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Emerging victorious: A comparative study on the impact of COVID-19 on European countries

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Abstract **-**With the help of three developed European countries, this research assessed whether the countries would be able to fend themselves off from the negative effects of this pandemic. Factors such as economic growth rate, GDP, sectoral distribution, and specialization were considered, which helped in examining the success of the implemented policies. Each country's individual demographic and geographic conditions were taken into account to minimize bias towards one country.

***Key Words*:**Coronavirus, COVID-19, Economic Growth, Europe, EU, Governments, Impact, Policies

1.INTRODUCTION

This research will assess the macroeconomic impact of COVID-19 on European countries with the highest economic growth rates, namely Iceland, Luxembourg, and Malta. By comparing the changes in the annual percentage of GDP, and evaluating the extent to which countries rely on specific sectors, this research will dissect the subjective impact of the pandemic.

Via choosing countries with a sustained, high economic growth rate, I will evaluate the impact of the pandemic on the Real GDP, and assess the long term influence on the productive capacity of the economy. For comparing the three countries, I would evaluate their economic growth rates, their thriving industries, and their regional specialization, if any.

Moreover, to conduct an objective comparative analysis, I will be considering the subjective sectoral distribution of the Real GDP of individual countries. To further investigate the data about each country, I would utilize a PEST analysis, which would encompass Political, Economic, Social, and Technological factors. This would facilitate an objective assessment and comparison of individual countries, thus it would help in making unbiased comparisons.

The following diagram highlights the fluctuations in the percentage changes in the GDP of Iceland, Luxembourg, and Malta.

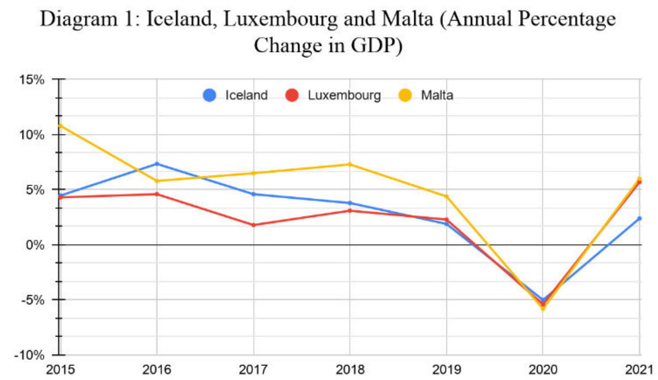

Fig 1: GDP of Iceland, Luxembourg and Malta

Observing the graph, it is apparent that Luxembourg is expected to have the most significant improvement in its economic growth rate after the pandemic, as its growth rate rises from 2.3% in 2019 to 5.7% in 2021. Therefore, I would investigate this country first.

2. LUXEMBOURG

To decipher such a striking rise in the growth rate of Luxembourg, I will investigate its industries, the sectors that the economy depends on, and how each of them play a role in influencing the recovery of the country's GDP.

Although Luxembourg covers only 2586 km2 of land, it was ranked the second highest richest country in the world by the Global Finance Magazine. Using the GDP per capita as a measure, Luxembourg was only surpassed only by Qatar and was followed by Singapore. This rank was majorly due to Luxembourg's favorable location, with France, Germany, and Belgium being its immediate neighbors. Friendly neighbor relations and the co-membership of the EU have allowed a smooth flow of capital, technology, and human resources between Luxembourg and its neighbors. Germany, Belgium, and France, together, accounted for 56% of the country's exports in 2018, while a mere 3% of the exports were to non-EU members. Moreover, 88% of all the goods and services imported by the country came from EU member countries, with the three neighboring countries exporting 72% of its imports. Thus, it is apparent that being a member of the EU, and having developed countries as immediate neighbors, have allowed Luxembourg to boost its economy significantly. Although these factors have aided in the development of Luxembourg's economy, a variety of other factors have also contributed to this growth.

Gauging the country's sectoral distribution, it is apparent that the country is primarily dependent on its tertiary sector, with a considerable percentage of its GDP coming from the financial sector. 79.16% of the GDP in 2019 came from the

service sector, which was significantly complemented by the strong investment and financial sectors of a relatively small economy. For perspective, the total Assets Under Management (AUM) of investment funds in Luxembourg was approximately 4.7 trillion EUR, and that of Europe was 23.2 trillion EUR in 2019. Furthermore, as per the Global Financial Centers Index, the country held the sixth most competitive financial sector in all of Europe. Thus, even for a relatively smaller population, Luxembourg has a strong financial sector, which has played a consequential role in the success of the economy.
With the aforementioned factors, a PEST Analysis can be constructed.

