

Economic Freedom Broadly Curtailed During Pandemic, Says New Report

By: Emerging Markets Debt | September 14, 2022

Boston - Every year since 1996, Canada's Fraser Institute has published its Economic Freedom of the World, as a reminder of the important link between a country's economic freedom and its growth potential. The 2022 report, based on data through December 2020, was released on September 8 and is the first to include the impact of the COVID-19 pandemic.

The 2022 report finds that governments responded with policies that broadly curtailed economic freedom, especially in developed markets. It ranks 165 countries based on five areas: size of government, legal system and property rights, sound money, freedom to trade internationally and regulation. In recent years, rankings have been adjusted to penalize countries where women are not legally accorded the same level of economic freedom as men.

A key component of the report is the Economic Freedom of the World (EFW) Index—a core data set used in the Emerging Markets Debt (EMD) team's analysis. Economic freedom metrics are key inputs for the team's research process as valuable indicators of equity and debt potential for emerging markets (EM) countries.

Freedom to trade internationally, size of government and regulation were the three areas of economic freedom which, on average, saw the largest declines. The free flow of goods was interrupted by supply chain issues and trade restrictions on essential goods such as medical supplies. Governments grew as they ramped up pandemic subsidies to individuals and businesses.

Below are some of the notable developments in countries followed by the EMD team:

Economic Freedom Decliners

Lebanon: A shocking collapse in the sound money and trade freedom categories. The country made history with one of the most precipitous drops in economic freedom ever recorded. It fell in ranking from #90 to #154—just above the Central African Republic.

Protests led government to resign in October 2019, and the country defaulted on its debt in March 2020. As a result, Lebanon witnessed a sudden stop in capital inflows, and debt burden reached 170% of GDP in April 2020.

Suriname: A sharp decline in sound money and worsened regulatory environment. The country experienced a modest decrease in economic freedom—from #143 to #134—its lowest ranking since joining the EFW Index in 2010. The country defaulted on its debt in November 2020. Corruption is pervasive and there is a lack of government transparency.

Bahamas: A decrease in sound money and trade freedom. After the country's level of economic freedom peaked in 2015, it has been steadily falling—down again in 2020 versus 2019. However, its ranking improved two spots, to #71 from #73, after other countries had larger decreases in economic freedom. The Bahamas was especially hard hit by the collapse in tourism during the pandemic, which led to capital controls.

Economic Freedom Gainers

Angola: The largest increase in sound money of all 165 countries in the data set. With its ranking advancing from #153 to #138, the country achieved the highest level of economic freedom since being added to the EFW Index in 2010. The country has taken steps to float its currency and impose fiscal discipline and a conservative monetary stance, while embarking on a major privatization program that has helped to shrink the size of government.

Vietnam: Significant gains in the legal system and property rights offset immaterial declines in other areas. The country achieved the highest level of economic freedom since it joined the EFW Index in 2000, with a modest bump from #118 to #113. The country liberalized laws on private investment, which enhanced foreign direct investment (FDI) and helped push FDI to 5% of GDP in recent years.

Bottom line: Crisis events usually correlate with a decline in economic freedom, and the post pandemic experience of most countries has been no exception to that rule.¹

¹ Stocker, Marshall L. "Crisis facilitates policy change, not liberalization." Journal of Financial Economic Policy (2016).

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