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20 Effects of COVID-19-related economic support on household financial distress

Key points

- The COVID-19 restrictions affected households differently depending on the employment status of their members.
- Governments implemented a variety of financial support measures to alleviate the economic impact of COVID-19 restrictions.
- We show that financial support measures were effective in reducing the financial distress of households hit by job interruptions during the first wave of the pandemic.

1 Introduction

The COVID-19 pandemic had a major impact on people's lives, changing the social behaviours and the economic conditions of most individuals. These changes were mainly due to the pandemic-related restrictions implemented by governments to limit the spread of the virus, such as social distancing requirements, mask mandates, mobility restrictions, and even lockdowns.

The effects of these COVID-19-related measures had heterogeneous economic effects on the population, depending on people's job type and job sector, their education, and other factors. Using data from the first SHARE Corona survey, Bertoni et al. (2021) showed that these effects varied with the age and the employment status of individuals, with large differences being found between older and younger people.

Given the exceptional nature of the measures used to limit the spread of the virus, and the large social and economic effects of these policies, most governments implemented extraordinary financial support programs to compensate both households and businesses for their losses. While the support programs different countries introduced varied, most included measures such as the postponement of taxes, tax cuts, and income subsidies. Simulations by Almeida (2021) showed that these economic support policies reduced the average drop in household income from 9.3% to 4.3%.

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Recent papers on the pandemic, like Bonfatti et al. (2021), concluded that age played a protective role in household financial distress, because older individuals across Europe could rely on public pensions. Households whose members were still in the workforce were more likely to face economic difficulties, especially if they experienced job interruptions or reductions in their weekly working hours.

This chapter investigates the effectiveness of these financial support policies in reducing the financial distress of Europeans aged 50 or older during the pandemic. It contributes to the existing literature in two different ways: it presents cross-country evidence on the variation in household financial distress across Europe (plus Israel), and on the effects of government support policies on the finances of a cross-section of households over a reasonably long period of the pandemic.

The main results show that the households who experienced job interruptions during the first wave of the pandemic were more likely to benefit from financial support received between August 2020 and August 2021. Moreover, the results of the econometric analyses indicate that the financial distress of these households was significantly alleviated by financial support policies. These findings suggest that the governments' plans were well-targeted and effective.

2 Data

We use data from Waves 7 and 8 of SHARE, and from the first and the second SHARE Corona survey (from now on: SCS1 and SCS2), which were conducted in June-August 2020 and June-August 2021, respectively. We focus on the subsample of individuals who participated in both waves of the SHARE Corona survey, and do not present missing values for any of the variables involved in our econometric study. Our final sample is composed of 26,836 households.

Household financial distress during the pandemic

Our analyses focus on the effect of government financial support reported in the SCS2 on the change in the financial distress of households between the two waves of the SCS.

We construct the financial distress index (FDI) of Bonfatti et al. (2021) for each SCS, and then take its difference (ΔFDI) across waves. FDI is the sum of three dummy variables: one variable indicating whether the household reported having difficulties making ends meet; a second variable indicating whether the household experienced a reduction in income during the pandemic (defined as in

Bethmann and Schumacher – this book); and a third variable indicating whether the household postponed regular payments during the pandemic. Thus, the FDI can take values between zero and three, with a higher value representing a higher level of financial difficulty. In measuring the change in financial distress, ΔFDI takes values between −3 and +3, with a positive value denoting a worsening of the household's situation.

We also construct a financial support indicator. In the SCS2, individuals reported whether they had benefited from COVID-19-related financial support programs since the SCS1. We define a household-level binary variable that takes the value of one if at least one household member received any such support from the government.

Finally, we focus on the work-related conditions of households, using information on any job interruptions the household members experienced during the pandemic. In the SCS1, individuals who were employed at the outbreak of the pandemic reported whether they became unemployed, were laid off, or had to close their business due to the COVID-19 crisis. We construct a household-level binary indicator that identifies whether at least one household member had experienced a job interruption (or job loss) at the time of the SCS1.

Government financial support and household financial distress across Europe

Figure 1 shows the share of households who reported benefitting from financial support policies related to the COVID-19 pandemic in the SCS2, by country and number of job interruption episodes reported in the SCS1. With some notable exceptions (Latvia, Israel, Croatia, Bulgaria, and Slovenia) households who did not experience a job interruption did not receive financial support. However, Figure 1 shows that households who reported having lost a job in the SCS1 were more likely to receive financial support in the period covered by the SCS2. These results highlight that these policies were mainly targeted to the working-age population (an exception was Hungary, where very few respondents reported receiving financial support).

Figure 2 compares the percentages of households who experienced a deterioration (dark orange bars) or an improvement (light orange bars) in their financial situation, by country. These shares are based on the sign taken by the ΔFDI variable described above (dark orange refers to ΔFDI > 0; light orange refers to ΔFDI < 0).

