



BANCA D'ITALIA
EUROSISTEMA

All in it together: the finances of European households during the pandemic

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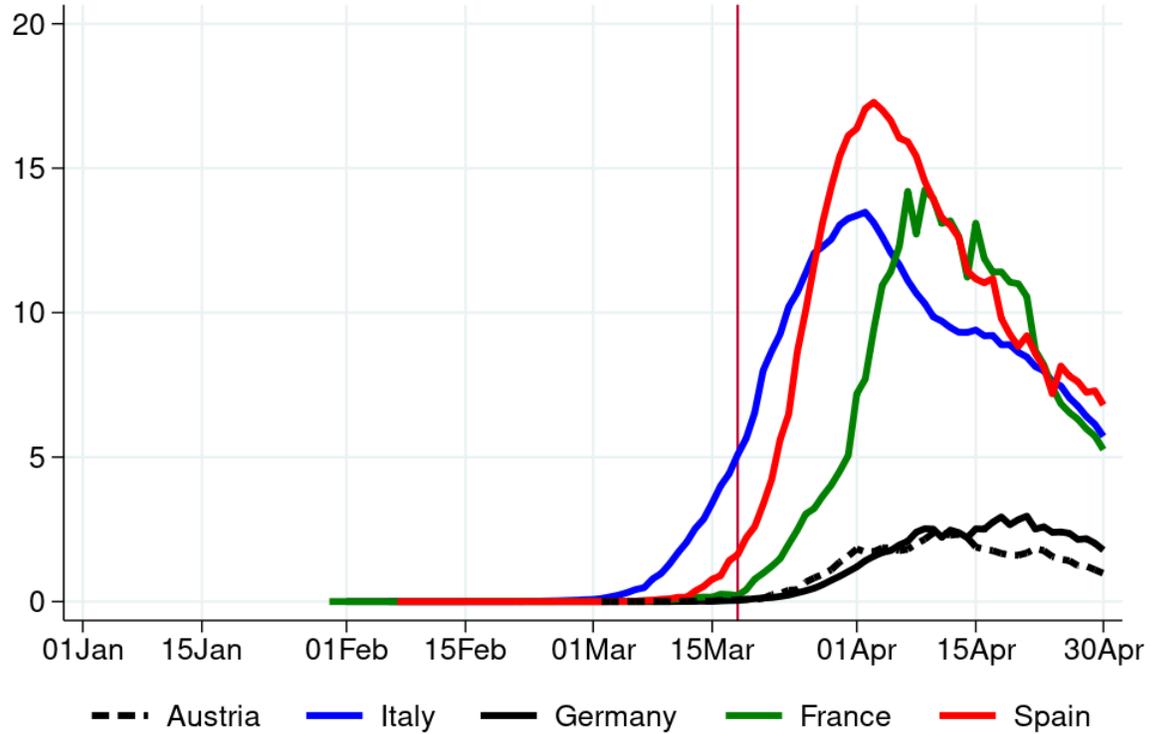
(with R. Gambacorta & F. Zanichelli)

