Europe and Central Asia Economic Update, Spring 2021
Data, Digitalization, and Governance
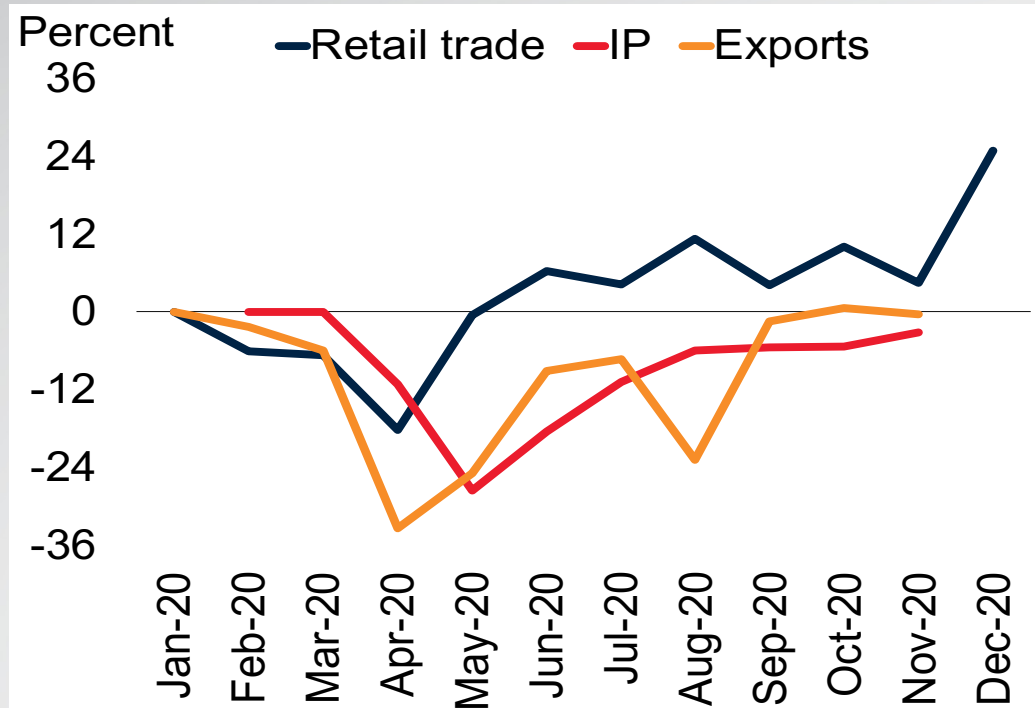
Aslı Demirgüç-Kunt

ECA Chief Economist
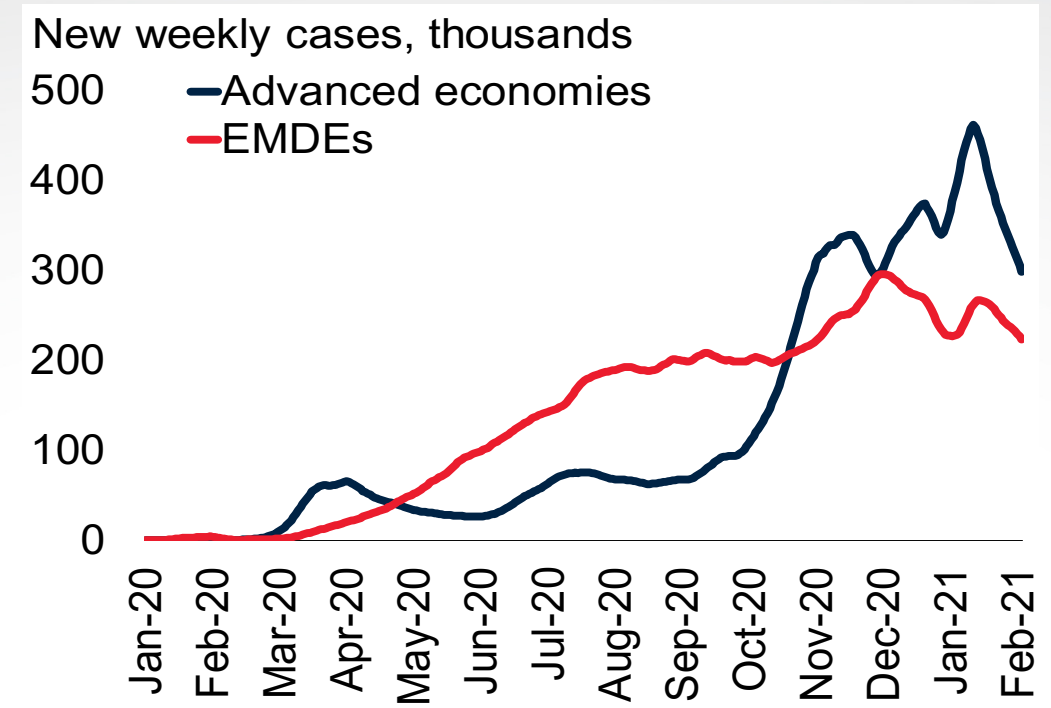
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Economic Outlook

Rebounding Activity Despite Continuing Pandemic

Economic Activity in the Euro Area


Evolution of the pandemic

Sources: European Commission, World Trade Organization; Our World in Data; World Bank.
Left panel. IP = industrial production. Figure shows percentage changes since January 2020. Last observation is December 2020 for the retail trade and November 2020 for the other indicators. Right Panel. Figure shows seven-day moving average of the daily new COVID-19 cases. Last observation is February 4, 2021. Sample consists of 36 advanced economies and 149 EMDEs.
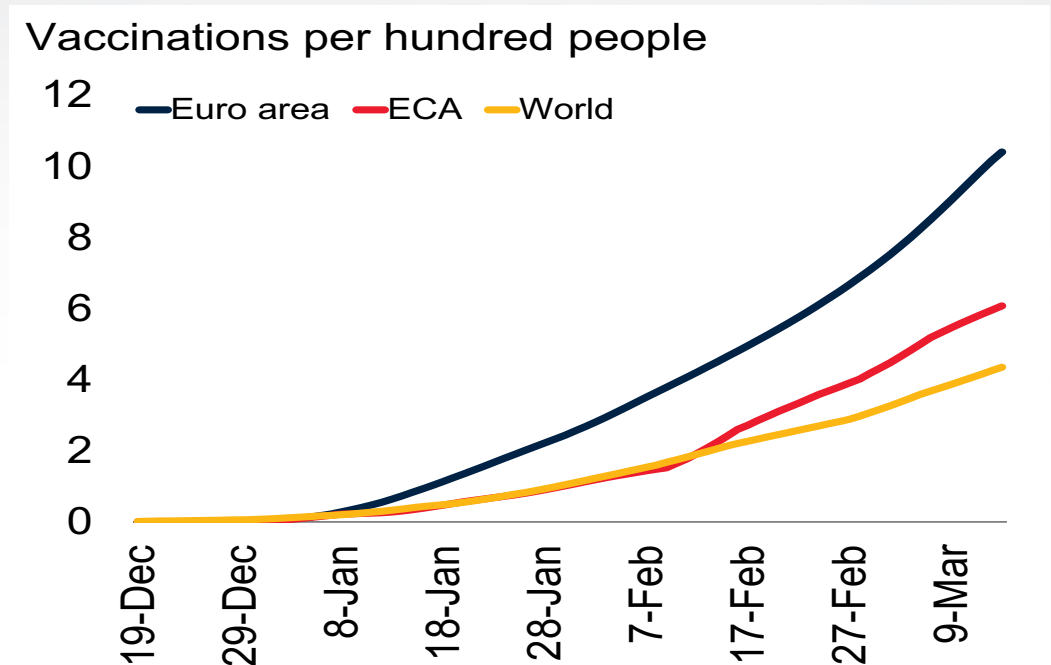
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COVID-19 in ECA

