

# Recov19 Index

EMEA

May 27, 2021



# The COVID-19 pandemic has triggered the largest global economic contraction since the Great Depression



Governments are faced with the daunting task of devising policy responses to problems that interconnect and intersect in uncertain but significant ways.



Public health is inevitably a key point of analysis for almost every measure. The short and the long-term needs and consequences are to be pondered and balanced in conditions of high (modelling and informational) uncertainty.



The mounting needs for support and assistance, both to families and firms, requires paying attention to the a priori efficiency and cost-effectiveness of the measures under consideration. It also requires selecting beneficiaries with very limited information.

**In such a situation, it can be useful to formulate logical and quantitative frameworks that can provide a reference point for policy analysis**

# The COVID-19 pandemic affects the economy through many different channels



## Supply

The crisis places stringent restrictions on the use of labor as it affects its availability and the division and specialization of tasks and activities and limits the cooperation with capital.



## Demand

COVID-19 introduces significant transaction costs that limits demand, particularly for services that require personal interaction, while also contracting aggregate demand.



## Financial conditions

Financial conditions have deteriorated sharply given the increased probability of bankruptcy among firms and the contraction in household income. The high uncertainty might cause banks to limit access to credit for the economy.



## International Trade & Tourism

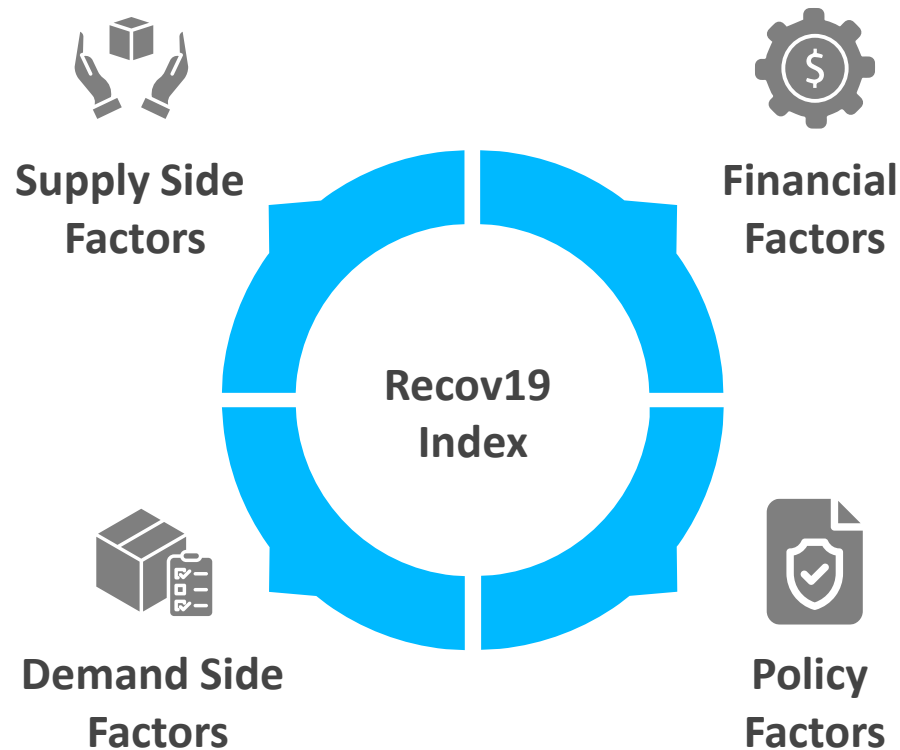
While the tourism sector might be the most directly affected, the economic impact of the pandemic will also cause international trade activity to decrease.



## Policy

Much of the way in which the impacts of COVID-19 are mediated to the economy are determined by the policy response of governments. A significant portion of these measures is going to impose substantial fiscal costs, while others involve very active (conventional and unconventional) monetary policies.

# The Recov19 Framework



The Recov19 framework as developed by the Inter-American Development Bank.

The premise of the framework is to identify key channels mediating the effects of COVID-19 on economic activity and use harmonized data to deliver quantitative measures with a clear economic rationale, which are then assessed against key variables (such as growth, unemployment, and employment-growth elasticities).

The factors to consider are grouped in four categories: supply factors, demand factors, financial conditions, and policy space.

These four factors are then aggregated into a composite index deemed to be a summary representation of the initial economic recovery potential (how favorable initial conditions are to support a future economic recovery).

# Supply Side Factors



The limitations on the provision of labor services is a key element mediating the economic effects of the pandemic

There are multiple approaches that are being implemented to reduce the risk of contagion while working, such as teleworking, and other measures to increase physical distance among workers.

Labor will have to be relocated (within their own firms or to other firms in the same or different sector) and wages will have to be adjusted (increased or decreased).

Other important considerations are the framework that allows the liquidation of inviable firms (while promoting the continuation of viable ones) and the connectivity environment to enable the switch to teleworking.

The framework considers the following factors, with the number of variables per factor in parenthesis:

- Wage flexibility (1)
- Firm-level labor flexibility (3)
- Sector-level labor flexibility (3)
- Physical distancing at the workplace (2),
- Telework potential (1),
- Connectivity environment (7)
- Insolvency framework (1).

# Demand Side Factors



The demand-side factors are the other channel that directly mediates the effect of COVID-19 on the economy.

One way to view the economic implications from a demand-side perspective, is to think of the virus as introducing a transaction costs in the acquisition of good and services.

The pandemic has caused severe aggregated demand shortages, due to the reduction of economic activity

Additionally, there are other two channels to be considered. One is international trade, which according to WTO estimates, is expected to contract by 32% in 2020, and the prospects of recovery may be affected by the implementation of trade restrictions aimed at redirecting domestic demand towards domestic goods and services.

The other channel is tourism, since it is the sector where the effects of increased transaction costs were felt more severely.

