

POLICY BRIEF

EFFECTS OF THE COVID-19 PANDEMIC ON POVERTY AND INCOME INEQUALITY IN SERBIA AND COST-BENEFIT ANALYSIS OF THE IMPLEMENTED INCOME SUPPORT MEASURES

This policy brief presents the research results on the effects of the COVID-19 pandemic on poverty and income inequality in Serbia and identifies the groups that were hit the most during the crisis. The full report can be found [here](#), while in this brief, we summarise the main findings of the research and their policy implications.

In economic downturns, such as the one caused by the COVID-19 pandemic, timely indicators on poverty and inequality are essential in providing policymakers with the right tools to assist those in the greatest need. In this research, we aim to 1) assess the changes in poverty and income inequality during the first year of the COVID-19 pandemic, 2) assess the targeting and equity, and perform a cost-benefit analysis of financial assistance policies implemented, and 3) propose alternative financial assistance measures which could better address the needs of the population during COVID-19 pandemic.

MAIN FINDINGS

Effects on poverty and income inequality

Income in 2020 is more evenly distributed than in 2019, with the at-risk-of-poverty rate decreasing from 21.7% in 2019 to 20.2%, and inequality indicators also decreasing (Gini by 1.3 p.p., and p90/p10 index by 8.5%). Additionally, **regional differences in income inequality were reduced after the first year of the pandemic**.

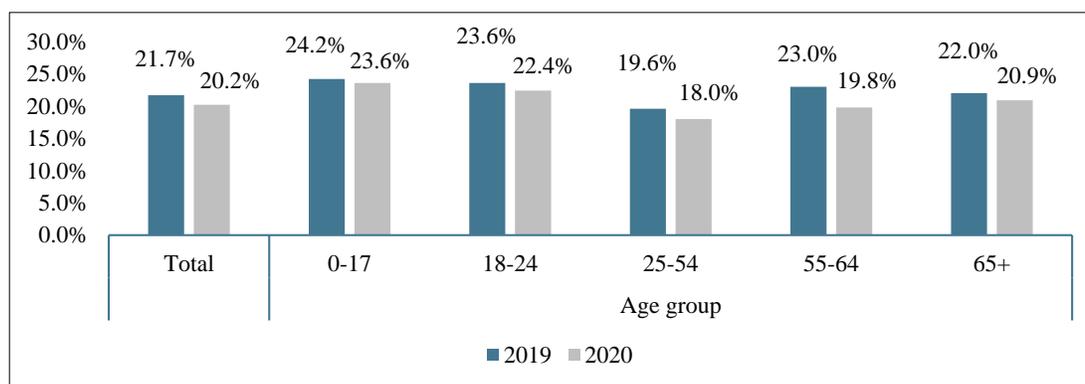


Figure 1:
Poverty rates in 2019 and simulated changes in the poverty rates in 2020

Notes: Own calculation based on the 2020 SILC data (income reference year 2019) and simulated 2020 data. The poverty rate is calculated as a share of individuals below the poverty threshold. The poverty threshold is set at 60% of each year's median equalized net disposable income.

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However, **between-group inequality increased for age groups and education levels**. The **lowest decrease in poverty was for children** (aged up to 17 years), **who had the highest poverty rate before the pandemic**. Their poverty decrease was one percentage point lower than other groups because **they were the only group not receiving additional income support in this period**. Their poverty rate was reduced, but their relative position compared to the population average worsened. Similar applies to the **low-educated**, although the **main reason for their worse position is the labour market losses**.

The impact of financial assistance measures

Two main income support measures implemented during the first year of the pandemic were **Universal cash transfer to the adult population (UCT)** and **Transfer to pensioners and social assistance recipients (TPS)**.

While **UCT undoubtedly helped to decrease poverty and lower regional differences in poverty rates and between education groups**, it had two negative aspects. Firstly, the **decision to leave children out of the assistance** (or any other assistance) is highly questionable as they had the highest pre-crisis poverty rates and were likely to put an extra burden on household budgets. Secondly, **UCT resulted in high expenditures**, and it was a question of **whether it was necessary to apply the transfer to all adult citizens** instead of targeting vulnerable groups.

On the other hand, **TPS was significantly less costly** (about ten times), **lowered the poverty of the elderly, and reduced regional differences in poverty rates**. However, **TPS was also poorly targeted**, with only 7% of the transfer going to the lowest 10% of income recipients.

