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Research Report

The financial fragility of European households in the time of COVID-19

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The financial fragility of European households in the time of COVID-19

Maria Demertzis, Marta Domínguez-Jiménez
and Annamaria Lusardi

Executive summary

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- **THE CONCEPT OF** household financial fragility emerged in the United States after the 2007-2008 financial crisis. It grew out of the need to understand whether households' lack of capacity to face shocks could itself become a source of financial instability, in addition to risks to the stability of banks and the greater financial system. The concept goes beyond assessing the level of assets and encompasses the state of household balance sheets, including indebtedness. It relies also on individual perceptions of the ability to rely on families and friends and other methods to deal with shocks, though such aspects are less easy to measure and rely frequently on self-assessments.
- **IN THE WAKE** of COVID-19, we ask how well-prepared households were in the European Union (including the United Kingdom) to handle an unexpected expense. Two years before the pandemic hit, a substantial share of EU households reported that they would be unable to handle unexpected expenses. In some EU countries, many households had savings equivalent to just a few weeks of basic consumption.
- **WE FIND THAT** one in three EU households is unable to meet an unexpected shock during regular times, let alone during a pandemic. COVID-19-related support measures put in place across the EU are intended to provide economic help to those households where members have lost jobs or face a severe reduction in income. However, in a number of countries where one in two households was already fragile – typically countries that are already economically weaker – state help is likely to be smaller and shorter-lived. Policies that increase financial resilience in structural ways will become necessary in the future.
- **SUCH POLICIES INCLUDE** financial education programmes in the workplace or initiatives to promote financial resilience among households directly. There are many examples of such policies put in place worldwide that aim to increase structurally the level of financial preparedness and financial literacy. The latter is shown to correlate strongly with financial resilience.
- **OUR EVIDENCE ALSO** shows that there are major differences between EU countries in term of financial fragility. This points to different degrees of urgency and also to the need for different policies to promote financial resilience. However, to the extent that financial fragility is a source of financial instability, there is a case for monitoring such indicators at the European level, for example by including a measure of financial fragility in the European Semester as part of the monitoring of Macroeconomic Imbalances Procedure indicators.

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1 Introduction

One of the first consequences of COVID-19 lock downs has been an immediate fall in household incomes. In a March 2020 survey for the G7 countries¹, 31 percent of households reported that the coronavirus had already impacted their incomes. Workers throughout the European Union have seen over time a reduction in weekly hours worked, temporary suspensions and even redundancies. Many self-employed workers and small businesses have been particularly impacted, and some might cease to operate altogether (Anderson, 2020). Governments have tried to compensate for this shock to income through direct support or deferral of tax and loan payments². The European Central Bank and other EU institutions have also put measures in place to provide governments with funds that will support health systems, businesses and households. In other words, a raft of measures has been introduced to supplement household incomes and mitigate these shocks.

But how well-prepared were households to handle shocks, a concept associated with financial fragility? As we show, two years before the pandemic hit, a substantial share of EU households reported that they would be unable to handle unexpected expenses. In some EU countries, many households had savings equivalent to just a few weeks of basic consumption. We also find that there are big differences in different countries and, thus, a need for more targeted policies to help families.

The concept of household *financial fragility* emerged in the United States right after the 2007-2008 financial crisis. It grew out of the need to understand whether the lack of capacity of households to face shocks could itself become a source of financial instability, in addition to risks to the stability of banks and the greater financial system. But measuring financial fragility is complex. Lusardi *et al* (2011) showed that this concept goes beyond assessment of the level of assets and encompasses the state of household balance sheets, including indebtedness. Financial fragility also encompasses factors such as the ability of households to rely on family and friends, which may relate to culture and other characteristics. Such aspects are less easy to measure and rely frequently on perceptions and self-assessments.

We use EU households' data from two broad categories. First, we consider subjective self-assessed metrics. Respondents are asked to estimate their own ability to cope with unexpected expenses. Second, we look at objective metrics and examine the state of households' balance sheets in EU countries.

2 Existing work on financial fragility

Lusardi *et al* (2011) – the first paper to analyse the capacity of households to face a shock and to use the term “*financial fragility*” – was based on data collected in 2009, in the wake of the financial crisis in the United States. The study relied on a self-assessed survey-based measure. Respondents were asked how confident they were that they would be able to come up with \$2,000, should an unexpected need arise within the next month. There are several advantages of using such a question. First, it does not require collection of detailed data about assets and liabilities, information which is available only in some surveys. Second, it provides a good characterisation of the state of balance sheets, ie not only if people have assets but their capacity to borrow as well (Gupta *et al*, 2018). Third, it is a good indicator of the ingenuity of households in dealing with shocks, including not only their assets but also, for example,

1 See <https://www.statista.com/statistics/1107322/covid-19-expected-impact-household-income-g7/>.

2 See for a summary of measures being put in place in different countries here: <https://www.bruegel.org/publications/datasets/covid-national-dataset/>.

their capacity to rely on their network of families and friends, or to work more. Fourth, it is informative about the groups who are most vulnerable. For example, Hasler and Lusardi (2019) showed that in addition to income, the number of children in a household is another important predictor of financial fragility.

Analysis of the data on financial fragility over time in the US has led to two important findings. First, financial fragility was very high in 2009. As many as half of American families were unable to deal with a mid-size shock, showing how much families were hurt by the financial crisis. Second and importantly, financial fragility decreased over time as the US economy continued to recover, but there remains a sizeable group of families that are fragile even when the economy is doing well. In January 2020, when the stock market was still climbing and unemployment was very low, 27 percent of Americans were financially fragile (Lusardi *et al*, 2020). In other words, there is a group of the population that is going to be disproportionately affected by shocks and by changes in policy.

Other studies have illustrated the determinants of financial fragility in the US context. Hasler and Lusardi (2019) showed that financial literacy is linked to many demographic characteristics, including income and education. Wiersma *et al* (2020) found similar results using Dutch data, but much less research has been done in the context of Europe. We attempt to bridge this gap by providing a thorough analysis of whether EU households are financially fragile in the wake of the COVID-19 shock.

3 Households' self-assessments of their financial fragility

The EU Statistics on Income and Living Conditions (EU-SILC)³ project carries out a yearly survey in which individuals are asked to assess their ability to face an *unexpected expense*. The wording of the question is: *Can your household afford an unexpected required expense (amount to be filled) and pay through its own resources⁴?* Examples of unexpected financial expenses include surgery, a funeral, major home repairs and replacement of durables such as a washing machine or car⁵.

