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Public Programs Helped Families Weather Global Financial Crisis in Eastern Europe and Central Asia

New World Bank study identifies actions to improve responses to future crises

WASHINGTON, March 8, 2011 – Governments' responses helped many families in Eastern Europe and Central Asia to navigate the global economic crisis through a variety of initiatives, including unemployment benefits, public works programs, and in some cases, last resort social assistance programs, states a new World Bank report released in Washington today. However, these initiatives only reached a minority of the families affected by the crisis.

Based on specialized crisis response surveys and government monitoring data, the report, '*The Jobs Crisis: Household and Government Responses to the Great Recession in Eastern Europe and Central Asia*', concludes that the crisis' effects were, and continue to be, more acutely felt in Eastern European and Central Asian countries than in any other region in the world.

Although triggered by tightened credit markets, the crisis brought massive labor market shocks to the region. Registered unemployment in 27 Eastern European and Central Asian countries increased from 9.4 to 12.2 million between December 2008 and December 2009. In Russia, Turkey and Ukraine unemployment increased by around 30 percent between 2008 and 2009. Youth unemployment also rose sharply, with up to a third of young people unable to find work in some countries. Workers who kept their jobs took home smaller paychecks as employers offered lower hourly wage rates or fewer work hours. Worker benefits were also reduced or cut.

These effects were felt among poorer households which often did not have the required savings to cushion the impact of the crisis. Consequently, family well-being was threatened as families bought less and cheaper food. Families' health care expenditures were also markedly reduced. Crisis-affected households in Armenia, Bulgaria and Montenegro, for example, reduced preventive and other doctor visits and prescription drug use significantly.

"Families made significant adjustments during the economic crisis," says M. Ihsan Ajwad, World Bank Senior Economist in the Europe and Central Asia Region and lead author of the report. "While private food and health expenditures declined in many instances, families made every effort and most often successfully protected school attendance of their children and related expenses."

Governments in Eastern Europe and Central Asia played a crucial role in reducing the effects of the crisis on household incomes, the report notes. In close to a third of countries in the region, unemployment benefits were among the first to reach crisis affected households. But, unemployment insurance coverage varied across countries, in some cases leaving many households to fend for themselves after the breadwinner lost his or her job. In Armenia, Kazakhstan, Latvia and Russia, governments responded by implementing public works projects and increasing public investment to boost hiring, while Turkey focused

on reducing barriers to hiring women and youth. Still others focused on expanding access to training or retraining.

And despite immense fiscal pressures, governments in the region reduced education and health budgets less than their overall GDP contractions – in an attempt to ensure that basic services for poor people were not cut drastically.

The report also points to improvements that can be made to crisis responses in the region. The report calls for revamping policy instruments to make them timely and targeted. In particular, it calls on regional governments to:

- **Strengthen automatic stabilizers** – Ensure unemployment insurance and social assistance programs have broader coverage, centralize social assistance financing, and upgrade program administration by automating processes;
- **Adjust program parameters to reflect changing conditions** – By adjusting policies during crises, governments can see improved responses; for example, by lengthening the duration of unemployment insurance benefit payouts when jobs are scarce;
- **Activate new programs to fill coverage gaps** – When existing safety nets cannot respond fully, new programs can be started to reach uncovered vulnerable people. Public works, for example, can be an effective labor market program during shocks because it creates jobs while also addressing small-scale infrastructure development goals.

“Countries can benefit from tilting the policy balance toward more pre-crisis preparation from the current emphasis on post-crisis reaction,” says **Jesko Hentschel, Sector Manager in the Human Development Department in the World Bank’s Europe and Central Asia Region.**

The report also underlines the need for fiscal discipline during good times and reliable and timely monitoring systems to enable an efficient and flexible crisis response.

Contacts:

In Washington: Dorota Kowalska, (202) 473-2676, dkowalska@worldbank.org

For Broadcast Requests: Natalia Cieslik, (202) 458-9369, ncieslik@worldbank.org

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