
Renter/owner		
Renter	34.3	32.2
Owner/occupant without rent	65.7	21.8
Quintile		
1st quintile	17.1	20.9
2nd quintile	19.8	24.3
3rd quintile	23.0	28.2
4th quintile	20.4	25.1
5th quintile	19.7	24.1
Region		
Brussels region	8.9	22.5
Flemish region	45.9	19.5
Walloon region	45.2	34.2
Population density		
High	53.6	24.7
Average	40.8	23.7
Low	5.6	30.7
Total	24.6	100

Source: Federal Public Service Economy, SMEs, Self-employed and Energy – Directorate General Statistics and Economic Information, SILC 2004, own calculations.

Examining the population having consumer credit according to the age of the reference person, we find almost three quarters (73%) lives in a household of which the reference person belongs to the age category of 25-49 years. One fifth (21%) of the population having consumer credit has a reference person aged between 50 and 64. Only less than five percent of those with consumer credit can be found among the reference persons aged 65 and older, and only about 2% lives in a household with a reference person younger than 25. Thus, 95% of population with consumer credit lives in a household with a reference person at working age. Yet, when we look at the share of the population having consumer credits according to the age category of the reference person, we find a downward trend of the percentage of persons in households with consumer

⁹ The work intensity of the household is the number of months that all members of the household at working age have worked in proportion to the total number of months they were theoretically able to work (during the income reference year). This is scaled from 0 to 1.

credits as the age of the reference person increases (from 35% among the youngest persons to 4% among the oldest persons). These findings are in line with the earlier confirmed life cycle theory (Girouard, Kennedy & Andre, 2007; May, Tudela, Young, 2004: 419; Kempson, 2002:10). The life cycle theory, which has been developed in the 1950s and 1960s by Modigliani, Brumberg and Ando, assumes that the expected income of the household during the life cycle (from labour and assets) determines the household consumption. Thus, consumption not only depends on the current income, but also on the (past and) future income. In accordance with the expected income, the consumption can be spread over the life cycle by contracting credits. It is expected that young persons with a relatively low income dissave by contracting loans (e.g. for buying a car or a house). During working age, the contracted loans are paid back. Older persons can enjoy the investments they made earlier. Considering the distribution of consumer credits according to the age of all the members of the household, suggests a similar pattern. 1 out of 4 persons having consumer credit is a child.

When looking at the incidence of consumer credits per activity status of the reference person, we find that among households with working as well as with unemployed reference persons, about one third has consumer credits (while three quarters with consumer credit lives in a household with a working person). Only few households with a retired reference person have consumer credits. Among the other inactive reference persons, about one fifth has consumer credits. According to the civil status of the reference person, married have the most often consumer credit (30%), followed by the unmarried which have an incidence of 25%. Furthermore, we find that the incidence of consumer credits is relatively equally spread over the education levels of the reference persons of the households. The percentage with consumer credits varies between 22% and 28%. Nevertheless, consumer credits are most frequent among the population in households with a reference person with a middle education level (28%) and the lowest for those who have a lowly educated family head. A similar pattern we find regarding quintiles. Another finding is that consumer credits are the most frequent among households with children. Consumer credits are also more frequent among renters (one third versus one fifth). Furthermore, the share of the population with consumer credits is the highest in the Walloon region and in the Brussels capital region.

2.2. Determinants of having consumer credits (for households)

We predicted the chance of having consumer credit at household level (as consumer credit is reported at household level) for households with a reference person in working age (under 65 years old)¹⁰, as we want to gain insight in the determinants of having credit for households in relation to income and other socio-economic characteristics. Table 3 summarizes the results of the logistic regression. A one year increase in the age of the reference person of the household reduces the odds of having credit by 2%, all other characteristics kept constant. Households which are not able to meet unattended expenses raise the odds for having consumer credit by a 112% in comparison to similar households in the ability to do unattended expenses. Household experiencing economic strain reveal a raise of 60% in the odds of having credit comparing to similar households not facing financial stress. Renting raises the odds of having credit by nearly 70% in comparison to owners with the same characteristics.

¹⁰ Also households with one or more self-employed persons in the household were left out of the analysis, as the question mapping consumer credit does not make a clear distinction between personal consumer credit and consumer credit for the business of self-employed persons.