This question resembles that posed in the US to attempt to measure financial fragility (Lusardi *et al*, 2011), which asked *"How confident are you that you could come up with \$2000, if an unexpected need arose within a month?"*⁶ The choice of amount in this question is intended to examine whether households are capable of facing a mid-size shock within a month. The question in the EU survey asks whether households are capable of facing a shock

3 The [European Union Statistics on Income and Living Conditions \(EU-SILC\)](#) collects comparable cross-sectional and longitudinal multidimensional microdata on income, poverty, social exclusion and living conditions. The EU-SILC project started in 2003, covering six EU countries (Belgium, Denmark, Greece, Ireland, Luxembourg and Austria) and Norway. It now covers all EU countries, plus Iceland, Norway and Switzerland; some other countries participate on the voluntary basis.

4 The exact amount of how large this 'unexpected expense' is can vary from country to country. The survey uses 1/12th of the national at risk-of-poverty threshold of annual income per single consumption unit, in the year n-2 (2016 in this case). This means that it is independent of the size and structure of the individual household. In 2016 the risk-of-poverty threshold varied from around €20,000 in Luxembourg to €1,500 in Romania (in non-PPS terms). Correspondingly, 1/12 of these amounts are around €1700 and €120 for the two countries, respectively. For the other countries the amount lies between the two.

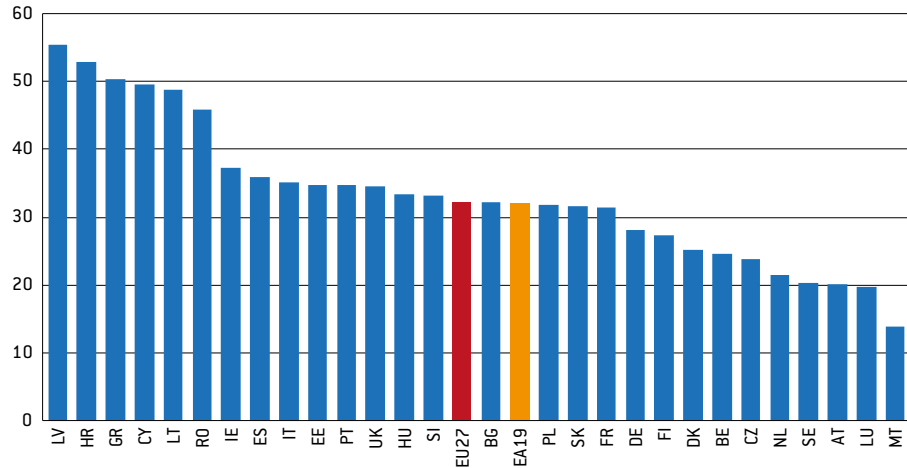
5 See https://circabc.europa.eu/sd/a/e9a5d1ad-f5c7-4b80-bdc9-1ce34ec828eb/DOCSILC065%20operation%202018_V5.pdf.

6 Respondents could reply, *"I am certain I could come up with the full \$2,000," "I could probably come up with \$2,000," "I could probably not come up with \$2,000,"* or *"I am certain I could not come up with \$2,000."* They could also state that they do not know, or they could refuse to answer.

equivalent to one month's income of those at the risk-of-poverty threshold.

In Figure 1, we plot the share of households that self-reports being unable to deal with an unexpected required expense. The data refers to 2018, a period of growth (albeit moderate) among European countries but, importantly for this exercise, not a period of specific financial stress.

Figure 1: Household inability to meet an unexpected required expense, all households, percentage shares, 2018



Source: Eurostat, EU-SILC. Notes: EU27 displays the average of all EU member states after January 2020 (those exhibited except the UK). EA19 is the euro-area average.

Figure 1 shows that, even well before the health pandemic, more than 30 percent of EU households on average were unable to meet an unexpected expense. For some newer EU members and countries hit very severely by previous financial crises, as many as one in two households was unable to meet an unexpected required expense (Latvia, Greece, Croatia, Cyprus, Lithuania and Romania). The data also shows that while northern European member states perform better than their southern European counterparts, for larger countries, the difference is not so great: about 35 percent of households are financially fragile in Spain and Italy, compared to 28 percent in Germany. The pre-Brexit UK, at 35 percent, had an above-average level of household fragility.

In other surveys, results are broadly comparable. For example, Wiersma *et al* (2020) applied the original definition of financial fragility from Lusardi *et al* (2011) to Dutch data. They found that about 14 percent of Dutch households would not be able to come up with €2000 in a month to meet an expected shock. The more-encompassing Eurostat survey found an average of just over 20 percent for the Netherlands. Thus, numbers appear to compare well.

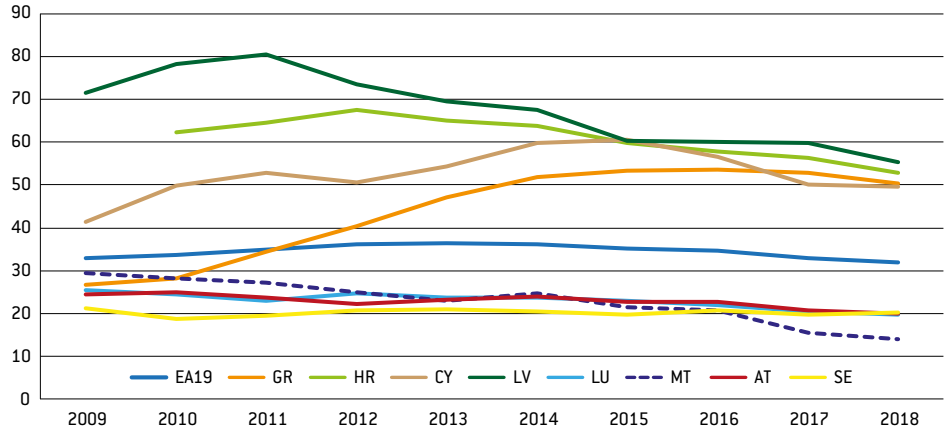
What should we make of these numbers? Do they change quickly and how can a crisis, such as the COVID-19 pandemic, affect families? Figure 2 plots the same variable across time for the four countries at the top and the four countries at the bottom of the distribution. We also plot the evolution of the euro-area (EA19) average. For the best performers, the percentage of households unable to meet an unexpected required expense has decreased, albeit very slowly during the time period. For Malta, this decrease has been more substantial, from almost 30 percent of households in 2009 to 14 percent in 2018. Thus, these countries did not suffer during the Great Recession and are well positioned to face the pandemic crisis.

