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Economic ‘misery’ through the lens of the pandemic

The pandemic has highlighted how populism and poor institutional quality can lead to poor economic and health outcomes. Eastern Europe and the Anglosphere stand out as the biggest EM and DM underperformers. Conversely, East Asia and the Nordics have performed the best.

Key takeaways

- Populism, weak institutions and under developed healthcare systems played key roles in determining which countries suffered the largest losses of life and economic dislocations through the pandemic.
- We have ranked 43 markets based on three metrics – cumulative economic output vs trend, cumulative core inflation vs target, and excess mortality – to form a Misery Index tailored for the pandemic.
- EMs have underperformed DMs on average, partly because of their less developed health care systems and slower vaccination rollouts, but also weaker political and policy institutions.
- However, dispersion has been very high. Eastern Europe and Latin America stand out as the worst performers, much of Asia navigated the pandemic more successfully.
- The poor performance of the UK and US relative to their developed peers, shows that policy errors and institutional weaknesses are not limited to EMs. In contrast, the Nordics and the Germanic countries are home to many of the best achievers.
- The pandemic was always going to be hard to navigate. The coincidence for much of the globe between ‘misery’ and our ESG rankings shows that lower institutional quality and populist policies led to greater suffering and economic dislocation. This provides further justification for considering ESG factors when assessing resilience of economies to future crises and judging appropriate risk premia.

Judging ‘misery’

The pandemic was both a global health crisis and an enormous economic shock. Judging the relative performance of different countries through such an episode is challenging.

The original Misery Index added the unemployment rate to the headline inflation rate as a simple measure of the pain being endured by households at any point in time. By this gauge, the stagflation of the 1970s was a period of high misery, and the Great Moderation one of low misery.

This approach always had its drawbacks. The unemployment rate is an incomplete measure of economic pain, while the index could be very sensitive to temporary spikes in inflation. But amidst the pandemic, where the pain experienced by households has been as much about health as the economy, it is even more deficient.

A Misery Index for the pandemic

We have therefore sought to update the Misery Index by making it more complete. Not only do we include a comprehensive measure of the health consequences of the pandemic, but our economic metrics focus on cumulative rather than instantaneous effects.

Comparing 43 major economies across all the key regions, we calculate and combine three indicators.

1. *The level of GDP compared with its pre-pandemic trend.* Unemployment rates are not available for all countries and changes in labour force participation can distort its interpretation. Absolute deviations of output from trend therefore allows us to better compare



countries that chose different lockdown strategies, as well as the size of any permanent damage.

2. *Cumulative core inflation relative to inflation targets.* Though contemporaneous headline inflation captures the 'misery' from surging prices, persistent bouts of high or low inflation are likely to scar more. Cumulative inflation misses are also a better indicator of underlying imbalances and the need for policy adjustments. We account for the higher inflation targets in EM economies because optimal inflation is also likely to be higher.
3. *Cumulative excess deaths.* The final component we include is an indicator from *The Economist*, measuring excess deaths. Excess deaths accounts for the underreporting of Covid-related deaths in some countries, such as Russia, and the trade-offs between focusing on Covid and potentially neglecting other illnesses. The measure also highlights poor healthcare systems and challenges around the decisions over life preservation and economic performance. The Economist used statistical models for countries which don't publish excess mortality data and thus some rankings may not tally with reported Covid-19 deaths.

Based on the average rank across these three metrics, we create an overall ranking (see Table 2).

Poor policy responses and weak institutions on show

Our initial screening of the results showed that countries commonly formed regional or cultural performance clusters. Our analysis focuses on the comparisons across those clusters, drawing out anomalies where necessary (see Table 1).

First, unsurprisingly, several emerging market regions rank as the most 'miserable'. This is related to their having less developed healthcare systems, weaker institutional quality, and a lesser ability to cushion shocks through fiscal and monetary policy, on average. The withholding of vaccines by the developed economies amplified these headwinds.

That said, we find significant dispersion in performance across the regional clusters.

Emerging Europe scores the worst across the board, due to the toxic combination of mostly populist, authoritarian governments allowing large economic imbalances to form, and poor responses to the pandemic itself.