Table 3: Logistic regression – Chance of having consumer credit

	Coefficients	Standard errors	Probability	Odds ratios
Age of the reference person of the household	-0,020	0,004	0,000	0,981
Renter	0,524	0,102	0,000	1,689
(Reference category is home owner of living for free)				
Household type combined with work intensity			0,000	0,196
(Reference category is couple with children, both working)				
One person household, not working	-1,630	0,202	0,000	0,196
One person household, working	-0,817	0,144	0,000	0,442
Lone parent household, not working	-1,136	0,259	0,000	0,321
Lone parent household, working	-0,922	0,231	0,000	0,398
Couple without children, both not working	-1,021	0,249	0,000	0,360
Couple without children, both working/one person works	-0,435	0,145	0,003	0,648
Couple with children, not working	-0,888	0,337	0,008	0,411
Couple with children, one person works	-0,306	0,178	0,085	0,736
Other household	-0,509	0,146	0,000	0,601
Highly educated	-0,410	0,101	0,000	0,664
(Reference category is low or middle educated)				
Quintile/ decile combined with region ¹¹			0,000	0,507
(Reference category is fifth quintile, Flemish region)				
Brussels region 1 First decile	-0,747	0,340	0,028	0,474
Brussels region 2 Second decile	-0,128	0,359	0,722	0,880
Brussels region 3 Second quintile	-0,406	0,325	0,212	0,666
Brussels region 4 Third quintile	0,173	0,332	0,603	1,189
Brussels region 5 Fourth quintile	0,120	0,353	0,733	1,128
Brussels region 6 Fifth quintile	-0,284	0,317	0,370	0,753
Flemish region 1 First decile	-0,679	0,297	0,022	0,507
Flemish region 2 Second decile	-0,484	0,292	0,098	0,617
Flemish region 3 Second quintile	-0,313	0,209	0,135	0,732
Flemish region 4 Third quintile	0,057	0,174	0,743	1,058
Flemish region 5 Fourth quintile	-0,067	0,163	0,683	0,935
Walloon region 1 First decile	-0,572	0,282	0,043	0,565
Walloon region 2 Second decile	-0,055	0,270	0,838	0,946
Walloon region 3 Second quintile	0,270	0,221	0,223	1,309
Walloon region 4 Third quintile	0,159	0,197	0,420	1,172
Walloon region 5 Fourth quintile	0,700	0,184	0,000	2,013
Walloon region 6 Fifth quintile	1,096	0,189	0,000	2,991
Economic strain for at least one item	0,465	0,105	0,000	1,591
(Reference category is no economic strain)				
Household not able to make unattended expenses	0,749	0,110	0,000	2,115
(Reference category is household able to make unattended expenses)				
Constant	-0,156	0,235	0,506	0,855

Number of observations = 3523 households

Nagelkerke R²= 0.166 Model X² is 410, 4

¹¹ As we found an interaction effect between region and quintiles, we split the quintiles by region to facilitate a straightforward interpretation. The quintiles are based on the standardised incomes of the total population. The two lowest quintiles are split into deciles. Remark that the estimations for the Brussels region are based on rather small groups.

A reference person with high education reduces the odds of having consumer credit for the household by one third, in comparison to a reference person with low or middle education. All household types have significantly lower odds of having credit than comparable couples with children, both working. The odds of having credit for any jobless household is lower in comparison to the odds of the same household type having a high work intensity. Relating to income, we find an important and interesting interaction effect with region. In Flanders, the odds of having consumer credit increase up to the third quintile, above this level of income the odds remain – *ceteris paribus* – nearly the same. In the Walloon region, by contrast the probability of having consumer credit keeps on rising, up to the fifth quintile. This implies that for almost every quintile or decile Walloon households have a higher chance of having credit than otherwise comparable Flemish households. This tendency is especially marked in the highest quintiles. The odds of households in the Walloon region in the fifth quintile and fourth quintile are 200% and 100% higher, respectively, compared to households in the fourth quintile in the Flemish region. Due to the small sample size in the Brussels region, coefficients for the interaction terms between income quintile and that region are most non significant, and reveal no consistent pattern.

Concluding, we can say that having no liquid financial reserves, renting a home, experiencing economic strain, being young, having a high working intensity, having children, having a high equivalent income in the Walloon region or middle standardised income in the Flemish region, and being highly educated are distinctive characteristics for households increasing the chance of having consumer credit.