In contrast, for the worst performers, the percentage of financially fragile households grew in the aftermath of the crisis and has since fallen. There are, however, different evolution patterns. In Latvia, financial fragility was very high (a staggering 80.4 percent of households) in 2011, but fell to just below 60 percent in 2018. In Greece, 27 percent of households in 2009 said they were unable to meet an unexpected expense, a number below the EU average. This

percentage doubled to peak at 54 percent in 2016 and stood at 50 percent in 2018.

The euro-area average has remained broadly constant, rising slightly to 36.4 percent in 2013 from 33.0 percent in 2009, and then decreasing to 31.9 percent in 2018.

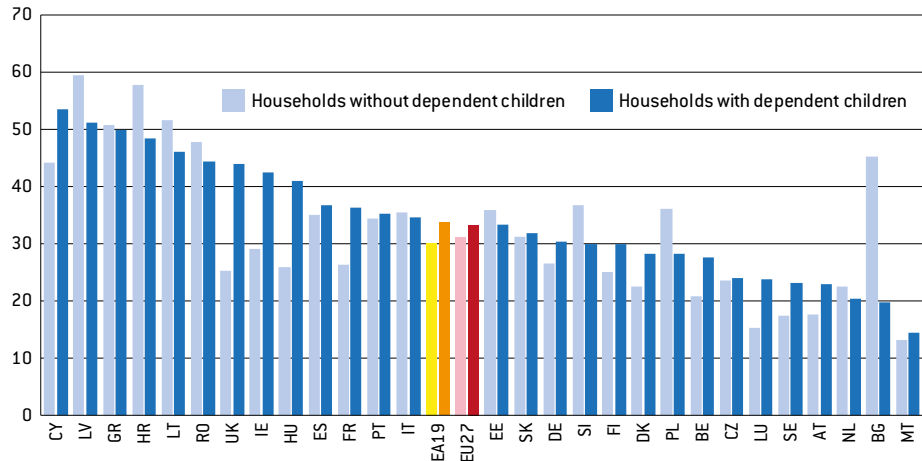
Figure 2: Household inability to meet an unexpected expense, all households in selected countries, percentage shares



Source: Eurostat, EU-SILC.

Hasler and Lusardi (2019) showed that the number of children in a given household is an important predictor of financial fragility. Figure 3 plots the data for households with and without dependent children. Households with dependent children are in general more fragile, but differences for the average EU (EU27) are overall small: 31 percent of households without dependents versus 33 percent of those with dependent children.

Figure 3: Household inability to meet an unexpected expense by households with or without dependent children, percentage shares, 2018



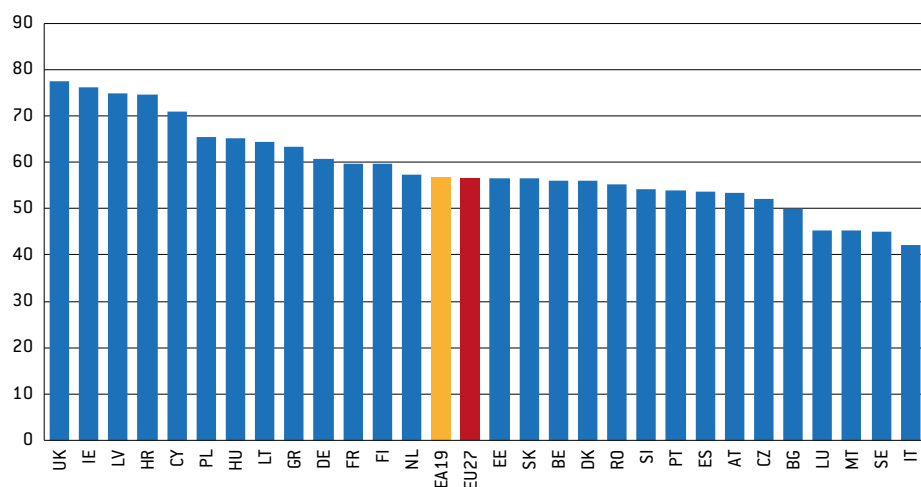
Source: Eurostat, EU-SILC.

But there exists greater degrees of variation among EU countries. Broadly speaking, the EU15 (pre-2004) members exhibit greater financial fragility in households with dependent children, in line with the literature. For the Netherlands, Italy and Greece, the two groups are broadly equally fragile. In the UK the difference is striking. Almost twice (44 percent) as many households with dependent children are vulnerable, in comparison to households without dependent children (25 percent).

However, in a number of newer EU members (Poland, Bulgaria, Latvia, Croatia, Romania, Slovenia) the relationship is inverted. Bulgaria is the clearest example of this: the share of fragile households more than doubles for those without dependent children. These countries have seen large waves of migration by the young. This may be a reflection of the fact that the most fragile have not been able to move.

Lastly, Figure 4 gives the same measure for single-person households with dependent children. This is the category with the greatest degree of fragility across the board. The first thing to note is the substantial increase in the number of families who are financially fragile: the share of vulnerable households belonging to this group increases in every EU country, while the EU27 average share almost doubles to 57 percent (from 32 percent for all households). These numbers also show little regional variation. Over half of single-parent households are financially fragile in most EU countries.

Figure 4: Household inability to meet an unexpected expense, single person household with dependent children, percentage shares, 2018



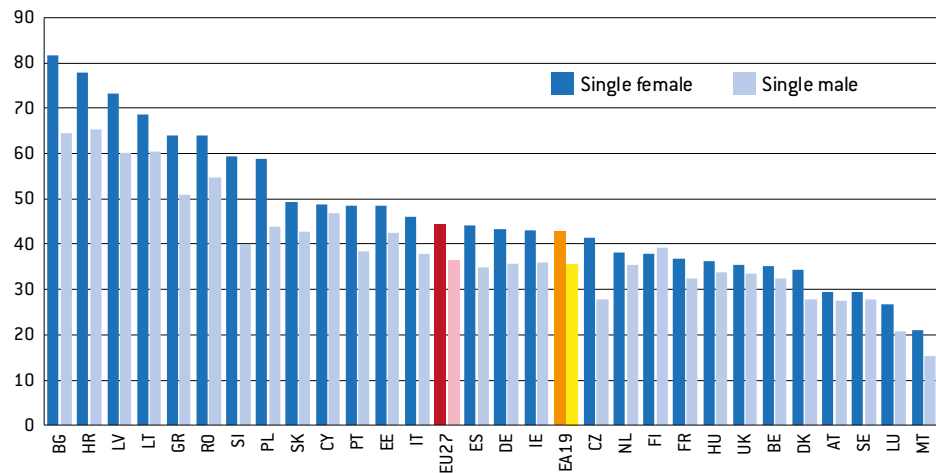
Source: Eurostat, EU-SILC.

