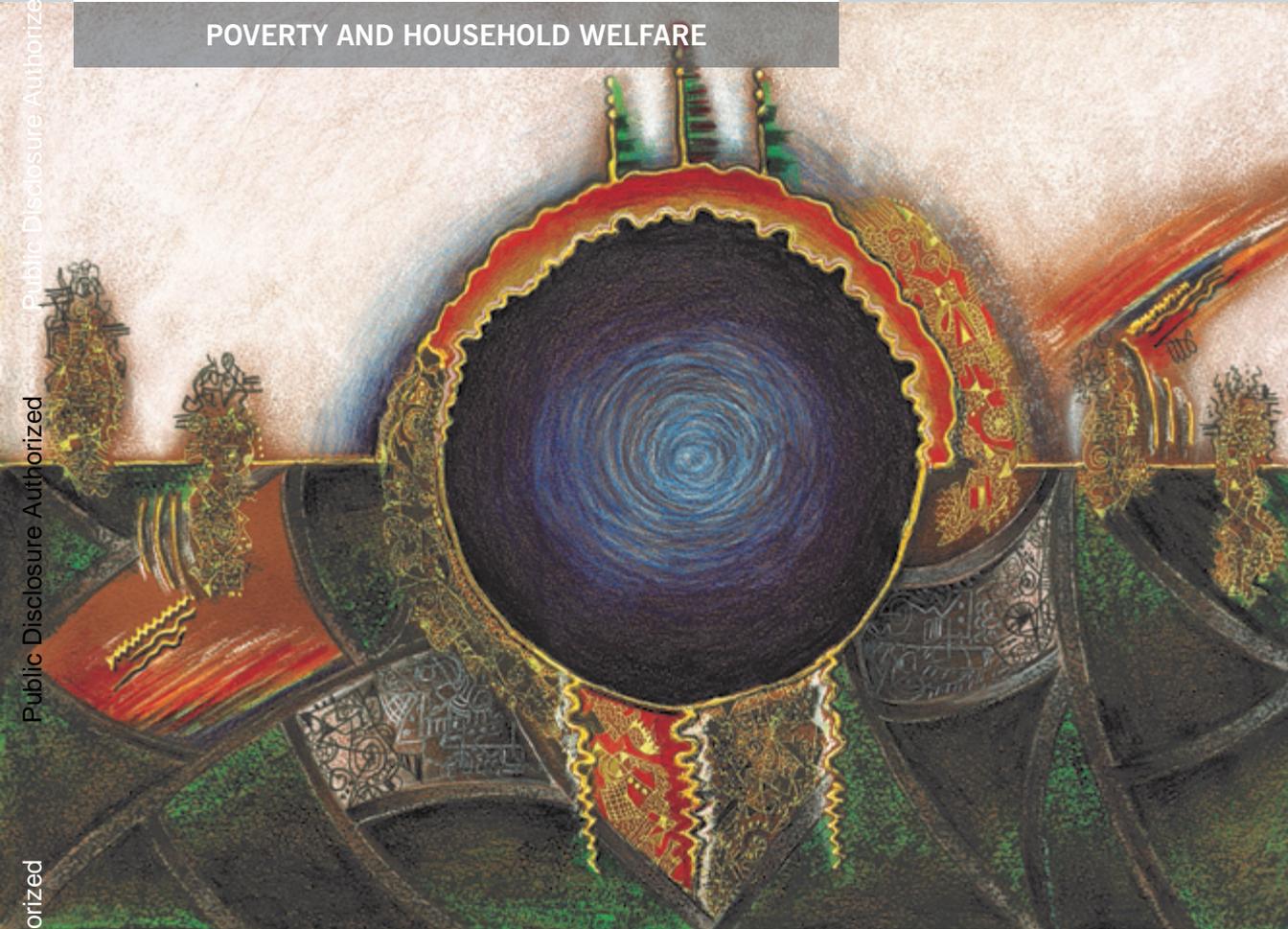


The Economic and Social Impact of COVID-19

POVERTY AND HOUSEHOLD WELFARE

“You and me” by Tanja Burzanovic (Montenegro)

The RER No. 17 is a collection of notes on the Economic and Social Impact of COVID-19 that will be published in three parts. The first part was launched on April 29 and focused on the macroeconomic impact of COVID-19. This second part shows how the macroeconomic impact affects the people in the region. It discusses the social impact of COVID-19 in the Western Balkans in six separate RER notes on poverty and welfare, labor, health, education, air pollution, and social protection. The third part, to be launched in early June, will focus on specific economic policy response areas—fiscal, external, and financial sector—and the crisis impact on the private sector as reported by firms.

