

THE RESILIENCE INDEX: A 2016 UPDATE

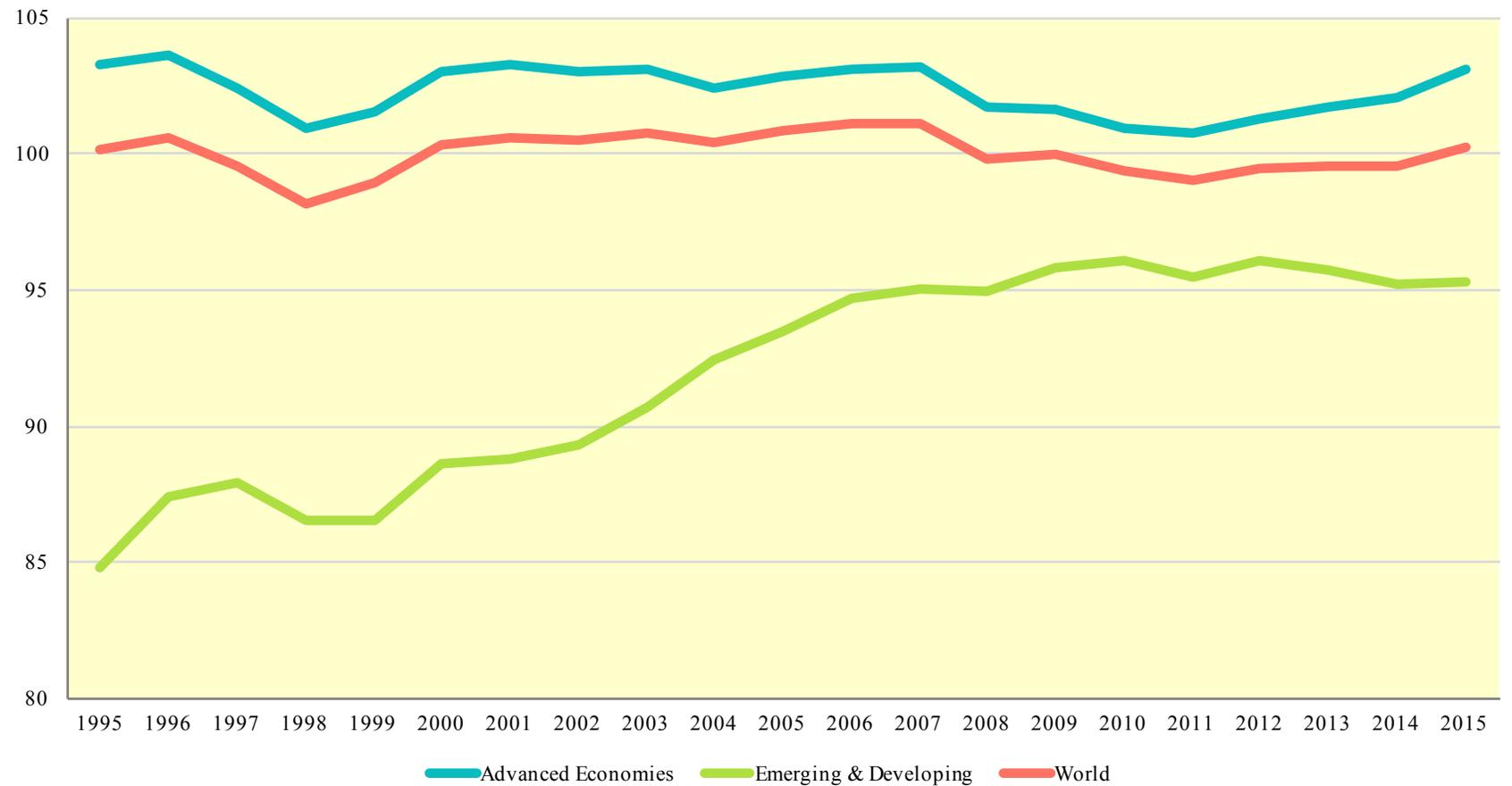
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FINDINGS OF THE TWO PREVIOUS PAPERS ON THE RESILIENCE INDEX

- RI identified both the countries able to counter the impact of a strong external shock, such as the global financial crisis, and the specific areas of strength and weakness
- RI also had the power to identify countries that were heading into trouble, such as the Euro-area peripheral countries, and pointed out that the weaknesses had accumulated over the years