88th East Jour Fixe - Oesterreichische Nationalbank

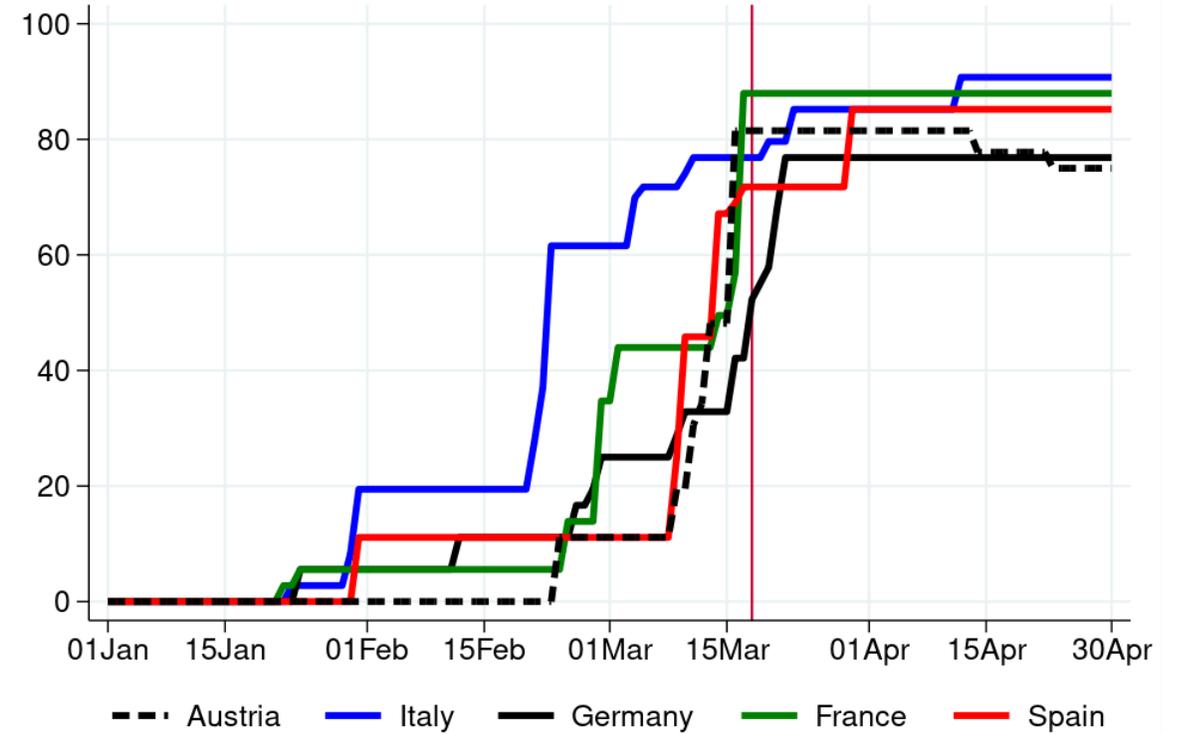
Covid hits Europe...Europe shuts down



Daily Covid deaths (7dma)



Oxford stringency index



Will households be able to weather the shock?



March 2020:

discussion on depth and length of crisis and on need for extraordinary measures yet to come.

Early empirical discussions: mostly country-specific and focussed on effects on individual labor income and role for UB.

Few later exercises address more carefully role of policies enacted during pandemic and assess *ex-post* their effectiveness on household incomes (e.g. Midoes & Seré (Feb2021), Sanchez, Figari, Fiorio et al (2021)).

Our goals:

Ex-ante appraisal of EA households vulnerabilities and ability to face unprecedented, and potentially deep and prolonged income losses to *inform design of appropriate and cost-efficient measures*.

Bring households and their broader economic conditions into the picture early on.

Vulnerabilities in the Covid scenario



Vulnerability stemming from:

- Household income and its composition
- Available savings
- Expenditure patterns

Covid scenario (as of march 2020):

set to zero labor incomes from more vulnerable sources (self-employment and temporary salaried employment; ex-post these are indeed the types of employment that fell the most).

Scenario likely captures first-order effect of crisis as expected in the early stages.

More detailed assumptions were premature given unclear developments of crisis.

Policy response not modelled; assess households resiliency in the absence of extraordinary measures.

Draw upon HFCS (3rd wave, 2016); comparable cross-country information on the 3 dimensions.



