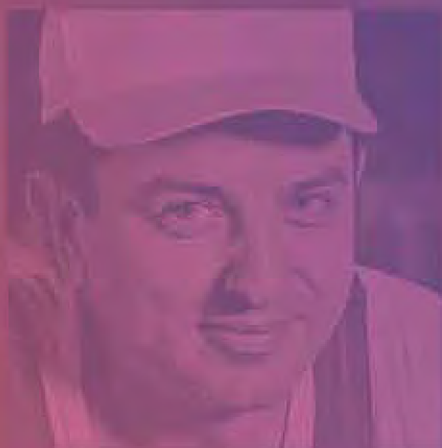
1
Impact of the global economic crisis



Introduction

The transition region was among the hardest hit by the global economic crisis. Gross domestic product (GDP) contracted by 5.2 per cent and registered unemployment increased in 2009. While some countries, like Poland, experienced slow but positive growth, several countries had severe output contractions (Latvia, for example, where real GDP fell by 18 per cent). This sharp reversal in fortunes came after a decade of sustained growth, which by and large improved living conditions for the transition population: between 1999 and 2006 over 55 million people escaped poverty.

The economic crisis hit households on multiple fronts, as workers lost their jobs, wage earnings were reduced, and remittances fell. The extent and severity of the impact on the welfare of citizens has varied, depending on the nature of the shocks experienced, the policy response and the coping mechanisms available to households. Solely measuring the effect on consumption may not fully capture the experience of households, but a multi-dimensional approach incorporating responses and perceptions can yield important insights into the impact as well as its consequences. The second Life in Transition Survey (LiTS II) allows such an exploration of the effects of the crisis, based not only on outcomes but also subjective perceptions, beliefs and choices, for 29 transition countries and five comparator countries in western Europe (France, Germany, Italy, Sweden and the United Kingdom).[1]

This chapter describes the impact of the crisis on households using data from the innovative LiTS II. It then analyses the coping mechanisms employed by households, distinguishing between strategies to increase earnings, private and public safety nets and expenditure reductions. The chapter concludes with an examination of the crisis impact on socio-economic outcomes, such as perceptions and expectations of social mobility, satisfaction with life and perceptions of government performance.

Crisis impact on households

Subjective perceptions

Subjective measures show that the impact of the crisis on transition households was large and widespread. On average, two-thirds of the population report being affected: 16 per cent of respondents declared that their household was affected “a great deal,” 26 per cent “a fair amount,” 23 per cent “just a little” and one-third “not at all” (see Box 1.1). While this measure is subjective, it corresponds closely to shocks objectively experienced by households.[2]

By this subjective measure, the impact of the crisis was greater in south-eastern Europe and the south Caucasus and lesser in Central Asia and Russia. It was also greater in all transition subregions than in the western European comparator countries as a group. In some of the new EU member states like Poland, the Czech Republic and Slovak Republic, the perceived impact is much more confined and closer to the experience reported by the western comparators (see Chart 1.1).

In certain countries, this subjective measure is less consistent with the overall size of the economic contraction but reflects the broader experience of households (see Chart 1.2). In Serbia, for example, the large fall in employment during the crisis may explain why over two-thirds of respondents report being affected “a great deal” or “a fair amount” (making it the second most subjectively affected) despite a smaller GDP contraction than many other countries (-3 per cent in 2009). However, differences in subjective perceptions of the crisis impact cannot be fully accounted for by the objective consequences of the crisis for households. The case of Latvia for example (with a lower subjective impact than the size of the objective shocks experienced would suggest) implies that there may be important cross-country cultural differences in reporting an impact. Accordingly, most of the analysis in this chapter compares individuals within a given country.

Main transmission channels

Households have been affected mostly through the labour market and particularly by reductions in wage earnings. Almost one-third of transition respondents report that a household member had their wages reduced over the previous two years as a result of the crisis (see Chart 1.3).[3] The second most important transmission channel has been job loss: 17 per cent of respondents report that at least one member of their household lost his or her job due to the crisis.

These labour market shocks, and particularly wage reductions, affected a much wider share of households in the transition countries than in the western European comparators. In eight transition countries – Croatia, Latvia, Lithuania, Montenegro, Romania, Slovenia, Turkey and Ukraine – more than half of respondents report that a household member experienced wage reductions or arrears as a result of the crisis. Job losses or family business closures were experienced by one-third of households in Latvia, FYR Macedonia and Tajikistan. Wage reductions were more widespread than job losses in all

[1] See also World Bank (2011), which examines household and government responses to the recession, using information from administrative sources, crisis response surveys in ten countries and government social responses. The crisis response surveys were conducted in Q3 2009 – Q1 2010, and given differences in timing and methodology, the results are not directly comparable. A previous report (see World Bank 2010a) used pre-crisis household data and aggregate macroeconomic information to simulate the impact of the crisis on households.

[2] Among households that declared being affected “a great deal” or “a fair amount” by the crisis, 90 per cent experienced at least one labour market shock or income loss (such as job loss, closure of family business, wage reduction or lower remittances). However, in a few countries, when asked how they were affected, a non-negligible proportion answered “Don’t know”. This was the case in Bulgaria (32 per cent), Georgia (31 per cent), Mongolia (23 per cent), Poland (21 per cent), Estonia (12 per cent) and France (11 per cent).

[3] See Khanna et al (2010): wage reductions in transition countries resulted from reduced working hours and shifts in employment from industry to sectors with lower wages.

Box 1.1
The LiTS II crisis impact module

The 2010 LiTS includes a new module on the impact of the crisis.

Respondents were asked *"As you know an economic crisis is affecting the whole world and our country. How much, if at all, has this crisis affected your household in the past two years?* with responses coded as follows: 1=a great deal, 2= a fair amount, 3= just a little and 4=not at all. Respondents who reported that their households were affected were asked whether they (or other household members) experienced shocks such as job loss, closure of family business, wage reductions or delays, lower remittances, and which was the most important.

All respondents were asked *"In the past two years, have you or anyone in your household had to take any of the following measures as the result of the decline in income or other economic difficulty?"* The list included measures to reduce expenditures, delay utility payments or sell assets. They were also asked whether they tried to borrow money, from whom and whether they were successful.

Lastly, the module asked all respondents whether they (or someone in their household) applied for any of four types of government benefits (unemployment, housing, child support and targeted social assistance/ guaranteed minimum income), the result of the application, whether the household had received its first payment, and how helpful this support was.

Similar to the crisis response surveys launched in several countries in 2009 and 2010, the LiTS II crisis impact module is a rapid instrument to provide insights into the various channels through which households were hit and the coping mechanisms that they adopted. In addition, the LiTS II survey design allows for exploring the effects of the crisis on perceptions and various subjective measures of socio-economic outcomes. Finally, the LiTS II survey allows comparisons across 28 transition countries, and between transition countries and five western European countries.

countries except Armenia and Georgia. But, while it affects a smaller number of households, job loss results in higher losses for those households and increases the subjective effect of the crisis to a much larger extent than reduced wages.

