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Indebtedness and Subjective Financial Wellbeing of Households in Indonesia

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Abstract

Indebtedness is an element to foresee household financial wellbeing. This vulnerability could be determined objectively and subjectively. Objective financial vulnerability is the objective ability to make ends meet that is analyzed using household income and characteristics. Measurement in subjective welbeing is determined by household perceptions in their ability to make ends meet. Household behavior with different perceptions will behave differently. Indebtedness is analyzed using the Indonesian Family Life Survey (IFLS) 5 with the Ordinary Least Square method. The inferential shows that both objective and subjective financial wellbeing influence household indebtedness.
Keywords: Household Behavior; Family Economics; Indebtedness; Subjective Wellbeing

Abstrak

Kedalaman hutang merupakan elemen untuk mengetahui kesejahteraan finansial rumah tangga. Kerentanan ini dapat dilihat secara objektif maupun subjektif. Kerentanan finansial objektif adalah kemampuan objektif dalam memenuhi kebutuhan sehari-hari menggunakan pendapatan rumah tangga dan karakteristiknya. Ukuran dari kesejahteraan subjektif ditentukan oleh persepsi rumah tangga dalam kemampuannya untuk memenuhi kebutuhan sehari-hari. Rumah tangga dengan persepsi berbeda akan memiliki perilaku yang berbeda pula. Kedalaman rumah tangga dianalisis menggunakan Indonesian Family Life Survey (IFLS) 5 dengan metode Ordinary Least Square. Hasil analisis menunjukkan bahwa, baik kesejahteraan rumah tangga objektif maupun kesejahteraan rumah tangga subjektif memengaruhi kedalaman hutang rumah tangga.
Kata kunci: *Perilaku Rumah Tangga; Ekonomi Keluarga; Kedalaman Rumah Tangga; Kesejahteraan Subjektif*

JEL classifications: D10; D31

1. Introduction

The household sector has large power to affect the economy on the overall due to its amount and exposure on the financial sector (Santoso & Sukada 2009). What needs to be carried out in studying the financial behavior in micro is not only studying how individuals behave but more important is to see how households behave. Each individual in the household carries out the polling on income and earning. The total household income is then allocated to meet the consumption and need of each household member.

The role of household in the financial sector will become stronger in line with the more population inclusion of a country. The Government has implemented the Inclusive Financial National Strategy (SNKI) to encourage households to be included in the formal financial system. This should be carried out since the formal financial system provides facilities and services with guaranteed security and provides benefit in the efforts to improve the com-

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munity welfare.

One of the strategies selected to accelerate the economic growth is targeting groups that have a large need of formal financial services but are not included, namely groups with low income, poor and near to poor, which among others cover migrant workers, women and people living in remote areas. The inclusion of the community in the formal financial access is expected to open a new opportunity, among others the access to credit. The opportunity is open through credit to carry out new economic activities or expansion o the already ongoing economic activities, which will improve the community income.

The inclusion of all community levels, particularly households with low income, becomes more important to find out how households overcome the financial disruptions arising not only from the condition of the household itself but also due to the *business cycle* or economic deceleration itself. Santoso & Sukada (2009) represented that, in addition to influencing the economy as the surplus sector, households also influences as the *deficit sector*. The income of households that are the surplus sector in the economy is allocated into financial assets or fixed assets afer conducting the consumption activities. On the other hand, households make loans to carry out business activities, investment or consumption; as the deficit sector. The strong engagement of household especially in this smoothing consumption activity such as borrowing to banks will help the household in managing their needs. But these activities must be done by prudent calculation. Nevertheless these household could become financially vulnerable when a financial shock such as when the household member loses their main source of income, has unexpected expenditure (one of the household member becomes ill), and natural disaster. A household is defined as financially vulnerable do its large indebtedness, that as when experiencing economic shock it loses its ability to repay its obligation and also lose their ability to fulfill their basic needs (Canadian Parliament Budget Office 2016)

Rinaldi & Sanchis-Arellano (2006) presented that, in the macro-economy stability, innovation of financial products and policies will encourage households and financial institutions to more deepen this deficit sector. This financial market has imperfection (*market imperfections*) where sometimes the debtor's hazard moral occurs, to deepen this deficit aspect in order to carry out the smoothing consumption. This is carried out with the expectation to settle the financial instability in the household. In case the household experiences more serious shocks, then its obligations are unable to be well settled and will emerge the *Non Performing Loan* (NPL).