Household income composition

Great cross-country heterogeneity in the incidence of risky incomes

Share of risky household incomes by main earner's income source

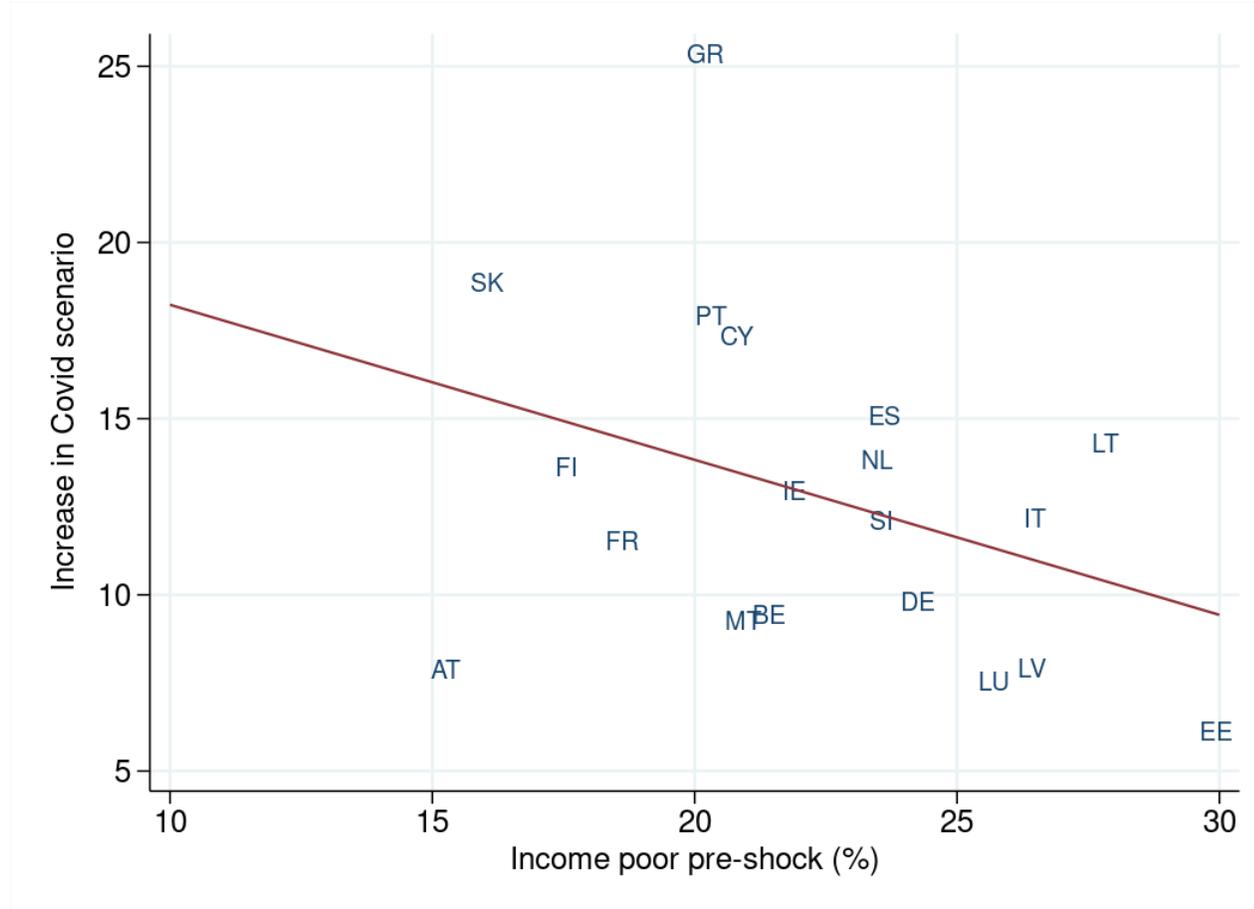




Income poors in the Covid scenario

At-risk-of-poverty (Europe2020 Strategy):

equivalised household income < 60% of *national* median equivalised disposable income.