Daily New Cases Increase Again; Vaccinations Underway

Daily confirmed new COVID-19 cases and mitigation measures in ECA
(Thousands of cases) (Index)
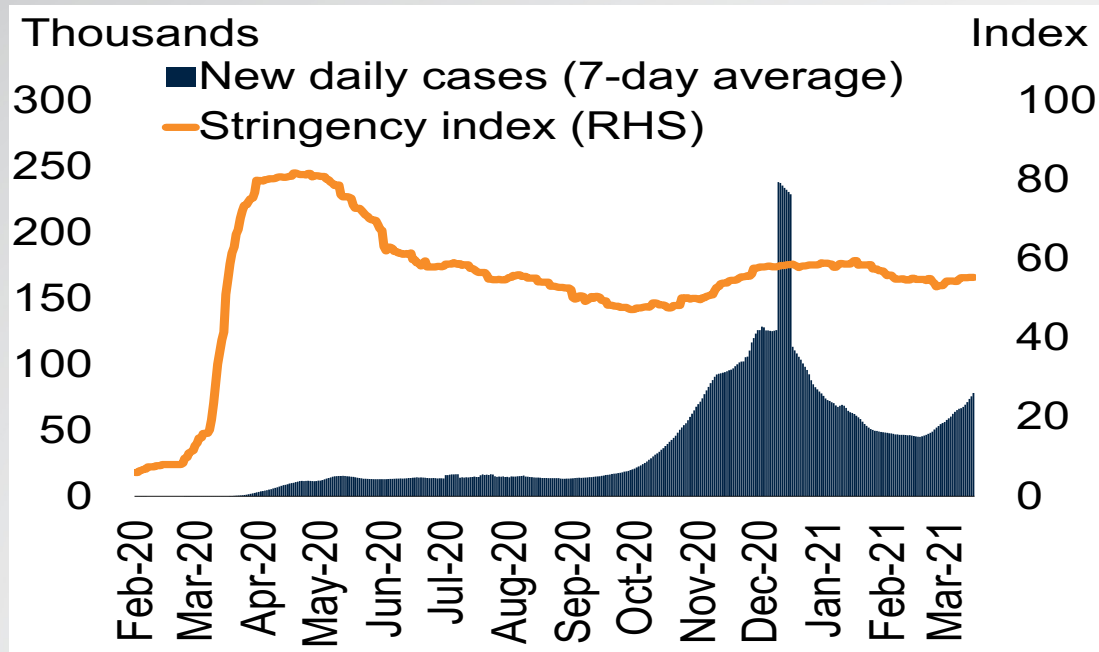
**Number of COVID-19 vaccine doses administered**
(Per hundred people

Source: Our World in Data, World Bank.
Left Panel. Figure shows 7-day moving average of new cases by date of case reporting. Sample includes 23 ECA economies. "Stringency" refers to daily number of measures of the following policy actions: School closings, workplace closings, cancellation of public events and public transport, restrictions to gatherings, restrictions to international and domestic travel, and stay-at-home requirements Last observation is March 21st, 2021. Right Panel. Figure shows unweighted regional average of countries, percentage of population who received at least one vaccine dose. Last observation is March 9, 2021.
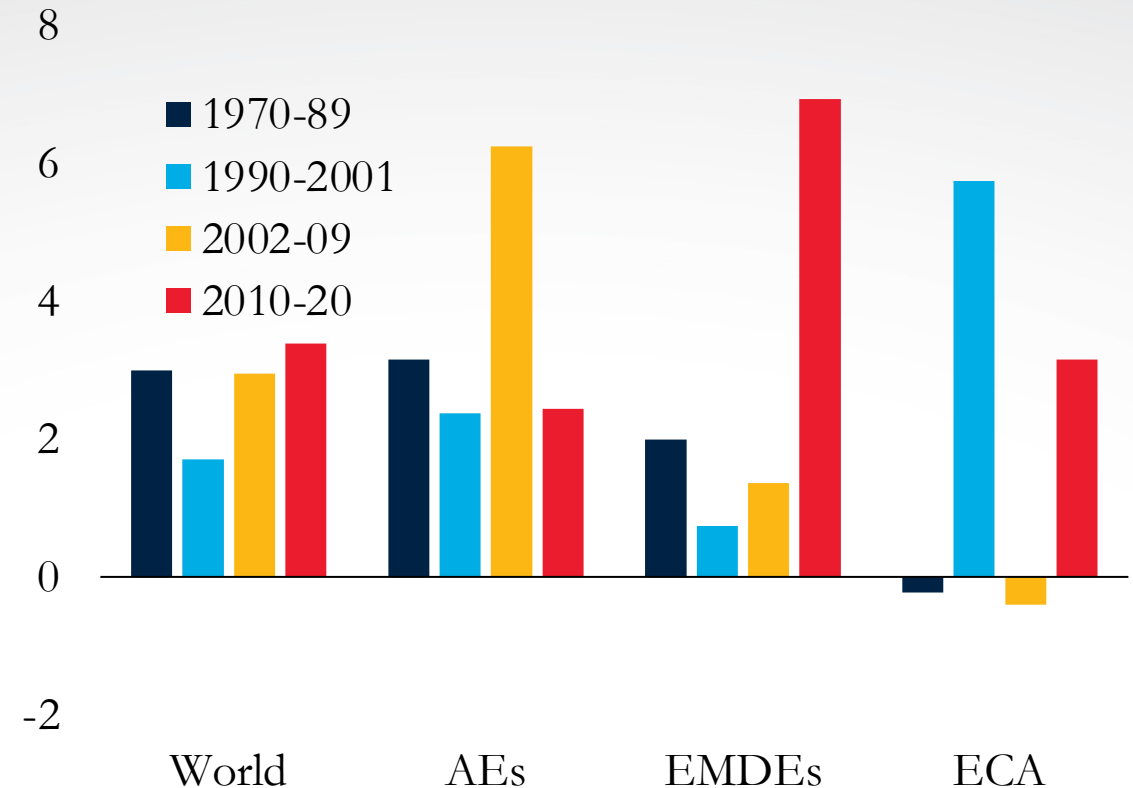
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Concerns about Deficit Financing

Government debt has been increasing rapidly, including in ECA

Government debt
(Percent of government revenue)

Legend: World, EMDEs, ECA, Advanced economies
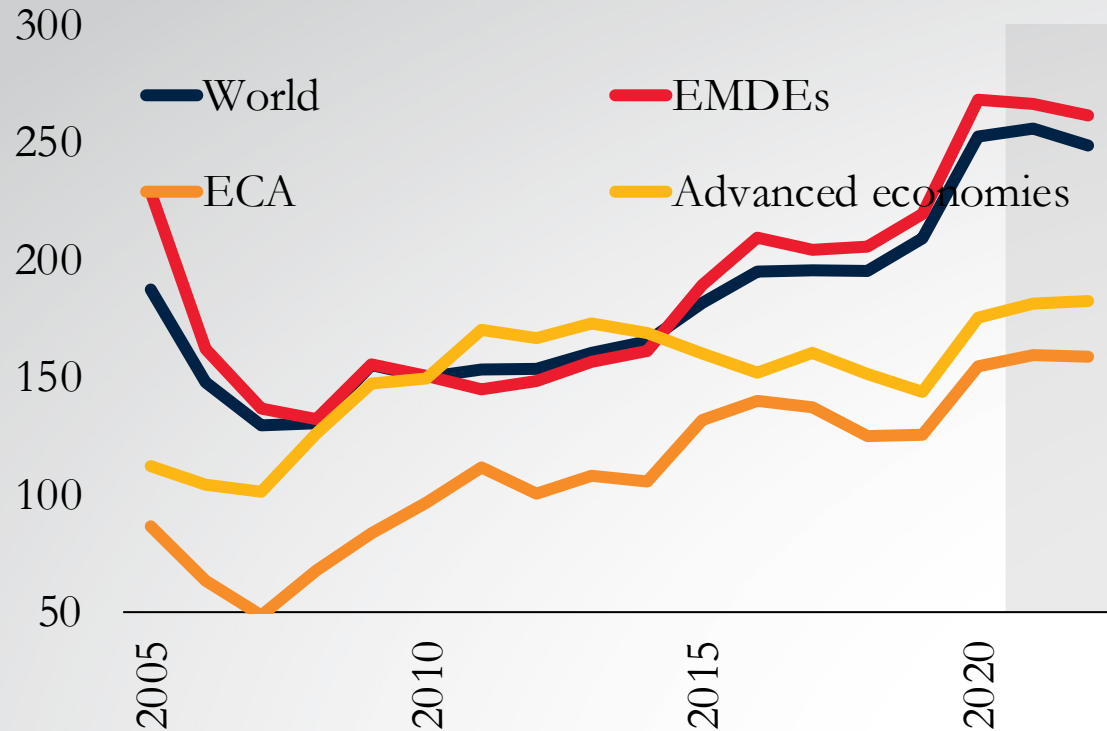
Average annual change in total debt
(Percentage points of GDP)