How COVID-19 Could Affect Poverty and Household Welfare in the Western Balkans¹

- COVID-19 and containment measures will halt poverty reduction and welfare improvements in the Western Balkans.
- The crisis is likely to affect household welfare mainly through fewer jobs and loss of labor income in the most affected sectors, as well as lower international remittances, in addition to impacts on health and access to services.
- In the absence of government responses, more than 400,000 people in the region could fall into poverty, and the middle class would shrink substantially.
- Many of those who could become impoverished because of the COVID-19 crisis are not receiving social protection unless programs are expanded, and informal workers without access to unemployment insurance and other support to the formal economy are particularly at risk.
- Beyond public health responses, governments in the region should minimize the negative economic and poverty impact by providing basic utility and social services and alleviating income shocks, particularly among the most vulnerable workers.

Recent poverty reduction and welfare improvements are being interrupted as the COVID-19 crisis forces Western Balkan economies into recession. Before COVID-19 hit early in 2020, most of the six countries in the region had made notable progress in reducing poverty and boosting household income.² Yet in 2019, about 19.7 percent of the region's population was still living on less than \$5.50 a day (2011 PPP) per person—the standard upper-middle-income country poverty threshold—and sizable numbers were close to becoming poor.³ The crisis will likely

interrupt and partly reverse recent progress. This note illustrates possible distributional and poverty impacts of COVID-19 in the Western Balkans.⁴ It discusses transmission channels: how COVID-19 may affect the poor and specific groups in the region. It shows, in a quantitative simulation exercise, losses that could be caused by reduced workhours, labor earnings, and remittances. Since the situation is rapidly evolving and highly uncertain, the simulations rely on likely scenarios informed by the information currently available. They demonstrate that without carefully designed policy responses, COVID-19 could have severe negative consequences on poverty and household welfare in the region. While everyone is being affected by COVID-19, poor and vulnerable groups may be particularly hurt

1 This note was prepared by the World Bank poverty and equity team in the Western Balkans, comprising Leonardo Lucchetti, Trang Nguyen, Ana Maria Oviedo, and Jayne Yoo. Enrique Blanco Armas, Alexandru Cojocaru, Facundo Cuevas, Alan Fuchs Tarlovsky, Edith Kikoni, Maria Ana Lugo, Marc Tobias Schiffbauer, Dhiraj Sharma, Gallina Vincelette, and Salman Zaidi provided helpful comments and suggestions.

2 For simplicity, in this note income is generally the welfare measure, although consumption is used for Kosovo and Bosnia and Herzegovina.

3 Throughout this note, poverty estimates are based on \$5.50 (2011 PPP) per person per day for all countries except for Bosnia and Herzegovina, where poverty is based on KM 205 per month threshold. The regional poverty rate is calculated as a population-weighted average of 2019 estimates of country poverty using the

same basis. The regional rate excludes Bosnia and Herzegovina due to lack of comparable data.

4 Recommendations on what countries could do to minimize the poverty and distributional impacts can be found in the companion RER notes, including the note titled “Options for social protection responses to the COVID-19 crisis in the Western Balkans.”

because they tend to have less access to services and fewer savings and coping mechanisms.

Channels for transmitting aggregate COVID-19-induced shocks to individuals

In addition to the direct health impacts, there are many ways the COVID-19 crisis may affect personal and household welfare, including:⁵

1. fewer jobs and thus labor income as demand declines and supplies are disrupted;
2. lower nonlabor income, particularly remittances from those who have emigrated to the EU;
3. possible declines in real income if supply chain disruptions lead to price increases, rationing of basic consumption goods like food, or both;
4. pressure on service delivery and disruptions in education, health, and social services (discussed in other RER notes), at the risk of failure to address the needs of such vulnerable groups as children from disadvantaged backgrounds, the elderly, and the disabled).

Especially for poor households that lack savings, insurance, and coping mechanisms, an extended loss of income can damage their ability to invest in learning, nutrition, and health of children and mothers, with serious consequences in the longer run.

⁵ “Poverty and distributional impacts of COVID-19: Potential channels of impact and mitigating policies”, World Bank Poverty and Equity Global Practice, April 3, 2020.

For people in the Western Balkans, labor income losses will be the main way the economic impacts of the pandemic are transmitted. They will probably first affect those employed in vulnerable sectors but will eventually spread to other parts of the economy across formal and informal sectors. In fact, workers in hospitality, entertainment, transport, non-food retail services, and some manufacturing (e.g., apparel, automobiles) were affected immediately. Before COVID-19, about 48-65 percent of workers in Western Balkan countries were employed in sectors that are moderately or highly affected by the crisis (see Annex Table A.1) and they will continue to feel the pain, either by job losses or lower income. A separate note on employment “Western Balkans Labor Markets and the COVID-19 Shock” for this RER edition discusses in details sectors most acutely affected and how much they are affected in each country.