The measurement that is used to measure the household financial vulnerability is debt, namely the size of indebtedness composition compared to the household income. Anderloni, Bacchiocchi, & Vandone (2012) represent that the household financial indebtedness is also necessary to be associated to the situation that encompasses such household, namely the problem to fulfill the need, which may be caused by the termination of employment, unemployment or fixed household income. This problem is related to the household behavior, which may be approached by observing the characteristics of such household.

The household behavior becomes important in the efforts or options to manage its finances. Indebtedness or profundity of indebtedness is the objective measurement in measuring the household financial vulnerability. In addition to being measured with the objective measurement, vulnerability is in the theory of poverty also studied by using the subjective measurement. The perception on powerlessness will affect the household decision on how to solve the financial shock. Households with similar financial ability and objective indebtedness can make different decisions. Household that are convinced about their financial ability will subjectively have a better vulnerability level and settlement (Vlaev & Elliott 2014). The subjective financial ability will provide the perception of belief that households have control on their finances. Conversely, those with low financial subjectivity will place households at a more vulnerable position.

1.1. Research Objective

The objectives of this study are (1) find out the relationship between debt and the subjective household financial wellbeing towards indebtedness, and (2) analyze indebtedness according the household characteristics.

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2. Literature Review

The vulnerability of households may be defined as the opportunity or risk to become poor or even become poorer in the future (World Bank Institute and Central Board of Statistics 2002). There are two types of vulnerabilities: vulnerability to become poor, namely the potential of household that is not poor to become poor (temporary poverty) and vulnerability to remain poor, namely the household that is already poor and is unable to revive from poverty (chronic poverty). According to Wai-Poi (2013), the characteristic factors of households in Indonesia that have large impacts on the risk of financial vulnerability through debt are the young age households, female heads of households (in village areas), low education, working in the agriculture sector, high dependency ratio, and large households. This financial vulneralability is strengthen by the deeper the indebtedness.

The problem of indebtedness, particularly with regard to finances, is related to the commitment toward indebtedness (with collateral and/or without collateral). Duygan & Grant (2006) analyzed how the trend of households to be trapped in house credit indebtedness/credit without collateral is affected by the shock on the household income. The existing shock is not only of micro scale but also of macro scale. Ravallion (1998) in Kumala, Agustini, & Rais (2011) represent that shock may threaten each individual or the wide public and may be independent or faced by all households (*shared risks*). The study conducted by Suryahadi & Sumarto (2003) discovered the existence of shared risks in 1998, namely the vulnerability of households to become poor, which significantly increased at households in Indonesia. The probability of someone to become poor in the future increased from 16.6% in 1996 to 27.2% in 1999. The response toward such shock is different in each country and depends on the local jurisdiction. Such result of research shows that the unexpected income volatility increases the probability to be trapped in indebtedness but its profundity depends on the costs incurred in case of experiencing bankruptcy.

Debt is the measurement used to objectively measure the household vulnerability. This word of objective shows that monetary, and with comparable measurement, a household may be said as vulnerable. Anderloni, Bacchiocchi, & Vandone (2012) discovered the empiric analysis result, namely that the household indebtedness level most significantly and positively correlates with the household vulnerability. This vulnerability will increase in case the household holds consumption credit and without collateral. Although credit provides discretion to the household for *smoothing consumption* during the lifetime, if such loan is made by the economically and socially weak community, with the possibility that larger indebtedness may occur than that can be borne, then the financial vulnerability will become higher. This vulnerability will enhance the impulse of the household to behave more thinking in the short term (*short-minded*) and makes impulsive decisions. Such impulsive decision, which results decisions without good consideration, will in fact deepen the household financial problems.

