**EUROPEAN CENTRAL BANK**

**EUROSYSTEM**

# FAQ on Distributional Wealth Accounts

### 1. What are Distributional Wealth Accounts?

Distributional Wealth Accounts (DWA) provide quarterly information on the distribution of household wealth that is consistent with the aggregates of the national accounts for the household sector (see question 3). DWA are experimental statistics that are intended to link two different datasets, namely the Household Finance and Consumption Survey (HFCS) and Quarterly Sector Accounts (QSA). DWA have been developed by the ECB and national experts from 20 EU countries, in close cooperation with Eurostat and the OECD. Improvements or revisions to the methodology and results of DWA may still be made in the future.

### 2. What are the main differences between DWA, the HFCS and QSA?

DWA are national accounts macroeconomic data that include estimates on household distributional data. They use the HFCS as the source of the distributional information[1]. Other selected sources are also integrated, and the outcome is adjusted to be consistent with the QSA dataset published by the European System of Central Banks.

The HFCS is a survey of households that is conducted every three years and published by the ECB and most EU countries. The results of the HFCS show the value of assets and liabilities as assessed and reported by households. Statisticians make every effort to mitigate the possible effects of non-response and underreporting.

QSA break down the economic activity of all resident institutional sectors, including the household sector. They provide comprehensive coverage of total household wealth and follow international standards for national accounts. They tend to show higher wealth estimates than those reported by households in the HFCS, in part because household surveys generally have difficulties in adequately capturing data from the wealthiest households. QSA data for households are generally based on data reported by banks and other financial institutions. QSA also include estimates for holdings of non-financial assets such as business and housing.

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[1] The Netherlands publishes distributional accounts consistent with national accounts totals for some years. These data are used as input for the DWA of the Netherlands, instead of the HFCS. The methodology applied for the DWA for the Netherlands in the ESCB dataset therefore differs from the general methodology applied for other countries.

### 3.  Are DWA always consistent with QSA?

For most instruments, DWA totals (the sum of deciles and the sum of the relevant breakdowns) match QSA exactly. However, there are some exceptions for certain instruments and certain countries. In general, these exceptions refer to cases where QSA are known not to be fully precise, but where no better quarterly source is currently available (in such cases, DWA generally refer to HFCS data or estimates derived from them). Furthermore, while DWA cover around 90% of all household assets and liabilities reported in QSA, they do not cover currency, pension entitlements and other accounts payable/receivable, as no reliable distributional information is available for these QSA instruments. Therefore, total net wealth published in DWA differs slightly from the total net wealth published in the QSA. For more details, please see Section 3 of the Methodological note for DWA (available on the ECB Data portal).

### 4.  Why are central banks interested in distributional wealth data?

In its overview of the monetary policy strategy published in 2021, the ECB confirmed its commitment to assessing the two-way interaction between wealth distributions and monetary policy. Distributional wealth data offer central banks a better understanding of the economic situation and behaviour of the household sector, which helps them to better assess the potential effect of their monetary policy. As the household sector is relatively diverse, it is important to consider how monetary policy may affect specific household groups (e.g. renters or homeowners) differently. Central banks are also interested in understanding how household wealth distribution may influence the transmission channels of the monetary policy. Distributional wealth data is also relevant to the analyses of financial stability conducted by the ECB and the European Systemic Risk Board (ESRB).

### 5.  What other use cases exist for DWA?

Improving the quality and collection of data to ensure a better understanding of the distributional effects of policy choices is also one of the priorities listed in the third G20 Data Gaps Initiative. Policymakers require timely and granular distributional data alongside aggregate estimates to understand who is benefiting from economic growth and how inequality develops over time. This will help policymakers to develop policies that are targeted towards specific household groups, assess the distributional effects of specific policies and events and foster inclusive growth.

### 6.  Which countries are covered by DWA?

The individual countries covered by DWA comprise Belgium, Germany, Estonia, Ireland, Greece, Spain, France, Italy, Cyprus, Latvia, Lithuania, Luxembourg, the Netherlands, Hungary, Malta, Austria, Portugal, Slovenia, Slovakia and Finland. The only euro area country that is currently not included is Croatia, which only joined in January 2023. In addition to DWA for individual countries, results for the euro area as a whole are also available.

