

BAROMETER COUNTRY AND SECTOR RISKS BAROMETER

Country Risk
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Special

By the Coface
Economic
Research team

An unequal recovery

A year after the first cases of COVID-19 appeared outside China, the uncertainties linked to the pandemic are still considerable despite the announcement of the arrival of several vaccines at the end of 2020. These uncertainties can be summarised in one question: when can we expect herd immunity? This will depend on the speed at which the population is vaccinated and will condition the end of the “*stop and go*”, i.e. successive containment processes that are harmful to economic activity. Meanwhile, the first half of 2021 should resemble 2020, which was marked by the strongest global recession since the end of the Second World War (-3.8%). Assuming that the main mature economies manage to vaccinate at least 60% of their population (the approximate threshold that theoretically achieves collective immunity) by the summer of 2021, the recovery would then be strong, with world growth reaching +4.3% on average in 2021, while world trade would increase by +6.7% in volume (after -5.2% in 2020). As for corporate insolvencies, they declined in all regions in 2020 (-22% in the Eurozone, -19% in Asia-Pacific and -3% in North America) thanks to governments’ support plans, of which the continuity will condition the survival of many companies this year: without them, Coface estimates that the number of insolvencies would have increased by 36% globally last year (vs. an observed decline of 12%).

This economic recovery will not benefit all companies equally: among the 23 sector risk assessment upgrades this quarter, almost half are attributable to the automotive sector, whose growth came as a positive surprise in the second half of 2020, followed by construction and

chemicals. Unsurprisingly, many services will remain durably slowed down by the pandemic: transport is the sector most concerned by the 9 downgrades. These sectoral divergences mask other strong inequalities. Firstly, between countries: while the performance of China and other Asian economies (e.g. Taiwan, whose country assessment has been upgraded) is boosting world growth, the main mature economies will not return to their pre-crisis GDP levels this year. Among them, those that depend even more than others on services (such as Spain or the United Kingdom), or that are lagging behind in the vaccination process, will take longer to recover. For emerging economies, the access to vaccines and governments’ ability to maintain fiscal policies that support businesses and households will be two major sources of inequality in 2021. Moreover, barring exceptions, they can no longer rely on their central banks to ease monetary policy, as their last cartridges were used in 2020.

Finally, the crisis should increase income inequalities within countries, which are already at a high level: last year, the least qualified workers, young people and women suffered more job losses than the rest of the population, as they are over-represented in the most penalized services. This widening inequality is expected to be long lasting, based on the experience of previous pandemics. Inequality is one of the main vectors of social unrest, which occurs on average around one year after a pandemic. As highlighted last quarter, this rise in inequality, coupled with public dissatisfaction regarding the authorities’ management of the pandemic in many countries, is conducive to more frequent protests and violence in 2021.

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