



# Restarting Resilience

The impacts of the  
COVID-19 pandemic  
on inclusion in  
Europe



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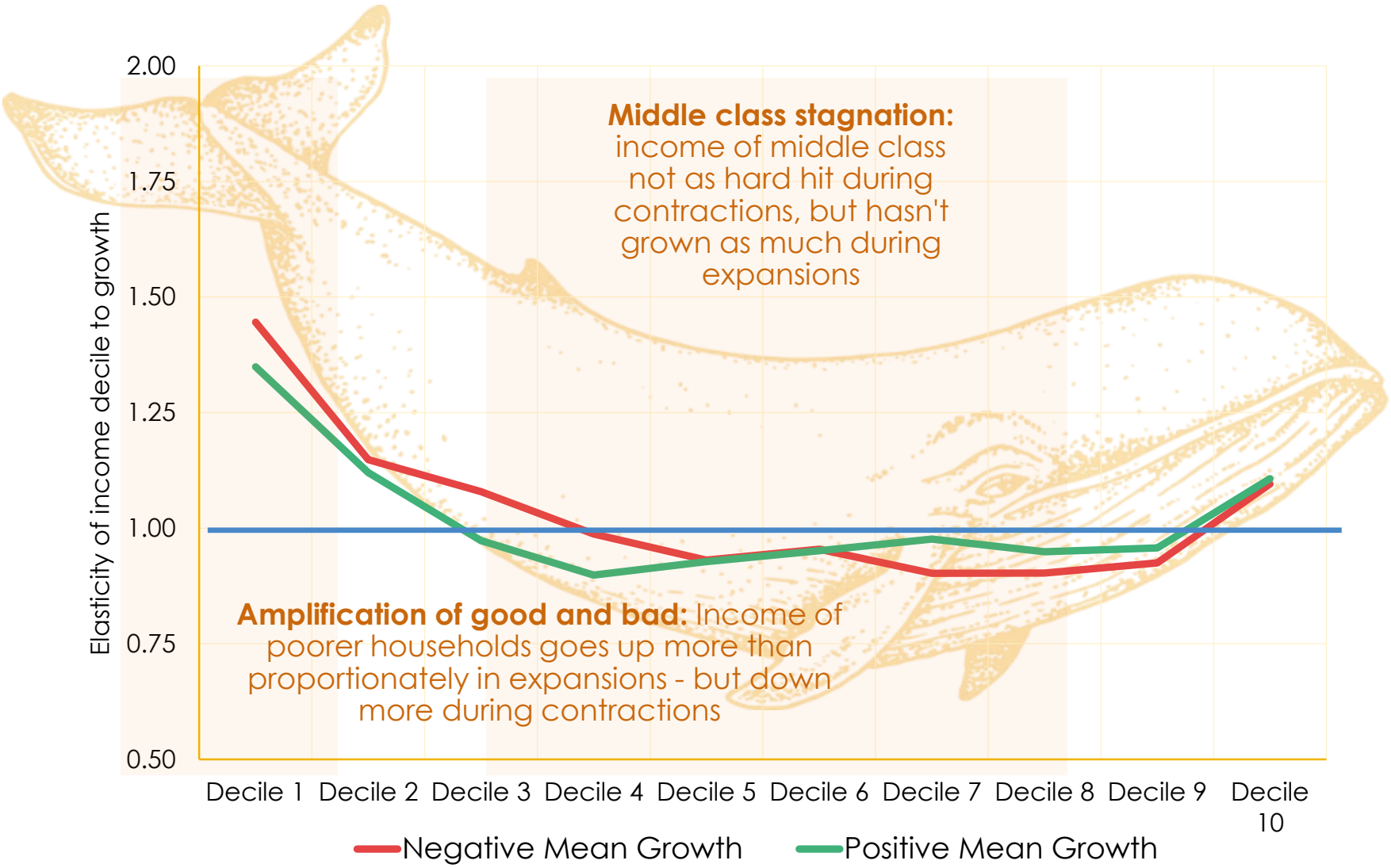
A step back: inclusive growth  
monitoring and resilience in  
earlier crises

# Framework for monitoring inclusive growth: developed subsequent to the global financial and euro-zone crises

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# Lessons from previous crisis: both expansion and contractions are amplified for poorer household at the tail end of the distribution



# Low-income households: for better, for worse? Not everywhere – institutions can shed a light on the resilience of inclusive growth

