V. Michelangelo and M. Pietrunti „A microsimulation model to evaluate Italian households‘ financial vulnerability“

Comments
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Main task

- Simulate evolution of HH debt using micro and macro level data
- Evaluate the impact of policy interventions
- Simulate share of vulnerable HHs under stress scenarios (income and interest rate shocks)

What else can affect the vulnerability of HHs?

- Unemployment
- Cut in income (temporary or permanent), fluctuating income (self employment)
- Type of work contract
- Weak wage growth
- Transition to pension
- Inheritance
- Illness

→potential to refine the model?

Discussion points (I)

- Vulnerability may occur rather quickly (e.g. due to incidence of unemployment or sickness)
- Throughout the model, HHs are grouped into quartiles according to their equivalised disposable HH income and remain in their respective class
- Each HH receives a random income shock in each period which differs across HHs
  - How? (not explained)
  - Are HHs allowed to jump to another class?

Discussion points (II)

- The banks‘ net interest margin:
  - Fixed across simulation periods (i.e. independent of macroeconomic conditions)
  - Is it fixed across HHs (head of HH)?
    - Banks typically use credit scores as measure of credit worthiness → directly affects mortgage margin
    - Bargaining power
    - What rate (2%, 7%?)

Discussion points (III)

- Mortgage default
  - Strong dynamics in Italy; since 2010 homeowners in Italy had higher default rates than in Spain (2014: 6%)
  - HHs may not be able to make payments on their mortgage or may choose to default (for example if property values decline)
  - In the model HHs exit only after they completely serviced their debt
  - Worth considering default?

Discussion points (IV)

- Consumer debt is treated rather rudimentary
  - Fixed interest rate assumption
  - Demand for consumer credit has risen considerably
  - Although lower share of HHs demand consumer credit, those that do are among the most vulnerable
  - Most accessible form of credit
  - Variable interest rate..?

Discussion points (V)

- Estimation equations and parameters of growth process not specified?
- Data used to estimate (positive) HH income growth in coming years: 2002-2008 (pre-crisis)
  - Growth (possibly) driven by entirely different forces …
  - Unlikely that growth in near future can be explained by growth in near past … (footnote 11 more plausible)

Robustness

- Raise the income threshold (e.g. 150% of median equivalised household income)

  Why?

  – Vulnerability not necessarily correlated with income; more debt credit available to higher income HHs; Tab. 6 shows that vulnerable HHs have high education levels …

→ By how much would the share of vulnerable households rise/fall?

General suggestions/questions

- More descriptive data
- Euribor based on monthly, quarterly, yearly rate?
- Adjustment factors → how are they „selected“?
- Tab. 4 redundant
- „equivalise“