Comments on
„*Consumer Debt and Financial Fragility in Italy*" by Barbara Carvalletti, Corrado Lagazio, Daniela Vandone, and Elena Lagomarsino.

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Nicolás Albacete (Economic Analysis Division, OeNB)

Main research questions and answers of the paper

Question 1: Is consumer credit used to cover gaps in income?

> Answer: yes, because estimation of model 1 shows that fragile households are more prone to incur new consumer debt than non-fragile households

Question 2: If so could this be a reason for the observed increased and widespread inadequacy of the financial and economic conditions of indebted households in Italy?

> Answer: yes, because estimation of model 2 shows that fragile borrowers are particularly exposed to the risk of over-indebtedness

Policy implications of the results of the paper

If the economic downturn persists further weakening the economic position of Italian households,

 the solvency of the consumer credit market could be jeopardized (financial stability implication)

  →**need to adopt appropriate scoring procedures of the applicant's creditworthiness and total level of exposure**

 an increasing number of households risk to become poor (welfare implication: poverty and social exclusion)

  →**Financial education**

Measurement of consumer debt

„Whether and to what extent you borrow money from banks or finance companies to purchase for personal consumption (a) real goods (jewelry, gold), (b) motor vehicles, (c) household items (furniture, electric household appliances, (d) non-durable goods (holidays, furs)?"

Non-specific purchase-targeted consumer credit products used to finance daily consumption needs are not listed (e.g. revolving credit cards or salary loans).

→If they are not available in the data, be careful with the interpretation of the first result concerning the „covering of gaps"

Measurement of over-indebtedness

Consumer debt-income ratio is used

But this measure does not take into account neither the interest rate levels nor the maturity of the consumer credits.

→Robustness check using debt service-income ratio could be done.

Measurement of fragility

„Is your household's disposable income enough for you to get through the month?

> No (with great difficulty, difficulty, not easily) or

> Yes (fairly easily, easily, very easily)"

But this is a subjective perception, there seems to be a tendency to overdramatize the own economic position, according to table 2:

Table 2: Household finance / Economic position in 2004.

		Household finance		
		Difficult	Easy	
Economic position	Difficult	922	4112	5034
	Easy	45	2933	2978
		967	7045	8012

→Robustness test using objective measure for 2004 panel data could be done.

Pooling in Model 2

A Random effects probit model is used to answer question 1, a pooled heckman selection probit model to answer question 2

Pooling in Model 2 without controlling for individual specific effects can be problematic

→have you tried *gsem* in Stata 13 or *gllamm?* Might be able to estimate random effects logit with Heckman selection.

First stage in Model 2

First stage in model 2 is not completely consistent with the story you tell with model 1: in model 1 you capture the decisions of incurring in new consumer debt at t compared to t-1, but in the first stage of model 2 the decision of being indebted at t.

→why not model as a first stage in model 2 the same decision as in model 1?

Stage 1 estimates in model 2 are not presented

→describing stage 1 estimates in model 2 could be interesting (i.e. does selection exist? Are there differences between stage 1 and stage 2?)

Strict exogeneity assumption

Strict exogeneity of income in model 1 is not tested, although it is also time-varying

→**Should also be tested**

Strict exogeneity of the variables in model 2 is just tested for fragility

→ **Why not test the other variables, too?**

Other issues

Treatment of missing values and of sample design information are not documented

→could be described in the paper

Insignificant state dependence

→try longer lags?

Disentangling supply and demand effects

→information on credit constrainedness in the SHIW could be used, similarly as Magri (2006) or Fabri and Paddula (2004)

Dependent variables in both models have few cases with outcome „1", ML estimation of the probit model may suffer from small-sample bias.

→use complementary log-log regression as robustness test?