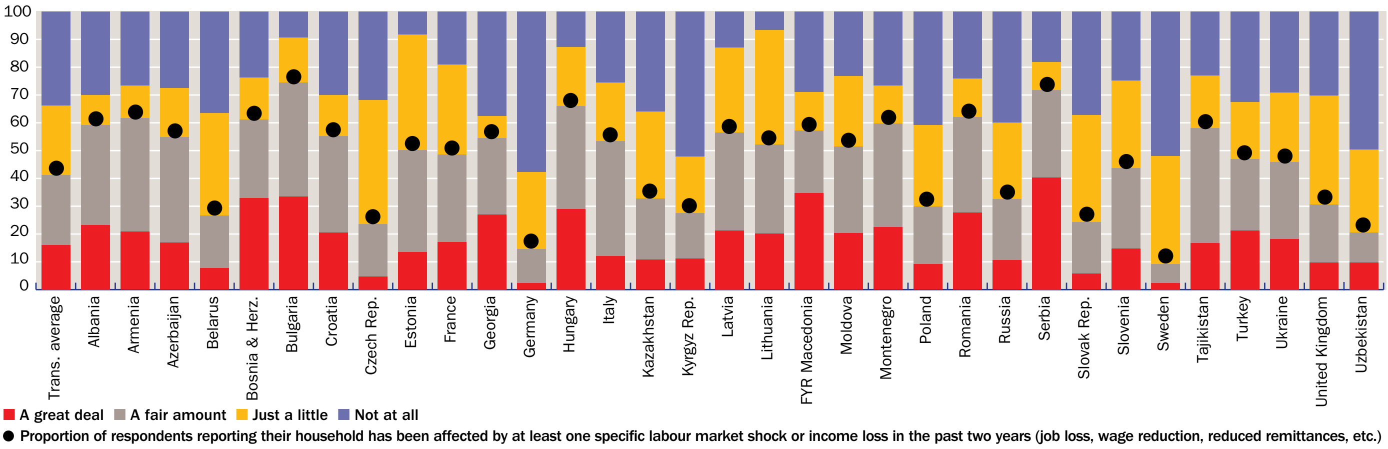
A reduction in remittances was the third main type of shock experienced by households, especially in countries with large numbers of migrant workers abroad. It was cited as an important crisis transmission channel, particularly in south-eastern Europe (by more than one-third of households in Bosnia and Herzegovina and Serbia) and Central Asia (by over one-quarter in Tajikistan).

Characteristics of affected households

Across the transition region, the poorest third of the population in each country[4] is more likely to report that their household was adversely impacted by the crisis (see Table 1.1). Similarly, household asset ownership (ownership of a car, a secondary residence or a bank account) is negatively correlated with crisis impact. The greater subjective impact of the crisis on poorer households is consistent with the fact that they are much more likely than richer households to have experienced job losses.[5]

The subjective impact on the poorest households is greatest in the western CIS (Belarus-Moldova-Ukraine) subregion, the new EU member states, the south Caucasus and Turkey. However, in Russia, Central Asia and south-eastern Europe, the LiTS II data do not suggest a differential subjective impact for the poorest third of households relative to richer households. Lastly, female-headed households and the elderly (or pensioners) do not report a significantly greater crisis impact than other households.[6] These findings based on household perceptions corroborate some of the preliminary information from objective measures but there are also some significant differences (see Box 1.2.)

Chart 1.1
Subjective impact of the crisis, by country



Source: LiTS II (2010).
Note: regional averages throughout this chapter are weighted according to the different population size of each country - see the Annex on pages 114-15 for details.

[4] A housing and expenses module (with seven expenditure items, including durables) is used to construct a consumption aggregate. Due to low response rates, actual or imputed rents are not included. The per capita consumption aggregate is then used to divide respondents into three consumption terciles in each country (lower, middle and upper). Previous analysis showed that the consumption aggregates constructed from LiTS I compare well with conventional measures based on national accounts and household surveys (see Zaidi et al, 2009).

[5] The greater impact of the crisis on the poor as well as the correlation between job loss and low consumption could be due to greater vulnerability of initially poor households to job loss, or to lower consumption caused by the job loss experienced by the household. The data do not enable an investigation of the two hypotheses as only current consumption is measured in LiTS II.

[6] Because the LiTS data measure crisis impact at the household level, it is not possible to analyse differences at individual level. The lower likelihood that female-headed households were affected is consistent with the crisis impact on sectors that employed higher proportions of males (for example, construction).

Household coping strategies

The subjective impact of the crisis goes beyond lower aggregate consumption and may depend on the coping strategies adopted. In fact, 13 per cent of those who reported that their household was affected “a fair amount” and 9 per cent of those reporting “a great deal” did not reduce their consumption. One-quarter of these households experienced job loss and one-half had lower wages, but they were able to maintain consumption using private and public safety nets as well as increasing their earnings.

Households use a variety of mechanisms to cope with lower incomes:

- **Active strategies:** These include getting a second job or increasing working hours to compensate for reduced wages, enrolling in further education because of a lack of job opportunities, selling assets or moving to a new location.

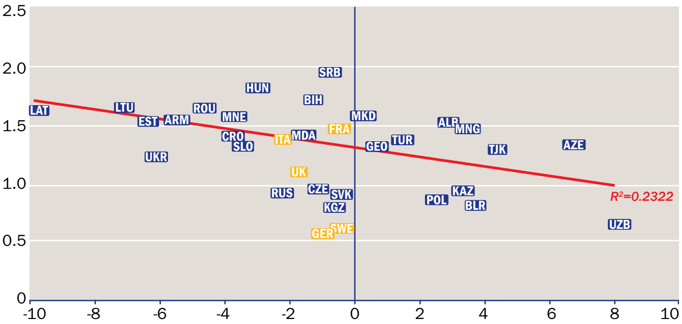
- **Safety nets:** Households can draw upon public safety nets (state benefits from government) and private safety nets (borrowing money from relatives, friends or a bank).

- **Passive strategies:** These consist of cutting expenditures. They include reducing expenditure on staple foods and health expenditure, and reducing other expenditure.[7]

The applicability of these options varies by country and according to household circumstances. The most common coping strategy for households in the transition region was reducing consumption, followed by using private safety nets (see Chart 1.4). About 70 per cent of households that were affected “a great deal” or “a fair amount” by the crisis had to reduce consumption of staple foods and health expenditure, and a similar proportion cut other types of spending. Private safety nets were used by 40 per cent of affected households, followed by active strategy options, which were used by 23 per cent.

Chart 1.2
Economic growth and perceptions of the crisis severity

Subjective crisis severity index

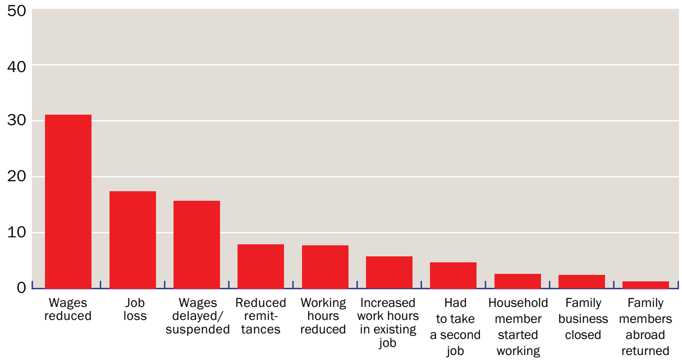


Average GDP growth in 2009-2010 (%)

Source: LiTS II (2010).
Note: Regression line includes only the transition countries.

