88th East Jour Fixe

Household financial vulnerabilities in CESEE: what impact has COVID-19 had and how to best measure the changes?

Compiled by Elisabeth Beckmann, Pirmin Fessler, Julia Wörz[1]

Households across the globe have lost income in the wake of the COVID-19 pandemic. However, some households have been hit harder than others, with big variations across countries. The OeNB's most recent East Jour Fixe[2] on October 12, 2021, highlighted these heterogeneities and explored to what extent income vulnerabilities already existed before the pandemic or emerged amid the pandemic.

A case study from the UK: tracking labor market and financial inequalities through the pandemic

In the keynote lecture, chaired by *Birgit Niessner* (OeNB), *Thomas Crossley* (European University Institute) shared insights from "A year of COVID-19: Tracking labour market and financial inequalities through the crisis with the Understanding Society Covid-19 Study."[3] While prior to the pandemic, research-oriented surveys often took several years to complete, the pandemic created a need for rapid processing and data release. A particular challenge of event-triggered, high-frequency surveys is to understand how the short field periods and restricted mode of surveys affect nonresponse and sample-to-population inferences. The Understanding Society Covid-19 study, conducted in the UK from April 2020, builds on a pre-existing longitudinal survey and is derived from a probability sample. Unlike in convenience and quota samples, in a probability sample, every unit of the target population has a knowable, non-zero probability of selection. In addition to preventing bias, the team conducting the Understanding Society Covid-19 study has been specifically concerned with modeling nonresponse. In particular, nonresponse is modeled as attrition from the pre-pandemic longitudinal survey. This approach inter alia allows calculating inverse probability weights, which, as Thomas Crossley illustrated, outperform basic calibration weights when estimating, e.g., income poverty. Weighting, however, can only address the selection of (pre-pandemic) observables; it does not deal with differential nonresponse related to contemporaneous shocks. The latter was addressed with randomized incentives, for which Crossley shared preview results. He then presented results on how UK household finances have been affected by the pandemic: Large income losses were more common at the lower end of the permanent income distribution and increased in the top half, thus exacerbating pre-existing inequalities. Yet, above the 30th percentile of the permanent income distribution, wealth gains outnumbered wealth losses. Moreover, self-reported financial satisfaction did not worsen during the first year of the pandemic, and the marginal propensity to consume has

[1] *Oesterreichische Nationalbank, Foreign Research Division, elisabeth.beckmann@oenb.at, pirmin.fessler@oenb.at and julia.woerz@oenb.at.*

[2] *The presentations and the workshop program are available at https://www.oenb.at/en/Calendar/2021/2021-10-12-east-jour-fixe.html.*

[3] *See https://www.understandingsociety.ac.uk/.*

remained remarkably flat across the income distribution. Debt repayment is a priority for those who were hit harder by the pandemic, while the fraction of those who would save more increases with affluence. Crossley concluded by stressing the advantages of building on an existing panel study for a high-frequency survey. He also emphasized the value of taking frequent measurements during a crisis, as the initial shock will often differ from the longer-term impact.

Financial vulnerabilities: international comparison

Session 1, chaired by *Peter Lindner* (OeNB), kicked off with a presentation of the Austrian Corona Panel project by *Fabian Kalleitner* (University of Vienna). The Austrian Corona Panel project is an ongoing survey tracking individuals and their economic risks in Austria during the pandemic. Early in the pandemic, the perception of economic risks was found to be especially high, showing some correlation with the actual COVID-19 incidence figures. Home office not only varied considerably across industries but also showed higher variance across time in industries with higher shares of people working from home. Kalleitner especially stressed the importance of keeping up the survey work to better understand home office phenomena, as register data do not usually cover such information. Next, *Zsoka Koczan* (European Bank for Reconstruction and Development) asked "Not all in this together? Early estimates of the unequal effects of Covid-19." She compared advanced and emerging economies with regard to the economic effects of the pandemic. Labor market effects have been much more severe in emerging markets. Two important explanations are the share of jobs that can be done at home as well as the size of the fiscal stimulus used to mitigate the crisis. Also, the likelihood of a job loss decreased at a faster rate with income in advanced economies than in emerging markets. Generally, job losses have been more widespread among the young and women during the pandemic than during the global financial crisis. *Alfonso Rosolio* (Banca d'Italia) rounded off the picture with a simulation of the potential crisis effects across Europe using data from the Household Finance and Consumption Survey (HFCS). He combined income and liquid wealth in a single measure for the ability to absorb an income shock. The results show substantial increases in the share of poor households in the COVID-19 scenario. Austrian households were found to be at the lower end with regard to both existing and pandemic-related vulnerabilities. Rosolio also stressed the importance of taking into account rigidity with regard to consumption. Given the same income stream and household size, the share of income that is committed, e.g., for debt service or housing rents makes a big difference. In concluding he stressed that the HFCS had proven to be an extremely relevant policy tool that needed to be consolidated and expanded further.