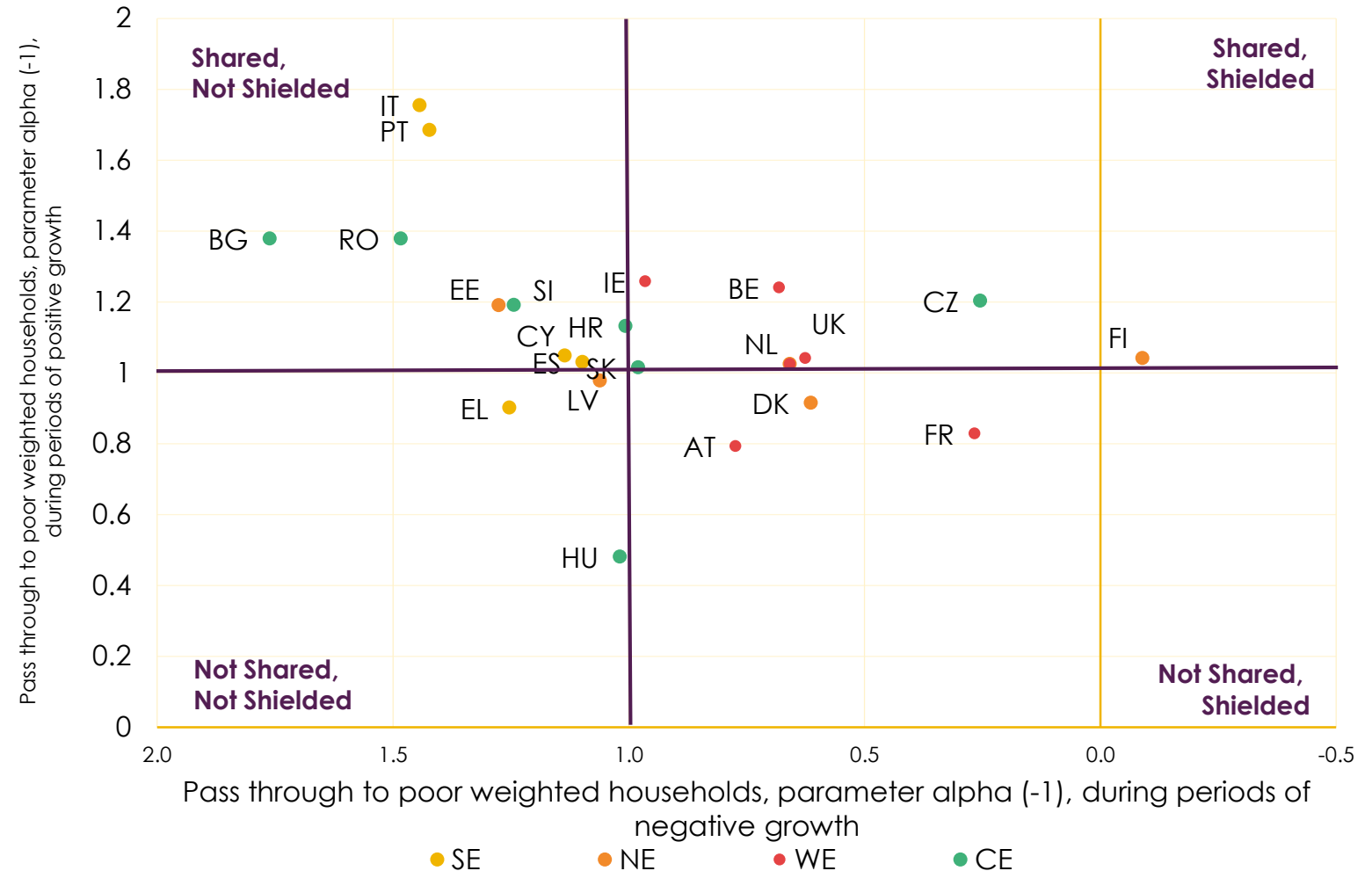


Most countries **shared periods of growth with worse-off households.**

But a third did not shield worse-off households, amplifying the crises.

**Social protection** helped to shield poorer households— but being a high spender was not enough.

Beyond social protection structures, **a host of institutions** feed into resilience of inclusive growth.



# Which institutions supported resilience – captured using depth and volatility of GDP, employment and bottom 20 incomes?

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Targeted **social protection and sufficient coverage** of low income households is associated with stronger resilience



Institutions that **allow wages**—an important determinant of the real exchange rate—**to adjust**, improve resilience



High levels of employment protection reduce resilience... unless wage flexibility is high



Private sector conditions (competition, ease of DB, insolvency procedures) support resilience



Collective bargaining boosts resilience...if **trust** between stakeholders is high



**Trust** in institutions and resilience reinforce each other

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Assessing impacts of COVID-19  
from an inclusion perspective

# Three stages of monitoring and analysis

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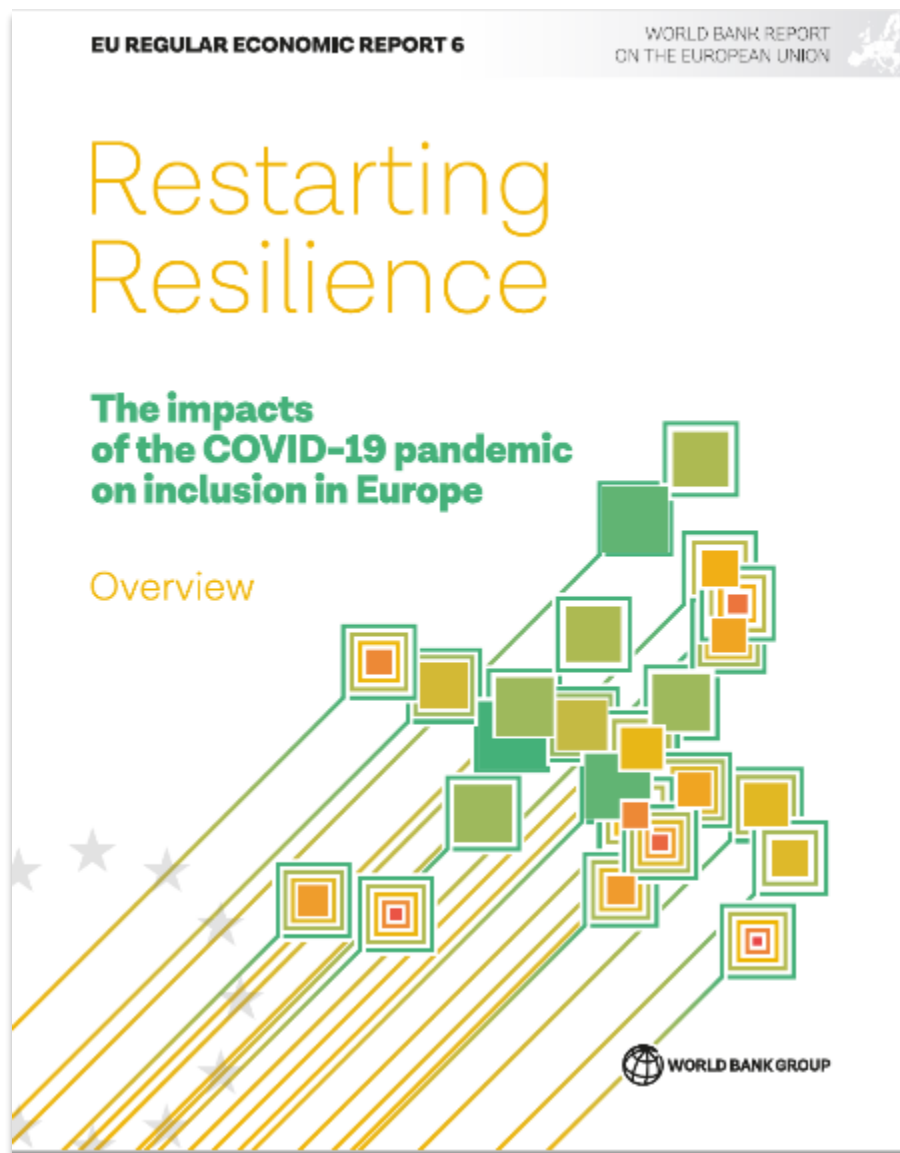
**Strand 1:** Ex-ante modelling (with Michal Myck, Kajetan Trzcinski and Kristina Vaughan) using LFS and EU-SILC, assessing impact of COVID-19 social distancing policies through nature of work;