Chart 1.3
Main crisis transmission channels

% of respondents



Source: LiTS II (2010).

Box 1.2
Comparing subjective and objective measures of crisis impact

LiTS II confirms earlier findings that the impact of the crisis was widespread, and mostly through the labour market (World Bank, 2011). Although it provides rich insights, the LiTS II is not designed to study changes in consumption or income, intra-household dynamics, or the determinants of labour market outcomes. These can be analysed using Household Budget Surveys (HBS) or Labour Force Surveys (LFS) as they become available.

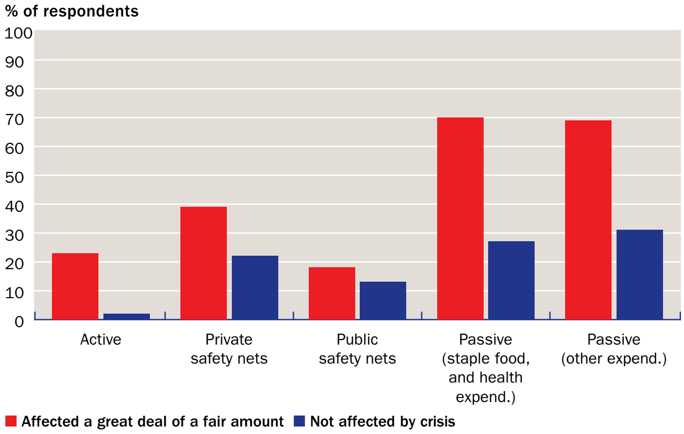
Consumption data from the available 2009 HBS suggest that the crisis affected mostly middle- and upper-income groups (Sulla 2011). This is consistent with the LiTS II finding that upper- or middle-class households report the largest drops in their social position (relative income). Nevertheless, poorer LiTS households (as measured by their current consumption) also report being more (subjectively) affected by the crisis than richer households.

At the country level, the LiTS II data show a negative correlation between perceptions of crisis severity and average 2009-2010 GDP growth rates (see Chart 1.2) but the correlation is weak, which may be due to the fact that households’ subjective assessment of the impact of the crisis are based on a multitude of factors, some of which are not fully captured by objective measures. For example, the trauma associated with job loss can go beyond the associated drop in household income, there may be increased insecurity about the future, and so on. The subjective impact of the crisis may therefore depend on the coping strategies adopted, the intrinsic value of employment, and the extent to which households value leisure, uncertainty or different types of expenditures. Finally, there could be systematic reporting biases if different groups have systematically different perceptions of and attitudes to objective shocks (Bertrand and Mullainathan, 2001).

[7] The typology of active, safety nets and passive strategies is found in Lokshin and Yemtsov (2004). While LiTS II collected information on a wide range of coping mechanisms, the list is not exhaustive. For example, education expenditures could also be adjusted. However, World Bank crisis response surveys in five countries show no evidence of this (see World Bank 2011).

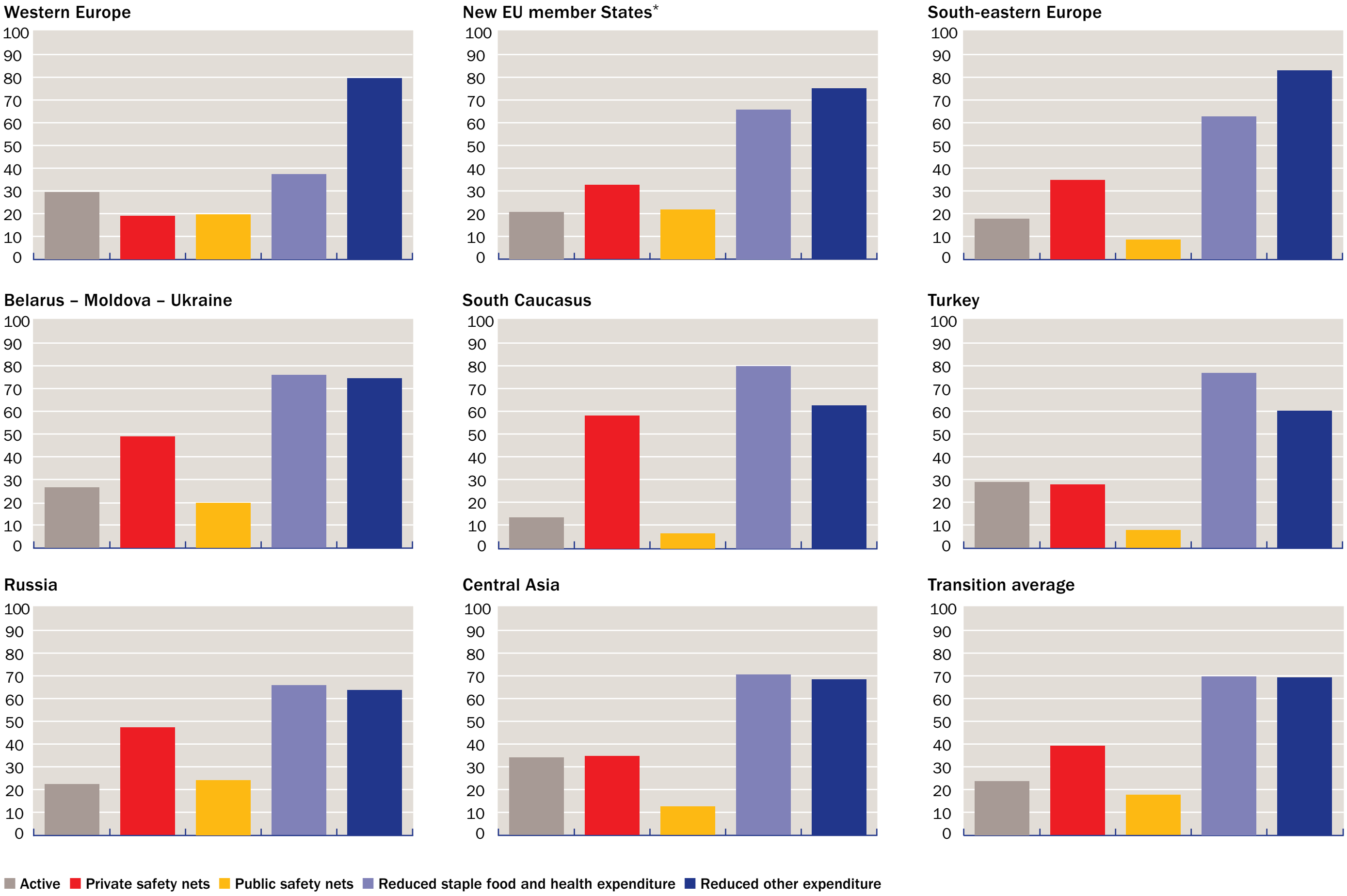
Even in times of hardship, a large proportion of households seemed able to increase their labour availability (by working increased hours, taking a second job or adding another household member to the labour force). Accessing public safety nets was the least used strategy, with less than one-fifth of affected households availing themselves of the four types of state benefits that were considered in the LiTS II. The greater use of private coping strategies (relative to accessing public safety nets) in transition countries is in contrast to that in the western European comparator countries (see Chart 1.5). The south Caucasus, where the use of public safety nets was lowest (7 per cent of affected households), also had the highest use of the private safety net option (58 per cent). In western Europe, public safety nets are as prevalent as private ones (both used by about 20 per cent of affected households), and reducing essential expenditure is much less frequent (at 40 per cent). The greater reliance on passive strategies in transition countries, and particularly on cutting staple food and health expenditure, could be explained by lower coverage of safety nets, lower stocks of household savings and food price inflation.

