ALLIANZ RESEARCH

ALLIANZ GLOBAL WEALTH REPORT 2020

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Allianz

EXECUTIVE SUMMARY

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A bumper year

In 2019, central banks saved the day and gave stock markets around the globe strong tailwinds, bestowing households with the fastest growth in financial assets since the Great Financial Crisis (GFC): Gross financial assets jumped by +9.7% in 2019 and reached EUR 192 trn. This increase was widespread, with both emerging and advanced countries growing in sync. But while advanced markets clocked the strongest growth since the turn of the century, for Emerging Markets, it was only the fastest growth since 2016 .

Crisis? What crisis?

Then, Covid-19 hit the world economy and sent it into the deepest recession in 100 years. But will this wipe out huge chunks of wealth? Our estimates suggest that private households have been able to recoup their losses of the first quarter, recording a slight +1.5% increase in global financial assets by the end of the second quarter of 2020 as bank deposits, fueled by generous public support schemes and precautionary savings, increased by a whopping +7.0% since the end of 2019. It's very likely that private households' financial assets could end 2020 in the black .

Walking on the safe side

Fresh savings set a new record in 2019, increasing by +18.7% to almost EUR 3,000 bn. The increase, however, was mainly driven by U.S. households, which accounted for 61% of all fresh savings. Saving behaviors are still tilted to the safe side: Only U.S. households (and German ones) were net purchasers of securities. Most other households share a penchant for liquidity and safety in a world of rising uncertainties and risks: Bank deposits remained by far the most popular destination for savings in 2019 for the ninth year in a row. At the same time, zero interest rates took a toll on insurance and pensions: Their share in total fresh savings have fallen from almost 60% in the aftermath of the GFC to a mere 26% in 2019.

Up in the air

Not surprisingly, securities were the best performing asset class in 2019: Booming stock markets led to an increase of +13.7%, after a decline of -5.1% in 2018. Growth was never faster in the 21st century. The growth rates of the other two main asset classes were lower but still impressive: Insurance and pensions reached +8.1%, mainly reflecting the rise of underlying assets, and bank deposits increased by +6.4%. In fact, all asset classes clocked growth significantly above their long-term averages since the GFC .

To whom they have been given

The regional growth league table used to be dominated by Emerging Markets. Not so in 2019. The regions that saw the fastest growth in 2019 were by far the richest: North America and Oceania. In both regions, gross financial assets of households increased by a record +11.9%. As a consequence, for the third year in a row, Emerging Markets were not able to outgrow their much richer peers in the industrialized world. The catch-up process has stalled .

Debt is inching up

Worldwide household liabilities rose by +5.5% in 2019, a tad below the previous year's level of +5.7%, but also well above the long-term average annual growth rate of +3.9%. As debt grew slightly faster than GDP, the global debt ratio (liabilities as a percentage of GDP) inched up to 65.1%. Over the last decade, the distribution of global debt has changed. While the share of Advanced Markets is in decline, Emerging Markets account for an ever rising portion of global debt, first and foremost Asia (excluding Japan): its share has trebled over the past decade to 23.9%. In terms of liabilities per capita, however, the region remains a minnow: with slightly above EUR 3,000 it stands at a fraction of the levels seen in the Advanced Markets (EUR 33,550).

America remains at the top

If we subtract debt from gross financial assets, we are left with net financial assets. In 2019, they increased by a whopping +11.1% to EUR 146 trn on a global level. Net financial assets per capita amounted to EUR 26,410 (+10.3%). However, discrepancies between household assets in richer regions and those in the world's poorer regions remain huge. North America remains the richest region in the world, with average per capita assets of EUR 198,000 last year after deduction of liabilities. On the other hand, Eastern Europe was the region with the lowest net financial assets. At the end of 2019, households had an average of EUR 5,160 per capita .

Trend reversal

The prosperity gap between rich and poor countries has widened again. In 2000, net financial assets per capita were 87 times higher on average in the industrialized countries than in the Emerging Markets; by 2016 this ratio had fallen to 19. Since then, it has risen again to 22 (2019). This reversal of the catching-up process is widespread: for the first time, the number of members of the global wealth middle class has fallen significantly: from just over 1 billion people in 2018 to just under 800 million people in 2019. This negative trend could be further exacerbated by Covid-19 .

The scars of the crisis years

Looking at the development since the turn of the century, the rise of Emerging Markets remains impressive. Adjusted for population growth, the global middle wealth class grew by almost +50% and the high wealth class by +30%, while the lower wealth class declined by almost -10%. The development in Western Europe, however, was the opposite: On the old continent, the number of members of the low wealth class increased and that of the high wealth class decreased. This reflects the crises of recent years – the Great Financial Crisis and in particular the Euro Crisis – which mainly affected the southern periphery; it is countries such as Greece, Portugal and Italy where the low wealth class has grown in number

A rich man’s world

The richest 10% worldwide – 52 million people in the countries in our scope with average net financial assets of EUR 240,000 – together owned roughly 84% of total net financial assets in 2019; among them, the richest 1% – with average net financial assets of above EUR 1.2 mn – owned almost 44%. The development since the turn of the millennium is striking: While the share of the richest decile has fallen by seven percentage points, that of the richest percentile has increased by three percentage points. So the super-rich do indeed seem to be moving further and further away from the rest of society .

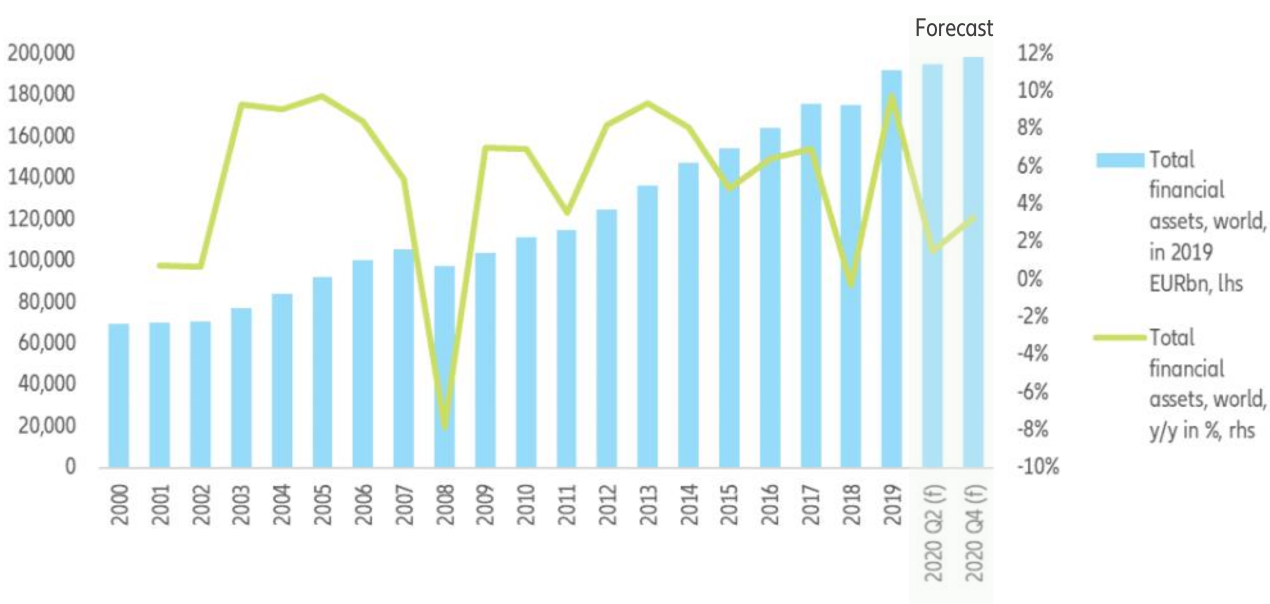
Beware of simplifications

The popular narrative of societies drifting further and further apart does by no means apply to all countries. There is a broad spectrum of wealth distribution within countries, ranging from fairly equal societies to highly unequal ones, as our proprietary Allianz Wealth Equity Indicator (AWEI) shows. Among the countries with significant distribution problems (AWEI score above 5) are not only the U.S. but also the UK, South Africa, Indonesia, India and Russia, as well as Denmark, Sweden and Germany, hounded by high debt levels among large parts of the population (Sweden and Denmark) or the general shortage of capital-funded pension schemes as well as delayed reunification (Germany). At the other end of the spectrum, (AWEI score below 3), the usual suspects can be found: Japan, some Eastern European countries such as Slovakia or Poland and some Western European countries, namely Belgium, Spain, and Italy .

DEVELOPMENT OF FINANCIAL ASSETS: WEALTH IMMUNITY

Social unrest, escalating trade conflicts and an industrial recession: 2019 was marred by political and economic troubles. But at least one actor rose to the challenges: central banks across the globe. Not only did the number of central banks initiating a monetary policy easing in 2019 reach a record high since the Great Financial Crisis (GFC), there was also no hesitation to use unconventional tools to inject liquidity into markets. As a consequence, global stock markets had one of their best years on record – and private savers were shielded from the repercussions of an unruly world. The total gross financial assets of the private households[1] in the 57 countries we cover in our report increased by +9.7% to EUR 192 trn at the end of 2019. This was not only a new record high in absolute amount but also the strongest growth since 2005 (Figure 1).

Figure 1: Strongest financial asset growth since 2005 in 2019



Sources: national central banks, statistical offices, financial supervisory authorities, asset management and insurance associations, Thomson Reuters Eikon, Allianz Research.

1 Including non-profit organizations serving households.
2 According to UN population figures and IMF GDP data, these 57 countries represented 72% of the world population and 92% of world nominal GDP in 2019.

The buoyant stock market performance led to an increase of the asset class of securities (shares, bonds and investment funds) by +13.7%, by far the highest growth rate of the three main asset classes in private households' portfolios. This dynamic development not only made good for the losses in 2018, but securities climbed to a new record high of EUR 77 trn.

The growth rates of the other two asset classes were lower but still impressive: Life insurance and pension fund entitlements reached a plus of +8.1%, mainly reflecting the rise of underlying assets, and amounted to EUR 58 trn by the end of the year. And bank deposits of the private households were fueled by precautionary savings in uncertain times and increased by +6.4% to EUR 52 trn at the end of the year. In fact, all asset classes clocked growth significantly above their long-term averages since the GFC, which stay at +5.6% (bank deposits), +8.0% (securities), and +5.7% (insurance and pensions), respectively. 2019 was indeed a bumper year for savers.

Crisis? What crisis?

Covid-19 plunged the world economy into the deepest recession in 100 years. Stock markets went into free fall and private households saw their assets tumble, as expected when economies and markets are in turmoil as they were in the first quarter of the year 2020. But then the story of the pandemic took a rather surprising and positive twist, at least for savers. National central banks and fiscal authorities around the world responded quickly and boldly to contain the pandemic-related crisis and fired up unprecedented monetary and fiscal bazookas. This will push global public debt to an all-time high of 130% of GDP in 2020, exceeding even the levels seen during the Second World War. It also immediately sparked a tech-led rally in stock markets.

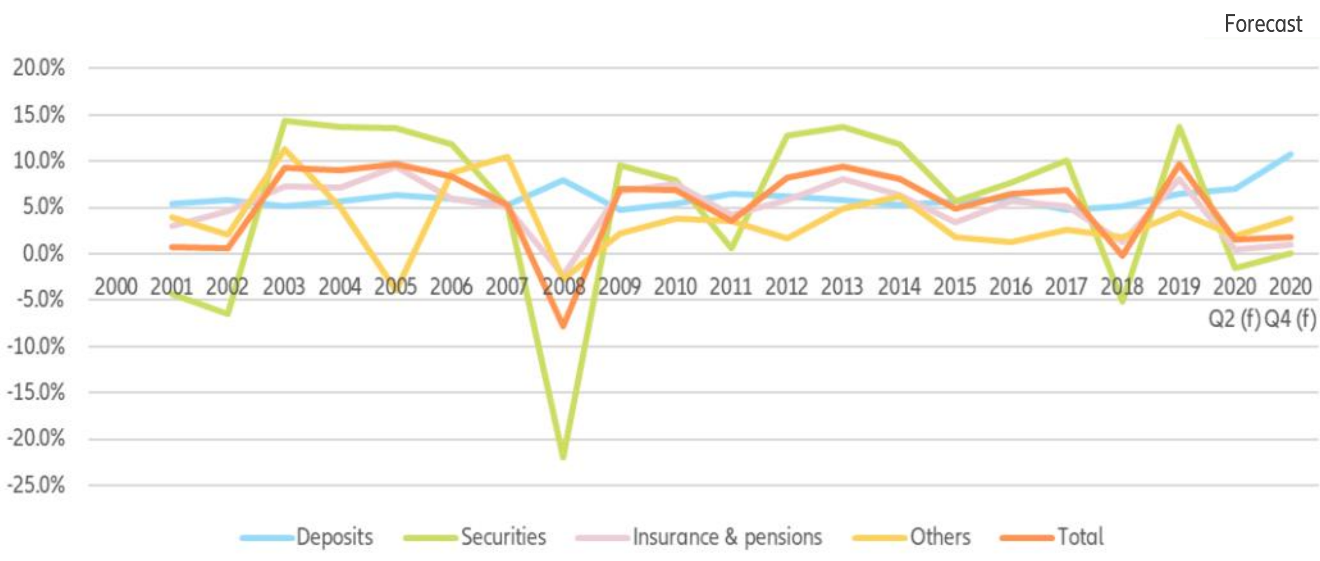
As a consequence, our estimates, based on latest available data, suggest that private households have been able to recoup their losses of the first quarter and recorded a slight +1.5% increase in global financial assets by the end of the second quarter of 2020. While securities balances were still in the red with -1.5%, bank deposits have increased by a whopping +7.0% since the end of 2019. This was made possible by the generous public support schemes that cushioned the blow to incomes, and by the lockdowns that literally deprived households of the opportunity to consume as usual; the unprecedented levels of uncertainty did the rest to convince households that accumulating savings is the order of the day. Insurance and pensions, on the other hand, remained more or less flat (Figure 2).

Looking briefly at the regional split, it becomes evident that the recovery in financial assets is mainly driven by the two heavyweights China and the U.S.. In particular, Chinese households were able to protect their wealth from the pandemic and increased their assets by more than +7% in the first six months of 2020, almost in line with the average of the last decade. Compared to this, the +1.4% increase in U.S. financial assets looks a little feeble but has to be seen against the backdrop of Covid-19 arriving later but much more forcefully to U.S. shores. Households in the Eurozone, on the other hand, should at least have been able to avoid wealth losses. Most households in Emerging Markets were not as lucky: financial assets declined across the board, although the declines were not dramatic (around -2% to -3%).

As the pandemic situation remains highly unstable, forecasts for the rest of the year are uncertain. However, if we assume ongoing public support programs, a constrained recovery in economic activities, reflecting the ongoing fight against Covid-19 with targeted lockdowns – but no further total lockdowns and thus no renewed deep plunge in economic activity – as well as more or less stable stock markets and elevated saving efforts, we are optimistic that private households' financial assets can end 2020 in the black.

More precisely, we estimate that global financial assets will increase by +3.3% to EUR 198 trn by the end of this year. This development is going to be mainly driven by the savings in bank deposits, reflecting the precautionary motive and the preference for highly liquid assets in households' saving behavior in times of crises. Hence, we expect bank deposits to increase by +10.8% until the end of the year, setting a new record; the previous growth record was set during the GFC in 2008 with an increase of +7.9%. Securities should move sideward while insurance and pensions might be able to register a small plus of +1.0%. Although the +3.3% growth rate would mark the fourth-lowest growth rate within the last two decades – after 2001 and 2002, when financial assets grew by +0.7% in each year, and in 2008 and 2018 when declines of -7.8% and -0.3% were recorded, respectively – this accomplishment is nothing to sniff at in a year when the Covid-19 pandemic turned almost all aspects of life upside down.

Figure 2: Bank deposits are the preferred asset class in the crisis



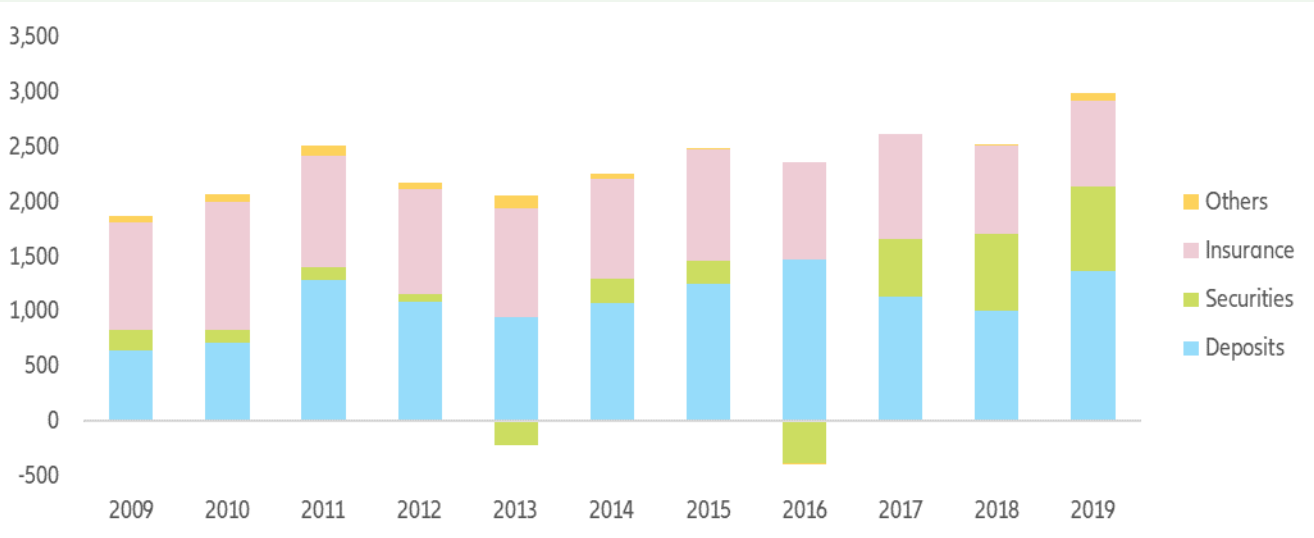
Sources: national central banks and statistical offices, Allianz Research.

U.S. exceptionalism

Although the main boost for last year's extraordinary asset growth came from the stock markets, fresh savings[3] played a role, too: They set a new record and increased by +18.7% to almost EUR 3,000 bn (Figure 3).

The increase in the flow of funds, however, was mainly driven by U.S. households, who upped their savings by a whopping +25% and accounted for 61% of all fresh savings in 2019. It seems as if the tax reform and rising inequality are powerful drivers to pump up savings. But U.S. households stand out not only with regard to the sheer volume of their savings: even more exceptional is their savings behavior.

Figure 3: Net acquisition of financial assets, in EUR bn



Sources: national central banks and statistical offices, Allianz Research.

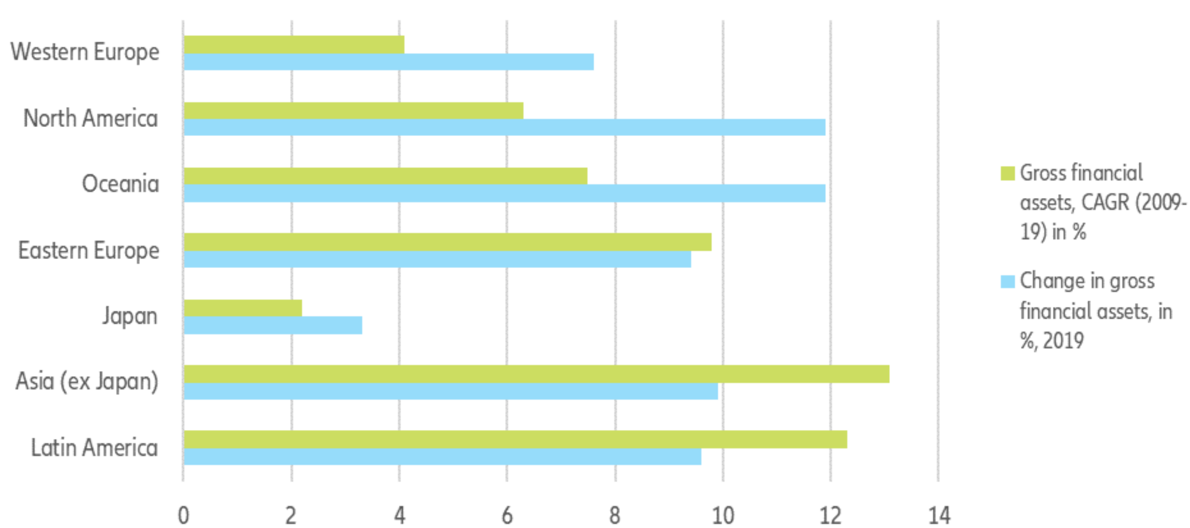
3 As detailed data on inflows of funds is not available for all countries, the following analysis is essentially limited to industrialized countries.

U.S. households purchased shares, funds and other securities to the tune of EUR 910 bn (+18% against the previous year); almost all other households – be it British, Dutch, Japanese or Canadian – were net sellers of securities in 2019. Were it not for the Americans, fresh flows into securities would have been negative in 2019, as they were in 2013 and 2016. There is only one other group of households that increased their market exposure significantly: the German savers. But there are also some similarities in the saving behavior worldwide. Most savers have started to turn their backs on the asset class of insurance and pensions. Its share in total fresh savings have fallen from almost 60% in the aftermath of the GFC to a mere 26% in 2019; for the second year in a row, households reduced their investments in insurance and pension products. As the need to build up a nest egg for old age is as pressing as ever, given the relentless aging of societies and stretched public finances, the most likely explanation for this behavior is that the long yield winter has rendered many of these long-term savings products unattractive in the eyes of savers. At the same time, most households share a penchant for liquidity and safety in a world of rising uncertainties and risks. With a share of 46% in total fresh savings, bank deposits remained by far the most popular destination for savings in 2019 for the ninth year in a row; the overall increase amounted to +35% .

Upside-down world

In normal times, you would expect Emerging Markets to grow much faster than advanced ones. After all, they are much poorer and it is much easier to double the volume of assets in a certain time if the pile is much lower to start with. Moreover, economic growth is generally more dynamic in Emerging Markets and more and more people are getting access to financial services. In fact, this is exactly what happened during the 21 century: Emerging Markets continuously outgrew the industrialized world, most of the time by 10 percentage points or more. But this catch-up process stopped in 2017 when Advanced Markets clocked faster growth than their peers in the emerging world. Then, in 2018, both country groups fell in sync. And 2019? Again, the growth performance was almost identical. Even more strikingly, the regions that saw the fastest growth in 2019 were by far the richest: North America and Oceania. In both regions, gross financial assets of households increased by a record nominal +11.9%, markedly above the ten-year compound annual growth rate (CAGR) of +6.3% (North America) and +7.5% (Oceania), respectively. At +7.6%, growth in Western Europe was markedly lower, but still above the ten-year CAGR (+4.1%). Gross financial assets in Japan, too, grew faster than their historical average in 2019 (+3.3% vs. +2.2%). The situation was the opposite in emerging economies: Eastern Europe, Asia (excluding Japan) and Latin America all saw strong growth of almost +10% but it remained below their long-term averages (Figure 4).

Figure 4: 2019 growth beats long-term average in advanced markets



Sources: national central banks and statistical offices, Allianz Research.