**Strand 2:** Assessment of impacts on household incomes using GDP per capita projections and a range of pass-through rates (calibrated using earlier analysis on pass-through rates during crisis and expansion);

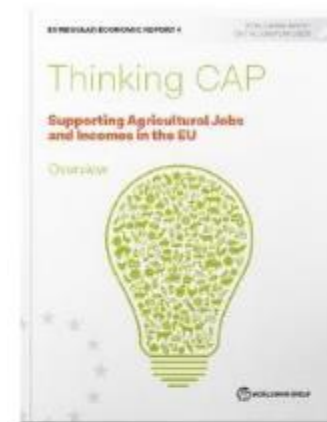
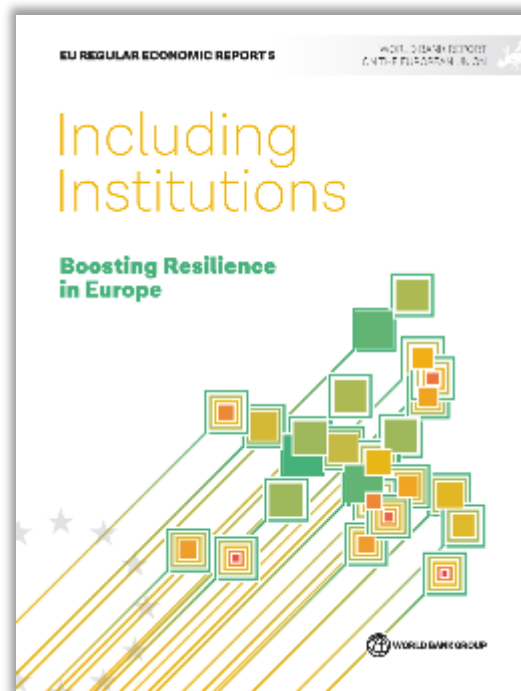
**Strand 3:** Rapid assessments in Poland, Romania, Croatia and Bulgaria: real-time monitoring of household income, savings and employment impacts. (also with Michal and Kajetan in Poland).

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## Previous reports



# Strand 1: capture discontinuity channel on household incomes, noting strong overlap with domestic demand contraction

Household income linked to labor market impacts



Created by Gregor Greshner  
TRENDS Project



Business functioning, continuation of supply side

**COVID-19 fiscal policy:** minimize employment loss and closure of viable firms

Demand for products and services

## Methodology used:

- Essential worker lists following approach of Fasani and Mazza (2020);
- Face to face and home-based work indices following approach of Dingle and Neiman (2020);
- Bring these into the EU-SILC, using the EU-LFS as a bridge from O\*NET to occupation-based indexes – classify workers according to characteristics of occupation.
- Estimates of income impacts calibrated using rapid assessment surveys (which reflect income declines conditional upon having received support from programs)

# We separate analysis across two phases: initial lockdowns and the reopening or “new normal”

## 2 dimensions of risk in phase 1:

- (i) Whether tasks can be readily adapted to home-based work or that requires limited face to face interaction;
- (ii) Whether the contractual type places the workers at greater risk of employment risk or income impact

## phase two:

- (i) Separation into elements of “new normal”, those at greater risk are those whose jobs are most difficult to align to socially distanced approaches

### Phase 1 Lockdown

1. Essential workers

2. Those whose work is conducive to working from home or who are in stable jobs

**3. Those whose jobs are at greatest risk due to an inability to pivot or contract type:** whose work doesn't translate into home-based work or are in at-risk contract types

### Phase 2 Reopening

1. Essential workers

2. Continuation of those who work from home without disruption

3. Those whose work does not require face-to-face contact or can work outside

**4. Those whose jobs may be difficult to conduct under reopening guidelines:** whose work is intensive in face to face contact and for whom working outside is not possible

# Summary of results of labor market and household income impacts of COVID

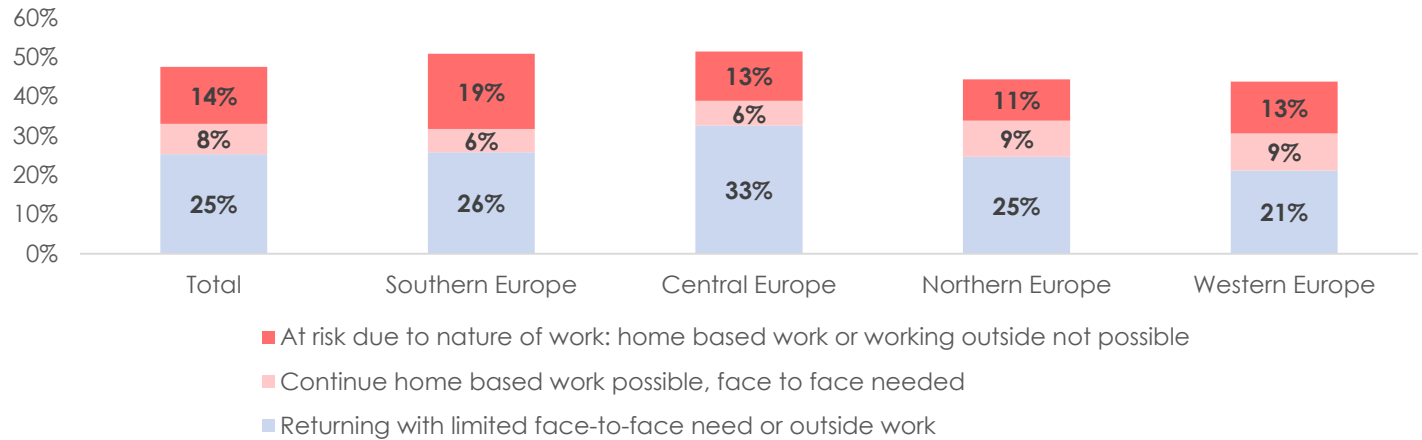
## Workforce

- **In the lockdown phase:** A quarter of workforce likely to have faced substantial work and income disruptions in the lockdown phase.
- **In the reopening phase:** 14% of workers continue to be vulnerable despite reopening.
- Countries in **Southern Europe** have highest share in most-risk employment category – 19% - and **women and lower-wage workers** are similarly more likely heavily affected.

