

Household exposure to financial risks: the first wave of impact from COVID-19 on the economy

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Introduction

The full scale of the socio-economic impact of COVID-19 outbreak is incalculable today, given the uncertainty of lockdown duration and the severity of pandemic-driven slowdown in the international economy. Still, it is possible to analyze the direct implications of the lockdown, self-isolation and quarantine measures introduced over the last few weeks in an attempt to formulate a preliminary assessment of how the outbreak will affect households in economic terms. The priority challenge now is, of course, to contain the spread of coronavirus, but as we identify the scale of potential economic consequences associated with the pandemic, we may help calibrate the safeguards that could protect households from the impact of the imminent economic slowdown.

In this commentary paper, based on the Household Budget Survey (HBS) data, the percentage of households (HHs) whose members are most at risk of losing their job or compromising their income due to the first wave of economic consequences of the pandemic is taken as a measure of economic impact of COVID-19 outbreak. The analysis looks into the population of people who are economically active (through employment or self-employment) in those sectors of the economy which are most exposed to the effects of the lockdown. According to our findings, 17.2 percent of the HHs in Poland are at risk of a loss of income due to the first wave of economic consequences of the pandemic, and for 5.2 percent of the HHs this risk can be described as particularly high. When we focus on the HHs with at least one person active on the labor market, the parameters are 24.7 percent and 7.4 percent, respectively.

In the analysis below, we discuss the HHs with a particularly high risk of income deterioration in the breakdown according to the level of household income, the place of residence, and the family type. The first part of the paper presents a detailed description of the economic sectors which were considered to be particularly exposed to the risk associated with the first wave of economic consequences of the pandemic, together with risk level definitions. Analytical findings are presented in the second part of the paper.

1. Households at risk of the negative impact of the first wave of economic consequences of the COVID-19 pandemic

The granularity of HBS data collected annually by Poland Statistics (GUS) is not sufficient for a very precise determination of the size of risk groups in terms of individual activity on the labor market, but the data can help identify the HHs whose members have been employed in the sectors of the national economy particularly affected by the pandemic, i.e. on the first line of exposure to its economic consequences. These are, in particular, economic sectors that involve frequent interpersonal contacts and large public gatherings: following the announcement of the state of epidemiological hazard in Poland on March 14th, 2020, serious restrictions have been imposed in those sectors in an effort to prevent the rapid spread of coronavirus.

Pursuant to the Regulation of the Minister of Health of March 13th, 2020, on the announcement of the state of epidemiological hazard in the territory of the Republic of Poland¹, restrictions have been imposed on a temporary basis on doing business in the food industry, culture and entertainment, sport and recreation, hospitality and tourism. The operation of large-size retail commerce facilities has also been restricted.

¹ <http://dziennikustaw.gov.pl/D2020000043301.pdf>

In addition, self-isolation and social distancing result in significant decreases in the overall level of trade turnover. In view of the lockdown, we decided for the purpose of this paper that the risk of economic slowdown also applies to the service sector and education (personal services included). The workforce from the above-mentioned sectors has been divided by type of employment contract, and those hired under a contract of employment (fixed-term or open-ended, regardless) have been ranked as less exposed to the risk of job loss or lower earnings, while all the others employed on civil law contracts (service contract, zero-hours contract, etc.) have been grouped under an elevated risk label. The elevated risk category includes all those who are self-employed in the above-mentioned sectors in Poland or abroad, regardless of whether they have employees onboard or not.

2. Exposure to financial risks in families and households

In accordance with the risk categories applicable to the economically active population, we can conclude that there are over 780 thousand members of the workforce (57 percent of them are women) who are particularly exposed to the negative economic consequences of the pandemic, as they work in the affected sectors of the economy on the basis of self-employment or contracts other than the contract of employment. In addition, 1.9 million people (70 percent of them are women) are employed in these sectors of the economy on contracts of employment. The status of the latter group is less precarious in the short term, but if the lockdown should continue in the long term, this population may also be affected.

The adverse impact of job loss or lower earnings will affect an entire household whose member works in a sector particularly affected by the crisis. Therefore, the risks below are presented in a breakdown by family type and by HH group aggregated according to the place of residence and income level. Moreover, the HHs were also grouped according to their members' activity on the labor market, with analytical findings presented for all HHs and for the group of HHs with at least one economically active member in the HH.

The highest percentage of HHs whose members are particularly exposed to the negative consequences of the pandemic is reported in cities (Figure 1). For example, in cities with a population above 500,000, it is 6.6 percent of all HHs, and 9.1 percent of the HHs with at least one active member on the labor market. Additionally, in cities with a population count exceeding 500,000, 12.4 percent and 17.1 percent of the population, respectively, is employed in the affected sectors on the basis of an employment contract. In smaller cities/towns and in rural areas the percentage of HHs with the population most exposed to the crisis are slightly lower. In rural areas, it is 4.8 percent of all HHs and 6.4 percent of the HHs with at least one economically active member of the HH.