Chart 1.4
Coping strategies employed by households



Source: LiTS II (2010).
Note: For those not affected by the crisis, active strategies include selling assets or moving.

Chart 1.5
Proportion of affected households using various coping strategies, by subregion



Source: LiTS II (2010).
Note: *Includes the countries of Central Europe and the Baltics, Bulgaria and Romania. Households affected by the crisis are those that reported being affected "a fair amount" or "a great deal" by the crisis.

Public safety nets

In response to the crisis, governments deployed an array of instruments, including adjustments to social assistance programmes, unemployment insurance or pensions, or the provision of income support through public investment programmes (as in Kazakhstan, Latvia, Russia and Turkey). LiTS II respondents were asked if, in the previous 12 months, a household member had applied for any of four types of state benefits, the status of the application and whether the first payment had been received. Such information provides only a partial picture of the coverage of public safety nets (it does not include pensions, for example[8]) and does not distinguish between safety net assistance received regardless of the crisis and that provided as part of a specific policy response to the crisis.

The availability and efficiency of public safety nets in protecting vulnerable households varies substantially across countries (see Chart 1.6). Coverage was lower in south-eastern Europe but higher in EU member states, especially Germany, Sweden and Slovenia where more than one-third of respondents who say they were affected "a great deal" or "a fair amount" by the crisis received at least one of the four types of benefits.[9]

The four type of benefits considered in the LiTS II are generally targeted towards the poor, but provide little insurance against unemployment in non-EU countries. In most countries the poorest one-third of the population were more likely to have received these benefits than other people. However, targeting benefits at those most affected by the crisis is constrained by the fact that only a small proportion of the population in non-EU member states is covered by unemployment insurance. In some countries, this is because a large portion of the workforce is employed in the informal sector. Only in EU member states did the proportion of households applying for and receiving unemployment benefits in the previous 12 months (among households in which at least one member lost his or her job due to the crisis) exceed 10 per cent.

Private safety nets

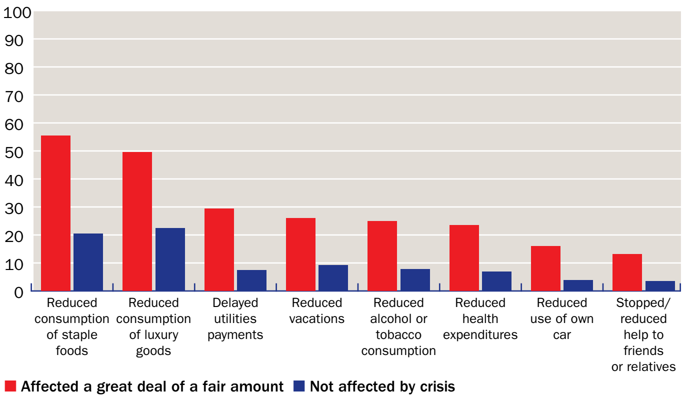
Households mostly sought informal insurance mechanisms when attempting to raise a loan in the crisis. Over 60 per cent of households tried to obtain loans from relatives and 48 per cent did so from friends. Only 28 per cent went to a bank. As expected, poorer households are even more likely to seek loans from relatives or friends, whereas those in the higher-consumption bracket are substantially more likely to borrow from a bank.

The crisis also had a negative impact on informal insurance networks. Thirteen per cent of respondents from affected households and 9 per cent of all respondents had to stop or reduce help that they were previously giving friends or relatives.

Passive strategies: reducing expenditure

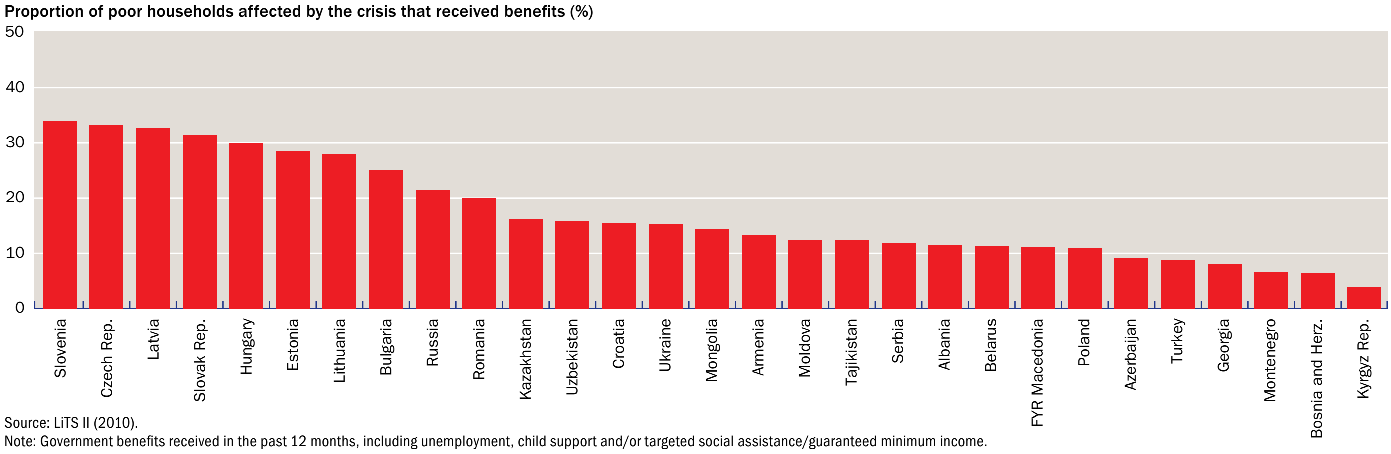
The most frequent coping mechanism used by households affected by the crisis was reducing the consumption of staple foods such as milk, fruit, vegetables or bread, closely followed by cutting the consumption of luxury goods (see Chart 1.7).[10]

Chart 1.7
Expenditure adjustments in the previous two years



Source: LiTS II (2010).

Chart 1.6
Coverage of four categories of government benefits



Source: LiTS II (2010).
Note: Government benefits received in the past 12 months, including unemployment, child support and/or targeted social assistance/guaranteed minimum income.
"Poor" households refer to the poorest third of households in every country as measured by consumption. Households affected by the crisis are those that reported being affected "a great deal" or "a fair amount".

