Summary: Euromoney's latest country risk survey shows increased risk profiles for countries struggling to cope with the pandemic, such as the UK, as well as several large emerging markets, including Brazil, India and Nigeria. However, the fortunes of those with successful containment strategies and functioning economies have improved.

ECR survey results Q4 2020: Country risk v Covid-19 – Asian resilience as Europe, large EMs dive

The disparate experiences of coping with the coronavirus pandemic greatly affected investor safety in 2020, according to Euromoney's latest crowd-sourcing country risk survey.

The latest quarterly survey reveals considerable resilience among countries and regions that managed to bring Covid-19 under control, whether through authoritarian means, as in China, or by acting quickly and efficiently in terms of tracking, tracing and quarantining – often, but not exclusively, aided by the advantage of island-nation status.

Successful containment strategies brought rewards to incumbent governments in the opinion polls as the focus shifted away from populism, protectionism and climate change as the principal risks.

Global risk perceptions, Q4 2020

---points difference in risk scores---

	q/q	2020	5-yr trend	10-yr trend
Australasia	0.80	9.47	12.59	11.46
Latin America	0.59	2.43	3.61	5.30
Sub-Saharan Africa	0.20	1.31	4.98	7.29
MENA	-0.05	-1.47	-1.38	-9.39
CEE (ex CIS)	-0.25	0.34	3.04	-0.14
Asia (ex CIS)	-0.35	0.48	2.14	0.64
North America	-0.64	-4.18	-10.02	-14.59
CIS	-0.85	3.53	9.10	3.56
Caribbean	-0.85	3.84	9.17	4.74
G-10	-1.08	-3.22	-6.03	-12.46
Brics[1]	-1.10	-2.40	-3.41	-8.74
MINTs[2]	-1.16	-4.58	-7.03	-3.90
European Union	-1.21	-2.06	-0.02	-7.27
Eurozone	-1.21	-1.81	0.66	-7.20

Note: minus sign indicates increased risk; ordered by ytd change - less risk to more risk

[1] Brazil, Russia, India, China, South Africa [2] Mexico, Indonesia, Nigeria, Turkey

Source: Euromoney Country Risk

Australasia became a safe bet in 2020, leading all other world regions and economic groups, as Australia and especially New Zealand achieved enormous success controlling the virus and keeping their economies open.

Taiwan also offered considerable safety among a preponderance of other islands, making up 87 countries in total with improved risk scores in 2020.

Among them were Bermuda, Dominican Republic, Fiji, Haiti, Jamaica, Maldives, Papua New Guinea and the Seychelles, albeit displaying varying levels of investor risk, with Bermuda (48th in the global risk rankings) considered a low-risk option for investors compared with Haiti (150th), which is among the highest risks worldwide.

The survey provides a responsive guide to changing perceptions of participating analysts in the financial and non-financial sectors, focusing on a range of key economic, political and structural factors affecting investor returns.

It is conducted quarterly among several hundred economists and other experts, with the results compiled and aggregated along with a measure of capital access and sovereign debt statistics to provide total risk scores and rankings for 174 countries worldwide.

Other improvers in the survey include Israel – now rolling out vaccines at incredible speed – climbing eight places to 23rd.

Scores for Mongolia, Ghana, Kenya and other sub-Saharan borrowers are higher, as well as a large swathe of central America and several central Asian republics, including Azerbaijan, Georgia, Kazakhstan, Ukraine and Uzbekistan.

Russia, in 77th place, is also holding up despite a small decline in Q4. The economy was less affected by the pandemic than industrialized countries. GDP fell less sharply, buoyed by a low break-even price for oil production, and the recent improvement to oil prices is helping.

Downgraded

The crisis was, nevertheless, the principal catalyst for the downgrading of 85 countries overall in 2020, and for 92 in Q4 alone, keeping the mean average

global risk score below 50, where it has remained since the global financial crisis of 2007-2008.

Europe was the region downgraded the most in Q4 as another more infectious variant of the virus began to spread, with dire consequences for healthcare systems.

Risk scores for Germany, France, the UK and Italy continued to fall as tighter measures were reintroduced to limit human contact, which once again weighed on economic activity after it had bounced back in the wake of the dramatic downturn in the first half of the year.

With lockdowns and border controls re-enforced, limiting economic activity and bringing tourism to its knees, many other European countries such as Belgium, Bulgaria, Croatia, Cyprus, Ireland and Spain and Slovenia were downgraded in Q4.

