

EUROPE: THE REACTION OF UNCERTAINTY TO COVID-19 AND THE WAR IN UKRAINE

Uncertainty matters greatly for households and businesses when taking decisions. It can have many causes: economic, economic policy, political or even geopolitical. Survey data of the European Commission show that the Covid-19 pandemic has caused a huge jump in uncertainty, followed by a gradual decline. The war in Ukraine has triggered another, albeit more limited, increase. It will be important to monitor the development of uncertainty in the coming months at the level of consumers, businesses and individual countries. In the absence of a decline, one should expect that the negative impact shows up in spending and activity data.

Uncertainty matters greatly for households and businesses when taking decisions. Visibility about the future path of earnings, employment, sales volume, profits, etc. declines when uncertainty increases. This may trigger a wait-and-see attitude whereby postponed spending and investment decisions weigh on growth. The assessment of the potential consequences of uncertainty supposes that the latter can be appropriately identified and measured. The former refers to the fact that uncertainty can have many causes: economic, economic policy, political or even geopolitical. Depending on the nature of the uncertainty, the consequences may differ.

Measuring uncertainty is a challenge. A widely used metric is based on media coverage. This offers the advantage that specific sources of uncertainty can be monitored. In this respect, chart 1 shows a geopolitical risk index. The start of the war in Ukraine led to an exceptionally large increase in this index although the attacks on 11 September 2001 had an even bigger impact. Media coverage, after spiking, tends to decline swiftly but this does not mean that the uncertainty confronted by economic agents has disappeared.

This calls for surveys in which people are asked how they feel about the future. Since May 2021, the European Commission has added an uncertainty question to its business and consumer surveys¹. Participants indicate how difficult it is to make predictions about their future business/financial situation. This implies that fluctuations in the answers can have many causes. As shown in chart 2, the spreading of Covid-19 infections in the spring of 2020 caused a huge increase in uncertainty of households and businesses. This was followed by a gradual decline but, one year later, uncertainty was still above its pre-pandemic level. In the summer of last year, it started to rise again and following the war in Ukraine, uncertainty jumped in March but hardly changed in April. Chart 3 provides greater detail. Interestingly, consumers' uncertainty has been on a rising trend since summer last year, which probably reflects the impact of high and rising inflation. Uncertainty in retail trade shows the waves of lockdowns and mobility restrictions and, more recently, probably also the impact of inflation.

Table 1 compares the change in uncertainty triggered by the Covid-19 pandemic and the war in Ukraine². Looking at the cumulative increase

1. The data cover the EU countries as well as key economic sectors (consumers, industry, services, retail trade, construction). Source: https://ec.europa.eu/info/sites/default/files/bcs_user_guide.pdf.

2. The monthly changes are expressed in z-score to take into account possible differences in the mean and standard deviation of the various series.

over two months, Covid-19 caused a far bigger increase of aggregate uncertainty than the war in Ukraine. Whereas the former saw rising uncertainty in March and April 2020, as the pandemic was spreading, the latter led to an increase in uncertainty in March, followed by a small decline in April. The effect of Covid-19 on uncertainty at the aggregate level as well as for consumers and business sectors, was similar for the European Union countries and the euro area. This also applies to uncertainty caused by the war in Ukraine, except for consumers' uncertainty, which increased more in the euro area.

Finally table 2 looks at the change in uncertainty in following the war in Ukraine. All countries except Malta saw an increase in March but the dispersion is considerable. Uncertainty declined in most countries in April except for Denmark, Greece - where there was a big increase -, Spain, France, Hungary, the Netherlands and Slovakia. It was stable in Portugal. It will be important to monitor the development of uncertainty in the coming months at the level of consumers, businesses and individual countries. In the absence of a decline, one should expect that the impact shows up in spending and activity data.

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GEOPOLITICAL RISK INDEX (7-DAY MOVING AVERAGE)

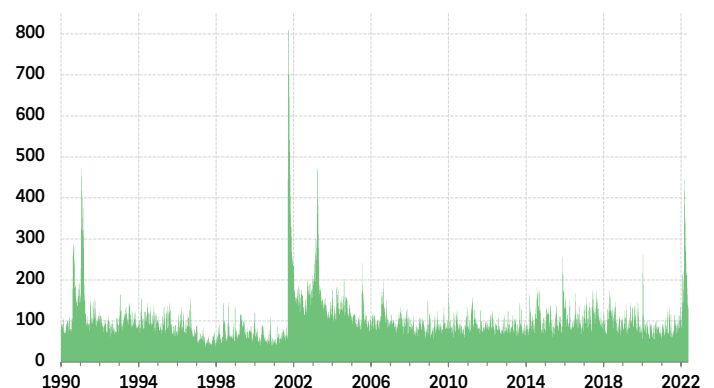


CHART 1

SOURCE: GEOPOLITICAL RISK (GPR) INDEX ([MATTEIOACOVIELLO.COM](https://www.matteioiacoviello.com))

