Stress Testing the Private Household Sector Using Microdata

Discussion

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Overview and Main Results

• **Research Question:** To what extend do shocks to the unemployment rate, interest rate and prices cause financial stress among households in the Czech Republic?

• **Contributions**
  • Consider transitions from employment into unemployment AND vice versa
  • Distinguish between spouses’ and heads’ labor market status

• **Main Findings**
  • **Unemployment shocks** have the largest impact on hhs’ financial distress
  • Long-term impact of interest rate shock similar in size to unemployment shock
  • Price shocks to essential expenditure have only a small impact
  • Heterogeneity matters!
General Comments

• Paper shows value added of micro-data especially in the part where scenarios are taken from financial stability reports (see also Albacete et al., 2014)

• Established methodology

• Strategies of how to deal with stress not considered (some because of data limitations)

• Can the probabilities related to shock sizes/scenarios be used to construct something like an overall expected value of distress?
Specific Comments – Employment/Unemployment Shock

• How much does the intra-household heterogeneity actually contribute? What happens to the stress indicators if you shut down the full transition between employment and unemployment and the intra-household heterogeneity? Do your results get closer to results for Austria and Sweden?

• You could analyse single person households only. The impact could be more severe, because there is not partner to compensate the job loss.
Specific Comments – Employment/Unemployment Shock

- Social Security System: **reduced income** as the **unemployment** spell last longer (page 10) -> Can this be considered in your analysis?

- **Unemployment and price level changes** seem to be **linked** (income -> demand -> prices) in joint scenario (only). Why not in the unemployment scenario?

- An extension could be to consider a more **general shock to income** rather than an unemployment shock hitting a part of the population.
Specific Comments – Interest Rate Shocks

• Installments for loans = amortization + interest rate?

• Do you assume that the amortization/repayment is fixed?

• Households (potentially) in distress may adjust amortization to compensate for an increase of the interest rate.
Specific Comments – Result of Stress Tests

- **Add table** showing the structure and components of **Financial Stress** (FS) by **income groups**. Many arguments focus on impact of low income households.
- Does the **moderate (absolute) increase** in the share of distressed households imply that most **households consider** the risks involved in going into debt?

![Figure 3: Percentage of Distressed Households in Response to Macroeconomic Shocks](image)

- Many studies seem to find, that stress in the household sector is not a big problem for financial stability. Was this **different in the US before the crisis (SCF 2007)**?
Ideas for Future Research I

• Add **dynamic considerations** and portfolio adjustments as a reaction to stress

• **Clustering of risks/stress** by institution, region, …?

• Stress testing **firms vs.** stress testing **households**? Network effects, spillover, etc.
Ideas for Future Research II

Chart III.1.2  Inflation - Annual inflation was at very low levels in 2014 Q2 (y-on-y in %)

=> Should we start to investigate deflation / low inflation scenarios?
Thank you for your attention!

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