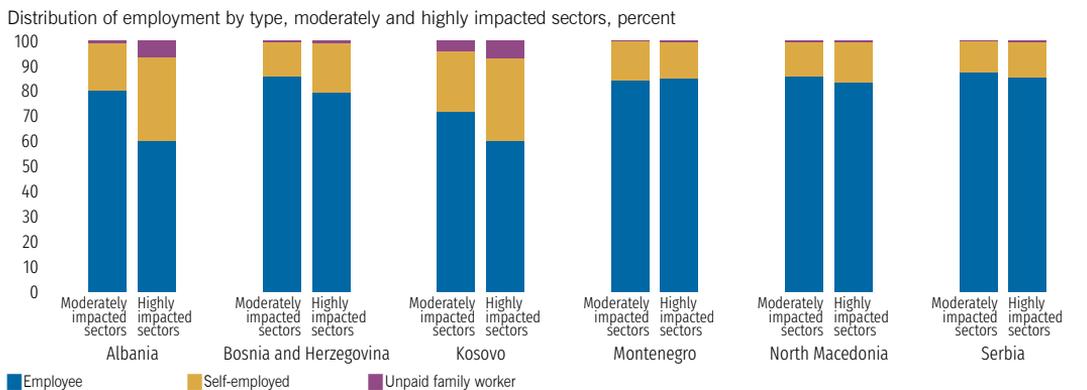
The self-employed, informal workers, and those with casual jobs or less secure contracts are in particular danger. They are more likely than formal wage earners on permanent contracts to lose their jobs, work fewer hours, or be furloughed. Workers in the gig economy and those unable to work remotely are also highly vulnerable. Many of these workers, often informal, have no social insurance and will not be eligible for unemployment benefits when they lose their jobs. Government response measures that help formal sector firms to retain jobs will not directly reach informal workers. Many of these informal or self-employed workers are not beneficiaries of the last-resort social assistance reserved for the poorest, leaving them particularly at risk. In sectors highly affected by COVID-19, about 14 to 33 percent of workers in Western Balkan economies are self-employed and therefore

particularly vulnerable (Figure 1). This share is particularly high in Albania and Kosovo. Worker skill levels in Kosovo, Montenegro, North Macedonia, and Serbia are slightly lower in affected than in other sectors. The average wage in affected sectors is also typically lower (excluding agriculture, which is considered not affected).

Nonlabor income is also likely to fall because remittances will drop. In 2019 remittances accounted for 2–10 percent of GDP through the Western Balkans, with Bosnia and Herzegovina and Kosovo particularly dependent on them.⁶ Emigrant workers, especially those whose employment is temporary or informal, may lose jobs in European countries hit hard by the pandemic and lockdowns. Some of those emigrants will return home, at risk of being unemployed without access to social protection. Remittance inflows to families in the Western Balkans will fall.

The poor and vulnerable may suffer large economic and social costs. A large share of the nonpoor population is at risk of falling into poverty. The COVID-19 outbreak will hit urban dwellers hard, especially those whose jobs are precarious (informal) and are less likely to benefit from measures to protect formal jobs. Limited savings, low insurance coverage, and relatively less access to public services may exacerbate the long-term negative effects. Moreover, women and minority groups, who are traditionally more affected by domestic violence and social discrimination, may be hit harder by COVID-19 containment measures. Childcare and school closings could increase the burden on mothers who need to stay home, negatively affecting women's work. Social isolation, confinement measures, travel restrictions, and higher stress are already increasing domestic violence, as indicated by multiple media and CSO reports.⁷ Because the elderly are relatively more likely to have health complications, they are disproportionately affected by the outbreak. This issue is particularly relevant in the Western Balkans, where the population has

Figure 1. Up to one-third of workers in affected sectors are self-employed and particularly vulnerable to income losses, mainly in Albania and Kosovo



Source: SILC and HBS analysis.

6 World Bank (2019) Western Balkans Regular Economic Report: Fall 2019. <http://documents.worldbank.org/curated/en/643781570478210132/pdf/Rising-Uncertainties.pdf>

7 See, e.g., <https://eca.unwomen.org/en/news/stories/2020/4/statement-ed-phumzile-violence-against-women-during-pandemic>.

aged in recent years. Finally, the risk to health and incomes is higher for the Roma and other ethnic minorities who have less access to basic services and economic opportunities.

The possible magnitude of COVID-19 distributional impacts in the Western Balkans

This note uses simulation analysis to assess the likely poverty impact of the pandemic and containment measures. The simulations look at first-order approximation of the impact, before any government responses, through multiple channels: income from each sector, type of work, and household private transfers. Poverty is based on income for Albania, Montenegro, North Macedonia, and Serbia; consumption is the welfare measure for Bosnia and Herzegovina and Kosovo.^{8,9} Economic sectors are grouped into three categories: (1) relatively unimpacted, (2) moderately impacted, and (3) highly impacted (see Table A.1). Self-employed workers are assumed to be relatively more impacted than salaried workers. The simulations assume two scenarios: in scenario 1, the outbreak and the associated containment measures last until end-June, and in scenario 2, they last through August. The estimates are average impacts for the whole year, and the impacts will be most severe in the

one or two quarters hardest hit by the outbreak and containment measures. See Annex 2 for full technical details of the methodology.