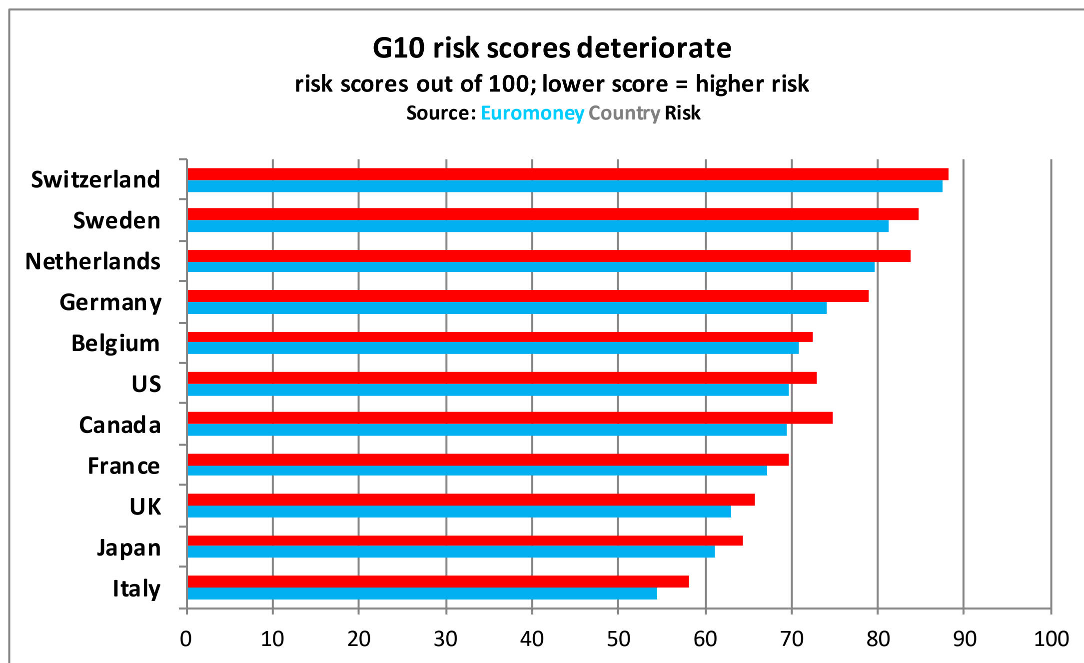
On Croatia, Vanja Piljak at the University of Vaasa singles out tourism and the travel industry, as it accounts for 25% of its GDP, as well as natural disasters.

“In addition to the negative effects of Covid-19, the Croatian economy further suffered from two devastating earthquakes in 2020,” she says. They occurred in March in Zagreb and December in central Croatia.

On Slovenia, Bojan Ivanc, chief economist at the country’s Chamber of Commerce and Industry, notes political factors including “the risk of changing policy priorities of a potential new government and possible early elections that would hinder the adoption of new supportive packages to cushion the negative effect of restrictions on the economy”.

Analysts covering Canada, Japan, the US and other industrialized countries have adopted a similar pessimistic view, ensuring an across-the-board decline for the G10 in 2020, with Sweden showing the biggest slide of all.

There, the authorities moved away from a controversial herd immunity approach by belatedly introducing an emergency lockdown law to combat exponential growth of the disease.



"The pandemic dynamics turned extremely negative in the second half of Q4 2020," says ECR expert Constantin Gurdgiev, a professor at the Middlebury Institute of International Studies.

"By late November, it became painfully clear that given the complexity of the supply chain logistics, the majority of the advanced economies would not reach the rates of vaccinations necessary to deliver population immunity before the end of the first half of 2021, at the earliest."

This has had a huge impact on the economic outlook worldwide, with analysts more concerned by economic than political risk implications.

Economic risk increased in 119 countries last year, with political risk worsening in only 53, despite elections proceeding, conflict continuing, and concerns about Iran and North Korea persisting.

The economic-GNP outlook, employment/unemployment and government finances indicators were downgraded the most, which Gurdgiev explains as a "learning curve triggered by the later waves of the pandemic being priced into analysts' expectations of economic recovery".

