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DISCUSSION OF

To eat or to heat: are energy bills squeezing people?

Colabella, A., Lavecchia, L., Michelangeli, V., Pico, R.

Andrea Bonfatti, Prometeia (andrea.bonfatti@prometeia.com)

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Overview

- The work assesses the impact on **financial vulnerability** (FV) of Italian households (HH) hit by the energy price shock since mid 2021, over the period 2021-2022
- A household is defined as financially vulnerable if its loan instalments to income exceed 30 per cent and its income is below the median of the population
- Three different **price concepts** are used: regulated market prices (ARERA), NIC indices (Istat), average unit costs (Eurostat)
- Importantly, and differently from other studies, it considers **consumption adjustment** in response to the price upsurge, using electricity and gas price **elasticities** estimated from HBS, by stratum (formed according to HH demographic characteristics, total expenditure), over the period 1997-2021
- Expenditure variation caused by price hikes is deducted from HH **disposable income** from 2020 SHIW data to get an adjusted post-shock measure used to compute the FV indicator

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Overview

- The analysis uses microsimulation both in a **static and dynamic framework** (to account for the evolution of macroeconomic variables)
- The main findings are the following:
  - accounting for behavioral responses, the increase of financially vulnerable HHs is comparable to that in the absence of price shocks, as HHs **reduce consumption** to preserve disposable income for servicing debt
  - HHs in the South are more vulnerable and adjust less consumption than HHs in other regions, although differences are negligible across scenarios
  - financial vulnerability is mainly driven by the dynamics of **macroeconomic variables** (interest rates and GDP)

Questions and remarks

Magnitude of adjustment:

- the result that consumption adjustment offsets price increases depends on price elasticities: estimates of **short-run (stratum level) elasticities**, especially for gas (-0.85), are high. A comparison with other available estimates could be useful
- looking at **heterogeneity** of price elasticities could be insightful (for instance, they may differ by HH size/age)
- it would be useful to explain in more detail how stratum-level energy and total expenditure are computed
- changes in expenditure and share of FV HHs are very similar under the no elasticity scenario for regulated market and NIC index (Table 3) despite sizeable differences in absolute price variations (Table 1): why?
- **average unit costs** (Eurostat) might already incorporate behavioral responses: HHs can curb expenditure by decreasing quantity consumed (possibly shifting to a lower consumption-based price bracket); price variations computed using this definition may not be fully comparable with the other measures, and are indeed subdued

Questions and remarks

Government policies:

- observed prices include tariff reduction measures adopted to shield consumers from high energy prices; but how do you account for **social bonuses and allowances**? (NIC indices actually incorporate bonuses)
- there is some evidence that targeted transfers helped HHs to cope with soaring prices, especially larger, lower income HHs, located in the South

Financially vulnerable HHs:

- Table 6 shows that FV HHs are mostly large, young HHs living in the South: but where are these HHs along the **income distribution**?
- what is the share of total HH expenditure allocated to energy items? Are they **energy poor**?

Questions and remarks

Other points:

- the reference year for the **baseline scenario** is 2020, when the pandemic broke out: this allows to account for the impact of the pandemic on HH debt situation, yet electricity and gas consumption might have changed with respect to a normal scenario

- looking at macroeconomic effects: to what extent FV HHs are exposed to **interest rate risk** due to the monetary policy tightening? what is the share of variable interest rate mortgages?