Legend: 1970-89, 1990-2001, 2002-09, 2010-20

Categories: World, AEs, EMDEs, ECA

Sources: Bank for International Settlements; International Monetary Fund; World Bank.
Left Panel. Aggregates are calculated using current GDP in U.S. dollars as a weight, based on data for up to 182 countries, including up to 145 EMDEs. Shaded area refers to forecasts for 2021-22; data for 2020 are estimates. Right Panel. Average annual change calculated as changes in total debt-to-GDP ratios over the denoted periods, divided by the number of years in each of them. Total debt is defined as a sum of government and private debt. Aggregates are calculated using current GDP in U.S. dollars as a weight. Total debt in 2020 is obtained under the assumption that it changes at the same pace as government debt in respective country groups.
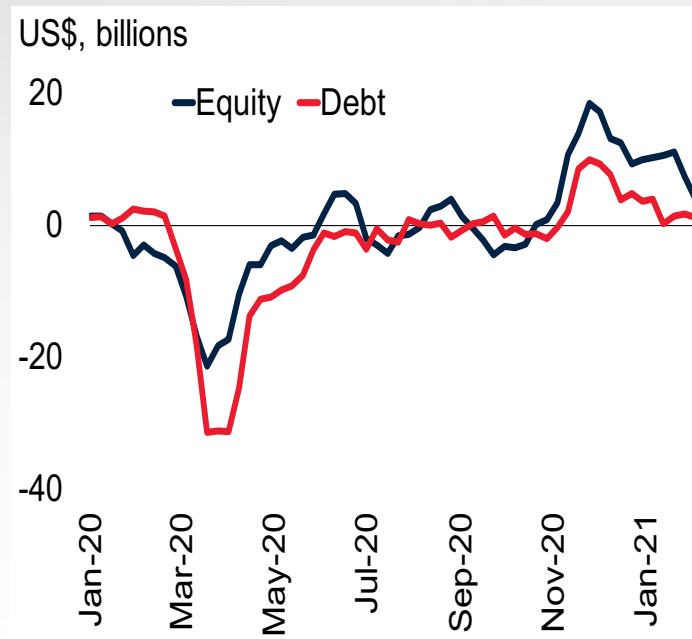
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Financial Concerns

Overall benign with the support of central banks, but fragilities remain

Inflation Pressures
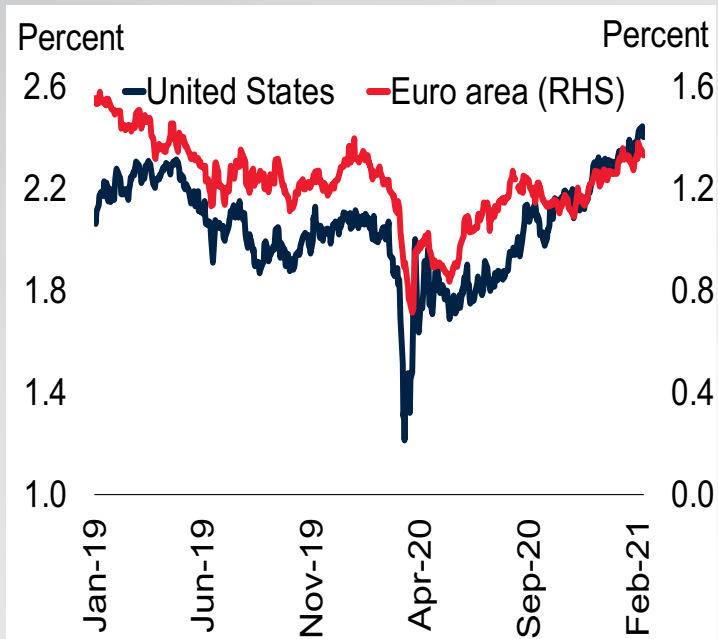
EMDE Portfolio flows

FDI inflows by region, 2019 and 2020
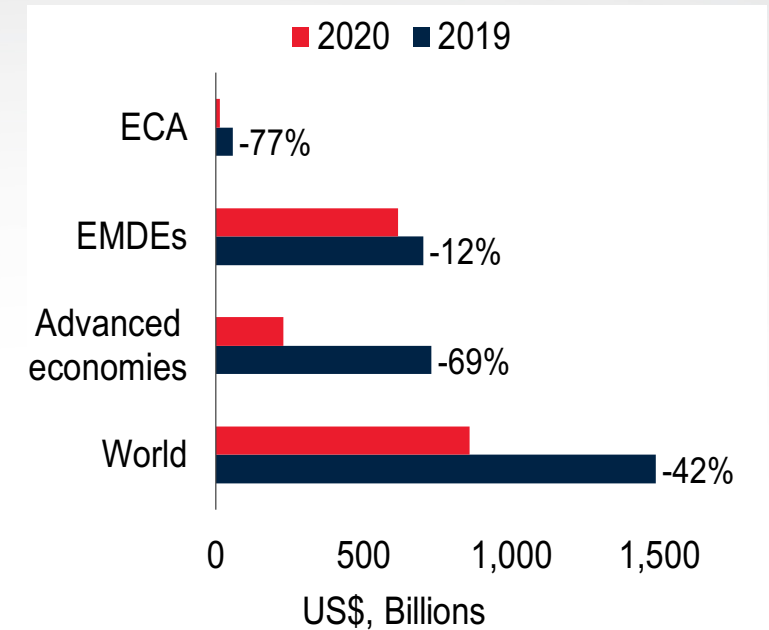
Sources: European Central Bank, International Monetary Fund; World Bank.
Left Panel. Figure shows seven-year inflation swap rates for the euro area, and the United States. Last observation is February 10, 2021. Middle Panel. EMDE portfolio flows, last observation is February 5, 2021. Right Panel. Foreign direct investment flows in 2019 and 2020 in billions of US dollars.

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Commodity Prices

Most Commodity Prices Rebounded in the second half of 2020

Nominal commodity prices *(Index, 100=2014)*

Index, 100=2010

Legend: Energy, Agriculture, Metals

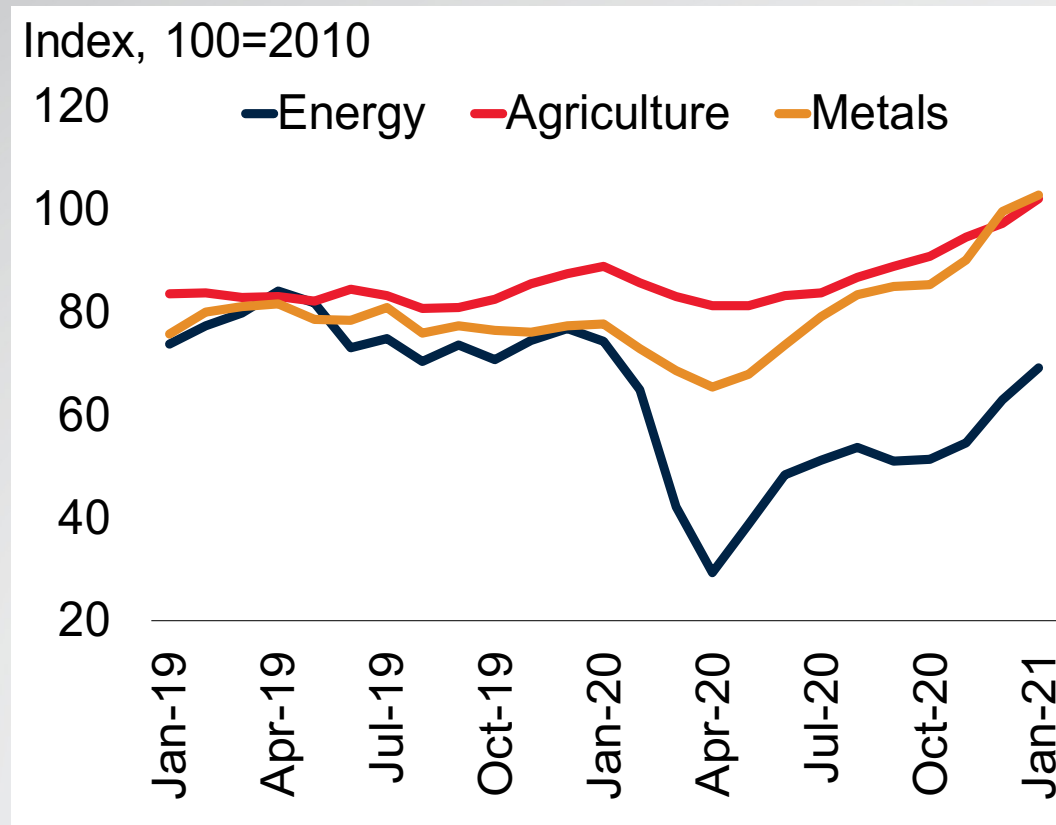- However, the pickup in energy prices lagged the broader recovery in commodity prices due to the prolonged impact of the pandemic on global demand

- Nevertheless, energy prices experienced a robust rebound in early 2021. Brent crude rose above $60/bbl in February for the first time in a year.