The framework considers the following factors, with the number of variables per factor in parenthesis:

- Market Size (1)
- Share of international tourism receipts in GDP (1)
- Expected growth shock (1)

# Financial Factors



The shocks in demand and supply caused by the pandemic have also affected the financial conditions across the global economy.

The initial effects go from the real sector to the financial sector, by putting stress in the bank's balance sheets and increasing uncertainty about the risk and returns distribution across economic sector, among other effects.

The better the initial conditions (pre-pandemic), particularly in terms of liquidity, solvency, and efficiency, the better the position of the financial sector to absorb the shocks coming from the real sector.

Other important factors to consider are the interactions of financial sector with the real side of the economy, and the efficiency in the recovery of capital, given the high number of bankruptcies caused by the pandemic.

The framework considers the following factors, with the number of variables per factor in parenthesis:

- Domestic credit relative to GDP (1)
- Stock market capitalization relative to GDP (1)
- Strength of auditing and accounting standards (1)
- Financing for SMEs (1)
- Rate of non-performing loans (1)
- Insolvency recovery rate (1).

# Policy Factors



Policy responses from government are a very crucial determinant on the way the impacts of COVID-19 mediate into the economy.

Policy decisions such as quarantines, lockdowns and other restrictions are determined by governments. Some of these policies entail very significant fiscal costs, while others involve active monetary policies.

The policy space to implement these policies is a key element in establishing the conditions for recovery.

The framework considers the following factors, with the number of variables per factor in parenthesis:

- Per capita GDP (1)
- Consumer price inflation(1)
- Government debt relative to GDP (1)
- Debt dynamics (3)



# EMEA – Average Regional Scores



**Recov19  
Index**



**Supply Side  
Factors**



**Demand Side  
Factors**



**Financial  
Factors**



**Policy  
Factors**

## Middle East & Africa



4.85

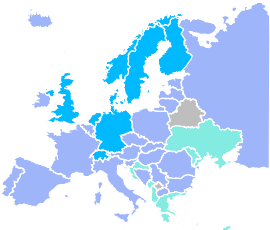
4.78

6.12

4.08

4.44

## Europe



6.04

6.45

4.78

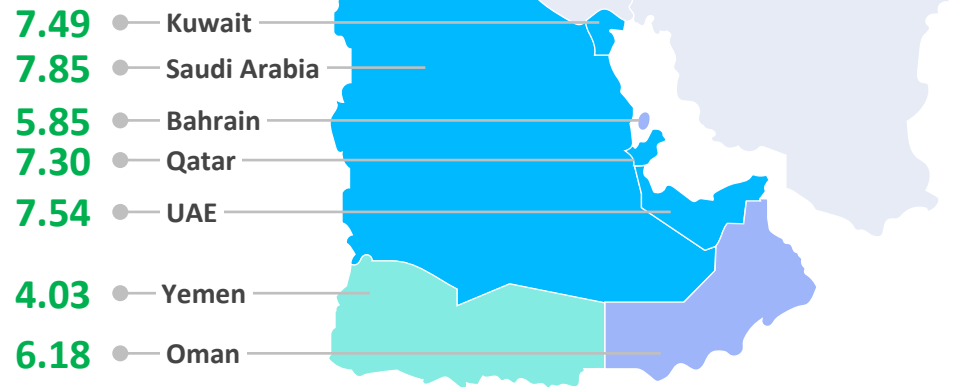
6.48

6.45

Source: Inter-American Development Bank



## Recov19 Scores



Country	Supply factors	Demand factors	Financial conditions	Policy space
Saudi Arabia	6.71	8.33	7	9.33
UAE	8	6.33	7.17	8.67
Kuwait	5.14	8.33	7.17	9.33
Qatar	7.86	5.33	8	8
Oman	6.71	5.67	7.33	5
Bahrain	7.71	4.67	7.33	3.67
Yemen	3.86	7.67	1.25	3.33

# Middle East

## Recov19 Scores



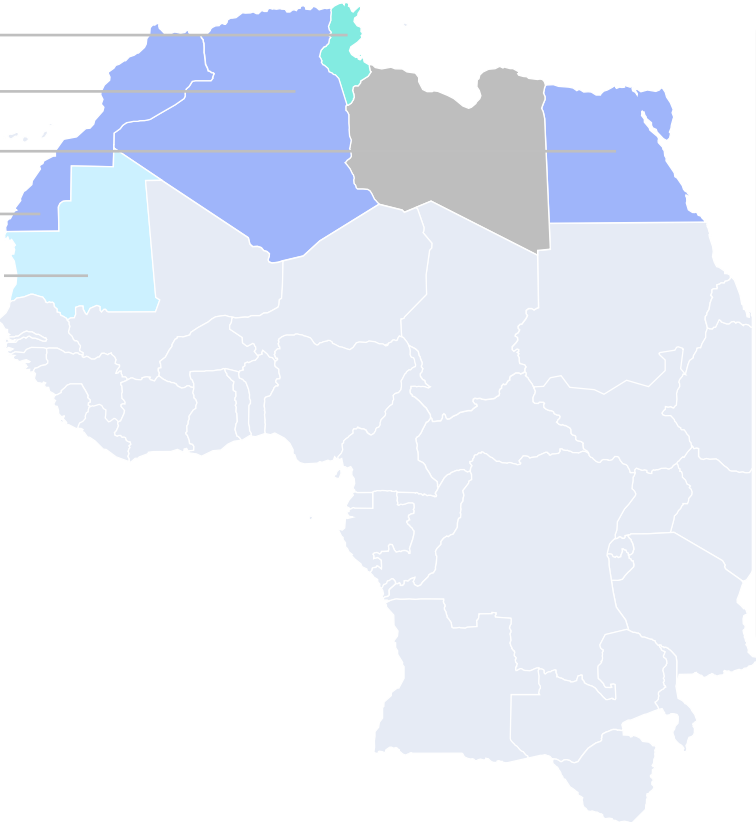
Country	Supply factors	Demand factors	Financial conditions	Policy space
Israel	7.14	5.67	8.67	7.33
Turkey	5.43	6	5.17	5.67
Iran	2.86	8	4	5.67
Jordan	6.29	4.67	6.67	2.33
Lebanon	4.86	3	5.33	1.67
Cyprus	5.86	2.33	5.83	6