[8]Pensions serve as a safety net and have broad coverage in some countries. In Armenia, Romania, Russia and Turkey, minimum pensions were significantly increased in 2009 to protect the poor (see World Bank 2011).
[9]The coverage of those affected by the crisis (based on the LiTS II subjective measure) is not equivalent to objective measures of coverage of the poor (as measured with administrative and household data).
[10]This could be in response to a combination of lower income (from labour market shocks) and food price inflation.

More than half of households affected "a great deal" or "a fair amount" reduced their staple food consumption, compared with 20 per cent among those unaffected by the crisis. Other frequent expenditure adjustments included delaying payments on utilities (29 per cent of affected households), cutting back on vacations (26 per cent), reducing spending on alcohol and tobacco (25 per cent) and cutting health expenditures (24 per cent). Seven per cent of households had their utilities disconnected because of delayed payment.

How did coping strategies vary by household type?

Coping strategies varied among different types of households (see Table 1.2).[11] Reducing the consumption of luxury goods was, for example, a less frequent adjustment strategy for poorer households because luxury goods represent only a small share of their usual consumption.

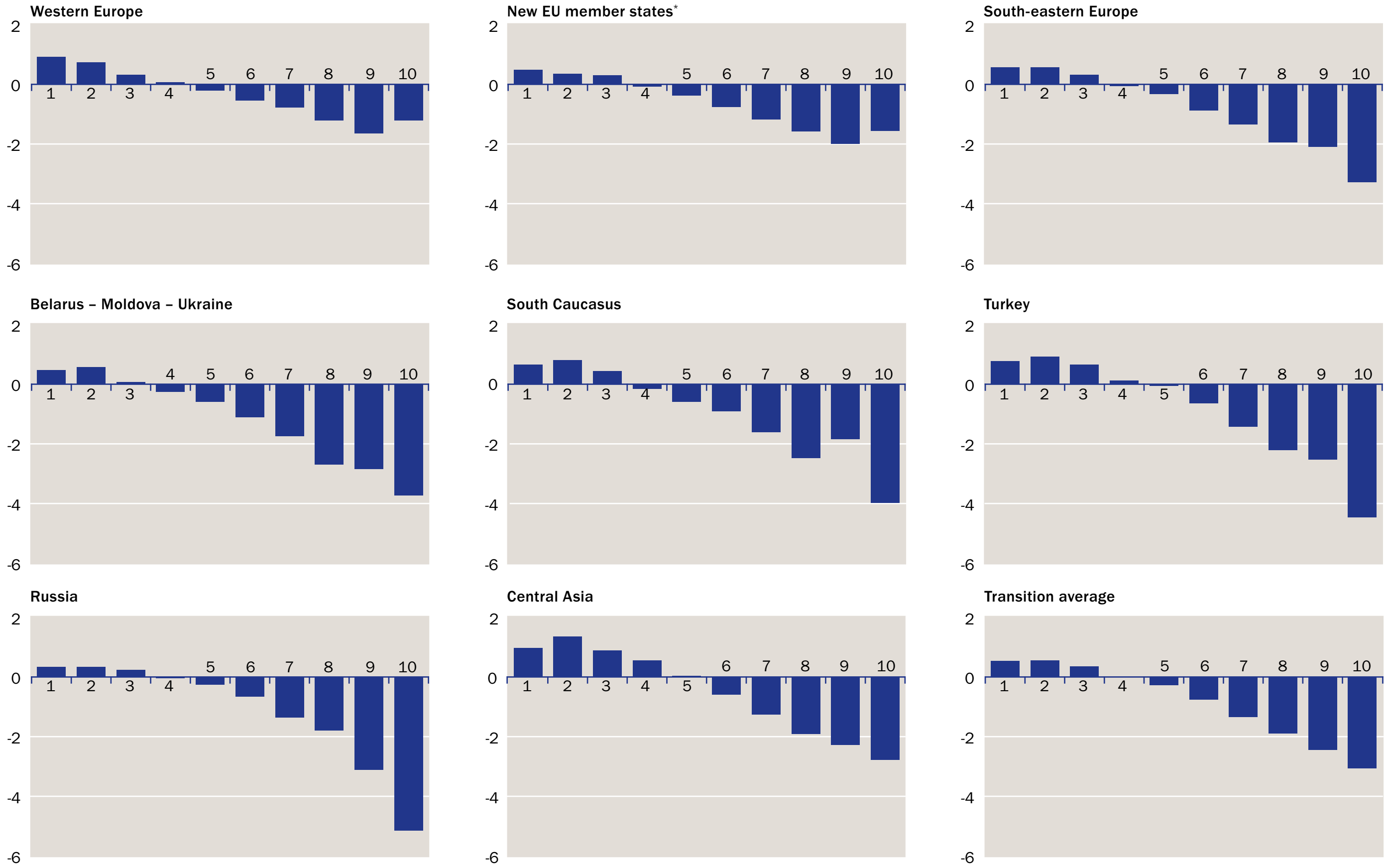
The poorest one-third of households are more likely to rely on reducing staple foods and health expenditures and using public safety nets. In contrast, households in the higher-consumption bracket are more likely to depend on active strategies, private safety nets and reducing non-essential expenditures. Middle-income households are less able to rely on active strategies and private safety nets without also having greater access to public safety nets. Consequently, these households also had to reduce their staple food and health expenditures.

Asset ownership,[12] like a higher income level, is associated with a greater ability to use active strategies and less reliance on passive strategies and public safety nets. Households with assets are better able to maintain their expenditures on staple foods and health, and can cope with a fall in income by reducing non-essential spending and using active strategies.

Despite their greater ability to access social safety nets (both public and private), female-headed households were not able to maintain their staple and health expenditures, which they had to reduce by more than the average household.

Chart 1.8
Perceptions of changes in social position

Average reported change in social position by reported position four years before



Source: LiTS II (2010).
Note: *Includes the countries of Central Europe and the Baltics, Bulgaria and Romania.
x-axis is household reported position on the 10-step ladder four years ago (relative income).
y-axis is the difference between the household reported position today and its reported position four years before.

[11] In this analysis, only the successful use of various strategies is measured. For example in the case of active strategies, only the success of a household in increasing the labour supply of its members is taken into account. It is not known if members sought additional work and failed.
[12] Ownership of a car, a secondary residence, a mobile phone or a computer.
[13] Most respondents believe that they are in the middle, regardless of their objective consumption level. The median position on the ladder is between step 4 (lower-consumption group) and step 5 (higher-consumption group).
[14] See Bourdieu (1979).

Impacts on social mobility, life satisfaction and perceptions of government performance

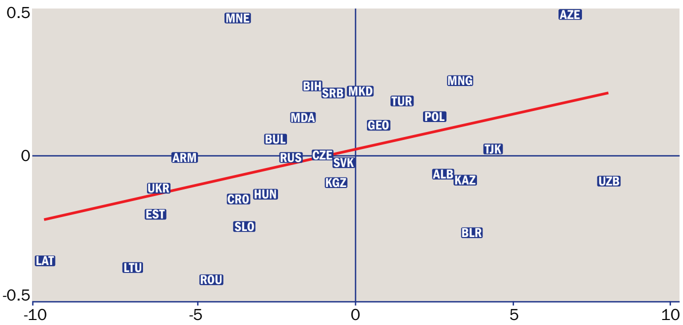
The crisis has impacted on other measures of well-being, such as relative income status and perceptions of social mobility, satisfaction with life and perceptions of government performance.