A lack of trust in institutions and vaccine hesitancy also played roles in the region's high excess mortality figures. The slow response of monetary policy signs of overheating has led to soaring inflation. And while this region has been the most exposed to the impact of Russia's invasion of Ukraine on supply-chains and energy prices, the core inflationary pressures were in place long before the war.

Latin America has also done poorly, though there has been more variation across our three categories. The region falls down the most on excess mortality, where lockdowns were too late to come, too early to be relaxed, and not policed

with sufficient vigour. Densely populated cities and little recent pandemic experience did not help either. Though most have experienced a lot of excess inflation, many central banks have acted strongly to restore price stability. This may pay off in future index updates.

South and South-East Asia's favouring of more severe and prolonged lockdowns, has led to weak average growth and slower recoveries in labour markets. With the exception of India, excess mortality has, however, generally been lower than for other EM regions, with Singapore (the only DM country in the region), Malaysia, and Thailand the standouts.

Economic imbalances are more modest than for many other regions, with some countries' poor inflation performance due to it being too low rather than too high. This might allow for relative outperformance through the global downturn we are forecasting.

While emerging market regions generally underperform in the rankings, the **Anglosphere** shows how overstimulating the economy and poor implementation of lockdown measures can result in very bad outcomes despite greater macroeconomic policy space, early vaccine access and highly developed (though sometimes inefficient) healthcare systems.

Ivanaj & Oukhallou ("*The Economic and Institutional Determinants of Covid-19 Mortality*", November 2020) argue that stronger institutions were more relevant than economic factors in determining the mortality rates from Covid. While the study only covers the first 60-days of each country's outbreak it does point to a significant negative correlation between their institutional quality indicators and mortality rates.

This may in part explain the **Nordics'** average outperformance, despite varying approaches to the pandemic. This also likely favours the **Germanic** countries over their **Mediterranean** European brethren, where excess mortality has been especially high. That said, the Nordics are particularly advantaged by having comparatively low levels of population density.

East Asia is home to the countries that have had the most exposure to previous respiratory pandemics over the past two decades. Arguably they were the most prepared to deal with its health fallout, adhering to formal rules and voluntary social distancing, even in the face of often very high population density.

The region's strength in goods manufacturing and ability to limit disruptions to export sectors through the pandemic, helped to offset the weak domestic demand that was one of the consequences of a stricter approach to constraining the spread of Covid.

Finally, we have included some of the larger **African** countries in our Misery Index, but not enough to really speak of a regionally representative pattern.



Table 1: abrdn Misery Index - Regional Rankings

Region	Ranking by Median Aggregate Score	Common Characteristics
Nordics	10.2	Different approaches to the pandemic, but strong social welfare systems and well diversified economies limited the need for big additional fiscal stimulus and enabled growth to return to trend with more moderate overheating.
East Asia	13.3	Strict lockdowns and strong levels of compliance with social distancing reduced mortality rates. Prolonged lockdowns delayed domestic recoveries, though this, and inflation, have strengthened where restrictions have now eased.
Germanic	16.3	Performed above average on all metrics but lagged the Nordics and East Asia in regards to excess mortality. High dependence on imported fossil fuels have contributed to surging inflation more recently.
Africa	17.3	Highly varied performance. Some are suffering from very high inflation (Nigeria) and others from high mortality rates (Egypt and South Africa). Less developed institutions made it hard to respond to the crisis, but fiscal restraint practiced for the most part.
Mediterranean	17.3	Epicentre of the first wave of the pandemic in Europe and high mortality rates compared with other DM economies. Inflation performance helped by initial declines in price levels. Some of the larger hits to output relative to the pre-pandemic trend.
Anglosphere	20.3	A bad combination of excess stimulus, leading to significant overheating, and haphazard pandemic responses generating high mortality rates. Australia and New Zealand the exceptions with their much stricter, sustained lockdowns.
South/South-East Asia	26.3	Opted for harsher lockdowns than in other EM regions, helping to limit excess mortality compared with other high population density regions. This combined with weak fiscal responses have weighed on the recovery, but overheating also less prevalent.
LatAm	31.0	Scores poorly across all measures given high levels of inflation, poor healthcare responses, some vaccine scepticism and substantial hits to activity relative to previous trends. Populism and weaker institutions have likely contributed to imbalances and poor policy responses.
Emerging Europe	37.0	The home of rising authoritarianism, revealing the costs of poor governance. Most economies have overheated, while excess mortality has been severe. Reining in inflation the biggest challenge facing policymakers amidst the energy crisis and war in Ukraine.