The determinant of household indebtedness is shown in the micro and macro scales. The micro aspect is namely based on the characteristics of the household. Brown & Taylor (2008) found at the study in the United States, England and Germany that the household indebtedness determinants are the age, total income, sex of head of household, marital status of the head of household, race and citizenship status of the head of household, occupation of the head of household, and health. The indebtedness will increase along with the increase of age but will decrease over time. Households with the total income at the lowest quartile will low indebtedness. The male head of household will tend to have smaller indebtedness, particularly in case the concerned has an informal occupation. This indebtedness will increase in case the concerned has a formal occupation. Married head of household will have larger indebtedness. This is indicated by the total dependants combined with the individual indebtedness. In case the head of household is an immigrant/not white (in the United States, England and Germany), then the indebtedness will be smaller. The head of household with good health condition also tends to have larger indebtedness but this finding is only in England. In broad outlines, households with large indebtedness and that are most vulnerable are young age households with low income.

Viewed from the macro aspect, Meng, Hoang, & Siriwardana (2013), through the study with the *Vector Auto-regression* (VAR) *Model* in Australia, found that the most important determinant is GDP, followed by the residential costs. This is since the

stable macroeconomic condition and the booming housing market cause the change of the household behavior, namely having an optimistic expectation. At the time the household is optimistic to propose loan and the loan provider is convinced to provide such loan, then the household indebtedness will increase. Meanwhile, the negative correlation is shown by the interest rate, unemployment rate, and inflation, due to existing negative view on the economic condition.

Subjectively measuring the household vulnerability is the measurement based on the self-assessment of someone toward his/her ability to overcome his/her financial problems. Del Rio & Young (2008) in Anderloni, Bacchiocchi, & Vandone (2012) used indicators that are reported by the households with regard to their financial problems. The result is the existing positive relationship between the subjective view of such household on its financial condition and the indicator of being able to make debts, such as the ratio of indebtedness and income. Keese (2012) found that the indebtedness loan is subjectively different among households. The perception on indebtedness is affected by the financial situation at present and in the future. In case the indebtedness load is objectively higher, then the indebtedness load will subjectively also be higher. For example, individuals worrying about their economic situation in the future will report higher indebtedness load. This subjective worry decreases in line with the increase of income and increases in line with the increase of total family members. Brown et al. (2005) illustrated that individuals with positive expectation on their financial condition in the future will accumulate more indebtedness compared to those with negative expectation, apart from whether such optimism is ex-post justification. However, this study did not explain the actual ability to pay indebtedness. Bialowolski & Weziak-Bialowolska (2014) found that the positive relationship between the age and financial condition and the economizing characteristic and also the formal occupation toward the financial condition is also shown at each dimension, either objective or subjective.

Worthington (2006) viewed another aspect of the financial vulnerability or indebtedness, namely the impacts that emerge from the financial vulnerability in form of the inability of the household to participate in social activities, such as gathering with friends, going on vacation and others. He found in his study on Australian households that this vulnerability is closely related to the demography and social characteristics of the concerned households. Christelis et al. (2009), who conducted the study on the financial indebtedness in Europe at the 65 years age and up circles, confirmed such matter, namely that vulnerability varies at each country, age group, health as well as other social-economic variables. At the case study on Indonesia, which was carried out by Chaudhuri, Jalan, & Suryahadi (2002), the vulnerability variation may be explained by the finding that households in cities with high education experience vulnerability due to the uncertain fluctuation of their income. Meanwhile, households in villages with low education experience vulnerability due to the low prospect of future consumption. Bridges & Disney (2004) focused on the characteristics of households with low income and found that there is a different behavior of credit use between single parent and couple with children, and also between those who have their own houses and those who rent.

