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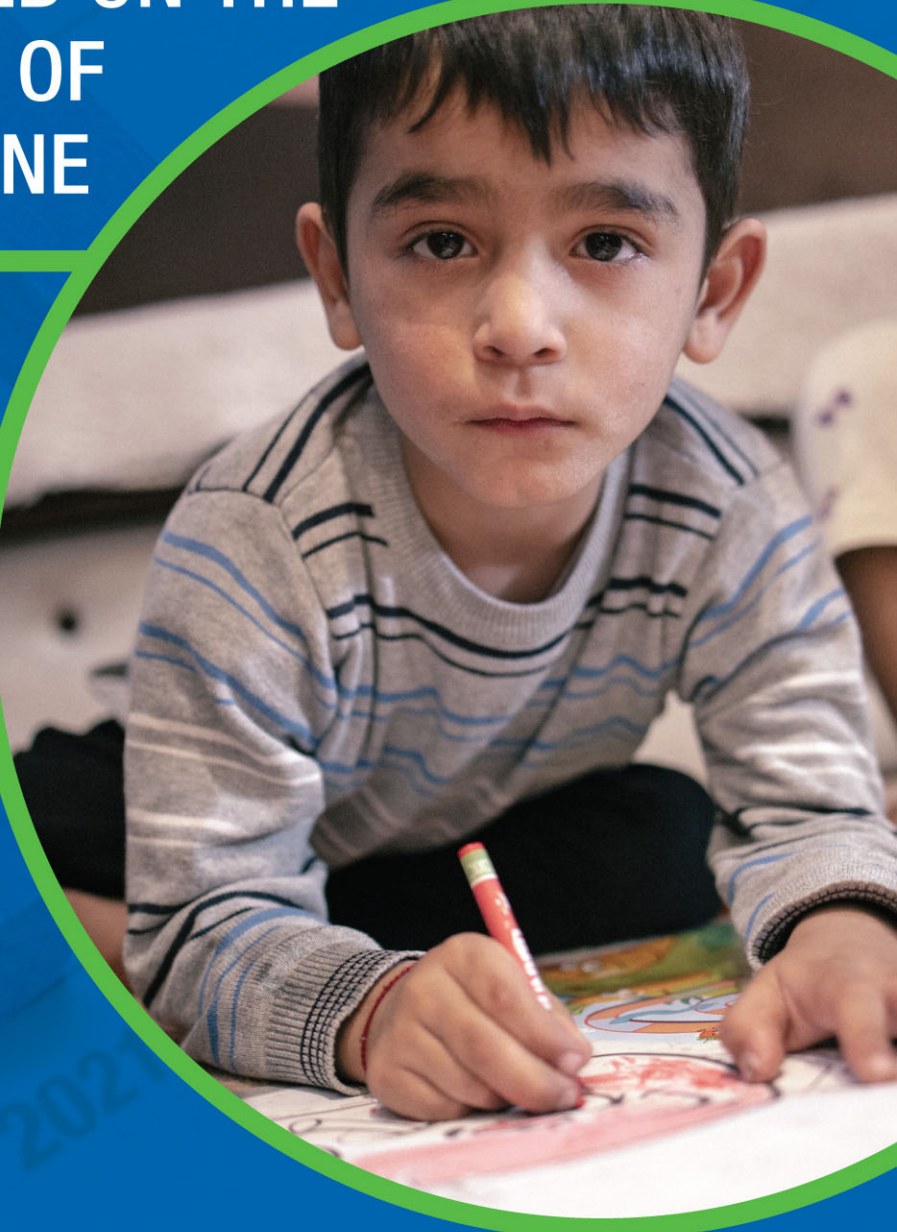
UNITED
NATIONS
SERBIA



DEVELOPMENT OF POVERTY PROJECTIONS BASED ON THE POTENTIAL IMPACT OF CONFLICT IN UKRAINE

ON THE MOST VULNERABLE
GROUPS IN SERBIA, WITH
A PARTICULAR FOCUS
ON CHILDREN

EXECUTIVE SUMMARY



UNICEF is committed to advancing policy dialogues in Serbia and helping the Government of the Republic of Serbia meet its development goals, using data to inspire evidence-based policies. With this goal in mind, UNICEF in Serbia commissioned UNU-MERIT to conduct poverty projections accounting for the impacts of COVID-19 and the potential impact of the conflict in Ukraine on the most vulnerable groups in Serbia, with a particular focus on children. This summary presents the results of the study's simulations in brief.

The full report is available at:

<https://www.unicef.org/serbia/en/reports/development-poverty-projections-based-potential-impact-conflict-ua>

Beyond the suffering and the humanitarian crisis generated by Russia's invasion of Ukraine, the global economy has felt the effects of slower growth and spiking inflation. Western Balkan countries are among the economies with the highest exposure to the conflict's consequences. Considering the increase in consumer prices and the concerns regarding the availability of electricity and gas in the winter of 2022/23, the World Bank revised its forecast for Serbia's economy. Following a significant economic recovery in 2021 with real GDP growth of 7.5%, **the consequences of the invasion of Ukraine should hinder Serbia's GDP growth.** After the start of the war, the World Bank revised its projections from an expected GDP growth pre-conflict of 4.4% to 3.2% in 2022 (World Bank, 2022c).