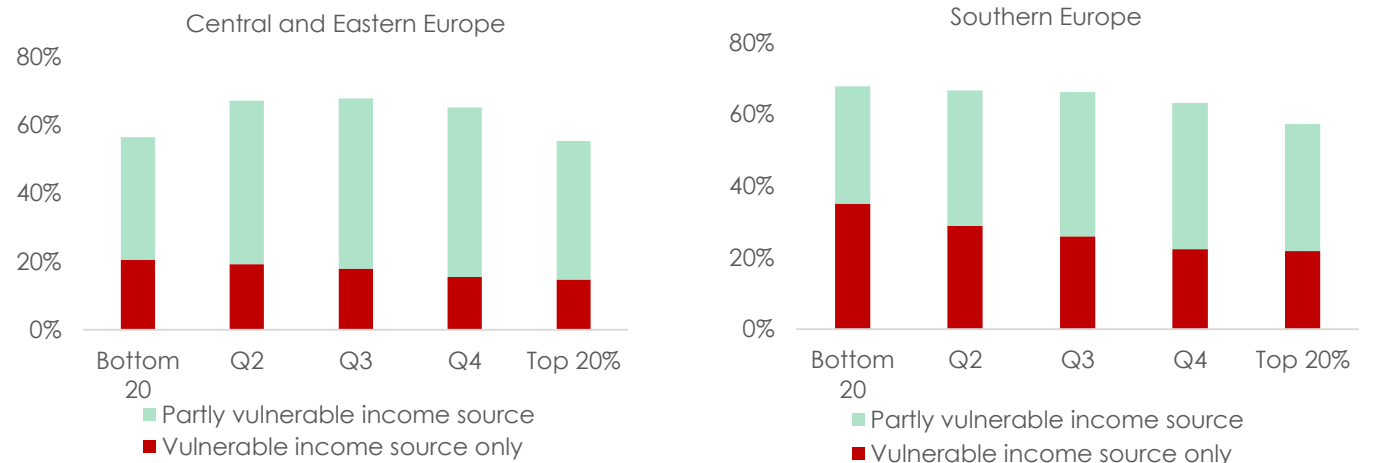
## Households

- **Lockdown phase:** Estimate at least one in five households likely to suffer income losses because of reduction or loss of employment in the lockdown phase of the crisis.
- **Even as societies reopen,** at least one in eight households may continue to face income losses.
- In **Southern, Northern and Western Europe:** poorer households likely to get income from occupations that are subject to the greatest employment and income risk.
- **In Central Europe,** higher share of income from agriculture among the poorest 20% of households shields these households from the crisis compared to other income groups.

Workers split into risk type – by country grouping

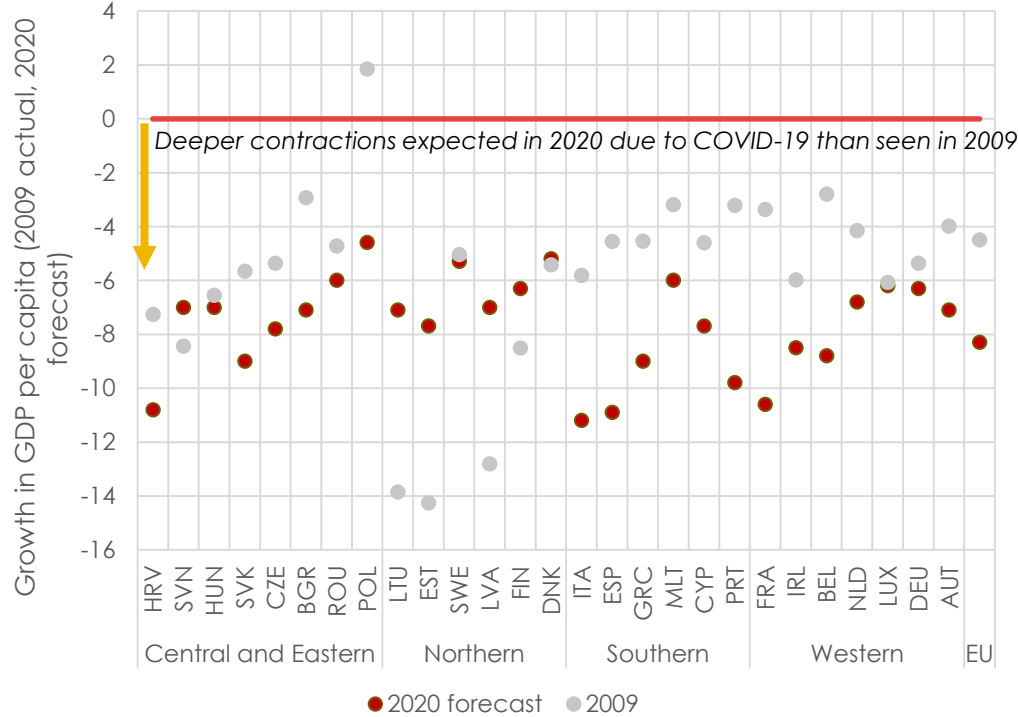


Income sources by risk type among households with working members



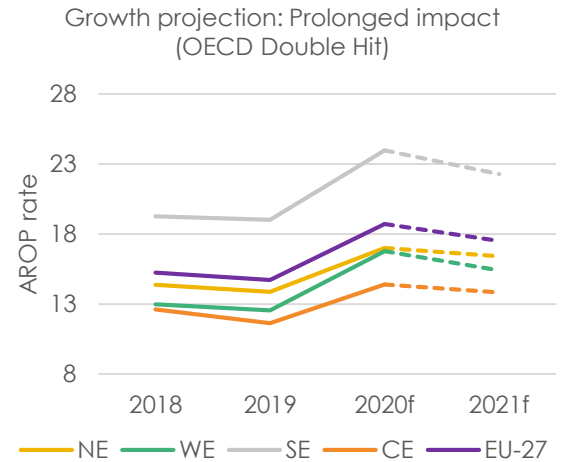
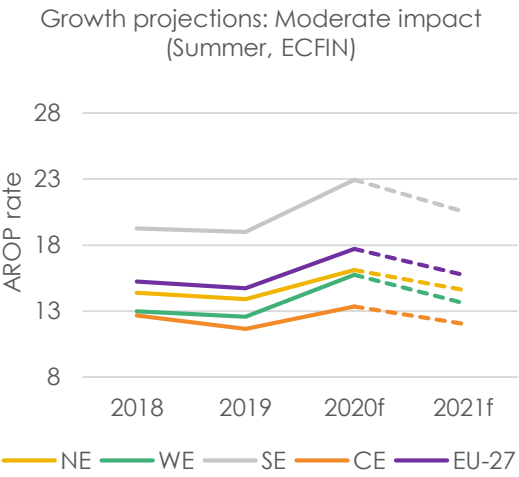
# Strand 2: using GDP forecasts and historical pass throughs to project poverty impacts