Table 1. Implemented policies during the first year of COVID-19 pandemics and proposals for their improvement/alternative policies

TYPE	UNIVERSAL	VULNERABLE GROUPS
Transfer	Universal cash transfer to the adult population (UCT):	Transfer to pensioners and social assistance recipients (TPS)
Positive	<ul style="list-style-type: none"> • Much of the observed decrease in poverty and inequality was due to UCT • Largely behind lower differences in poverty rates across regions • Prevented even larger discrepancies between education groups 	<ul style="list-style-type: none"> • Lowered the gap in poverty for the older population • Reduced differences in poverty rates across the regions • Low cost
Negative	<ul style="list-style-type: none"> • Leaving children out of the assistance (or any other assistance) • High expenditures 	<ul style="list-style-type: none"> • Less substantial effects on poverty and inequality • Poor targeting (only 7% of the transfer went to those in the bottom decile)
Alternative/supplement	Universal cash transfer to all citizens, including those under 18 (UCT- All)	Transfer to unemployed and social assistance recipients (TUS)
Advantages	<ul style="list-style-type: none"> • Higher decrease in poverty, particularly child poverty and inequality • More costly, but the unit decrease of poverty and inequality (per billion euros) is higher than the one for UCT 	<ul style="list-style-type: none"> • Better targeting (22,5% of the transfer going to the bottom decile) • Higher decrease in poverty and inequality and higher efficiency • More cost-effective than UCT or UCT-All, as the unit change in poverty and inequality reduction is about half of their costs

Policy recommendations

To improve programme efficiency of the income support programmes in the case of future similar shocks, the government should:

- 1) **Take into account pre-crisis differences in the income distribution and**
- 2) **Assess the impact of the crisis on different groups.**

During the COVID-19 crisis, two groups who needed additional help: **the children and the unemployed, were left out of higher protection in terms of income stability.** While both groups faced higher poverty rates in the pre-pandemic period, **children (or their parents) faced increased expenditures during the crisis due to online schooling and parents needing to decrease labour supply to perform care activities.** On the other hand, the **unemployed faced significant difficulties in job search and lower vacancies** without additional income support (apart from UCT). Other groups, such as employed and pensioners, were targeted with employment retention measures and TPS, respectively (in addition to also receiving UCT) and faced increases in their incomes in 2020. Therefore, we analysed two hypothetical policies that could have been implemented instead of those implemented (Table 1).

The first proposed policy - **Universal cash transfer to all citizens (including those under 18) – UCT-All** – addresses the decision to leave children out of the UCT. Our analysis indicates that **UCT-All would bring a higher decrease in poverty, particularly child poverty and inequality.** Although it would be more costly, UCT-All would be more **cost-efficient** as the unit decrease of poverty and inequality (per billion euros) is higher than for UCT.

The second proposed policy, **Transfer to unemployed and social assistance recipients – TUS**, addresses the decision to apply UCT to all citizens and target only pensioners (and social assistance recipients) with additional income support with TPS. Our analysis indicates that **TUS outperforms TPS in targeting, poverty and inequality reduction and cost efficiency**, although they could be used simultaneously as they target different vulnerable groups. Unlike other policies analysed, which predominantly transfer funds uniformly to all income groups, **TUS is a progressive transfer**, with 22,5% of the transfer going to the bottom decile and almost 40 to the poorest 20%. As a policy which targets vulnerable groups, **TUS is, expectedly, more cost-effective than UCT or UCT-All, as the unit change in poverty and inequality reduction is about half of the costs of universal programmes (UCT or UCT-All).**

Methodology

The precise estimate of the effects of the first year of the COVID-19 pandemic on poverty and inequality, i.e. the difference between 2019 and 2020, will be available only in late 2022. This is when the data from Survey on Income and Living Conditions (SILC) data for Serbia for 2021, which contain income from 2020, will become available. Eurostat (Eurostat, 2021) uses “flesh estimates” to assess income trends based on the data available from other sources. In this research, we follow this approach to estimate income and poverty statistics for Serbia. The validity of the estimates and the opportunity for their improvement will be known only in late 2022 when information from SILC 2021 is available as income data from this year refer to 2020. However, the estimated effects of the financial assistance policies are likely to be more precise as they rely on more detailed data than other parts of the model.