In terms of HH income levels, middle-income HHs demonstrate the highest percentage of those exposed to the negative consequences of the first wave of pandemic-driven impact on the economy (Figure 2). For example, in the 6th income decile group, in the population of HHs with at least one economically active member of the HH, 8.5 percent of HHs are with a member economically active in an affected sector and working either on a self-employment basis or on a contract other than a contract of employment. Together with HH members who are economically active in those sectors on a contract of employment, the rate exceeds 30 percent.

Figure 1 Financial risk in the households in connection with the first wave of COVID-19 impact on the economy, by place of residence

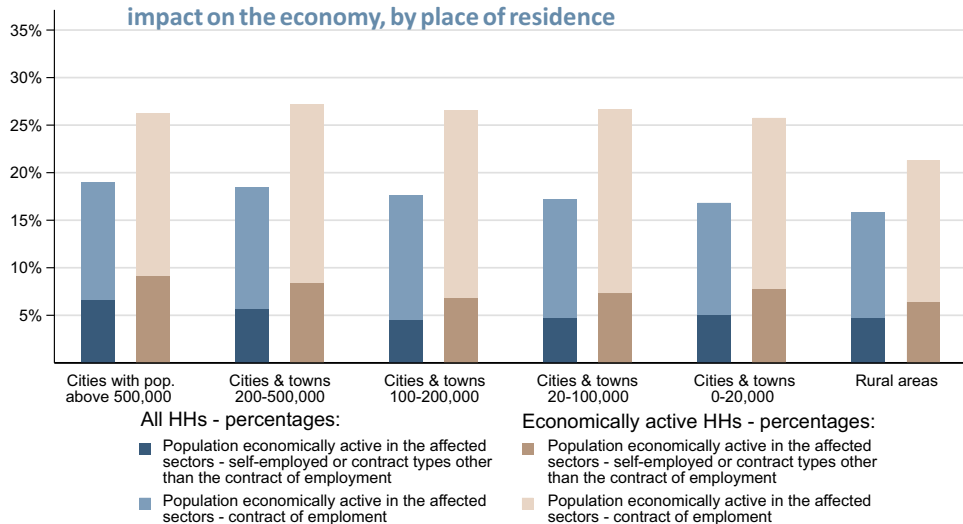


Figure 1

Source: Authors' compilation based on 2018 HBS data.

Note: Economically active HHs – households with at least one member of the household active on the labor market.

The percentage distribution of the HHs economically active in the affected sectors by family type is also uneven (Figure 3). In the group of families with at least one economically active member, the largest proportion of such HHs is reported in the group of single parents, with 31.5 percent working in the affected sectors and 6.6 percent in self-employment or on the basis of a contract other than the contract of employment. Similar percentages are reported for couples with children and at least one economically active HH member (24.2 percent and 7.8 percent, respectively.) Among working singles and couples with no dependent children, on average, one in five HHs has a HH member economically active in an affected sector. Of these HHs, 4.5 percent of the singles and 5.6 percent of the couples with no children are economically active in the affected sectors with contracts other than a contract of employment.

Figure 2 Financial risk in the households in connection with the first wave of COVID-19 impact on the economy, by income decile

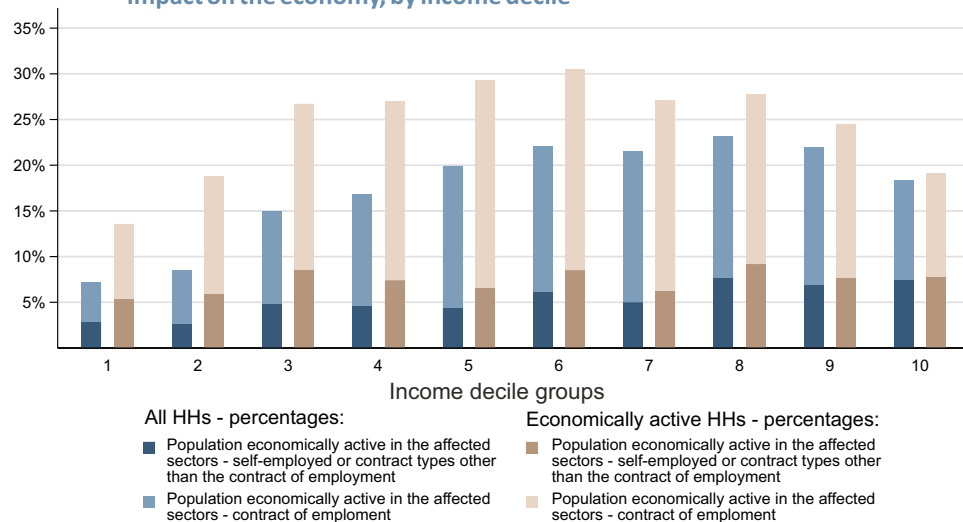


Figure 2

Source: Authors' compilation based on 2018 HBS data.

Note:

Economically active HHs – households with at least one member of the household active on the labor market. Income decile groups are ten groups covering 10 percent of the population each, from households with the lowest disposable income to the most affluent households, on the basis of the so-called equivalent income, i.e. taking into account the differences in the size of the household using the modified OECD equivalence scale.