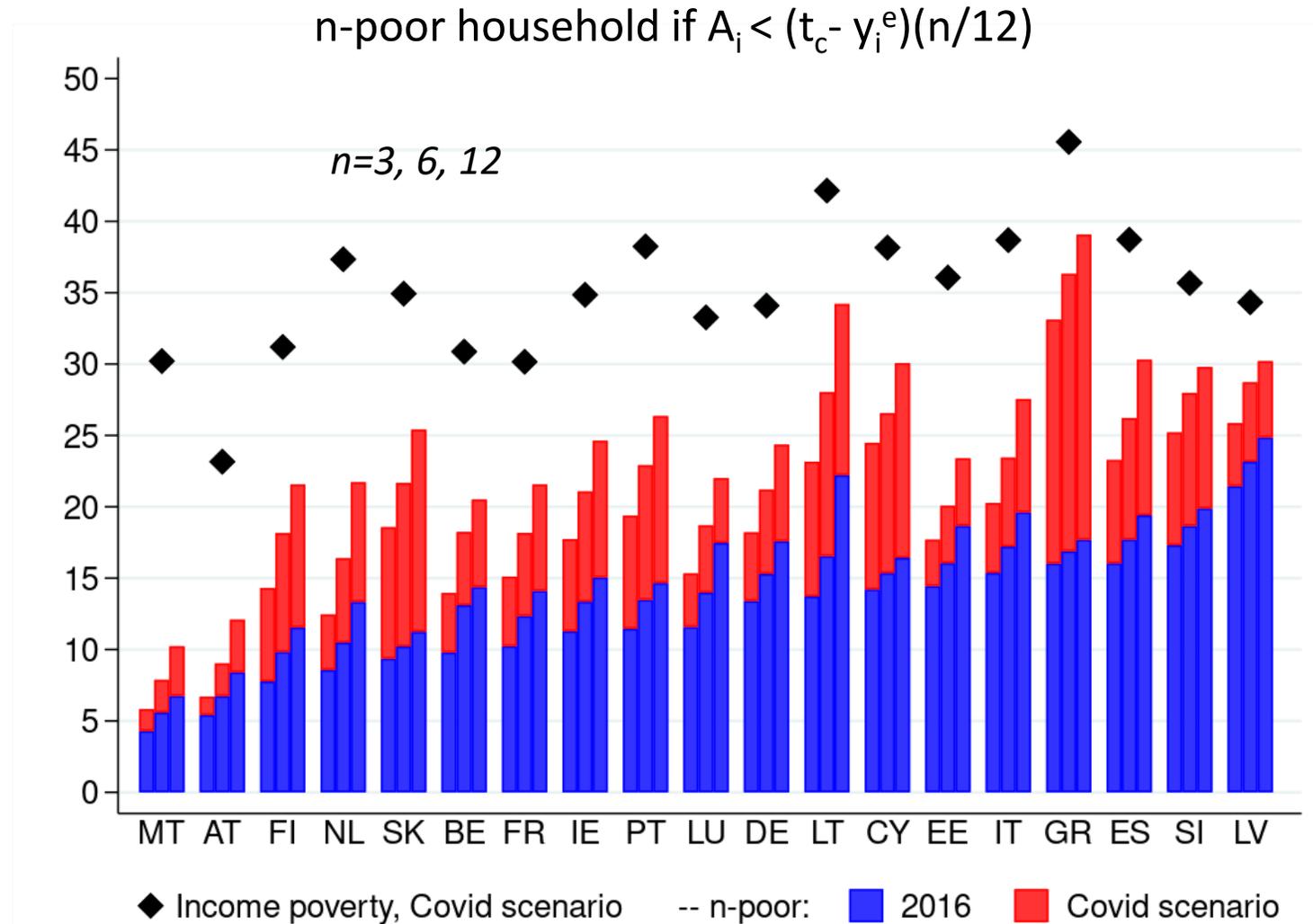


Unsurprising increase, but notably the incidence of income poverty becomes more homogeneous in Covid scenario.