Overall, the share of households whose financial situation improved was higher across all of Europe, with some exceptions in Mediterranean and Eastern European countries (e.g., Italy, Malta, Cyprus, Bulgaria, and Slovenia). These dif-

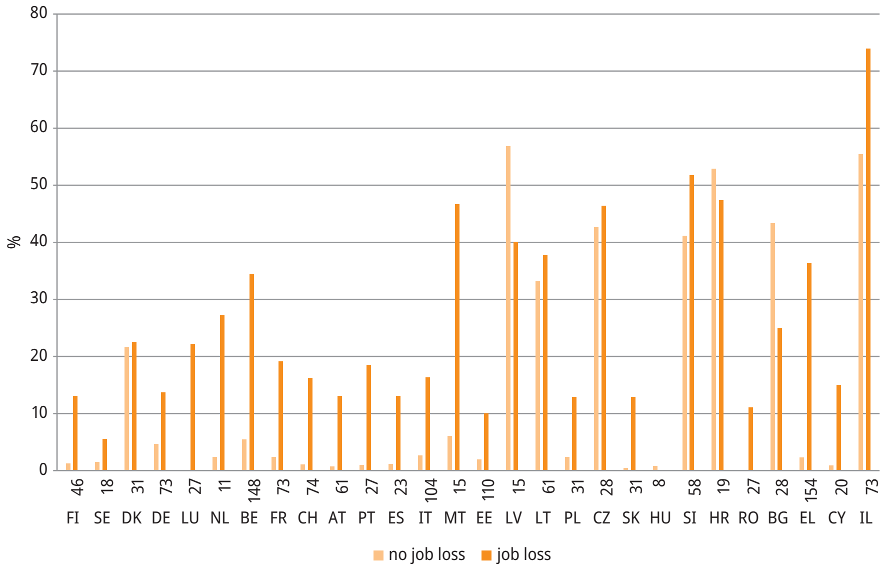

Figure 1: Percentage of households receiving financial support, by country and work-related conditions.
Source: SHARE Corona (W1 & W2), release 8.0.0.

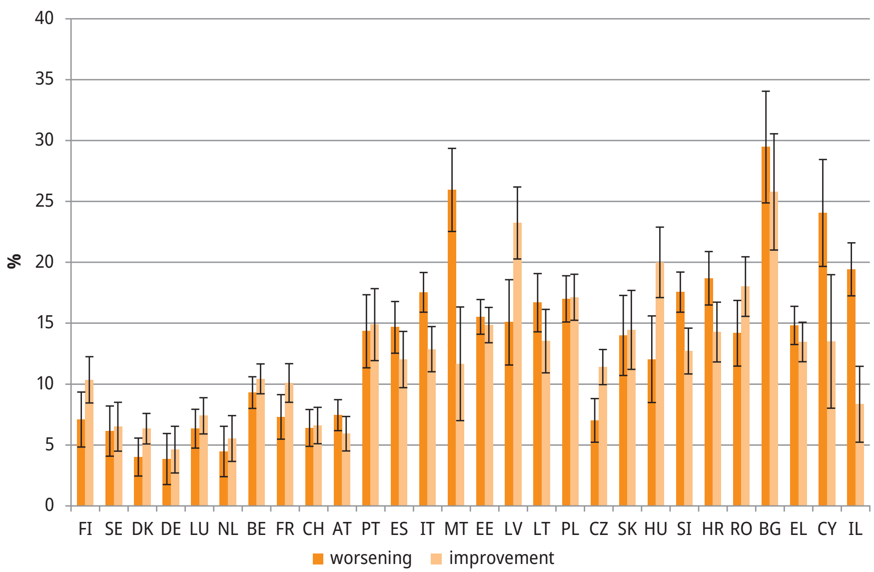

Figure 2: FDI variation between SCS1 and SCS2, by country.
Source: SHARE Corona (W1 & W2), release 8.0.0.

ferences may be attributable in part to the differences in the pandemic conditions and the containment policies implemented in these countries.

3 Results

This section investigates the effects of financial support policies on household FDI. We focus on the variation in FDI (ΔFDI) among those households who reported having job loss episodes in the SCS1 and receiving financial support from COVID-19-related policies in the SCS2.

Figure 3 gives an overview of the households' FDI distribution in the SCS2 by work status in the SCS1 across groups of countries (Nordic: Finland, Sweden, Denmark; Central: Belgium, Netherlands, Germany, Austria, Switzerland, Luxemburg, France; Mediterranean: Portugal, Spain, Italy, Malta, Greece, Cyprus, Israel; Eastern: Slovenia, Croatia, Hungary, Slovakia, Czech Republic, Romania, Bulgaria, Po-