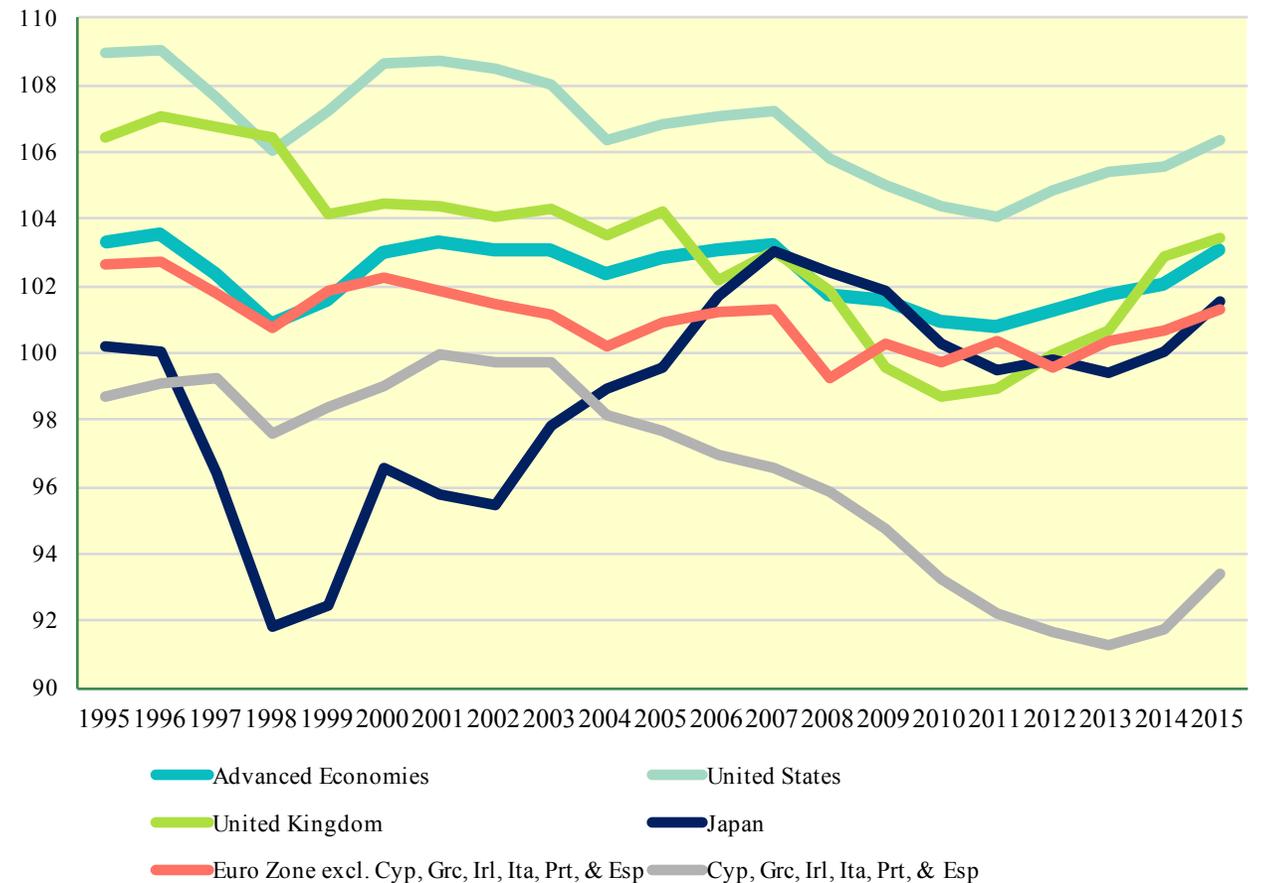
CURRENT UPDATE COVERS A TOTAL OF 101 COUNTRIES

The results of the current update confirm the usefulness of the RI in terms of providing warning signals



SELECTED ADVANCED COUNTRIES

- RI for these countries trends down from the early 2000, except for Japan
- The appropriate stimulus policies implemented following the global financial crisis temporarily lowered RI further, and starting in 2010-11 the RI recovered due to the strengthening of the FP, BS, ER, PS sub-indices
- As in the previous paper, we raise a key question: Why the various surveillance processes (e.g., IMF, ECB, OECD) did not better track the growing weakness of the Euro-area peripheral countries?