The role of wealth



Combine income and (liquid) wealth in a single index of deprivation (Haveman&Wolff 2004; Brandolini et al, 2010)



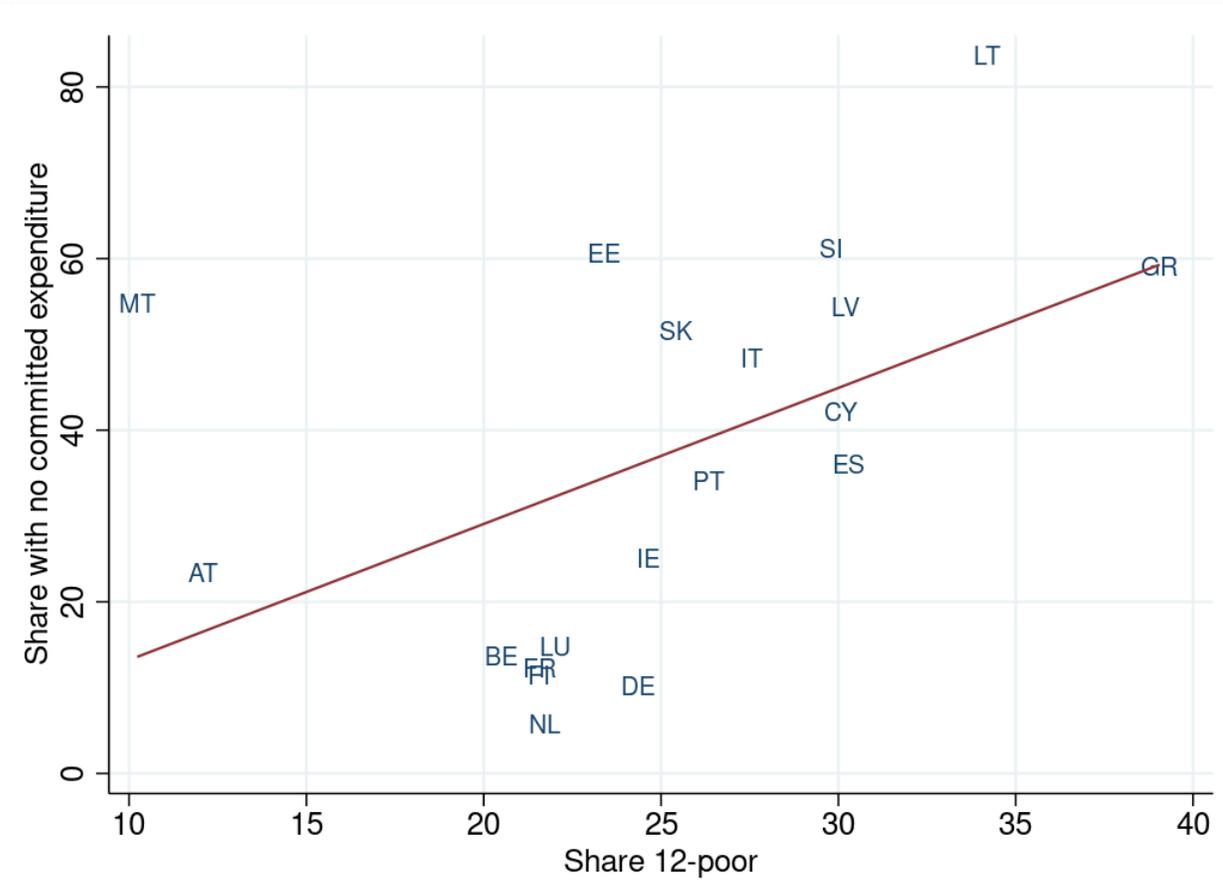
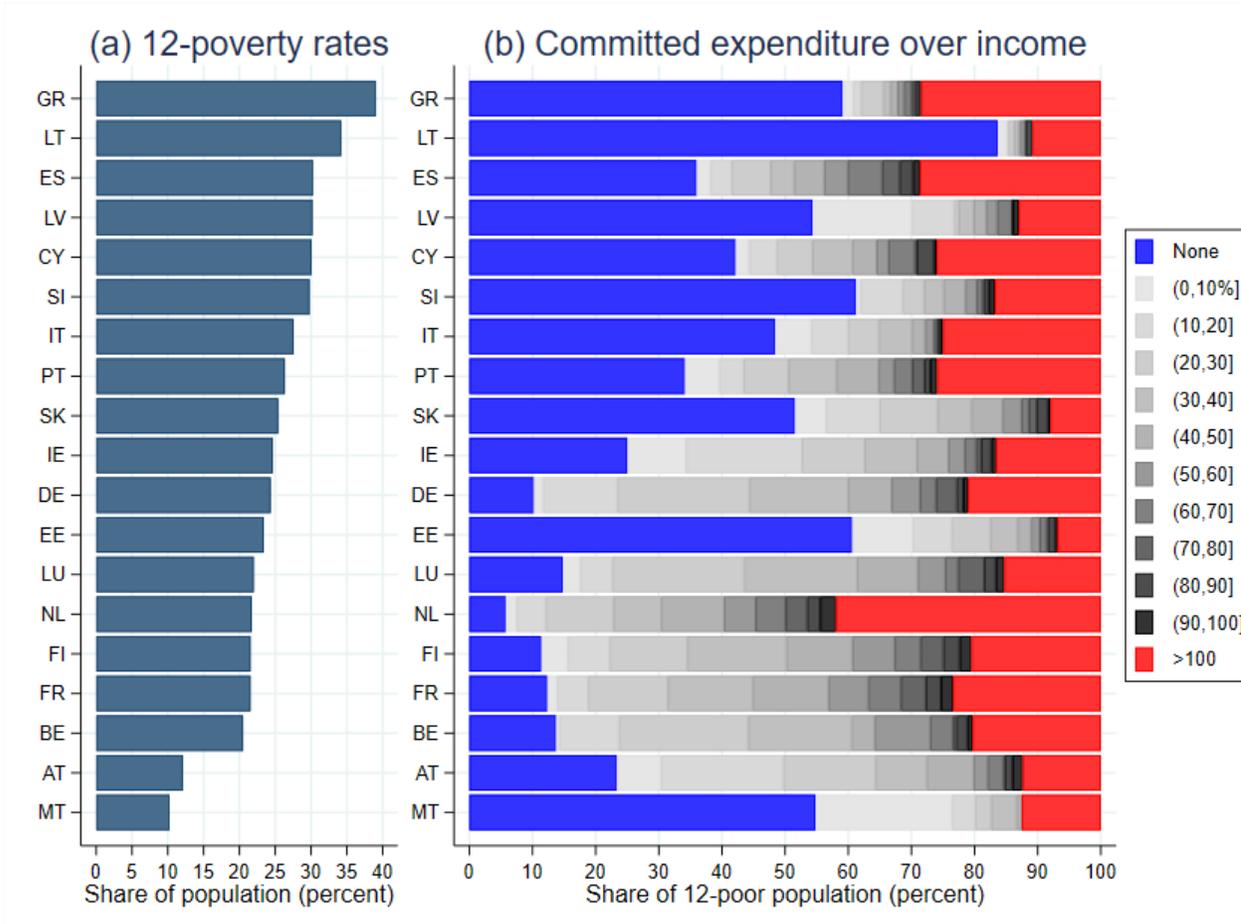


Expenditure composition

Conventional measurements of economic strain focus on the household's economic means.
How these resources are typically used is of no relevance.

Yet, rigidity of household expenditure relevant in determining actual burden of given shock to income.

Committed expenditure: debt service and housing rents



Summing up



Early accounting exercise to assess resiliency of EA households absent any public intervention.

Coarse and extreme assumptions on effects of pandemic to capture first order effects of Covid shock early on.

Economic strain widespread in the EA, traceable to different sources.

Insufficient means vs rigid (committed) expenditure

HFCS has proven to be an extremely relevant policy tool; need to consolidate and expand further.

Thank you