

Frontier Markets – An Outlook on COVID-19 Pandemic

May 2020

The outbreak of COVID-19 at a global level has brought uncertainties and fears upon the financial markets, causing an extensive and indiscriminate sell-off across all asset classes due to a rush-to-liquidity.

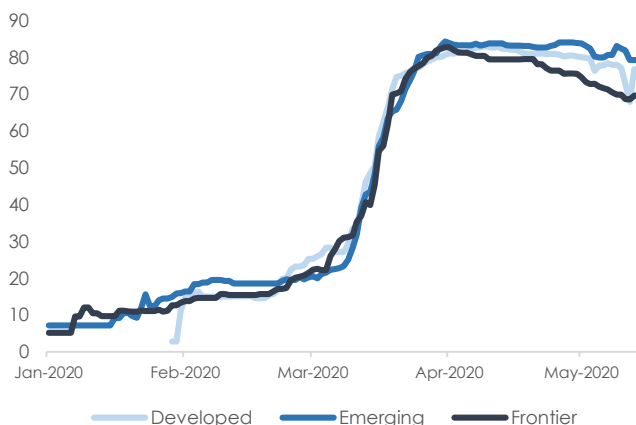
The purpose of this paper is to analyse how the pandemic has affected Frontier Markets, and what will be, in our vision, the potential post-crisis opportunities in these countries. So far, there seems to be two main aspects to consider when assessing the impact of COVID-19 on a country's economy: demographic factors and the state of the economy at the dawn of the virus' outbreak.

A Demographic Advantage

It's clear by now that what we are experiencing is not structural economic turbulence, but an event-driven crisis caused by the spreading of COVID-19 all over the world. However, several factors seem to play a crucial role in the impact of the epidemic giving Frontier Markets an edge in this battle.

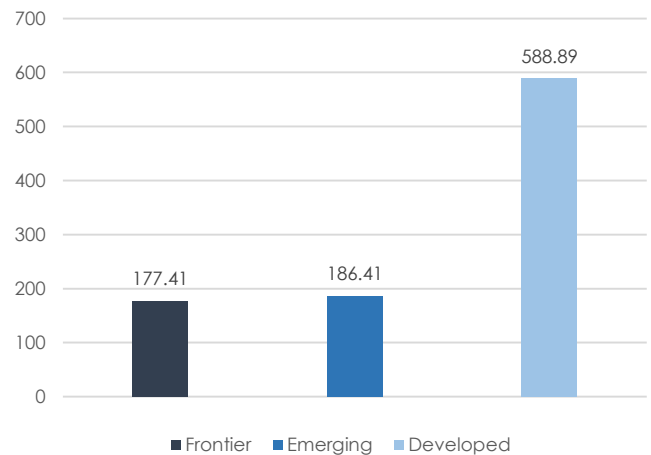
Frontier Countries have been amongst the first to implement highly restrictive measures (Exhibit 1), which, along with a much lower degree of urbanisation (Exhibit 2), may have contributed to considerably contain the spreading of the disease, allowing them not to completely shut down their economies. Exhibit 1 shows this pattern. Frontier Markets started implementing restrictive measures at the same time as Emerging Markets, weeks before Developed ones. This is why they have then been able to ease them earlier, allowing their economies to restart.

Exhibit 1: Government Response Stringency Index, from January 1st to May 14th, 2020



Source: Our World In Data, as of May 2020

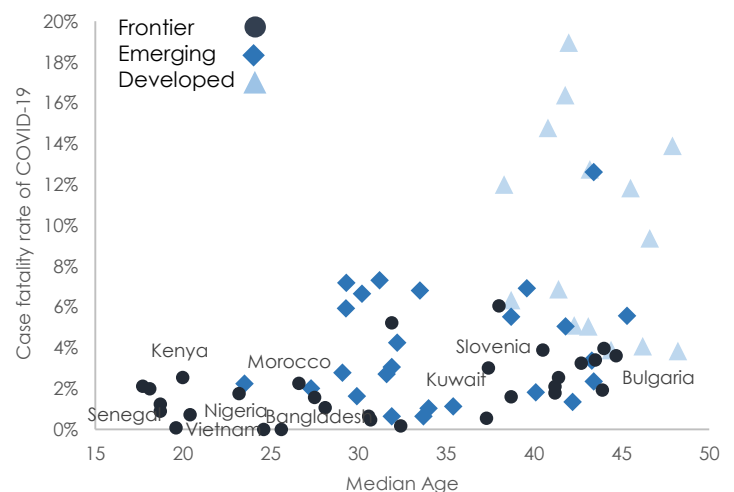
Exhibit 2: Population Density per Square Km for FM, EM and DM