It is not easy to interpret these findings, among other reasons because we do not know for which purposes these households use consumer credit. Moreover, some of them are related to demand factors (whether households want consumer credit) other to supply factors (whether they are able to get it – at reasonable conditions). The positive effects of variables like economic strain, not being able to make unexpected expenses, renting ones house and having children probably reflect increased demand for consumer credit, while the positive effects of high income and having (some) work are more likely to be related to the better chances households have of obtaining credit, or to getting it at more favourable conditions. An interesting finding (in the Belgian context) is that the much higher incidence of consumer credit in Wallonia can not be explained away by the less favourable socio-economic circumstances in that region.

Comparing these results to the earlier descriptives at individual level, major patterns revealed are similar, except we do find when controlling for other socio-economic characteristics a clear effect of the quintile of income.

2.3. Indicators for problematic consumer credit situation

When is a credit situation problematic? We say a credit situation of a household is problematic when the household has difficulties paying back its credit. This definition includes situations in which the household pays its liabilities as situations in which the family does not. However, the crucial question when determining whether a credit situation is problematic or not, is to find out when a bearable credit becomes unbearable (cf. Van Wambeke & Van Loon, 1997), on the basis of the available data. Credit as such is indeed not necessarily problematic. It can be seen as a normal phenomenon to spread consumption over the life cycle (Betti et al., 2001). On the basis of SILC we define various

indicators capturing overindebtedness, which are summarised in Table 4. An indicator can be seen as a well-defined and measurable quantitative datum which describes an underlying phenomenon and which is the result of a compromise in terms of the ideal conceptualisation and the opportunities of the available data. An indicator needs to be defined carefully as it determines how many persons in problematic debt situations we will measure and thus may have an impact on the policy relevance of the problem.

Table 4: Indicators on high burden of consumer credit or problematic consumer credit

Nr.	Description	Type of indicator	% of population
1	Percentage of population in a household having a ratio of consumer credit to disposable income higher than 20% ¹²	Objective	4%
2	Percentage of population living in a household experiencing consumer credit payments as a high burden	Subjective	8%
3	Percentage of persons in households having two or more arrears for consumption credit	Objective	1%
4	Percentage of population becoming poor or poorer due to consumer credit payments	Objective	5%
5	Increase in poverty gap due to consumer credit payments	Objective	0.01%

Source: Federal Public Service Economy, SMEs, Self-employed and Energy – Directorate General Statistics and Economic Information, SILC 2004, own calculations.

Indicator one, the payment for consumer credit amounts to more than 20% of the household income, is frequently used and known in literature as the debt-servicing ratio (May, Tudela & Young, 2004; Girouard, Kennedy & Andre, 2007; Betti et al., 2001; Rinaldi & Sanchis-Arellano, 2006). However, this indicator has the disadvantage that it does not account the connection between the household income and the credit amount. A burden of more than 20 percent of the income¹³ can be bearable and should not lead to income insecurity when the income is high enough. Consequently, this indicator validly distinguishes a heavy credit burden, but is less appropriate to define a problematic debt situation¹⁴. A second indicator is the percentage of population experiencing consumer credit payments as a high burden. This indicator has the advantage that the respondent takes into account all relevant aspects (income, family situation, health care costs and other expenses) when assessing the burden of the payment for consumer credit. Yet, people may have very different opinions on the meaning of 'a heavy burden'. Moreover, people in trouble, not willing to face or report on their situation, may deny the burden of payment of consumer credit. Experiences with subjective indicators in other domains have pointed out that the variations they make from year to year can be remarkable and difficult to interpret, which strongly reduces their usability for policy monitoring.

Another way of defining when consumer credit becomes problematic in literature is based on arrears (Serail, 2004; Kempson, 2002; British Department for Trade and Industry, 2004). Having arrears does not have to be problematic either. Arrears can be the result of oblivion, can be deliberate or can be occasional. That is why we consider only overdue payments because of financial difficulties which

¹² We decided to set the ratio at 20% of household income

¹³ We set the ratio of 20% after relating the overindebted households according to various ratios with other indications of financial difficulties. We find that the households with a 20 % debt-servicing ratio have more difficulties facing unexpected expenses and experience the payment for consumer credit more often as a heavy burden than the households having a ratio of 30%.

¹⁴ We remark that Betti et al. put this indicator forward as a common European indicator.