The long-term growth advantage of Emerging Markets is still intact. But it should also be taken with a pinch of salt: Inflation and population growth change the picture. Looking at total gross financial assets, Emerging Markets – first and foremost in Asia – clearly outperformed Advanced Markets; Western Europe and in particular Japan are trailing far behind. If, however, these figures are adjusted for inflation and population growth, a more nuanced picture emerges. Asia (excl. Japan) is still the region with the highest growth and by a wide margin; Latin America becomes a distant second. But Eastern Europe now shows more or less the same performance as the Advanced Markets in Oceania and North America. Knowing that the region is a relatively heterogeneous one, including i.e. Turkey, this markedly less impressive growth after inflation is not too surprising. On the other hand, the differences between Western Europe and Japan almost disappear. Against the backdrop of much higher average wealth in Japan, this outcome is a little disappointing. Maybe Europe's policymakers should take a leaf out of the macroeconomic book of Abenomics to revive growth on the old continent; after all, Japan remained a very homogeneous society with respect to wealth distribution, in sharp contrast to the development in the U.S. where average asset growth is clearly remarkable but at the expense of a more equitable outcome[4] (Figure 5, 6).

Figure 5: Inflation blows the picture - total gross financial assets

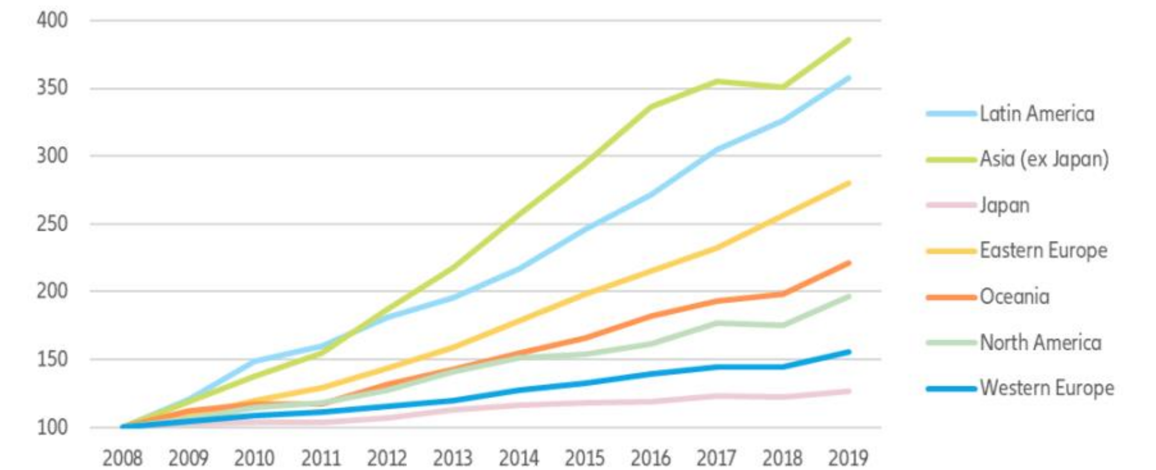
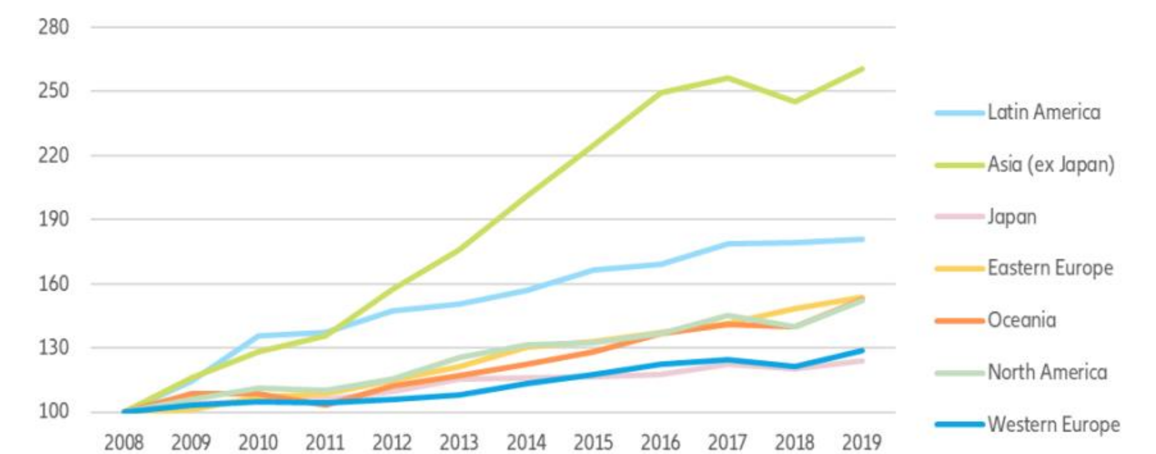


Figure 6: Gross financial assets per capita, inflation adjusted



Sources (for both figure 5 and 6): national central banks and statistical offices, Allianz Research.

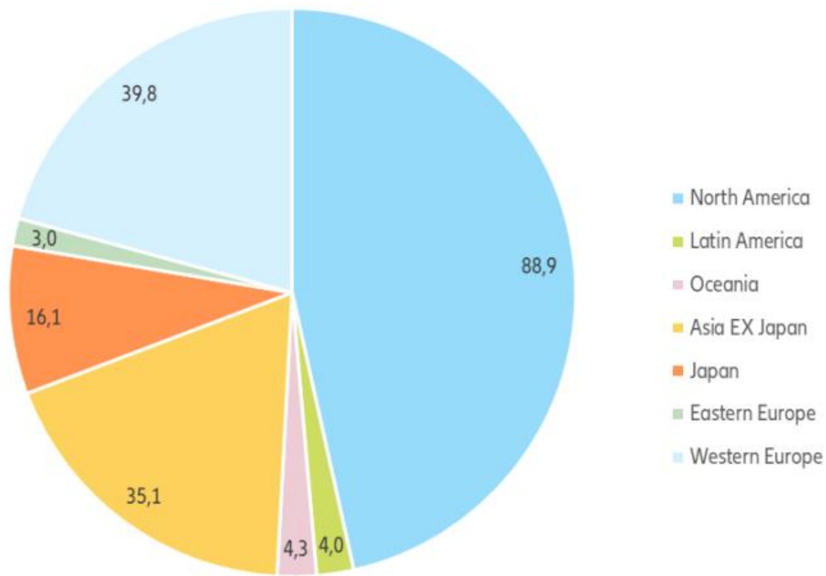
4 Wealth distribution is discussed in more detail in chapter 3, pages 38 ff.

No change at the top

North America not only clocked the fastest growth in 2019 but it is also by far the richest region worldwide. At the end of 2019, U.S. and Canadian households held EUR 89 trn of global financial assets; U.S. households alone held EUR 84 trn, amounting to 43.6% of global financial assets. On a country level, China ranked second, with financial assets of private households amounting to EUR 23 trn (12.1%), ahead of Japan with a total of EUR 16 trn (8.4%).. On a regional level, North America is followed by Western Europe with EUR 40 trn and Asia (excl. Japan) with EUR 35 trn in gross financial assets. Together, these three regions hold 85% of global wealth (Figure 7).

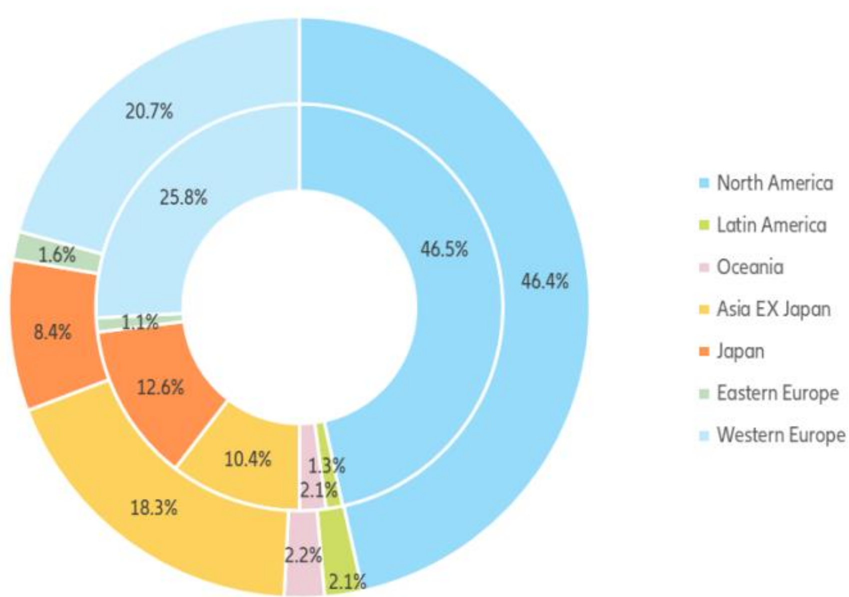
Due to the fact that over the last decade North American private households' financial assets grew in line with global financial assets – on average +6.3% per annum against +6.4% worldwide – their share of global financial assets remained stable at 46.5%. In contrast, neither their Western European nor Japanese peers saw their financial assets increase at a similar pace, instead losing ground against the emerging world regions: In the last ten years, the global shares of Western Europe and Japan decreased by around 5% and 4%, respectively, to 20.7% (Western Europe) and 8.4% (Japan). Thus, in the long-term perspective, Emerging Markets are the clear winners: Between 2009 and 2019, they could more than double their share from 8.0% to 17.9%; this is, however, slightly below the figure for 2016 (18.0%), another sign of the recently stalled catch-up process. The most impressive success story is households in the emerging economies of Asia, above all China: Due to the annual +13.1% growth of their gross financial assets, more than double the global average, the regional share of global financial assets has increased almost steadily from 10.4% to 18.3%. Eastern Europe and Latin America saw similar dynamic developments, but at a much lower level: their shares increased by around +50% to 1.6% and 2.1%, respectively (Figure 8).

Figure 7: Private households in Northern America hold almost 50% of the global financial assets



Sources: national central banks and statistical offices, Allianz Research.

Figure 8: Global asset shares shifted from West to East



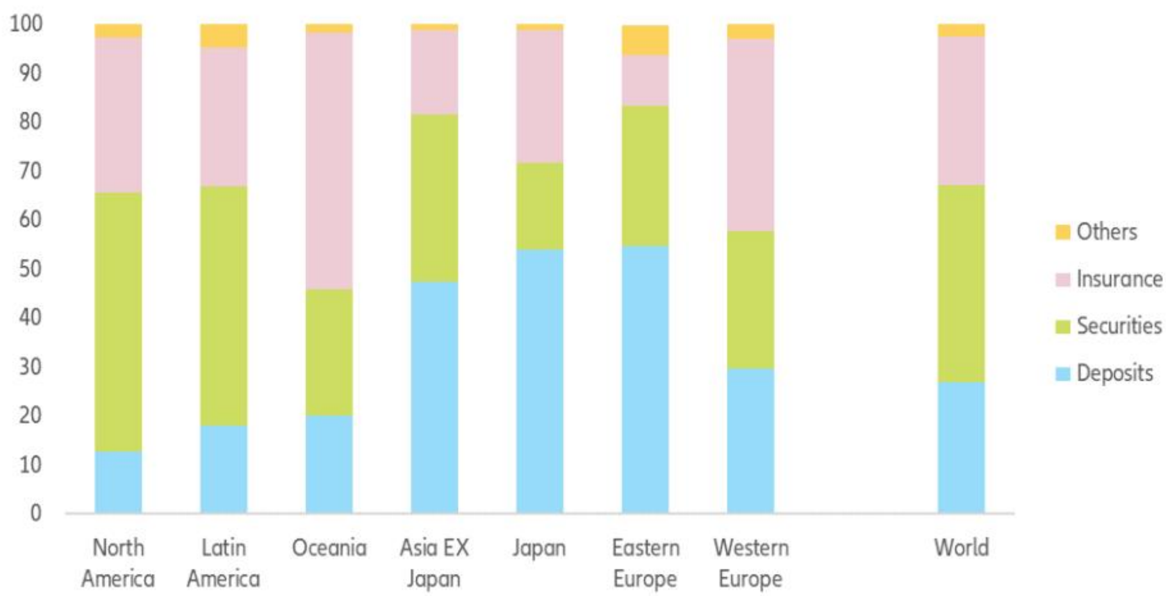
Sources: national central banks and statistical offices, Allianz Research.

Different portfolio structures

One trigger for the divergences in financial growth is the differences in saving behavior: While North American households held 52.9% of their assets in securities at the end of 2019, and thus benefitted from the stock market rally in recent years, in the other world regions low-yield bank deposits as well as life insurance and pension entitlements have a bigger share in private households' portfolios: In Western Europe, for example, the share of securities was only 28.0% and in Japan a mere 17.7%. Only Latin American households showed an investment behavior that is similar to that of their northern neighbors, with securities amounting to 48.6% of their total assets (Figure 9).

The reasons for the differences are manifold, ranging from behavioral factors such as risk-aversion or a less developed equity culture to technical ones such as lacking access to financial services and underdeveloped capital markets, which is still the case in many Emerging Markets .

Figure 9: Marked differences in portfolio structures (2019)

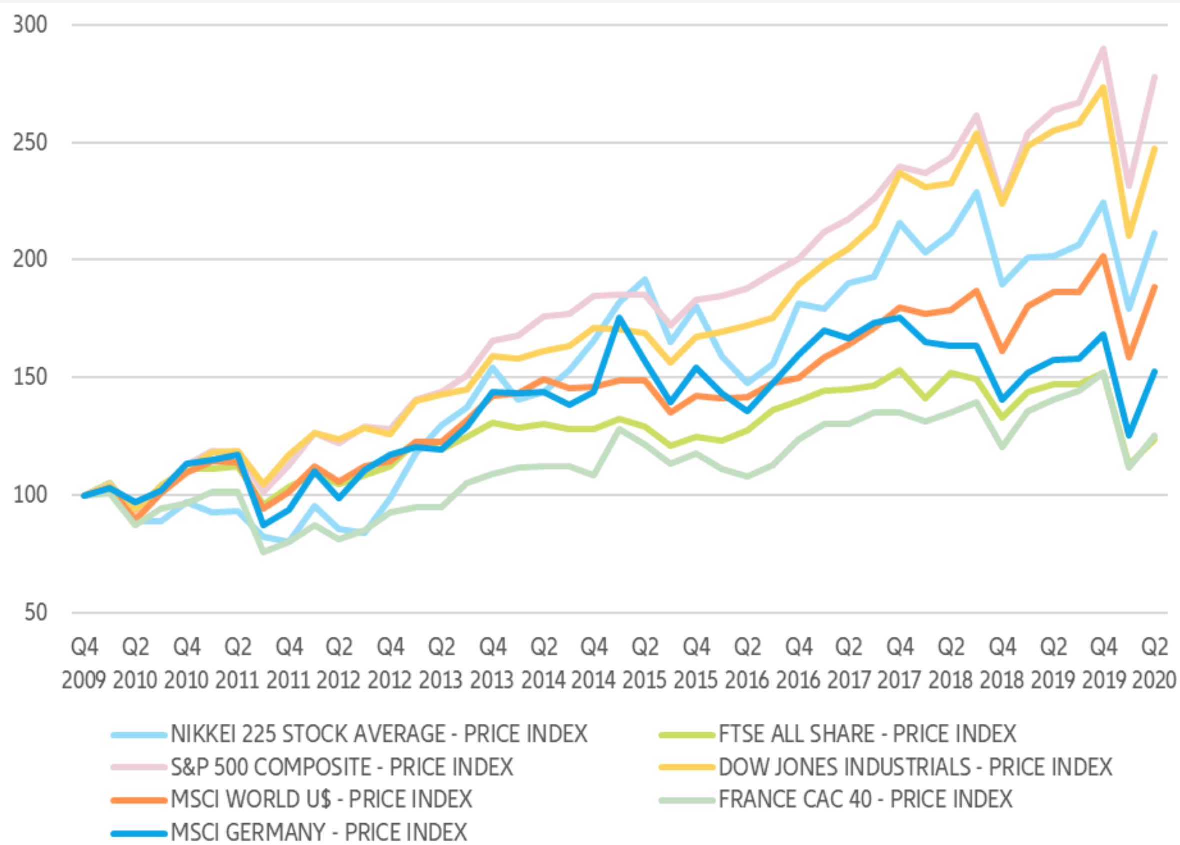


Sources: national central banks and statistical offices, Allianz Research.

Over the last decade and at the global level, the asset class of securities increased its share by around 5 percentage points, reflecting booming stock markets during this period. Insurance and pensions as well as bank deposits, on the other hand, saw their shares falling. These trends are relatively similar across all regions, with the notable exception of Western Europe where insurance and pensions increased by almost 4 percentage points at the expense of securities. It seems as if the euro crisis, which followed quickly after the GFC, persuaded many households in the region to keep a safe distance from markets. In fact, stock market developments were more constrained in Europe than in the rest of the world. While, for example, the S&P 500 index almost tripled and the Nikkei 225 more than doubled between the end of 2009 and 2019, leading indices in Europe increased by 'only' 50% (Figure 10).

These different stock market dynamics had a big impact on financial asset growth. In general, households with a higher exposure to securities enjoyed considerable value gains in their portfolios. In 2019, in the U.S., i.e., the value of the average securities portfolio increased by EUR 17,160 per capita; value increases over the last ten years added up to an average EUR 68,580 per capita. And even in Japan, the favorable stock market development after 2008 generated an increase in the value of the securities portfolio of EUR 11,590 per capita. In contrast, the value of the average securities portfolio in Western Europe increased by only EUR 7,955 per capita over the last decade, although European households hold much more securities than their Japanese peers. However, this average number blurs the huge differences within Europe: In France, for example., the value gains amounted to EUR 10,940. In Germany, however, the value increases over the last ten years added up to a mere EUR 4,265. But there are signs that the seemingly over-cautious German savers are starting to reconsider their savings behavior (see page 14).

Figure 10: Equity holders have profited from positive stock market developments



Source: Thomson Reuters Eikon.

Stupid German money?

Since the financial crisis, the nasty expression "stupid German money' has been making the rounds, with German investors abroad seen as not very clever. German savers are considered to be pronounced stock grouches, with listed shares accounting for only 5.6% of total financial assets (end of 2019). Do these (pre-)judgements stand up to closer scrutiny?

Compared to the portfolio structure of U.S. households, German savers are certainly underweighted in stocks: On the other side of the big pond, listed shares account for just under 22% of total financial assets. However, if one looks, only over the Rhine, for example, another picture shows up: French households likewise invested only 5.2% of their financial assets in listed shares. A look at the flows, i.e. the fresh savings, is even more revealing. While German households invested a total of 5.8% of their fresh savings directly into the stock market over the last six years, the corresponding figure in the U.S. is only 0.7%; neighboring France comes in at 1% (for the last three years). The big portfolios of listed shares in the U.S. are thus rather the consequence of investment decisions in the past; recently, investment funds have become much more popular with U.S. savers than individual stocks.

The biggest surprise, however, is the breakdown between domestic and foreign shares: since 2013, 54% of share purchases by German savers have been made up of foreign shares; as a consequence, their share of total shareholdings has risen from 25% at the end of 2013 to 38% last year. In comparison, French savers hold only 15% of foreign shares in their stock portfolios and, on balance, they have sold foreign shares in the last three years. German savers are therefore much more international; there is hardly any home bias left.

But the crucial question is, of course, has this international diversification been worthwhile for German households? The surprising answer: yes! Over the last six years, the portfolio of foreign-listed shares in the hands of German savers has increased in value by +65%; this compares with the development of the global stock market index (MSCI World) of +42% – smart German money!

However, there is one caveat: as successful as German households were in their international stock investments, they had little luck with their domestic investments. Here, only a growth in value of +12% (2014 to 2019) is recorded, compared to the development of the German stock market (MSCI Germany) of +17% over the same period. The situation is mirror-inverted to that in France (only 2017 to 2019). French households achieved an implied return on domestic equities of +20%, while the domestic stock market gained +23%. Foreign equities, on the other hand, returned +21% in the last three years, compared to a +35% increase in the global stock market over the same period. French savers therefore seem much more adept at selecting domestic stocks, which is why foreign stocks consequently play only a minor role in their portfolios.

But the bottom line remains: At least German households have recently been much better as international investors than their reputation suggests. Not only do they seem to be pursuing a consistent international diversification, but they have also been successful in doing so – they have clearly beaten the benchmark over the last six years. The reasons for the low share of equities are to be found in the past, not in recent investment decisions.

Financial assets reached 270% of global GDP

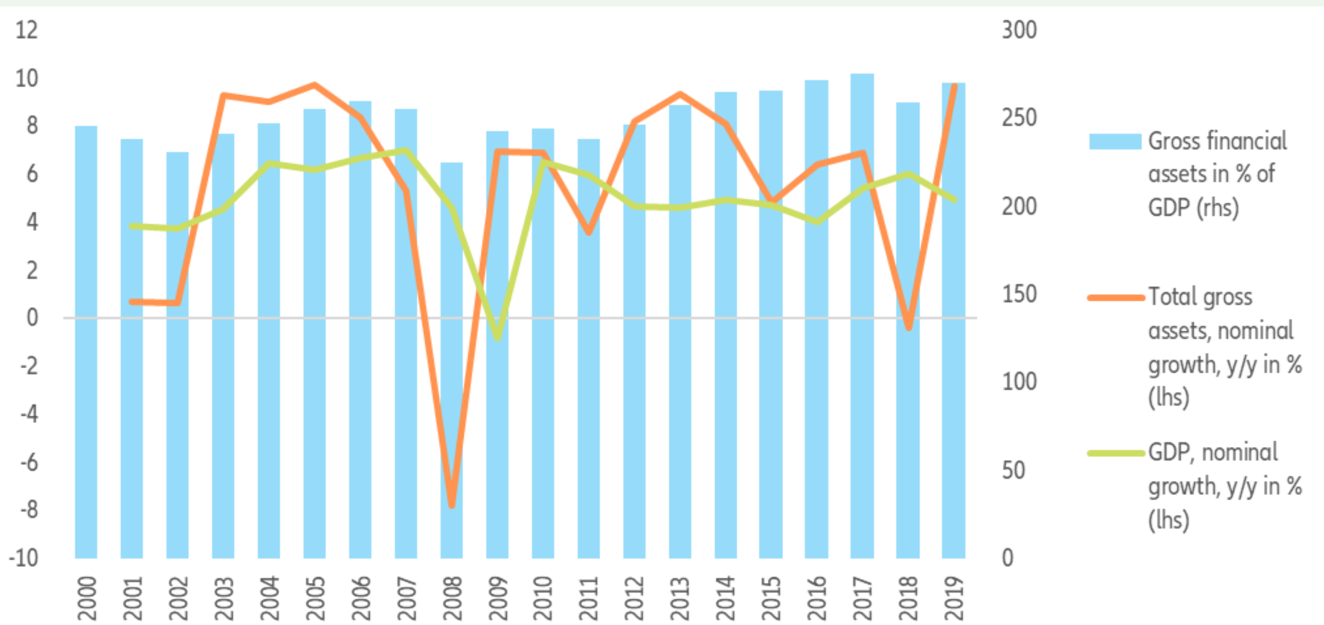
The stalled catch-up process in the last three years has not helped to reduce the still marked wealth gaps between and within the different world regions, to put it mildly. These differences become obvious when household assets are set in relation to the respective GDPs and are compared on a per capita basis. The growth of private households' gross financial assets outpaced that of nominal GDP by almost five percentage points in 2019. As a consequence, at the end of 2019, global financial assets amounted to 270% of the total nominal GDP. However, the decline of 2018 was only partially offset, with the 2019 asset-to-GDP ratio still lower than the 275% that had been reached in 2017 (Figure 11).

The global development was supported by all world regions, though to varying degrees: In all world regions, private households' gross financial assets grew stronger than GDP. The widest gaps between asset growth and GDP growth were observed in the industrialized countries, namely in Australia and New Zealand, North America and Western Europe. While in Down Under financial assets increased by +11.9% and thus outpaced nominal GDP growth by 8.4 percentage points, the difference in North America was 7.1 percentage points and in Western Europe still 5.1 percentage points. In the other world regions, the difference ranged between two and three percentage points.