It is estimated that, in the Western Balkans, without considering government response measures, the COVID-19 crisis would push at least 400,000 people into poverty, and up to 950,000 if the crisis is prolonged. Figure 2 shows how the number of people in three categories could change due to COVID-19: All six countries would have thousands more citizens falling into poverty—and reversing the progress made in reducing poverty in the past five to eight years. In the first simulated scenario, COVID-19 is estimated to increase the poverty rate (by upper-middle-income standards)¹⁰ by 1–4 percentage points (pp) in all six countries (Figure 3). Poverty increases more if the crisis lasts through August, as shown in scenario 2, for example, by 3 pp in Montenegro to 10 pp in Kosovo. The share of the vulnerable (living on income of \$5.50 to \$11/day in 2011 PPP) is estimated to go up in North Macedonia, Montenegro, and Serbia, and in the other countries, movement from vulnerability into poverty surpasses the movement from the middle class into vulnerability. In all the countries, the crisis also reduces the share of the population who are economically secure (the middle and upper classes) by 3–5 pp in scenario 1, and about 6–10 pp in scenario 2.

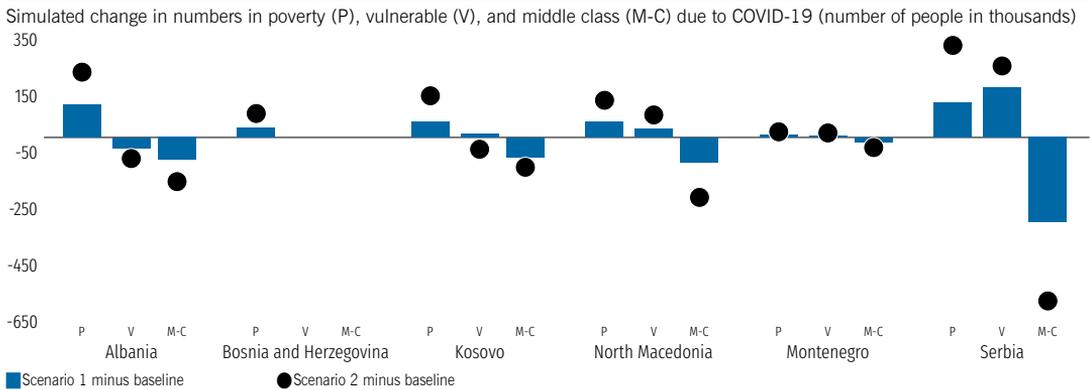
Income losses are likely across the entire income distribution. Average household income is simulated to fall by 3 to 12 percent across the six countries. Figure 4 illustrates the declines across the income distribution due to COVID-19. Income losses that individuals and families in the poorest quintile could suffer

8 Income data in household surveys often do not capture top incomes. Before the simulation, all incomes are now-casted to 2019 values based on growth in real GDP per capita, assuming country-specific passthrough rates.

9 In some surveys, income data can be less reliable than consumption data and the two do not always align. For instance, in BiH, household income has systematically been about a third lower than household consumption in part because imputations are applied to consumption but not income measures. Thus, results for BiH are underestimated, should be considered a lower bound of the impact, and are not fully comparable with the impact on poverty elsewhere in the region. Nevertheless, the simulation of income shocks in BiH is still informative if the results are considered with this caveat (World Bank. 2015. Rebalancing Bosnia and Herzegovina: A Systematic Country Diagnostic. Washington, D.C.: World Bank Group).

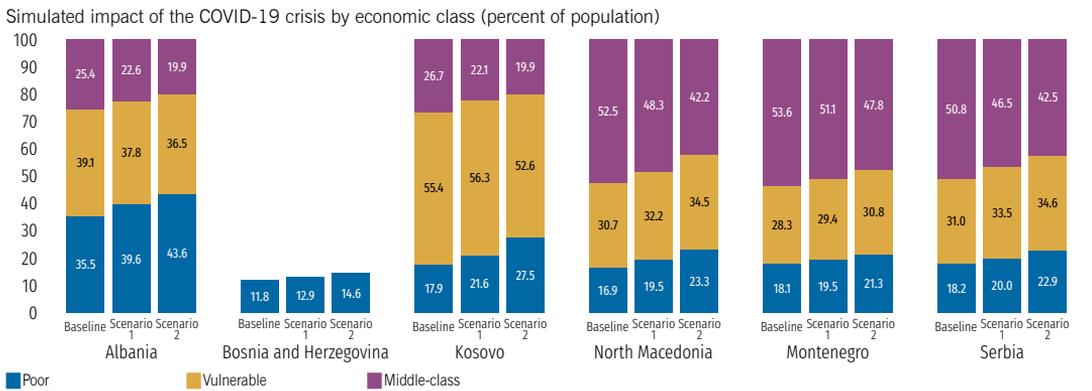
10 Because comparable data are lacking, poverty in BiH is based on a KM 205 monthly threshold.

