EDITORIAL

RACING AGAINST TIME

In their spring outlook, the IMF economists expect to see a multi-speed (and incomplete) recovery of the global economy in 2021. Indeed, speed is the key word for 2021 because the emerging countries are racing against time on several fronts. In our eyes, the greatest short-term risks are linked to the race between the rollout of vaccinations and the spread of the pandemic, and between higher food prices and the partial catching-up of revenues for low-income households. If this divergence persists, we could see a rise in social risks, which may have a much more destabilisation capacity than financial risks.

In their spring outlook, the IMF economists expect to see a multi-speed recovery of the global economy in 2021, albeit an incomplete one. Nothing really different from the major crises of the past. Yet speed seems to be the key word for 2021, because the emerging countries are in the midst of a race against time on several fronts.

A race against time between the rollout of vaccinations and the spread of the pandemic

A new wave of Covid-19 cases has broken out since mid-March, just as vaccination campaigns are beginning to roll out. On the positive side, the number of vaccine doses, and fully vaccinated people for that matter, is rising faster than the number of reported new cases in virtually all countries. But the percentage of the vaccinated population is still low, except in such emblematic cases as Israel and Chile, and to a lesser extent, in Hungary and Morocco. Looking beyond this handful of countries, vaccination rates are highest in Central and Eastern Europe and in Turkey, at between 5% and 10%. In the Asian and Latin American countries, vaccination rates are no more than 2%, with the exception of Singapore. But in Latin America, unlike the industrialised Asian countries, the pandemic does not seem to be coming under control, far from it. Brazil is the country where the situation is the most alarming, with a number of vaccinations barely higher than the number of new cases, and a very low vaccination coverage.

A race against time between rising commodity prices and the catching-up of household revenues

Commodity prices have picked up strongly since mid-2020, with metal and oil prices leading the way, followed by agricultural products since Q4. The recovery has even accelerated since early 2021. For net commodity exporting countries, this factor reduces the balance of payment risk, and even sovereign risk. However, it is an aggravating factor for social risks, especially food price inflation, which hits the poorest populations. IMF experts estimate that an additional 98 million people fell below the poverty line last year, with 68 million new cases of malnutrition, mainly due to the decline in revenues, but also to higher food prices. Agricultural commodity prices are already 20% higher than the 5-year average, and close to the peak levels of 2008 and 2011. Yet revenues are bound to catch up only partially, even though employment in the emerging countries generally responds more rapidly to growth than it does in the advanced countries.

A race against time between the turnaround in fiscal revenues and heavier debt servicing charges

In 2020, public debt for all of the emerging and developing countries rose by about 10 points of GDP. Yet the interest burden continued to diminish due to the ongoing decline in interest rates. This will no longer be the case in 2021, mainly because public debt is swelling, but also because of tighter monetary policy, not only in the United States, but also in the emerging countries themselves. This raises borrowing costs for governments. If we compare 2021-2022 to the period 2019-2020, the ratio between interest charges and fiscal revenues will increase for about two thirds of the main emerging countries. For most of them, this ratio is still moderate or even low (only 10% of the emerging countries have a ratio of more than 20%). Among the emerging countries, government solvency is not a real threat, even for the most fragile countries in this respect (South Africa, Brazil and India). But it does create an additional constraint, making it harder to maintain income support measures (which are set to expire in the vast majority of countries) or at least putting a damper on investment.

A race against time between the return to normal of corporates' turnover and the end of moratoriums on repaying bank loans and the maturing of liquidity loans doled out since the beginning of the pandemic.

Despite the recession, bank lending to households and companies has increased by more than 5% in half of the emerging countries. Moreover, the monetary authorities or bank supervisory boards have granted banks a longer period for classifying late payments as doubtful loans. As a result, doubtful loan ratios will rise sharply this year, undoubtedly more than during the 2008 crisis. Fortunately, capitalisation of the banking system has been strengthened over the past decade.

In our eyes, the biggest risks in the very short term are linked to the race against time between the number of vaccinations and the spread of the pandemic, and between rising food prices and the catching-up of revenues for low-income households. If this divergence persists, we could see a rise in social risks, which may have a much more destabilisation capacity than financial risks.

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