Over the last decade, the most dynamic developments were observed in Latin America, where the asset-to-GDP ratio jumped by more than 30%, from 81% in 2009 to 106% in 2019. A similar strong increase of the asset-to-GDP ratio was reported from the Asian region excluding Japan, with the ratio climbing from 135% to 174%.

Nonetheless, there are still marked differences between the regions. The highest financial-assets-to-GDP ratios are still found in the industrialized countries: In North America, it increased to 428%. In Japan, where private households' gross financial assets amounted to 354% of GDP, it was more than twice the average ratio of the other countries in the region. In Oceania, the ratio is also above the 300% mark. All of these countries have a strong capital-funded second pension pillar in common. Western Europe, where in most countries pay-as-you-go financed pension systems are dominating, ranked midfield. .

Figure 11: Asset growth surpassed nominal GDP growth

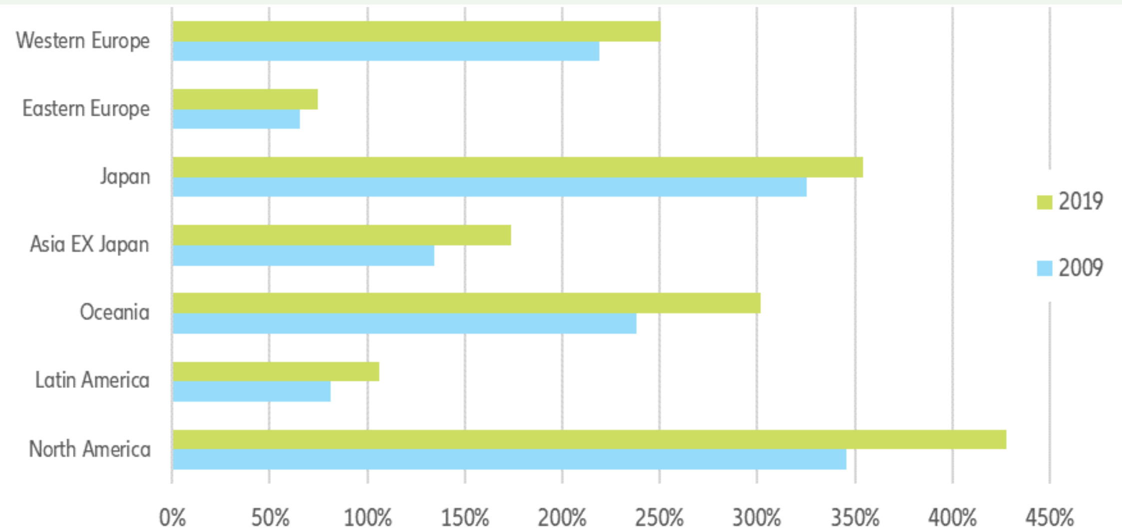


Sources: national central banks and statistical offices, Allianz Research.

Though the asset-to-GDP ratio has increased to a record high of 250% in 2019, it remained still below the global average. In the other world regions, the asset-to-GDP ratios were markedly lower: Asia (excl. Japan) reached 174% in 2019 and Latin America 106%. The lowest share was reported in the Eastern Europe with 74% (Figure 12).

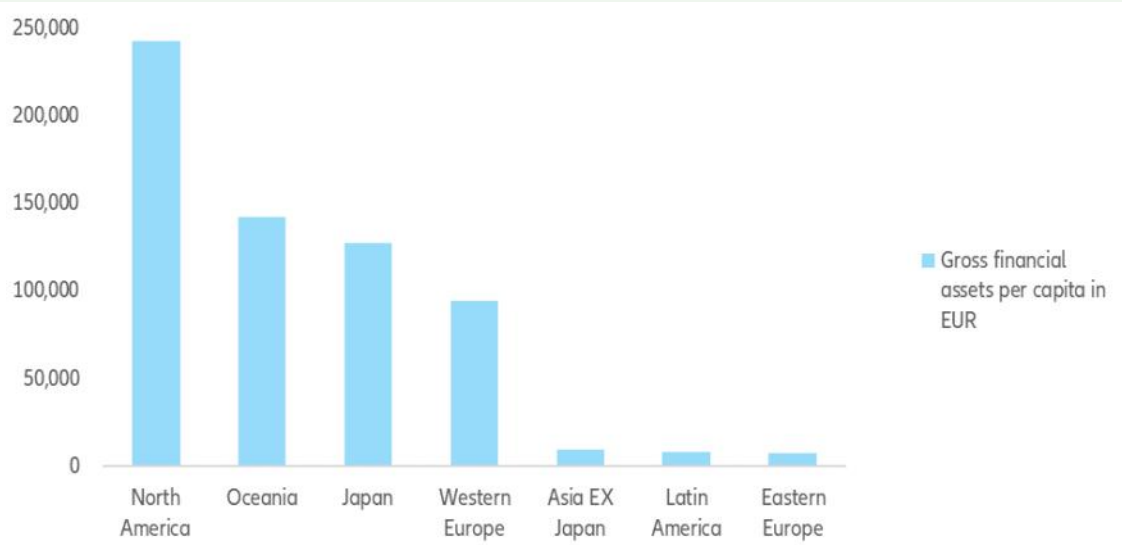
However, there are not only differences between, but also within the regions. This holds especially true for Latin America and Asia, with the latter accounting for the biggest intra-regional wealth gap: In Latin America, the wealth ratio ranged from 54% in Peru to 189% in Chile, while in Asia, which is dominated by the developments in China, where the asset-to-GDP ratio has increased to 189%, the range is from 18% in the Philippines to a record 574% in Taiwan, the highest ratio worldwide. The country with the second highest asset-to-GDP-ratio in 2019 was the U.S. with 436%, followed by Switzerland with 393%.

Figure 12: Asset growth surpassed nominal GDP growth



Sources: national central banks and statistical offices, Allianz Research.

Figure 13: The average per capita amount of the richest households is 33-times of that in the poorest region



Sources: national central banks and statistical offices, Allianz Research.

Clearly the disparities are even more pronounced in the comparison of the gross financial assets per capita: North America's EUR 242,712 was 33-times the average sum of EUR 7,443 per capita in Eastern Europe. The second richest region on per capita basis was Oceania with an average EUR 142,060 per capita, followed at some distance by Western Europe (EUR 94,209). In the other world regions gross financial assets per capita were still below EUR 10,000: In Asia (excluding Japan) this sum was around EUR 9,696; in Latin America it amounted to an average of EUR 8,307 (Figure 13).

Thus government measures to strengthen financial literacy and to improve the access to financial services in emerging economies remain an urgent need .

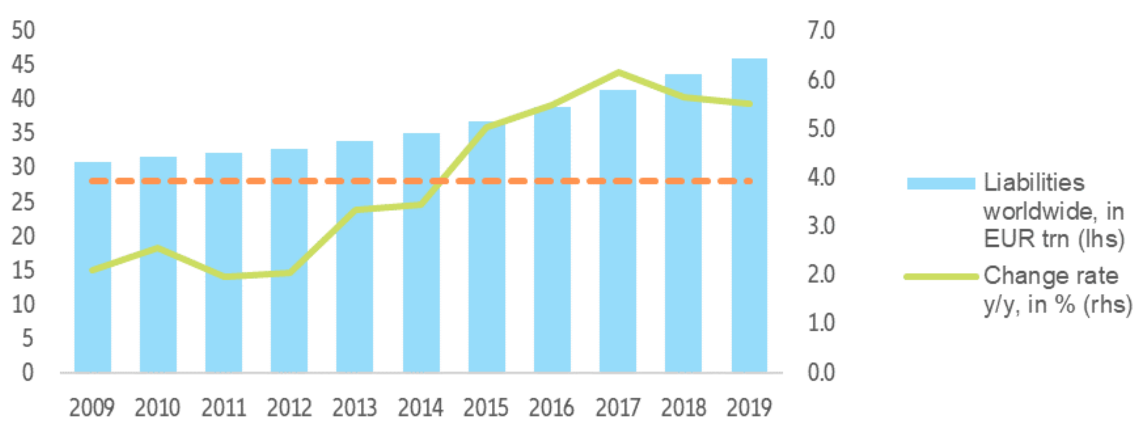
DEVELOPMENTS IN GLOBAL LIABILITIES: YESTERDAY, ALL MY (FINANCIAL) TROUBLES SEEMED SO FAR AWAY

Financial resilience of households is important to macroeconomic and financial stability, partly because household spending typically accounts for around 60% of GDP, but also because of its exposure to the financial sector. On the one hand, the behavior of households with respect to resource allocation – including their savings and spending decisions – directly affects market prices; on the other hand, households are a source of financial risk in their role as borrowers from financial institutions. Therefore, monitoring household debt levels is important for public policy design.

When talking about the importance of household liabilities for economic growth there are two forces at play: current consumption and future consumption. Therefore, the increase in household debt creates an increase in current consumption and current economic growth. However, the lagged effect of an increase in household debt ultimately means lower future consumption and economic growth (in the period of debt repayment). A high household debt burden in times of economic hardship will also limit households' leeway to deal with income shock (Figure 14).

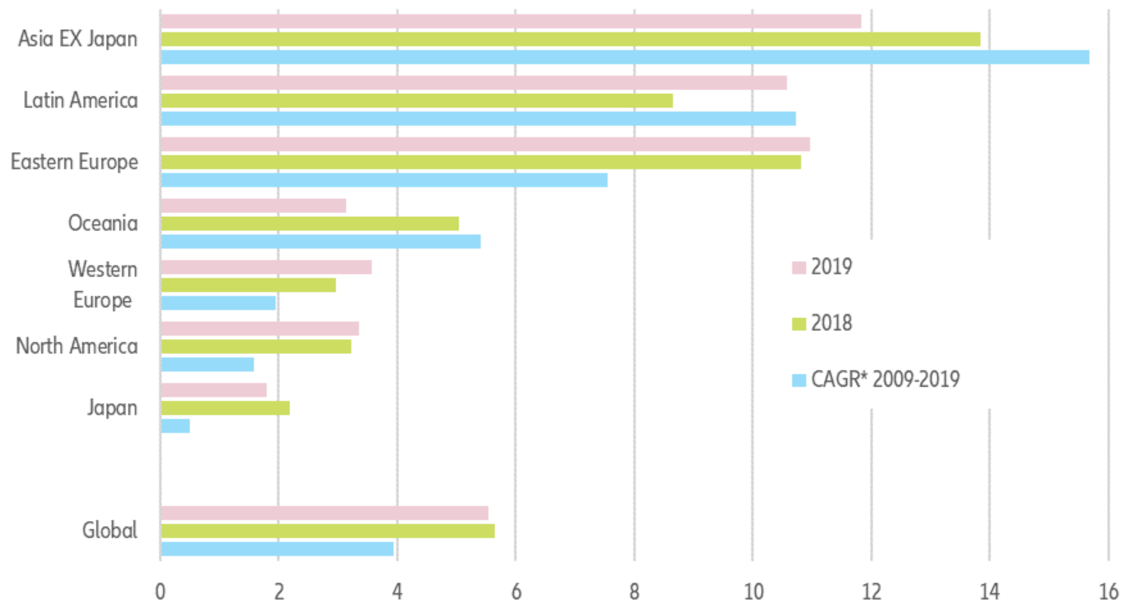
A high household debt burden in times of economic hardship will also limit households' leeway to deal with in come shock. At the end of 2019, the debt levels of private households reached EUR 46 trn worldwide. The global growth rate of household liabilities was +5.5% and thus stayed stable as compared to the +5.7% growth of 2018. However, it was significantly higher than the long-run compound annual growth rate (CAGR 09-19) of +3.9%. As observed in recent years, debt growth was much faster in Emerging Markets (Figure 15).

Figure 14: Development of global debt burden



Sources: central banks and statistical offices, Allianz Research.

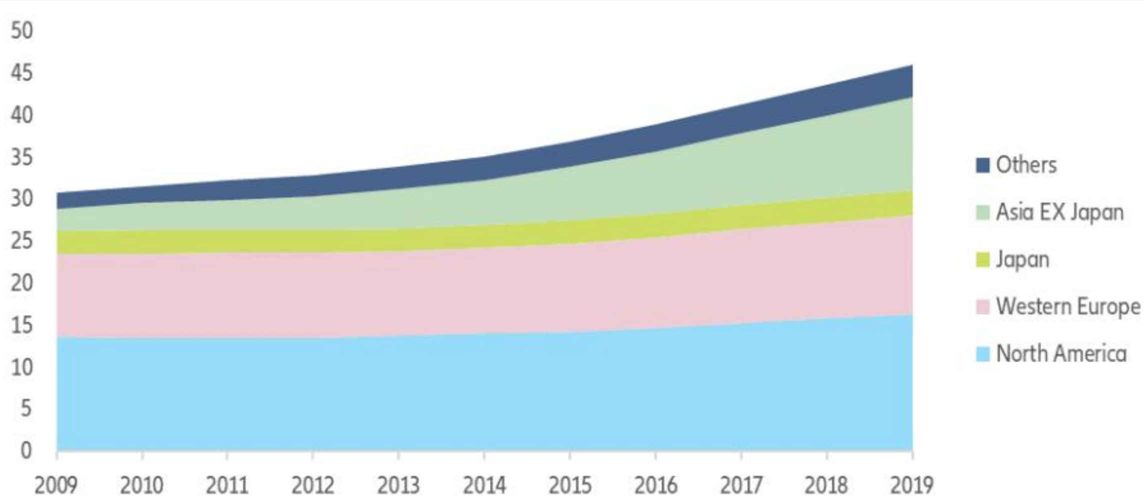
Figure 15: Increase of debt by region, in %



Sources: central banks and statistical offices, Allianz Research.

The share of global debt has changed since the GFC. At the height of the crisis, North America held 45.6% of global debt. Currently, the region represents 'only' 35.5% of the global debt pile (EUR 16.4 trn), still the highest regional burden, despite experiencing a growth slowdown over the past decade at +2% average annual growth (CAGR 09-19). Western Europe also holds a large share of global debt at 25.7% (EUR 12 trn), but this has also decreased since 2008, when it represented 31.7% of global household debt. While the share of Advanced Markets is in decline, Emerging Markets account for an ever-rising portion of global debt, first and foremost Asia excluding Japan: it is today not only the third largest region in terms of debt (23.9% of global liabilities or EUR 11 trn) but its share has trebled over the past decade (2008: 7.4%). In terms of liabilities per capita, however, the region remains a minnow: with slightly above EUR 3,000 it stands at a fraction of the levels seen in the Advanced Markets (Figure 16).

Figure 16: Development of global debt, in EUR trn

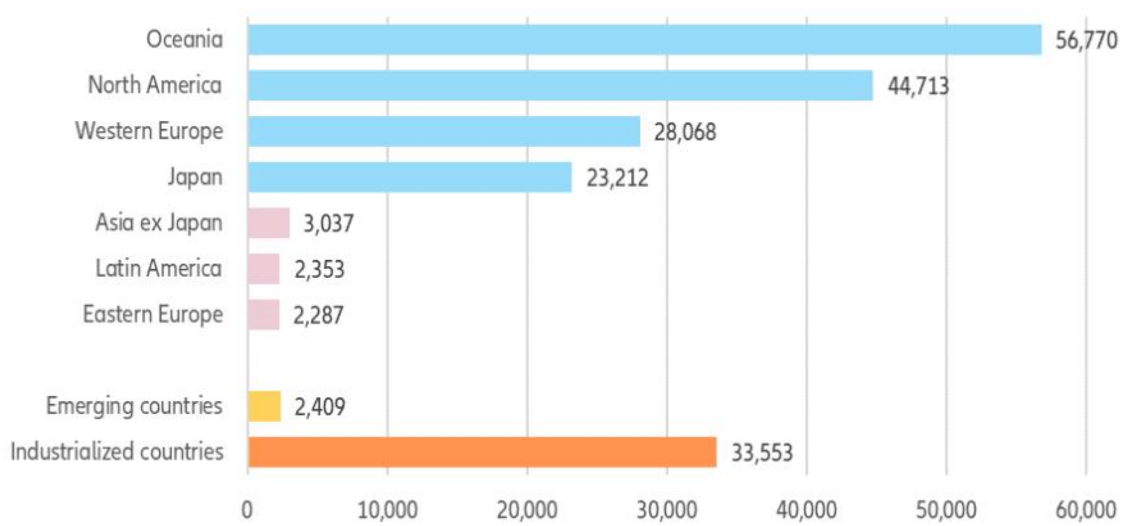


Sources: central banks and statistical offices, Allianz Research.

Following the GFC, both household liabilities and global economic growth were modest. It took liabilities six years to catch up with output growth. In 2015, growth in liabilities finally overtook global GDP growth (+5.0% compared to +4.7% for the latter) and since then, global liabilities have grown at a faster pace than GDP (2019 growth: debt +5.5%; nominal GDP +4.9%).
Before Covid-19 hit the world like a meteorite, the prevalence of low interest rates made borrowing more attractive (Figure 17).

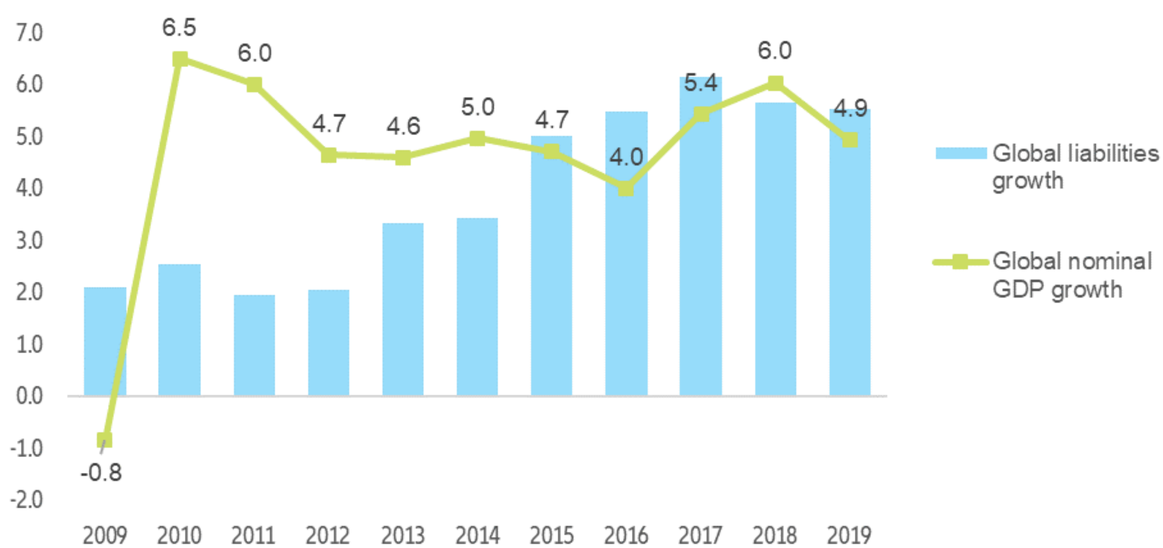
Before Covid-19 hit the world like a meteorite, the prevalence of low interest rates made borrowing more attractive. Two phenomena interacted with each other: First, in Advanced Markets, households did not deleverage at the pace that was expected, while in

Figure 17: Debt per capita 2019, in EUR



Sources: national central banks and statistical offices, Allianz Research.

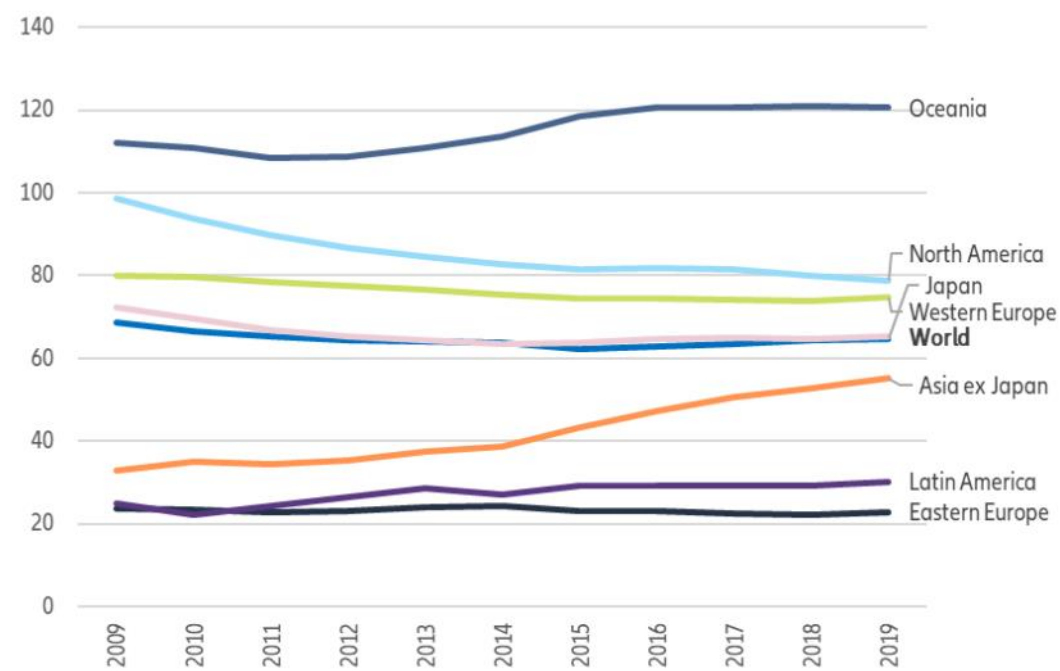
Figure 18: Economic growth vs. debt growth, y/y in %



Sources: national central banks and statistical offices, Allianz Research.

In Emerging Markets debt levels started rising. Second, despite the low interest rates, household spending remained subdued. The lesson from the GFC remained too close to home: highly indebted households are sensitive to income fluctuations. Currently, with state policies such as furlough arrangements or unemployment benefits, governments in Advanced Economies are putting effort into maintaining a stable level of income. But consumption has come down regardless of these efforts, not only because households are trying to increase their precautionary savings, but also because the lockdowns and social distancing regulations have reduced the supply of services (Figure 18, 19).

Figure 19: Liabilities as % of nominal GDP

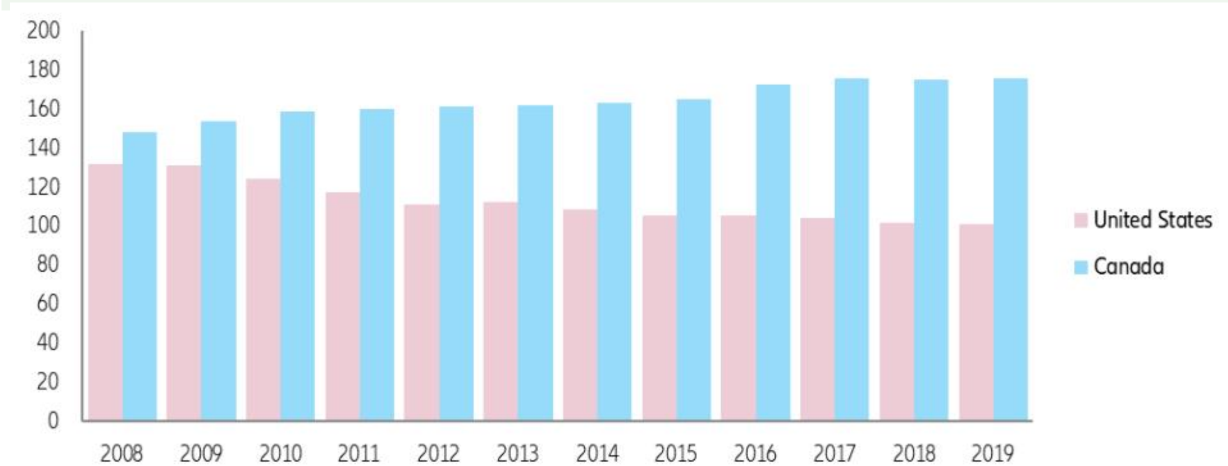


Sources: national central banks and statistical offices, Allianz Research.