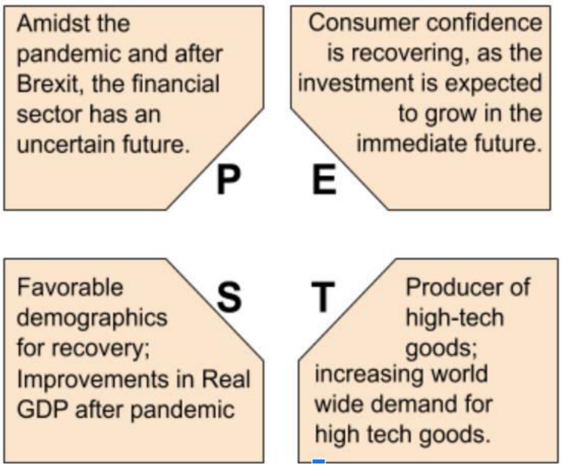

Fig 2: PEST Analysis of Luxembourg

Assessing the economic factors, I can argue that Luxembourg's unparalleled service sector is an important reason for its past stability. With a favorable position on the map of Europe and its strong financial position, it is not surprising that Luxembourg harbors some of Europe's most revered establishments: the Court of Justice of the European Union, Publications Office of the European Union, European Investment Bank, and the European Investment Fund. Moreover, as the country has been witnessing a relatively small number of COVID-19 patients, consumer confidence has been recovering, which can be witnessed by a steady rise in the country's stock market index, LuxX Index. Since the trough of the index in March 2020, the market has acquired a steady rising rate, manifesting the optimism amongst consumers and producers.

Although it cannot be argued that Luxembourg has specialized in the financial sector, it can be said that with such a major proportion coming from a single sector, its economy could be subject to a tremendous amount of risk and uncertainty. Since this EU member state harbors a substantial amount of money from foreign sources, it also makes the economy dependent on the functioning of other countries, making it vulnerable to external shocks. Thus, this can be considered as one of the most significant economic restraints towards Luxembourg's higher economic growth. Apart from this, Luxembourg has not been a significant beneficiary of the Brexit deal, because a major proportion of its export revenues are constituted by exports only to the EU. So, as the UK leaves the EU, it creates a disadvantage for Luxembourg as now, the country has to pay tariffs, along with other protectionist policies. Therefore, while considering Political factors, I can argue that Brexit has posed a strong threat to Luxembourg's political and regional stability. However, Brexit may also lead to an export vacuum from the UK's absence, which would promote Luxembourg's goods and services. With the country's strong location on the world map, Brexit may promise Luxembourg with improved net exports. Although the pandemic may pose a threat to this, the impact of Brexit on Luxembourg is still uncertain, and a true, unbiased perspective can be obtained once the market calms down.

To conclude, the impact of the pandemic is, unquestionably, lesser on Luxembourg as compared to the USA, India, and other highly impacted countries, however, it can be said the political uncertainty induced by Brexit and now the virus, have brought the country to an all-time low. Although forecasts predict that the economy would not suffer excessive losses from COVID-19, it should be noted that the overall impact would also be influenced by Brexit, and other simultaneous changes. Thus, I conclude that the impact is uncertain, but I have to keep in mind that the level of damage done by the virus is much less than other countries, and perhaps, it may leave Luxembourg in a better position than it was in before.

3. ICELAND

Iceland, as compared to Luxembourg, is expected to experience a lower impact on its GDP due to the pandemic. This could perhaps provide the economy with a relatively better starting position for the coming years. Iceland's sectoral distribution manifests that, like other EU member countries, it has the highest dependence on the tertiary sector, with about 75% coming from it in the past 5 years. In the recent past, this increase has been accompanied by a steady increase in the yearly growth rates. However, in 2020, the decline in GDP would be observed, mainly perhaps due to the significant amount of income brought to the country from the industry of travel. Due to the pandemic, and the engendering restrictions, the tourism industry has witnessed a sudden stop, which could be one of the reasons for the drop in GDP. Although Iceland itself has recovered almost to the point of zero new cases, many other countries are witnessing an exponential increase in the number of new cases. Thus, Iceland would have to initiate a process wherein tourists can arrive safely to the country, without risking exposure and without bringing the virus with them. This, however, is practically very difficult to implement, which is partly due to the fact that a vaccine is not currently available, and the coronavirus has not been studied to the extent that enables tourists to safely visit other countries. So, in the current circumstances, it seems unlikely that the tourism industry of Iceland will get up to pace.

Entailing the crash of the housing market in the USA, the country underwent a steady increase in yearly GDP, accompanied by a rise in the per capita income. At the time of the crash, however, the country's three largest banks, namely Kaupthing, Glitnir and Landsbankinn, were forced to shut down. These banks had themselves become greater than the country's GDP, and when they fell, the GDP of the country fell steeply from an all-time-high. Nevertheless, the government took control of the financial sector, rebuilding it, and providing the country with new financial institutions. Unfortunately, Iceland did not reach the 2007 GDP levels until about 2016.