Lower economic growth puts pressure on household income and consumption, which can substantially impact poor families with children, migrants and other vulnerable groups, potentially worsening a situation that was already far from ideal. **In 2020, 6.9% of the Serbian population lived below the country's absolute poverty line of 12,495 dinars per month** (UNICEF, 2022). Also, Serbia is among Europe's top ten least equal countries in terms of income. In 2021, the Gini coefficient for income was 33.3, and the wealthiest 20% of the population had six times higher income than the poorest 20% (Statistical Office of the Republic of Serbia, 2022). Moreover, **in Serbia, children are still more likely to live in poverty than any other age group.** In 2020, 10.6% of children aged 0–13 lived in absolute poverty (Social Inclusion and Poverty Reduction Unit, 2021).

In this context, UNU-MERIT was commissioned by UNICEF Serbia to conduct poverty projections accounting for the impacts of COVID-19 and the potential impact of the conflict in Ukraine on the most vulnerable groups in Serbia, with a particular focus on children. To complete this assignment, two distinct analytical strategies were employed: (1) an analysis of the effects of COVID-19 on selected living standard indicators, by comparing the situation in 2019 and 2021; and (2) an estimation of the predicted impact of the crisis in Ukraine on selected living standard indicators in the short term (i.e., 2022) and the medium term (i.e., 2023–2024).

Both analytical strategies revolve around a microsimulation based on the Household Budget Survey datasets from 2019 and 2021. To estimate the impacts of the COVID-19 pandemic, the microsimulation allowed for the comparison of actual 2021 data with the simulation of the economic condition of Serbia had COVID-19 never happened. The macroeconomic forecasts published by the International Monetary Fund in late 2019, before the pandemic, are used to build our counterfactual scenario as if the COVID-19 pandemic had never happened. While for the Ukraine simulation, the short-term impacts (2022) are based on three different economic scenarios drawn from estimations of Serbia's main macroeconomic indicators published by the World Bank in October 2022. Later the simulation is extrapolated to 2023 and 2024 based on macroeconomic projections. Lastly, we applied different econometric tools to estimate how household consumption patterns may have changed in response to the covariate shocks that occurred in the aftermath of the invasion of Ukraine.



Impacts of COVID-19

The estimated absolute poverty rate for a no-COVID-19 scenario is 8.5% in 2021 among the general population, a decrease compared to the 8.8% rate in 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 we consider the ad hoc COVID-19 transfers, the poverty levels drop 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.**

	Pre-COVID (2019)		No COVID (2021)		COVID no ad-hoc transfers (2021)		COVID with ad-hoc transfers (2021)	
	Total population	Children	Total population	Children	Total population	Children	Total population	Children
Poverty rate	8.8%	11.6%	8.5%	12.6%	9.6%	13.7%	8.9%	10.6%
Gini index	28.7	29	29.7	29	29.6	29	30.3	30.5

Impacts of the war in Ukraine

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 by 0.3 to 2.5 percentage points, depending on the scenario, resulting in poverty rates of 10.4% for the midpoint scenario, 9.2% for the modest scenario, and 11.4% for the worst-case scenario.** These results reflect that the average household income is expected to grow at a lower rate than inflation, reducing household purchasing power.

In Serbia, households with children are among the most vulnerable. 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.**

	2021	Modest scenario	Mid-point scenario	Worst-case scenario
Overall absolute poverty rate	8.9%	9.2%	10.4%	11.4%
Overall absolute poverty headcount (no. of people)	607,572	627,391	711,453	780,480
Child absolute poverty rate	10.6%	13.8%	15.6%	16.5%
Child absolute poverty headcount (no. of children)	94,532	122,518	138,155	146,862

Furthermore, estimates of the impact of the crisis on the cost of living show that, under all three scenarios, increases in the cost of living outpace those in income. Consequently, households might engage in negative coping strategies that may affect the most vulnerable — including children — the hardest. **Price elasticity analysis conducted as part of the cost-of-living analysis shows that food consumption may be reduced by up to 0.39% for every 1% rise in the price of food.**

Lastly, using MICS data, we extended our poverty analysis and microsimulation to the population in Roma settlements in Serbia. Results point towards a dire situation for the community in Roma settlements in Serbia. **In 2019, 73.6% of the population in Roma settlements was in absolute poverty, a percentage that increased slightly to 74% in 2021. Based on our simulated scenarios, absolute poverty rates would grow between 1.2 and 3.6 percentage points.** While, based on 2019 MICS data, over 60% of the population in Roma settlements are already benefitting from Financial Social Assistance, the adequacy of this transfer is insufficient to prevent people from falling into absolute poverty.

To conclude, results from this study indicate that the invasion of Ukraine has hindered Serbia's recovery from the impacts of the COVID-19 pandemic. The increase in food and energy prices caused by the war has directly impacted Serbia's most vulnerable population. Hence, **the Government is urged to consider expanding its current social protection schemes horizontally to mitigate the short-term effects of the Ukrainian crisis on Serbia's most vulnerable population.** In crisis situations, improving the targeting of vulnerable groups or adding a categorical targeting — e.g., limiting one-off transfers to families with children, could be considered a cost-effective approach.