North America – she owes you yeah, yeah, yeah

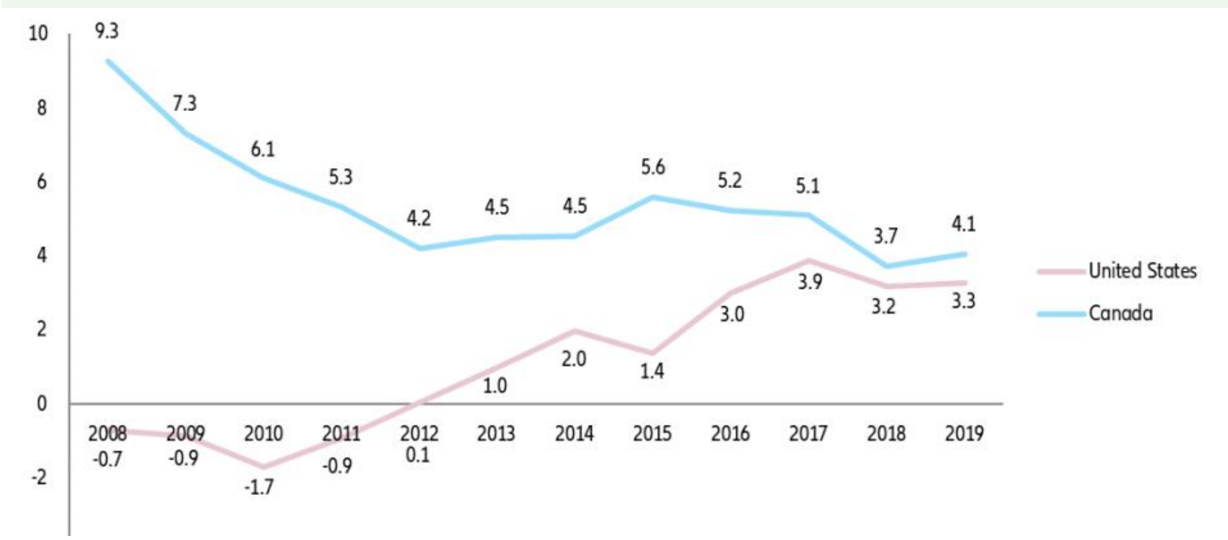
In 2019, North American households were shouldering a record amount of debt at EUR 16.4 trn, with the U.S. alone accounting for EUR 14.7 trn while Canada was carrying EUR 1.6trn. There are two drivers of debt growth in these countries: low interest rates and rising house prices. In Canada, mortgages represent 63% of total household liabilities, which has marginally increased since its share at height of the GFC (59%). In the U.S., mortgages have decreased as a share of household debt from 73% in 2008 to 64% in 2019. The different trends in growth rates are even more pronounced. After severe belt tightening in the aftermath of the GFC – debt declined for four years in a row – U.S. households increased their liabilities gradually in the following years, but the growth in debt at around +3% still remains relatively subdued. Canadian households, in contrast, never trimmed their debt burden but continued to borrow heavily and with growth rates of +4% and +5% in the last couple of years, the increase in liabilities is still considerably higher than in the U.S. Consequently, liabilities per capita are now almost the same in both countries: EUR 44,800 in the U.S. and EUR 43,910 in Canada. Just before the GFC, U.S. households' debt burden was on average more than 50% higher than that of Canadian households (Figure 20).

Figure 20: Debt as a percentage of disposable income



Sources: central banks and statistical offices, Allianz Research.

Figure 21: Debt growth y-o-y, in %



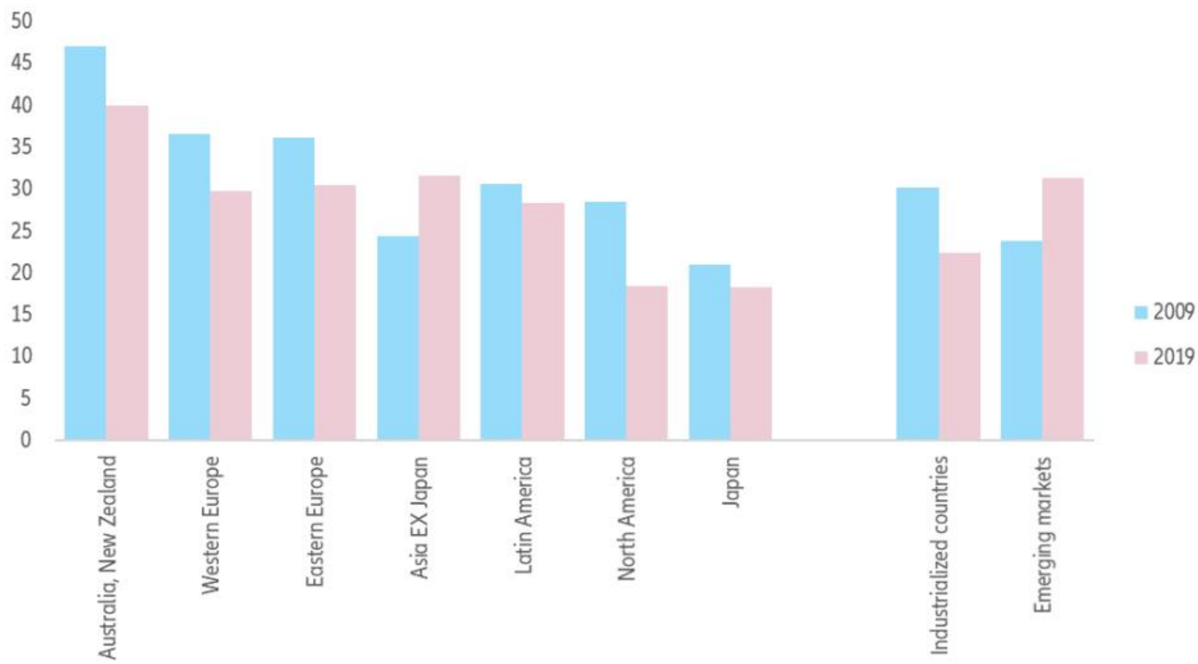
Sources: central banks and statistical offices, Allianz Research.

These different developments are evident when looking at another important gauge in assessing debt in North America: the levels of household debt as a percentage of disposable income. In the U.S., in the past decade, this ratio has gone down from 132% to just above 101%. While it is still high, it is nowhere near the levels of the previous crisis. The opposite is true for Canada, where it has increased from 148% in 2008 to 176% in 2019. On average, housing prices in both countries have increased at a similar rate since 2015 (Canada: +30%, U.S.: +26%). While some argue that debt levels are unimportant as long as they are used to finance assets (in this case real estate), it is only true when there is not a negative income shock and households can easily service their debt. The indicator to determine this is the debt service ratio, which shows the relationship between income and debt payments. Currently the debt service ratio in Canada is at 13.3, slightly above the historical average (12%). Since the GFC, the debt service ratio in the U.S. has decreased and it is now only at 7.9% (historical average: 9.4%). Americans learned about financial discipline the hard way during the subprime mortgage crisis (Figure 21).

The relationship between assets and debt is a strong indicator of household well-being. At the end of 2019, the liability-asset ratio (liabilities in percentage of assets) stood at 18.4% in North America (U.S.: 17.6%, Canada: 31.2%), down from 30.4% in 2008; in fact, no other region has a better ratio (Figure 22, cf. next page).

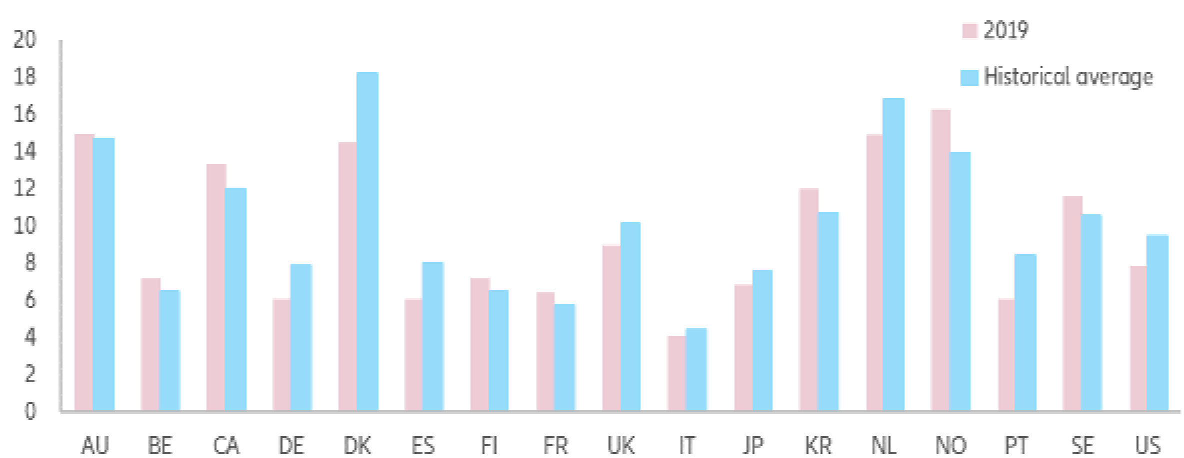
In 2019, net wealth in North America grew by an impressive +14% (U.S.: +14.0%, Canada: +12.8%), which far outpaces the debt growth of +3.3%. Globally, the net wealth per capita is the highest in the U.S. (EUR 209,524). It claimed the top spot in 2018 when it surpassed Switzerland in our ranking (EUR 195,388). There is no contending that the U.S. is the chart-topper in terms of wealth, but its Achilles' heel is the distribution of wealth and income. Canada, on the other hand, with net financial assets per capita of EUR 96,630, ranked 9th place in the global wealth table (Figure 23).

Figure 22: Liabilities as % of financial assets



Sources: central banks and statistical offices, Allianz Research.

Figure 23: Debt service ratio 2019 vs. historical average



Sources: central banks and statistical offices, Allianz Research.

Consumer trends during the pandemic. Evidence from the U.S.

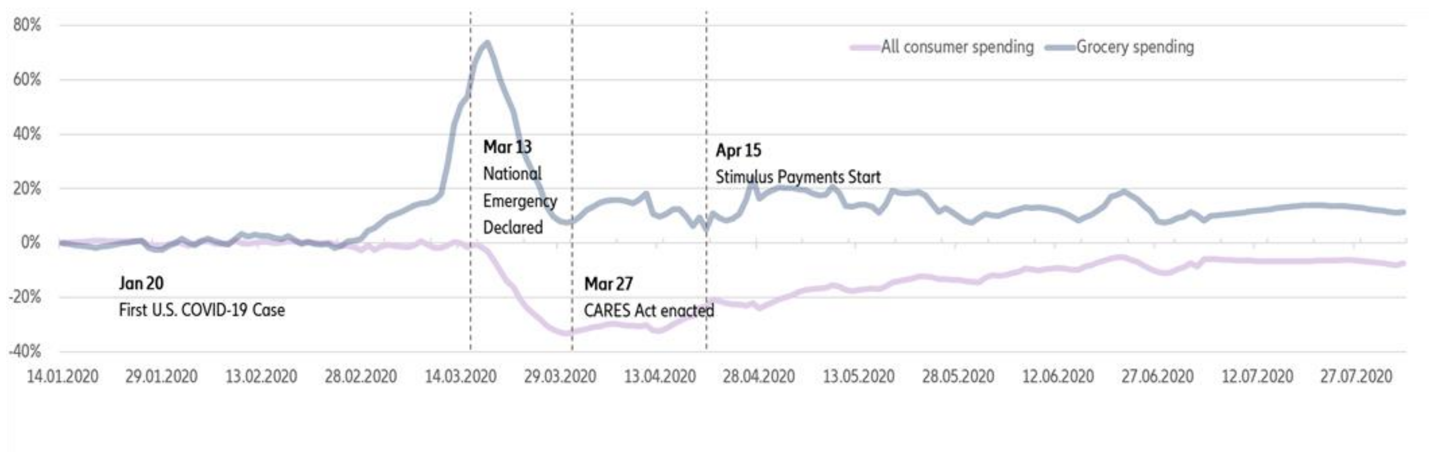
The main driver of economic growth in the U.S. is consumption, with household consumption alone responsible for around 68% of gross domestic product. But when the Covid-19 pandemic started spreading at a serious rate in mid-March, consumers in the U.S., even if they had not faced an immediate financial impact, started cutting back in spending, except for groceries for fear of shortages in important goods, such as toilet paper and paracetamol (Figure 24).

In addition, the lockdown made certain types of consumption impossible: As the scientific community investigated the virus's transmission channels, places where close contact could happen had to close (i.e. restaurants and cinemas). As a result, with January as a baseline, U.S. total spending decreased by -8% as of end-July. In contrast, the average credit-card debt of households currently stands at around USD 8,400. For the first time since the second quarter in 2014 household debt in the U.S. has declined by -0.2% quarter-on-quarter, driven by a fall in credit card balances during the lockdown. Delinquency rates also decreased from 2.47% in the first quarter to 1.98% in the second quarter as a result of the forbearance included in the U.S. government's USD 2 trn stimulus package to help small businesses and households during the pandemic. However, these temporary reliefs – though flashy – mask the financial challenges that the most vulnerable households are facing.

According to the U.S. Bureau of Economic Analysis, the personal savings rate reached a historical high of 34% in April and stands currently above the historical average at 18%. Telling a story of averages is useful for simplification purposes, but ultimately it is an incomplete one. Wealth inequality in the U.S. is rampant (Gini coefficient of 0.81) and while some Americans are hoarding cash like never before, others still live paycheck to paycheck and cannot afford to put money aside for an emergency. Low-income households invest a sizeable share of their income in groceries and the pandemic is affecting these households disproportionately. According to the U.S. Federal Reserve, four in 10 adults in America are not prepared to cover an unexpected USD 400 bill. Out-of-pocket healthcare bills are also a common unexpected expense that can inflict considerable hardship on those without a financial cushion.

Household debt will play a key role in the U.S.'s recovery trajectory after Covid-19. Past recoveries from recessions were preceded by an increase in real estate and durable goods purchases, in other words, by acquiring debt. Some economists argue that countries with a high debt burden have a slower path to economic recovery in the event of a recession. Under this economic view, if household debt is under control, households can engage in more debt in a time of high consumer confidence and consume their way to economic recovery. When consumers are confident of their financial future, they consume more.

Figure 24: Track the recovery—consumer spending

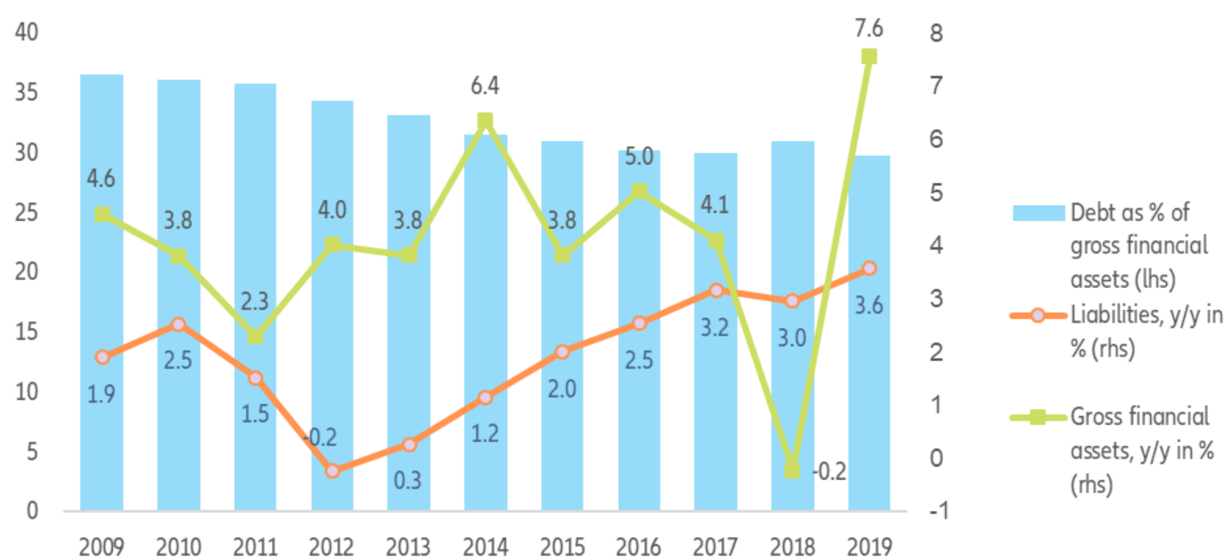


Sources: central banks and statistical offices, Allianz Research.

Western Europe – All my loaning, I will send to you

Western European households hold EUR 11.8 trn in debt, accounting for 26% of global household liabilities. In terms of liabilities per capita, on average, the Swiss carry the heaviest debt burden of about EUR 99,150, compared to the regional average of EUR 28,068 per inhabitant. Nonetheless, they also hold the highest net worth of EUR 195,390 per capita, far more than the Netherlands, the runner up, whose citizens hold EUR 114,287 in net financial assets on average. After the GFC and the euro crisis, liabilities growth in Europe has been subdued. In 2019, household debt grew by a modest +3.6% in Western Europe but this was nonetheless the fastest growth in more than ten years. The country with the highest household debt growth was France with +6.2%; Greece, Ireland and Portugal, on the other hand, still saw declining rates. In general, the debt situation is not a matter of concern in Western Europe. On average, the debt ratio (liabilities as a percentage of GDP) stood at 74.7% at the end of 2019. In some countries, however, it easily exceeds the 100% threshold, namely in Switzerland (132%), Denmark (131%), the Netherlands (107%) and Norway (107%). But given the persistently low interest rates, debt levels seem manageable for the time being: debt service ratios in many countries are below their historical

Figure 25: Growth in financial assets and in liabilities in Western Europe



Sources: central banks and statistical offices, Allianz Research.

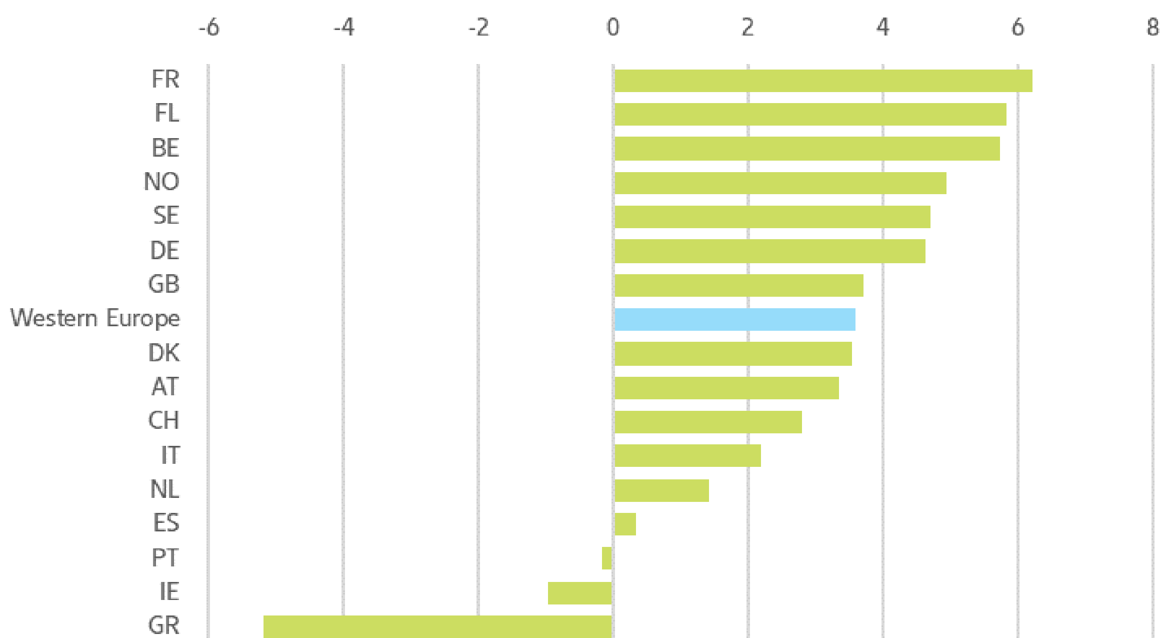
averages and in those countries where the ratios exceed the historical average – for example in France, Belgium or Finland – levels are still relatively subdued at around 6% and 7%. There are, however, three countries with debt service ratios twice as high as in 2019: Denmark (14.5%), the Netherlands (14.9%) and Norway (16.3%). While the former two have seen a declining trend since the GFC – 2019 ratios are four and two percentage points below the historical average, respectively – the opposite is true for Norway: its ratio has climbed over the last few years and is now more than two percentage points above the historical average (Figure 26).

Moreover, over the past decade we observed a faster average growth in gross financial assets, with a CAGR 09-19 of +4.1%, while household liabilities exhibited a CAGR 09-19 of +1.9%. Consequently, the liability-asset-ratio (liabilities as a percentage of assets) has significantly improved: from 37.5% in 2008 to 29.8% in 2019 (Figure 26).

In Western Europe, the net financial assets per capita are EUR 66,141 on average. Within the region, there are cross-country differences: the highest net wealth per capita is in Switzerland (EUR 195,390), the Netherlands (EUR 114,290) and Sweden (EUR110,620).

Meanwhile, the south is still struggling to converge towards the rest of the region. Countries like Greece (EUR 15,360), Portugal (EUR 26,679) and Spain (EUR 34,855) are currently in our middle wealth country category (net wealth per capita between EUR 7,900 – EUR 47,500).

Figure 26: Debt growth by country, 2019/2018 in %

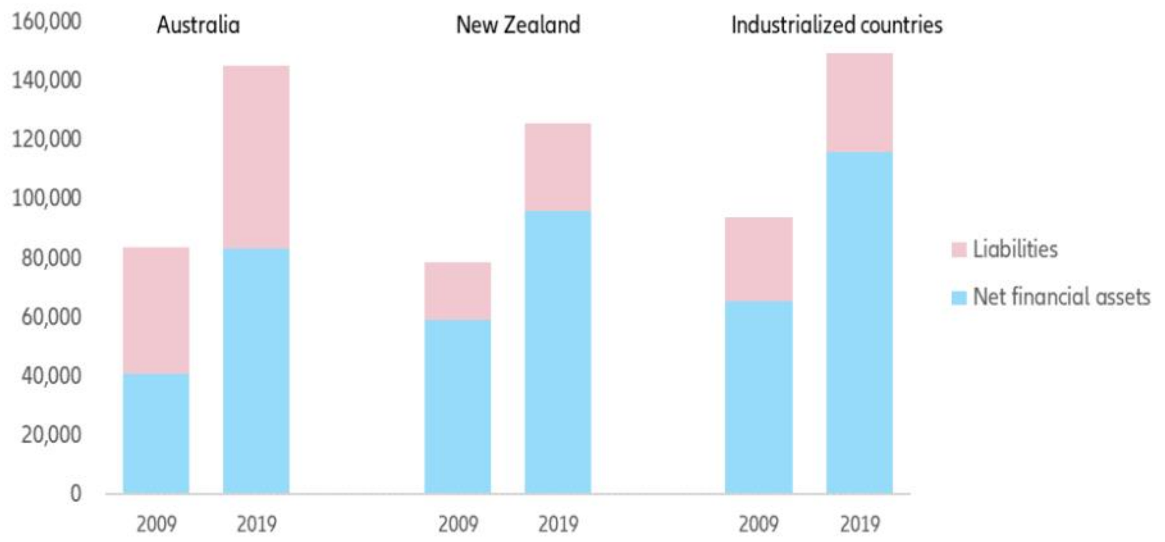


Sources: central banks and statistical offices, Allianz Research.