Consequently, he says the majority of the G10 economies are no longer expected to achieve full pre-Covid recovery before the end of 2021. Indeed, 2021 is shaping up to be a similar year, "characterized by the ups and downs of

the pandemic dynamic, rolling economic shutdowns and continuously mounting pressures on smaller and medium-sized enterprises and households”.

“[This] warrants a substantial revision to the optimistic scenarios for credit risk moderation that were priced in by analysts around the end of Q3 2020,” says Gurdgiev.

Transatlantic concern

The UK is experiencing a severe crisis and has had to reimpose a lockdown just as the country’s transition from the EU officially ended, with what many analysts interpret as a sub-optimal trade deal in comparison with EU membership.

“Currently, Covid is out of control,” says survey contributor Johan Krijgsman of Krijgsman & Associates.

This is underlined by the fact more people are dying in the UK in a single day than have done so throughout the crisis in Australia, with the huge rise in cases pushing the National Health Service to its limits as the vaccination programme steps up.

“Monetary policy is pushing on a string and with fiscal policy at full tilt it is difficult to see much extra support for economic growth coming from the public sector, notwithstanding the urging from international institutions, most recently the OECD,” adds Krijgsman.

Political and institutional risks cannot be overlooked either, says Norbert Gaillard of NG Consulting.

“[Prime minister] Boris Johnson’s leadership is increasingly challenged by Conservative MPs. I don’t anticipate an early general election in 2021, but tensions within the Tory Party could increase uncertainty and worry foreign investors.

“Institutional risk is also quite high in the medium term: the possible independence of Scotland may undermine the prestige and the geopolitical influence of the UK.”

In the US, the economic pressures have also been compounded by political factors. The country has seen heightened social tensions, and the Democrat victories in the presidential and Senate elections are expected to result in higher fiscal deficits, with more emphasis on deficit financing for initial expenditure programmes focusing on income support and healthcare.

Policymaking was among the political factors – all except government stability – downgraded by Euromoney's US experts in Q4 2020. The employment/unemployment situation and government finances were notable among the economic risk factors scaled down.

Problems for EMs

Large emerging markets (EMs) were similarly affected by restrictions on economic activity, with domestic demand, exports and tourism weakening, and healthcare services under enormous strain.

The structural risk indicator for soft infrastructure, which includes healthcare, was downgraded in 81 countries in the Q4 survey, and many of them were EMs such as Brazil, India and South Africa.

Overall, total risk scores for Brazil and India fell sharply in Q4 to end a particularly bad year for both countries, with Brazil falling 42 places in 2020 to 103rd in the global risk rankings, and India sliding 28 places to 87th.

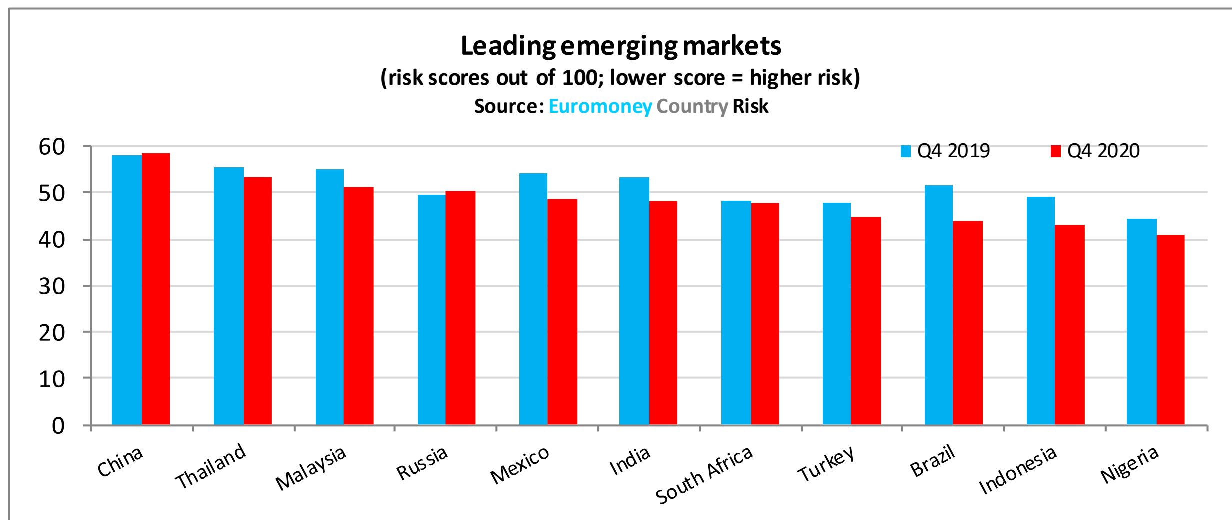
For survey contributors such as Sher Mehta, founder and CEO of Virtuoso Economics, India's problems are less political and almost entirely economic, with a sustainable recovery still some way off despite the policymaking push to revive economic growth.