Source: aRI, The Economist, Haver, October 2022.

Key divergences within regional or cultural groupings

Though there is significant clustering, there are also some important divergences to take note of and analyse.

The clearest example of divergent performance is within the Anglosphere, where **Australia** stands out as the best performer in the world across our metrics, despite the cultural grouping being the worst DM performer.

Australia's strict border and interstate travel restrictions moderated the initial impacts on mortality, before rapid vaccination facilitated a strong re-opening recovery. Australia has also been aided by comparatively low population density, even in its cities.

Large fiscal and monetary interventions helped attenuate the economic fallout. And although inflation has been well above the RBA's target this year, the wage and inflation gap is smaller than many other DM economies, allowing policy to pivot sooner.

In contrast, the haphazard responses to the pandemic in the **UK** and **US**, squandered the advantages of early access to

vaccines. Lockdowns either barely occurred at all in some US states, or in the case of the UK were often delayed and then relaxed too quickly despite alternative advice from experts.

Meanwhile, the more relaxed attitude to the pandemic itself, combined with some of the largest policy easings in the world, and then delayed policy tightening, generated larger and more persistent inflation pressures than in most other DM economies. In the UK's case, this is now being compounded by further fiscal loosening into an overheated economy.

Though EM countries were more vulnerable to the pandemic from the outset, the underperformance of places like Turkey, Mexico and Poland are symptomatic of the unchecked popular authoritarianism of their leaders, rather than their level of economic development.

Turkey's economic imbalances were clear years before the pandemic. A strong political bias towards economic growth, reinforced by fiscal dominance of the central bank, has led to catastrophically high inflation and high excess mortality.



This is now threatening President Recep Tayyip Erdoğan's chances of retaining his presidency next year, though the elections may not be free and fair.

In **Mexico**, President Andrés Manuel López Obrador's scepticism over lockdowns and lax approach to containment led to high excess mortality. Moreover, the limited fiscal response contributed to economic scarring, and in turn the upside core inflation surprises through 2022.

The **Polish** government's delays and unwillingness to re-impose restrictions during the Delta and Omicron waves worsened the healthcare crisis. Moreover, the central bank governor Adam Glapiński's ties with the governing Law and Justice party may have had some influence on the slow response of the Bank to rising inflationary pressures.

Russia finishes bottom of the rankings due to the economic shock from Western-sanctions imposed in Q2 2022 and the poor handling of the pandemic. Indeed, if the rankings had been based on performance from Q4 2019 to Q1 2022, Russia's output versus trend would have been ranked first. However, Russia also scores worst for excess mortality.

Why does China perform so poorly?

Relative to the rest of East Asia, China has ultimately proved to be an economic underperformer. This may partly be related to its lower level of economic development than other East Asian peers; performance has been more in line with the rest of EM Asia.

More important, however, has been the failure to properly vaccinate the elderly population and the maintenance of 'Zero-Covid' long after the rest of the world turned to endemic living. Each successive wave of the pandemic has forced the authorities into renewed lockdowns which have created substantial drags on economic growth.

Thus, while China has had one of the lowest excess mortality rates in the world, it ranks near the bottom in terms of lost output compared with its pre-Covid trend.

Of course, Covid policies have not been the only weight on the economy. The crackdowns on property developers, and the resulting real estate slump, is also weighing significantly on growth now, even if it could reduce long-run risks.

Indeed, China is one of the few countries in our index, where demand has been suppressed relative to supply, and the price level is below the target-consistent pathway. However, unlike a traditional misery index, we penalise inflation undershoots as well as overshoots.