- Metals and agriculture prices have been surging in large part due to robust demand from China.

Sources: Bloomberg, World Bank.
Dots in shared area refer to price forecasts in 2020 and 2021. Last observation is 2020Q2, which includes data through April 2020.

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Weakness in Investment Continues

Investment Growth Collapsed after Persistent Decline Prior to COVID-19

Investment growth *(Percent)*

Legend:
- EMDEs
- EMDEs excl. China
- ECA

Investment levels *(Index, 2019=100)*

Legend:
- 2020
- 2021
- 2022

Categories: EMDEs, EMDEs excl. China, ECA
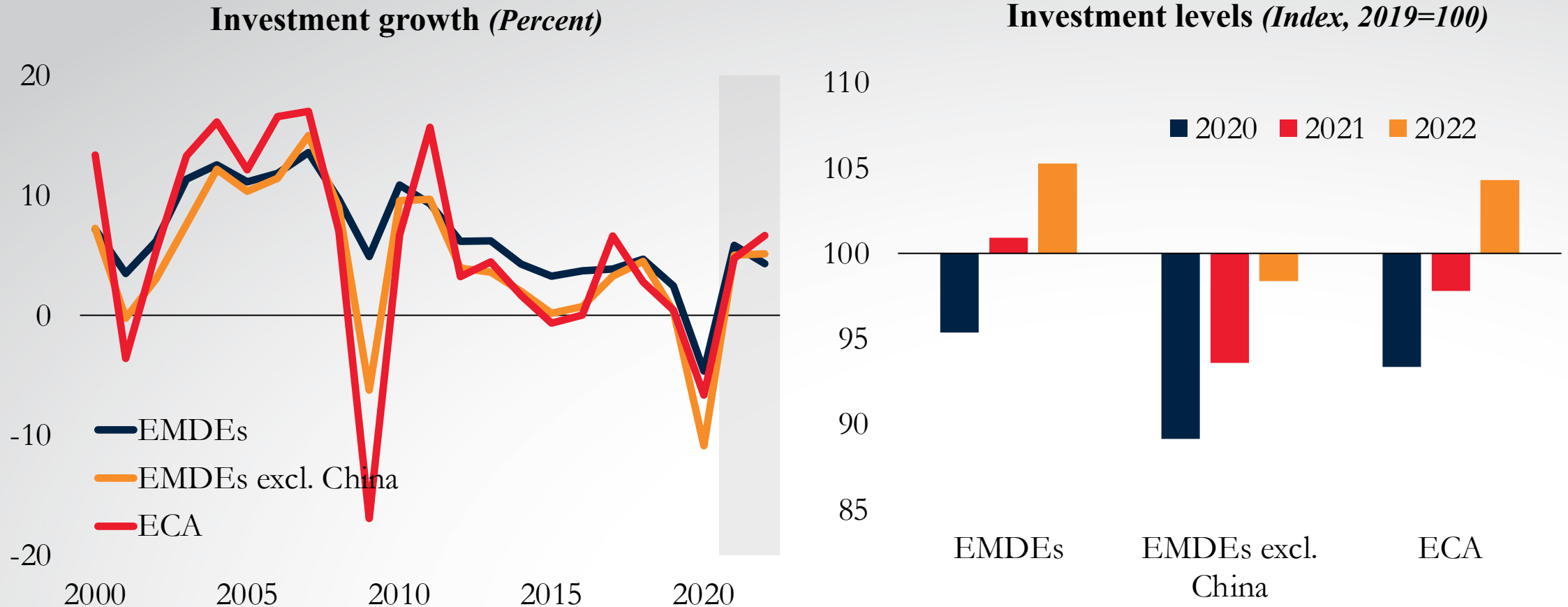
Sources: Haver Analytics; World Bank.
Note: Annual investment growth rates for 2020 are estimates and for 2021-22 are forecasts (shaded areas). Investment refers to gross fixed capital formation. Aggregate growth is calculated with real investment at 2010 prices and market exchange rates as weights.

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Global Outlook and Greece

Growth will Rebound but Recovery is Subdued

Annual GDP growth *(Percent)*
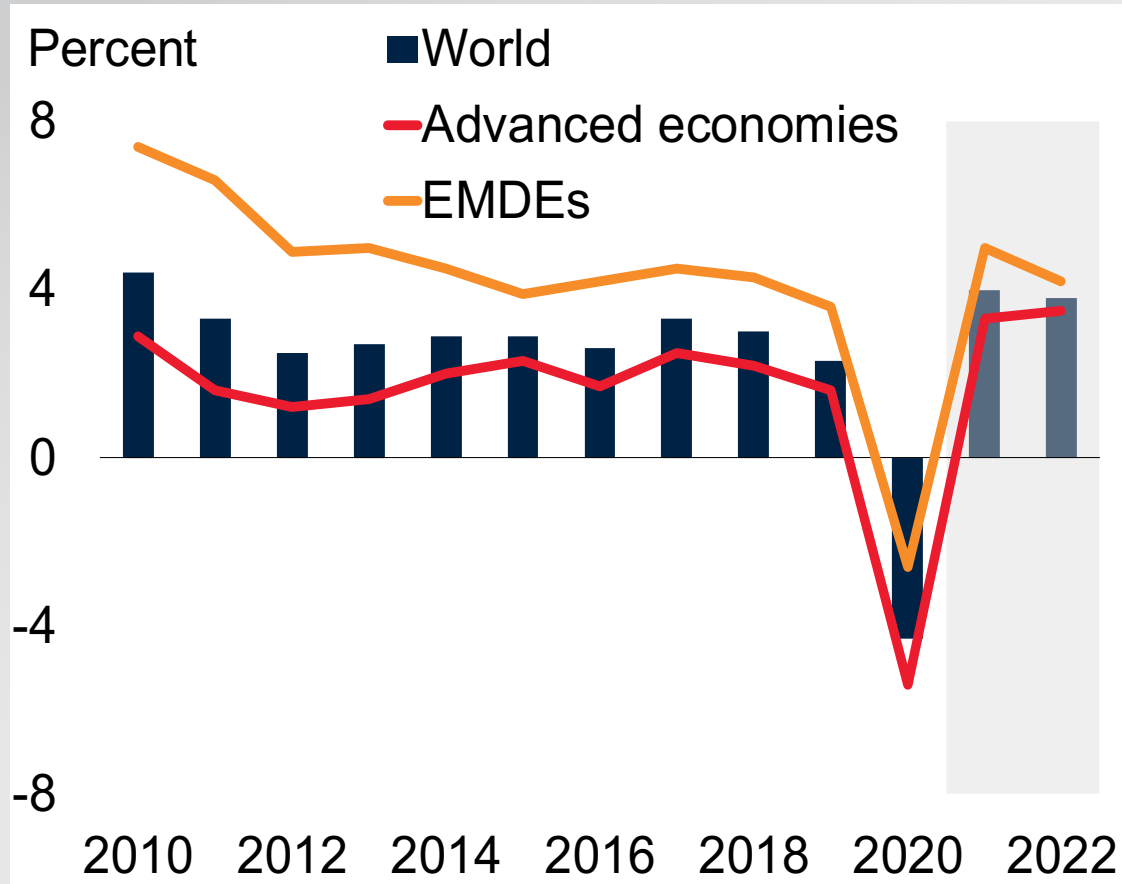
After 3.5% global contraction in 2020, there is expected to be around 5% rebound in 2021 and 4% 2022 (*but global GDP/cap will remain about 4% lower than pre-pandemic projections even in 2022*)

Euro area experienced a 6.6 percent contraction in 2020 and is expected to recover in 2021 by around 4%.