"Growth is yet to be broad-based or on firm ground and full recovery from the pandemic is likely to be a protracted one," he says.

The key constraints include the lack of fiscal space, possible stagflation, lack of private investment, protectionism, social inequalities and banking-sector vulnerabilities, with rising non-performing loans (NPLs) and deteriorating asset quality limiting credit extension.

Mehta also notes the fact India is likely to be among the large EMs that will have the highest debt burden by the end of 2021.

Other countries with worsening risk profiles include Argentina, Bulgaria, Ethiopia, Lebanon, Mexico, Nigeria and Turkey, as well as many across Asia, namely Indonesia, Malaysia, Myanmar, Philippines, Sri Lanka, South Korea and Thailand.



Asia

The ability of China to control the spread of the virus, allowing its people to move more freely and enabling the economy to get back up to speed ensured that its risk score held up in 2020, along with a few other territories and sovereign nations, such as Macao, Taiwan and Vietnam.

With the latest data showing China's recovery becoming more entrenched and broad-based, most experts anticipate a more favourable outcome in 2021, with the OECD predicting 8% real GDP growth after last year's estimated outturn of 1.8%.

Xianming Wu, a professor at Wuhan University, says: "Since china has formed a relatively complete epidemic prevention and control system, Covid-19 in some areas can be effectively controlled."

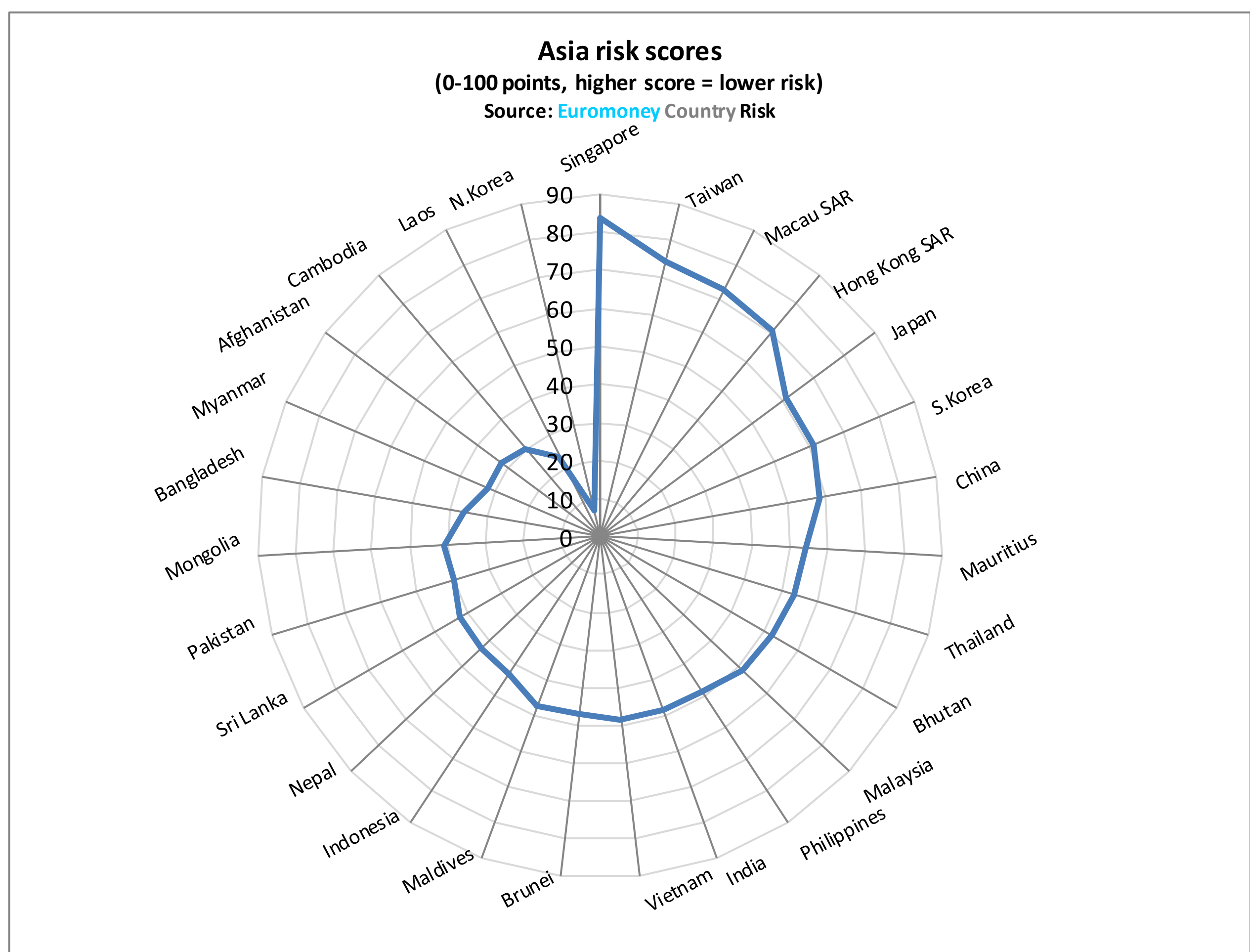
Moreover, he adds: "China's economic development is regaining vitality and its growth prospects are optimistic due to the recovery of demand in the domestic market and improvement of the export market."