Figure 2. The COVID-19 outbreak will substantially increase the number of poor people



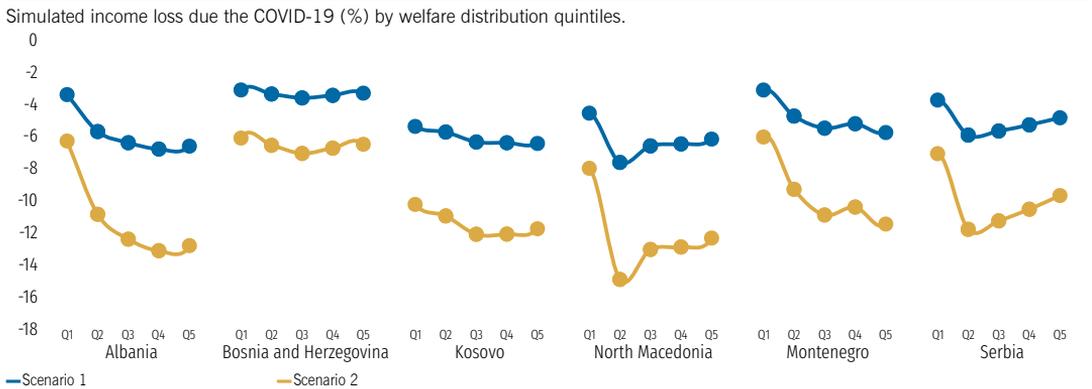
Source: World Bank simulations based on 2017 income data from the SILC for Albania, North Macedonia, and Serbia; 2015 income data from the SILC in Montenegro; 2015 HBS for BiH, and 2017 HBS for Kosovo.
Note: P = Poor, V = Vulnerable, and M-C = Middle-class. Income measures in the SILC and consumption measures in the HBS are not strictly comparable. Baseline = poverty as estimated in 2019 based on household survey data in earlier years and growth in real GDP per capita. Scenario 1 = crisis lasts one quarter; Scenario 2 = crisis lasts two quarters. Since poverty in BiH is based on a KM 205 per capita monthly threshold and the per capita welfare measure is reduced to 2007 prices, vulnerability and middle-class cannot be calculated and results are not comparable to other countries.

Figure 3. The COVID-19 outbreak could push a large share of vulnerable people into poverty.



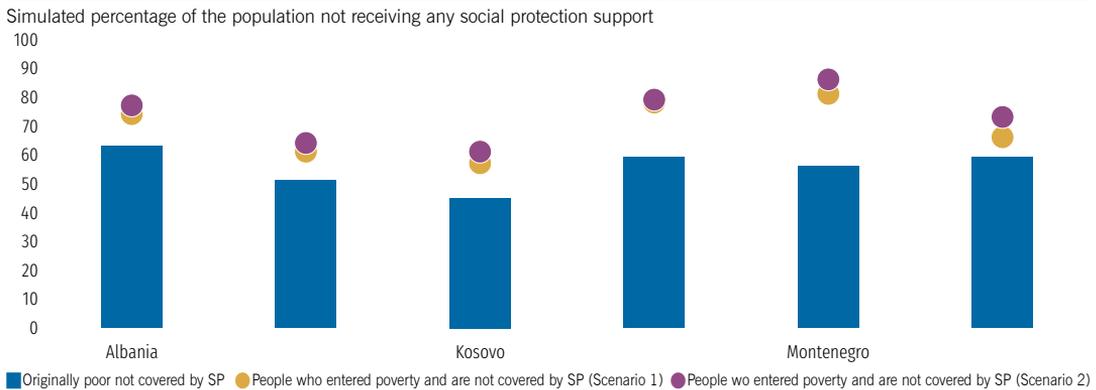
Source: World Bank simulations based on 2017 income data from the SILC for Albania, North Macedonia, and Serbia; 2015 income data from the SILC in Montenegro; 2015 HBS in BiH, and 2017 HBS in Kosovo.
Note: See Figure 2 for additional notes.

Figure 4. Household income will fall across the income distribution.



Source: World Bank simulations based on 2017 income data from the SILC for Albania, North Macedonia, and Serbia; 2015 income data from the SILC in Montenegro; 2015 HBS in Bosnia and Herzegovina, and 2017 HBS in Kosovo.
Note: see Figure 2.

Figure 5. Many of the new poor are not receiving any social protection benefits.



Source: World Bank simulations based on 2017 income data from the SILC for Albania, North Macedonia, and Serbia; 2015 income data from the SILC in Montenegro; 2015 HBS in BiH, and 2017 HBS in Kosovo.

Note: see Figure 2.

range from 3 percent in BiH to 5 percent in Kosovo in scenario 1, or double that in scenario 2. In most Western Balkan countries, compared to the rest of the population, the poor rely more on nonlabor income and less on income from work in the sectors most affected by COVID-19. Still, since poor households had little to start with, a loss of income can jeopardize their ability to meet basic needs and invest in critical human development. The second to fifth quintiles are estimated to face larger declines in income, because more of their total income comes from the most affected sectors.