Source: Inter-American Development Bank

# North Africa

## Recov19 Scores

- 3.73 ● Tunisia
- 5.07 ● Algeria
- 5.19 ● Egypt
- 5.54 ● Morocco
- 2.92 ● Mauritania

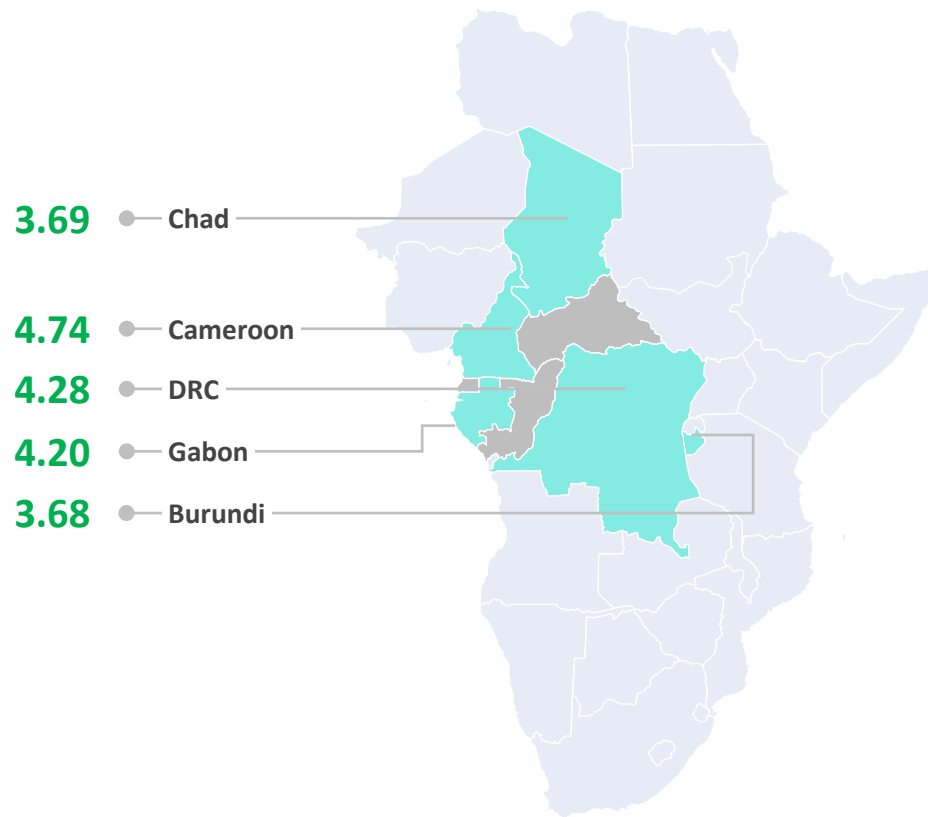


Country	Supply factors	Demand factors	Financial conditions	Policy space
Morocco	6	4.67	6.17	5.33
Egypt	6.43	7.33	5	2
Algeria	4.43	7.67	3.5	4.67
Tunisia	3.57	4.67	4.67	2
Mauritania	3	5.33	1	2.33

Source: Inter-American Development Bank

# Central Africa

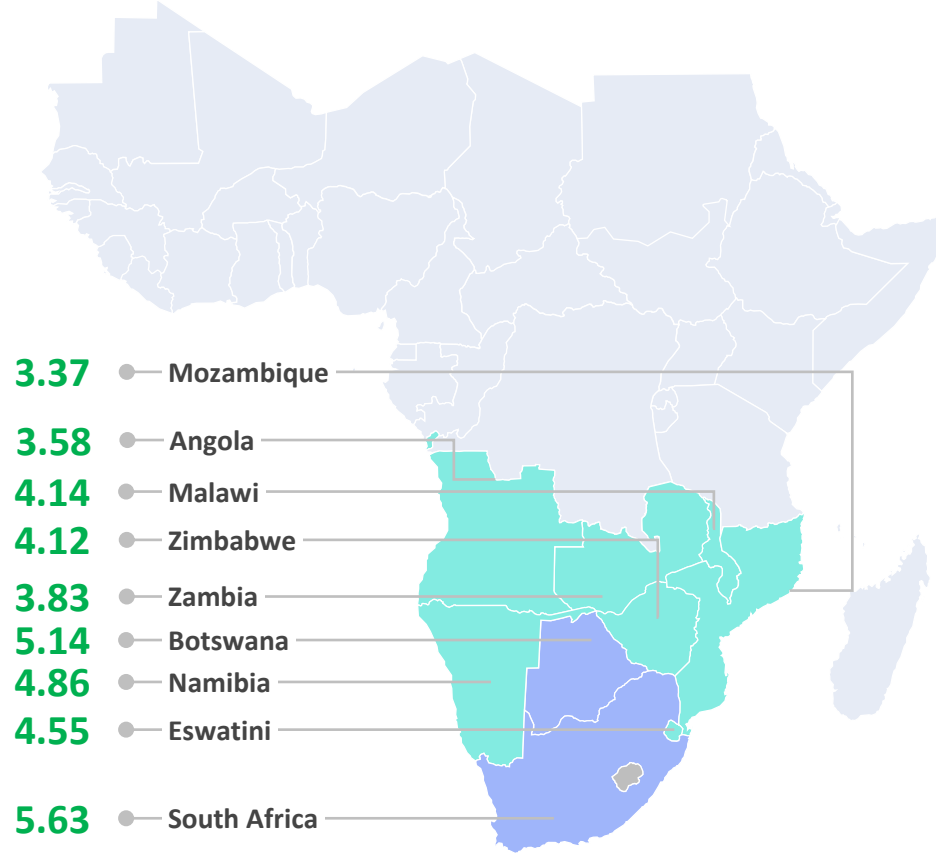
## Recov19 Scores



Country	Supply factors	Demand factors	Financial conditions	Policy space
Chad	3.43	5	1	5.33
Cameroon	4.14	7	2.17	5.67
DRC	3.29	7	1.5	5.33
Gabon	3.29	7.33	1.83	4.33
Burundi	4.71	6	2	2

