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Causes of Household Indebtedness in Germany and Australia

1. Introduction

Household indebtedness is the state in which people or families owe money to lenders, frequently because of mortgages, loans, credit card debt, or other types of financial obligations. It is impacted by a complex combination of social, personal, and economic factors, including macroeconomic conditions, credit availability, income, education, and financial literacy. As household debt levels grew significantly in many nations in 2007, this issue became one of worry for the entire world. Among other developed countries the household indebtedness level in Australia was relatively high compared to some other countries. The household debt-to-income ratio in Australia has been on an upward trend over the years. In 2020, the household debt-to-income ratio in Australia was approximately 186% (Australian Bureau of Statistics, 2020). However, in Germany it was approximately 92%, indicating that household debt was roughly 92% of the annual disposable income (Federal Statistical Office of Germany, 2020). Aim of this research is study social and economic factors that affect household indebtedness in Germany and Australia and fill gaps in the literature.

2. Literature review

The factors that influence household debt have been examined in several studies. In their cross-country investigation, Smith et al. (2018) identified income levels, educational attainment, and credit availability as crucial variables. The effects of high school financial curriculum requirements on long-term saving behavior were the main emphasis of Bernheim, Garrett, and Maki's (2001) study, which also highlighted the influence of financial education on household debt levels. According to Hyun Jeong Kim et., al (2014) expansion in household credit has been mainly demand-driven, i.e., caused by an increase in productivity or in the permanent incomes of borrowers. Also, particularly in the last five years or so, the amount of debt that American households have relative to their income has increased significantly. This increase is primarily attributable to households' efforts to smooth consumption over time in response to shifting opinions about future wealth, income, and interest rates. It also reflects the impact of financial innovation, which has lowered barriers to households' ability to realize desired consumption patterns (Dynan .K 2007). Many studies have been conducted to analyze causes of household indebtedness in developed countries and different factors that influenced household indebtedness in different countries.

Among European countries Germany had a relatively low household debt-to-income ratio compared to some other European countries. In Germany, several studies have examined the levels and determinants of household debt. For instance, a study by Bucher-Koenen and Lusardi (2018) analyzed household survey data and found that mortgage debt is the dominant form of debt in Germany. They also highlighted the role of income and wealth in shaping household indebtedness in cases like divorce and the number of people in the family. Similarly, a study by Mirowsky and Ross (2017) focused on the social determinants of debt and highlighted the impact of educational attainment and occupational status on household indebtedness. However different factors affected household indebtedness in Australia.

As mentioned earlier household debt was equivalent to around 1.86 times the annual disposable income in Australia. It has also been the subject of extensive research by many scholars. A study by Hsieh and Panizza (2019) analyzed household-level data and found that housing debt is a significant driver of overall household debt in Australia. They also identified factors such as interest rates and income growth as important determinants of household indebtedness. Additionally, a study by Zhu and Birtles (2021) examined the relationship between financial literacy and household debt in Australia, highlighting the role of financial knowledge in managing debt levels. Additionally, according to Jonathan Kearns et., al (2021) Australia has experienced significant growth in household debt over the years. Factors such as high housing prices and a culture of homeownership have contributed to the relatively high level of household indebtedness in the country.

We can see from the literature that mortgage debt was one of the main determinants of household debt in both countries. However other main determinants in Germany were social reasons rather than economic in Australia.

3. Conclusion

In order to address the associated social and economic effects, it is essential to comprehend the causes of household debt in Germany and Australia. Both countries had different factors that determined the role of variables like income levels, educational attainment, credit availability, housing costs, divorce rates, number of individuals in the family and financial literacy in determining household debt levels has been highlighted by research. To explore the specific social and economic factors that are specific to each nation and contribute to household debt, more research is necessary. In conclusion, the research on household debt in Germany and Australia emphasizes the significance of having a thorough understanding of the underlying factors affecting debt levels. To promote financial resilience and enhance the financial well-being of households in both countries, future research and policy initiatives should continue to investigate these factors and understand reasons how countries social factors can influence debtedness more than economic factors.

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