Italy, like other southern European countries, has comparatively low levels of financial fragility among single-parent households (relative to these countries' rankings in other categories). Cultural factors, such as closer family ties, might explain this finding, pointing to the importance of the information contained in self-assessment measures. By contrast, single person households in the UK are poorly prepared; almost 80 percent of households are unable to meet unexpected shocks.

Finally, there has been much discussion about the COVID-19 economic crisis disproportionately impacting women, chiefly because they bear the burden of unpaid household work (including caring for children), and also because they form typically the majority of frontline workers (Norman, 2020). While the ultimate impact of these dynamics is hard to measure in real time, the Eurostat data allows us to assess the financial fragility of single men and single women before COVID-19. Alas no other distinction is provided, for example between single parents.

Figure 5 shows that, as expected, single women are more likely to be financially fragile than single men. In every EU country apart from Finland, a greater percentage of single women than men are identified as financially fragile. In some countries, including Slovenia and the Czech Republic, there are almost 50 percent more financially fragile single women than single men. By contrast, in Finland and, to a lesser extent Sweden and Austria, there is a fairly level playing field. It should be noted that single parenthood might play an important role here. As noted above, the sex of single parents is not distinguished in the survey. However, only 15 percent of single parents in the EU are fathers (Heine, 2016) and, as shown in Figure 4, single parents encompass a particularly fragile category of household.

Figure 5: Household inability to meet an unexpected expense by category of household, percentage shares, 2018



Source: Eurostat, EU-SILC.

The Eurostat survey provides limited additional information. For example, we do not have information on financial literacy, which has been shown to be an important determinant of financial fragility (Lusardi *et al*, 2020). The 2020 OECD/INFE *International Survey of Adult Financial Literacy* (OECD, 2020) included a measure of ‘financial resilience’ and findings are very similar to our work. Moreover and importantly, OECD (2020) highlighted the link between financial literacy and financial resilience. Peviaty et al (2020) examined financial fragility in Italy using pre-COVID-19 data and also documented the strong link between financial fragility and financial literacy.

4 A look at European households’ balance sheets

We turn next to households’ balance sheets, in order to look at an alternative measure of the ability of households to face a shock. This data provides a more objective measure of financial fragility. We draw on 2017 data from the European Central Bank household finance and consumption survey⁷.

Starting with the asset side, we look at the amounts in households’ bank accounts, ie sight (current) and saving accounts. While this represents only a component of total household wealth⁸, it can serve as a proxy for short-term and liquid assets that might be drawn on in emergencies. We also look at an indicator of cash holdings that adds to the liquid assets held in bank accounts.

On the liability side, we examine the amount of total household debt as a ratio to GDP. This debt includes all types of loans (mortgage and consumer) that need to be serviced on a

⁷ Available at https://www.ecb.europa.eu/stats/ecb_surveys/hfcs/html/index.en.html. “The HFCS collects information on the assets, liabilities, income and consumption of households. The dataset provides insights into their economic behaviour and financial situation – highly relevant factors in terms of monetary policy and financial stability.” We report the results of the latest wave published in 2020 that refers to 2017 data. Unfortunately, not all EU countries are reported.

⁸ See Zabai (2020) for a similar attempt that extends to broader definitions of wealth.

monthly basis. While this does not tell us the monthly burden of households (this depends on the interest rate each loan carries), it is a proxy for indebtedness. Note that the vast bulk of these loans are mortgage loans. European households in general, in contrast to US households, do not use consumer loans (from banks or credit cards) to finance consumption.

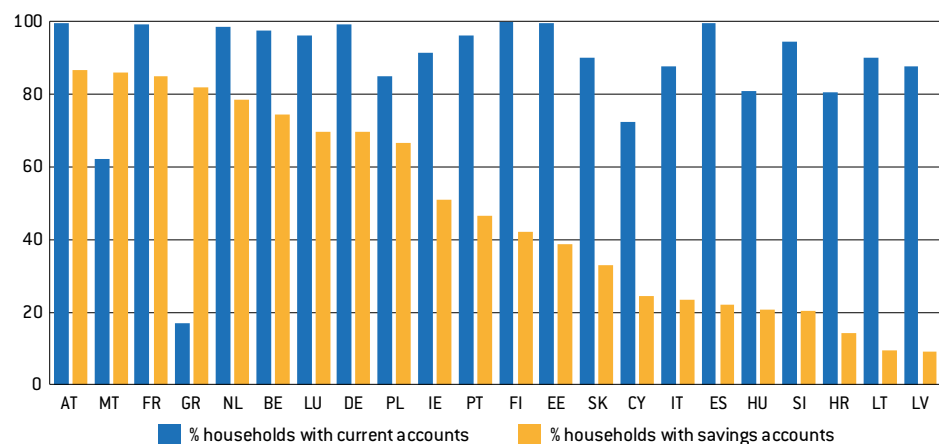
4.1 The asset side of the balance sheet

We examine data on household balance sheets, considering the latest wave available (2017). Where possible, we compared to the previous wave in 2009-11 to understand how relevant variables have evolved.

Figure 6 shows that in most EU countries, very large percentages of households have sight (current) accounts. For a number of countries, most if not all households have accounts and for all countries there are only small percentages of unbanked households.

The picture is more varied for savings accounts. More than 80 percent of households have them in Austria, France, Malta and Greece, but the proportions in Croatia, Lithuania, Latvia, Italy and Spain are about 20 percent or less⁹. Cultural preferences in terms of types of savings and differences between countries in financial and money markets might explain some of the differences in the shares of population with different types of accounts. However, the numbers also show that there are households that have little access to short-term savings.

Figure 6: Households that hold sight (current) and saving accounts, percentage shares



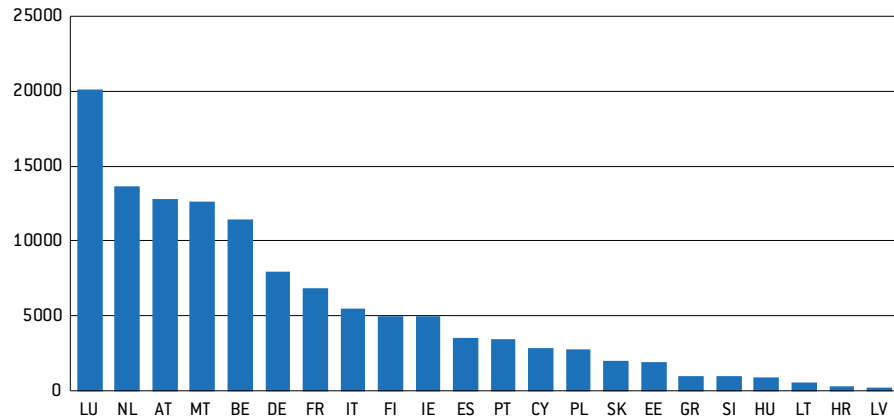
Source: ECB Household Finance and Consumption Survey. Notes: Data for all member states was collected in between 2016Q4-2019Q1 except for Spain. Data for Spain was collected between 2014Q3 and 2015Q2.