# Southern Africa

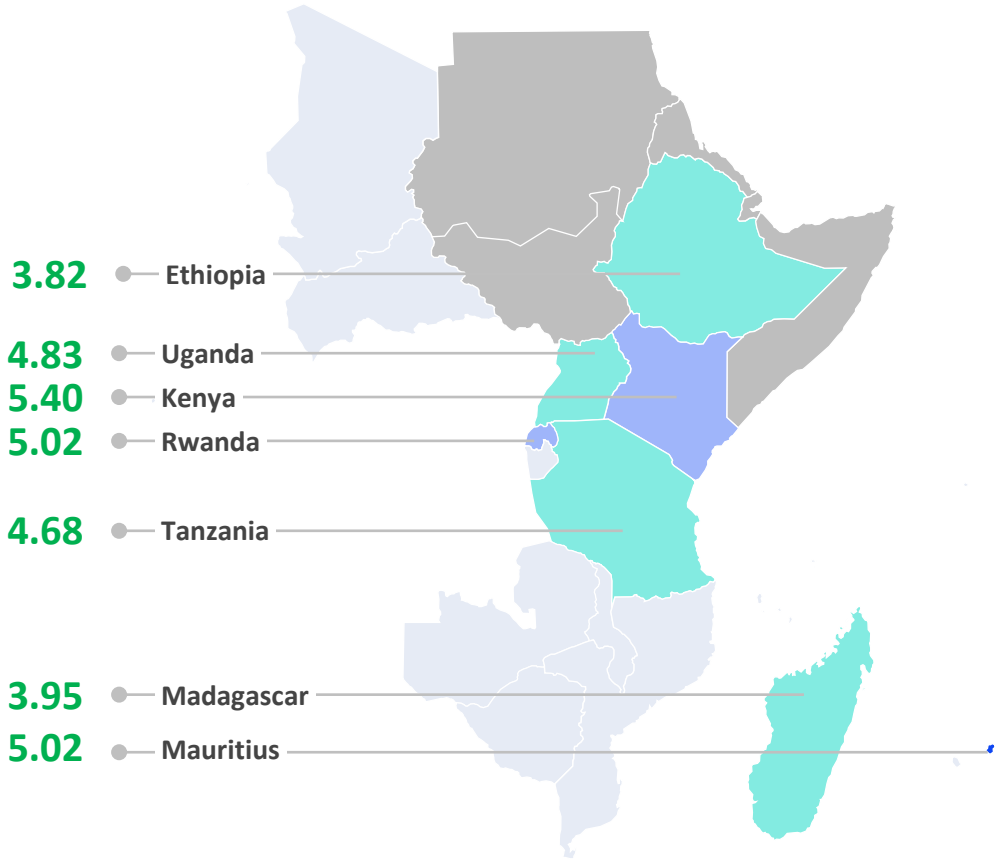
## Recov19 Scores



Country	Supply factors	Demand factors	Financial conditions	Policy space
South Africa	4	6.67	7.17	4.67
Botswana	3.57	3.67	5.33	8
Namibia	4.29	5.67	5.5	4
Eswatini	3	7.33	3.2	4.67
Malawi	3.71	7	2.5	3.33
Zimbabwe	3.14	5	3.33	5
Zambia	4.14	6	3.17	2
Mozambique	3.14	6.67	2.67	1
Angola	3.14	8.67	1.17	1.33

# East Africa

## Recov19 Scores



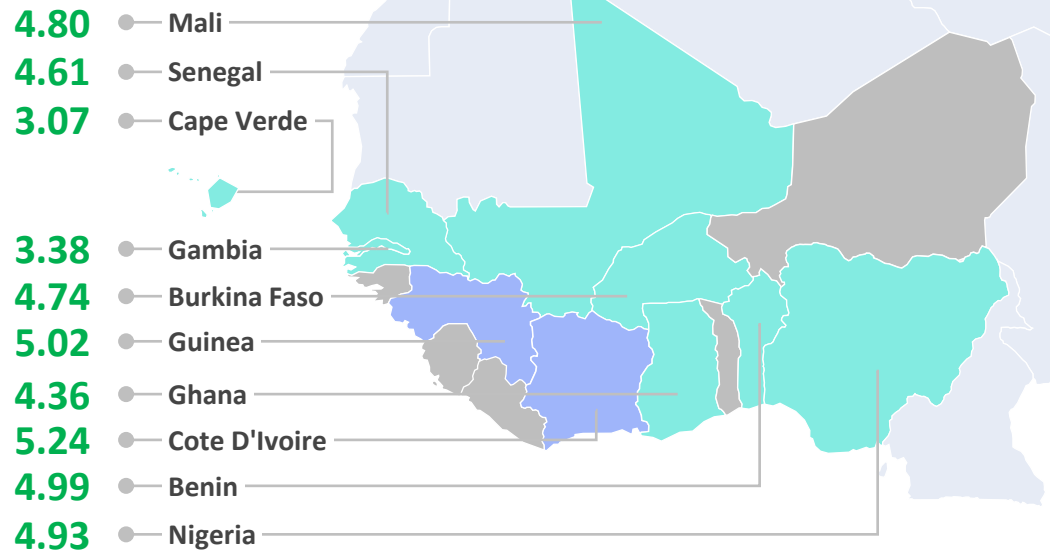
Country	Supply factors	Demand factors	Financial conditions	Policy space
Kenya	6.29	7	4.67	3.67
Mauritius	5.43	2.33	7.33	5
Rwanda	6.43	5	4.33	4.33
Uganda	5	6.67	4	3.67
Tanzania	4.57	6.67	2.83	4.67
Madagascar	4.29	5.33	2.2	4
Ethiopia	2.43	6.67	2.83	3.33