Oceania – Cheaper to live in a yellow submarine

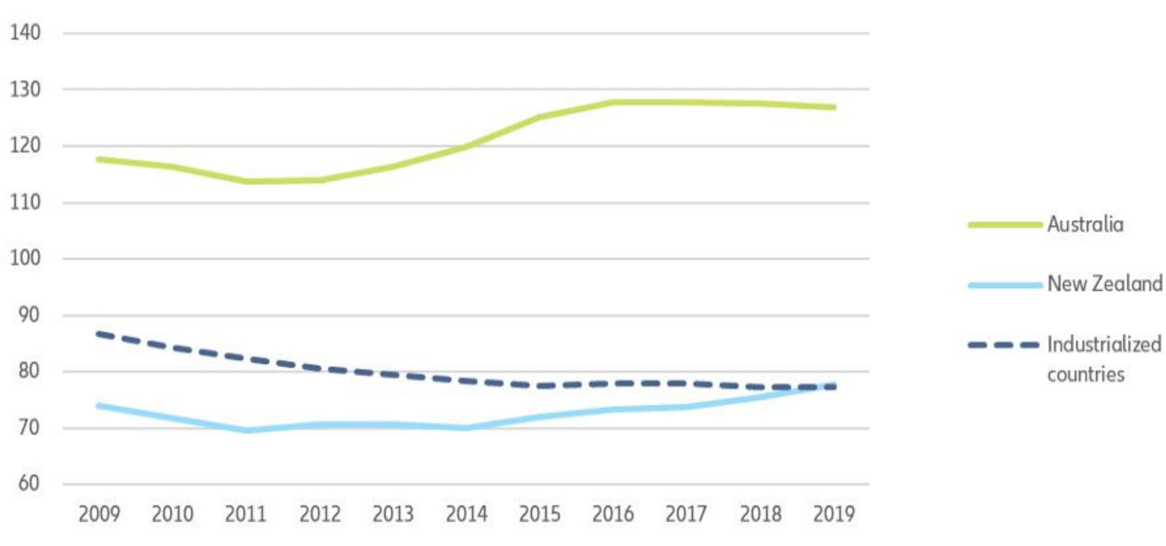
In New Zealand and Australia, households hold EUR 1.7 trn of liabilities, a symptom of the same malaise: high housing prices. Australia's debt ratio is one of the highest worldwide, reaching 127% in 2019. At least this is tad below the previous record of 128% in 2016, reflecting the first signs of debt restraint: the +2.8% increase in liabilities in 2019 was the lowest in the 21st century. The situation is slightly different in New Zealand: Growth in liabilities remained elevated at +6.6% in 2019, but at 77.7% New Zealand's debt ratio is also considerably lower. And while Australians have on average EUR 61,910 of liabilities per capita, 92% of which is in mortgage debt, in New Zealand, the liabilities per capita amount to 'only' EUR 29,688, of which 86% are also mortgages (Figure 27).

Figure 27: Net financial assets and debt per capita, in EUR



Sources: central banks and statistical offices, Allianz Research.

Figure 28: Liabilities as % of GDP



Sources: central banks and statistical offices, Allianz Research.

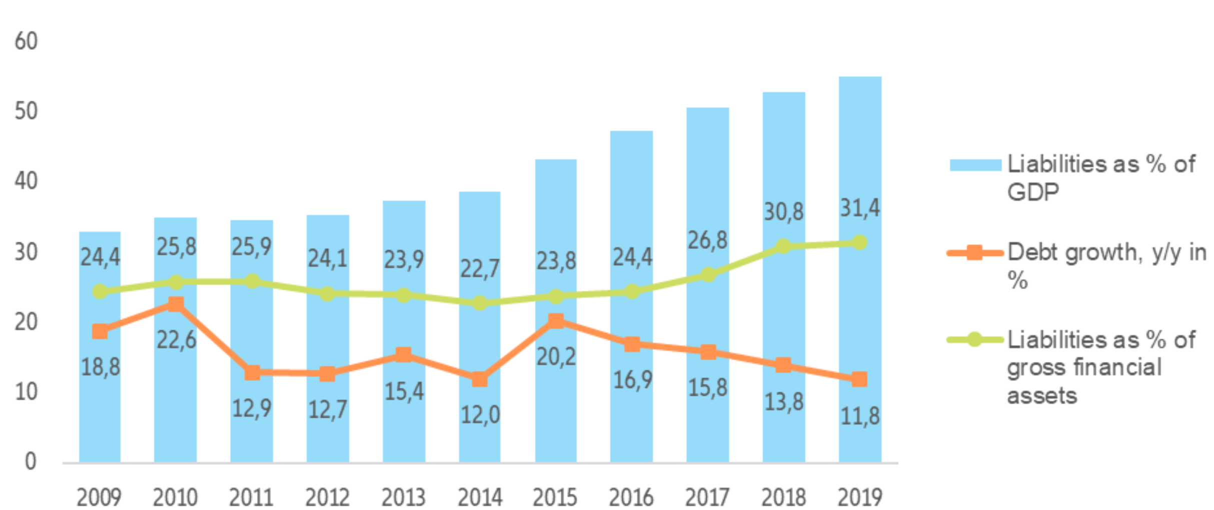
On average, debt has grown +5.4% annually (Australia: +5.4%, New Zealand: +5.0%) since the end of the GFC. Net financial assets, however, have grown almost twice as fast at +9.2% annually (Australia: +10.2%, New Zealand: +5.8%) and have increased almost threefold since 2008 to reach EUR 2.6 trn. As a consequence of asset growth outpacing liability growth, the liability-asset-ratio has improved significantly; however, at 40% (Australia: 42.7%, New Zealand: 23.6%) it remains easily the highest worldwide (Figure 28). With net financial assets per capita of EUR 96,090 and EUR 83,240, respectively, New Zealand and Australia ranked place 10 and 13, respectively, in the global wealth table.

Asia – Take a loan song and make it better

Debt has grown at a different pace in Emerging Markets compared to Advanced Economies. Last year, double-digit growth of around +11.8% was observed in Asia (excluding Japan), though most of the volume growth hails from China (Figure 29).

Even though Chinese liabilities have been accelerating for the past decade, last year China experienced 'tame' double-digit growth of +15.5% as compared to 2018 growth of +18.2% and a 10-year CAGR of +22.8%. Despite this 'slowdown', household liabilities in China grew by a massive EUR 950 bn to almost EUR 7.1 trn in 2019. China's weight in Asia (excl. Japan) went from 33.3% during the GFC to 64.1% at the end of 2019. In 2008, Japan stood on EUR 2.7 trn of household debt, which was approximately four times as large as China's EUR 740 bn household debt. Currently Japanese household debt amounts to about EUR 2.9 trn and would not be able to match half of the Chinese debt portfolio. In terms of liabilities per capita, however, China and Japan are still worlds apart. While Chinese households' debt reached EUR 4,935 on average at the end of 2019, the corresponding figure for Japan was EUR 23,210 – which is 16.5% below the debt level at the beginning of the century. In fact, Japan is the only country among those we analyze where liabilities per capita have been falling over the last two decades, a sign of the deflationary environment Japanese households face.

Figure 29: Growth in liabilities since 2009, Asia



Sources: central banks and statistical offices, Allianz Research.

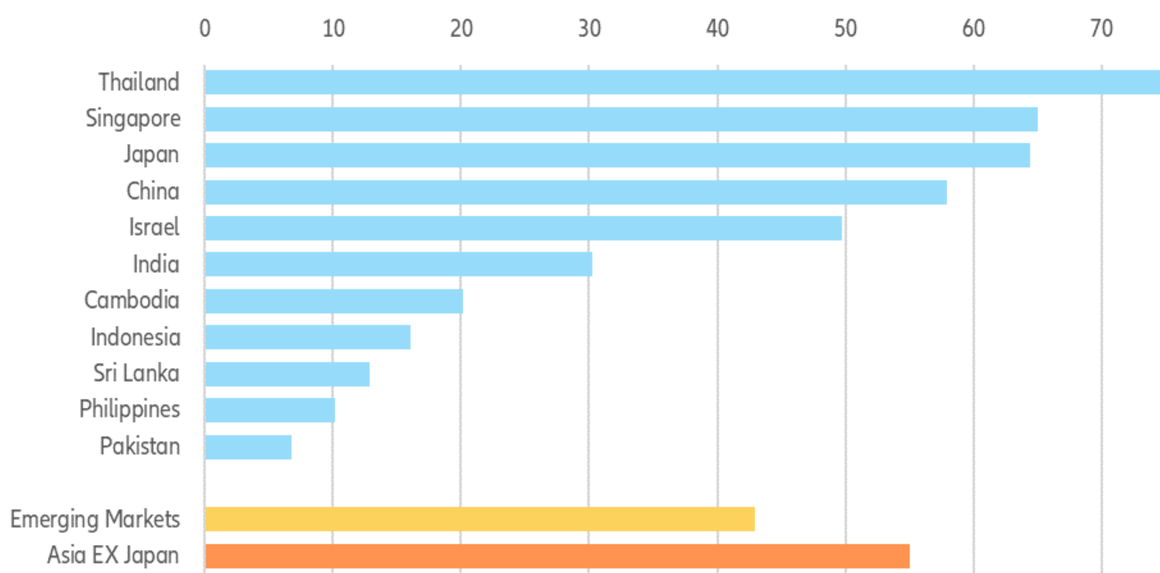
In terms of net financial assets, Asia has seen important developments in the past twenty years: the figure per capita was EUR 3,640 back in 2000 and now it is EUR 9,938 (end-2019). Chinese net assets per capita at the end of 2008 were at EUR 2,693 and are currently at EUR 11,193. Singapore has also increased its net wealth per capita by two-fold in the past decade to EUR 116,657. Singapore is now the richest country in the region in net financial assets per capita terms, followed by Taiwan (EUR 110,706) and Japan (EUR103,829). All the same, countries like Cambodia (EUR 576 per capita) and the Philippines (EUR 1648 per capita) have yet to catch up in terms of wealth and financial development.

In smaller Asian countries like Thailand and Malaysia debt has ballooned due to booms in the auto and housing industries. In Thailand, household debt as percentage of gross financial assets stands at 79. Similarly, in Indonesia and Malaysia, the ratio is also high at 98% and 82%, respectively. In South Korea, liabilities represent 47% of gross financial assets. For the whole region, the ratio reached 31.4% in 2019 – it is the only region where it is considerably higher today than a decade ago (cf. Figure 23, page 24).

As a means of comparison, the ratio is 31.3% for Emerging Markets in our sample and Advanced Economies stand at 22.5% (Figure 30).

Accordingly, the debt ratio has skyrocketed across the region: It reached 55.1% at the end of 2009, up from 29.9% in 2008. In some countries, it is already quite close to the 'danger zone' of 100%, which happened to be the debt ratio of U.S. households on the eve of the GFC. The list includes Malaysia (80.0%), Taiwan (92.0%) and South Korea (98.6%).

Figure 30: Debt as % of GDP in 2019 by country

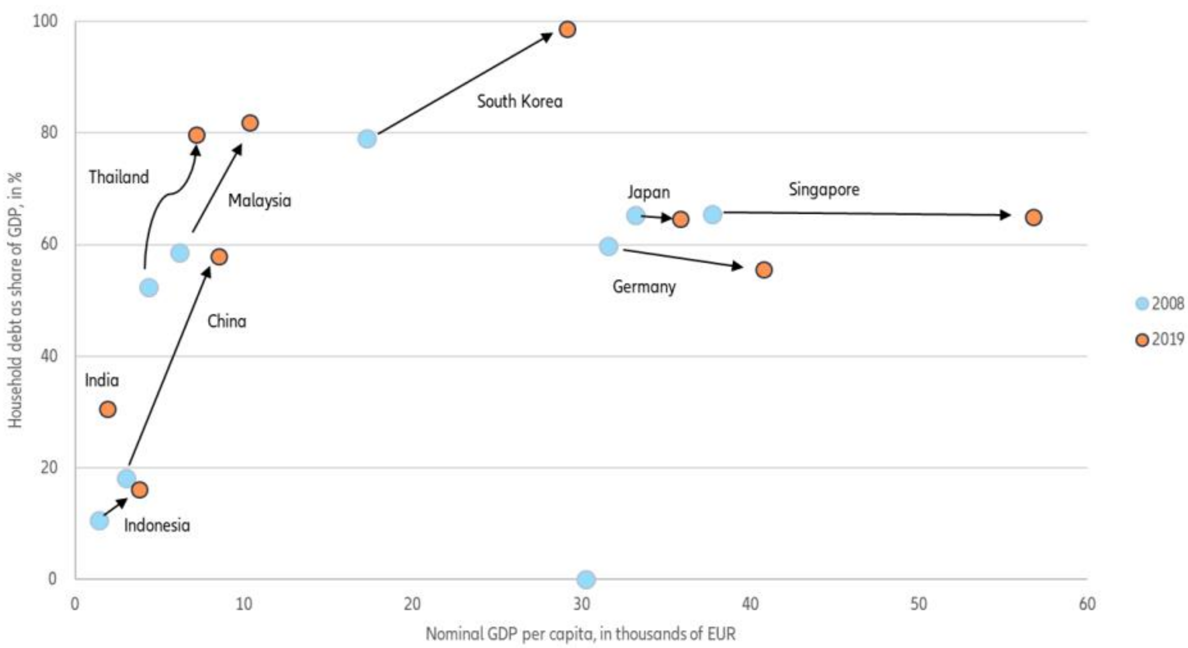


Sources: central banks and statistical offices, Allianz Research.

In China, on the other hand, the level is still much lower but the development is astounding: the debt ratio more than trebled since 2008 to 57.9% in 2019, which is, i.e., higher than in Germany.

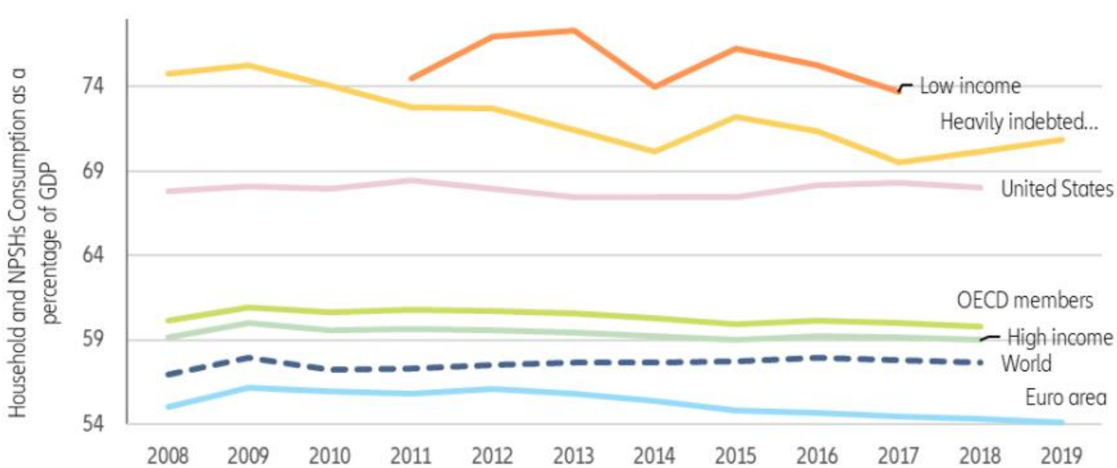
The pain point with high household debt is that it suppresses consumption and ultimately GDP growth. In heavily indebted low-income countries, household consumption represents 71% of GDP, while in the Euro Area, it represents only 54%. Therefore, it is crucial for economic growth and well-being to maintain household finances in check (Figure 31 & 32).

Figure 31: Household debt post-GFC in Asia



Sources: central banks and statistical offices, Allianz Research.

Figure 32: Households and NPISHs final consumption expenditure (in % of GDP)

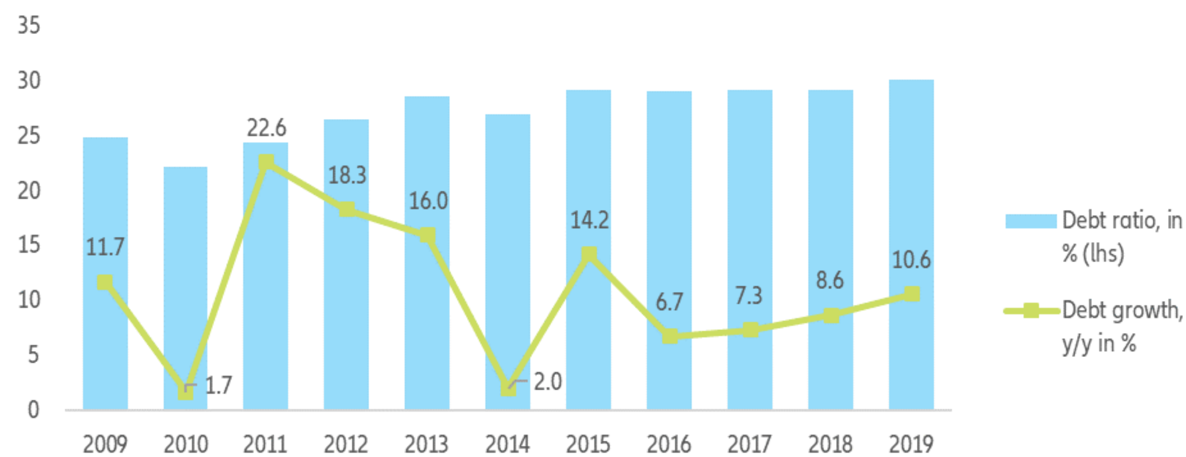


Sources: central banks and statistical offices, Allianz Research.

Latin America – I'd get by with a little help from my debt

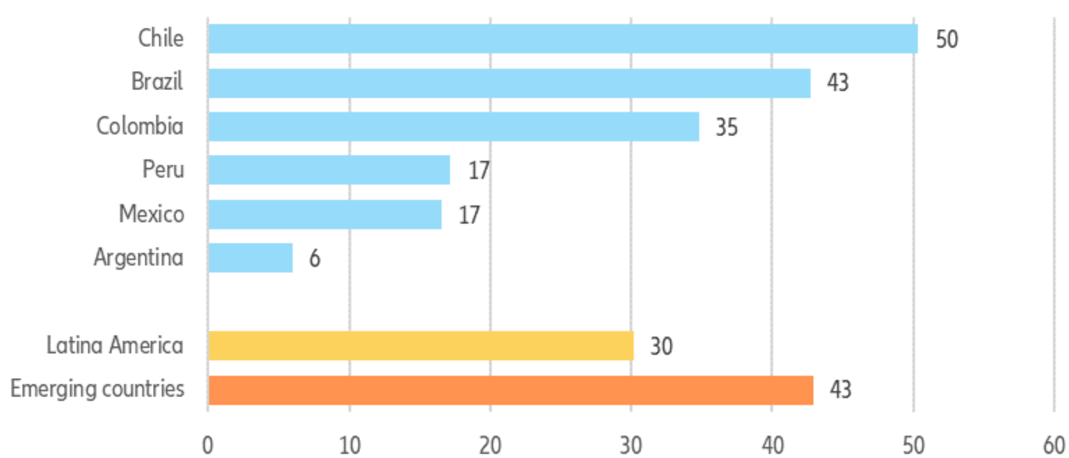
Latin American households added EUR 109 bn of debt to their portfolios and collectively reached EUR 1,142 bn (+10.6% y-o-y growth). The region's heavyweights are Brazil (EUR 679 bn) and Mexico (EUR 190 bn) as they account for 76% of the debt in Latin America. In the years following the GFC, government banks in Brazil boosted credit provisions and the levels of household liabilities have grown with a CAGR of +10.9% in the past decade, increasing almost three-fold to EUR 679 bn. The debt ratio, however, stood still at a relatively modest 42.7% at the end of 2019, some 10 percentage points higher than a decade ago. In 2015-2016, Brazil experienced its sharpest economic decline in recent history and the secular debt increase ultimately resulted in a reduction of consumption, which has held back the economic recovery. The net assets per capita of Emerging Markets currently stand at EUR 5,285. However, half of the Latin American countries in our sample fall under this figure. The net assets per capita go from EUR 815 in Argentina to EUR 17,218 in Chile, which is the only country in Latin America that is part of the Middle Wealth country group. Brazil and Mexico have similar levels of wealth at EUR 6,796 and EUR 6,023, respectively. In this context, the pandemic and the public response to it in the region will set Latin America back in its efforts to increase human development (Figures 33 & 34).

Figure 33: Debt development since 2009, Latin America



Sources: central banks and statistical offices, Allianz Research.

Figure 34: Debt ratio by country 2019, in %



Sources: central banks and statistical offices, Allianz Research.

Poverty and access to credit

Around 1 billion people across the globe are living with under USD1.9 daily (the international poverty line), a figure not even comparable to a cup of coffee in Advanced Economies. Before Covid-19 hit, countries were on a path of alleviating poverty, aiming to substantially reduce it by 2030. Currently, there is very little data to measure the impact of Covid-19 in the most vulnerable communities, but the World Bank estimates that the pandemic could push around 49 million people back into extreme poverty in 2020. This development would set back poverty alleviation efforts by three years in regions like Asia, Africa, and Latin America (Figure 35).

The impact of the pandemic will manifest itself through different channels in urban and rural communities: through the fall in commodity prices in rural areas and through income loss for the urban population due to decreased economic activity. The path to recovery will vary from market to market, but a solution that could have consistent returns on investment throughout the world is credit. The ability to access affordable credit is critical for private sector growth, especially for small businesses or informal workers that lack the initial capital to operate and the ability to cope with economic shocks. Agricultural households would benefit particularly as the expenditures on inputs precede the returns on their investment (i.e. harvests).

While in the majority of countries we analyze in this report the problem is rather too much credit i.e. over-indebtedness, for up to two billion people worldwide the opposite is true: They are excluded from the financial system, with no access to credit, which became a recipe for disaster during the pandemic and one of the determinants for the increased poverty across the globe. Economic theory implies that financial institutions – or lenders – offer more loans if they have reliable information about borrowers and effective legal recourse to protect their interests. With very little knowledge about their markets, and limited legal recourse, lenders resort to assessing credit in an overly simplistic manner: higher risk, higher interest rate. Which is why the mortgage interest rate in countries such as the Netherlands is 2.8% and in Ghana 34%. Thus, the most vulnerable segment of the population falls trap to an indebtedness cycle.

Nonetheless, access to credit during the pandemic – and the economic recovery that should follow – can help vulnerable households smooth consumption and maintain a level of livelihood above the poverty line. Access to credit is generally improved when households have financial assets, such as bank accounts, as there is a paper trail of their ability to pay back financial obligations. Efforts in countries with a high poverty share should be focused on public and private partnerships to help their populations get access to credit and/or defer payments if the current situation does not allow them to service their debt. Encouraging sustainable practices that enable economic activities to continue regardless of the pandemic can help generate stability and prosperity for current and future generations.

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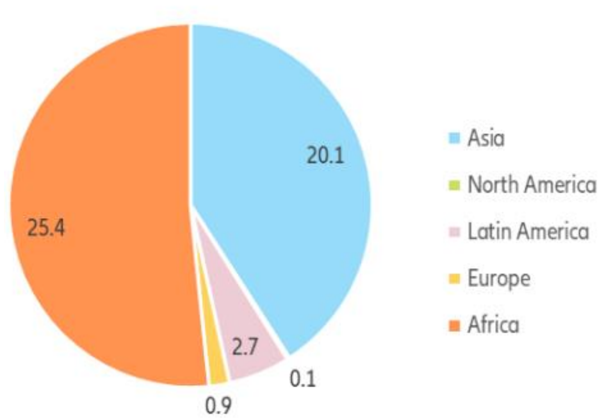
Figure 35: Impact of Covid-19 on global poverty

Millions pushed into extreme poverty due to Covid-19



Forecasts of global poverty rate, in %

Sources: World Bank and Allianz Research.