Source: World Bank, as of December 2019

Furthermore, Frontier Countries are characterised by a younger population (median age is often below 25 years) than more developed ones, making the virus less life-threatening for Frontier Markets' people. A younger population is one of the reasons why, as we write, Frontier Markets have suffered much fewer fatalities (Exhibit 3). European Frontier Markets are in line with more developed ones in terms of median age, but interestingly also show a below-average fatality rate.

Exhibit 3: Case fatality rate of COVID-19 vs. Median Age



Source: WHO, Our World In Data, as of May 2020

The milder impact of COVID-19 on Frontier Markets could also be explained by the fact that on average a smaller

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portion of the population are obese (18.31%, 21.27% and 21.84% for FM, EM and DM, respectively)¹ or smoking addicted (26.37% for FM, 35.34% for EM and 26.37% for DM)². The virus has proven to cause more severe symptoms and complications in people with obesity or smoking-related conditions.

The reliability of the data about the number of certified cases and deaths related to COVID-19 is, of course, to be taken with precautions (number of tests and methodology of collecting data may considerably vary across countries); nevertheless, we don't believe this image to be very far from reality. Vietnam is a great example: with 270 active cases, 0 deaths and no new locally transmitted cases over the past two weeks, it can be considered as the first large country (almost 100 million population) to have defeated the virus. Furthermore, Vietnam not only provided extensive transparency about ongoing cases (making even home address and places of work of anyone with COVID-19 public information), but also conducted extensive testing; in fact, with 650 tests per confirmed case, the country has the highest ratio of testing to confirmed cases in the world. Taking timely and decisive actions has allowed Vietnam to win the battle against COVID-19 and to be the first country to safely reopen its economy³. Like Vietnam, other Frontier Countries appear to follow a similar path.

A Resilient Growth

It will be difficult to precisely assess the extent of the economic impact, but we can safely assume that it will be significant for all countries. Luckily, most Frontier Markets entered the crisis in relatively good shape compared to some Emerging and Developed Countries.

Debt levels for Frontier Markets are, on average, remarkably lower than those in Emerging and Developed Markets (Exhibit 4). Low debt to GDP ratios not only allow for more significant fiscal responses, but also contribute to help recovery after the crisis due to the economy maintaining some breathing room even taking on new debt.

It is important to note that the banking sector in Frontier Markets is completely different from how it was ten years ago, and is now more solid than ever, as confirmed by figures in Exhibit 5.