Source: Inter-American Development Bank



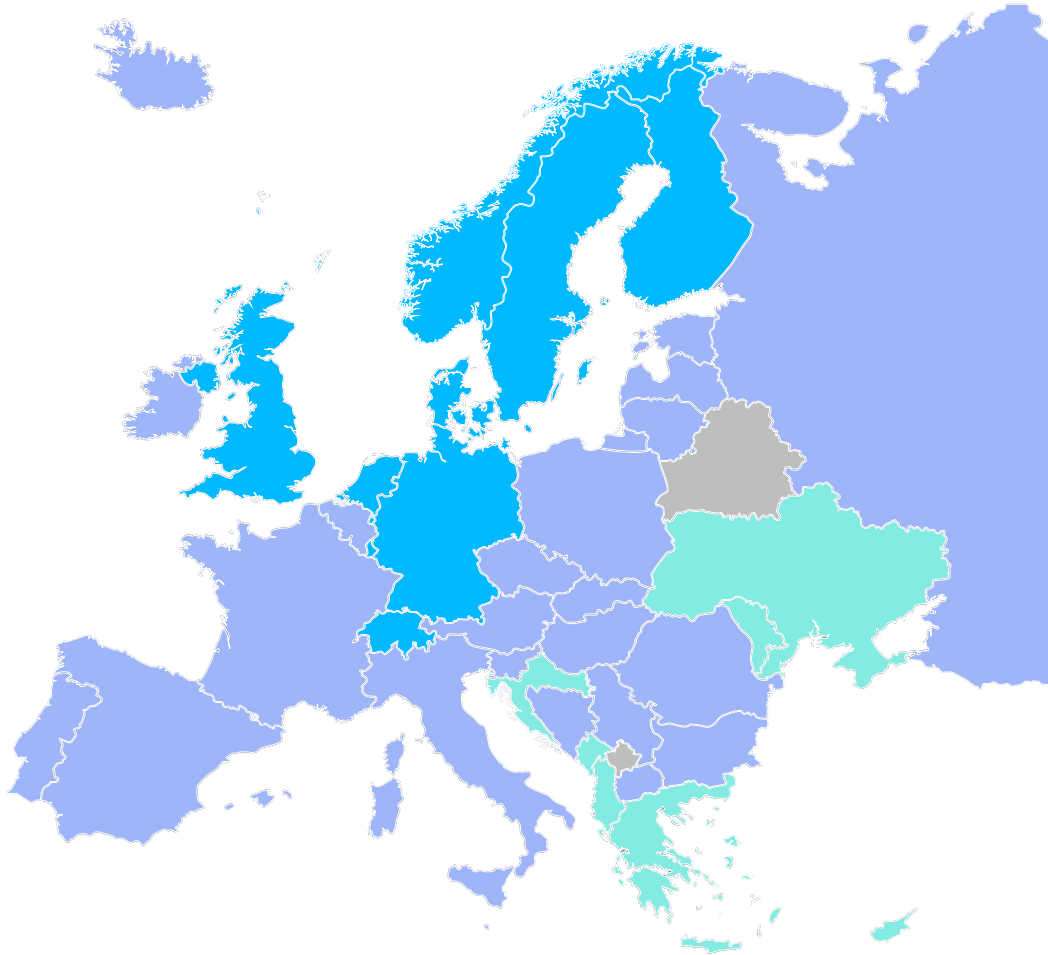
# West Africa

## Recov19 Scores

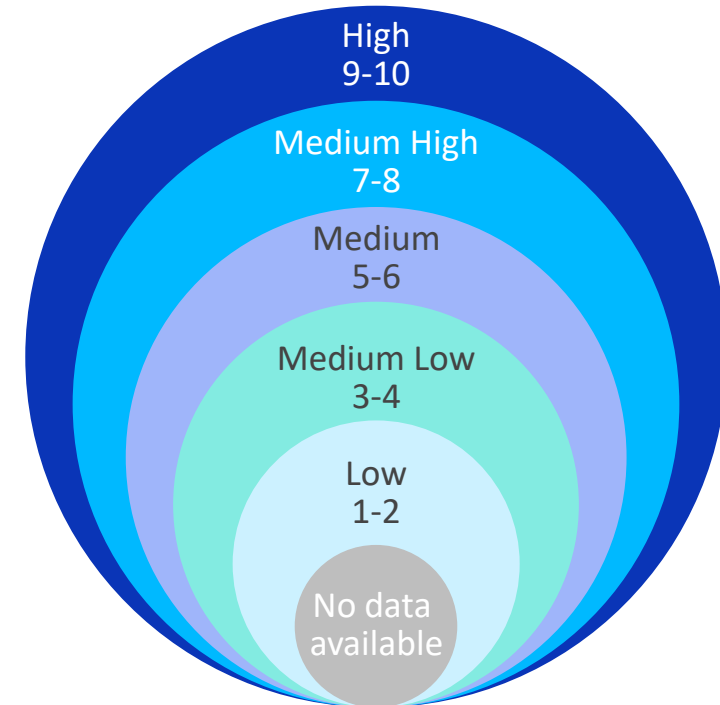


Country	Supply factors	Demand factors	Financial conditions	Policy space
Cote D'Ivoire	5.29	7.67	2.67	5.33
Guinea	5.43	7.67	3.33	3.67
Benin	5.29	7	2.33	5.33
Nigeria	4.71	8	2.67	4.33
Mali	3.86	7.67	2.33	5.33
Burkina Faso	4.14	7	2.5	5.33
Senegal	4.43	7.33	3	3.67
Ghana	4.43	7.67	3	2.33
Gambia	5	4	2.83	1.67
Cape Verde	4.29	1.67	3.33	3