Those working in the most affected sectors experienced particularly high increases in poverty rates because of COVID-19, even though they were often not among the poorest before the crisis. For example, in Montenegro, only 6 percent of those working in the most affected sectors (category 3 in Table A.1) were poor before, but the pandemic is estimated to increase the poverty rate among them to 9 percent in scenario 1 and 13 percent in scenario 2.

Many of the new poor may be left without social protection support unless programs are expanded. Informal workers losing their jobs do not receive unemployment insurance benefits. While social assistance programs in the Western Balkans are generally well-targeted, coverage of the poor has been limited. Few of the new poor are receiving any social protection benefit—for example, more than 75 percent of them in Albania, North Macedonia, and Montenegro (Figure 5). The group of new poor that are not eligible for unemployment insurance or social assistance would be particularly vulnerable without policies to support them.

Results by country

Albania: COVID-19 and containment measures are expected to reverse recent poverty reduction in Albania. Albania closed activity in hospitality, theaters, and nonessential trade in March and limited the movement of people both inside and abroad. Many industries, among them textiles, mining, call centers, and construction, have been forced to reduce production to comply with social distancing

requirements and because demand has dropped as export orders collapse. Albanian emigrants are also likely to suffer from this global crisis, which reduces their incomes and thus remittances. The simulations produced for this note estimate that poverty in Albania could go up by 4–8 pp, to about 40 percent in the first scenario and 44 percent in the second scenario. Thus, in the more optimistic scenario, poverty would go back to the 2012 rate and, in the more pessimistic scenario, it would equal the 2005 rate. Since most of the people working in agriculture are already poor, and the simulation assumes no income decrease in agriculture, the increase in poverty is mainly the result of urban people in services losing a significant share of their earnings.

Bosnia and Herzegovina: The slowdown due to the global COVID-19 outbreak, and the associated potential loss of jobs and earnings, will likely have a short-term effect on poverty. The latest available BiH poverty data are for 2015, when poverty was an estimated 16 percent, very close to the 14 percent poverty rate estimated for 2007. Simulations show that consumption will likely fall by 3.5 to 6.7 percent across the entire distribution, so poverty is predicted to rise from about 11.8 percent in 2019 to 12.9 to 14.6 percent in 2020. Depending on whether the crisis lasts one or two quarters, about 35,000 to 85,000 individuals are likely to fall into poverty. Among workers in the most affected sectors before the pandemic, poverty was about 9 percent. However, that rate will likely increase to 11 percent in scenario 1 and 15 percent in scenario 2. It is worrying that more than 60 percent of those likely to fall into poverty due to the COVID-19 crisis are currently not covered by any social protection program.

Kosovo: The impacts of COVID-19 on poverty are likely to be substantial, as economic activity in Kosovo has been brought to a standstill and remittances plummeted. A significant number of people are likely to lose their jobs, especially those on fixed-term contracts, seasonal workers, and those working in the informal economy. Kosovo has a large construction sector, which is particularly sensitive because it is an important source of income for the urban poor and vulnerable. Indeed, the simulation conducted for this note suggest that 57,000–148,000 people could become poor, while the middle class could shrink by as many as 100,000 people. This is equivalent to poverty rate going up by 4–10 pp. Although social assistance is an important source of income for the poor (about 15 percent in 2017) and will to some extent protect the poorest from crisis effects, more than half the people falling into poverty do not benefit from any current social program (though about 40 percent receive pensions), it will be necessary to expand the coverage and possibly the generosity of the cash transfer program to ease the effects of the collapse in incomes.

Montenegro: The COVID-19 pandemic could raise the poverty rate in Montenegro by an estimated 1.5–3 pp, depending on whether the crisis lasts one or two quarters, but most of the new poor may be unprotected. The result would be to reverse the past 4–6 years of poverty reduction, bringing poverty back up to the 2015, or even 2013, level. From about 9,000 to 20,000 citizens could fall into poverty due to the economic shock. Among workers in the most affected sectors (see Table A.1), only 6 percent were poor before the pandemic, but the rate is estimated to go up to 9 percent in scenario 1 and 13 percent in scenario 2. Average household income could fall by 5

to 10 percent—more in the higher quintiles because more of their total income comes from the sectors most affected. The share of the population considered vulnerable (not poor but not economically secure either) may go up from about 28 percent to an estimated 29–31 percent. Worryingly, more than 80 percent of the Montenegrins who could become poor because of the COVID-19 crisis do not currently have any social protection support. With its fiscal buffers limited, Montenegro’s short-term policy responses would likely be targeted but should consider relieving adverse impacts on poor and vulnerable workers and families.