The growth outlook is highly uncertain, but all forecasts point to a sharper contraction than seen in the first years of the global financial crisis



AROP rate is projected to increase in all regions with the greatest increase projected for the Southern European region in line with the geographic concentration of the crisis.

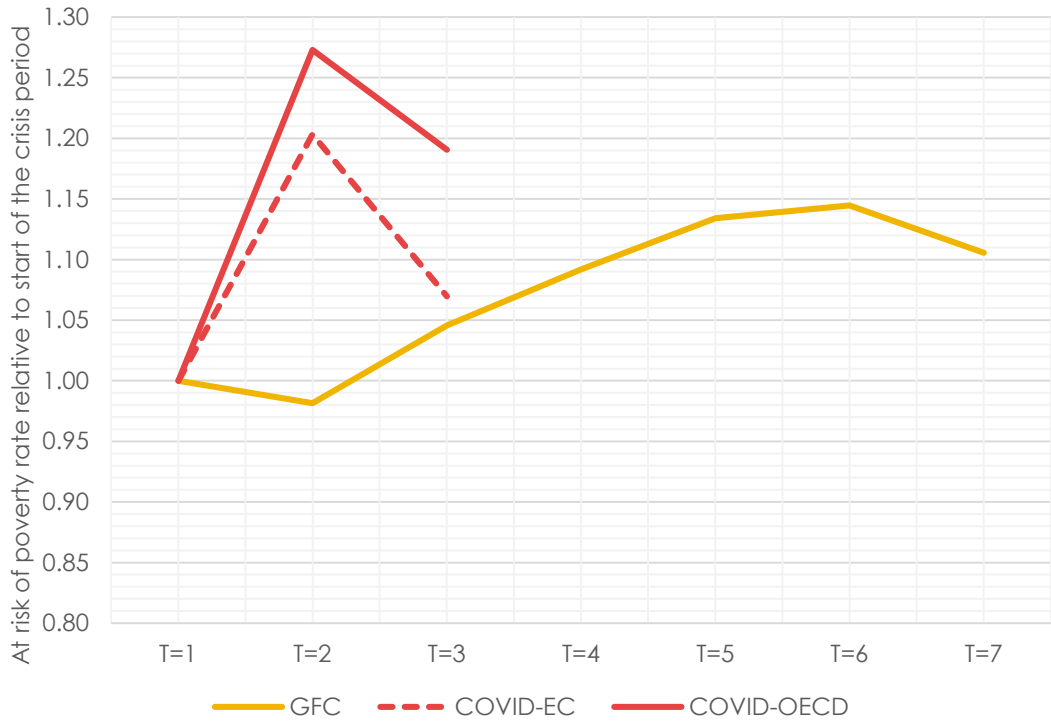
Anticipate a 3-4 percentage point increase in AROP (benchmarked in 2017 EU-SILC) in 2020 using this approach.



Source: 2009 (AMECO database, EC Directorate General for Economic and Financial Affairs). 2020 (Summer Interim forecasts, EC 2020b).

# Under a “v-shaped” projection, expect a sharp increase in poverty and a moderate decline in 2021

T=1 refers to 2008 for the global financial crisis and 2019 for the COVID-19 crisis



EU-27



# Strand 3: Rapid Assessments show deep impacts in April/May that have moderated by early August

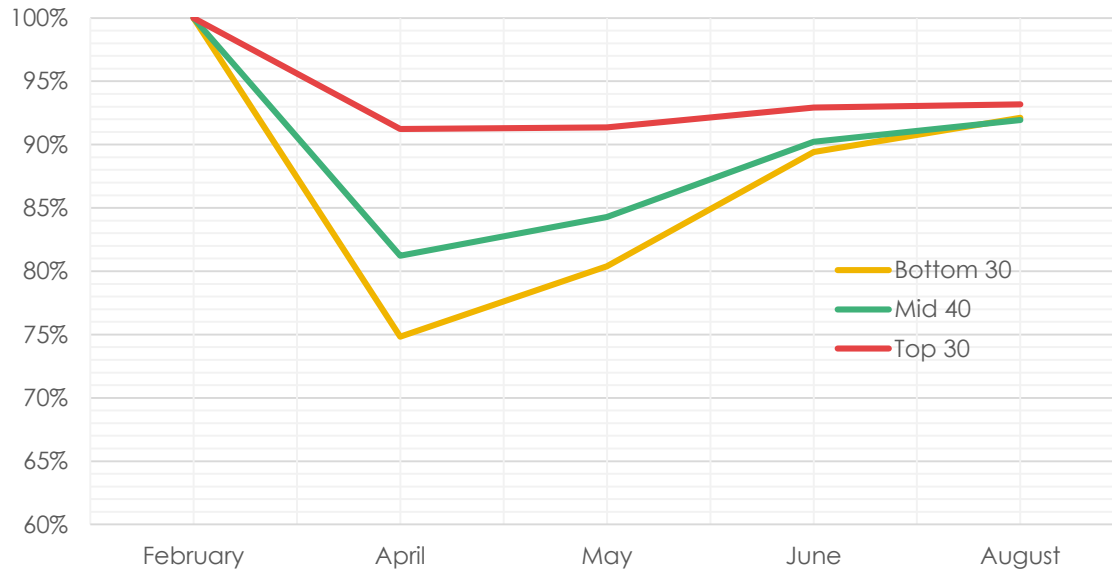
## In Romania, of those working in February 2020:

- **19%** reported stopping work by mid-March. Depth of employment impact seen in April.
- After the second week of May (when the state of emergency came to an end) we see a gradual uptick in employment.

