

ERIK GOGOLA

University of Economics in Bratislava, Slovakia

**FINANCIAL VULNERABILITY OF SLOVAK HOUSEHOLDS:
EVIDENCE FROM HOUSEHOLD BALANCE SHEET STRESS TESTS
USING HFCS MICRODATA****Abstract:**

The increase in indebtedness of Slovak households, combined with the recent significant rise in interest rates and high inflation, will result in greater pressure on households to fulfil all their debt obligations. In our thesis, we utilised microeconomic data from the last available Household Financing and Consumption Survey (HFCS). We identify financially vulnerable households based on the concept of financial margin. Furthermore, we conducted microsimulations stress tests to assess households' resilience against interest rate and inflation shocks. These tests were designed to investigate the impact of these shocks on household vulnerability and subsequently on financial stability. Our findings show that inflation shocks have a more pronounced impact on the growth rate of indebted households with negative financial margin and the probability of default compared to interest rate shocks. In contrast, the impact of interest rate shocks on aggregate debt amount at risk is greater than that of inflation shocks. It is important to note that while an interest rate shock has a more pronounced effect on debt at risk, the actual bank losses are not affected by the change in interest rates. The increase in bank actual loan losses, caused by households defaulting on their loan payments, is caused only by inflation shocks. Furthermore, the entirety of the loan losses incurred by the banks can be attributed to non-mortgage loans, with no actual loan losses resulting from mortgage loans prior to and even after the application of the shocks. The results of the stress testing analysis indicate that the credit risk associated with the Slovak household sector does not represent a significant threat to the stability of the financial system. This is due to the fact that the majority of Slovak household liabilities are covered by substantial real assets held by households.

Keywords:

Slovak household indebtedness, HFCS, household vulnerability, stress tests

JEL Classification: D14, E43, G21