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When food is scarce – Poverty in Central Europe

The picture of Central European poverty is clearly differentiated. In the Czech Republic, the rate of people at risk of poverty or social exclusion is the lowest in the entire European Union, while in Bulgaria – the highest. In total, 22 million citizens of the "new" EU countries were affected by this problem before the COVID-19 pandemic. The forecasts indicate that the crisis caused by the pandemic can increase this number and that the most vulnerable will be the people of Southern Europe.

Poverty is uneven. Poverty in the EU is most often measured at the risk of poverty or social exclusion indicator (AROPE). It includes people with income below the poverty line, people who are unable to meet basic material needs, and those living in households with very low working intensity. It should be noted, however, that the first of these dimensions of poverty – including the income criterion – is set according to relative thresholds: it concerns people who earn less than 60% of median income in a given country. Even though Eurostat has taken into account the purchasing power standard (PPS), the profit thresholds are very different.

For example, in 2019, the limit of income poverty of a single person in Luxembourg is an annual income of less than EUR 21,812, in Denmark EUR 18,430, in Austria EUR 15,437. In Central European countries belonging to the EU, it is on average only EUR 4,788, with Slovenia having the highest threshold – EUR 8,440 – and Romania the lowest – EUR 2,310 (in Poland it is EUR 4,275). The same is true of household disparities. The threshold of income poverty for a four-member family in Luxembourg is over EUR 45,806, in Central Europe on average EUR 10,054 (in Poland – EUR 8,977). As a result, some people considered to be poor in a "richer" EU country would not be considered as such in the "poorer" one.

It should also be kept in mind that poverty and social exclusion are determined by shortage in many areas of needs, not just economic ones. This includes, for example, access to public services, including high-level education and healthcare, participation in culture, and the implementation of political rights. In this sense, poverty can prevent individuals from developing and participating in society, causing stigmatization, suffering, uncertainty, and frustration.

The poor South and the poor North. In the countries of Central Europe belonging to the EU – according to the AROPE indicator – nearly 22 million people were at risk of poverty or social exclusion in 2019, mostly in Poland and Romania. They are 6.7 million and 6 million, respectively. However, it should be taken into account that these are the two largest economies in terms of population in the region. It is much more reliable to indicate the percentage of poverty-affected people in a particular country of Central Europe. It turns out that the risk of poverty or social exclusion mostly refers to countries located in the south and the north of the region. In Bulgaria and Romania, almost every third person is at risk of poverty or social exclusion, 32.5% and 31.2% of residents, respectively. Latvia and Lithuania follow at 27.3% and 26.3%. Importantly, these four countries have the highest percentage not only in the region, but also in the EU as a whole. At the same time, income inequality in these countries, measured by comparing the income of the richest 20% of households to the income of the poorest 20% of households, is the highest in the entire EU. The highest rate was recorded in Bulgaria, which means that in 2018 the richest 20% of households received almost 8 times as much income as the poorest 20% of households in the country. The EU average is 5.1.

Children, large families, single parents, people with disabilities, pensioners, and single persons are primarily at risk of poverty. However, it may also affect members of ethnic groups. In Latvia, the highest percentage of individuals at risk of poverty live in Latgale (36%), the region inhabited by Polish and Russian-speaking minorities. The group at risk of exclusion in this country also includes residents without citizenship (so-called non-citizens; 28%) and foreigners (31%). Similar indicators refer to Bulgaria, where 74% of all Roma families live below the poverty threshold.

Both in Bulgaria and Romania, as well as in Latvia and Lithuania, the high risk of poverty results from ineffective policies of redistribution of funds via the tax and the social security systems, which reduce income inequalities less effectively than in other EU countries. In addition, since the crisis of 2008-2009, the ability of tax systems in these countries to counteract growing income inequality was weakened. The number of children living in poverty has increased as well.

Less poverty in the centre. The countries in the central part of the region fare much better in comparison, especially the Czech Republic, where the poverty and social exclusion problem affects 12.5% of the population, which is also the best result in the EU. This is largely due to an inclusive labour market. The Czech Republic has been at the forefront of EU countries in reducing unemployment and has had the lowest rate for several years. In 2019 it achieved the best result in the EU, at just 2%, with a simultaneous high employment rate, reaching in 2019 the third highest EU employment rate, just after Sweden and Germany – at 80.3%, and the highest among men in the EU, as much as 87.7%. Social transfers have also helped to combat poverty. This expenditure (excluding retirement benefits) has reduced the poverty rate by an average of 36% over the last decade.

Poverty and social exclusion are also relatively low in Slovenia (14.4%), Slovakia (16.4%), Poland (18.2%), and Hungary (18.9%), but in the last two countries, this is a new phenomenon. A decade earlier, Hungary and Poland lagged behind the EU, just after Bulgaria, Romania, Latvia, and Lithuania. The improvement of their position was largely influenced by the same factors that are behind the Czech success. These include, on the one hand, an improvement in the labour market (low unemployment and rising employment rates) and, on the other, significant social transfers in recent years. State aid has reduced the risk of poverty in these countries over the last decade by an average of 47% in Hungary and 29% in Poland.

Forecasts. Poverty in the face of pandemic. The poverty data reported here does not relate to the period of the COVID-19 pandemic. Macroeconomic indicators applied to the first months of the pandemic show an increase in unemployment and a decrease in residents' income. In Lithuania, a survey in April 2020 indicated that 37% of respondents experienced a significant drop in income due to the pandemic, especially among self-employed individuals. The decline was less painful in the case of those working under a contract of employment and pensioners. The research renewed three months later, following the launch of a state aid program, and did not show any improvement in the financial condition of the poorest. In addition, during the pandemic, the number of individuals profiting from social assistance centres and non-governmental organizations (including charity canteens) has increased. The data is not surprising given that before the pandemic, more than a half of Lithuanians had no emergency savings for unforeseen expenses and were not prepared for any economic crisis.

However, taking into account the fact that the economic slowdown caused by the pandemic in Lithuania and Latvia may be relatively slight compared to the EU members, the painful consequences of the long-term recession may be felt more acutely by the inhabitants of Bulgaria and Romania. This especially applies to Lithuania, where the GDP declined by 2% in 2020, which is one of the lowest indicators in Europe (more "IEŚ Commentaries", No. 308). These assumptions are in line with the conclusions of the University of Oxford[1] that the COVID-19 pandemic will induce poverty across Europe, heavier in Southern Europe than in northern and central part of the region.

Importantly, the consequences of the COVID-19 pandemic may result not only in income poverty, but also in social exclusion and marginalisation. Due to a lack of Internet access and appropriate tools for distance learning or computer skills, the problem of digital exclusion may arise. The disparity between residents living in rural and urban areas may expand as well. Additionally, long-term social isolation may weaken social competences, foster family conflicts, intensify depression and apathy, or increase the risk of addiction.

[1] J.C. Palomino, J.G. Rodríguez, R. Sebastian, *Wage inequality and poverty effects of lockdown and social distancing in Europe*, „European Economic Review" 2020, nr 129, https://doi.org/10.1016/j.euroecorev.2020.103564.