Non-technical summary

Over the past several decades, levels of household credit and indebtedness have increased across euro area countries. Consequently, questions related to over-indebtedness and its determinants have attracted more attention. Interest in these topics became even more acute after the beginning of the Great Recession. Among other repercussions of the recession, the effects on unemployment levels proved particularly dramatic and, hence, re-emphasized how interconnected labour and the financial markets are. Conceptually, uncertainty in the labour market can explain an increase in a household's demand for debt through different channels like the employment situation (e.g. unemployment), the type of contract (part-time, short term, etc.) and/or the wage structure (variable pay plan) of the household members. Besides these labour market channels, several other demand-side factors can play a similar role in a household's demand for debt. Changes in the household structure can, for example, influence overall income and, hence, its level of debt. On the supply-side, any sign of (household) stability could increase the access to loans and favourable credit conditions.

Research interests linking over-indebtedness and its (labour market) determinants at the household level figure prominently in central banks' agenda, especially with regards to their potential impact on overall financial stability at the country level. Indeed, a better understanding of households' vulnerability to over- indebtedness could also help to ascertain the threat this factor poses to the banking sector and, thus, to the entire economic stability of a country. This paper is part of the line of research concerning factors which explain the over-indebtedness of households. More specifically, we study the importance of the labour market status of individual household members to explain over-indebtedness in the euro area and across its member countries by using the new European survey of household finances, the Household Finance and Consumption Survey (HFCS).

First, we assess the role of the labour market status (employed, unemployed, disabled, retired, etc.) and other household characteristics (demographics, housing status, household wealth & income, etc.) to determine the likelihood of over-indebtedness according to varying indictors which capture some distinctive dimensions of over-indebtedness (Debt service-to income-ratio above 30%, Debt-to-income ratio above 100%, etc.). We explore these relationships both at the Euro area level and through country-specific regressions. This approach captures country-specific institutional effects concerning the different factors explaining household over-indebtedness. We therefore also examine the role that each country's legal and economic institutions contribute to these differences. Secondly, we move the analysis to a macro-micro frame to identify households and countries that are especially vulnerable to adverse macroeconomic shocks in the labour market. At this juncture, we look at the impact of unemployment shocks on the percentage of over-indebted households by county and across different groups of demographics (age, couple vs. non-couple, education level or income category). Once we obtain these results we proceed to our third and last step and run logit regressions to isolate the households' characteristics that increase the likelihood of toppling into over-indebted after macro-unemployment shocks.