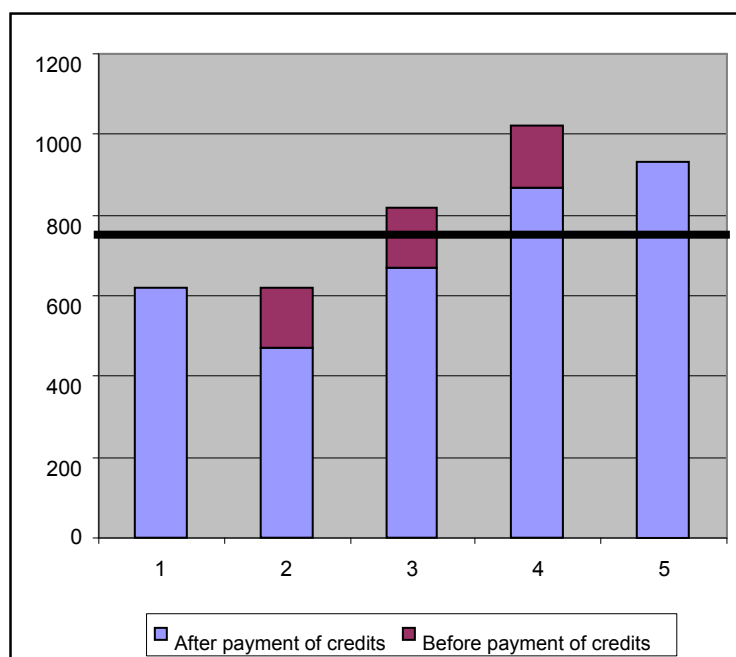
occur more than once, namely having two or more arrears for consumer credit due to financial difficulties (indicator 3). 1% of the population lives in a household with at least two overdue payments for this type of credits. However, decisions on which arrears (not) to pay need to be situated against all liabilities of the household and the consequences that those can have. So, the households having two or more arrears on consumer credit do not necessarily reflect the households facing the most financial difficulties. The fourth indicator, the percentage of persons that falls (deeper) below the poverty threshold because of the payments for consumer credits, has the advantage that the disposable income after paying for credit is directly related to income insecurity. Hence, it has a clear meaning. Disadvantages of this indicator are that the poverty threshold changes from year to year, the indicator conceptually confuses consumption and income and the reference period for questioning the income and the amount of payment for debt are different¹⁵. The widening of the poverty gap due to payment for consumption credit (indicator 5) is theoretically more valid reflecting also how far below the poverty threshold persons are, but this indicator has no direct intuitive meaning. Given the drawbacks and advantages of each of these indicators, we consider indicator four the most reliable and valid indicator with a clear meaning for problematic consumer credit situations. Let us consider this indicator more in detail. A credit situation is regarded as problematic when the income, after fulfilment of the financial obligations, is not sufficient to live decently (cf. Van Wambeke & Van Loon, 1997: 8).

This condition is operationalised as the percentage of people becoming poor or poorer after the payment of consumer credit according to the poverty line defined as 60% of median standardised disposable income. shows the 5 possible situations of households compared to the poverty threshold before and after the payment for credits (if any). Situation 1 represents a household that is poor according to the 60% poverty threshold, which pays not off for credits¹⁶. Situation 2 is a household that is poor according to the 60% poverty threshold, before as well as after the payment for credits. Situation 3 represents a household that becomes poor because of the payment of financial obligations. Situation 4 is a household that is not poor according to the 60% poverty threshold, before as well as after the payment of the financial obligations. Situation 5 is a household that is not income insecure and that has no consumer credits.

¹⁵ This holds for every indicator presented above accounting for the amount of credit payment. For further information on this issue we refer to Carpentier & Van den Bosch (2008) (forthcoming).

¹⁶ Such a household can have no access to consumer credit or can not (feel the) need for credit.

Figure 1: 5 probable situations of households before and after the payment for credits (if any) compared to the poverty threshold