Social mobility

Respondents in LiTS II were asked to "imagine a 10-step ladder where on the bottom, the first step, stand the poorest 10 per cent of people in [their country] and on the highest step, the 10th, stand the richest 10 per cent of people in [the country]." They were then asked to state on which step of the 10-step ladder their household rests today, where it stood four years before and where it is likely to be in four years time. The stated position[13] can be interpreted as a subjective ranking of a household's social standing: it is (weakly) correlated to the measured consumption aggregate but, similar to class, it is better predicted by education and asset ownership.[14]

Chart 1.9
Crisis severity and changes in life satisfaction

Change in average life satisfaction (2006-2010)

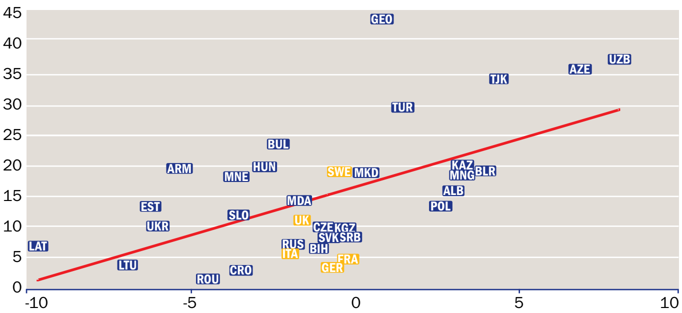


Average GDP growth in 2009-2010 (%)

Source: LiTS I (2006) and LiTS II (2010), IMF WEO (October 2010 Update).
Note: Regression line includes only the transition countries.
Change in average life satisfaction is the difference between the 2006 and 2010 average life satisfaction, measured on a 1-5 scale (see footnote 20).

Chart 1.10
Crisis severity and perceptions of national government performance

Performance rated as better than three years ago (per cent respondents)



Average GDP growth in 2009-2010 (%)

Source: LiTS II (2010), IMF WEO (October 2010 Update).
Note: Regression line includes only the transition countries.

Such subjective views of relative social standing are important because relative incomes are known to play a larger role in satisfaction with life or happiness than absolute incomes.[15] Respondents who place themselves at a higher point on the ladder have significantly greater life satisfaction than those who report lower positions. And social mobility matters for life satisfaction: those who think that they have slipped down the ladder over the previous few years are significantly less satisfied with life.

In all transition subregions, households on the lower steps of the ladder report small improvements in their position (compared to four years before), whereas those in the middle and at the top of the ladder are more likely to report large falls (see Chart 1.8). The higher a household considered itself to be four years before, the larger its perceived drop down the social ladder. This pattern may be explained by the fact that those at the top have more to lose, as those at the bottom cannot fall much in relative terms. However, it is also consistent with preliminary evidence based on household surveys, which suggests that consumption during the crisis increased slightly in many transition countries for the poorest ten percent of households and fell most for the richer households (and that inequality fell slightly).[16] In summary, although poor respondents report being affected by the crisis more than others, those at the top of the ladder report the highest falls in their relative standing (see Box 1.2).

Looking towards the future, households are moderately optimistic about the next four years and most (those who feel they rose and those who feel they fell on the social ladder) expect an improvement in their social position. Large shocks, both negative and positive, seem to be viewed as transitory, as those who believe that they fell furthest down the ladder expect a rebound and those who gained most in relative terms expect a slight fall. Such expectations may affect preferences regarding the role of the state in insuring and redistributing incomes as well as life satisfaction.[17]

Life satisfaction

Life satisfaction captures, at the individual or national level, many measures of well-being.[18] Changes in satisfaction with life at the country level are correlated with the severity of the crisis impact (see Chart 1.9).[19] Average (self-reported) satisfaction with life in the transition region has remained almost constant compared to 2006 levels (recorded in LiTS I), but this reflects different dynamics across countries. Satisfaction with life dropped in 16 countries and increased in 13. These changes are correlated with the severity of the 2009-10 economic contraction. The countries where average life satisfaction levels declined the most – Latvia, Lithuania and Romania – experienced severe recessions. Conversely, average satisfaction with life increased in countries that had higher growth – for example, Azerbaijan and Poland.[20]

[15]See Easterlin (1995). Kahneman et al. (2006) argue that the correlation between satisfaction with life and income results from a "focusing illusion" because the life evaluation question draws "people's attention to their relative standing in the distribution of material well-being."
[16]See Sulla (2011).
[17]The prospect of upward mobility may affect preferences for redistribution, as shown by Benabou and Ok (2001).
[18]See Layard (2005). Life satisfaction is correlated with income but not perfectly: in the LiTS II (2010), it is highest for some low income-countries (e.g., Tajikistan).
[19]Average satisfaction with life is measured as the simple average of answers of respondents to the statement "All things considered, I am satisfied with my life now" with the following coding: 1=strongly disagree, 2=disagree, 3=neither disagree nor agree, 4=agree, 5=strongly agree.
[20]See Deaton (2008), who shows using cross-country data that higher incomes are associated with higher satisfaction with life. However, he also finds that "economic growth is associated with lower reported levels of life satisfaction." Much of the literature has found that, within countries and over time, growth in income has not been associated with higher life satisfaction (the "Easterlin paradox") in the long run because of adaptation of material norms to higher incomes (see Easterlin 1995), although income changes may have transitory impacts on life satisfaction (see Di Tella et al. 2007).

But recent growth (or lack of it) is insufficient to explain differences in the evolution of satisfaction with life across countries, as satisfaction increased in many south-eastern European countries compared to 2006 levels. In terms of individual comparisons – within countries, and after taking into account such factors as consumption, relative income, employment, health status, education and so on – those who were affected by the crisis report significantly lower satisfaction with life than those who were not, and the greater the severity of the impact, the lower their satisfaction with life.

Perceptions of government performance

The severity of the downturn was associated with more negative perceptions of the evolution of government performance (see Chart 1.10). In countries where economic growth remained strong, such as Azerbaijan, Tajikistan and Uzbekistan, there was a belief that the overall performance of their national governments improved over the past three years. Taking into account differences across countries, consumption levels, receipt of government benefits and other demographic factors, those respondents who were affected "a great deal" were, on average, 11 per cent more likely than those unaffected to say that the overall government performance worsened in the previous three years.

Conclusion

The global economic crisis hit the households of transition countries in multiple ways. Subjective perceptions confirm the widespread impact, with two-thirds of respondents being affected. Households were affected primarily through the labour market by job losses and reduced wages and remittances.

Households coped using a combination of active and passive strategies and safety nets. The poorest one-third were forced to reduce their consumption of staple foods and health spending, and tended to depend on public safety nets. The wealthiest one-third, in contrast, cut spending on non-essentials, borrowed from friends and families and pursued active strategies, such as increasing their labour supply.

Transition countries differed significantly from the western European comparator countries in that a large proportion of their populations resorted to reducing their consumption of basic necessities during the crisis. Private safety nets and informal insurance mechanisms could not meet the shortfall in income and, in some cases, the reduction of informal transfers reinforced the impact of the crisis.