Within this decade of rebuilding, the government had to implement measures to keep the country's exchange rate in check, while maintaining a low level of national debt.

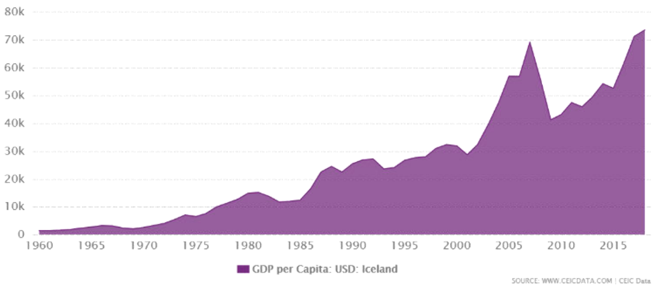

Fig 3: GDP per capita of Iceland

Immediately after the crash, the country was seemingly in ruins, with about 2-3% of the population out on the street in protests. Later, an investigative committee concluded that the extensive amounts of money credited by the private banks to each other led to a huge debt trap. So, with more debt accumulation, even the government could not save these banks.

The lessons of 2007-08 can be implemented in the contemporary financial sector of Iceland as well. The small, private businesses have been provided a fiscal boost in form of subsidies, while banks have been promised to receive loans at low-interest rates. Moreover, many large Icelandic companies, and MNCs are being considered to receive financial assistance, however, this may only apply to some of the organizations. Therefore, the government's fiscal relief manifests that the process of rebuilding has been initiated quickly as compared to the housing market crash. This may, potentially, reduce the time for the country to recover from the negative financial implications induced by the pandemic.

Another PEST analysis can sum up these factors:

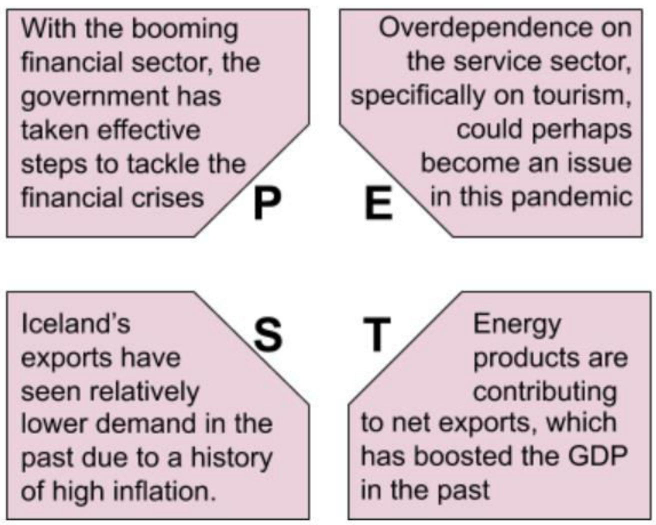

Fig 4: PEST Analysis of Iceland

Amidst the Political factors, I can observe that to sustain the strong financial industry, the government of Iceland has implemented long-term recovery fiscal packages, which could help in building consumer confidence, and allow producers to increase their output.

The high inflation rate of the country could impact the international competitiveness of the country's exports, which may induce a large deficit in the balance of payments. To address this issue, Iceland would have to attract travelers, and since the spread of the virus has reduced significantly, the tourism industry is rebuilding.

To conclude, Iceland is a world renowned place for travelers, and the pandemic has put a sudden roadblock to that industry. That roadblock, however, proved to be only temporary as the country has now significantly recovered, and the traveler count is now gaining pace. Thus, Iceland is likely to reach its pre-pandemic GDP levels fairly quickly as the service sector continues to rebuild.

4. MALTA

Being the smallest country in the eurozone, Malta is a significant participant in trade with other EU member states. An analysis of the sectoral distribution reveals that trade, tourism, and the secondary sector form the majority of the GDP of this country.

Malta can also be considered as a survivor and a potential benefactor of this pandemic. A year-on-year analysis of the sectoral distribution of Malta reveals its increasing dependence on the service sector, with 75.79% of its GDP being derived from it in 2019. Agriculture and manufacturing remained at a mere 0.8% and 12.11% respectively. This, as I have seen, is not uncommon for developed countries, as this a fundamental characteristic of developed EU countries.
The geography and demographics of Malta are unusual for such high growth rates, with mere five hundred thousand inhabitants distributed across a few islands. Due to this, this EU member is a favored place for tourists from across the globe. To the same end, the tourism industry yielded 2 billion USD for the country as of December 2019. On an average, the tourism industry yielded 15% of the country's GDP. Thus, it can be concluded that the economy of Malta is highly dependent on the success of its tourism sector for it to restart its economy. This sector also gave a sharp rise to the GDP per capita from 2015 to 2018, which was a period highlighted with a boom in the travel industry.