Virtuoso’s Mehta also foresees a bright picture for the Chinese economy this year, although he explains why China’s risk score has not improved more than it has by also noting several risks.

They include currency appreciation against the US dollar and increased financial stress with both corporate and total debt ratios posing a deleveraging challenge to policymakers, as well as the rise in dollar-denominated debt defaults and excessive leverage in the property market.

China may have returned to growth, but it has had little impact on Hong Kong’s risks, which remain heightened by the pro-democracy push and the implications of China imposing a national security law and delaying legislative elections.

For other countries such as Malaysia, the Philippines and Thailand, the economic effects of the crisis are taking their toll, with some large declines in GDP last year and no material improvement in sight, as far as tourism and exports are concerned, until the global economy recovers.



Latin America

A number of LatAm countries, predominantly across central America, have also shown resilience, with their risk scores improving in 2020. They include Costa Rica, Ecuador, Guatemala, Guyana, Honduras, Panama and Uruguay.

Governments in these countries have focused on “protecting the most vulnerable while adjusting health and safety standards in all sectors and activities”, says Jose Infantozzi, a regional investment manager.

He believes they are also benefiting from the migration to work-from-home improving the work-life balance and that these countries are managing to find the right balance to avoid more cases, while allowing commercial activity to continue.

However, for some countries in the region, Covid-19 and pre-existing political and macro-fiscal issues led to increased risk.

Argentina, for example, has already endured two years of recession.

“Covid-19 impacted the country when it had no access to credit lending, worsening unemployment, inflation, insecurity and poverty indicators,” says Infantozzi.

This led to Argentina crashing 50 places in the global risk rankings to 147th.

Mexico also experienced a large downgrade, plunging 30 places to 86th.

Jorge Garza-Rodriguez, a professor at the University of Monterrey, says that despite the expected economic recovery in Q4, “the level of GDP is still 7% lower than that registered in the same quarter of the previous year, and there are 1.8 million jobs lost due to the pandemic which have not been recovered”.

Garza-Rodriguez sees numerous economic risks, with the fiscal deficit widening, debt climbing further from 56% of GDP at the end of 2020 and GDP unlikely to regain its pre-pandemic level until 2025, or later.

Víctor Gómez Ayala, senior economist at Casa de Bolsa Finamex and another Mexican analyst, also highlights some political risk.

"Mexico has to renew the 500 seats of its lower house, 300 through relative majority and 200 in proportional representation," he says. "Also, 15 out of 32 states will elect a new governor.

"Usually, the turnout is lower in the mid-term than in presidential elections, reducing the incumbent's support. Hence, the challenge for the president will be to revalidate his party's majority without his presence in the ballots."

Gómez believes that before the election, to be held on June 6, the main risk could be any electoral use of the vaccination strategy to reduce the spread of Covid-19, notably in the battlegrounds where the ruling Morena party has less presence.