# Europe - Recov19 Index Scores



**Recovery Potential and Score**

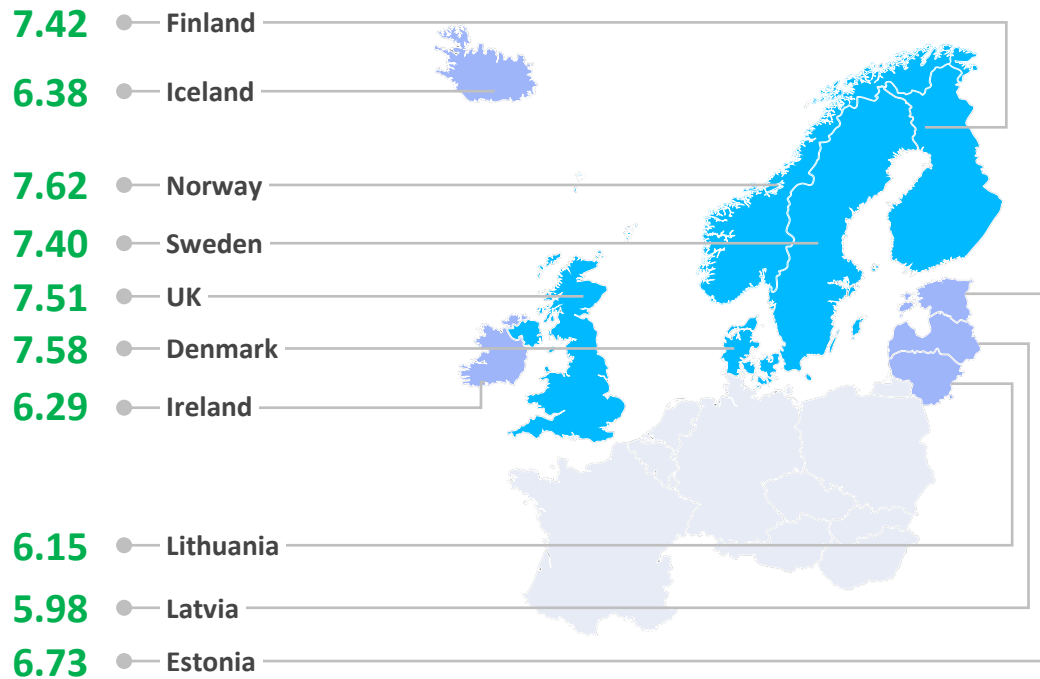


Most of the European economies find themselves in the Medium segment, with the most developed economies reaching Medium-High scores

No country in the region reached a High recovery potential score.

# Northern Europe

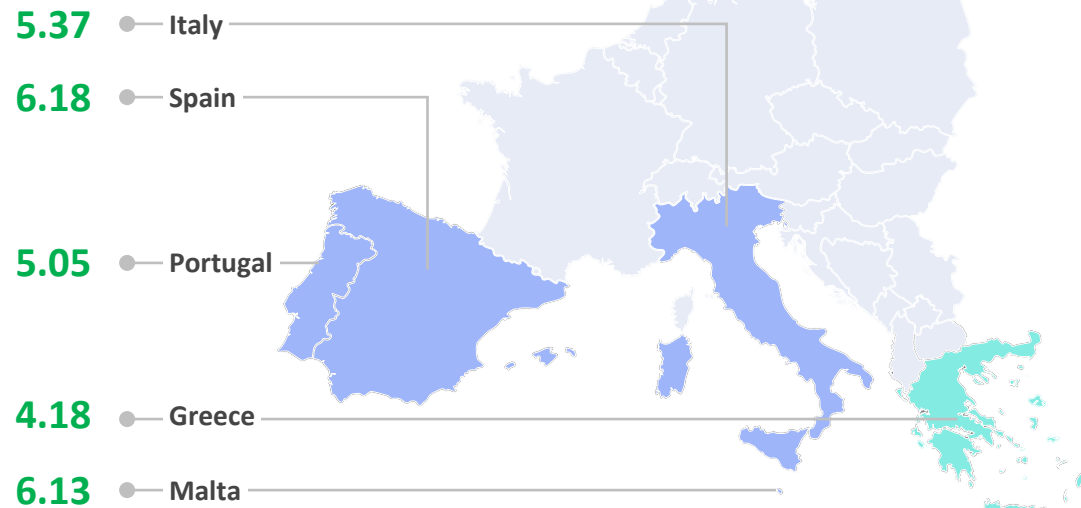
## Recov19 Scores



Country	Supply factors	Demand factors	Financial conditions	Policy space
Norway	6.43	6.33	9.67	8.00
Finland	7.00	6.00	9.33	7.33
Sweden	6.43	5.67	9.50	8.00
Iceland	6.86	2.33	8.33	8.00
UK	7.71	7.33	9.33	5.67
Ireland	7.00	5.00	6.17	7.00
Denmark	7.00	5.33	9.33	8.67
Estonia	8.57	3.00	7.33	8.00
Latvia	7.43	3.67	5.50	7.33
Lithuania	7.43	4.33	5.50	7.33