The severity of the impact also influenced life satisfaction and perceptions of government performance: the harder the impact, the lower the satisfaction level and the more negative the assessment of government performance. However, reflecting the complexity of the relationship between economic growth and happiness, satisfaction with life in 2010 was lower in 15 countries (and especially so in Latvia, Lithuania and Romania) and higher in 13 countries compared to 2006 levels.

Looking ahead, there is reason for hope. Despite the shocks, households expect an improvement in their social position over the next four years. Their experiences during the crisis suggest that more efficient and better-targeted safety nets and social insurance mechanisms could help sustain and spread the gains from anticipated future growth.

Table 1.1
Ordered probit results: subjective impact of crisis by household characteristics

	Transition average	New EU member states	South-eastern Europe	Belarus – Moldova – Ukraine	South Caucasus	Turkey	Russia	Central Asia	Western Europe
Household consumption group									
Lower	0.0901*** -0.0158	0.0996*** (0.0258)	-0.0334 (0.0344)	0.189*** (0.0532)	0.198*** (0.0538)	0.283*** (0.0906)	0.0369 (0.0775)	0.0459 (0.0457)	0.0959** (0.0390)
Middle	0.0562*** (0.0154)	0.0898*** (0.0251)	0.0563* (0.0336)	0.0785 (0.0510)	0.0938* (0.0513)	0.204** (0.0878)	-0.0111 (0.0762)	-0.00314 (0.0440)	-0.0555 (0.0376)
Upper	Reference category								
Location									
Metropolitan	0.129*** (0.0414)	0.0382 (0.0452)		0.0159 (0.0978)	0.314*** (0.0590)		0.162 (0.115)	-0.0437 (0.0884)	-0.147*** (0.0525)
Urban	-0.0345 (0.0284)	0.0675** (0.0318)	0.124*** (0.0329)	0.112* (0.0612)	0.266*** (0.0555)	-0.0585 (0.0881)	-0.224*** (0.0780)	0.102** (0.0492)	-0.136*** (0.0401)
Rural	Reference category								
Assets									
Own a car	-0.0655*** (0.0144)	-0.118*** (0.0250)	-0.118*** (0.0318)	-0.0575 (0.0490)	-0.114** (0.0478)	-0.0301 (0.0815)	-0.0988 (0.0682)	0.0163 (0.0401)	0.162*** (0.0472)
Own a secondary residence	-0.0478* (0.0272)	-0.0781* (0.0421)	-0.103** (0.0469)	0.163* (0.0982)	-0.111 (0.103)	0.0564 (0.156)	-0.0913 (0.134)	-0.258*** (0.0998)	-0.109** (0.0545)
Have a bank account	-0.241*** (0.0162)	-0.228*** (0.0275)	-0.248*** (0.0296)	-0.228*** (0.0743)	-0.310*** (0.112)	-0.333*** (0.0747)	-0.152** (0.0746)	-0.0814 (0.0880)	-0.288*** (0.0767)
Own a mobile phone and/or a computer	0.0946*** (0.0218)	0.133*** (0.0335)	0.0600 (0.0443)	0.243*** (0.0670)	0.0779 (0.0797)	-0.427*** (0.147)	0.232* (0.121)	0.0335 (0.0529)	0.124** (0.0617)
Main source of livelihood of household									
Salary or wages in cash or kind	Reference category								
Income from self-employment	0.0484** (0.0212)	0.110*** (0.0411)	0.0237 (0.0402)	0.123 (0.0798)	0.0889 (0.0544)	0.141 (0.0886)	-0.00784 (0.144)	0.0298 (0.0503)	0.217*** (0.0584)
Sales or bartering of farm products	-0.112*** (0.0432)	0.228*** (0.0749)	0.130** (0.0647)	-0.0620 (0.163)	0.0240 (0.0954)	-0.269 (0.356)	-0.817 (0.709)	-0.119* (0.0655)	0.0871 (0.463)
Pensions	-0.171*** (0.0208)	-0.150*** (0.0354)	0.0393 (0.0420)	-0.207*** (0.0657)	0.120* (0.0659)	0.0120 (0.115)	-0.407*** (0.110)	0.0250 (0.0656)	-0.0164 (0.0579)
Benefits from the state	0.354*** (0.0559)	0.570*** (0.0794)	0.340*** (0.112)	0.126 (0.177)	0.0907 (0.133)	-0.170 (0.341)	0.884** (0.365)	0.397** (0.179)	0.189*** (0.0698)
Help from relatives or friends	0.0100 (0.0452)	0.290*** (0.0893)	0.0443 (0.0677)	0.237* (0.128)	0.0830 (0.0921)	-0.336 (0.272)	-0.447 (0.323)	0.203** (0.0958)	0.432* (0.225)
Other	0.103 (0.0652)	0.206 (0.146)	0.394 (0.425)	0.0130 (0.316)	0.426** (0.174)	-0.00700 (0.218)	0.205 (0.370)	0.0641 (0.192)	0.0744 (0.155)
Age of household head									
18-24	Reference category								
25-34	0.100*** (0.0288)	0.00889 (0.0562)	0.0937 (0.0984)	0.269** (0.124)	-0.0214 (0.101)	0.113 (0.125)	0.151 (0.124)	0.114 (0.121)	0.156 (0.120)
35-44	0.225*** (0.0289)	0.191*** (0.0564)	0.176* (0.0971)	0.416*** (0.124)	0.141 (0.101)	0.248* (0.129)	0.262** (0.123)	0.186 (0.118)	0.171 (0.116)
45-54	0.270*** (0.0294)	0.269*** (0.0566)	0.254*** (0.0955)	0.379*** (0.125)	0.253*** (0.0963)	0.306** (0.150)	0.261** (0.125)	0.264** (0.118)	0.265** (0.116)
55-64	0.106*** (0.0314)	0.109* (0.0588)	0.195** (0.0965)	0.319** (0.128)	0.232** (0.103)	0.0326 (0.174)	0.0655 (0.139)	0.159 (0.122)	0.107 (0.120)
65+	-0.115*** (0.0344)	-0.0401 (0.0630)	0.0215 (0.0993)	0.120 (0.138)	0.112 (0.109)	-0.443* (0.226)	-0.159 (0.159)	0.0839 (0.129)	-0.274** (0.125)
Female-headed household	0.00249 (0.0138)	0.0601*** (0.0213)	-0.0234 (0.0333)	-0.111*** (0.0423)	0.0107 (0.0433)	0.124 (0.112)	-0.00898 (0.0649)	0.0743* (0.0394)	0.0512 (0.0340)
cut 1	-0.612*** (0.0799)	-0.840*** (0.0975)	-0.345*** (0.118)	-0.279* (0.149)	-0.0526 (0.150)	-0.724*** (0.198)	-0.238 (0.187)	-0.479*** (0.154)	-0.0172 (0.165)
cut 2	0.0731 (0.0798)	-0.0738 (0.0971)	0.0100 (0.117)	0.442*** (0.149)	0.320** (0.150)	-0.167 (0.197)	0.523*** (0.188)	0.285* (0.153)	0.876*** (0.166)
cut 3	0.899*** (0.0803)	0.851*** (0.0976)	0.825*** (0.117)	1.264*** (0.150)	1.330*** (0.151)	0.595*** (0.199)	1.340*** (0.192)	0.994*** (0.153)	1.893*** (0.168)
Observations	**30,642**	**11,321**	**6,611**	**2,819**	**2,783**	**971**	**1,357**	**3,803**	**5,307**
Pseudo R-squared	**0.0395**	**0.0636**	**0.0180**	**0.0211**	**0.0148**	**0.0260**	**0.0401**	**0.0226**	**0.0825**

Source: LiTS II (2010).
Note: Standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1 Country-level dummies not shown.