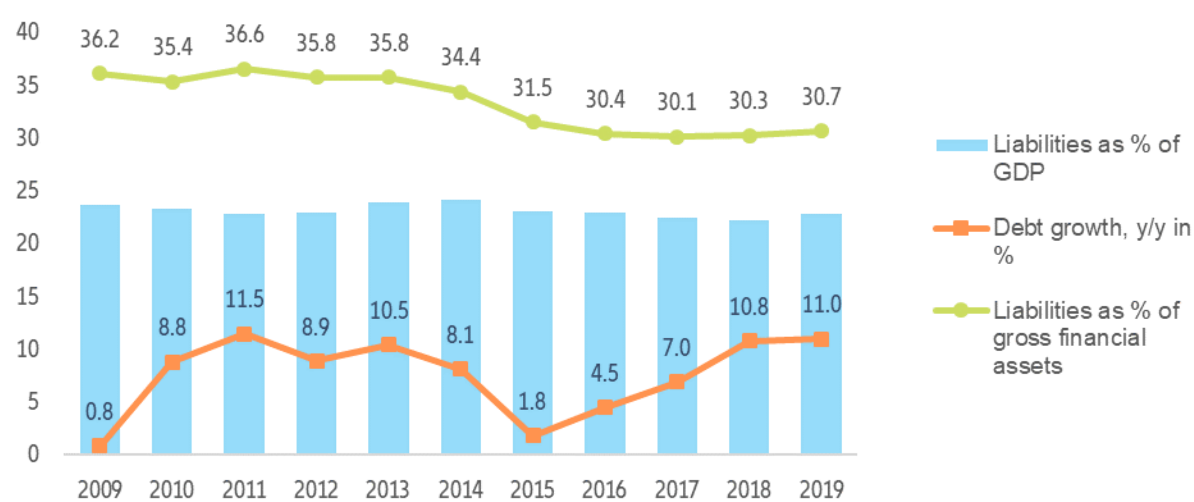
Emerging Europe – All the loan-y people, where do they all come from?

Emerging Europe had a similar growth of +11% in 2019, compared to the year before; the level of debt stands at EUR 921 bn. Russia (EUR 313 bn), Poland (EUR 190 bn) and Turkey (EUR 105 bn) are the region's largest markets for debt in terms of volume. In terms of the GDP ratio (liabilities as a percentage of GDP), the largest debt burdens are in Slovakia (46.1%) and Estonia (42.1%). These ratios still fall into the category of low debt. In Estonia the ratio has been falling for the past decade, while in Slovakia household debt as a percentage of GDP has grown by 18.8 percentage points in the last decade.

Thanks to strong asset growth over the last decade, the liability-asset ratio for the region as a whole fell significantly to 30.7% in 2019, down from 38.6% in 2008. Net financial assets per capita have also increased in the past decade. Positive developments have been seen: the Czech Republic's net assets per capita have doubled since the GFC to EUR 17,497; Poland went from EUR 3,319 in 2008 to EUR 8,757 and Bulgaria increased its net assets per capita threefold to EUR 9,586 since 2008. Yet Slovenia remains by far the wealthiest country in the region, with net financial assets per capita of EUR 20,512. Countries like Russia (EUR 5,466 per capita) and Turkey (EUR 2,414 per capita), on the other hand, have also increased their net wealth since the GFC, but their wealth level in general is still below their European Union peers.

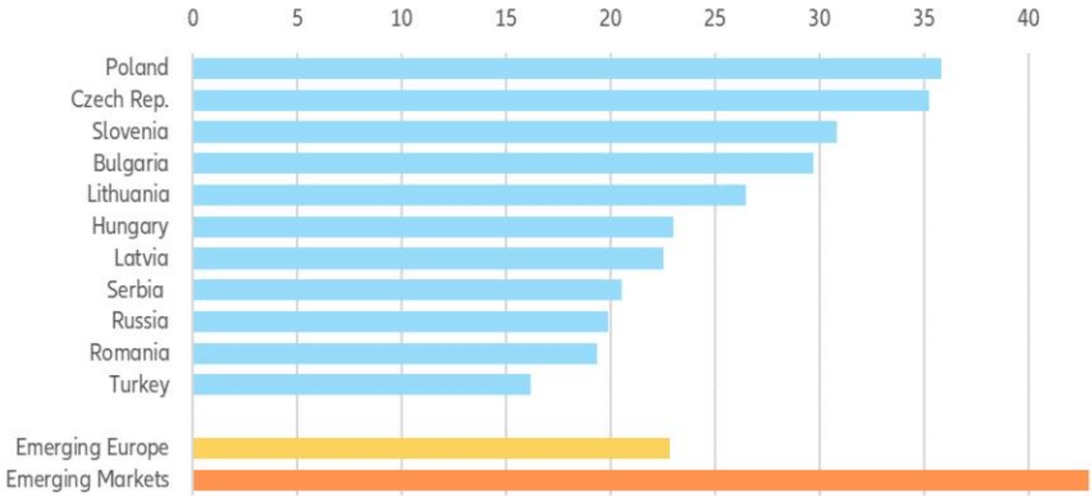
The response to the pandemic in the region has been focused on tax and debt relief. Russia has put in place a set of support policies for small businesses, employment-related measures and economic stimuli. Poland has a similar set of actions in place. In the beginning of the pandemic, the region was quick to react and protect its citizens, but now the question that remains is whether the efforts by the government will be enough to protect them from the economic downturn (Figures 36 & 37) .

Figure 36: Growth in liabilities since 2009, Emerging Europe



Sources: central banks and statistical offices, Allianz Research.

Figure 37: Debt as % of GDP in 2019 by country



Sources: central banks and statistical offices, Allianz Research.

Nations in the sky (high) with liabilities

Beyond the regional classification, we have observed countries' debt ratios since the GFC develop into four different categories: high and rising, high and falling, low and rising and low and falling. 'High debt countries' are those whose debt ratio was above 60% in 2008; in 'low debt countries', the figure was below 60% (Figures 38-41 on the next page).

The four categories are heterogeneous in terms of geography and income. In the 'high and rising' category, we find Advanced Economies such as Australia (127%), Norway (107%), Canada (104%), Switzerland (132%), South Korea (97%) and Taiwan (92%). This is a group of wealthy countries whose increasing debt is triggered by housing prices, with the lion's share accounted for by mortgages; this share has remained more or less stable for the past decade. In standard economic models, household debt plays a limited role, even though it affects households' ability to smooth out consumption and cope with economic shocks. Therefore, during the pandemic, the response policy packages have also included delays in debt payments and general debt relief.

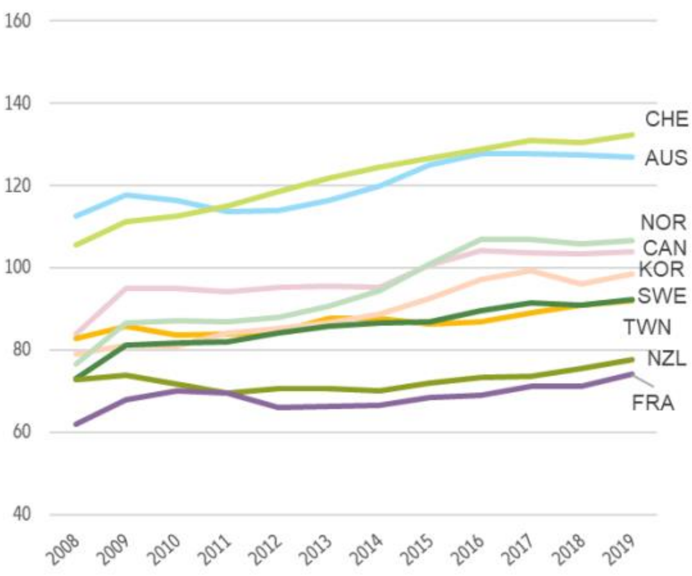
In the second category, we find countries like Denmark (131%), the Netherlands (101%), the UK (92%) and the U.S. (77%) whose debt ratio was high in 2008, but has been trending downwards ever since.

In the low debt ratio category, we see a more diverse group with regards to geography and income. In the third category – low and rising debt – we find countries like Malaysia (82%), Belgium (72%), Italy (55%) and Turkey (16%). Debt levels are mostly still low in the aggregate, and some countries, like the Latin American ones, still have to make efforts to increase financial inclusiveness and bring their populations into the financial system. Greece, too, belongs to this group, as liabilities continued to grow briskly in the aftermath of the GFC – until the euro crisis brutally reversed the trend. Nevertheless, at end-2019, the debt ratio in Greece was still slightly above the level seen in 2008.

The 'low and falling' category is slightly less diverse; it is comprised of highly disciplined countries like Germany (56%), Austria (50%) and Israel (45%). The lower income countries in this category could also benefit from placing efforts in financial inclusion and affordable credit for their vulnerable households.

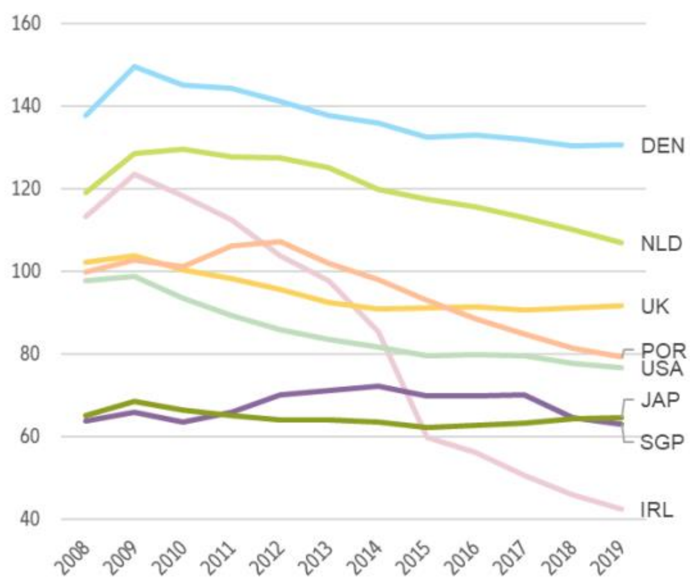
Overall, it is hard to detect a general pattern. In some high debt countries – notably in the U.S. – households tightened their belts as a response to the GFC – but not in others. Moreover, some households – notably the German ones – trimmed their debt without having a debt problem in the first place. If anything, the analysis shows that countries with rising household debt are in the clear majority. With low interest rates firmly entrenched after the Covid-19 shock, it does not need great forecasting skills to assume that the number of debt-disciplined countries will dwindle further in the years to come.

Figure 38: Household debt—Category 1, 'High & rising'



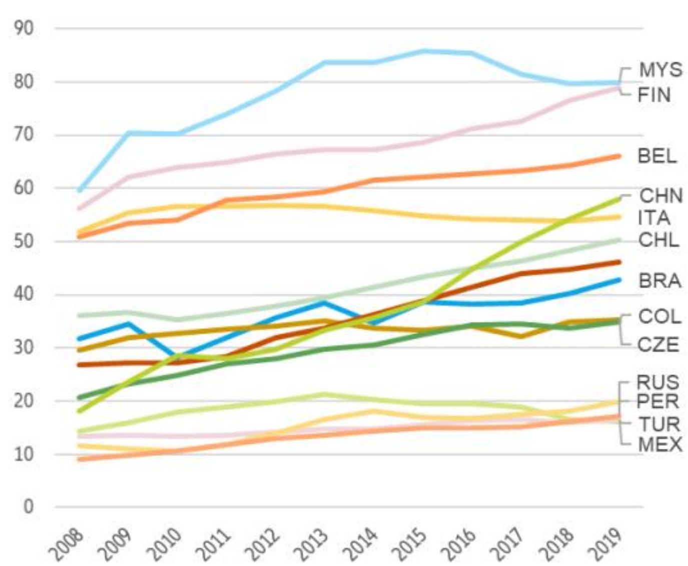
Sources: central banks and statistical offices, Allianz Research.

Figure 39: Household debt—Category 2, 'High & falling



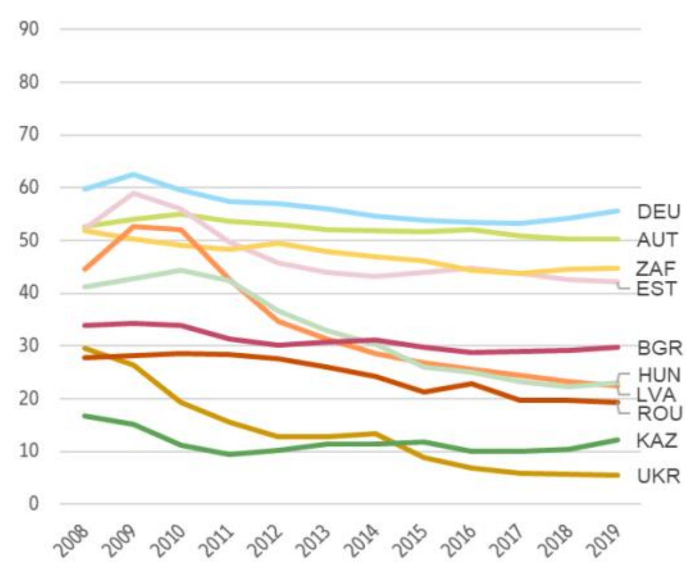
Sources: central banks and statistical offices, Allianz Research.

Figure 40: Household debt—Category 3, 'Low & rising'



Sources: central banks and statistical offices, Allianz Research.

Figure 41: Household debt—Category 4, 'Low & falling



Sources: central banks and statistical offices, Allianz Research.

WEALTH DISTRIBUTION: TREND REVERSAL

2019 was a very good year for savers worldwide. At +11.1%, growth in net financial assets reached the second highest level after 2013 in the years since the GFC. However, it was also the third year in a row in which Emerging Markets lagged significantly behind the growth of Advanced Economies. While net financial assets in Emerging Markets grew on average more than three times faster than Advanced Economies between 2009 and 2016, this figure has fallen to less than half in recent years.

The reasons are varied and unambiguous – a regulatory crackdown in China; periods of economic weakness in major Emerging Markets such as Brazil, Russia and South Africa and generally high debt growth in many of these countries. Nevertheless, the effects are clear: the prosperity gap between rich and poor countries has widened again. In 2000, net financial assets per capita were 87 times higher on average in Advanced Economies than in the Emerging Markets; by 2016 this ratio had fallen to 19. Since then, it has risen again to 22 (2019). This reversal of the catching-up process is widespread: for the first time, the number of members of the global wealth middle class has fallen significantly, from just over 1 trillion people in 2018 to just under 800 million people in 2019.

This decline is partly due to new and better data on wealth distribution in some Emerging Markets and to the method we use to determine the global wealth middle class, namely as a relative attribution in relation to the global average[5]: people can therefore also fall out of the middle class if their net financial assets grow if it is at a (significantly) slower rate than the reference value. This happened, for example, last year to many Chinese and Indians who just missed the threshold to the middle class. Nevertheless, there can be no doubt that a reversal of the trend is emerging and this could be further exacerbated by the Covid-19 pandemic (see page 39), especially if it accelerates the imminent break-up of the world into American and Chinese spheres. It would perhaps not be the end of globalization as such, but a 'two-tier globalization' is likely to give the world economy as a whole, and the Emerging Markets in particular, much less tailwind than has been the case in the past. The great success story of recent decades – the integration of the emerging countries into the international division of labor and their increasing participation in global prosperity is, in the best case scenario, facing a major challenge. The stakes are high, as the following section shows.

5 The classification in wealth classes is based on worldwide average net financial assets per capita, which stood at EUR 26,350 in 2019. The global middle wealth class (MWC) includes all individuals with assets of between 30% and 180% of the global average. This means that for 2019, asset thresholds for the global wealth middle class are EUR 7,900 and EUR 47,400. The "low wealth class" (LWC), on the other hand, includes those individuals with net financial assets that are below a EUR 7,900 threshold, while the term "high wealth class" (HWC) applies to those with net financial assets of more than EUR 47,400 (for details on how the asset thresholds are set, see Appendix A).

6 BCG (2020), Ensuring an inclusive recovery.

Covid-19 and inequality

How does the Covid-19 crisis affect inequality, both between and within countries? At this point in time, when an end to the crisis is hardly foreseeable, there is much speculation left to answer this question, but some trends are already emerging. And these seem to suggest that inequality is likely to increase. Covid-19 does not seem likely to immediately arrest the catch-up process of the Emerging Markets. Both emerging and developed countries have been affected by the pandemic, and in many cases – for example Europe, the U.S. – the direct impact in advanced countries is even more severe. Many countries in East Asia – especially China – have coped better with the crisis and are setting the pace in the post-Covid-19 recovery. However, with regard to India and South America the situation looks quite different, though there is currently no evidence of a general decline in the group of emerging countries due to Covid-19.

What is more worrying are the long-term trends which, although not triggered by Covid-19, have received an additional boost from the pandemic. First and foremost here is the future of globalization. Even before the pandemic, increasing trade disputes and growing protectionism caused international trade to slow down. With Covid-19, the rift between the U.S. and China has been widened. And, more importantly, the logic of globally connected supply chains is now generally being put to the test. Instead of maximum efficiency, resilience is becoming the benchmark. This implies a shortening of supply chains, and in some cases it could also lead to the re-shoring of production. New technologies in automation and networking – keyword: Industry 4.0 – can reinforce this development, as can new regulatory requirements, especially in climate protection – key concepts: carbon tax and border adjustment tax. None of these developments will backtrack globalization, at least not in the next few years – in this case the buzzword "de-globalization" seems farfetched. However, a slowdown in the globalization process alone is likely to make it more difficult for many emerging countries to converge and close the gap with wealthier countries.

Two other long-term collateral damages which could set back the development of Emerging Markets are education and health services. The Covid-19 pandemic has affected nearly 1.6 billion students around the globe. Clearly, without internet access it is much harder to maintain education and training continuity. As the quality of education will inevitably suffer, the economic and social rise of young people will become more difficult. Equally important is access to healthcare. Covid-19 is not the only health concern in 2020. Non-communicable diseases are the silent killers that have seen their prevention and treatment severely disrupted. Low-income countries and households are the most affected by these disruptions. If the pandemic and social distancing rules remain in place for much longer, the health impact of Covid-19 will not just be limited to Covid-19 infections but also extend to the decrease in health services and increase in poverty.

Regarding domestic or national inequality, on the other hand, it is the immediate effects that are a cause for concern. The lockdowns and hygiene measures to contain the pandemic primarily affect jobs with direct social contact, such as in the gastronomy and other service sectors. And often the earnings in these jobs are below average. BCG uses the example of the U.S. to show that jobs with direct social contact account for only about 20% of total employment but nearly 90% of those at risk of poverty (defined as incomes that are only up to 50% above the poverty line)[6]. The direct consequences of the pandemic thus primarily affect the poorer sections of the population; home office is a privilege of the better-off. At the moment, generous state aid is still covering up this misery, and in some cases (U.S.) it has even led to overcompensation and thus to rising incomes for those affected. But this state of affairs will only be of limited duration. In the medium to long term, many of these jobs are at risk of disappearing and higher unemployment is imminent. The unemployed dishwasher will certainly not be able to make the rise to become a millionaire. Covid-19 is therefore likely to further cement social immobility. Added to this are the effects of the pandemic on monetary policy, which is now likely to be extremely loose for even longer. Record low or even negative interest rates will therefore remain a driving force for asset prices for the foreseeable future, from which the owners of shares and real estate will benefit most of all, those who are also generally already among the better-off. In the future, many savers are likely to find it even more difficult to acquire real assets: the gap between those who already own assets (or at least will inherit them) and those who do not could widen even further. It remains to be seen to what extent the stimulus packages and growth programs announced to support the post-pandemic recovery will be able to mitigate these effects. Because, at least on paper, structural measures such as education and training initiatives play a major role in this respect. However, experience in the period following the GFC leaves some doubt as to whether policymakers will actually be more successful this time in initiating inclusive growth.

The global perspective: The rise of Emerging Markets

Unsurprisingly, the majority of people in the countries we study still belong to the global low wealth class (Figure 42). In 2019, their share was 72% – almost 8 percentage points lower than in 2000, and the shares of the other two wealth classes increased accordingly. Their growth becomes particularly clear when looking at the numerical change (adjusted for population growth): the global middle wealth class grew by almost +50% and the high wealth class by +30% – while the lower wealth class shrank by around -10%.

It is also worth taking a closer look at the respective composition of asset classes by region/nationality. More than 90% of the members of the global low wealth class come from the Emerging Markets, with the populous Asian countries at the top. In North America and Western Europe, in contrast, there are very few people who can be assigned to this class; in Japan, even the lowest population decile does not belong to the global low wealth class[7] (Figure 42).

Figure 42: Social rise: Development of global wealth classes (adjusted for population growth)

Sources: central banks, statistical offices, UN Population Division, Allianz Research.

Figure 43: Europe's lost decade: Development of the global low wealth class (adjusted for population growth)

Sources: central banks, statistical offices, UN Population Division, Allianz Research.

7 I.e. the average net financial assets per capita of the lowest population decile is above the global threshold of EUR 7,900.

So far, so normal. It is remarkable, however, that the global low wealth class has only grown numerically in one region of the world (adjusted for population growth): Western Europe. This reflects the crises of recent years, the GFC and in particular the Euro Crisis, which mainly affected the southern periphery. It is countries such as Greece, Portugal and Italy where this wealth class has grown in numbers (see page 42).

The trend is not much better in North America, where there was no improvement. A word on the rest of Asia, where the decline of the low wealth class is very modest: this is mainly due to the fact that the two most populous countries in the region, Indonesia and India, have made little progress in this regard in the last two decades, overshadowing the significant improvements in countries such as Malaysia or South Korea (Figure 43).

The scars of the euro crisis

The Household Finance and Consumption Survey (HFCS) of the ECB has become an important source of data to study changes in the wealth position of European households. The HFCS surveys a broad sample of more than 90,000 households at regular intervals, and the results are now available for three waves covering the period from 2010 to 2017. This makes them ideal for analyzing the impact of the euro crisis on private wealth.

However, the data cannot be compared with those in this report. This is because they include not only financial assets, but also real assets, from real estate to cars and jewelry. And as is usual with surveys of this kind, the absolute data must be treated with a pinch of salt – not all participants reveal their financial situation in such surveys without reservation or are completely aware of the values of their investments, for example with regard to pension entitlements or real estate values. Nevertheless, these data can give a good picture of asset dynamics and distribution during the years of the Euro Crisis and afterwards.

Figure 44 shows the development of net assets between 2010 and 2017 for various indicators and population groups: Median net wealth, average net wealth, net wealth of lowest population quintile and highest population decile. What is immediately apparent is that nowhere has the development been as favorable as in Germany. Both the median (37.7%) and average (19.3%) values have risen sharply; both population groups have also recorded strong growth. What is special about this is that the median value rose faster than the average value and the poorest population group was able to increase its net wealth more than the richest – the distribution of wealth has thus obviously become somewhat more balanced. In almost all other countries, the opposite is true; the discrepancies are particularly clear in Spain, for example – wealth fell by -33% in the lower population quintile but rose by +9.5% in the upper population decile – or in the Netherlands: -34% vs +98%.

