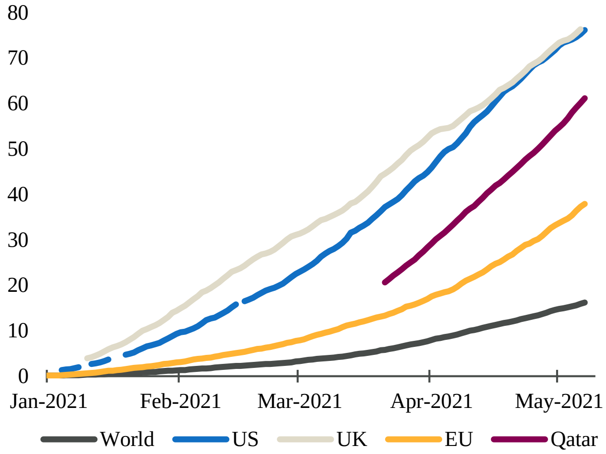
QNB Economics
economics@qnb.com
23 May 2021

Effective vaccination campaigns enable gradual reopening of economies

The global economy suffered in 2020 due to the outbreak of the global Covid-19 pandemic. In response, countries across the world implemented a range of restrictive policies, including stay-at-home orders; reduced capacities in schools, workplaces and public transport; and cancellation of events and public gatherings. Fortunately, rapid progress in developing and testing a number of effective vaccines offers hope for a gradual easing of restrictions during 2021. However, the effectiveness of the policy response and pace of vaccine distribution varies considerably across countries and regions, especially between the European Union (EU) and the US.

In this article, we do a stock-take across three key topics: progress with vaccinations; the stringency of restrictive policies; and the impact of both on new cases of Covid-19.

Chart 1: Covid-19 vaccine doses per 100 people

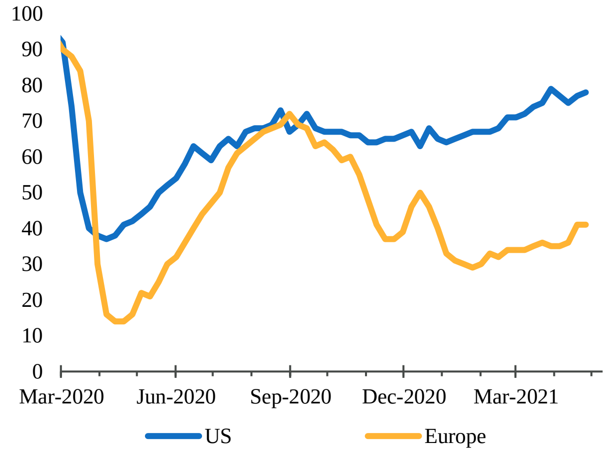


Sources: Official data collated by Our World in Data and QNB analysis

First, Bloomberg reports that "there's good real-world evidence […] that vaccines will be highly effective at preventing recipients from developing a serious case of Covid-19". Bloomberg concludes that vaccinated individuals have a lower viral load, likely making them less infectious. To bring this pandemic to an end, a large share of the world needs to become immune to Covid-19. The safest way to achieve this is with vaccines, which in many cases also offer stronger and longer-lasting protection than naturally recovering from an infection. A number of wealthy countries have made rapid progress in vaccinating a large share of the population (Chart 1). Going forward, the challenge is to make vaccines more widely available around the world to minimise the number of infections and therefore the opportunities the virus has to mutate into new variants of concern.

Second, countries have implemented a wide range of restrictions aimed at reducing the number of new infections. A number of analysts have gathered a range of data sources on restrictions and mobility to construct their own indicators to assess the stringency of lockdowns and their impact on both mobility and economic activity. For example, Goldman Sachs (GS) calculates reopening metrics for Europe and the US (Chart 2). These show initially a similar imposition of restrictions, but then clearly diverge. Europe relaxed restrictions aggressively in summer 2020, allowing northern Europeans to holiday in the South, but was forced to re-impose tight restriction in the winter of 2020 as cases surged. In contrast, the US relaxed restrictions more gradually, with only a modest tightening in response to the winter surge in new cases.

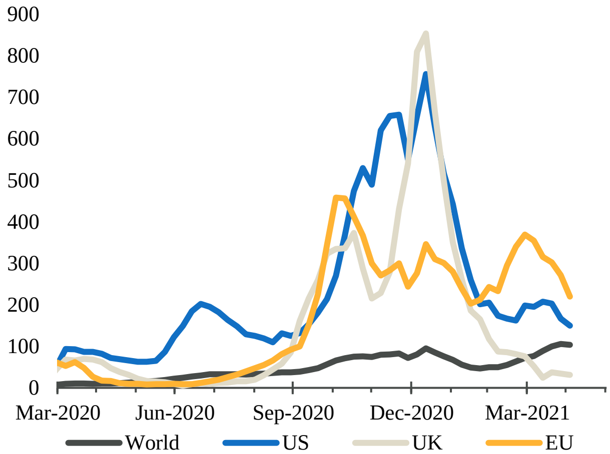
Chart 2: GS reopening metrics for the US and Europe



Sources: Goldman Sachs and QNB analysis

The difference in approach between countries drove different dynamics in the number of new cases caused by Covid-19 (Chart 3). Interestingly, emboldened by Brexit, the UK chose a path more similar to the US than the rest of the EU. Tighter restrictions in the EU helped to limit the number of new cases in the EU throughout the winter surge. Whereas, the US and UK allowed a much larger spike in new cases during the winter than the EU. Then, perhaps in-part motivated by this, the UK and US began more aggressive vaccination campaigns earlier than the EU did (Chart 1).

Chart 3: New confirmed cases of Covid-19
(Per million people, 7 day moving average)



Sources: John Hopkins University and QNB analysis

The slow initial pace of vaccinations, particularly in large Euro area economies, has led to a slower relaxation of restrictions and contributed to a weak start to the second quarter of 2021. Sectors dependent on domestic activity, including bars, restaurants and entertainment venues, are still suffering. Ongoing travel bans will also continue to limit activity in tourism-dependent countries, such as Portugal, Italy or France. However, powerful stimulus measures are still expected to drive a delayed recovery. Fiscal stimulus in 2021 is likely to exceed 2020's support level in large EU countries. Further, the European Central Bank is keeping financial conditions very loose by accelerating the pace of its asset purchases to shield euro zone yields from upward pressure

Having already vaccinated a large and growing share of their population, the UK and US have seen a substantial reduction in the number of new cases and deaths caused by Covid-19. Both are now amongst the countries at the fore-front of reopening their economies. However, the economic recovery in rest of Europe is being delayed by a slower relaxation of restrictions necessary to avoid a resurgence in cases until more of the population have been vaccinated.

QNB Economics Team:
James Mason*
Senior Economist
+974-4453-4643

Luiz Pinto
Economist
+974-4453-4642

* Corresponding author