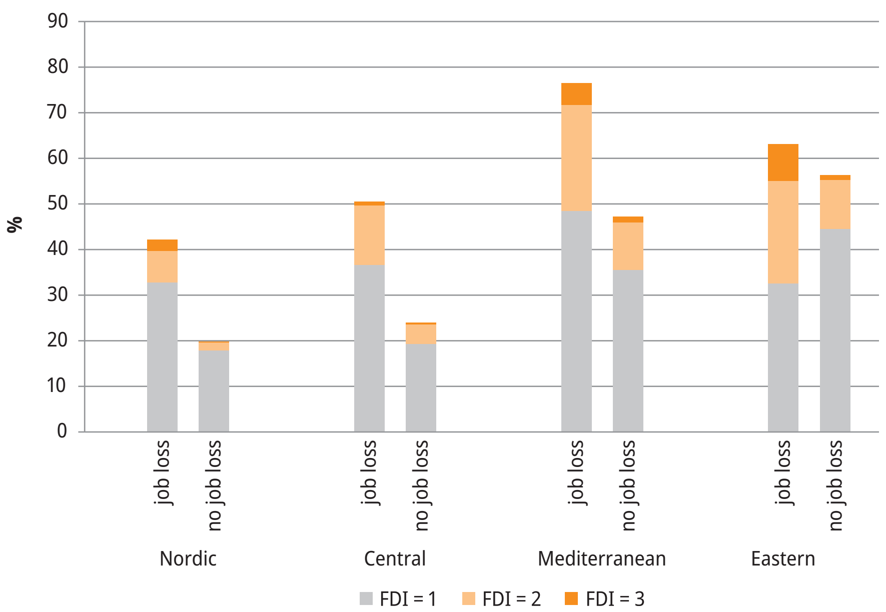

Figure 3: Distribution of household FDI by country location and job interruption status in SCS1.
Notes: *Nordic*: Finland, Sweden, Denmark; *Central*: Belgium, Netherlands, Germany, Austria, Switzerland, Luxemburg, France; *Mediterranean*: Portugal, Spain, Italy, Malta, Greece, Cyprus, Israel; *East*: Slovenia, Croatia, Hungary, Slovakia, Czech Republic, Romania, Bulgaria, Poland, Estonia, Latvia, Lithuania.
Source: SHARE Corona (W1 & W2), release 8.0.0.

land, Estonia, Latvia, Lithuania). There are two columns for each group: the first represents the FDI distribution among households who reported experiencing a job loss in the SCS1, while the second represents the FDI of the rest of the population. Figure 3 shows that those households who reported having a job loss in the SCS1 were more likely to experience financial difficulties, and that their financial difficulties were more severe. There was some regional variability. We see, for example, that non-negligible shares of households with job losses in the Mediterranean and Eastern European countries had an FDI index equal to three.

However, the main result of the analysis is that households' employment conditions played a crucial role in determining their FDI across all countries. Therefore, to better understand the effects of financial support policies on the ΔFDI, we focus on the question of whether households had a job interruption episode.

Table 1 shows the share of the population across Europe who reported receiving financial support in the SCS2 by their work-related status in the SCS1. For households who had experienced a job interruption, their probability of receiving financial support from the government was 24.4%, or about double that for households who did not have a job interruption episode. Hence, we conclude that the work-related conditions of households played a crucial role in the assignment of economic subsidies.

Table 1: Share of households who reported receiving government financial support in the SCS2 by whether they reported experiencing a job interruption in the SCS1.

Job interruption in SCS1	
Yes	No
24.4%	12.89%

Source: SHARE Corona (W1 & W2), release 8.0.0.

To better understand the efficacy of government financial support policies, we compare the average ΔFDI by whether the household reported receiving economic support in the SCS2, and conditioning on the household's work-related conditions in the SCS1.

First, we regress ΔFDI on a set of controls – namely, country, age, pre-pandemic income, and education – to filter out the effects of these variables. We then conduct the analysis using the residual of that regression. Table 2 shows the average of the residual ΔFDI for four groups identified as having

Table 2: Average residual ΔFDI by whether households reported receiving government financial support in the SCS2 and experiencing a job interruption in the SCS1.

ΔFDI		**Financial Support SCS2**	
		No	**Yes**
Job LossSCS1	No	−0.138	−0.159
	Yes	−0.175	−0.216

Source: SHARE Corona (W1 & W2), release 8.0.0.

experienced a job loss in the SCS1, and as having received government financial support in the SCS2.

Table 2 shows that those households who received financial support experienced an improvement in their financial conditions that was greater than those who did not receive it. The differences between the average ΔFDI of the households who did or did not receive financial support were 0.041 and 0.021, respectively, for households who did or did not report experiencing a job loss episode in the SCS1. These differences were both statistically significant (p-value = 0.00) and larger among those who reported experiencing a job interruption in the SCS1. Therefore, it appears that government financial support policies reduced household financial distress and were more effective among those households who reported experiencing a job interruption in the SCS1.

4 Conclusions

We presented an overview of the relationship between financial support policies and the financial conditions of Europeans aged 50 or older. We defined a financial distress indicator based on the ability of households to make ends meet, whether they experienced an income reduction during the first wave of the pandemic, and their need to postpone payments. Then, we studied the determinants of the variation in this indicator between SHARE Corona survey waves.

Our analysis of the effects of financial support policies on households' employment status and financial distress produced two main results. First, the financial support programs implemented by European governments were well-targeted, as the households who experienced a job interruption were more likely to receive subsidies. Second, the financial support provided by governments was effective in reducing household financial distress, especially among those households who reported experiencing a job interruption in the SCS1.

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