# Southern Europe

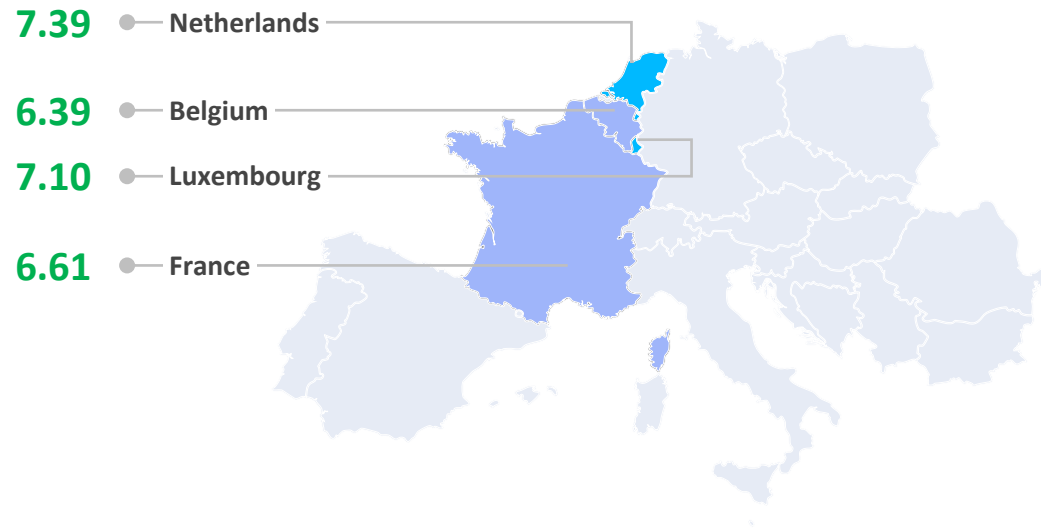
## Recov19 Scores



Country	Supply factors	Demand factors	Financial conditions	Policy space
Spain	5.71	5.33	8.00	5.67
Portugal	5.86	3.67	5.67	5.00
Italy	5.14	6.00	5.00	5.33
Greece	4.57	3.33	3.83	5.00
Malta	6.86	3.00	7.00	7.67

# Western Europe

## Recov19 Scores



Country	Supply factors	Demand factors	Financial conditions	Policy space
France	6.29	6.33	8.17	5.67
Belgium	5.57	6.00	8.33	5.67
Netherlands	6.71	5.67	9.50	7.67
Luxembourg	6.71	4.00	9.00	8.67

# Central Europe

## Recov19 Scores

6.57 ● Poland

7.37 ● Germany

6.79 ● Czech Rep.