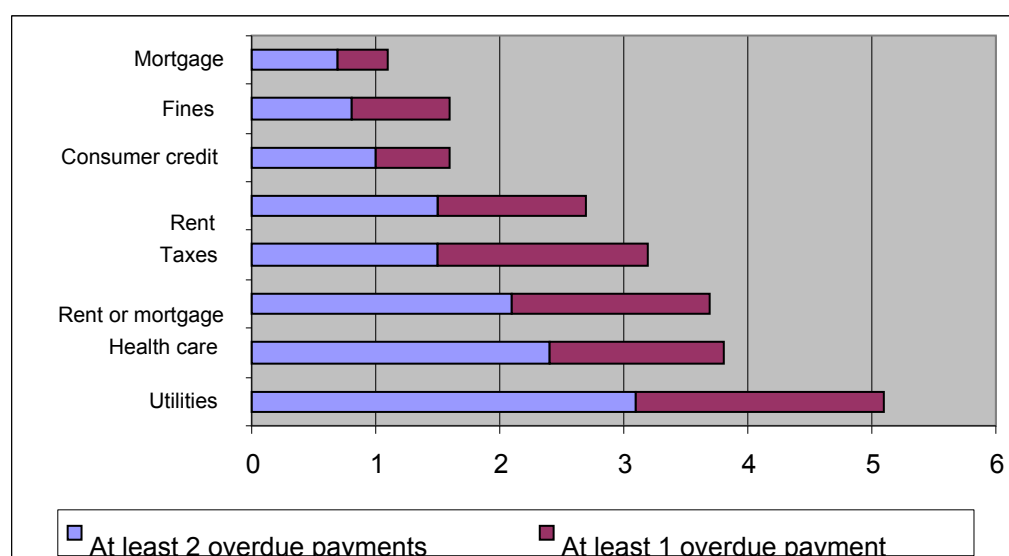
On the basis of the 60% poverty threshold, 12% of the Belgians suffer from income insecurity in a household that has no consumer credits. 3% lives in a household that suffers from income insecurity before as well as after the payment for consumer credits. 2% is part of a household that fall below the poverty threshold after the payment for consumer credits. 83% is not income insecure and lives in a household with or without consumer credits.

3. Problematic arrears for goods and services related to basic human rights

3.1. Arrears

As we want to grasp problematic debt situations which are not only related to consumer credit, we consider arrears more in detail. Figure 1 shows the percentage of the Belgian population in households with overdue payments for various expenditures. Overdue payments for utilities are the most frequent (5%), followed by overdue payments for health care and housing costs (rent or mortgage). For both expenditures, almost four percent of the population cannot meet its financial obligations. Taxes are next on the list (3%). The population with at least two overdue payments shows the same order of importance for problematic expenditures.

Figure 2: Percentage of persons living in households with at least one or more overdue payments for utilities, health care, rent or mortgage, taxes, rent, consumer credits, fines or mortgage



Source: Federal Public Service Economy, SMEs, Self-employed and Energy – Directorate General Statistics and Economic Information, SILC 2004, own calculations

To develop an indicator on problematic overindebtedness, we rely on arrears for utilities, health care and/or mortgage or rent, as these goods and services are related to realising human rights and they are the most common arrears. We examined how various combinations of overdue payments for these basic goods and services (for several items and/or at least one or two payments) relate to other indicators for financial difficulties or deprivation and found that a more restrictive approach did not necessarily reveal more financial difficulties. That is why the following comprehensive indicator was chosen for problematic debt situations for basic goods and services: at least two overdue payments for one or more basic items (utilities, health care, or rent or mortgage). It means at least one overdue payment for at least two basic items or at least two overdue payments for at least one basic item. 5.9% of the population lives in a household with problematic arrears for basic goods and services.

Table 5: Having arrears for basic items in relation to the credit situation

Credit situation	All incomes		Income below median income	
	Risk	Distribution (N=858)	Risk	Distribution (N=749)
No consumer credits or mortgage	4.7%	37.7%	7.3%	41.0%
Consumer credits	15.7%	34.9%	22.4%	33.2%
Mortgage	2.8%	13.5%	6.4%	12.1%
Mortgage and consumer credits	7.1%	14.0%	15.4%	13.7%
Total	5.9%	100%	10.1%	100%

Source: Federal Public Service Economy, SMEs, Self-employed and Energy – Directorate General Statistics and Economic Information, SILC 2004, own calculations

5 describes the credit situation of the persons with problematic arrears for basic items for the total population and for those living in a household having an income below the median income. Almost three third of the persons having problematic arrears live in a household which has no credit or mortgage (38%) or only consumer credit (35%). 14% has a mortgage and consumer credits and 14% again only has a mortgage. The distribution of the population with problematic overdue payments for basic goods and services and an income below the median income shows a similar pattern, with even more persons not having any credit (41%). Nevertheless, the persons with only consumer credits clearly have the highest risk for problematic debt situations (16% and 22% when the household income is below the median). They are followed by the population with mortgage and consumer credits that has a 7% (and 15% for those with an income below the median income) risk for problematic overdue payments.