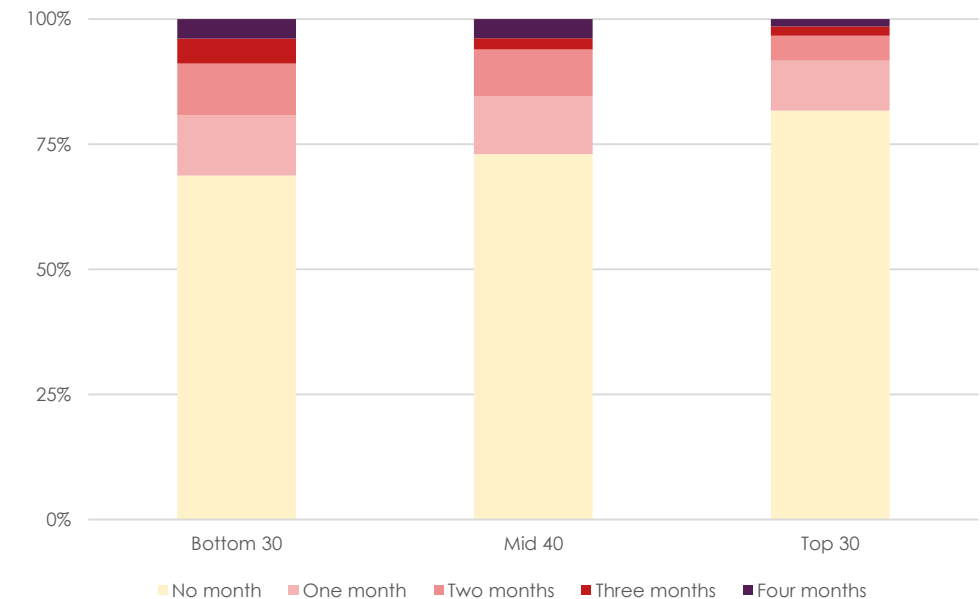
## Some groups have been more affected than others:

- The drop in employment is far higher **low-wage earners** than for those at the top.
- **Younger workers** are more likely to stop – even after considering individual and job characteristics.
- **Blue-collar occupations**, those in manufacturing, hospitality and retail are also heavily affected.
- **Self-employed workers:** both heavily affected and also more likely to have come back to work quicker than employees.

Continuation of work - by point in wage distribution

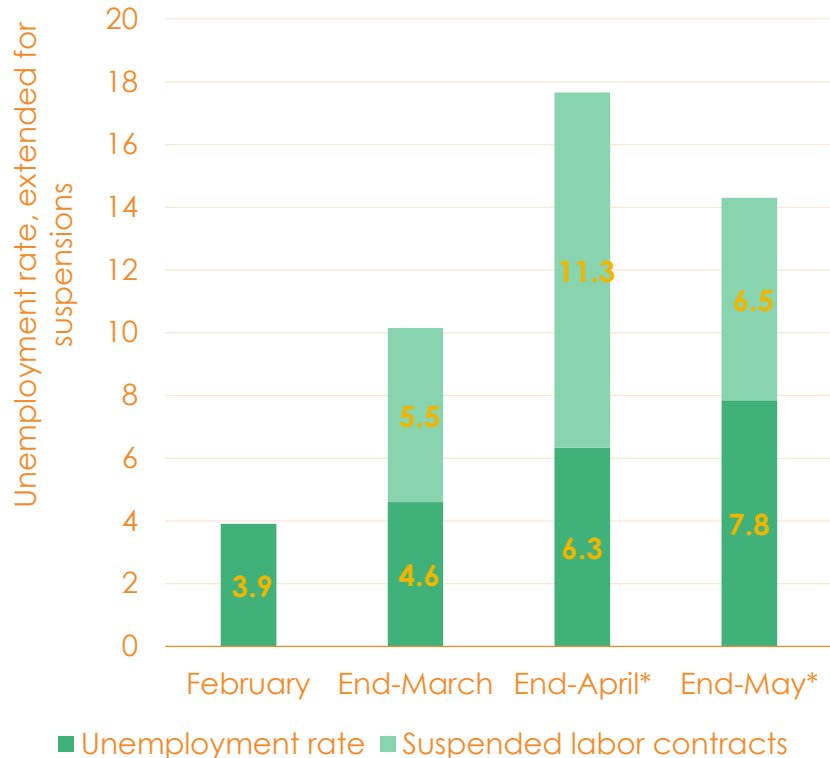


Romania, number of months with no work by wage distribution



# Using administrative reports of suspending contracts and stoppages, we estimate the “effective” unemployment rate to be nearly 14% - and the number of unemployed (reported to labor directorate) rate has doubled to nearly 8%

Comparing data from the rapid assessment with administrative data, we see that the share who have stopped work is higher than from the administrative data – this reflects self-employed and informal sector workers whose employment has been interrupted, and are more prevalent in low-income households



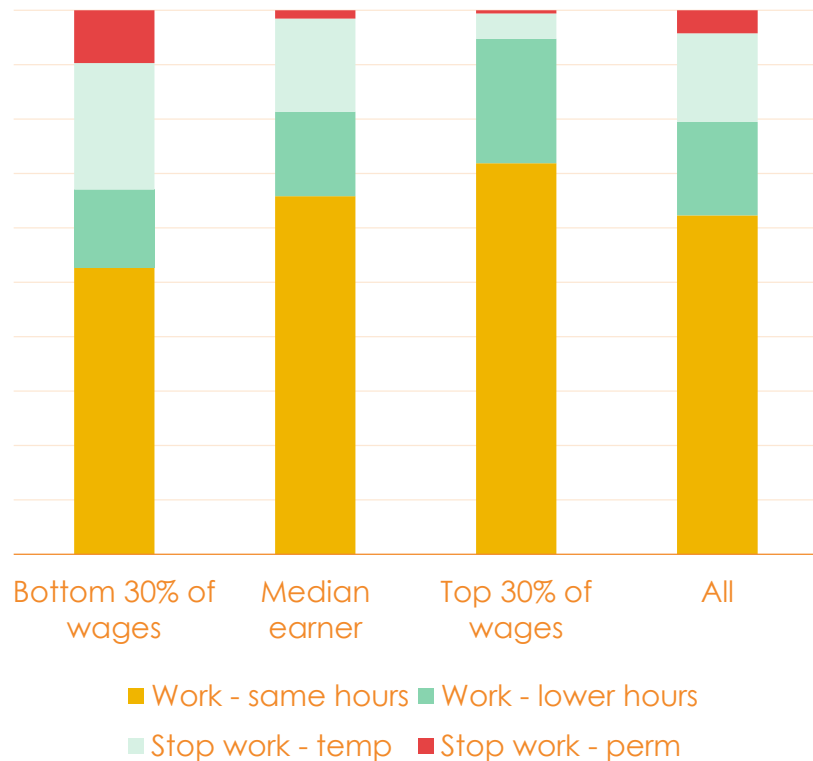
## Percentage of the population at risk of poverty - experimental estimate