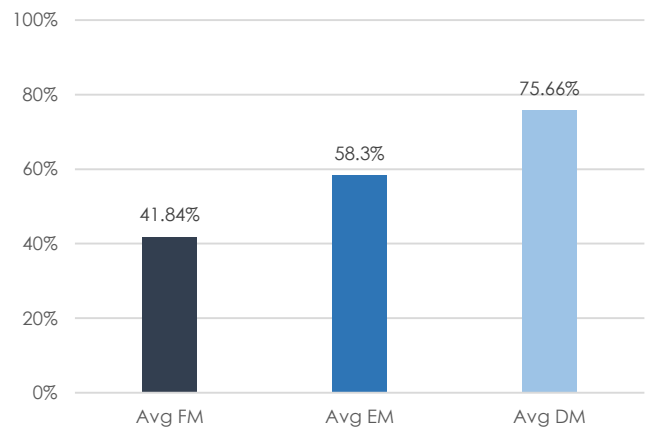
¹ Data from WHO as of May 2020

² Data from WHO as of May 2020

³ Data on Vietnam are from WHO and Our World in Data, as of May 14th

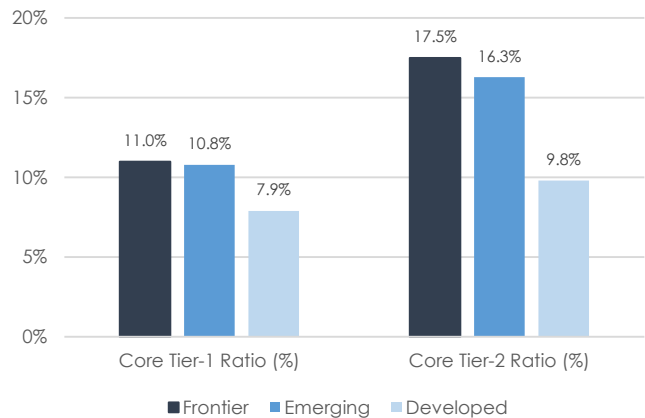
The financial systems in Frontier Countries will be able to support the economies and not pull the credit off the table in possible times of distress.

Exhibit 4: Debt to GDP Ratio for FM, EM and DM



Source: Kallisto Partners, World Bank as of December 2019

Exhibit 5: FM's Banking Sector vs. EM's and DM's



Source: Kallisto Partners, World Bank as of December 2019

Being less connected to the global economy, Frontier Markets are estimated to suffer a lower impact on GDP compared to more developed countries (Exhibit 6), which, adding up all the reasons we have discussed, is an outcome that should not come as a surprise. In fact, it is also important to remember that Frontier Markets adapt better in difficult situations, having dealt with them much more often than more developed markets. Their economic and social system have always been challenged by events such as this throughout their history, yet they still have been able to keep growing despite these kind of struggles. As matter of fact, many Frontier Markets will likely benefit from the trend of production

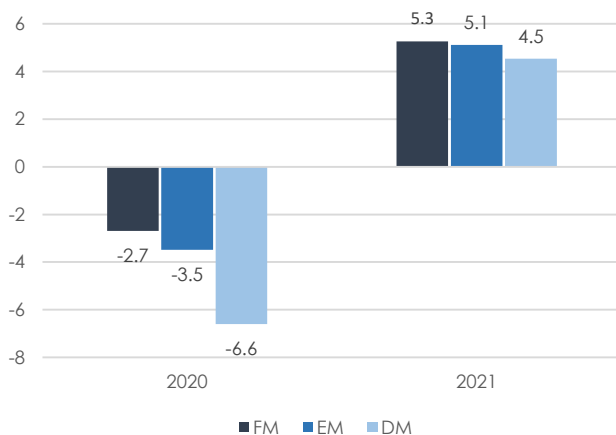
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relocation of many developed companies in countries with more competitive labour costs. This will bring more investments, contributing to strengthen their position in the global supply chain.

to cope with exceptional circumstances, especially compared to Developed Markets.

Exhibit 6: GDP Growth Rate (%) for FM, EM and DM



Source: Kallisto Partners, IMF as of April 2020

Conclusions

The impact of COVID-19 has been and will be with no doubt significant all over the world. It is quite challenging to estimate with absolute certainty how things will evolve both from an economic and a social point of view. In this paper, we have discussed several factors likely to have helped make the virus less life-threatening and so more manageable for Frontier Markets: timely restrictive measures, lower degrees of urbanisation, a younger population with fewer people suffering from obesity and smoking-related conditions. Those are the reasons why we believe these countries may have an edge in this war.

From an economic standpoint, Frontier Markets have entered this crisis in relatively good shape. Low levels of debt have allowed for strong fiscal responses, while a solid banking sector will be able to help consumers and businesses providing them with liquidity. These economic features have contributed to a lower reduction in GDP Growth compared to Emerging and Developed Countries.

Frontier Markets' "resilience" should not be surprising. These countries are historically used to face tough situations and to take the best out of them. Since they are constantly dealing with natural disasters and epidemics, they seem to be more culturally and physically prepared