"For the second half, conditional on the results, the Congress's composition, especially if Morena and its allies can retain the qualified majority – a necessary condition to make constitutional amendments – is the main feature to follow.

"The latter will be critical for the kind of fiscal reform the government can enact next September."

Meanwhile, the recovery, as in other countries, also depends on the strength of the second wave of Covid infections, and the availability and speed of vaccinations in a country with a population of 126 million.

Economist and international consultant Mario Flores says the uncertainty over the pandemic is the main source of risk and notes the fact Latin America has "weak logistical capacity to implement vaccination while maintaining a comparatively relaxed lockdown".

This jeopardizes the successful flattening of the contamination curve and containing a potential contagion rebound.

Africa

As in other regions, the pandemic has not had the same impact on all countries despite the economic effects, although some have been heavily downgraded, including Liberia, Mali, Nigeria, South Africa, Zambia and Zimbabwe.

“Neither Zambia nor Zimbabwe can access sufficient capital at home or abroad to tackle Covid-19 and revive their ailing economies,” says Tony Hawkins, a professor at the University of Zimbabwe Graduate School of Management.

Both countries are seeing a worsening of the healthcare crisis and are facing economic difficulties.

“In November, Zambia defaulted on payments for its $750 million Eurobond expiring next year and last month formally asked the IMF for assistance,” says Hawkins.

Meanwhile, Zimbabwe is locked out of the global capital markets primarily due to its arrears and US sanctions, and is also suffering from South Africa’s lockdown – a country it conducts around 65% of its trade.

“Zimbabwe is particularly vulnerable, along with some other Southern African countries, including Zambia, to value-chain disruptions, affecting some exports – gold and platinum group metals – as well as imports,” says Hawkins.

On Nigeria, Gregory Kronsten, head of macroeconomic and fixed income research at FBNQuest Capital, welcomes the pick-up in crude oil prices, the relative discipline of Opec+ and vaccine development.

However, he says the government has “limited firepower” to cushion the impact of Covid-19, and only “when it is cornered” will there be the possibility of more peaceful protests, a reform process – albeit painfully slow – and changes to exchange rate policy by the central bank.

Ayobami Ilori, a lecturer at the University of East Anglia, believes “the odds are well stacked against Nigeria”, as he anticipates another national lockdown paralyzing the economy and higher inflation weakening purchasing power due to a hike in electricity prices.

Ethiopia, too, has been downgraded.

“The conflict in Tigray, which is evolving in unexpectedly negative ways, is dampening investor and consumer confidence,” says Rafiq Raji, chief economist at Macroafricaintel.

“With the potential for sanctions owing to evidence of likely war crimes and needless intransigence on the part of the [Abiy] Ahmed-led government, GDP growth would likely be significantly affected.”

With the negative effects of Covid-19 and the likelihood of stronger restrictions to curb further waves, Raji anticipates a difficult year for the country, which has slumped 42 places in Euromoney’s global risk rankings to 121st.

By contrast, several of the region’s bond issuers have become safer, including Cameroon, Ghana, Kenya, Malawi and Senegal.

As for Kenya, Raji notes that is planning to tap the Eurobond market this year and authorities are in talks with the IMF and World Bank for lending facilities, and might be able to take advantage of the G20 debt relief initiative.

“An ongoing constitutional reforms process aimed at reducing the prospects of political violence in future elections is also a plus, he says, adding: “With a competently managed central bank and relatively transparent fiscal management thus far, Kenya may prove to be quite resilient yet again.

“In fact, the World Bank reckons 2021 economic growth could be as high as 6% to 7% in spite of the pandemic – a potentially stellar performance compared with regional and continental peers.”

Côte d’Ivoire, which was downgraded earlier in the year, has also rebounded.

“[Its] resilience is due to a mix of international support, strong health measures and a comprehensive response to support the economy,” says regional expert Moulay Bamba.

Early containment measures, such as closing international borders, implementing curfews and confinement slowed the spread of the virus. There have been fewer than 24,000 cases and only 139 deaths among a population of just over 25 million as of Tuesday.

The country has also received $961 million-worth of approved multilateral financing to tackle the pandemic and successfully issued a €1 billion Eurobond in November, highlighting strong capital access and creditor confidence.

For more information, visit https://www.euromoney.com/country-risk and https://www.euromoney.com/research-and-awards/research