BANCA D'ITALIA
EUROSISTEMA

Household wealth in Italy

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Papers presented at the conference held in
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INTRODUCTORY REMARKS

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For over thirty years the economists of the Bank of Italy have grappled recurrently with the problem of measuring wealth. If I may be permitted a personal recollection, in fact, this was the subject of one of my first works at the Bank, as part of a project to test the life-cycle hypothesis as regards household savings in Italy.[1] Then, and later, what produced new estimates of Italian households' net worth was the requirements of economic analysis (explaining consumption and saving behaviour) more than those of statistics proper (that is, strict compliance with the statistical standards of the national accounts).[2] Naturally, all these efforts depended on the "information frontier" of the data available at any given time.

The Bank's cyclical analysis, forecasting, and policy studies have used these statistical reconstructions, approximate though they are, to track the ways in which the Italian economy has changed and developed. But we always felt the need for systematic, comprehensive statistical data on the wealth of households.

The reasons for taking an interest in these data have been further strengthened in recent years. Such developments as population ageing and growing uncertainty over future incomes and welfare state benefits have increased the importance of real and financial assets and liabilities in determining economic behaviour. Moreover, alongside analytical reasons traditionally associated with the conduct of monetary policy, special importance now also attaches to direct study of the effects of variations in the prices of the assets held by households and firms, i.e. capital gains and losses.[3] As recent events have shown, these questions are essential both for monetary policy directed to price stabilization and for supervision directed to financial stability.

My impression is that in the last fifteen years the ratio of households' wealth to disposable income has risen considerably throughout the industrial world. This has been mainly due to the very sharp increase in housing wealth, however it is measured, while the upward trend in net financial assets has been much more moderate. The increase in wealth may reflect either the build-up of savings or rising asset values. Saving rates do not appear to have risen in recent years; indeed, in some countries they have declined significantly. Much if not all of the rise in the wealth/income ratio is thus due to an increase in asset prices, in particular house prices. To understand the causes of this development – and, more importantly, its possible consequences, such as the ever-increasing use of houses as collateral for loans – we need reliable information set in a consistent, systematic framework of data on the amount, composition and distribution of wealth. Equally crucial, in the new institutional context of the single European currency and the more general environment of the global economy, is not only reconciling macro with microeconomic data but also making sure that both are comparable internationally.

The instrument for achieving this twofold objective is the observance of international standards. And this is precisely the purpose of the methodological papers presented here, which review and integrate the macroeconomic estimates of household

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[1] See Tresoldi and Visco (1975); Frasca *et al.* (1979).

[2] See Pagliano and Rossi (1992); Ando, Guiso and Visco (1994).

[3] See for example Guiso, Paiella and Visco (2005).

wealth available to date. The aim is to adapt Italy's statistics on wealth to international standards using methods of estimation that allow for regular updating. The project whose results are set out today also testifies to the Bank of Italy's commitment to the development of statistics. In particular, it is worth underscoring that the statistical function has grown steadily in importance within the Bank, as it has internationally, and has now been officially recognised with the creation of a separate Economic and Financial Statistics Department within the Economic Research area.

The Bank of Italy has what we can call a critical mass of data and experience on the measurement of financial and real assets and liabilities. It has long been producing estimates of the financial components of wealth for the financial accounts, and for over four decades it has conducted a survey on household income and wealth. This enables us to take advantage of the possibilities of cross-tabulation between the two sources and work to integrate them, while also bringing new information into the dataset for the estimates as it becomes available. Accordingly, it was quite natural that the Bank of Italy should have sought to contribute to developing estimates of household wealth consistent with the international standards and then to put the results at the disposal of the community.

In working towards these aims, significant changes were made in past estimates. The most important revisions involved: (a) the value of housing wealth, whose estimation is now based on more accurate price data and a new benchmark, drawn from the 2001 Census, for determining the number and size of dwellings; and (b) the alignment of the components of wealth with the categories laid down in ESA95, which meant excluding the stock of consumer durables (previously included, and still to be taken into account in studying households' consumption decisions) and including producer households' non-residential buildings, plant and machinery and stocks, as well as several minor financial asset items.

According to the new estimates, the net wealth of Italian households in 2005 amounted to €7.7 trillion, or 8.4 times disposable income; in 2004 the ratio was 8.1, compared with the OECD estimate of 9.4, also based on internal Bank of Italy sources. In the new estimates, Italy still shows a higher ratio of wealth to income than other countries, but the gap is narrower. The share of real assets in total gross wealth is also lower than in previous estimates, at 57.9 per cent in 2005, only slightly higher than in the United Kingdom, in line with Germany and lower than France.

A distinctive trait of the Bank's research activity is the systematic effort at encountering with outside institutions. This is what we intend to achieve in today's conference, by inviting national accountants, experts in the field and above all the national statistical institute, Istat, to take part in the discussion and cooperate on the issues that will be addressed. We see our results to date not as definitive but as a first step, to be subjected to thorough critique. The estimation of wealth is a work in progress, and we can only stress our openness to still broader cooperation with Istat in constructing a complete set of wealth accounts for Italy and, even more important, in the steps that will follow, namely reconciling the stocks and flows of wealth and defining the methods for deflating the aggregates.

This task, daunting enough in itself, is further complicated by the fact that the international standards themselves are also undergoing revision. The most significant and most "sensitive" aspect of the revision, as we know, is the accounting treatment of pension liabilities. The discussion conducted within the international institutions has not yet been concluded, but it now appears most likely that, wherever the dividing line between liabilities that are within the integrated system of accounts and those entered as memorandum items in satellite accounts is eventually placed, these liabilities will have to be fully measured and registered. The impact on the sectoral accounts of households and general government will be massive and will unquestionably dictate the priorities in our future cooperation.

In closing, let me express my sincere gratitude to the eminent guests who have accepted our invitation to discuss the papers that will be presented in the course of the next two days. In particular, let me thank our colleagues at Istat, not only in recognition of the never-failing cooperation between our two institutions, but also in the confident expectation that this dialogue and interchange will grow even broader and more active as we face the challenges ahead.

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