# Stoppage of work is predominantly temporary, linked to declines in business and temporary closures.

Shift in hours and work seen in May in Romania



Furlough programs flowed to lower wage workers in Romania



Low-income earners more likely to stop work, high income earners more likely to reduce hours.

Work stoppage is predominantly for “temporary” reasons – related to a slow down in business. Work stoppages are more likely permanent for low wage earners.

Low wage workers do however report a greater use of the furlough program – helping to shield incomes.

It is not straightforward to predict who is receiving this support – for next steps, to bring in to the

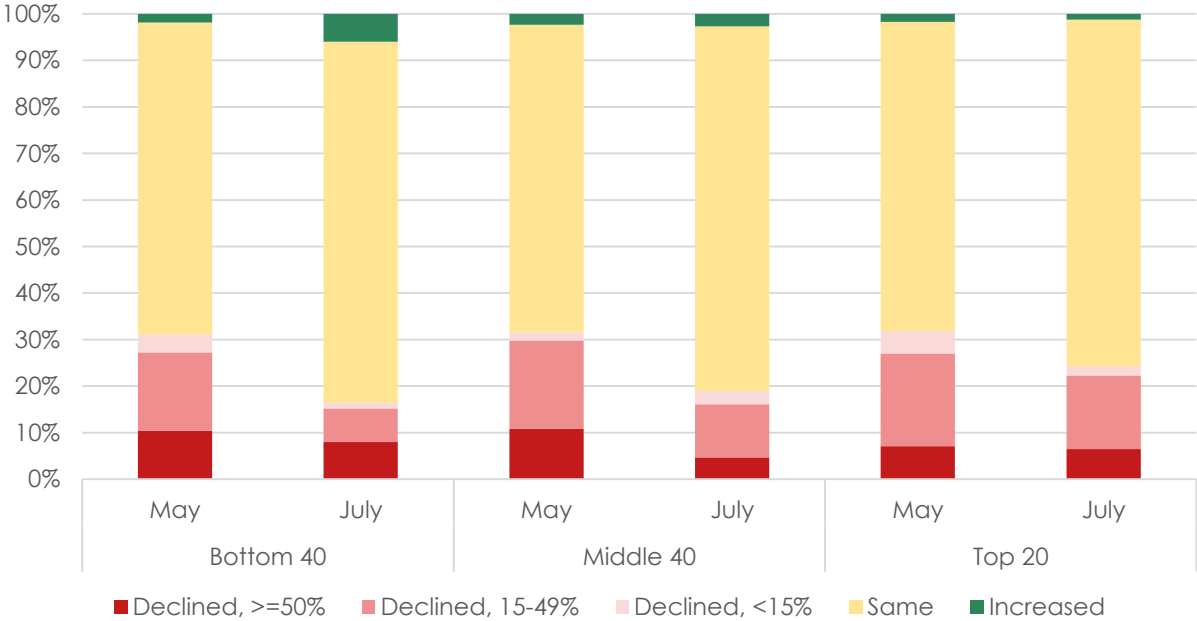
# Income declines have moderated – but for those reporting drops, they remain substantial

**Fewer households are reporting lower incomes compared to February 2020 – but those reporting drops continue to report substantial amounts:**

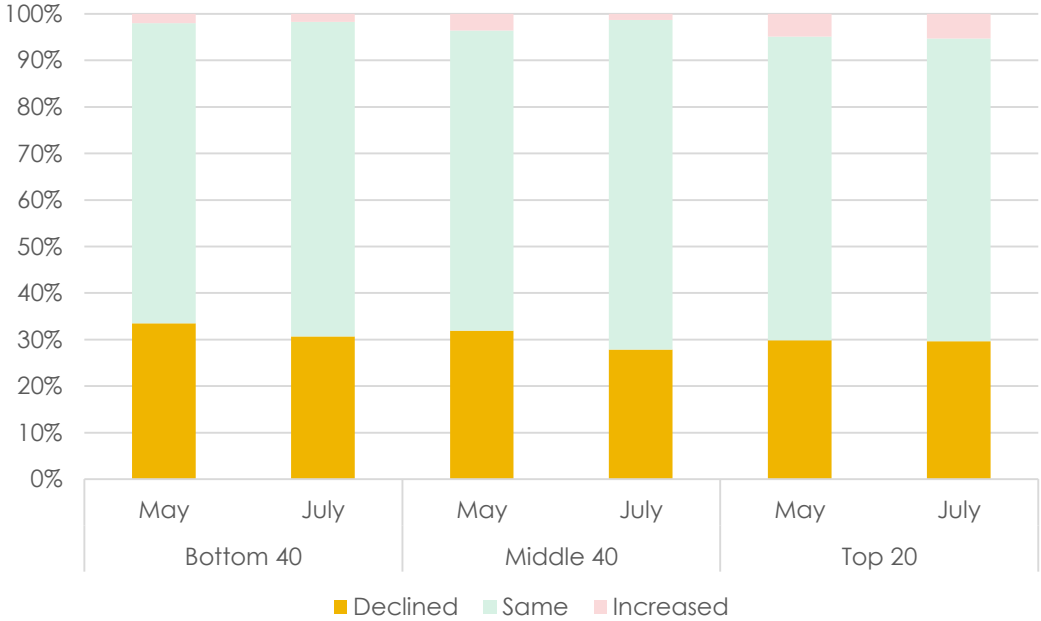
- In May, the 30% of households reporting an income drop reported a 36% average decline.
- In July, the approx. 20% reporting a decline reported an average decline of 39%.