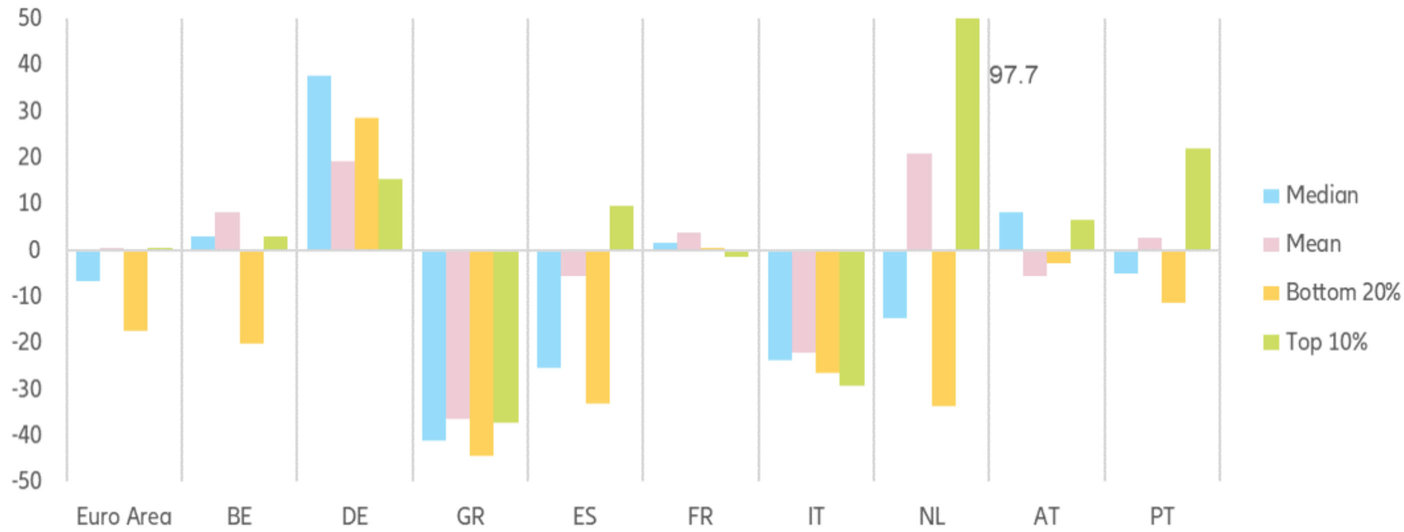
What is equally clear is the dramatic destruction of wealth in Greece – median net wealth -41% –, Italy (-24%) and Spain (-25%); the average value in Spain, however, has developed much better, with a decrease of "only" -5.5%, thanks to the strong increase in the net wealth of the richest 10%. All in all, this impressively confirms the picture of the suffering southerners; only Portugal is somewhat out of step with its data.

Even though these data already suggest that the distribution of wealth has become more unequal in the majority of countries, it is worth taking a closer look at the distribution situation. This is to be done using two indicators – the median net wealth as a percentage of the average value and the net wealth of the top population decile as a multiple of the median value; these two indicators also allow a direct comparison of the distribution situation between countries (Figure 45).

In fact, these two values have worsened in all the countries considered – with the exception of Germany and Austria. How-ever, despite the improvements in recent years, these two countries remain the countries with the most unequal distribution. In Germany, for example, median net wealth is only 30% (2017) of the average, and nowhere else in the euro zone is the gap between these two values greater; the median value for the euro zone average is still 43% of the average. The same applies to net wealth of the top population decile as a multiple of the median value: although this ratio fell from 23 to 18 in Germany between 2010 and 2017, this is still an absolute peak value; in Italy (7) or Greece (6) this ratio is significantly lower.

The upshot: The euro crisis has destroyed considerable wealth in southern Europe and has led to a more unequal distribution of wealth almost throughout Europe, with the exception of the two countries Austria and Germany – although the latter is still the country in the euro zone where the distribution of wealth is most distorted. Nevertheless, the last boom years seem to have led to the poorer sections of the population catching up somewhat – at least in their self-perception.

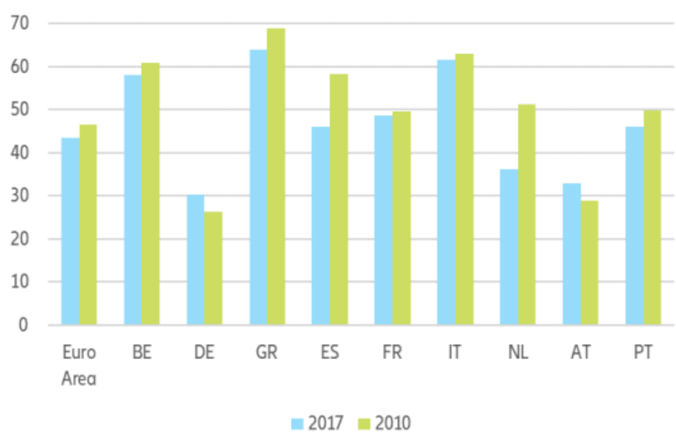
Figure 44: Growth in net wealth 2017/2010, in %



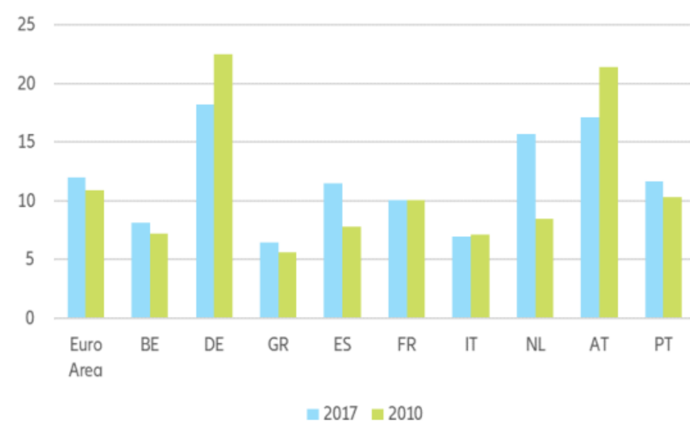
Sources: European Central Bank, Allianz Research.

Figure 45: Median net wealth

Median net wealth in % of mean net wealth



Net wealth of the top 10% as multiple of median net



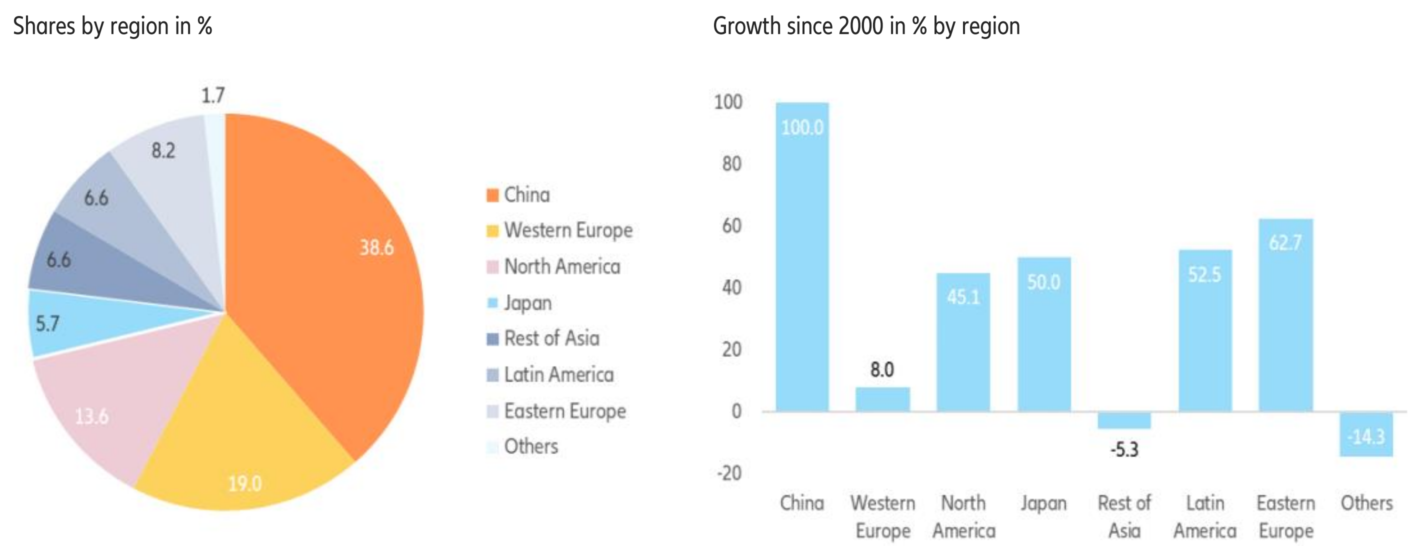
Sources: European Central Bank, Allianz Research.

The regional distribution of members of the global middle wealth class is much more balanced. A good third comes from China; about the same number comes from the traditional industrialized countries in North America and Western Europe as well as Japan (Figure 46).

The growth in China, where the number of members of this wealth class has doubled since the turn of the millennium, is particularly breathtaking: almost 300 million Chinese are now members of the global middle wealth class. This means that more than 70% of the increase in this wealth class can be attributed to developments in China. But the other Emerging Markets also recorded strong growth of over +50%, with the exception of the rest of Asia, where the global middle wealth class even declined. Why? First, the static development in India and Indonesia again plays a role, but also it is also due to the fact that changes in the middle class can come from two directions: from below and from above. While in China, Eastern Europe and Latin America the growth of the middle wealth class has been fed by a steady influx of up-and-coming members of the lower wealth class, in the case of the rest of Asia this means that the decline in the middle class is due to an ascent into the upper class. Just as, conversely, the rise of the middle wealth class in Western Europe and North America is no cause for rejoicing, but on the contrary reflects a relegation from the upper class: The ranks of the middle wealth class are swelling because the U.S. high wealth class lost just under 30 million people since 2000; in Western Europe today a good 20 million people less belong to this class. This negative development is once again clearly evident when looking at the composition of the global high wealth class: only Western Europe and North America have seen declines, while Japan at least has not suffered any deterioration (Figure 47).

However, these three regions continue to dominate the high wealth class, with a combined share of 63% in 2019, though at the turn of the millennium this figure was still 93%. There is one main reason for this rapid decline: China. Twenty years ago, China's richest population decile was not included in the global high wealth class, but today about 130 million Chinese are members of it. The share of the other regions is still very small, which explains the sometimes exorbitant growth figures. All in all, however, some 180 million people worldwide have made it into the global high wealth class in the last two decades; with just over 70%, China once again accounts for the lion's share.

Figure 46: Emerging Markets on the ascent: Development of the global middle wealth class (adjusted for population growth)



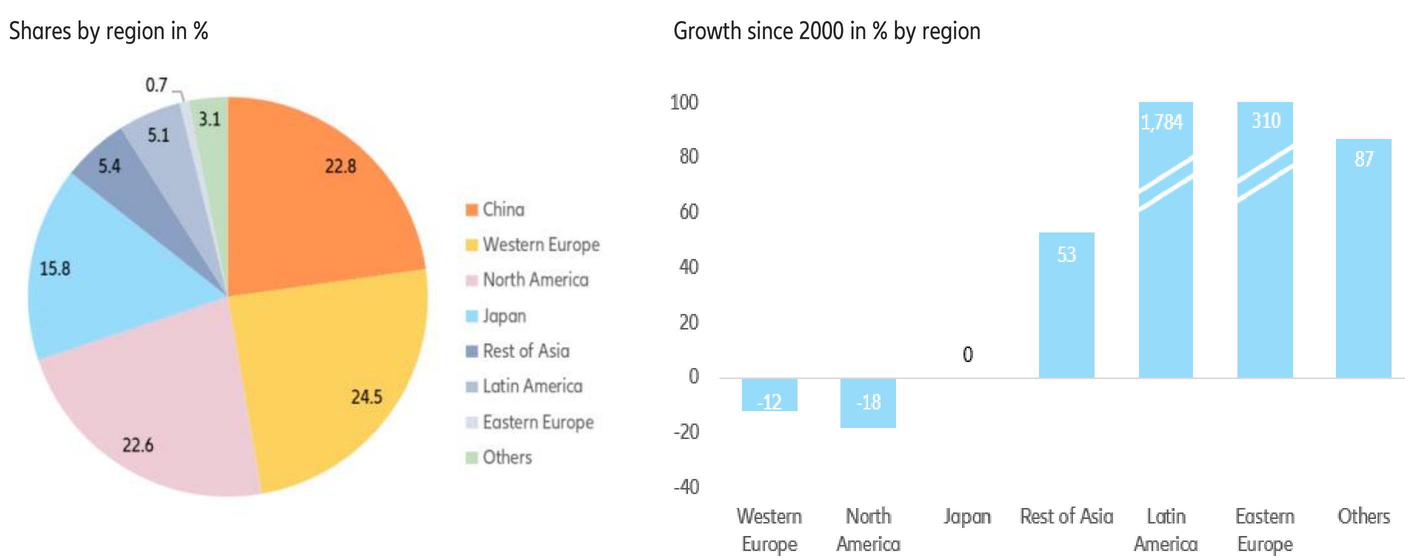
Sources: central banks, statistical offices, UN Population Division, Allianz Research.

Despite the rise of the Emerging Markets and the significant shifts in the distribution of global wealth over the last two decades, the concentration of financial assets on a global scale remains high. This becomes clear if we break down the overall population of the countries we have analyzed into population deciles based on net financial assets.

This shows that the richest 10% worldwide – 52 million people in the countries in our scope, with average net financial assets of EUR 240,000 – together owned roughly 84% of total net financial assets in 2019; among them, the richest 1% – with average net financial assets of above EUR 1.2mn – owned almost 44%. The development since the turn of the millennium is striking: While the share of the richest decile has fallen by seven percentage points, that of the richest percentile has increased by three percentage points. So the super-rich do indeed seem to be moving further and further away from the rest of society.

On the other end of the spectrum, for the lower half of the population, about 2.6 billion people, less than 1% is left. However, the latter figure must be interpreted with caution, as those with the fewest assets also include many people from the richest countries who are in debt; the poorest global population decile actually has negative net financial assets, but high levels of debt cannot necessarily be equated with poverty. The Scandinavian countries are a good example of this. Households in Denmark and Sweden are among the most highly indebted worldwide, with up to 30% of the population there having higher liabilities than financial assets. However, these high debts are generally likely to be offset by tangible assets, particularly property. A happy home owner in Denmark should not be confused with a penniless day laborer in India.

Figure 47: Europe and the U.S. losing ground: Development of the global high wealth class (adjusted for population growth)



Sources: central banks, statistical offices, UN Population Division, Allianz Research.

As a consequence of this high global wealth concentration, there is also a wide gulf between the global median (the so-called 'middle value' separating the richer half from the poorer half of the global population) and the global average of net financial assets. Whereas median net financial assets amount to EUR 1,850 per capita in 2019, the average figure is more than fourteen times as high (EUR 26,350).

However, as the declining share of global net financial assets in the richest decile already indicated, the development of global wealth concentration in recent decades is at least not hopeless. This can be seen by looking at the growth rates of the deciles (Figure 48).

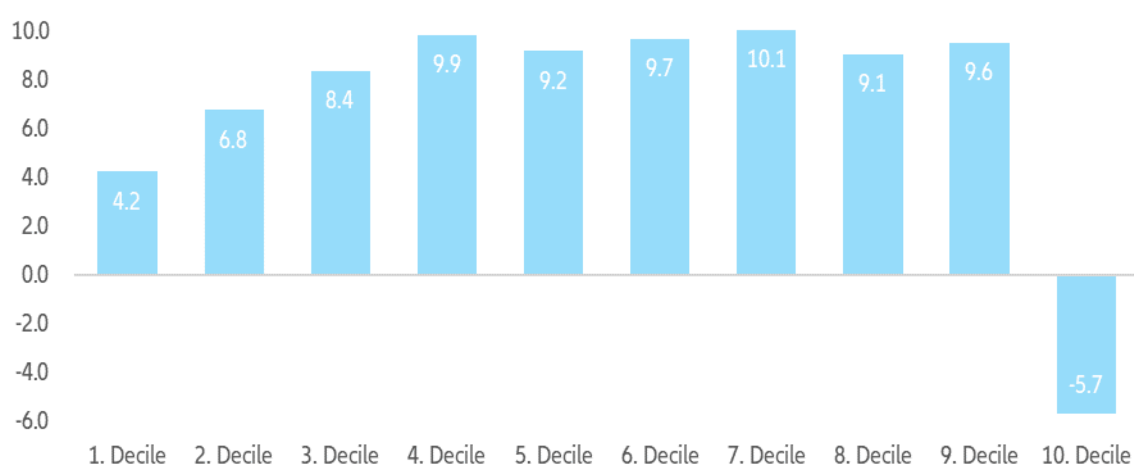
However, as the declining share of global net financial assets in the richest decile already indicated, the development of global wealth concentration in recent decades is at least not hopeless. This can be seen by looking at the growth rates of the deciles (Figure 48). This is because the highest growth rates are not in the richest deciles, but in the middle deciles (4th to 7th), i.e. exactly those in which the up-and-coming middle class of the Emerging Markets finds itself. A word on the 10th decile with the lowest net financial assets. There is a simple reason for its negative growth rate: on average, people in this decile are over-indebted, so the decline in their 'net financial wealth' means nothing more than increasing debts. In conclusion, the distribution of net financial assets remains extremely unequal at the global level. However, the last few years of rampant globalization saw some positive developments: The global middle is becoming broader and richer. But Covid-19 and rising geopolitical tensions – in particular between the U.S. and China – might put this progress into doubt.

The national perspective: A rising divide?

What applies to the global perspective – growth in the middle – does not necessarily apply in the national context. On the contrary, in many Advanced Economies – and Emerging Markets – wealth inequality has increased in recent years. However, one should be warned against sweeping judgements: the popular narrative of societies drifting further and further apart by no means applies to all countries.. This becomes clear when the development of two central parameters is examined more closely: the share of the richest population decile, the top 10, in total net financial assets, and the share of the bottom half of the population, i.e. deciles 1 to 5, (Figure 49). It shows how the countries we have examined have fared in this respect. What is striking at first glance is that the countries are distributed among very different 'cells'.

Figure 48: Emerging Markets in the driving seat

Growth in total net financial assets since 2000 by global population decile, CAGR in %

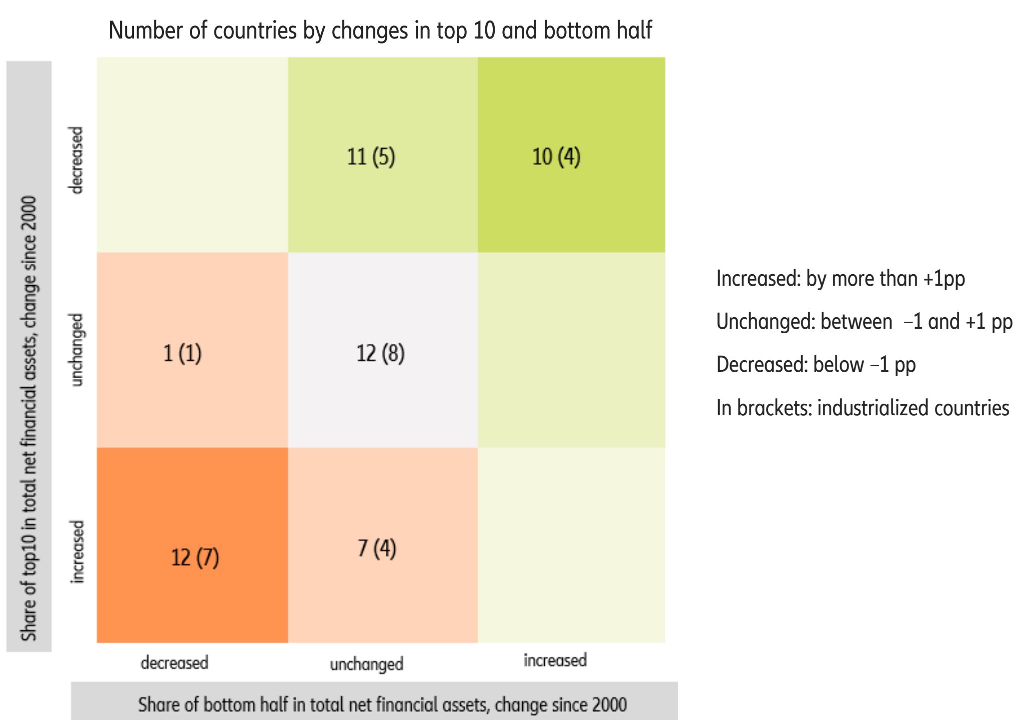


Sources: central banks, statistical offices, Allianz Research.

There are about 12 countries in which the situation has clearly worsened: both the share of the top 10 has increased and that of the bottom half has fallen. Among them are seven industrialized countries such as the U.S., Australia and Greece, as well as some large Emerging Markets such as China, India and Russia. On the other hand, there are also 10 countries where wealth distribution has clearly changed for the better, including four Advanced Economies (Japan, Belgium, Norway and Sweden). However, the majority of these countries are emerging economies from Latin America (Argentina, Chile and Peru), Asia (Malaysia) and Eastern Europe (Croatia and Kazakhstan). In between lies the grey area, where the distribution has not changed significantly over the last two decades (12 countries). Finally, in a total of 19 countries, only one of the two parameters has worsened or improved, usually the share of the top 10. In general, it is striking that the countries in which the bottom half was able to secure a larger share of the wealth pie are clearly in the minority (10 out of 53 countries studied). In the majority of countries (30), on the other hand, hardly anything has changed for the poorer half of the population; at the top of the wealth pyramid there is much more movement, in both directions. This is an indication that, in addition to the unequal wealth distribution in some countries, this immobility in particular might pose a social problem: If conditions remain cemented, especially for the poorer, this contributes little to the acceptance of the economic order.

As well as analyzing the shares of the top 10 and the bottom half in total net financial assets, there are naturally many other indicators that can be used to measure the extent of equality or inequality in wealth distribution. These include the Gini coefficient, for example, which serves as a comprehensive indicator. However, as the Gini coefficient is an overall indicator that measures changes in all wealth deciles simultaneously, the shifts from one year to the next are only slight. We therefore decided to introduce a new indicator, the Allianz Wealth Equity Indicator (AWEI), which takes into account various other parameters relating to wealth distribution and its development over time (Figure 94). Refer to page 48 for information on how the AWEI is calculated.

Figure 49: Different trajectories



Sources: central banks, statistical offices, Allianz Research.