The social demography and economic characteristics determine how financial decisions are made. This is closely related to the financial knowledge, behavior and attitude. Atkinson & Messy (2012) expressed, when calculating the financial knowledge, attitude and behavior at 14 OECD countries, that the financial behavior and attitude are different according to the individual characteristics. Therefore, when associated to the household vulnerability, there will be differences on how households try to fulfill their needs, the courage to make risky decisions or where we have to find loan in case our income is insufficient to fulfill our expenditures. For example, men will tend to have high financial knowledge that is closely related to the higher education level as well as the role of men as the main breadwinner and household decision maker. Men will be more exposed to banking products related to their task as breadwinner and therefore, men will tend to have access to the formal financial institutions. Meanwhile, women tend to have better financial behavior due to their thought about the future compared to men.

With regard to the household and individual characteristics, Weich & Lewis (1998) found the strong statistics correlation between the financial indebtedness and psychological problems. Runciman (1966) explained that individuals will compare themselves with others considered as equal. If the comparison is negative, the emotional stress will occur. Someone who is financially vulnerable will compare

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him/herself with with others in his/her community with a higher property level. Such comparison may cause negative matters, namely emotionally stress through anger and depression. This may emerge negative view toward the concerned him/herself and worsen his/her financial condition.

Based on the above examined study, the household financial vulnerability that is proxy by indebtedness is a complex phenomenon and should be further on analyzed from various aspects, either objective or subjective.

3. Method

3.1. Data

The analysis unit of this research is the household. The source of data used in this analysis is the Indonesia Family Life Survey (IFLS) of 2015. IFLS is the longitudinal survey, which samples are represented by 83% of the Indonesian population and made the survey on 30,000 individuals living in 12 provinces in Indonesia. This survey was carried out as the cooperation between RAND Corp and Survey Meter. The questions that are used to prepare the data-set of this study were taken from the Questionnaires in book 2 and book 3A, with the total selected 11,078 households after the merging of data. The questions were related to the household income, household indebtedness and subjective wellbeing, while the characteristics of the Head of Household were used as proxy of the household characteristics. This was carried out since indebtedness or income may originate from all household members, however, the Head of Household is the main decision maker for important matters in the household.

The analysis on the household indebtedness needs in general also the behavior of the household in fulfilling the daily needs. This question is not available in IFLS, so that it is unable to find out whether the IFLS respondent household experiences problems in fulfilling its daily needs. Another matter that is also unable to be examined in this study is the household impulsive behavior in carrying out its consumption as well as the problem of the household to routinely pay its debts. The subjective financial wellbeing is represented by questions related to the *subjective wellbeing* of the respondent. The question on *subjective wellbeing* contains the perception of the respondent on its welfare level. And also with the condition where the household faces certain shock such as experiencing diasater and injury of household members.

3.2. Methodology

The inferential method used in this study is the Ordinary Least Square Regression.The OLS regression method is in this research used to see the influence of the subjective view of the head of household on the welfare of his/her household as well as several demographic and economic characteristics on the household indebtedness. In general, the variables that are used in this research include dependent and independent variables. The individual characteristics of the head of household, such as education, sex, age, occupation sector as several household level information covering the household income and household members, are independent variables. The household indebtedness, which is represented by the total household indebtedness, is a dependant variable in the research. And the hypothesis in this study is that as the subjective perspective of the economic condition that its financial ability has decreased (getting worse of vulnerable) then the indebtedness becomes deeper.