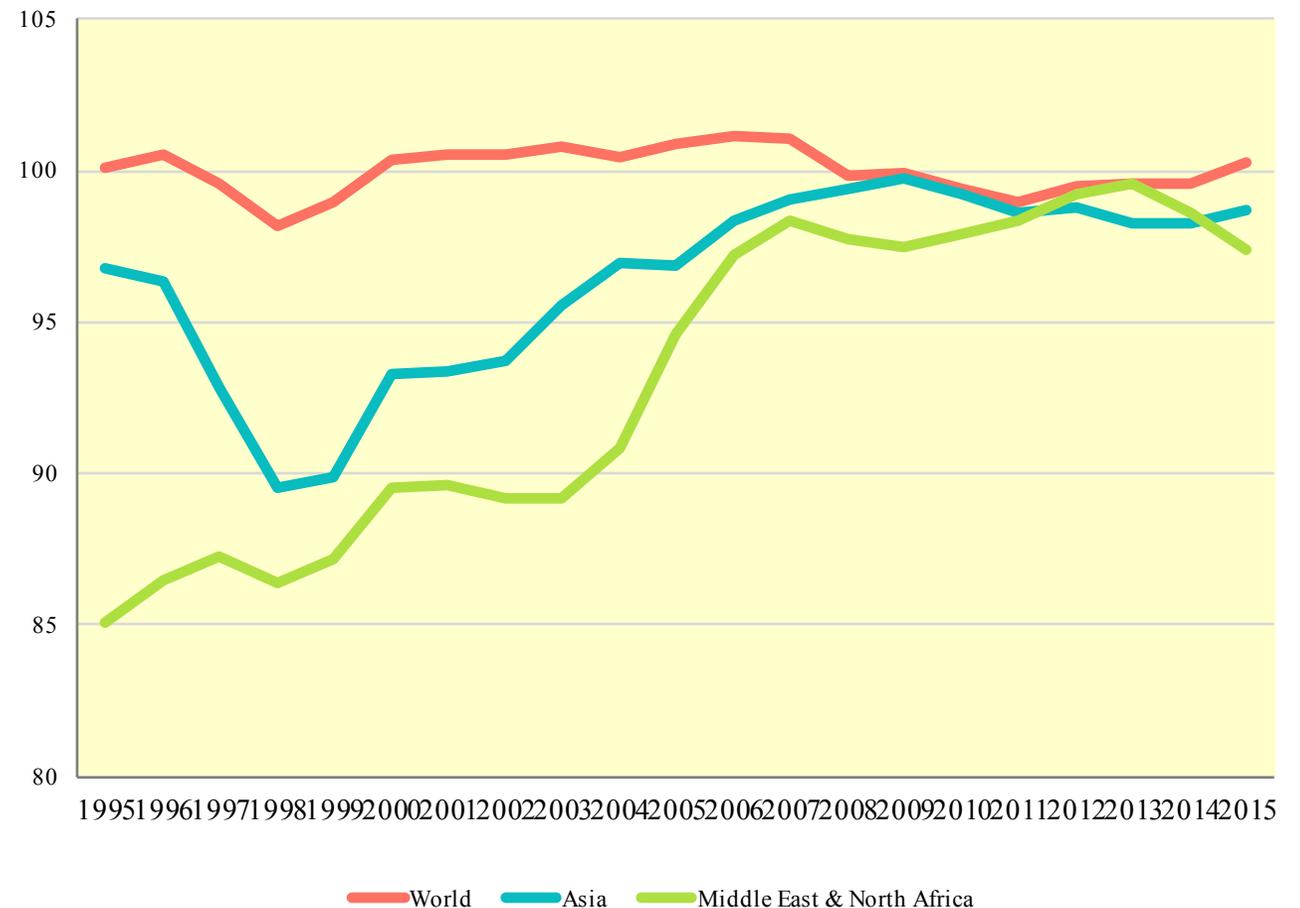


EURO-AREA PERIPHERAL COUNTRIES

- The crises that hit these countries developed over time, and were not solely the result of the global crisis of 2008
- Weakest sub-indices FP (-15%), BS (-19%) and PS (-7%)
- The average RI for this group has recovered since 2013, but it is still well below its peak of 2001 and markedly lower than the average RI for the advanced countries