Greece also suffered a contraction of 8.2 % in 2020 – reflecting the outsized impact from the collapse in tourism. There is rebound of 3.8% expected in 2021, assuming vaccination picks up and allows for a relaxation of pandemic restrictions.

Risks to Economic Outlook

- A resurgence in the pandemic, delayed vaccine deployment, the need to introduce further restrictive measures due to persistently high cases

- Sharper than expected contraction to the largest trading partner—the Euro Area—as well as weaker than expected growth in large economies

- Fiscal constraints to further support, sudden reassessment of investor sentiment given increases in government debt, reduced foreign exchange reserves

- COVID crisis turning into banking crisis—corporate defaults, increases in NPLs, banking sector troubles, credit crunch

- Escalation of geopolitical tensions and social unrest

- Longer term, lasting damage of the pandemic on consumer and investor confidence; consumption behavior, investment; human capital; women's empowerment and labor force participation

Jobs Implications and Recovery

- Covid-19 led to wide-spread job losses and unemployment – particularly in services and tourism

- Also disproportionately impacting the poor and the vulnerable; women, informal workers, lower-skilled, young/old more

- Job recovery also tends to be unequal – mostly benefiting formal and skilled workers.

 = > How to promote a more equal/inclusive recovery?

Recovery Priorities –short term

- Immediate challenge – protect the livelihood of vulnerable populations
  - Improved social protection and temporary support measures..increased social transfers, unemployment insurance benefits, unpaid leave subsidies, credit/support to enterprises

  - Necessary, but raises sustainability concerns particularly in countries with high debt/gdp ratios; reliance on foreign capital

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Long-Term Challenges and Priorities

How to promote growth and job creation in the long-term:

- Boosting Human Capital and Reversing COVID-19 Damage
  - Improving general education; preparing university graduates better for work – likely disruption from automation; boosting digital skills; introduce skill upgrading and lifelong learning; educate immigrants (10% of Greek population).
- Strengthening Institutions and Improving **Governance**
  - Particularly important where government pays a significant role in the economy and employment; also important in attracting fresh capital and investment
- Enabling Markets and Fostering Competition
  - Governance problems often take the form of limited competition and access; covid spending should promote more equitable and inclusive recovery
- Facilitating Green Transition and Recovery
  - Building green objectives into Covid recovery packages can attract more support, and will increase resilience to future shocks and reduce risks.

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Why Focus on Governance?

Good governance, understood as a rule-abiding institutional environment with effective governments and a civil society that makes them accountable, is fundamentally associated with better development outcomes.

It is particularly important in ECA region since historically governments play an important role – Government expenditures/gdp, employment share

Government's role is also likely to increase in ECA as societies in the region are aging and risk-averse, two features which increase demand for government intervention.

This is also particularly true at this point since COVID-19 has shown the important role that governments and their interaction with citizens play in modern societies.

Strengthening state capacity and improving citizen trust and engagement should, then, be a key priority for governments across ECA.

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Data and Digitalization for improved governance

Among the several ways in which governance can be improved, harnessing the "data revolution" and broad digitalization emerge as promising strategies.
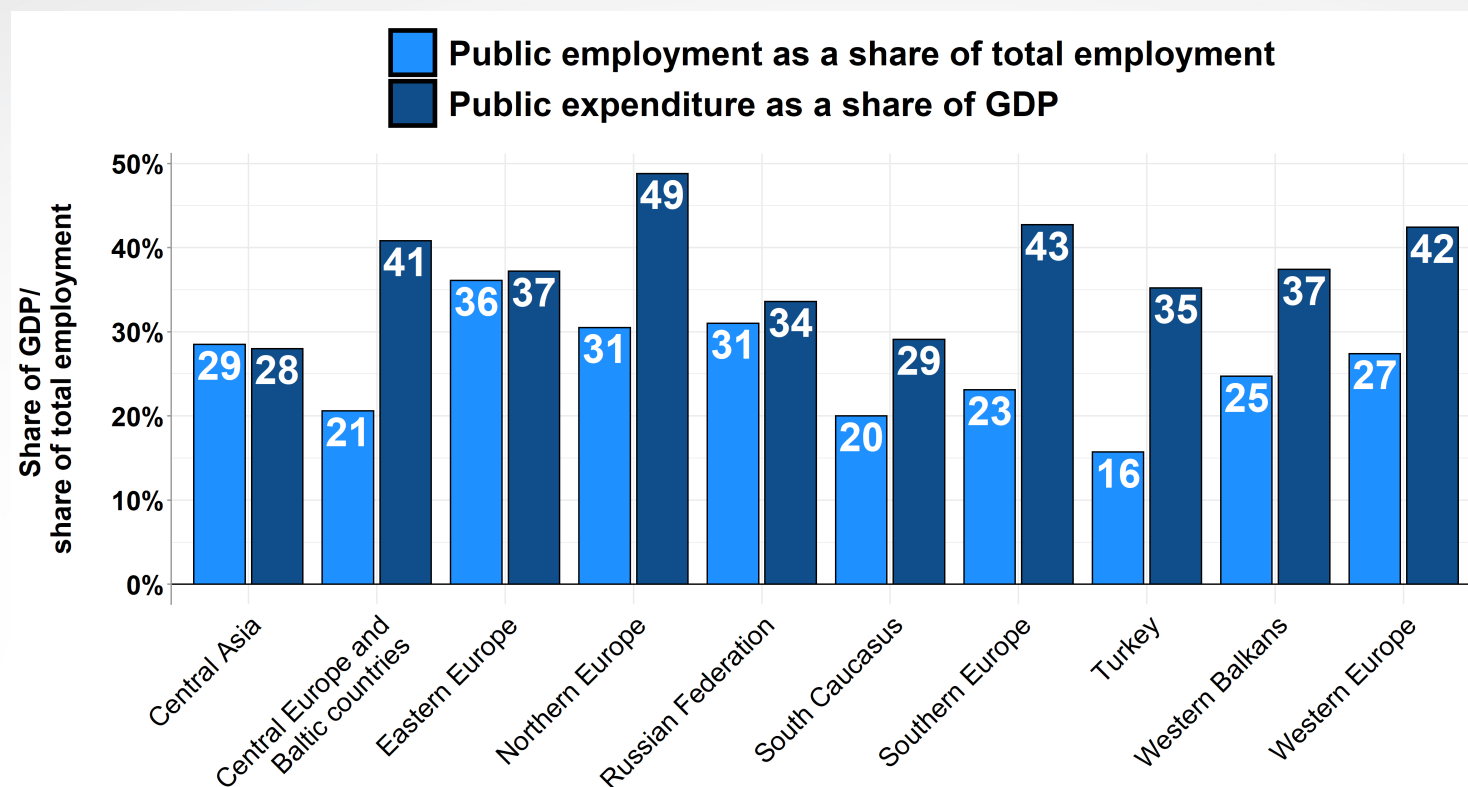
Digital technology offers the potential to increase efficiency, transparency, responsiveness, and citizen trust, directly impacting government quality.

The decline in the cost of producing, analyzing and aggregating data opens the possibility to adopt and adapt data systems within government management and organizational models.

Digitalization and the data revolution also create an opportunity for civil society organizations and individual citizens to engage with and improve government accountability.

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I. Government in ECA

- In the ECA region, government expenditures make up 39 percent of the GDP, relative to 33 percent worldwide. This is partly expected as richer countries usually have bigger governments and as many countries are still transitioning to market-based economies.

- The public sector in ECA employs 86 million people or 25.3 percent of total employment, significantly exceeding the global average of 16 percent.