The impacts on bank accounts show the persistence of the reported drops – approximately 30% of households report lower bank account balances compared to February (even though the majority report limited savings to draw from).

Monthly income changes in May and July compared to February

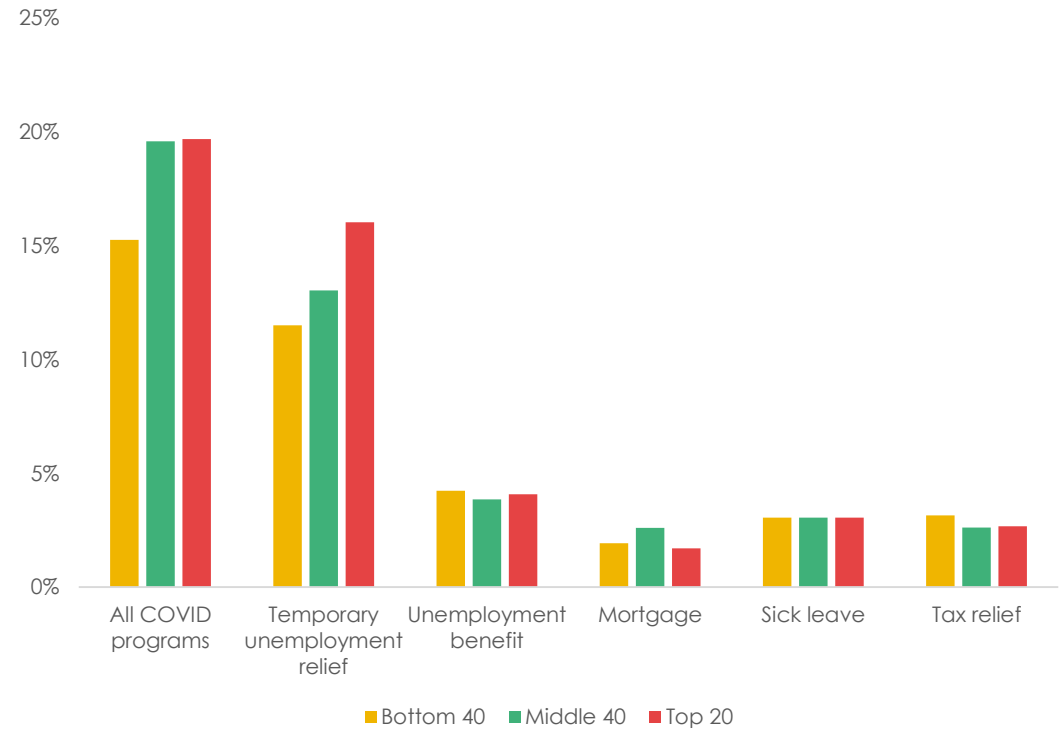


Bank account balance declined compared to February

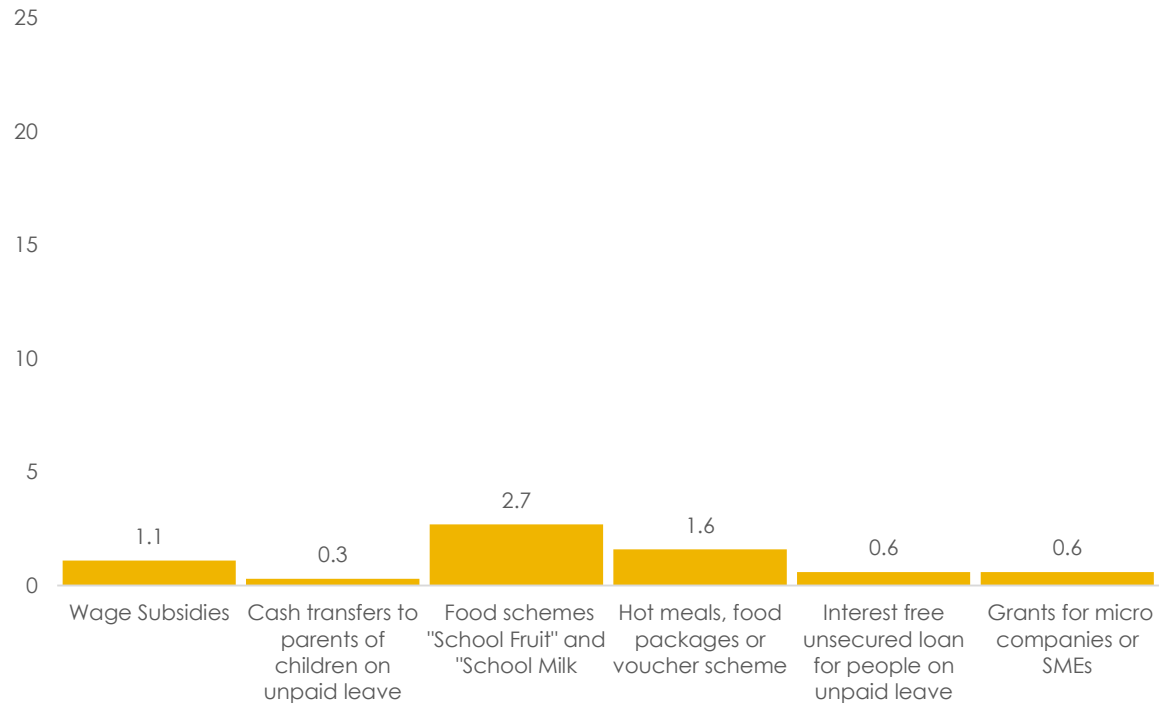


# Program coverage was highest by far for temporary unemployment benefits – limited for other programs in Romania. In Poland, the opposite. In Bulgaria, limited uptake.

Share of households reporting uptake of programs - Romania, July 2020



Share of households reporting uptake of COVID programs – Bulgaria, June 2020



# Next steps for our monitoring

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Labor market impacts are occurring in an highly uneven manner, and disproportionately affecting already economically vulnerable segments of the population.



Short-run poverty impacts were noted and considerable in April; while they have moderated in July, we continue to track income shifts every 2 months.



We continue to deepen our analysis on the support received from various programs, assessing which types of workers and households are falling through the cracks (both using data and analysis of program rules).