With that in mind, Figure 7 reports the median values of money held in bank accounts (current and savings accounts combined). There is much variation between EU countries. In over half of the countries in the sample, the median value in bank accounts (for those who have bank accounts) is less than €5000.

While it is useful to look at medians, it is also important to examine the lowest end of the distribution of amounts in bank accounts, especially because we know that a third of households are financially fragile. Figure 8 provides savings for the first quartile of the distribution of amounts in bank accounts in each country. The value of savings for the lowest fourth of the distribution is under €5000 for every EU country, and under €1000 for more than half of countries.

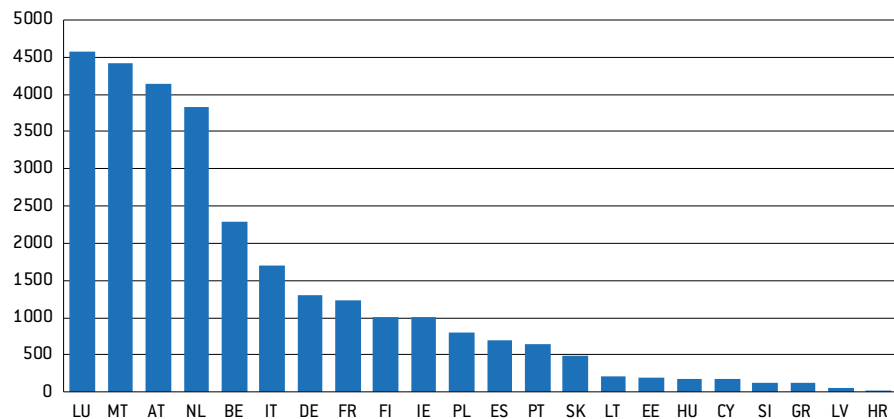
9 In Greece, saving accounts serve a current-account purpose as well, which explains why only 17 percent of households hold current accounts.

Figure 7: Median amount in bank accounts per household, 2017 euros



Sources: ECB Household Finance and Consumption Survey. Notes: Only households that have either a savings account or a current account and which have positive gross income and positive consumption were considered. Savings are considered to be the sum of both accounts. Data for all countries was collected between 2016Q4-2019Q1, except for Spain. Data for Spain was collected between 2014Q3 and 2015Q2.

Figure 8: Amounts in bank accounts per household, first quartile, euros



Source: ECB Household Finance and Consumption Survey. See notes to Figure 7.

How much can these amounts support household spending capacity? Figures 10 and 11 plot median household savings in relation to either income or needs for basic spending. Figure 9 on the next page plots the median monthly gross income per household.

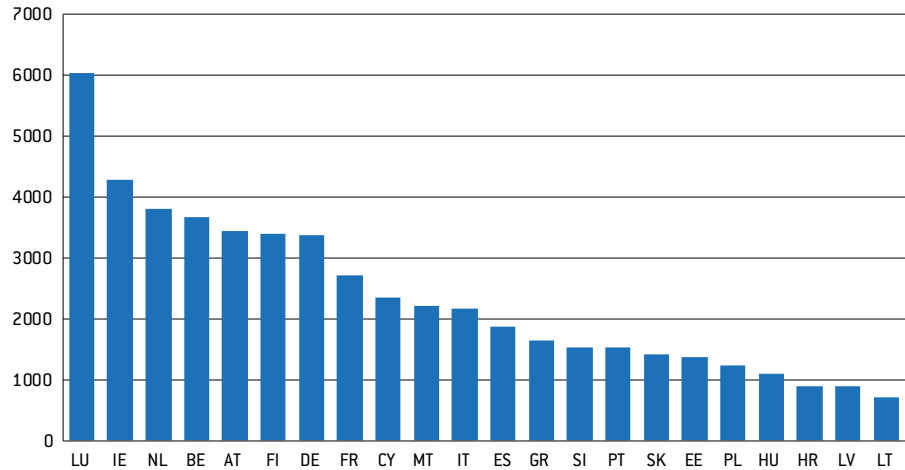
We are interested in the value of savings in monthly income equivalents. In other words, how many months in terms of income equivalents could households sustain by using their savings in liquid assets? Figures 10 and 11 on the next page show this.

People in more than half of the countries in Figure 10 have less than two months income equivalents worth of savings. In Greece, Slovenia, Croatia and Latvia, the median savings equivalent is only a couple of weeks of income¹⁰.

We also compare current numbers to those of the first wave of the ECB's HFCS (done in 2009-11). For over half the countries exhibited in Figure 10, median savings over income were higher in 2009-2011 than in 2017. This was particularly the case for Greece, where the value was more than three times higher: in 2009, the median Greek household had savings worth almost two months of income; by 2017 it was just over two weeks. It is worth noting, however, that the initial wave missed some countries where households are most financially vulnerable, including Latvia, Croatia, Hungary and Lithuania.

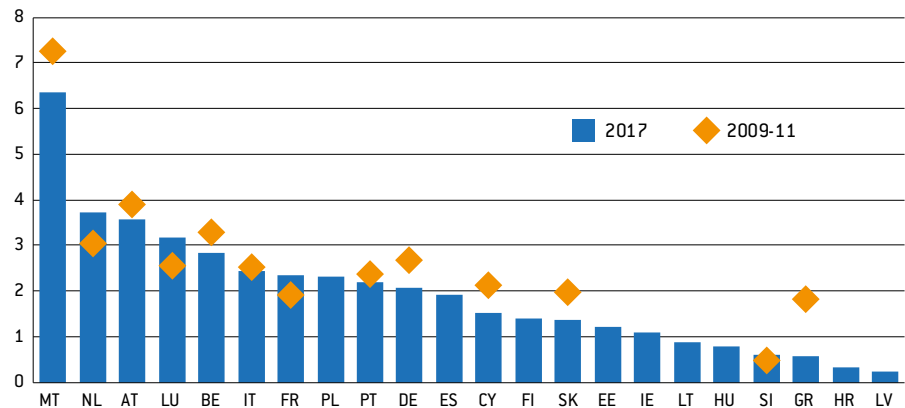
¹⁰ These findings are similar to those reported in the *OECD/INFE International Survey of Adult Financial Literacy* (OECD, 2020), which examines different proxies for financial resilience.