Legend:
- ■ Public employment as a share of total employment
- ■ Public expenditure as a share of GDP

Y-axis: Share of GDP/ share of total employment (0% to 50%)

| Region	Public employment	Public expenditure
Central Asia	29	28
Central Europe and Baltic countries	21	41
Eastern Europe	36	37
Northern Europe	31	49
Russian Federation	31	34
South Caucasus	20	29
Southern Europe	23	43
Turkey	16	35
Western Balkans	25	37
Western Europe	27	42

Public employment in ECA

- The public sector also employs more tertiary-educated individuals and more women than the rest of the economy

Tertiary educated individuals, public sector vs. general population
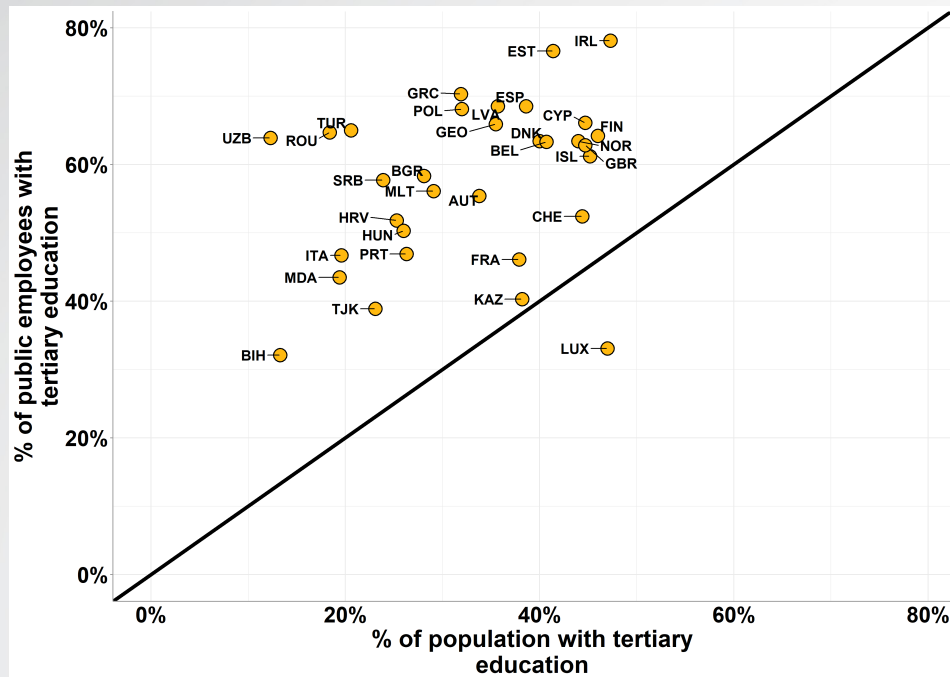
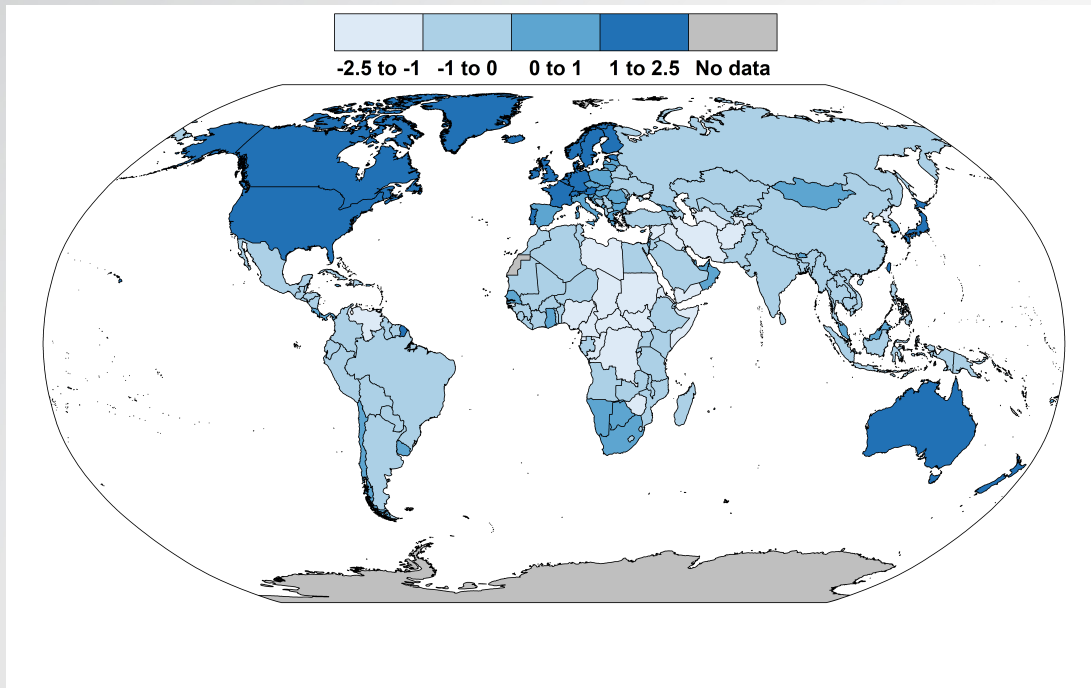**Women as % of employees, public sector vs. private sector**

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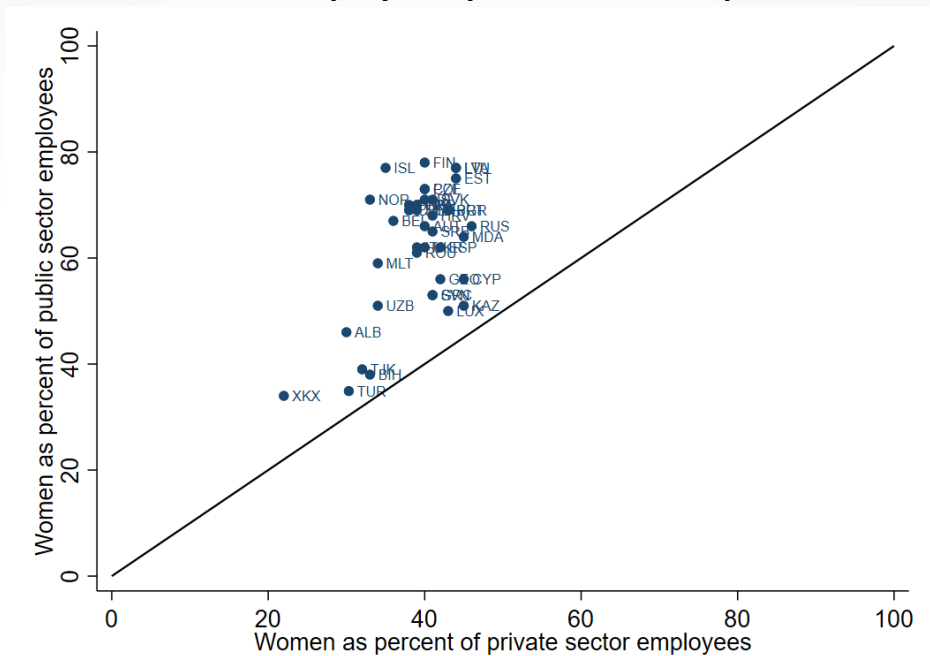
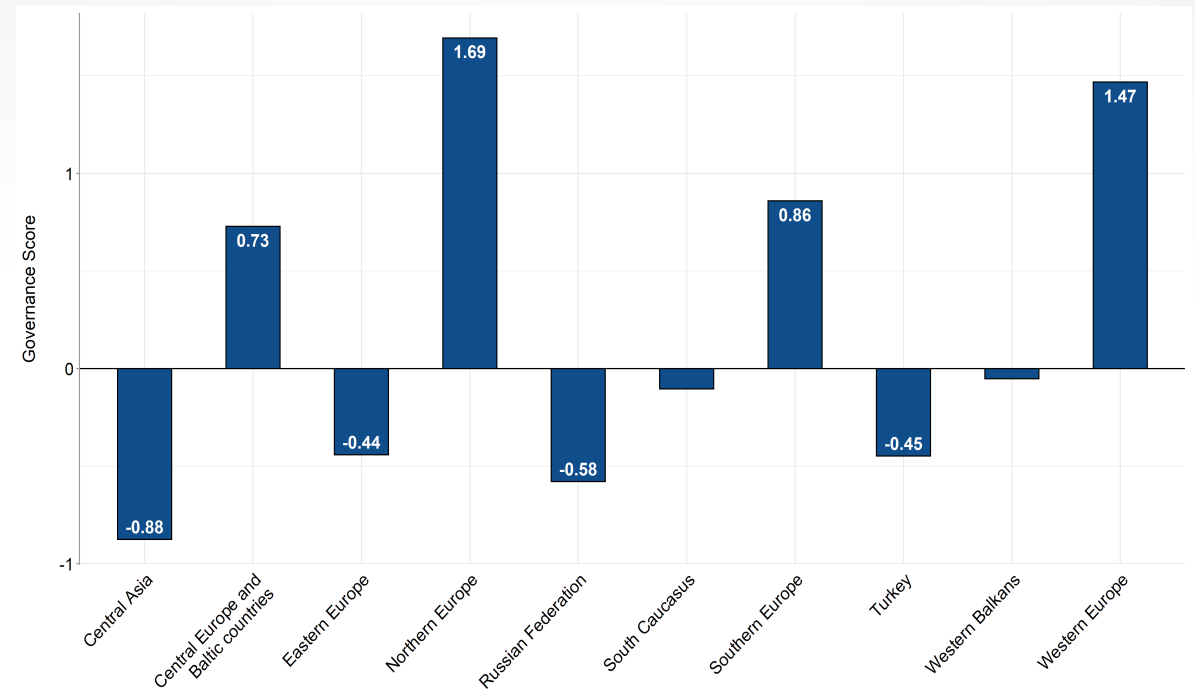# And governments are not likely to retreat soon…