3.2. Determinants of problematic arrears for basic items

We examine again the determinants of problematic arrears for basic items only for the households with a reference person at working age. Table 6 summarises the results.

Table 6: Logistic regression – Chance of having at least two arrears for one or more basic items (utilities, health care, and rent or mortgage)

	Coefficients	Standard errors	Probability	Odds ratios
Age of the reference person of the household	-0.037	0.007	0.000	0.964
Household type combined with work intensity (Reference category is couple with children, both working)			0.007	
One person household, not working	0.398	0.306	0.194	1.489
One person household, working	0.115	0.297	0.698	1.122
Lone parent household, not working	0.961	0.336	0.004	2.615
Lone parent household, working	0.308	0.381	0.418	1.361
Couple without children, both not working	0.491	0.434	0.257	1.635
Couple without children, both working/one person works	0.026	0.367	0.944	1.026
Couple with children, not working	0.815	0.408	0.046	2.258
Couple with children, one person works	0.347	0.341	0.309	1.415
Other household	0.886	0.296	0.003	2.424
Deprivation (Reference category is no deprivation)	0.749	0.175	0.000	2.115
Household not able to make unattended expenses (Reference category is being able to do unattended expenses)	2.725	0.230	0.000	15.255
Economic strain for at least two items (Reference category is no economic strain)	0.958	0.164	0.000	2.607
Constant	-3.412	0.389	0.000	0.033

Number of observations = 4018 households

Nagelkerke R^2 = 0.355 Model X^2 is 610, 1

Source: Federal Public Service Economy, SMEs, Self-employed and Energy – Directorate General Statistics and Economic Information, SILC 2004, own calculations

The evidence suggests that the main determinant of having problematic arrears for utilities, rent or mortgage or health care, which confirms the ability-to-pay

theory. The odds of having arrears for the households reporting not being able to pay unattended expenses raises by 1500 % related to similar households which are able to pay this unexpected amount. Furthermore, age is a predictor of the chance of having arrears for basic items. A one year increase in the age of the reference person of the household reduces the odds of having arrears by 4%. Besides, being deprived or experiencing financial stress increases –ceteris paribus- the odds of having problematic arrears by more than 200% compared to those who do not face this condition. Those households having a poor work intensity face also clearly a higher chance of problematic arrears than similar households with a higher work participation. Hence, we find a clear indication that the financial resources play a main role.

4. Consumer credit, problematic arrears and poverty

We now consider the relationship between consumer credit, problematic arrears (for basic human rights) and poverty and social inclusion. Firstly, we regard the relation between those becoming poor due to consumer credit and those living in households having at least two or more arrears for one or more basic items (Table 7). Although both these indicators measure around 5 percentage of population in problematic debt situations, we find a limited overlap of 1% between these indicators. 10% of the population is in at least one of both situations. About five percent has problematic overdue payments, but no problematic credit situation. 4% is (more) income insecure because of credits and has no problematic overdue payments.

Table 7: Distribution of those who are (not) poor according to problematic debt situations (based on arrears or on consumer credit) (N=12971)

Situation of the household	Not poor	Poor	% of the total population
Problematic overdue payments, <u>Not</u> (more) income insecure because of consumer credits	3.6%	9.6%	4.5%
<u>No</u> problematic overdue payments, (more) income insecure because of consumer credits	2.1%	12.8%	3.7%
Problematic overdue payments and (more) income insecure because of consumer credits	0.6%	3.6%	1.4%
<u>No</u> problematic overdue payments, <u>Not</u> (more) income insecure because of consumer credits	93.7%	71.7%	90.4%
Total	100%	100%	100%

Source: Federal Public Service Economy, SMEs, Self-employed and Energy – Directorate General Statistics and Economic Information, SILC 2004, own calculations.

Only 30% of those who are poor does not live in any problematic debt situation. About 10% of those living in a poor household have only overdue payments for basic items, compared to 4% for the non poor. Furthermore, among the persons living in poverty, 13% is (more) income insecure because of the payment for consumer credits versus only 2% of the persons who do not live in poverty. 4% of the persons with income insecurity combine both situations of problematic debts.

5. The profile of the population with problematic debt situations

Table 8 summarises the risk of having at least two arrears for one or more basic items (mortgage or rent, utilities and health care), for those becoming poor or poorer due to the credit payment (situation 2 and 3 in figure 1) and for those . Table 8 reports also the risk of being poor (as usually measured on the basis of standardised income).