North Macedonia: The combined effect of lower labor incomes and lower remittances due to COVID-19 will likely increase poverty to pre-2017 or even pre-2015 levels, depending on the duration of the crisis. Simulations predict the poverty rate to rise from about 17 percent in 2019 to about 20–23 percent in 2020, and from 55,000 to over 130,000 Macedonians (depending on whether the crisis lasts one or two quarters) would fall into poverty. Before the pandemic, poverty was only 4 percent among workers in the most affected sectors, but the rate is estimated to hit about 8 in scenario 1 and 15 percent in scenario 2. The impact of the virus outbreak will likely differ along the income distribution; incomes will fall by about 5 to 8 percent among those in the lowest quintile, and 7 to 13 percent or more for the rest of the population. Moreover, more than 75 percent of those who are likely to fall into poverty are currently not covered by any social protection program.

Serbia: Serbia’s recent poverty reduction could be partly reversed in 2020: depending on the crisis duration, 125,000 to 327,000 citizens could fall into poverty due to the economic

shock. It is estimated that poverty in Serbia will go up by 2–4 pp, reaching about the poverty levels in 2016–17. Among workers in the most affected sectors (see Table A.1), only 8 percent were poor before the pandemic, but that could rise to an estimated 12 percent in scenario 1 and 19 percent in scenario 2. In both scenarios, average household income could fall by 5 to 10 percent—more in the middle quintiles who rely on income from the sectors most affected. The share of the population considered vulnerable (not poor but also not economically secure) is estimated to go up from about 31 percent to 33–35 percent. Many of the new poor may be left without social protection support unless the government revises benefit programs. About 66 percent of those Serbians who could become impoverished because of the COVID-19 crisis currently receive no social protection benefits. Short-term measures to mitigate impacts on the poor and vulnerable would be important to complement aggregate macroeconomic policy responses.

Broad policy directions

The simulations show that in addition to the health impacts, poverty could significantly increase and the middle class shrink across the board. Most of the new poor and vulnerable do not currently get social protection benefits. Clearly, the first priority is to contain the spread of the virus and protect the health system, as all countries are doing now. But as extreme measures can have severe negative social and economic impacts, particularly for the urban vulnerable and poor, minimizing those losses is the second policy priority. Indeed, governments in all six countries are moving to do so. Most of the measures announced support formal sector workers or beneficiaries

of existing social assistance programs, leaving vulnerable informal workers unprotected. The broad policies outlined here touch upon two areas: providing basic social services, including preserving human capital investment, and alleviating income shocks, especially for more vulnerable workers. Specific responses are discussed in detail in other notes of this edition of the RER.

First, governments must ensure basic services, food security, shelter, and basic social services for the most vulnerable.

Despite severe lockdown measures and reduced economic activity, providing basic services like utilities, connectivity, waste management, and infrastructure maintenance is still essential in part ensure that people respect the lockdown. Moreover, many people in the Western Balkans are not in the labor force and will not be covered by most of the economic rescue measures. Among them are the most vulnerable—the elderly, the disabled, and ethnic minorities—whose situation could worsen when remittances fall. It will be important that responses, including in-kind supports, ensure that a minimum level of support and services is available to them. Moreover, policies to support continued learning for all is critical to preserve investments in human capital and avoid exacerbating learning gaps for children from disadvantaged backgrounds.

Second, policy responses need to protect livelihoods and facilitate recovery, for informal as well as formal sector workers.

Minimizing firm exits and job destruction is a first step and can have important positive spillover effects for the informal sector via both supply and demand channels. These measures are also needed to ensure that a minimum level of economic activity is maintained or

can resume relatively quickly after mobility restrictions are lifted. More importantly, income support responses need to be rolled out for workers that may not be covered by firm support programs because they are self-employed or work in the informal sector. Examples of such measures include expansion of safety net programs, public work programs, and adjusting unemployment insurance.

Annex 1. Employment in sectors affected and those unaffected by COVID-19

Table A.1. Distribution of employment by sector and estimated degree of impact on sector growth

Employment distribution by sector (% of the employed)	ALB	BIH	KOS	MKD	MNE	SRB
Agriculture, hunting, forestry, and fishing	33.4	17.1	7.8	11.1	6.2	8.2
Mining and quarrying	1.0	2.4	1.9	0.9	0.6	1.9
Manufacturing	12.1	11.9	10.6	22.2	5.7	22.1
Utilities	1.9	2.8	3.8	3.4	5.4	2.7
Construction	7.9	10.9	17.0	8.0	5.3	4.3
Wholesale and retail trade	11.2	13.0	15.5	13.2	19.4	12.4
Transportation	3.8	6.4	4.1	4.8	9.1	6.1
Accommodation and food service activities	6.0	5.0	5.1	5.2	6.3	3.7
Information and communication	0.9	-	2.3	1.9	2.2	3.3
Financial and insurance activities	0.7	1.9	2.3	1.5	2.5	2.0
Real estate activities		0.9	0.3	0.2	0.2	0.2
Professional, scientific, and technical activities	1.5	-	1.5	2.1	2.7	2.7
Administrative and support service activities	2.6	-	2.1	2.5	2.0	3.7
Public administration	4.9	6.6	4.5	6.3	11.7	5.6
Education	5.6	5.1	8.7	5.9	8.9	7.5
Human health and social work	3.7	5.1	4.5	5.3	6.5	6.7
Art, entertainment, and recreation	0.9	-	1.5	1.6	2.9	2.1
Other service activities	1.4	10.0	5.7	2.7	2.1	3.2
Activities of households as employers	0.4	0.4	0	0.2	0.2	0.7
Activities of extraterritorial organizations	0.1	0.5	0.8	0.9	0.2	0.6
Categories of sectors by impact on sector growth						
Highly impacted	24.0	19.3	31.7	25.0	33.7	25.5
Moderately impacted	23.8	39.2	33.6	37.7	22.8	37.6
Relatively unimpacted	52.2	41.5	34.7	37.2	43.6	36.6

Source: Calculations based on SILC and HBS data.