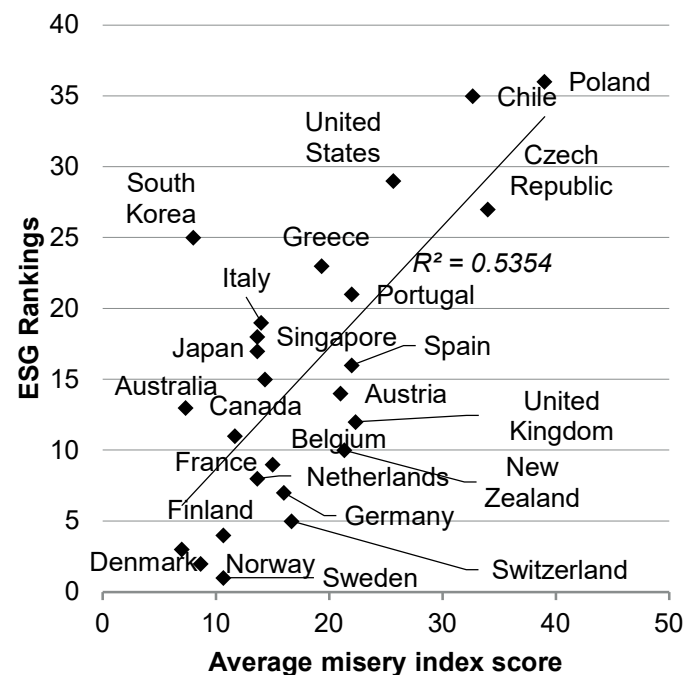
Ultimately, China wasted its early advantage from successfully restricting the spread of Covid, and being one

of the first economies to rebound from the pandemic, through its short-sighted vaccination and Covid strategy.

ESG matters in a crises

The scores from the misery index show a loose positive correlation with our ESG rankings for OECD countries (ex. Mexico and Turkey) (see Figure 1). Our [ESG Index](#) accounts for governance quality and living standards, amongst other factors, giving an early warning as to which countries would be susceptible to poor policy responses and thus the economic imbalances which have risen as a result.

Figure 1 - Low ESG rankings can point to future misery



Source: aRI, October 2022. Note: Denmark = best performer, Poland = worst.

Implications for investors

- Through the noise of the pandemic, it can become challenging to judge the cumulative performance of policies. However, our Misery Index shows that weaknesses in institutional quality – as captured by our ESG index - and populist policy responses have typically coincided with worse outcomes and greater suffering.
- As such, this highlights the importance of accounting for institutional strength and ESG factors when assessing the resilience of economies to future crises and judging appropriate risk premia.



Table 2: abrdn Misery Index - Rankings by economy

	Average Ranking (lower = better)	Output vs trend (up to Q222)	Core Inflation vs central bank target (up to Jun-22)	Excess deaths (End of Jun-22)		Average trend (up Ranking to Q222)	Output vs trend (up to Q222)	Core Inflation vs central bank target (up to Jun-22)	Excess deaths (End of Jun-22)
Denmark	5.7	1	7	9	South Africa	21.3	13	16	35
Australia	9.3	6	18	4	Portugal	22.7	31	10	27
South Korea	9.3	16	1	11	Spain	24.0	41	6	25
Norway	10.0	3	17	10	UK	25.3	27	26	23
Finland	10.3	7	9	15	Philippines	26.0	43	15	20
Sweden	11.7	8	14	13	China	26.3	39	34	6
France	12.0	17	2	17	Indonesia	26.7	36	20	24
Taiwan	12.7	23	13	2	Thailand	27.0	40	27	14
Netherlands	13.3	2	19	19	US	27.3	21	31	30
Singapore	13.3	12	23	5	Colombia	28.0	25	28	31
Japan	13.7	5	33	3	Peru	28.7	20	25	41
Italy	15.0	10	3	32	Brazil	31.0	28	32	33
Canada	16.0	15	21	12	Hungary	32.7	22	40	36
Belgium	16.0	14	12	22	Chile	33.3	38	36	26
Malaysia	16.0	29	11	8	India	33.7	35	29	37
Germany	16.3	26	7	16	Romania	35.0	24	39	42
Switzerland	17.0	11	22	18	Mexico	36.0	33	35	40
Egypt	17.0	19	4	28	Poland	36.3	32	38	39
Greece	17.3	18	5	29	Czechia	37.7	42	37	34
Nigeria	17.3	4	41	7	Turkey	39.3	37	43	38
Austria	18.0	9	24	21	Russia	39.7	34	42	43
New Zealand	20.3	30	30	1					

Source: aRI, The Economist, Haver, October 2022. Note: 2% target used for DMs without a formal inflation target. Core inflation indicators vary for Singapore, Indonesia, Brazil, Turkey, South Africa.

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