Figure 3 Financial risk in the households in connection with the first wave of COVID-19 impact on the economy, by family type

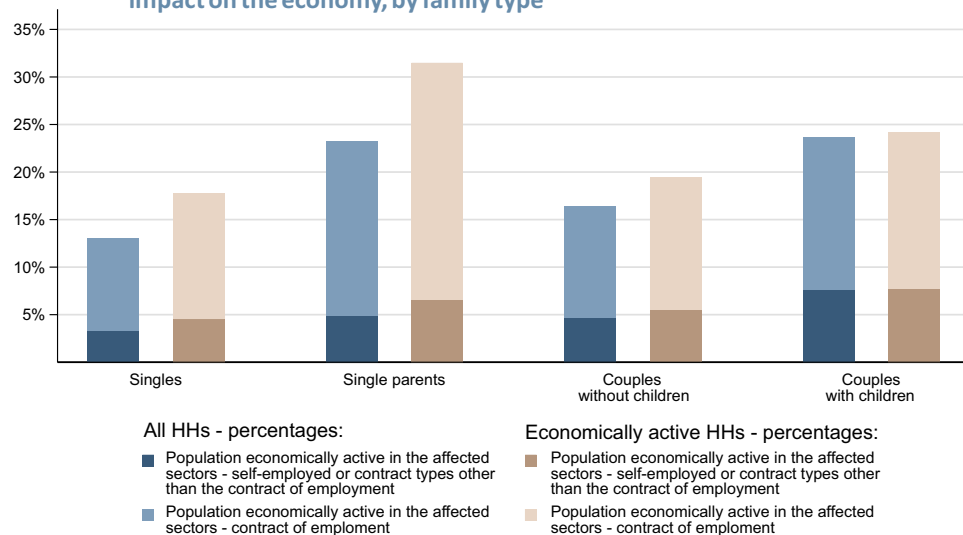


Figure 3

Source: Authors' compilation based on 2018 HBS data.

Note:

Economically active HHs – households with at least one member of the household active on the labor market. The following family types are distinguished: Singles - working age singles without dependent children; Single parents - working age single parents with dependent children; Couples without children - working age married couples without dependent children; Couples with children - working age married couples with dependent children.

Summary

Although the results presenting the percentages of families and households exposed to the negative effects of the first wave of economic consequences of the COVID-19 pandemic do not mean that such-and-such percentage will actually be affected, the mere fact that such a high percentage of families is faced with the prospect of a deteriorating financial condition should stimulate a wide array of public policy support mechanisms. The economic support package called the "anti-crisis shield", announced by the government of Poland on March 18th, is a reaction to this challenge, though specific details of the announced version of the program have not been disclosed, to date.² Still, the main focus of the package is on support for enterprises and entrepreneurs to help them continue business operation by postponing the due dates of business taxes and levies, and partially subsidizing employment of the workforce already on board.

2 <https://www.gov.pl/web/koronawirus/tarcza-antykryzysowa-ma-ochronic-firmy-i-pracownikow-przed-skutkami-epidemii-koronawirusa>

There is no doubt, however, that if the general economic slowdown continues for more than a few months, enterprises will be forced to start the layoffs and the self-employed will have to deregister. Therefore, the public finance system must be prepared to provide direct financial support to the households and offer a comprehensive benefit package to those laid off and their families.

It is to be hoped that the economic consequences of the pandemic will be short-lived, and business activity will recover quite quickly to the pre-existing levels. For this to happen, first of all, we must keep the enterprises afloat, especially the small and medium-sized enterprises. Secondly, a fast economic reboot will be easier if the existing employment relations are preserved, even if the workload or the wages are curtailed. To that end, one solution would be to provide periodic financial support to employees in the affected sectors, even without formal termination of the contract between the employee and the employer. If the lockdown continues for more than two or three months, the financial support provided for in the "anti-crisis shield" package, representing 40 percent of the wage, may turn out to be inadequate to keep current employment levels intact.

If the pandemic-driven economic slowdown is prolonged – and there is no way this option can be ruled out today – it should be remembered that, apart from the sectors included in the analysis, the remaining sectors of the Polish economy will also be affected by the negative consequences of the recession; and the prolonged slowdown will eventually lead to a significant increase in unemployment rates. If that happens, households will need support through social transfers, both in the form of the unemployment benefit and benefits not related to a beneficiary's track record in social security contributions paid, i.e. the housing benefit and social welfare benefits. With the expected substantial increase in public spending, the current policy of the state, focused primarily on universal public benefits, would have to be refocused on the transfers targeted at the most vulnerable households.

The analyses outlined in this Commentary Paper make part of the microsimulation research program pursued by CenEA Foundation (www.cenea.org.pl). The data used in the analyses is based on the 2018 Household Budget Survey, as provided by Poland Statistics (GUS). Poland Statistics (GUS) has no liability for the results presented in the Commentary Paper or its conclusions. Conclusions presented in the Commentary Paper are based on calculations made by the Authors using the *SIMPL* model.

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