Figure 9: Median monthly gross income per household, euros



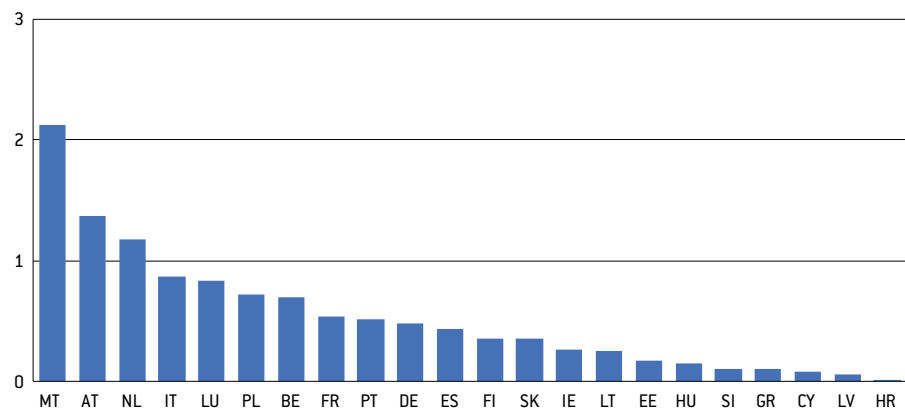
Source: ECB Household Finance and Consumption Survey. See notes to Figure 7.

Figure 10: Median savings represented in monthly income equivalents, months



Source: ECB Household Finance and Consumption Survey. Notes: Only households that have either a savings account or a current account and which have positive gross income and positive consumption were considered. Savings are considered to be the sum of both accounts. Data for all member states was collected in between 2016Q4-2019Q1, except for Spain. Data for Spain was collected between 2014Q3 and 2015Q2. The figure plots the median of the following ratio: value in bank accounts per household/ monthly gross income per household.

Figure 11: Savings represented in monthly income equivalents, first quartile, months

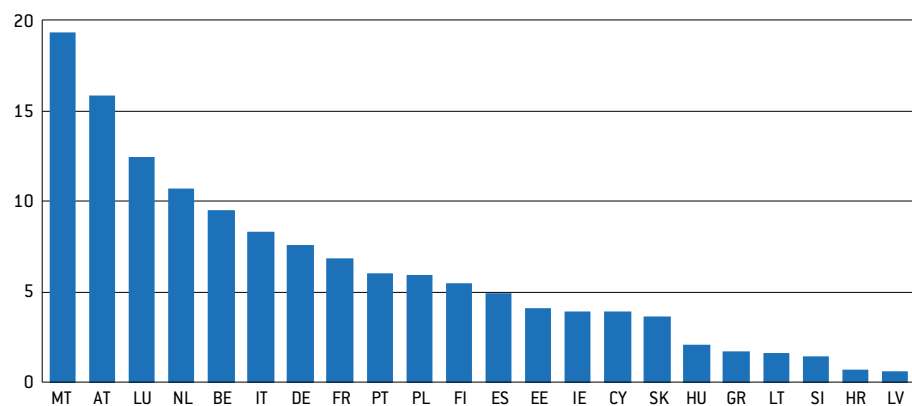


Source: ECB Household Finance and Consumption Survey. See notes to Figure 10.

Figure 11 shows monthly income equivalents for the first quartile of the distribution of the ratio in each country. In this case, the value is under two months for every single country, except Malta, while for most countries it is less than half a month.

Another way of evaluating the capacity of households to withstand a shock is to assess how long they can make their savings last – in other words, how long before they can no longer meet basic consumption needs. This is shown in Figure 12, where we plot the median ratio of household bank accounts over the value of basic household consumption. Basic consumption is identified as the combination of food, utilities and rent and mortgage payments on the main residence, as measured in the European Central Bank household survey. While in countries including Malta and Austria median savings can cover over 15 months of basic consumption, in Croatia and Latvia median savings can cover less than one month of basic consumption. The differences between countries are more pronounced for this indicator based on consumption rather than for the indicator based on income equivalents.

Figure 12: Median savings represented in basic monthly consumption equivalents, months



Sources: ECB Household Finance and Consumption Survey. Notes: Only households which have either a savings account or a current account and which have positive gross income and positive consumption were considered. Savings are considered to be the sum of both accounts. Data for all member states was collected in between 2016Q4-2019Q1 except for Spain. Data for Spain was collected between 2014Q3 and 2015Q2. Only mortgage payments on main residence have been considered¹¹. The figure plots the median of the following ratio: value in bank accounts per household/value of basic monthly consumption.

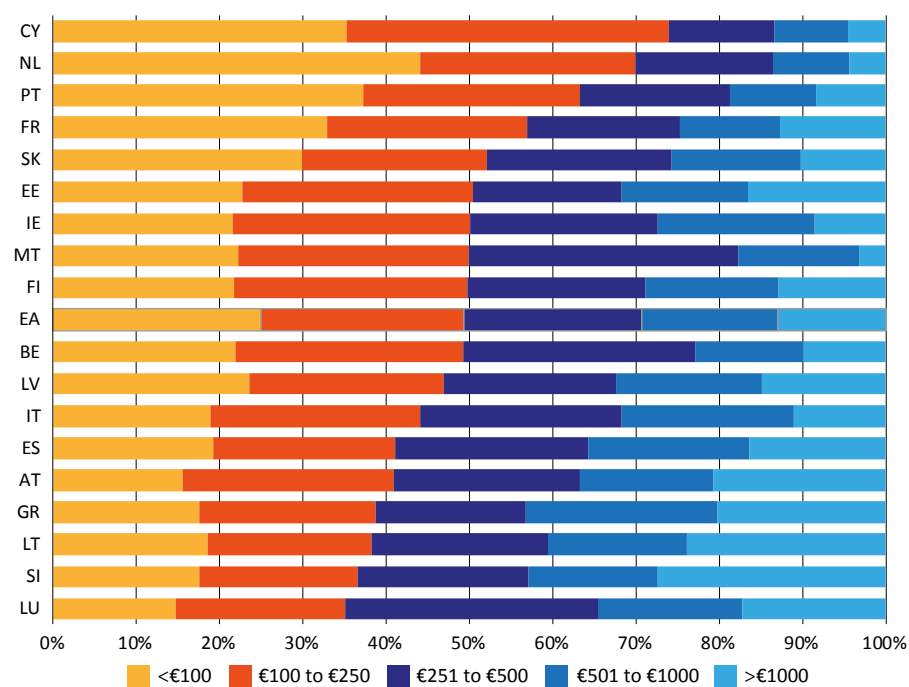
Finally, we provide an estimate of cash as additional (arguably the most immediate) liquid asset to be drawn on. Esselink and van Gijzel (2017) carried out a survey in which they asked individuals: “*Could you ... provide an approximate amount of cash that you keep outside a bank account as a precautionary reserve or as an alternative way of saving?*”¹² The data was only collected in value ranges, shown in Figure 13.