- The aging population of ECA requires the expansion of public services such as healthcare, disability, and long-term care. These services are more labor-intensive and expensive compared to other government-provided services. As a result, the state tends to be larger.

- The support for state ownership is growing. The share of the population in advanced economies who favor the expansion of public ownership increased from 27 to 33 percent in the last years; about 45 percent of citizens in the transition countries support the expansion of the public property.

- This is partly due to rising inequality and the increased demand for redistribution, since globalization and technological change has been reducing job security and incomes for the most vulnerable.

- The COVID-19 crisis, as with many previous major crises, also increased people's risk aversion and re-enforced the existing citizens' desire for the state to socialize the individual risks.

- Countries are already witnessing significant increases in government's role in public health systems, education, social protection etc. as they deal with the pandemic

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Quality of governance varies across the region

- ECA is a region with the greatest disparity in quality of governance according to WGI –there is significant sub-regional variability.

-2.5 to -1 | -1 to 0 | 0 to 1 | 1 to 2.5 | No data

Average governance score by subregion

Subregion	Score
Central Asia	-0.88
Central Europe and Baltic countries	0.73
Eastern Europe	-0.44
Northern Europe	1.69
Russian Federation	-0.58
South Caucasus	
Southern Europe	0.86
Turkey	-0.45
Western Balkans	
Western Europe	1.47

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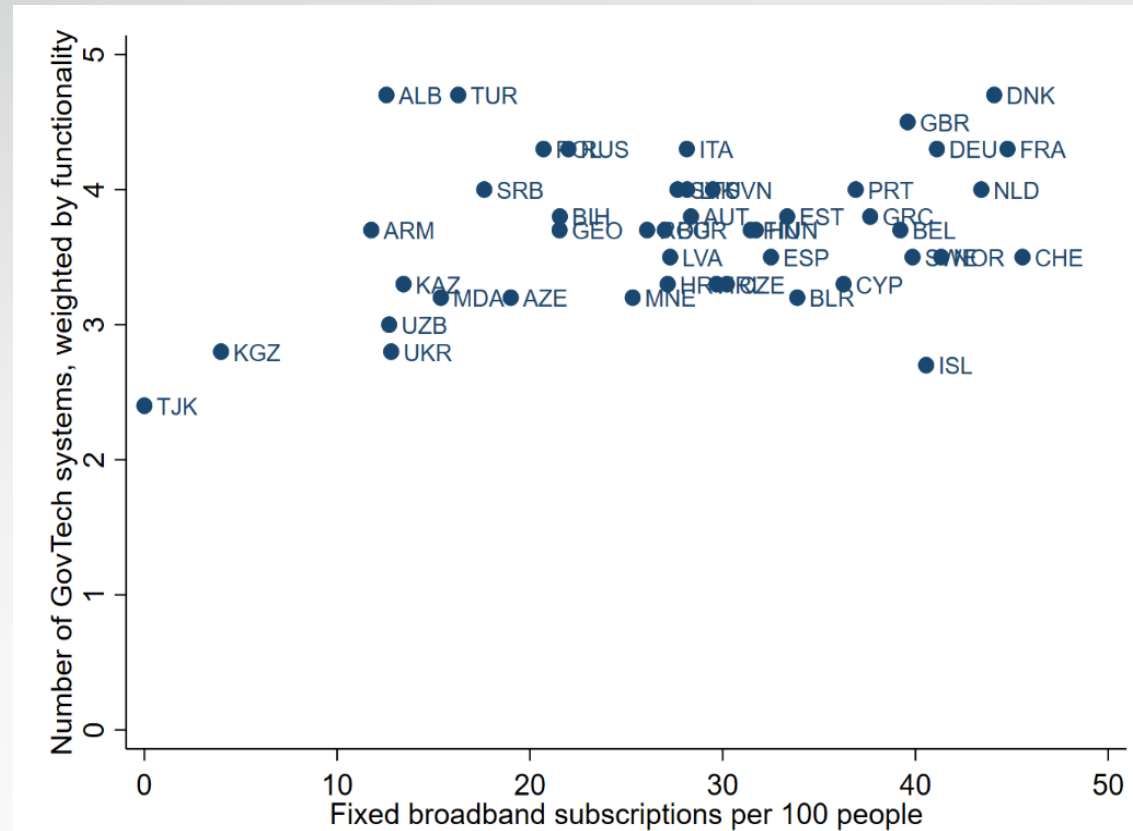# II. Data and digitalization for state capacity

- *Data Revolution*: accelerating decline in cost of producing and analyzing data and the rise in available personnel who are trained in analytical methods. Its impact hinges on the adoption and use of *data systems* – which is the active collection and use of relevant information

- Data revolution is closely linked with *digital transformation* which entails:
  - *Digitization*: the conversion of information from analog to digital formats.
  - *Digitalization*: the adoption of digitized data and tools.
  - *GovTech:* the application of technology to government practices

- Resulting in *Empiricism* in the public sector, which is the application of the empirical method – starting out with data, creating models representing these data and using them to reach conclusions about the present and predictions about the future to improve decisionmaking.

Digitalization of government operations

- Digital government becomes better government: improve state capacity by making systems more simple, transparent and, thus, more efficient.

- Implementation and functionality of GovTech systems is an important part of this

- Having a GovTech institution responsible for supporting interoperability and interconnectivity of government systems is essential for improving functionality

- Increasing connectivity is important to make full use of digitalization in the public sector

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Broadband Access and Digitalization of Government

Implementation of GovTech systems and broadband access

- Improving broadband access should be a priority for lagging countries for meaningful digital connectivity

# Data analytics for state capacity

- Beyond digitalization – improving state capacity requires the use of data and technology for evidenced-based decision making.

- Recent advancements in data and digitalization offer to fundamentally transform how public sector personnel acquire, interact with, and apply information to organizational decisions.

- But to ground public sector in empiricism and inform policymaking with evidence, governments must strengthen their personnel's capacity to undertake and manage empirical work.

- Both new recruitment and capacity-building of existing staff will be important in this regard

III. Data for collaborative governance with civil society

- Many citizens in ECA mistrust the government and view political decisions as not very transparent.

- Capitalizing on the data revolution and digitalization can help build strong linkages between governments and citizens by reducing the information firewall.

- One of the most promising mechanisms for this is Open Government Data (OGD), which reduces the transaction costs of gathering, analyzing, and disseminating public sector data, and allows for a more comprehensive understanding of the quality of public governance as whole.

- Today, ECA's public sector collects and produces large amounts of data but lacks the incentive structures to disseminate this data and help civil society overcome public inaction to use it

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Transparency, trust and legitimacy

- In 29 out of 49 countries in the region, the percentage of citizens that have confidence in their national government is below 50%.