3.3. Model Specification

Based on the selection of the above variables, a determinant model is formed on the profundity of household indebtedness by using the OLS regression model as follows:

$$\begin{aligned}\ln \mathrm{debt} = &\alpha + \beta_1 \ln \mathrm{income} + \beta_2 \mathrm{subjwell} + \beta_3 \mathrm{Educ} \\ &+ \beta_4 \mathrm{Sex} + \beta_5 \mathrm{Age} + \beta_6 \mathrm{Work} + \beta_7 \mathrm{HHmem} \\ &+ \beta_7 \mathrm{Formal} + \beta_8 \mathrm{hock} + \beta_7 \mathrm{Urban} + \varepsilon \end{aligned} \quad (1)$$

where:

$\ln \mathrm{debt}$: total household debt (in form of ln) ,
$\ln \mathrm{income}$: total household income (in form of ln) ,
$\mathrm{Subjwell}$: perception of head of household on the compliance toward the household need, adequate and more than adequate =1,
Educ : head of household's years of schooling,
Sex : head of Household's sex, male =1,

Age : head of household's age,
Work : head of household work status, work=1,
HHmem : total household members,
Formal : formal sector, formal =1,
$\mathrm{Disaster}$: house hold experience disaster with injure of household member,
Urban : living in urban areas, urban = 1.

The variables may in broad outlines be grouped in 3 parts, namely based on the statement of *subjective wellbeing*, demography characteristic, and economic characteristic. The hypothesis that is developed at this model is the existence of significant influence of the head of household perception on the welfare condition of his/her family toward the decision to make debts. Debt is one of the indicators to objectively view the household vulnerability. The high indebtedness value is normally indicated as the signal of the household inability to fulfill its needs, and therefore needs external funding. It is assumed that there will be a difference between the behavior to make debts of the head of household who is optimistic toward his/her financial condition or welfare and the head of household who considers him/herself as being unable to fulfill the household needs. And the subjective wellbeing will also be proxied by the disaster variable, that shows if the household has experience certain shocks such as disaster and disaster that has caused injury among household members. The other dominant factor that will induce a household to be able to secure debt is income. The higher the income, the higher financial institutions perceive the household's ability to repay their debt. Therefore, the subjective wellbeing and income are the main variable in this research, which is also controlled by other variables, such as the demography characteristics covering the sex of the Head of Household (KRT), age of the Head of Household, total family members, and Head of household years of schooling, the working status of the head of household and the occupation sector of the Head of Household.

4. Result and Analysis

The household behavior or perception to determine the decision to make debts is strongly related to the household financial condition. The financial condition at household units with different characteristics shows an interesting pattern to be analyzed.

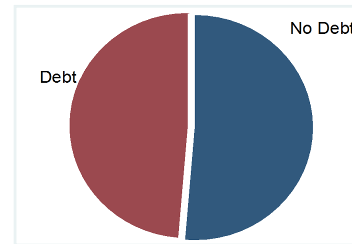

Figure 1: Proportion of Household's Debt
Source: IFLS 5, processed

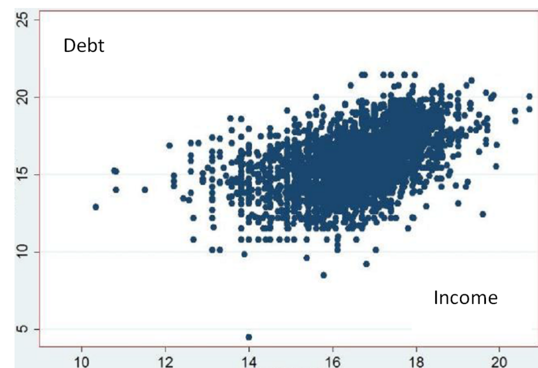

Figure 2: Household Income and Debt Scatter Plot
Source: IFLS 5, processed

Data shows that the average age of head of household in this study is 42 years with 8 years of schooling. Whereas 87% of the household head are men, 65% working in the informal sector and 89% head of households are working. The proportion of households with debt is 42.4% of the total household samples. In addition, the subjective perception of samples of the head of household toward the welfare condition of his/her family shows optimism in the aspect ot life need fulfillment. The majority of heads of households (81%) admitted that they feel that the welfare condition of their families is sufficient at the time of survey. The pattern shown by the variable is that the household income is positively associated to the total household debt. The higher household income may imply two matters related to debt. First, the ability of household to fulfill its need increases, so that the need of funding from parties outside the household will decrease. Second, the more increasing the income may also increase the access to financial products including the easier access to loan, so that the increase of income may also have the potential to increase the household debt.

