

Poverty Projections based on the potential impact of the conflict in Ukraine with a particular focus on children

UNU-MERIT was commissioned by UNICEF Serbia to assess the likely impact of Covid-19 and the Ukraine crisis on poverty and living standard indicators in Serbia, with a particular focus on children.

The analysis contains three different sets of simulations: 1) simulation of the impacts of COVID-19 on poverty and inequality indicators by comparing data from 2019 and 2021; 2) simulation of the impacts of the Ukraine crisis on poverty, inequality, and cost of living indicators in the short-term (2022) and mid-term (2023-2024); and 3) extrapolation of poverty estimations and simulations to the MICS dataset.

Impacts of COVID-19

The estimated absolute poverty rate for a no-COVID scenario is 8.5% in 2021 among the general population, a decrease compared to the 8.8% of 2019. Alternatively, the simulated scenario considering the COVID-19 impact but without the Government of Serbia's financial measures during COVID-19, estimates a 9.6% poverty rate. However, once ad-hoc COVID-19 transfers are added to the equation, poverty levels drop again to 8.9%. We can, therefore, conclude that COVID-19 would have negatively impacted poverty rates in Serbia had there not been ad hoc cash transfers to reduce its effects.

Impacts of the war in Ukraine

To estimate the impact of the Ukraine crisis on poverty and living standards, the authors applied two different methods: 1) a microsimulation of the impacts of the Ukraine crisis on monetary poverty and inequality indicators in Serbia; and 2) estimations of how household consumption patterns may have changed in response to the covariate shocks that occurred in the aftermath of the invasion of Ukraine. Three different scenarios were developed based on Serbia's Consumer Prices Index (CPI) forecasts.

In 2021, the absolute poverty rate in Serbia was 8.9%, with approximately 607,572 people living in poverty. The national absolute poverty rate is estimated to have increased in 2022 between 0.3 to 2.5 percentage points, depending on the scenario, resulting in poverty rates of 10.4% for scenario A, 9.2% for scenario B, and 11.4% for scenario C. These results reflect that the average household income is expected to grow at a lower rate than inflation, reducing household purchasing power.

Poverty does not affect all households in the same way. In fact, households with children are among the most vulnerable in Serbia. In 2021, absolute child poverty was 1.75 percentage points higher than overall absolute poverty. According to the simulation, in 2022 child poverty is expected to increase faster than overall poverty. Even in the most modest scenario, child poverty is expected to increase to 13.8%, representing an additional 27,987 children living below the absolute poverty line. In the worst-case scenario, child poverty is estimated to rise to 16.5%. Similarly, the poverty gap rate will remain highest for children in every scenario, ranging from a 4.4% to a 5.5% shortfall in income from the absolute poverty line depending on the scenario. The Government is therefore urged to consider implementing targeted measures to mitigate the short-term effects of the Ukrainian crisis on Serbia's most vulnerable population.

This study also projected the potential mid-term impacts of the crisis based on macroeconomic projections. By the end of 2023, the absolute poverty headcount in Serbia is projected to reach 12.1%, representing over 824,000 people. However, the authors' projections indicate that in 2024, absolute poverty may decrease to 11.8%. In terms of child absolute poverty, mid-term projections for 2023 and 2024 are set at 17.6% and 18.2%, respectively. These results show that even though projections indicate

an economic recovery in the mid-term, it is not enough to entirely compensate for the impacts of the Ukraine crisis, as poverty rates remain higher than pre-Ukraine levels. In addition to poverty analysis, the authors also include estimates for income inequality in Serbia. Results from the microsimulation indicate that Serbia's Gini index would have a slight increase in 2022, reaching 29. Furthermore, income inequality is projected to worsen in the mid-term, getting to 34 in 2024.

Lastly, the analysis points at the most vulnerable among the Serbian children. Table 1, below, presents results for some of the most vulnerable groups. Notably, children under five are among the most affected, with absolute poverty among the group reaching 17.1% in 2022. Also, children living in bigger households (more than four members) are among the most vulnerable, with 21.6% of children from these households living in absolute poverty in 2023. Furthermore, among the sectors considered in this study, households from agriculture are among the most vulnerable – in 2023, child absolute poverty would reach 43.8%.

Table 1. Analysis of vulnerable groups

	2021	2022 (scenario A)	2023	2024
Child absolute poverty	10.6%	15.6%	17.6%	18.2%
Female child	10.6%	15.5%	17.4%	17.9%
Male child	10.7%	15.6%	17.7%	18.4%
Child <5 years	11.7%	17.1%	18.8%	19.5%
Child 5 – 14 years	8.7%	9.7%	11.5%	11.2%
Household characteristics				
Household >4	14.9%	19.5%	21.6%	22.3%
Main source of income: agriculture	25%	39.8%	43.8%	45%

Source: Authors' own calculations based on HBS 2021 and proposed economic scenarios. Note: results estimated based on income instead of consumption. Therefore, results differ from published data as official reports calculate poverty based on consumption.

The poverty analysis of the Roma community supports prior evidence on the very high levels of poverty among the community and gives an estimate of the impact of the Ukraine crisis on the Roma population. The very high levels of poverty estimated for the Roma population, which reach 80.6% for male children and 86% for children with only one parent alive, call for rapid interventions from relevant stakeholders. While it is true that, based on 2019 MICS data, over 60% of Roma are already benefitting from Financial Social Assistance, the adequacy of this transfer is insufficient to prevent people from falling in absolute poverty.