### 7. What periods and breakdowns are available?

DWA data for the euro area as a whole are available from the first quarter of 2009, and data for individual countries are generally available from the year of the first HFCS wave compiled for the country in question. New DWA data are released five months after the end of each quarter. Information on household assets and liabilities, instrument by instrument, is provided for the lower 50% of the distribution of households, and is provided individually for the 6th, 7th, 8th, 9th and 10th deciles of the distribution. Additional breakdowns by housing status and working status are also available.

### 8. Do DWA cover all components of household wealth?

The assets covered in DWA include (i) deposits, (ii) debt securities, (iii) listed shares, (iv) financial business wealth (corresponding to national accounts' unlisted shares and other equities, excluding housing abroad), (v) investment fund shares, (vi) life insurance, (vii) housing wealth, and (viii) non-financial business wealth, which refers to assets such as vehicles and machines used for production purposes. The liabilities covered in DWA include mortgage loans and non-mortgage loans, such as consumer loans and student loans.

Some of the instruments covered in the HFCS or QSA cannot easily be compared due to differences in the datasets. In particular, currency holdings (i.e. banknotes and coins), non-life insurance reserves (i.e. the amounts booked by insurance corporations to cover the expected claims of their customers), occupational pensions and other accounts payable/receivable (including claims and debts arising from timing differences between actual transactions and their settlement) are only covered by the QSA and are currently excluded from DWA. Moreover, loans granted between households are also currently excluded from DWA.

Overall, euro area DWA cover more than 90% of the value of households' financial and non-financial assets and liabilities recorded in the QSA.

It is also important to note that "pay-as-you-go" pension schemes are not reflected in DWA, as these do not constitute a financial asset in the household sector according to the internationally agreed methodology for the core national accounts.

### 9. What does "net wealth" mean, and can households have negative net wealth?

A household's net wealth is the difference between its total assets (financial and non-financial) and its total liabilities. Net wealth can become negative when the value of the liabilities is higher than that of the assets held. This may happen, for example, in student households that have limited assets alongside student loan debt, or in low-income households with outstanding consumer debts.

## 10. Why do some households have "business wealth"?

In the national accounts, households are mainly understood as consumers, rather than producing units. However, paragraph 2.118 off the ESA 2010 clarifies that "The households sector consists of individuals or groups of individuals as consumers and as entrepreneurs producing market goods and non-financial and financial services (market producers) provided that the production of goods and services is not by separate entities treated as quasi-corporations".

The assets that are held by entrepreneurs classified as households and used for production purposes are generally included under "fixed assets" in national accounts. In addition, households may own shares or other equity issued by enterprises, also covering indirect ownership of production assets.

In order to bridge these data with the HFCS, the term "business wealth" is used in DWA to refer to financial and non-financial assets used by households for production purposes.

The following distinction is made:

- financial business wealth corresponds to cases where assets are held via a company which relates to unlisted shares and other equities, excluding housing abroad, in the national accounts;
- non-financial business wealth corresponds to the cases where assets are not held via a company and is equal to the following combination of national accounts aggregates: fixed assets minus dwellings[2] and land underlying dwellings.

## 11. How are DWA compiled and what are the main assumptions used?

DWA are built to link wealth distributions from the HFCS to the QSA through a process designed to achieve full consistency with national accounts aggregates. This process is supplemented by additional national sources wherever available.[3]

In short, the process involves:
- making a few adjustments to harmonise the two datasets;
- adding estimates for wealthy households, as these appear to be under-represented in the household surveys;
- performing a final gross-up to the levels of the national accounts (via simple proportional allocation);
- constructing quarterly time series.

More precisely, this process starts with the definition of a wealth concept that covers all instruments for which HFCS and QSA data can be matched. The data are then adjusted to address any timing or household coverage differences between the HFCS and QSA. These timing differences exist because the HFCS has data collection periods that vary across different countries, whereas QSA data refer to the end of each quarter. The two datasets are aligned by selecting for each country the QSA quarter

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[2] This is because dwellings and land underlying dwellings are put together in a separate category, namely "housing wealth".

[3] In the case of the Netherlands distributional information from HFCS data is replaced by distributional accounts consistent with QSA totals published at the national level for the available years.

that is closest to the midpoint of the data collection period of each HFCS wave. Population differences are adjusted by rescaling all HFCS household weights by the same factor, namely the ratio between the total QSA population and the weighted sum of HFCS households.