Table 8: Risk for overdue payments for basic items, poverty risk and poverty risk due to payment of consumer credit according to socio-economic and socio-demographic characteristics

CHARACTERISTICS OF REFERENCE PERSON	Arrears for basic items	Insecure income (=Situation 1 & 2)	Poor(er) due to credit payment (=Situation 2 & 3)	(=Situation 3)
CHARACTERISTICS OF REFERENCE PERSON				
Age				
16-24 years	27.2		14.6	
25-49 years	8.1		7.0	
50-64 years	3.6		3.6	
65-74 years	1.1		1.2	
75 years or older	0.7		0.7	
Activity status				
Employed	4.3		4.6	
Unemployed	20.6		16.8	
Retired	1.3		1.8	
Other inactive	20.8		9.3	
Civil status				
Unmarried	11.2		6.5	
Married	4.0		4.6	
Divorced	10.6		7.8	
Widow(er)	5.3		3.5	
Education level				
Low	8.1		8.0	
Average	6.3		4.7	
High	2.7		2.3	
HOUSEHOLD MEMBERS				
Age				
<16 years	9.9	17.5	8.9	
16-24 years	7.4	16.6	7.1	
25-49 years	6.9	11.8	5.6	
50-64 years	3.3	12.4	3.0	
65-74 years	1.2	19.8	1.1	
75 years or older	0.8	17.5	0.7	

HOUSEHOLD				
Work intensity				
No dependent children, W=0	8.8	30.3	5.6	2.1
No dependent children, W<0<1	5.0	6.7	2.8	1.3
No dependent children, W=1	2.7	2.9	1.8	0.6
Dependent children, W=0	28.0	70.2	20.3	3.4
Dependent children, 0<W<0,5	18.5	27.6	18.3	8.3
Dependent children, 5<W<1	6.6	13.9	7.9	4.5
Dependent children, W=1	2.3	3.6	3.0	1.8
Household type				
Single person	6.7	20.7	3.5	1.6
2 adults < 65 years	4.4	10.6	3.4	1.0
2 adults ≥ 65 years	1.1	19.7	0.8	0.6
Other household without children	3.3	5.3	1.6	0.6
1 parent, 1+ children	18.8	35.9	13.8	5.1
Couple, 1 child	5.8	9.7	4.8	2.4
Couple, 2 children	4.3	9.0	5.5	2.5
Couple, 3+ children	9.2	18.1	10.6	6.0
Other household	6.0	16.6	7.0	3.0
Renter/owner				
Renter	2.9	26.7	10.9	4.5
Owner/free	14.3	10.7	3.1	1.6
Quintile				
1st quintile	15.2	74.4	18.5	4.5
2nd quintile	6.9	0	5.4	5.4
3rd quintile	4.7	0	1.2	1.2
4th quintile	1.9	0	0.4	0.4
5th quintile	0.8	0	0.2	0.2
Region				
Brussels region	12.5	27.0	10.3	3.8
Flemish region	3.6	11.3	3.3	1.8
Walloon region	8.1	17.7	6.8	2.9
Population density				
High	7.1	16.7	6.4	2.7
Average	4.3	12.4	3.7	2.0
Low	6.4	16.6	3.5	1.7
Total	5.9		5.1	

Source: Federal Public Service Economy, SMEs, Self-employed and Energy – Directorate General Statistics and Economic Information, SILC 2004, own calculations.

The risk groups identified by the indicator 'having at least two arrears for one or more basic items' and by the indicator becoming poor(er) due to consumer credit appear to be similar. The groups with a high risk for a problematic debt situation are: children, youth and persons younger than 50, unemployed and inactive persons, unmarried and divorced persons, persons in a household with a reference person with a low education level, households with dependent children and no paid jobs or where the work intensity varies between 0 and 0.5 and single-parent families with three children or more. Persons with a low income (first or second quintile), persons who live in the Brussels region (or the Walloon region) and persons who live in densely populated areas have a higher risk for problematic debt situations. While the fact of having credits was relatively equally spread over the population, with a concentration in the middle groups and the higher incomes, we find that problematic debt situations are mainly concentrated in the groups with a lower social-economic status.