Table 1.2
Likelihood of household coping mechanisms
(Simultaneous probit model, estimated by simulated maximum likelihood)

	Transition countries - All households					Transition countries - Households reporting being affected by the crisis				
	Active	Social safety nets - private	Social safety nets - public	Passive - staple and health expend.	Passive - other expenditure	Active	Social safety nets - private	Social safety nets - public	Passive - staple and health expend.	Passive - other expenditure
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Consumption group										
Lower	-0.0801* (0.0434)	-0.161*** (0.0388)	0.0800* (0.0468)	0.0377 (0.0373)	-0.236*** (0.0372)	-0.106* (0.0589)	-0.141*** (0.0541)	0.0173 (0.0662)	0.125** (0.0548)	-0.214*** (0.0583)
Middle	-0.0877** (0.0420)	-0.156*** (0.0368)	-0.00444 (0.0454)	0.0374 (0.0358)	-0.0556 (0.0356)	-0.184*** (0.0581)	-0.134*** (0.0520)	-0.0908 (0.0643)	0.0917* (0.0529)	-0.0142 (0.0574)
Upper	Reference category					Reference category				
Affected by crisis (self-reported)	0.549*** (0.0361)	0.454*** (0.0315)	0.211*** (0.0377)	0.891*** (0.0306)	0.574*** (0.0305)					
Female-headed household	0.0551 (0.0364)	0.0310 (0.0321)	0.171*** (0.0380)	0.129*** (0.0313)	0.00694 (0.0307)	0.0452 (0.0487)	0.117*** (0.0450)	0.161*** (0.0534)	0.167*** (0.0474)	-0.0115 (0.0475)
Location										
Rural	Reference category					Reference category				
Metropolitan	-0.0479 (0.0621)	-0.0419 (0.0538)	0.0497 (0.0643)	-0.0526 (0.0524)	0.0665 (0.0509)	-0.250*** (0.0871)	0.00242 (0.0765)	0.152 (0.0941)	0.00844 (0.0816)	0.0466 (0.0798)
Urban	0.0251 (0.0378)	-0.0315 (0.0343)	-0.125*** (0.0407)	0.0197 (0.0332)	0.120*** (0.0327)	-0.0501 (0.0522)	0.0559 (0.0482)	-0.0801 (0.0568)	-0.0220 (0.0497)	0.135*** (0.0518)
Household size	0.0268** (0.0124)	0.0755*** (0.0109)	0.164*** (0.0128)	0.0187* (0.0108)	0.0183* (0.0107)	0.00668 (0.0169)	0.0688*** (0.0151)	0.159*** (0.0177)	-0.000682 (0.0156)	0.0254 (0.0162)
Assets										
Own a car	0.0679* (0.0387)	-0.115*** (0.0350)	-0.212*** (0.0420)	-0.265*** (0.0335)	0.0978*** (0.0335)	0.104** (0.0509)	-0.157*** (0.0481)	-0.132** (0.0599)	-0.214*** (0.0495)	0.334*** (0.0514)
Own a secondary residence	0.162** (0.0700)	0.139** (0.0634)	-0.132* (0.0783)	-0.120* (0.0631)	0.0499 (0.0599)	0.201** (0.0959)	0.151* (0.0883)	-0.132 (0.108)	-0.155* (0.0888)	0.187* (0.0987)
Have a bank account	0.0426 (0.0466)	-0.0894** (0.0418)	0.0412 (0.0514)	-0.113*** (0.0393)	0.222*** (0.0391)	0.0955 (0.0627)	-0.0794 (0.0566)	-0.0359 (0.0707)	-0.110* (0.0570)	0.362*** (0.0611)
Own a mobile phone and/or a computer	0.161*** (0.0552)	0.0843* (0.0503)	-0.0729 (0.0609)	-0.143*** (0.0474)	0.178*** (0.0448)	0.127* (0.0774)	0.128* (0.0689)	-0.175** (0.0793)	-0.166** (0.0699)	0.144** (0.0661)
Age of household head										
18-24	Reference category					Reference category				
25-34	0.0694 (0.0767)	0.00478 (0.0701)	0.103 (0.0805)	0.170** (0.0699)	0.0307 (0.0682)	0.134 (0.114)	0.0627 (0.108)	0.179 (0.127)	0.0963 (0.112)	-0.108 (0.119)
35-44	0.0332 (0.0772)	-0.0270 (0.0704)	-0.0340 (0.0812)	0.192*** (0.0691)	0.0353 (0.0684)	0.0406 (0.112)	0.0249 (0.106)	0.0308 (0.126)	0.178 (0.110)	-0.211* (0.117)
45-54	-0.0315 (0.0770)	-0.106 (0.0707)	-0.225*** (0.0839)	0.184*** (0.0696)	-0.0132 (0.0681)	3.85e-05 (0.112)	-0.0699 (0.106)	-0.206 (0.128)	0.150 (0.109)	-0.123 -0.117
55-64	-0.195** (0.0762)	-0.309*** (0.0701)	-0.274*** (0.0827)	0.216*** (0.0689)	-0.0906 (0.0671)	-0.100 (0.112)	-0.320*** (0.105)	-0.261** (0.127)	0.0760 (0.109)	-0.256** (0.116)
65+	-0.457*** (0.0853)	-0.573*** (0.0762)	-0.219** (0.0915)	0.250*** (0.0741)	-0.357*** (0.0709)	-0.360*** (0.123)	-0.525*** (0.113)	-0.365*** (0.136)	0.106 (0.115)	-0.411*** (0.121)
Constant	-1.643*** (0.111)	-1.118*** (0.0998)	-2.033*** (0.125)	-0.488*** (0.0971)	0.0807 (0.0948)	-1.055*** (0.151)	-0.748*** (0.138)	-1.644*** (0.172)	0.306** (0.141)	0.737*** (0.150)
Observations	**30,642**	**30,642**	**30,642**	**30,642**	**30,642**	**15,152**	**15,152**	**15,152**	**15,152**	**15,152**
p	p21=.0955***, p31=.0208, p41=.158***, p51=.159***, p32=.121***, p42=.213***, p52=.141***, p43=.0651, p53=.0474***, p54=.407***					p21=0.0995***, p31=-.008057, p41=.0844***, p51=.0102***, p32=.143***, p42=.219***, p52=.135***, p43=.0567**, p53=.0499, p54=.285***				

Source: LiTS II (2010).
Note: Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1. Country-level dummies not shown.
Affected by the crisis: respondents declaring their household were affected “a great deal” or “a fair amount”.

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