- For countries where we have data, 54% of respondents of the European Social Survey (2018) noted that the decisions in their country's politics not transparent, while only 12% noted that they are very transparent.
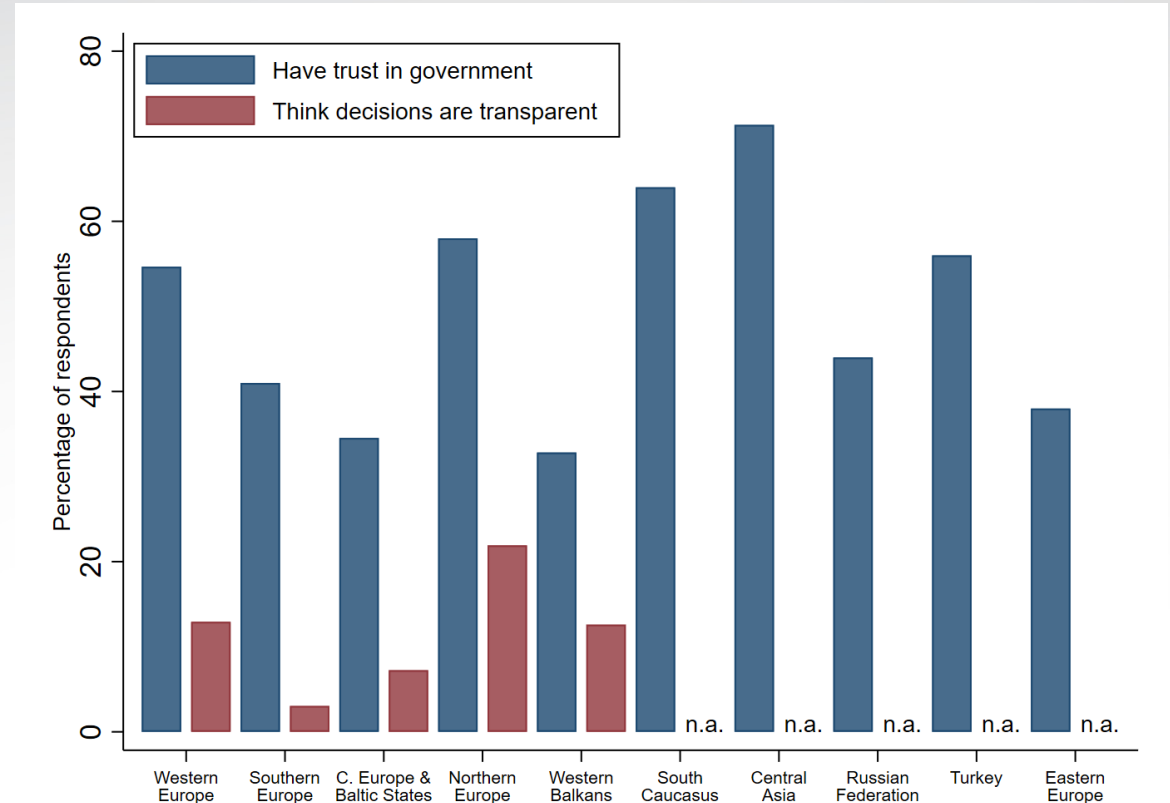

Digital civic engagement is a way to improve this. Open Government Data and Grievance redress mechanisms can help build trust.

Open Government Data

- Open Government Data (OGD) is an initiative that calls for the release of government data (information produced or commissioned by public bodies) so it can be freely used, re-used, and distributed by anyone

- Access to information can increase citizens' awareness of government activity and improve accountability and foster trust.

- OGD can foster collaborative innovation to address social challenges and enables civil society to generate new insights for governments for how to improve its performance.

WJP Open Government index, 2019

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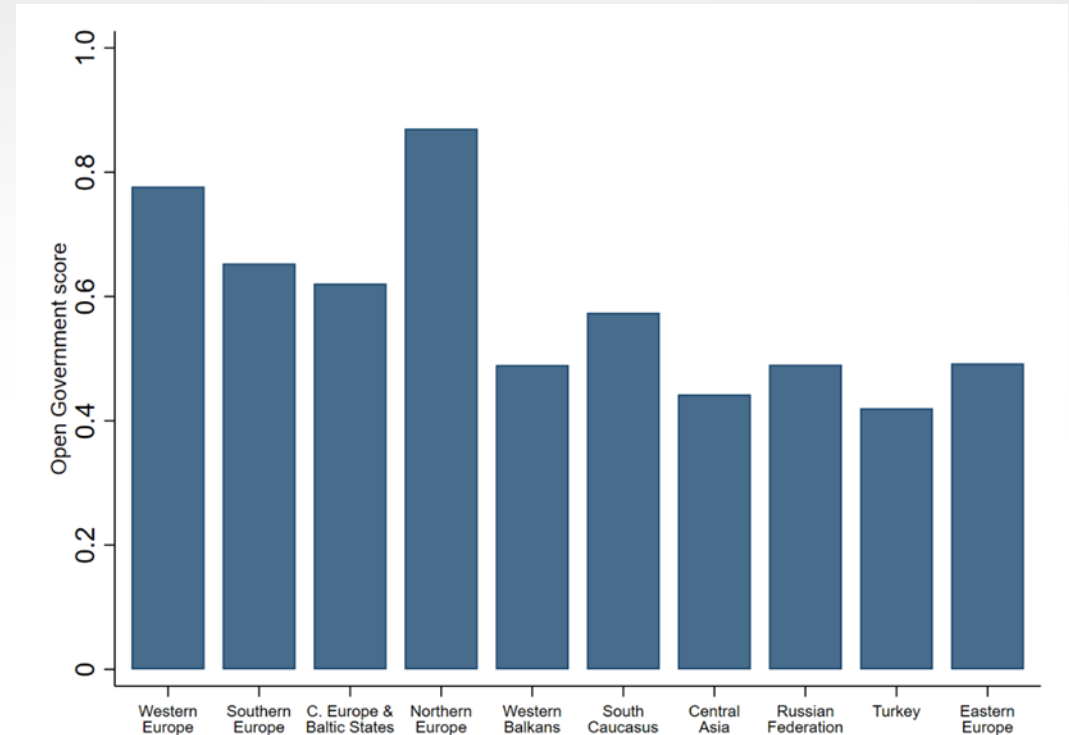
IV. Policy recommendations

- **Diagnosing the current state of the public administration**.
  With a particular emphasis on staffing and team-building for data and digitalization in government

- **Creating an enabling environment for reform:**
  - To expand the impact of the data revolution, central governments must build mechanisms for inter-sectoral coordination of decentralized data systems across institutions.
  - Governments should develop a national strategy to help bringing together stakeholders across ministries and agencies to define the government's vision, shared needs, potential gaps, and strategic goals. Examples of the Data Strategy by US and German governments are useful.
  - High-level coordination of e-government activities: 21 out of 50 ECA countries don't have a government coordination authority for data use, and less than half of ECA countries (only 20 out of 50) have a GovTech institution supporting interoperability and interconnectivity between government agencies .
  - Where still lagging, digitalization of government must expand.
  - .

Policy recommendations (Cont'd)

- **Societies must develop institutions and a public space for citizens to hold governments accountable over their broad approach to using data.**
    - Governments should broaden access to government information and data (Open Government Data) and incentivize use by citizens
    - Fostering the broader development of civil society organizations, particularly in countries where the public arena is devoid of them, is in itself a necessary starting point for the accountability of government action along any dimension.
    - have also to be mindful of the potential backlashes of misrepresentations of official data but should not resort to censorship or the blockage of information. Rather, promote fact checking and similar strategies to provide truthful information and enrich the quality of public debate.
    - Societies and governments must promote direct feedback between citizens and government.
    - Set up a centralized website where individuals can directly address the government with concerns or provide feedback on service delivery. Currently, only 28 out of 50 countries in the region have this kind of web portal.
    - Where still lagging, access to broadband internet should be expanded.

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Thank you!

Europe and Central Asia Chief Economist web page:
http://www.worldbank.org/en/region/eca/brief/office-of-the-chief-economist-europe-and-central-asia
ECA Economic Update:
http://www.worldbank.org/en/region/eca/publication/europe-and-central-asia-economic-update

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