General Comments on the UN MVI Index

We note the importance of the UN initiative to construct a composite vulnerability index, thus making it possible to monitor, analyze and compare the economic resilience/vulnerability of countries. It is a simple yet potentially useful metric, but it does raise some questions.

Following the technical meeting conducted by the UN, we have made the following comments:

1. Almost all the components and sub-components of the Index (leading to a score varying from "0" to "100") seem to be obtained by the same formula. This is similar to a standard deviation, generally indicating risk or instability. However, we do not understand if this form of standard deviation was applied simultaneously in each country and in all the countries considered. Otherwise, international comparison would be very limited. It is worth noting that an alternative statistical method with an improved economic benchmark, taking into account the transmission mechanisms of vulnerability between countries, is possible.

2. There is a structural element to this analysis of resilience and vulnerability, therefore it may be difficult to expect a structural change in the short term. This will determine the form and volume of donations or financial aid if the index is going to be used to select countries most in need of support against vulnerability.

3. Admittedly, Gross Capital Formation and Production Capacity could indicate an element of resilience (vulnerability), but it is not clear that investment expenditure is an efficient solution or a guarantee of upward social mobility. It may be useful to add "GDP Growth Volatility" as an essential variable in international comparisons. In addition, in the social component of the composite index, we suggest taking into account (i) job creation (or unemployment), and (ii) a multidimensional poverty index?

4. Some vulnerability or resilience variables are highly interdependent (econometrically speaking), such as Trade Openness and Exposure to Fluctuations in Export Earnings. Including them separately into the index could lead to over-determination and therefore to a possible statistical bias.

5. Some statistical results are intuitively difficult to understand. For example, the ranking in terms of Exposure to Fluctuations in Export Earnings, where countries with similar economies, vulnerability, and resilience, scored very differently. The sub-index volatility makes it less credible and not comprehensible.

6. Certain sub-indicators based on the macroeconomic policies used to obtain the synthetic index of the country are considered. If the aforementioned sources of vulnerabilities are short-term, then it would probably be appropriate for the country's financing to be conditional on the implementation of more effective economic policies. The provider of financing should ensure that these required policies could guarantee the sustainability of the public debt of the country requesting the financing. Furthermore, if the vulnerability is aimed at long-term policies, the financing of the country in question should also be conditional on the implementation of development programs. More generally, vulnerability funding should be justified by conditions.

Additional Methodological comments:

(i) Measuring Export Revenue in terms of Annual Export Earnings, and its 20-year quadric trend, tends to be volatile due to numerous factors affecting exports' quantity and pricing, therefore affecting revenue.

(ii) A high percentage of developing countries depend on imports of many goods such as food, manufactured goods, and machinery from developed countries. Thus, inflationary pressures in developed countries is likely to be transmitted to developing countries, thus affecting the consumption expenditure within their economies.

(iii) The Gross Fixed Capital Formation indicator, as a category of the economic resilience index, may be difficult to obtain for countries with less developed statistical/financing systems, i.e., inaccessibility to a cohesive banking system. The form of calculation merges various indicators, across different dimensions. A possible suggestion could be to minimize the number of variables and compose a leading macroeconomic vulnerability index with fewer variables.

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