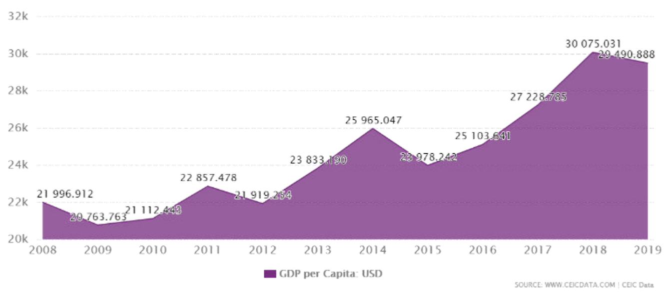

Fig 5: GDP per capita of Malta

Similar to Iceland, Malta has an opportunity to rebuild itself from the pandemic by improving its ability to handle tourists. However, this can be both an opportunity and a threat; As taking on more foreigners would involve high risk

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because of the virus, while it would still be a necessity for the country.
Apart from this, these European islands are favorable for businesses to set up due to their business-friendly legislation. This is complemented by a robust taxing system that is able to minimize the black economy in the country while keeping the process simple enough for businesses. Thus, this factor has been a milestone for the country in encouraging businesses to set up, and has enabled Malta to maintain a strong current account in its balance of payments. Such favorable laws help not only businesses, but help the labor market participants to gain employment. Such legislation and regulations have enabled Malta to become an employment hotspot for workers from all over Europe, which can be assessed by the increased immigration into the country in the past decade.

To tackle the consequences of the pandemic, Malta's economic plan of recovery utilized fiscal and monetary policies to rebuild itself. With a variety of subsidies, energy price cuts, and administrative costs refunds, the government has implemented short-run benefits for small scale businesses to recover the money lost. Furthermore, to encourage greater consumption, the government has implemented tax refunds, higher work benefits, and diverse relief packages for the housing sector. These policies can help boost the household and investment spending in the economy, which would help improve the financial position of Malta. The government has also extended support to businesses directly in the form of tax deferrals, wage subsidies, and a range of non-financial assistance and incentives. These incentives are solely to raise consumer and producer confidence in the short-run, which would effectively help in long-run economic recovery.

However, the government has been unable to address the direct needs of the unemployed, and the lowest income bracket in the country with its plan of action. After the housing market crash, the country had enabled laws which led to a steep fall in the unemployment rate of the country, which can be observed in the diagram below:

Fig 6: Unemployment rate in Malta

Following 2009, the unemployment rate has fallen by almost 6%. However, this pandemic has made thousands unemployed in the country, which is a problem perhaps not addressed in Malta's plan of action. Although the country has recovered to some extent, it still needs to protect the labor market from another wave of unemployment. Thus, I can assert that Malta has not yet proved a survivor of the pandemic, it has nevertheless been affected by it to a lower extent.

So, these the aforementioned facts can be used to construct a PEST analysis of the country:

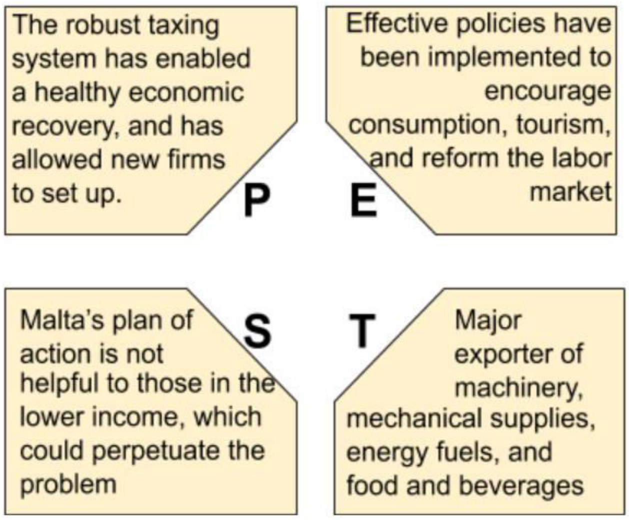

Fig 7: PEST Analysis of Malta

To conclude Malta's analysis, it can be said that the impact of the pandemic has been relatively low on the country's, but the country has still implemented effective measures to stop the spillover effects from other countries. If the Maltaese government is able to sustain such economic recovery, it can tackle coronavirus, and potentially, emerge victoriously.

CONCLUSION

With its strong technology sector and increasing immigrants, Luxembourg has started its economic recovery effectively. Iceland, on the other hand, is trying to rebuild its strong tourism industry by using fiscal measures. Malta is relatively unaffected by this pandemic, however many sectors including the financial sector have taken a major blow. So, as per the analysis, it can safely be concluded that these countries have stabilized their domestic industries, however, to completely recover, they need their trade partners and other countries to recover as well.

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