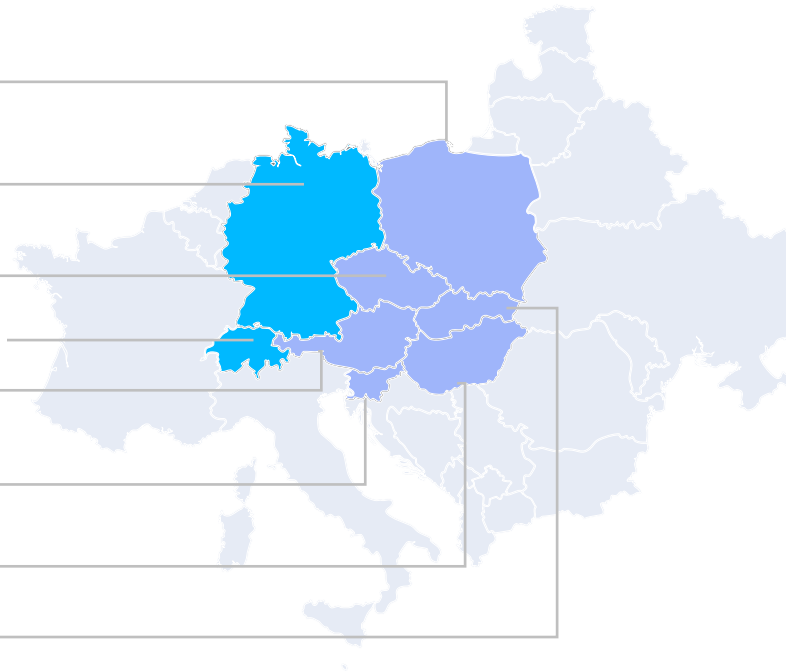
8.11 ● Switzerland

6.45 ● Austria

5.49 ● Slovenia

5.37 ● Hungary

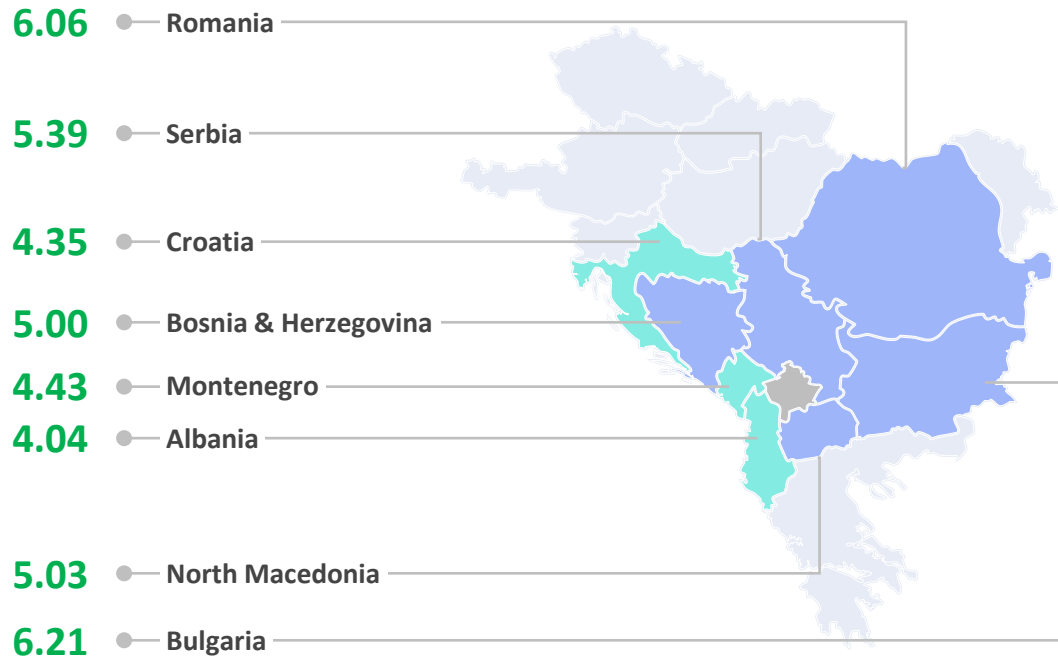
6.10 ● Slovakia



Country	Supply factors	Demand factors	Financial conditions	Policy space
Germany	7.14	7.00	8.67	6.67
Switzerland	8.29	6.33	9.50	8.33
Poland	6.29	6.33	6.33	7.33
Czech Rep.	7.00	5.00	6.83	8.33
Austria	6.14	5.00	8.33	6.33
Slovakia	5.71	5.00	6.33	7.33
Hungary	5.14	5.00	6.00	5.33
Slovenia	6.14	3.00	6.50	6.33

# Balkans

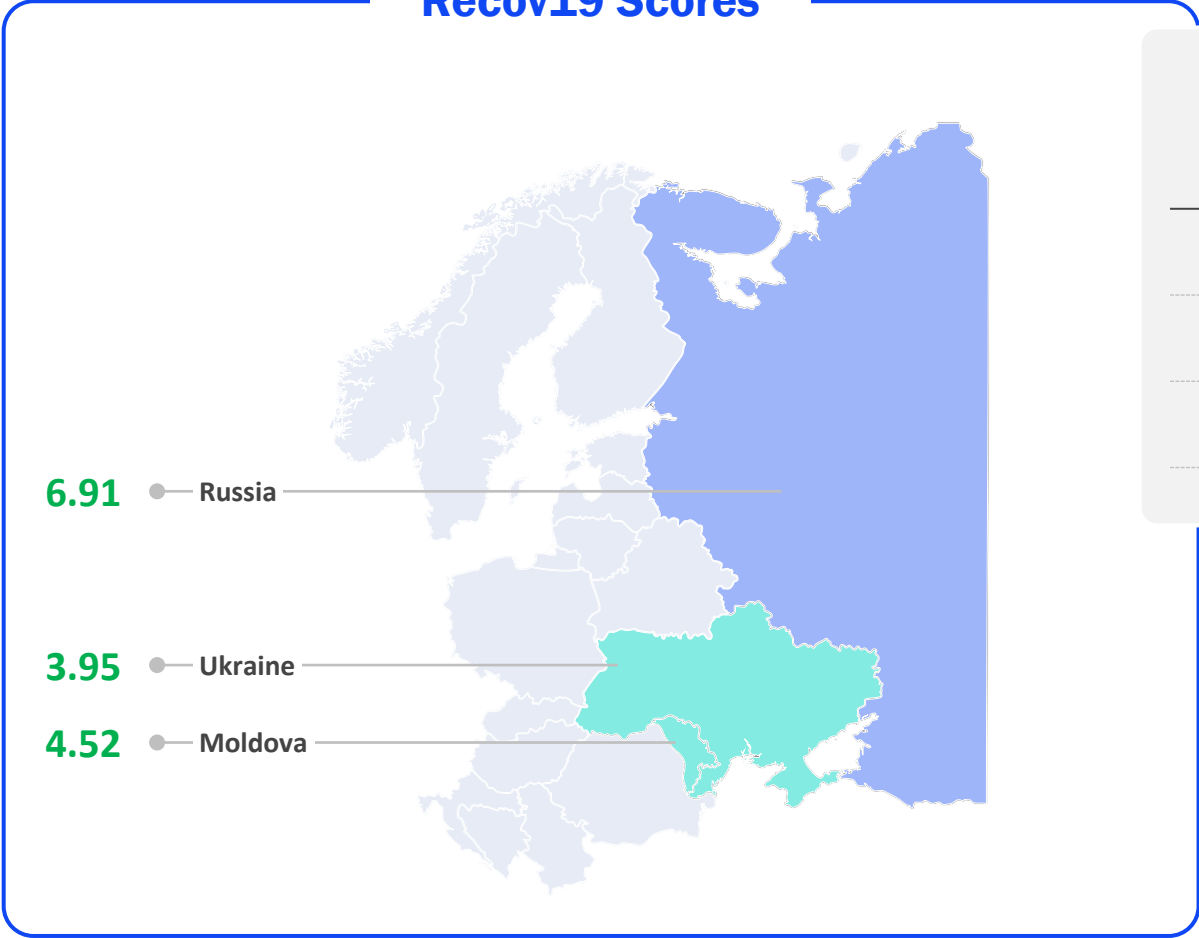
## Recov19 Scores



Country	Supply factors	Demand factors	Financial conditions	Policy space
Croatia	4.57	2.67	4.17	6.00
Bosnia & Herzegovina	5.00	4.00	4.33	6.67
Montenegro	6.57	1.33	6.17	3.67
Serbia	6.57	5.33	4.33	5.33
Romania	6.57	6.33	4.67	6.67
Albania	6.14	2.67	4.00	3.33
North Macedonia	5.29	4.33	4.50	6.00
Bulgaria	6.86	4.67	5.33	8.00

# Eastern Europe

## Recov19 Scores



Country	Supply factors	Demand factors	Financial conditions	Policy space
Ukraine	5.29	5.33	2.50	2.67
Moldova	6.43	4.00	3.00	4.67
Russia	7.14	8.00	4.83	7.67

Source: Inter-American Development Bank



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