The first thing to note is that, for all EU countries, the median value held in cash is between €100 and €500. For seven of the 18 countries in the sample, the median value lies between €100 and €250, and for the remainder it lies between €251 and €500. In the euro area as a whole, almost exactly half of individuals hold €250 or less in cash, while the remainder hold more than €250. The relatively low degree of variation between countries is interesting, especially in relation to savings. These values have not been added to prior measures of savings (value of accounts). They do however represent additional resources that can be used to deal with an income shock. Note that the values can be quite significant for some countries: in both Latvia and Lithuania the median value is over €250 in savings, a relevant supplement to median household savings of €235 and €600 respectively.

¹¹ We thank Catarina Midoes for the suggestions. See also Midoes (2020) for alternative measures.

¹² <https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op201.en.pdf>.

Figure 13: Value range of the cash savings of individuals, euros



Source: Esselink and van Gijssel (2017). Note: The study is limited to euro-area residents aged 18 years and over. Between 8 and 19 percent of respondents in each member state refused to answer. They were distributed among the categories according to the original shares.

4.2 The liability side of the balance sheet

Lastly, we look at the liability side of households' balance sheets and report consolidated household debt as a percentage of GDP. This, together with the debt of non-financial corporations and that of non-profit institutions serving households, makes up private sector debt. Private sector debt is one of the indicators used by the European Commission in the Macroeconomic Imbalances Procedure (MIP) to monitor the build-up of imbalances¹³. The EU average debt-to-GDP is under 60 percent.

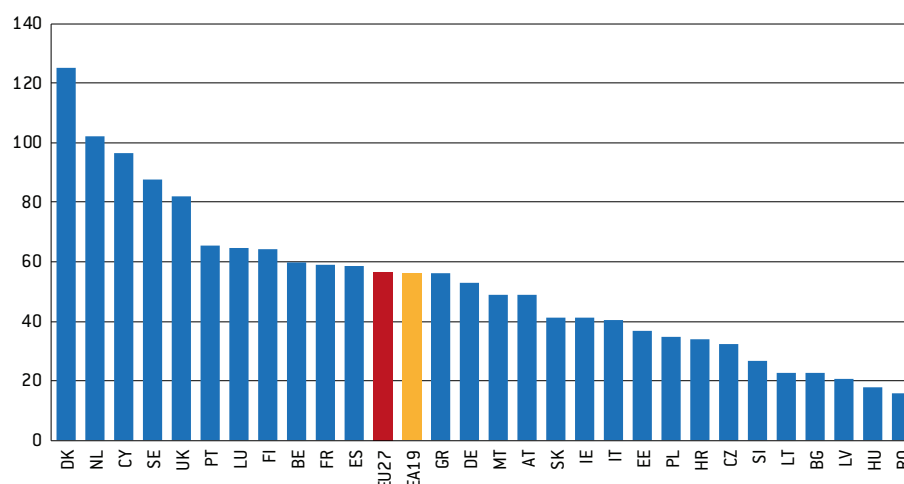
Moreover, we also observe that the most highly indebted households are in countries where incomes are typically high and housing market boom-bust cycles have been experienced. These are financially more sophisticated and inclusive markets, with high home ownership, which provides leverage capacity to households. Coupled with the fact that we do not report on households' total wealth, also typically high in these countries, this ratio is not a true reflection of household leverage. Rather it is mostly a reflection of household dependence on the housing market. Arguably, given the nature of the Great Recession, this was also the motivation for including it in the MIP.

Given the low dependence of European households on consumer debt, the liability side of their balance sheets is not necessarily reflective of their financial fragility. This is in sharp contrast to the experience of the US as described in Hasler and Lusardi (2019), where debt severely limits households in dealing with shocks¹⁴.

¹³ Fourteen indicators make up the MIP, covering the major sources of macroeconomic imbalances created in the aftermath of the 2008 financial crisis. See the MIP scoreboard, https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/macroeconomic-imbalance-procedure/scoreboard_en.

¹⁴ Data from the ECB HFCS on household debt reveals a very similar picture to that of total consolidated household debt.

Figure 14: Consolidated household debt as percentage of GDP, 2018



Source: Eurostat, [Financial balance sheets](#), Consolidated Household Loans.