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AGGREGATE UNCERTAINTY (LEVEL)

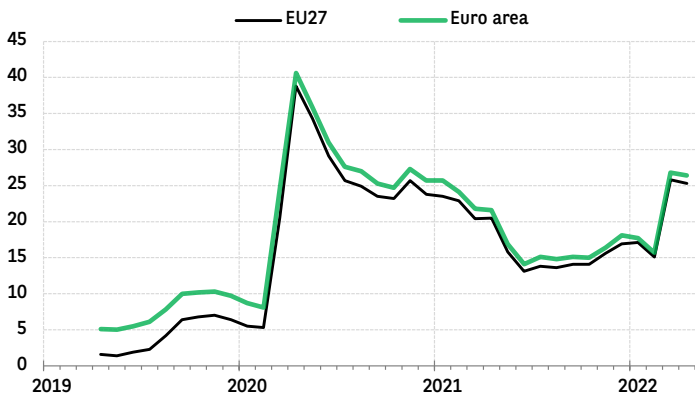


CHART 2

SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

EURO AREA: UNCERTAINTY LEVEL

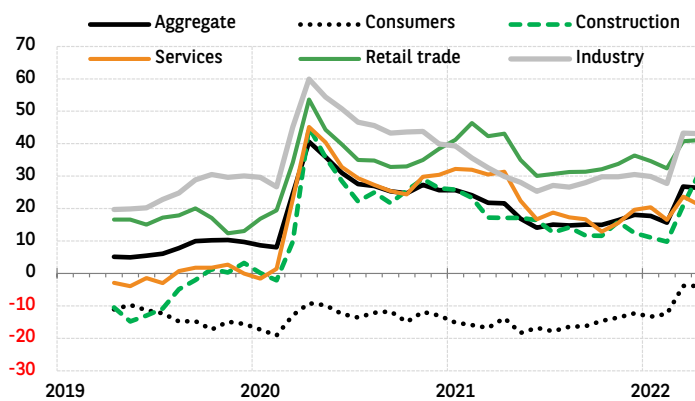


CHART 3

SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

UNCERTAINTY IN THE EUROPEAN UNION AND THE EURO AREA (MONTHLY CHANGE IN Z-SCORE)

	EU27					
	Aggregate	Consumers	Construction	Retail trade	Services	Industry
Covid-19, March 2020	3.1	0.0	1.4	2.6	3.4	3.4
Covid-19, April 2020	3.7	4.4	4.6	3.5	3.5	2.7
Sum	6.8	4.4	6.0	6.1	6.9	6.1
War in Ukraine, March 2022	2.1	2.3	1.3	1.5	1.0	2.8
War in Ukraine, April 2022	-0.2	-0.1	1.1	-0.1	-0.6	-0.2
Sum	1.9	2.2	2.3	1.4	0.5	2.6
	Euro area					
	Aggregate	Consumers	Construction	Retail trade	Services	Industry
Covid-19, March 2020	3.4	2.3	1.4	2.6	3.3	3.4
Covid-19, April 2020	3.3	1.3	4.5	3.5	3.5	2.7
Sum	6.7	3.6	5.9	6.1	6.8	6.1
War in Ukraine, March 2022	2.2	3.3	1.3	1.4	1.0	2.8
War in Ukraine, April 2022	-0.2	-0.1	1.2	-0.1	-0.5	-0.2
Sum	2.0	3.2	2.5	1.4	0.5	2.7

TABLE 1

SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

UNCERTAINTY AT THE COUNTRY LEVEL (MONTHLY CHANGE IN Z-SCORE)*

	March 2022	April 2022
EU27	2.1	-0.2
Euro area	2.2	-0.2
Belgium	2.4	-0.6
Bulgaria	1.3	-1.5
Czech Republic	1.4	-0.4
Denmark	1.3	0.7
Germany	2.6	-0.4
Estonia	2.5	-0.7
Ireland	2.1	-0.7
Greece	1.1	1.9
Spain	1.8	0.4
France	1.5	0.9
Croatia	1.4	-0.9
Italy	2.6	-1.0
Cyprus	2.2	-1.5
Latvia	2.5	-0.7
Lithuania	2.5	-0.6
Luxembourg	2.3	-1.0
Hungary	0.7	0.4
Malta	-0.3	-0.5
Netherlands	2.2	0.3
Austria	1.9	-0.1
Poland	2.3	-1.0
Portugal	2.0	0.0
Romania	0.6	-1.7
Slovenia	2.1	-2.0
Slovakia	1.7	0.8
Finland	2.6	-0.8
Sweden	2.6	-0.5

*Cells close to the median of the series are shown in yellow, those well above the median are in red and those far below are in green.

TABLE 2

SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