ASIA AND MENA

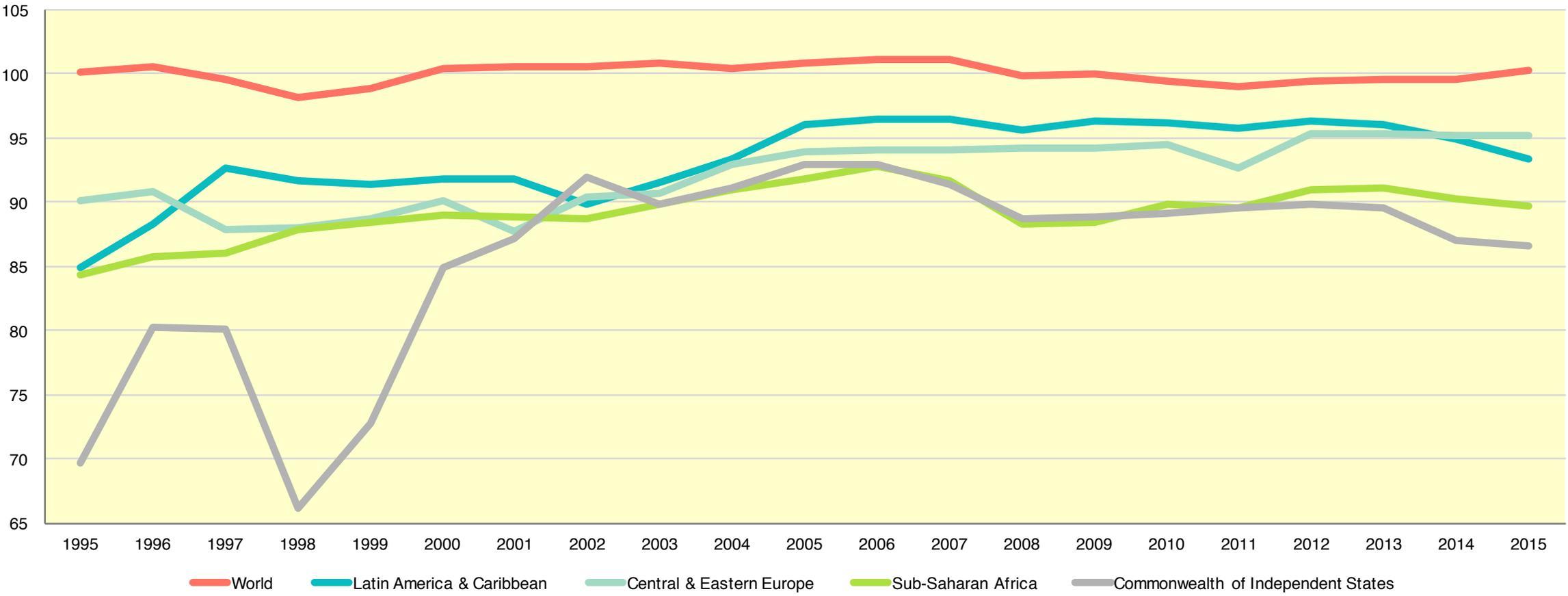
- Two groups of EMDCs stand out, the Asian and the Middle Eastern and North African (MENA) countries
- These groups of EMDCs raised their average RI to the global average
- RI for the Asian countries remains stable and slightly below global average
- RI for the MENA countries declined significantly in 2014-15, mainly owing to the drop in commodity prices



LAC, CENTRAL AND EASTERN EUROPE, SSA, AND THE CIS

- RI for these regions continues to remain below the world average, with Sub-Saharan Africa (SSA) and the CIS countries well below
- Latin America and the Caribbean (LAC) and Central and Eastern Europe show significant strengthening from the early 2000s, but the average RI for LAC declined significantly in 2014-15
- RI for the CIS countries improved remarkably through the early 2000s, but showed little progress subsequently, and a considerable decline in 2014-15
- The recent weakening in RI for LAC, Sub-Saharan Africa and CIS mainly reflects declines in the RI for commodity exporting countries

LAC, CENTRAL AND EASTERN EUROPE, SSA, AND THE CIS





SOME IMPORTANT OBSERVATIONS

- A generalized improvement of the Monetary Policy sub-index, mainly owing to the increased adoption of inflation targeting frameworks
- Important danger signs among most commodity exporters
 - Major weakening of the Fiscal Policy sub-index during the last 2-3 years
 - Limited prospects of commodity price recovery suggest prompt adoption of corrective policies and measures
 - The urgency is greatest where government revenue is heavily dependent on commodity exports



COUNTRIES AT RISK

The RI helps identify countries seriously at risk

- For example, by ranking countries according to their RI, we can say that those that fall in the last decile are seriously at risk
- These countries are Belarus, Ecuador, Greece, Kazakhstan, Mozambique, Myanmar, Ukraine, Venezuela, Vietnam, and Zambia
- They need to take immediate actions to strengthen their resilience. And, their actions need to be watched quite closely by both the relevant international institutions and the markets

(For illustration purposes, the ten highest ranked countries are Germany, Hong Kong, Israel, Luxembourg, New Zealand, Norway, Singapore, Sweden, Switzerland, and the US.)

CONCLUSION

- The Resilience Index is a powerful device by itself
- The RI should also be meaningfully added to the traditional tools of surveillance and private sector risk-assessment, as it helps identify weaknesses and corrective policy areas