The process also involves estimating missing breakdowns and distributions, correcting for the misreporting of deposits and adjusting for the undercoverage of wealthy households in the HFCS. Finally, a proportional gross-up is applied to account for any remaining gap. Quarterly time series are constructed in the last step of the process via interpolation between HFCS waves and extrapolation from the last available HFCS wave.

### 12. Are the results comparable across countries?

The DWA methodology is applied consistently across all countries and the euro area. It is important, however, to approach the cross-country comparisons with a nuanced perspective. As described in the HFCS FAQ documentation, both institutional and methodological issues impact cross-country comparability of HFCS indicators: for instance differences in the size of households, or in the rates of home or land ownership. The caveats that apply to the comparability of HFCS country results also significantly affect any comparison between national DWA results. Moreover, differences in the availability of additional information used to enhance the national DWA estimation steps (e.g. data for wealthy households or administrative data sources) may also affect the cross-country comparability of the results.

### 13. Why do the Gini coefficient and other inequality results differ between DWA and the HFCS?

Both the HFCS and DWA show measures of wealth inequality, including the Gini coefficient and data sorted by quintile/decile, but their results generally differ slightly. The reasons for this are explained in detail in the Methodological note for DWA (available on the ECB Data portal). In short, the differences mainly result from (i) DWA integrating some estimates for the richest households that are unlikely to be fully captured in the HFCS (as is the case for most household surveys) and (ii) DWA data being grossed up through a proportional allocation to match with QSA totals, which are higher in most cases. These two adjustments cause differences in wealth inequality indicators, though these are of limited magnitude.

### 14. Are DWA results for recent quarters of good quality, and will there be revisions?

DWA data for recent quarters are computed using the distributional information from the latest wave of the HFCS. Currently, this is the 2020/2021 wave.[4] As explained in the Methodological note (available on the ECB Data portal), DWA results for periods after the most recent wave of the HFCS are estimated by projecting the latest available distributional information on the recent QSA data. This method allows some, though not all, distributional changes in recent quarters to be captured. For example, the majority of the effects of asset price changes on distribution are covered, but the effects of portfolio reallocations

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[4] See Household Finance and Consumption Survey: Results from the 2021 wave.

of households and between households are not. As such, DWA data for recent quarters have a higher level of uncertainty compared with earlier periods and may be subject to more revisions.

The next wave of HFCS data is anticipated to be available from around 2026. DWA results for the periods following the 2021 wave will be revised once these data become available.

Revisions may also be triggered by revisions to QSA and HFCS data.

### 15. To what extent do DWA results depend on the assumptions made?

As DWA results rely on certain assumptions, a sensitivity analysis has been carried out to test the extent to which results would change if different (but plausible) assumptions were applied. The main results are presented in the Methodological note for DWA (available on the ECB Data portal). A range of inequality indicators was generated by changing various assumptions made in the compilation process. Overall, the plausible assumptions that have been tested have only led to limited changes (for example, the Gini coefficient and the share of wealth held by the richest decile both generally change by about +/- 2 percentage points) in the observed results.

### 16. How have time series been constructed in DWA?

DWA data are constructed by applying a series of systematic adjustments to the micro data collected in the HFCS, which are available for the four waves carried out so far. Subsequently, quarterly DWA are produced by interpolating the results from HFCS waves and aligning them with QSA data for the corresponding period. Since the latest HFCS wave, which took place in 2020 and 2021, the data have been extrapolated under the assumption of a stable distribution per instrument and aligned with the corresponding QSA.

### 17. Are there similar results for countries outside the euro area?

Recommendation 9 of the third G20 Data Gaps Initiative urges all G20 countries to take the necessary steps to be able to provide similar results by 2026. Some countries already publish such data, including the United States and Canada, and more are likely to follow in the coming years.

### 18. Is it possible to find equivalent data on the distribution of income and consumption?

Eurostat publishes experimental data on the distribution of income and consumption for EU countries. These are adjusted to match with national accounts.

### 19. Is it possible to combine the distributional data on income and wealth?

Currently, no dataset consistent with the national accounts shows a joint distribution of income and wealth. However, efforts in this direction are ongoing.[5]

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[5]   See Blatnik, N., Kavonius, I.K. and Teles Morais, L. "Cashing in on Wealth: links between Wealth and Income Inequality from the Lens of Distributional Wealth Accounts" *IARIW-Bank of Italy Conference on "Central Banks, Financial Markets, and Inequality"*, March 29 – April 1, Naples, 2023.