The profile of the people becoming insecure due to consumer credits to a large extent corresponds to the profile of the persons with income insecurity (only on the basis of income), which are generally accounted for when presenting poverty

numbers. However, we find also some remarkable differences and more explicit trends. The most important shift in the profile, taking payments for consumer credits into account, is that households with (young) children have a high risk. In relation with this, we find a change with regard to vulnerable age groups. The persons up to the age of 65 and more in particular youth and children (so not the elderly) are the largest risk groups. With regard to region and renter/owner, income insecurity after consumer credits follows the trend. With regard to population density and quintile, the profile of the risk groups changes slightly because rural areas have a lesser risk and because the ratio between the first and the second quintile are inversed. The second quintile has a higher poverty risk percentage after payment of consumer credits than the first. The poverty risk because of consumer credits according to household type is also globally in line with the poverty risk (with single-parent families and households with three or more children), though not for single persons. For work intensity also, the profile of the vulnerable groups is similar, although households with children and no paid jobs have a rather low poverty risk.

6. Conclusion

The study of debt situations and problematic debts is particularly relevant in the context of poverty and social exclusion. At European level, debts are put forward as an important theme in the context of social protection and social exclusion. Yet, no common indicators and definition of overindebtedness exist at European level (although target variables based on EU-SILC are defined) with regard to debt situations in the framework of the OMC Social Protection and Social Exclusion. This study explores the relationship between having consumer credit, problematic debt situations, social exclusion and poverty on the basis of additional Belgian EU-SILC questions on overindebtedness.

We consider a debt situation is problematic when the payment of the debts results in problems for the debtor. This description thus covers situations in which the debtor fulfils his financial obligations as well as situations in which he does not. We put two variables forward as primary indicators for problematic debt situations, namely the percentage of persons in households with at least two overdue payments for invoices for electricity, water or gas, rent or mortgage or health care, and the percentage of persons in households that fall (deeper) below the poverty threshold because of the payment for consumer credits. These indicators indicate more or less the same risk groups. These groups are: children, youth and more generally persons younger than 50, unemployed and other inactive persons, unmarried and divorced persons, renters, persons in a household with a reference person with a low education level, households with dependent children with a limited labour participation, single-parent families and families with three or more children. Also persons with a low income (first or second quintile), persons living in the Brussels region (or the Walloon region) and persons living in urban areas have a higher risk for problematic debt situations.

The profile of the persons with income insecurity because of consumer credits largely corresponds to the profile of the persons with income insecurity, but there are also some remarkable differences and more marked trends. Problematic debts hardly occur among elderly persons (aged 65+). Households with children have a high risk. This risk is higher when the household has a (low) working income than when the household has no working income at all.

Logistic regression suggests that, although socio-economic and socio-demographic qualities play a role in predicting the chance of having arrears for

basic items and having consumer credit, other dimensions, such as the ability to face unattended expenses, financial difficulties play and other dimensions staying out of scope play a major role. Predicting the chance of having problematic arrears, we find evidence contributing to the ability-to-pay theory.

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Annexe 1: Methodological comments

0.01 significance level has been used for chi-square tests of bivariate statistics.

Variables and breakdowns have been defined according to the technical agreements for the indicators of the Belgian National Action Plan Social Inclusion. If possible, variables have been constructed consistent with the reference period of questions on consumer credit and arrears (last month).

The reference person of the household is the main responsible person for the dwelling. This person may be another person than the one responding the household questionnaire.

The working intensity of the household is the number of months worked by all members of the household as a proportion (from 0 to 1) of the total number of months that they theoretically could have worked in the income reference period.

The categories low, middle and high education are consistent with the ISCED-classification.

The ability to account for unexpected expenses was questioned in Belgian SILC 2004 for an amount of 1500 €.

Concerning the amount of monthly payment for consumer credit, the 3 highest amounts were considered as outliers. The households with an unknown monthly payment for consumer credit are taken into account when considering the number of persons having consumer credit.

Calculations for the combination of mortgage and consumer credit are done for last month.

When the income is 0 or negative and an amount of payment for consumer credit is present, we consider the debt-servicing ratio to be one.

The poverty gap calculate is the total mean poverty gap according to Foster, Greer and Thorbecke (FGT1), as the relative median poverty gap is more sensible.

Facing financial stress covers the following items: not having the opportunity to have a yearly week of holiday, to eat every two days a protein dinner, and to invite people once a month for a drink/dinner. Deprivation on durables covers not being able to buy a telephone (or mobile phone), a colour tv, a computer, a washing machine, and a car.