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In model 1 in Table 1, shows that the higher income (lnincome) then the higher the debt (lndebt), and model 2 when we control it with subjective wellbeing; it still has a positive relationship. Subjective wellbeing has a negative impact on household debt. As the household feels that it's financial wellbeing can be fulfilled then the lower the household's debt. These two models show that the positive relationship between income and debt, is a proxy of ability of household to secure debt, but as subjective wellbeing shows the opposite relationship.

One of the main determinant variables in the model all of the model are household income. Model 3 shows that the growth of household income positively affects the growth of the household debt. Objectively, the higher the household income means the larger the debt of such household. This may be logically explained that households with high financial ability will have the larger ability to repay their debt. Those with higher income are perceived as targets for financial institutions to promote their financial products. Households, which head of households are working in the formal sector, will also have positive influence on the household indebtedness. The positive influence of both variables describes in general the indicators of the household ability to be eligible in the indebtedness approval. The informal sector is a sector that has the instability characteristic in the routine flow of income. As such, implicitly the households which main income originates from the informal sector will be more vulnerable.

Good financial planning can be made if it is decided by using mature consideration. The perception variable on welfare negatively affects debt. Households, which perception themselves as sufficiently able to fulfill their needs will not make debts. This finding is in line with the finding of Anderloni, Bacchiocchi, & Vandone (2012) where it is said that if the household subjectively views itself as vulnerable (unable to fulfill its needs), then such household will make the decision to make debts. Anderloni also presented that the more debt causes that the decision that is made tends to be impulsive and without adequate consideration. Inferentially this shows that this decision to make debts is carried out objectively that its financial potential is able to make debts and subjectively if the household feels that it is not prosperous. This potential should become the point of strength in the national financial stability system, where the micro units, which are parts of such system, are moving into the direction that supports the carefulness in making debts.

Table 1: Inferential Result

	Model 1	Model 1	Model 3
Cons	5.968256***	6.260143***	6.36236***
Lnincome	-0.6911836***	0.6659377***	0.52825***
Subjwell		-0.358554***	-0.2662422***
Educ			0.1151992***
Urban			-0.1596182
Sex			0.2081047***
Age			0.0141172***
Work			-0.2256389***
HHmem			0.059676***
Formal			0.024212
Shock			-0.0937927

Note: * p<0.1, ** p<0.05, *** <0.01
Source: IFLS 2014, processed

Debt will increase in line with the increase of family members, since the increase of family members will also increase the need of the household. The total family members is in this case the proxy of the size of the household financial load. Anderloni, Bacchiocchi, & Vandone (2012) also found that the larger the financial load borne by the household means the larger its indebtedness. Duygan & Grant (2006) informed that the load and liabilities that should be borne by the household caused the vulnerability of eh household, moreover if the household experiences the financial shock, for example the household lost its main income source[1].

The higher the education the more exposed to knowledge, including the financial products (Atkinson & Messy 2012). The higher expose to knowledge then the more expose to complete information, access that will result the higher the ability to *smoothing consumption* through indebtedness. The inferential shows that the higher the education (years of schooling), the higher the household debt. Higher knowledge will ease access to financial products this will also increase the demand to secure loans.

Sex of the head of household also affects the household indebtedness and it is assumed as since the access to financial products, such as credit, is larger for men. Women are social constructional assigned to arrange household needs, such as expenditures for consumption, and men make the decision related to expenditures other than the daily need,

[1]The variable disaster is not significant in model 3. The author's hypothesis on this matter is due to the time frame in the question in IFLS 5 to develop this variable, ie. In the past 5 years.