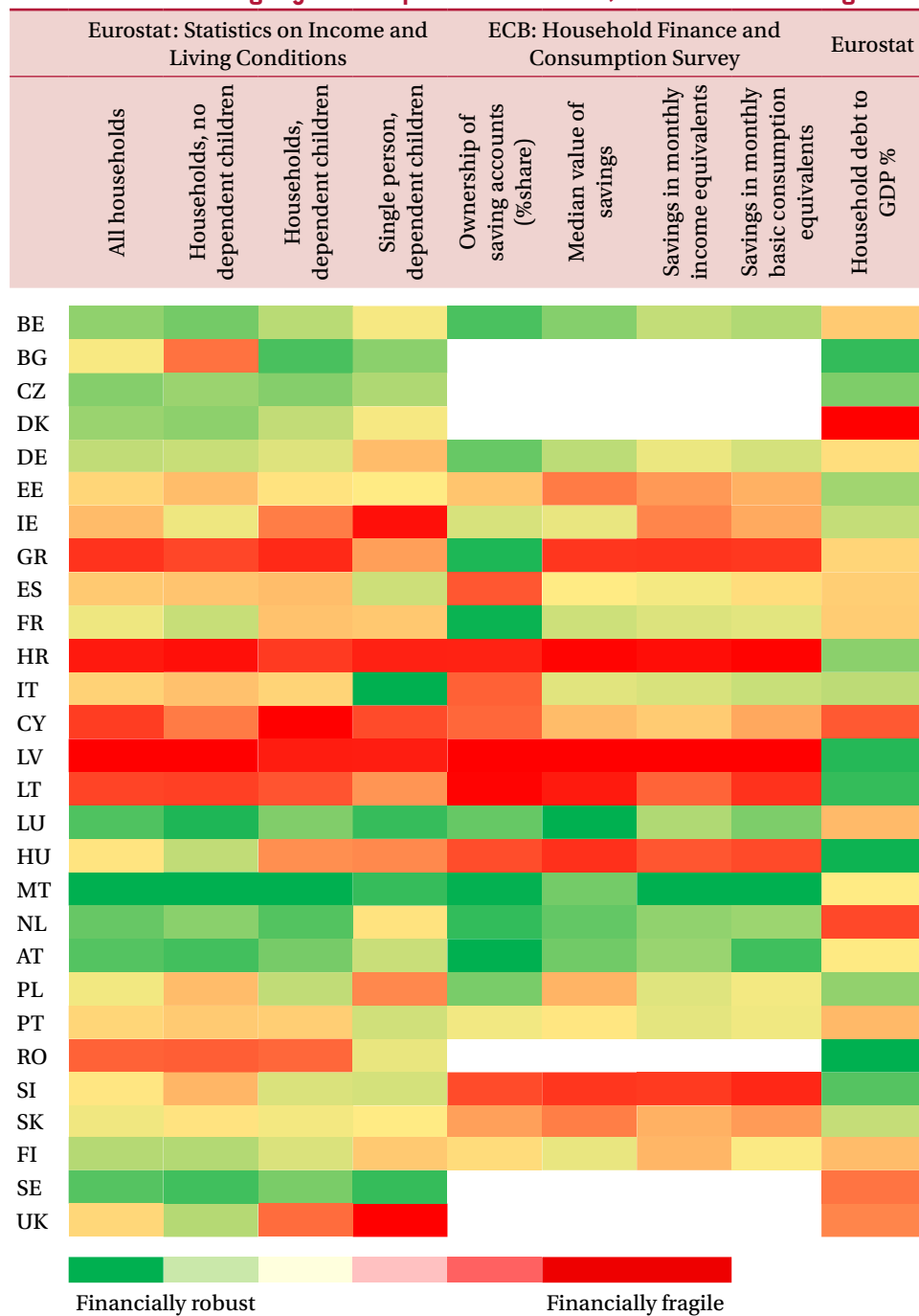
5 How financially fragile are European households?

Table 1 on the next page summarises our analysis to provide a comprehensive picture of household financial fragility. We score countries (from green to red; see the note to the table) in relation to where they stand relative to the average number for each indicator. This is therefore a summary of each country's position relative to the other countries in the sample, rather than a scoring based on objective criteria. Red indicates greater financial fragility and shades of yellow and green of financial resilience.

We observe the following:

1. The most financially fragile countries are the poorer EU countries (Latvia, Lithuania, Croatia and Hungary, plus Romania and Bulgaria (for which we miss information as these countries are not included in the ECB survey), and possibly Poland) and the countries hit hardest in the financial crisis (Greece and Cyprus). Cypriot households are more pessimistic in their self-assessments of their capacity to deal with a financial shock than is justified by their liquid assets, in relation to other countries.
2. A perhaps surprising result is fragility in Ireland. While Ireland was very hard hit in the financial crisis, it has the second highest gross monthly incomes. Nevertheless, Irish households are pessimistic in the way they self-report their ability to meet unexpected financial expenses, and hold only a few months of income equivalent in savings.
3. Italy and Spain, the two EU countries hardest hit by COVID-19, are more or less in the average position.
4. Households in Benelux, the Nordic countries, Austria and Malta are the least financially fragile followed by households in Germany and France.

Table 1: A financial fragility heat-map for EU household, relative to the average



Source: Bruegel. Notes: For the Eurostat EU-SILC survey numbers, red denotes an above average percentage of financially fragile households, green below average. From the ECB HFCS (ownership and value of accounts, and savings in monthly equivalents) red denotes a below average level and green an above average level. Where data is missing, cells are left blank. For the Eurostat variable of debt-GDP, red denotes an above average percentage debt-to-GDP and green below average.

6 Improving household financial resilience

One in three EU households is unable to meet an unexpected shock during regular times, let alone during a pandemic. Support measures put in place across the EU are intended to provide economic help to those households where members have lost jobs or faced a severe reduction in income. However, in a number of countries where one in two households was already fragile – typically countries that are already economically weaker – the extent of state help is likely to be smaller and shorter-lived. Policies that increase financial resilience in structural ways will become necessary in the future.

While there are a number of policies to promote saving for the long term, such as retirement savings, little has been done to promote precautionary savings and financial security in the short term. However, financial resilience is also important and can result not only in better responses to shocks but lower costs for policy. For example, the long lines at food banks in the United States when the government shut down in 2019, or during the current coronavirus pandemic, highlight the consequences of people not having buffers to shield themselves against shocks beyond a couple of weeks. These shocks can also lead to unrest and instability.

While income and support policies, which should be targeted to the most vulnerable groups, are clearly important, so are initiatives to promote financial resilience via, for example, financial wellness programmes. Indeed, the problem that we identify has a structural nature. Figure 2 shows that households' financial fragility has not decreased much over time, a fact that requires policies that tackle causes and not just symptoms. One way to do so among adults is to implement financial education programmes in the workplace. These programmes could help employees save for retirement and also for the short term. Such initiatives have been implemented, for example in the US, and are expanding in other countries. We also note that several European countries, including Portugal, have promoted financial literacy among the young and have made financial literacy part of the school curriculum. Helping people to manage finances and preventing financial fragility can result in improved outcomes both for households and government budgets.

Another approach would be to design initiatives to promote financial resilience among households directly. For example, the Italian Financial Education Committee has designed a resource hub to provide advice to promote financial resilience in times of emergency. The advice ranges from taking advantage of the many sources of support from the government and the private sector, to using technology to enhance personal finance management, to budgeting and building emergency funds¹⁵.

Another initiative would be for central banks, financial-market regulators and policy-makers to evaluate financial stability not only from the point of view of banks or the financial system, but also from the point of view of households. Sets of indicators could be developed to track that. This can be a complementary way to promote the stability of the economic system as a whole.

Our evidence shows that there are major differences between EU countries in term of financial fragility. This points to different degrees of urgency and also to the need for different policies to promote financial resilience. However, to the extent that financial fragility is a source of financial instability, there is a case for monitoring such indicators at the European level, for example by including a measure of financial fragility in the European Semester as part of the monitoring of MIP indicators.

15 See <http://www.quellocheconta.gov.it/it/5-consigli/quellochecontasapere/>.

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