Financial vulnerabilities: focus on CESEE

Session 2, chaired by *Peter Backé* (OeNB), started with evidence from the OeNB Euro Survey on household savings presented by *Melanie Koch* (OeNB). According to data from the 2019 survey wave, less than half of the population is in a position to save, which is equivalent on average to one-third of all households across the ten countries covered in the sample. Thus, large parts of the population appear to be rather vulnerable to income shocks. At the same time, those who are able to save can save considerable amounts. The decision to save is influenced by expectations on the future economic situation, income, education and financial literacy while the amount of savings is affected by inflation expectations. Survey results from the fall of 2020 suggest that past experience becomes a stronger determinant of saving behavior in times of crisis. The results further suggest that some people seem to have lost all their savings in the pandemic. Next, *Merike Kukk* (Eesti Pank) presented results from an intermediate survey conducted in summer 2020 (instead of the regular HFCS survey scheduled for 2020 that was postponed to summer 2021). Similar to other countries, great heterogeneity was observed across households also in Estonia: while some were forced into savings due to lack of consumption possibilities, others had to stop saving altogether, and the number of households with permanent financial problems increased. Differences were observed across sectors of employment and types of loans (consumption versus mortgage loans) for indebted households even though the situation on loan markets remained stable. Compared to the global financial crisis more than a decade ago, the current pandemic had rather different effects on households, and currently new challenges are arising from high energy prices and inflation. Adding the Slovak perspective, *Andrej Cupák* (Národná banka Slovenska) shared results from a survey of indebted households at the three largest Slovak banks, covering about two-thirds of the retail loan portfolio. To begin with, he noted that household debt is particularly high in Slovakia. Among households with loan deferrals, changes in income emerge as an important determinant, as well as prior vulnerability (measured by a higher debt service to income ratio) and age: younger people are more likely to have deferred loans. In contrast, university education is negatively related. Cupák concluded that financial buffers are generally low in Slovakia and that the pandemic-related moratoria effectively supported households in mitigating the impact of the pandemic, providing a case for the importance of timely and well calibrated measures. During the survey period, the situation of most households normalized and many changed their financial behavior, building up financial buffers or moving into safer sectors. Moving on to the case of Poland, *Pjotr Bańbuła* (Narodowy Bank Polski) confirmed the differential impact of the pandemic by sector, drawing on evidence from a Polish household budget survey, which found that people tended to spend less and draw down savings. Even though household indebtedness deteriorated more strongly than in normal years, the marginal distribution of indebted households did not change substantially. The share of people moving from poor to good conditions and vice versa was roughly equal in 2019 and 2020. In general, his conclusions painted a rather reassuring picture, as unemployment remained generally low in Poland thanks to government support, incomes continued to rise except for the bottom-income households and (over)indebted households benefited from lowered interest rates. *Maja Ilievska* (National Bank of the Republic of North Macedonia) rounded off the workshop by highlighting the role of policy support. She listed the wide array of monetary, regulatory, supervisory and other government measures that mitigated the effects of the pandemic for households. Households' financial assets continued to grow in 2020 in her country, even though at a slower pace than before. She also noted a higher propensity to save in foreign currency, a typical feature of crisis times in euroized economies. In particular, moratoria have been a helpful tool to smoothen the impact of the crisis, yet she also stressed the need to carefully monitor the quality of the loan portfolio and to recognize possible deterioration therein in a timely manner.