Economics and Finance in Indonesia, Vol. 62 [2016], No. 2, Art. 2

such as purchase of fixed assets, financial assets and taking credit.

Table 1 show that the age variable in the inferential is also significant. The higher age of the Head of Household means the more increasing of his/her indebtedness. This pattern may be associated to the *age earning profile* curve of the worker, whose additional wage will increase in line with the age (Psacharopoulos & Patrinos 2004). Wage is one of the components that are used as consideration in making the household financial decision.

Head of household is usually involved in household member's decision. Head of household work status decreases the household indebtedness, as the household head working then the household might be more stable. This stability will encourage household not to secure debt.

5. Conclusion

The household financial indebtedness occurs since the household makes larger consumption than the total household income. This activity emerges the obligation that should be carried out by the household. This vulnerability emerged due to debt but may also emerge due to the perception of the household on its condition, which is referred to as the subjective financial wellbeing. Reflecting on studies in the poverty sector, this perception is strongly affecting the behavior and distinguishes the ability and efforts of the household to settle its obligations. Reflecting on the studies in the poverty sector, this perception is strongly affecting the behavior and distinguishes ability and efforts of the household to settle its obligations.

The inferential result by using the data of IFLS 5 shows that indebtedness increases in line with the income increase rate of the household. This is assumed as strongly related to the accessibility and also the eligibility[2] of the household to obtain debt. The indebtedness will also increase with the increase of the education level. Education also describes the wider information accessibility. High education will expose the household on more complete information, among others on the conditions and products of formal financial institutions, such as indebtedness. The income stability is one of the factors for access to indebtedness, so that household's heads that are working tend to have more stability that will decrease indebtedness.

In case debt is viewed through the influence of the age of the Head of Household, the pattern is that the indebtedness rate will increase in line with the increase of age The financial burden of households with large amount of household members will be larger with regard to debt. This is in accordance with the concept that the large household with large members will increase the decision to make debts.

The financial inclusion program carried out by the government and authorities in the financial sector is one of the principles in the efforts to improve the community welfare. The inclusion of the community in the formal financial system will automatically open more access for the community to products of formal financial institutions, among others indebtedness. Households that previously have no knowledge on and access to financial products, such as debt, will be exposed and become part of this formal financial system. Previous researchers found that the instability is one of the stressors and triggers of the household vulnerability. Households which Heads of household are not working will have a larger stressor compared to who are not working. This household vulnerability is also affected by the subjective wellbeing, and the feeling or perception that the household is vulnerable will also encourage such household to increase its indebtedness. As such, the household will become more vulnerable, and even if it is not followed by good calculation, may cause that the household is unable to properly and correctly settle its obligations. This vulnerability will in a small scale not have much influence on the National Financial System Stability. However, in case the inclusion of subjective wellbeing households is in a large scale, the impact on the National Financial System Stability is also strong.

Based on the findings in this study, the objective factors, such as the amount of income and the household characteristics, will affect debt. Household with higher income will have the higher access to debt. Even though their ability is also higher but this decision must also be done with the provision of com-

[2]The question on whether the current indebtedness of the household is the indebtedness at the formal or informal financial institution ia not available in IFLS 5. The team of writers used this income variable as the proxy of eligibility and opportunity of the household to obtain loan from the formal financial institution.

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plete information. Making debts is carried out by households in order to regulate the flow of income and the need at the desired time. The decision and amount of indebtedness with correct information will bring the household to make correct decisions and will be avoided from the inability of the household to fulfill its financial obligations.

The policy stakeholders in the financial sector also need to take into account the subjective household financial vulnerability. Households, which financial conditions are objectively not vulnerable but subjectively feel that they are unable to fulfill their needs, will behave as if they are vulnerable. If this subjectivity is followed by hasty decisions, then it will result deeper financial vulnerability. Financial education is strongly needed so that the household has a more positive perception and is not making financial decisions without considerations, for example increasing its indebtedness. Such decisions will in fact worsen the household finances.

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