Calculation of the Allianz Wealth Equity Indicator (AWEI)

The AWEI is based on five different parameters for wealth distribution:

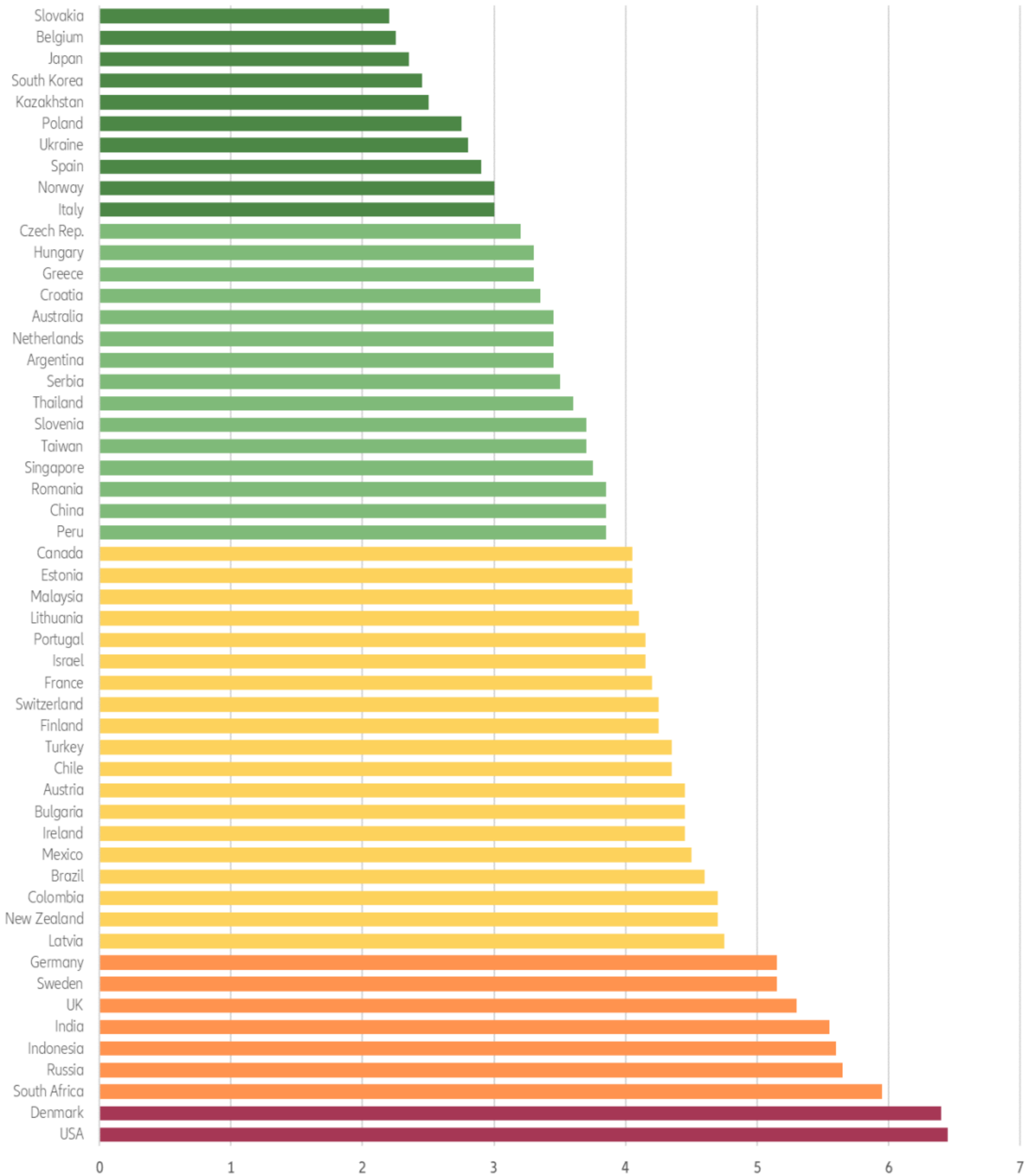
- The share of the national wealth middle class in total net financial assets – a measure of the middle's participation in national prosperity; weighting: 20%
- The share of the richest decile of the population in total net financial assets and the change since 2000 – a measure of the concentration of wealth at the top; weighting: 15% (share) and 5% (change)
- The share of the lower half of the population in total net financial assets and the change since 2000 – a measure of the so-called "trickle-down" effect; weighting: 15% (share) and 5% (change)
- Median net financial assets as a percentage of average assets and the change since 2000 – a measure of the degree of distortion in wealth distribution; weighting: 20% share) and 10% (change)
- Growth in net per capita financial assets since 2000 – a measure of the general increase in prosperity; weighting: 10%.

The AWEI thus takes into account both structural features of wealth distribution and changes in these, with a lower weighting being given to the latter. The primary aim of the new indicator is to obtain as comprehensive a picture as possible of the current situation. However, changes play a part insofar as they influence perceptions: for example, wealth concentration of 60% will be interpreted differently depending on whether the figure was previously 70% or 50%.

The original values for the parameters are transferred to a scale of 1 to 7, in which 1 represents the best figure. The distribution of individual figures is based on a normal distribution, i.e. the parameter values are assessed not on the basis of normative guidelines – e.g. a wealth concentration of only 40% is very good – but instead based on the relative distribution of degrees of wealth. In view of the difficulties involved in drawing up standardized normative criteria for such culturally different societies as those that we are dealing with in this analysis, the adoption of such a relative perspective seems to make sense.

However, that also means that the country with the best indicator value may not necessarily be a country in which wealth is perfectly distributed. It is simply the country in which distribution is least distorted among the countries analyzed here – no more and no less. The overall indicator AWEI is the weighted sum of the individual parameter values, and can range from 1 (very good) to 7 (very poor).

Figure 50: The Allianz Wealth Equity Indicator (AWEI)



The AWEI underlines the findings of the previous analyses: There is a broad spectrum of wealth distribution, ranging for fairly equal societies to highly unequal ones. Among the countries with significant distribution problems (AWEI score above 5) are not only the US but also UK, South Africa, Indonesia, India and Russia. Somewhat more surprisingly, Denmark, Sweden and Germany also rank among the countries where wealth distribution is strongly distorted, although development here has been moving in the 'right' direction, at least in the last few years. The reasons for this relatively high levels of inequality can be found in high debt levels among large parts of the population (Sweden and Denmark) or the general shortage of capital-funded pension schemes as well as delayed reunification (Germany).

At the other end of the spectrum, (AWEI score below 3), the usual suspect can be found: Japan, some Eastern European countries such as Slovakia or Poland and some Western European countries, namely Belgium, Spain, and Italy. As regards the eastern European countries, their late start to building up private assets is likely to have played a crucial role in their good performance in the AWEI.

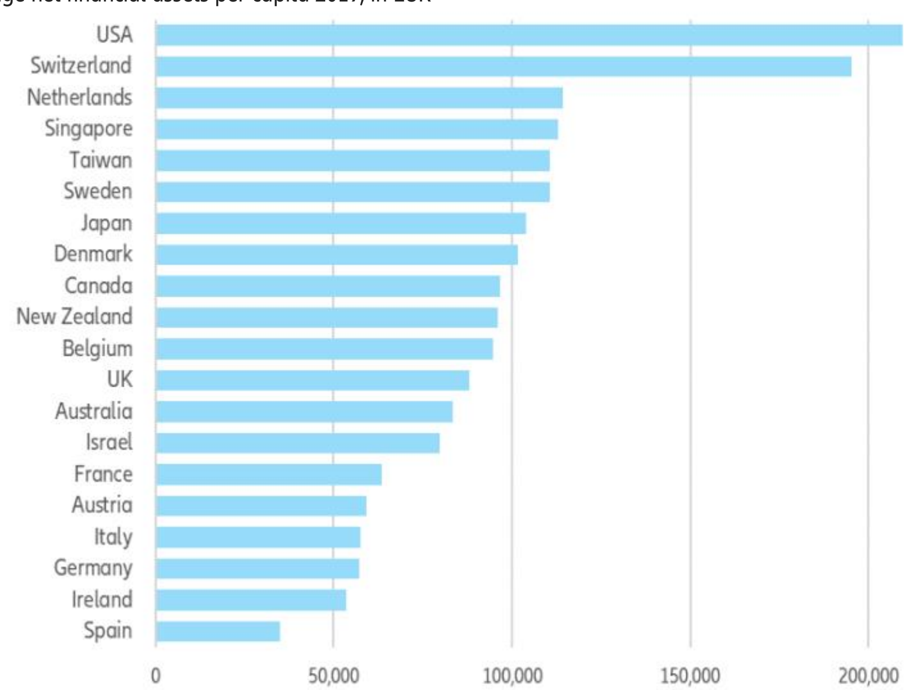
In conclusion, the AWEI helps to provide a more nuanced picture of wealth distribution. In some cases, it substantiates the general perception, think of the two opposing poles USA (very unequal) and Japan (very equal). In other cases, it produces surprising insights, think of the Scandinavian countries (rather unequal) or Spain and Italy (rather equal). So, the AWEI can offer a more complex picture of wealth distribution that eludes simple generalization.

Last but not least (as in previous editions of the Global Wealth Report): The alternative ranking, based not average net financial assets but median values. Naturally, it looks quite differently (figure 51 & 52). The US would slide by a whopping 12 ranks from the top spot to 13th place. Also Sweden (from sixth to 12th place), Denmark (from eighth to 22nd place) and UK (from 12th to 16th place) would drop significantly. Among the lower ranked countries, Chile, China, and South Africa would slide by five to seven places. In all these countries the difference between median and average values tend to be bigger than in most other countries.

But there are also a couple of countries for which the opposite is true. Belgium and Italy would climb the rankings each by seven places; Australia would jump by six and Japan and Ireland by four places. Among the lower ranked countries, Slovakia as well as Poland and Romania would climb by six and five places, respectively.

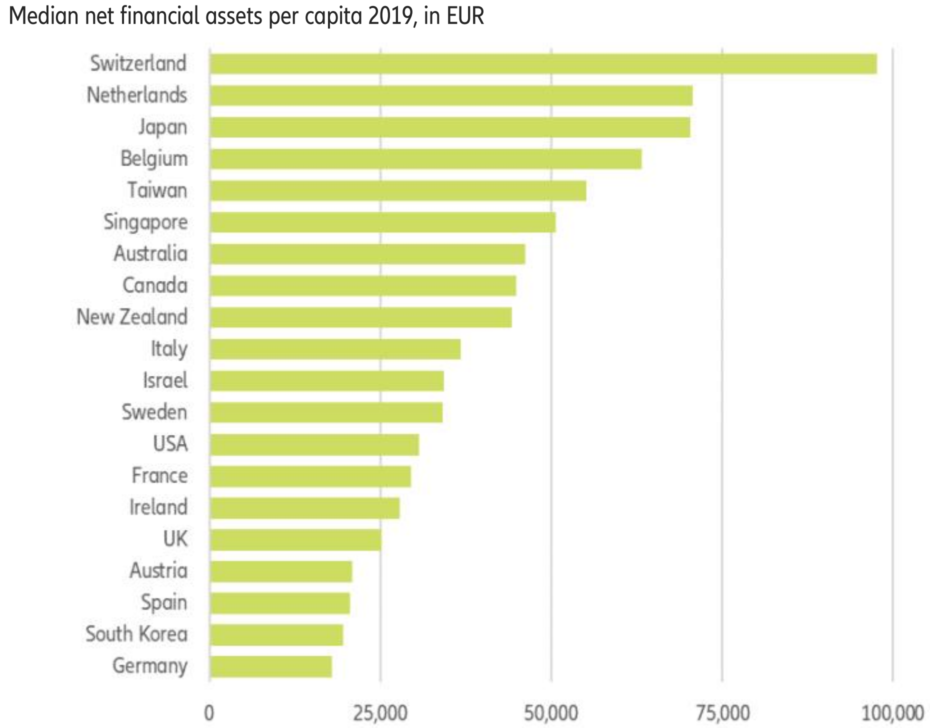
Figure 51: The ranking

Average net financial assets per capita 2019, in EUR



Sources: central banks, statistical offices, Allianz Research.

Figure 52: The alternative ranking



Sources: central banks, statistical offices, Allianz Research.

Appendix A: Methodological comments

General assumptions

The Allianz Global Wealth Report is based on data from 57 countries. This group of countries covers 92% of global GDP and 72% of the global population. In 43 countries, we had access to statistics from the macroeconomic financial accounts. In the other countries, we were able to estimate the volume of total financial assets based on information from household surveys, bank statistics, statistics on assets held in equities and bonds, and technical reserves.

In order to rule out exchange rate distortions over time, the financial assets for all years were converted into euro based on the fixed exchange rate at the end of 2019.

Statistical distinctions

The process associated with the introduction of the European System of Accounts 2010 (ESA 2010) in September 2014 involved updating and harmonizing the guidelines governing the preparation of many macroeconomic statistics. The new requirements also apply to the macroeconomic financial accounts. One change relates to private households: under the ESVG 2010 regulations, the two sectors *"Private households"* and *"Private organizations without pecuniary reward"* are no longer grouped, but are now reported separately. This also has implications for the Allianz Global Wealth Report, which takes data from the macroeconomic financial accounts as a basis where available. For many countries, however – particularly those outside of the European Union – there is no separate data available for these sectors in general, or at least not at present. So in order to ensure global comparability, this publication analyzes both sectors together under the heading "private households".

Determination of wealth bands for global wealth classes

Lower wealth threshold: there is a close link between financial assets and the incomes of private households. Households with below-average income tend to have no assets at all, or only very few. It is only when individuals move into middle and higher income groups that they start to accumulate any assets to speak of.

We have applied this link to our analysis. Countries in the upper-middle income bracket (based on the World Bank's country classification system) therefore form the group in which the average assets of private households has reached a relevant volume for the first time. This value marks the lower threshold for the global wealth middle class. How high should this value be?

In terms of income, households with incomes that correspond to between 75% and 150% of average net income are generally considered to constitute the middle class. According to studies, households with income corresponding to 75% of the average income have assets that correspond to 30% of the average assets. As far as the upper threshold is concerned, 150% of average income corresponds to 180% of average assets. Consequently, we have set the threshold values for the middle wealth class at 30% and 180% of average per capital assets. If we use net financial assets to calculate the two thresholds, we arrive at an asset range of between EUR 7,900 and EUR 47,400 for the global middle wealth class in 2019. Individuals with higher per capita financial assets then belong to the global high wealth class, whereas those with lower per capita financial assets belong to the "low wealth" class.

These asset bands can, of course, also be used for the purposes of country classification. Countries in which the average net per capita financial assets are less than EUR 7,900 can be referred to as "low wealth countries" (LWCs). "Middle wealth countries" (MWCs) are all countries with average net per capita financial assets of between EUR 7,900 and EUR 47,400; finally, all countries with even higher average net per capita financial assets are described as "high wealth countries" (HWCs).

Appendix B 1: Financial assets by country

Appendix B: Financial assets by country	Gross financial assets				Liabilities			
	in EUR bn	2019, yoy in %	EUR per capita	as a % of GDP	in EUR bn	2019, yoy in %	EUR per capita	as a % of GDP
Argentina	56	24	1246	17	19	19	431	6
Australia	3658	13	145150	297	1560	3	61.910	127
Austria	731	6	81619	184	200	3	22.362	50
Belgium	1400	7	121345	302	306	6	26.541	66
Brazil	2114	11	10014	133	679	12	3.219	43
Bulgaria	85	5	12087	144	18	9	2.500	30
Cambodia	14	16	868	60	5	39	292	20
Canada	5258	10	140542	333	1643	4	43.912	104
Chile	444	12	23454	189	118	8	6.236	50
China	23125	10	16129	189	7.076	16	4.935	58
Colombia	345	9	6857	122	99	10	1.964	35
Croatia	68	7	16483	128	19	7	4.673	36
Czech Rep.	265	9	24776	120	78	6	7.279	35
Denmark	988	12	171248	322	402	4	69.577	131
Estonia	34	4	25909	123	12	6	8.913	42
Finland	357	9	64569	150	188	6	33.975	79
France	5907	9	90691	246	1779	6	27.310	74
Germany	6663	7	79779	195	1894	5	22.682	56
Greece	270	9	25807	143	109	-5	10.447	58
Hungary	188	11	19410	136	32	12	3.270	23
India	2261	14	1654	88	789	11	578	31
Indonesia	362	7	1338	35	166	7	614	16
Ireland	409	11	83825	118	147	-1	30.189	43
Israel	927	10	108853	259	178	5	20.938	50
Italy	4445	5	73418	251	968	2	15.988	55
Japan	16116	3	127041	354	2945	2	23.212	65
Kazakhstan	27	5	1481	18	19	29	1.000	12
Latvia	28	6	14427	90	7	1	3.599	23
Lithuania	48	14	17242	98	13	3	4.646	26
Malaysia	590	6	18465	177	272	5	8.521	82
Mexico	959	5	7515	83	190	7	1.491	17
Netherlands	2819	13	164896	349	865	1	50.608	107
New Zealand	602	6	125779	329	142	7	29.688	78
Norway	531	7	98804	143	397	5	73.858	107
Pakistan	150	20	691	67	15	6	69	7
Peru	113	12	3476	54	36	11	1.099	17
Philippines	212	6	1958	64	33	14	309	10
Poland	522	5	13766	98	190	6	5.009	36
Portugal	439	3	42898	210	166	0	16.219	79
Romania	129	8	6638	60	41	6	2.130	19
Russia	1110	8	7612	70	313	16	2.146	20
Serbia	18	12	2084	40	9	9	1.077	21
Singapore	892	9	153642	270	215	-1	36.985	65
Slovakia	81	8	14768	85	44	8	7.990	46
Slovenia	57	8	27635	120	15	4	7.123	31
South Africa	562	7	9600	173	145	5	2.476	45
South Korea	3067	7	59874	208	1448	5	28.258	98
Spain	2396	6	51272	193	767	0	16.418	62
Sri Lanka	43	7	2033	57	10	10	457	13
Sweden	1548	15	154277	326	438	5	43.658	92
Switzerland	2530	6	294535	393	852	3	99.147	132
Taiwan	3134	11	131832	574	502	4	21.126	92
Thailand	675	5	9696	134	401	5	5.759	80
Turkey	307	29	3674	47	105	14	1.260	16
UK	8315	6	123136	322	2364	4	35.000	92
Ukraine	33	9	757	22	8	6	181	5
USA	83690	12	254328	436	14743	3	44.804	77

Appendix B 2: Financial assets by country (continued)

Appendix B: Financial assets by country	Net financial assets in EUR bn	Net financial assets 2019, yoy in %	Net financial assets EUR per capita	Gini coefficient of wealth distribution in %	GDP EUR per capita
Argentina	37	27	815	0,69	7.186
Australia	2.098	22	83.240	0,59	48.793
Austria	531	7	59.256	0,70	44.454
Belgium	1.094	7	94.804	0,57	40.132
Brazil	1.434	10	6.796	0,75	7.530
Bulgaria	67	4	9.586	0,69	8.419
Cambodia	9	7	576	0,66	1.446
Canada	3.615	13	96.630	0,65	42.241
Chile	326	14	17.218	0,73	12.382
China	16.049	8	11.193	0,71	8.518
Colombia	246	9	4.893	0,74	5.635
Croatia	49	8	11.810	0,62	12.879
Czech Rep.	187	10	17.497	0,61	20.655
Denmark	587	18	101.671	0,80	53.208
Estonia	23	3	16.996	0,67	21.150
Finland	169	13	30.594	0,65	43.069
France	4.128	10	63.381	0,66	36.855
Germany	4.769	8	57.097	0,71	40.820
Greece	161	21	15.360	0,58	18.002
Hungary	156	11	16.140	0,62	14.220
India	1.471	16	1.077	0,72	1.887
Indonesia	196	6	724	0,75	3.812
Ireland	262	19	53.636	0,70	70.836
Israel	749	12	87.915	0,67	42.101
Italy	3.477	6	57.429	0,58	29.263
Japan	13.172	4	103.829	0,47	35.881
Kazakhstan	9	-24	482	0,64	8.211
Latvia	21	7	10.828	0,74	15.983
Lithuania	35	19	12.595	0,66	17.559
Malaysia	318	8	9.944	0,69	10.407
Mexico	768	4	6.023	0,72	9.017
Netherlands	1.954	19	114.287	0,64	47.277
New Zealand	460	5	96.091	0,65	38.233
Norway	134	12	24.945	0,58	69.198
Pakistan	135	21	622	0,68	1.037
Peru	77	12	2.377	0,70	6.390
Philippines	178	3	1.648	0,69	3.048
Poland	332	4	8.757	0,58	13.976
Portugal	273	5	26.679	0,66	20.435
Romania	87	9	4.508	0,64	10.995
Russia	797	5	5.466	0,75	10.804
Serbia	9	14	1.007	0,63	5.246
Singapore	677	13	116.657	0,65	56.854
Slovakia	37	7	6.778	0,48	17.350
Slovenia	43	9	20.512	0,60	23.095
South Africa	416	7	7.112	0,78	5.540
South Korea	1.620	8	31.616	0,56	28.778
Spain	1.629	9	34.855	0,58	26.558
Sri Lanka	34	6	1.576	0,70	3.557
Sweden	1.110	20	110.618	0,79	47.344
Switzerland	1.679	8	195.388	0,64	74.857
Taiwan	2.632	12	110.706	0,64	22.970
Thailand	274	5	3.936	0,71	7.228
Turkey	201	38	2.414	0,69	7.776
UK	5.952	7	88.136	0,74	38.192
Ukraine	25	10	576	0,62	3.364
USA	68.947	14	209.524	0,81	58.391

Appendix C: Global ranking by net financial assets per capita (in EUR)

Appendix C: Global ranking ... by net financial assets per capita (in EUR)			... by gross financial assets per capita (in EUR)		
1	USA	209.524	1	Switzerland	294.535
2	Switzerland	195.388	2	USA	254.328
3	Singapore	116.657	3	Denmark	171.248
4	Netherlands	114.287	4	Netherlands	164.896
5	Taiwan	110.706	5	Sweden	154.277
6	Sweden	110.618	6	Singapore	153.642
7	Japan	103.829	7	Australia	145.150
8	Denmark	101.671	8	Canada	140.542
9	Canada	96.630	9	Taiwan	131.832
10	New Zealand	96.091	10	Japan	127.041
11	Belgium	94.804	11	New Zealand	125.779
12	UK	88.136	12	UK	123.136
13	Israel	87.915	13	Belgium	121.345
14	Australia	83.240	14	Israel	108.853
15	France	63.381	15	Norway	98.804
16	Austria	59.256	16	France	90.691
17	Italy	57.429	17	Ireland	83.825
18	Germany	57.097	18	Austria	81.619
19	Ireland	53.636	19	Germany	79.779
20	Spain	34.855	20	Italy	73.418
21	South Korea	31.616	21	Finland	64.569
22	Finland	30.594	22	South Korea	59.874
23	Portugal	26.679	23	Spain	51.272
24	Norway	24.945	24	Portugal	42.898
25	Slovenia	20.512	25	Slovenia	27.635
26	Czech Rep.	17.497	26	Estonia	25.909
27	Chile	17.218	27	Greece	25.807
28	Estonia	16.996	28	Czech Rep.	24.776
29	Hungary	16.140	29	Chile	23.454
30	Greece	15.360	30	Hungary	19.410
31	Lithuania	12.595	31	Malaysia	18.465
32	Croatia	11.810	32	Lithuania	17.242
33	China	11.193	33	Croatia	16.483
34	Latvia	10.828	34	China	16.129
35	Malaysia	9.944	35	Slovakia	14.768
36	Bulgaria	9.586	36	Latvia	14.427
37	Poland	8.757	37	Poland	13.766
38	South Africa	7.125	38	Bulgaria	12.087
39	Brazil	6.796	39	Brazil	10.014
40	Slovakia	6.778	40	Thailand	9.696
41	Mexico	6.023	41	South Africa	9.600
42	Russia	5.466	42	Russia	7.612
43	Colombia	4.893	43	Mexico	7.515
44	Romania	4.508	44	Colombia	6.857
45	Thailand	3.936	45	Romania	6.638
46	Turkey	2.414	46	Turkey	3.674
47	Peru	2.377	47	Peru	3.476
48	Philippines	1.648	48	Serbia	2.084
49	Sri Lanka	1.576	49	Sri Lanka	2.033
50	India	1.077	50	Philippines	1.958
51	Serbia	1.007	51	India	1.654
52	Argentina	815	52	Kazakhstan	1.481
53	Indonesia	724	53	Indonesia	1.338
54	Pakistan	622	54	Argentina	1.246
55	Cambodia	576	55	Cambodia	868
56	Ukraine	576	56	Ukraine	757
57	Kazakhstan	482	57	Pakistan	691

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FORWARD-LOOKING STATEMENTS

The statements contained herein may include prospects, statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties. Actual results, performance or events may differ materially from those expressed or implied in such forward-looking statements.

Such deviations may arise due to, without limitation, (i) changes of the general economic conditions and competitive situation, particularly in the Allianz Group's core business and core markets, (ii) performance of financial markets (particularly market volatility, liquidity and credit events), (iii) frequency and severity of insured loss events, including from natural catastrophes, and the development of loss expenses, (iv) mortality and morbidity levels and trends, (v) persistency levels, (vi) particularly in the banking business, the extent of credit defaults, (vii) interest rate levels, (viii) currency exchange rates including the EUR/USD exchange rate, (ix) changes in laws and regulations, including tax regulations, (x) the impact of acquisitions, including related integration issues, and reorganization measures, and (xi) general competitive factors, in each case on a local, regional, national and/or global basis. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences.

NO DUTY TO UPDATE

The company assumes no obligation to update any information or forward-looking statement contained herein, save for any information required to be disclosed by law.