Annex 2. Detailed description of the methodology

This note employs simulation analysis to assess the possible poverty and distributional impact of the COVID-19 outbreak in the six Western Balkan countries. Simulations consider first approximation of the impact through multiple channels: income from each sector of employment, type of work, and household private transfers. Some impacts are not incorporated in the simulations, among them spill-over and second-order effects and behavioral responses. Moreover, the methodology does not measure the direct impact of loss of earnings because of illness; the impact on consumption because of changes in prices or higher out-of-pocket health care costs; and the nonmonetary dimension of welfare losses.

The analysis uses the latest available household surveys in the six Western Balkan countries. In Albania, North Macedonia,¹¹ and Serbia, the most recent data available is from the 2018 Survey on Income and Living Conditions (SILC), which refers to 2017 income. The analysis for Montenegro uses 2015 income data from the 2016 SILC, which asks about household income, housing and living conditions, health, social exclusion, and socioeconomic characteristics of household

members. In the other two countries, the most recent surveys available are the 2015 Household Budget Survey (HBS) for BiH¹² and the 2017 HBS for Kosovo. These ask about household incomes, spending on final consumption (goods and services), socio-economic and geographical characteristics of households, characteristics of household members, participation in the labor market, housing characteristics, and social inclusion and subjective opinion on health and health care services. Poverty is based on per capita household income in Albania, North Macedonia, Serbia, and Montenegro and on per capita household consumption in BiH and Kosovo.

The analysis relies on likely labor market impacts, by sector and employment type, before any government responses. Economic sectors of activity are grouped into (1) relatively unimpacted, (2) moderately impacted, and (3) highly impacted (see Table A.1). Self-employed workers are less likely to be enrolled in social security schemes and may not be covered by government emergency response measures. Varying shocks are assumed within these sectors and by employment type (see Table A.2). We assume in scenario 1 that the self-employed in group 3 will lose income for one quarter

Table A.2. Labor Income Losses by Sector and Employment Type (%)

	Scenario 1		Scenario 2	
	Wage employed	Self-employed	Wage employed	Self-employed
Highly impacted	12.5	25	25	50
Moderately impacted	6.25	12.5	12.5	25
Unimpacted	0	0	0	0

11 State Statistical Office of the Republic of North Macedonia. Survey on Income and Living Conditions: Microdata file. Skopje, North Macedonia: State Statistical Office.

12 Agency for Statistics of Bosnia and Herzegovina, Republika Srpska Institute for Statistics, and Institute for Statistics of Federation Bosnia and Herzegovina. Household Budget Survey: Microdata file.

(25 percent of annual income), group 2 will lose half of their income this quarter (12.5 percent), and incomes in group 1 will not be affected. The income shock for a wage employee is assumed to be smaller: 12.5 percent in group 3, 6.25 percent in group 2, and no impact in group 1. In scenario 2 we assume that the pandemic lasts for two quarters, and income losses are double those in scenario 1. We also assume that private transfers will be reduced by 40 percent during a quarter of the year. The impacts are simulated by subtracting the loss in worker earnings and household remittances from per capita household income and comparing these scenarios with the baseline.

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You and me

by Tanja Burzanovic (Montenegro)

Dr. Tatjana Burzanovic has a wide experience in the fields of graphic design, graphics in architecture, interior design. She has worked as an art editor, interior designer and graphic designer at various levels. Many of her art exhibitions have taken place at different places. She has received many awards for her arts and literary works. She has published a book with a title *The Interrelation between Art Worlds*, with the support from the Embassy of India for Austria and Montenegro in Vienna. Her artistic philosophy includes displaying of interrelationship between art worlds (spatial and temporal arts). The artist thus meditates between nature and the spirits and yet stems from the absolute idea and serves the goal of realization of absolute spirit. 'Grasping the meaning through the form' is a task of the art set by a contemporary thinker to demonstrate that building forms and creating sense are two simultaneous, intertwined, and absolutely inseparable processes in Arts. Without that recognition it is not possible to take any further step in investigating the nature of art and literature. She believes that art is a way to search the truth. Art is inseparable from searching the truth.

People forge ideas, people mold dreams, and people create art. To connect local artists to a broader audience, the cover of this report and following editions will feature art from the Western Balkan countries.