ALLIANZ RESEARCH

ALLIANZ GLOBAL WEALTH REPORT 2021

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Allianz

EXECUTIVE SUMMARY

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EUR200 trillion

2020 was the year of extreme contrasts. The novel Covid-19 virus destroyed millions of lives and livelihoods, plunging the global economy into its deepest recession since World War II. At the same time, monetary and fiscal policy mobilized unimagined sums to support the economy, markets and people, and successfully, too. Incomes were stabilized and stock markets recovered quickly. With this tailwind, households' wealth weathered the Covid-19 crisis: Global financial assets increased by +9.7% in 2020, reaching the magic EUR200trn mark for the first time.

300%

The discrepancy between wealth and economic growth has rarely been as pronounced as in 2020: Global financial assets grew by a staggering 11.6pp more than economic output. Only in 2008, at the height of the Great Financial Crisis, was the difference similarly high at 12pp, albeit with the opposite sign: At that time, financial assets contracted sharply, while global GDP was still growing (and only collapsed the following year). As a result, global financial assets reached another milestone in 2020: for the first time, they exceeded 300% of global GDP.

O Covid-19, where is thy sting?

Despite a subdued start, continued bottlenecks in world trade and new virus variants that forced new restrictions, global GDP will grow strongly in 2021, powered by the vaccination campaign that has allowed many economies to reopen and (partially) return to normality. Moreover, loose monetary policies and generous fiscal support remain in place. The upshot for savers around the world? Bar any major stock market corrections, 2021 should turn out to be another good year for them, with overall growth in financial assets globally of around +7%.

Saving by default

Lockdowns not only brought public life to a standstill but drastically reduced consumption opportunities: The global phenomenon of "forced savings" was born. As a result, for the first time, bank deposits worldwide – the default option of forced savings, i.e. simply leaving unspent income in the bank account – grew at a double-digit rate of +11.9%; the previous peak growth was +8% in the financial crisis year 2008. While the asset class securities grew by +10.9% – buoyed by the strong stock markets – insurance and pension fund assets showed much weaker development, rising by +6.3%. Fresh savings jumped by +78% to EUR5.2trn in 2020, an absolute record. The main driver was massive inflows into bank deposits, which almost tripled (+187%); bank deposits accounted for half or more of fresh savings in all markets considered.

Asia, the undisputed growth champion

In 2020, the Eastern Europe region (+19.1%) was the growth champion, boosted by inflation and a strong rebound in Russia. It was followed by Asia (ex Japan) with +12.7% and North America with +11.6%. For the second year in a row, the richest region of the world clocked emerging market-like growth rates. The long-term development, however, paints a different picture: Taking population growth and inflation into account, Asia (ex Japan) is the undisputed growth champion, with per capita financial assets having increased more than fivefold on average since 2000. This is twice as fast as in the two other emerging regions, Eastern Europe and Latin America.

The US, the undisputed wealth hegemon

Accordingly, the share of the Asia (ex Japan) in global financial assets has jumped from 11% to over 19% in the last ten years. At the same time, Western Europe and Japan have become significantly less important. However, something else is far more remarkable: Households in North America – and that means first and foremost the Americans – continue to hold almost half of the world's total private financial assets, and their share has remained stable over the past decade. This superiority is also reflected in the absolute values per capita: At the end of 2020, average financial assets amounted to EUR260,580 in the US – a factor of 7.2 higher than the global average of EUR35,970. What's more, this factor has even increased slightly since the beginning of the millennium: in 2000, it was 7.0. The US's wealth is increasingly decoupling from the rest of the world. This contrasts with the development in Western Europe: At EUR 99,270, not only is per capita financial wealth not even half as high as in the US, but the gap from the global average has also narrowed, with the corresponding factor falling from 3.5 (2000) to 2.8 (2020).

Equities or not

The key to high asset growth – not only for US households – lies in the portfolio structure, i.e. in savings behavior. US savers hold just under 55% of their financial assets in the form of securities, primarily equities, and have therefore been able to benefit greatly from the stock market boom of recent years. In Western Europe, however, this proportion is just under 28% and in Japan only 16%. The success of this investment strategy can be clearly quantified. Over the past five years, the increase in value of asset holdings accounted for 70% of total asset growth in the US. For Western Europe, this ratio is 46% and for Germany a very modest 11% (Japan: 6%).

Trend reversal (temporarily) stopped

Global net financial assets increased by +11% in 2020, reaching EUR153.5trn. Moreover, for the first time in three years, the emerging markets (+13.9%) grew faster than the advanced markets (+10.4%), returning to familiar patterns. As a result, the prosperity gap between rich and poor countries has also narrowed somewhat. In 2000, net financial assets per capita were around 89 times higher on average in the advanced markets than in the emerging markets; by 2016, this ratio had fallen to 19. Following an interim rise to 22 (2019), it fell back to 21 in 2020.

Shrinking middle class – but nothing to worry

Nevertheless, the number of members of the global middle wealth class continued to decline in 2020: from around 780 million people in 2019 to around 720 million people last year. However, this isn't a cause for concern. It is mainly due to the rise of many households in the US, where more people can again count themselves as members of the global wealth upper class, thanks to the strong +13.6% increase in net financial assets. The long-term trend remains intact: Since 2000, the global middle wealth class grew more than three times as fast as the overall population. The global low wealth class, on the other hand, grew only half as fast.

A rich man's – or woman's – world

In 2020, the richest 10% of the world's population – around 520 million people in the countries under consideration, with an average net financial assets of EUR250,000 – together own more than 84% of total net financial assets. Among them, the richest 1% – with average net financial assets of more than EUR1.2mn – own almost 41%. These shares, however, have fallen over time (in 2000: 91% and 43%, respectively) as average net wealth per capita showed the lowest annual growth rate in the richest decile (+4.6% since 2000). With +10% and higher, growth was much faster in the middle deciles, i.e. precisely in those where the new middle class of the emerging markets is found.

A smaller piece of the pie

In many countries, the national middle class's share of total national wealth has declined in recent years, particularly in the 2010s. In 2020, the (unweighted) average share of the middle class fell below the 40% mark for the first time to 39%. In many (very) rich countries such as the US, Switzerland or even Germany, as well as in some developing countries such as Indonesia, South Africa but also China, this share was even below 30%. This gradual disappearance of the middle suggests an increasing polarization of society on wealth issues that could become socially explosive in the long run.

Calm on the debt front

Despite the deep recession in 2020, insolvencies did not spike as generous social transfers as well as debt deferral and debt forbearance policies helped many households. As a result, worldwide household liabilities continued to rise by +5.4% in 2020, matching the previous year's level of +5.5%. However, due to the fall in output, the global debt ratio (liabilities as a percentage of GDP) jumped to 70.3% (2019: 65.5%). And the geographic allocation of debt has changed since the last crisis: emerging markets account for an ever-rising portion of global debt. Asia (ex Japan) ranks first as its share has more than trebled over the past decade to 26.1%. In terms of liabilities per capita, however, the region remains a laggard: with slightly above EUR3,300 it stands at a fraction of the EUR32,990 per capita seen in the advanced markets. So debt is not an issue – as of now – in the household sector.

+9.7%

Global financial assets increased to over EUR200trn in 2020

DEVELOPMENT OF FINANCIAL ASSETS: SAVING FROM HOME

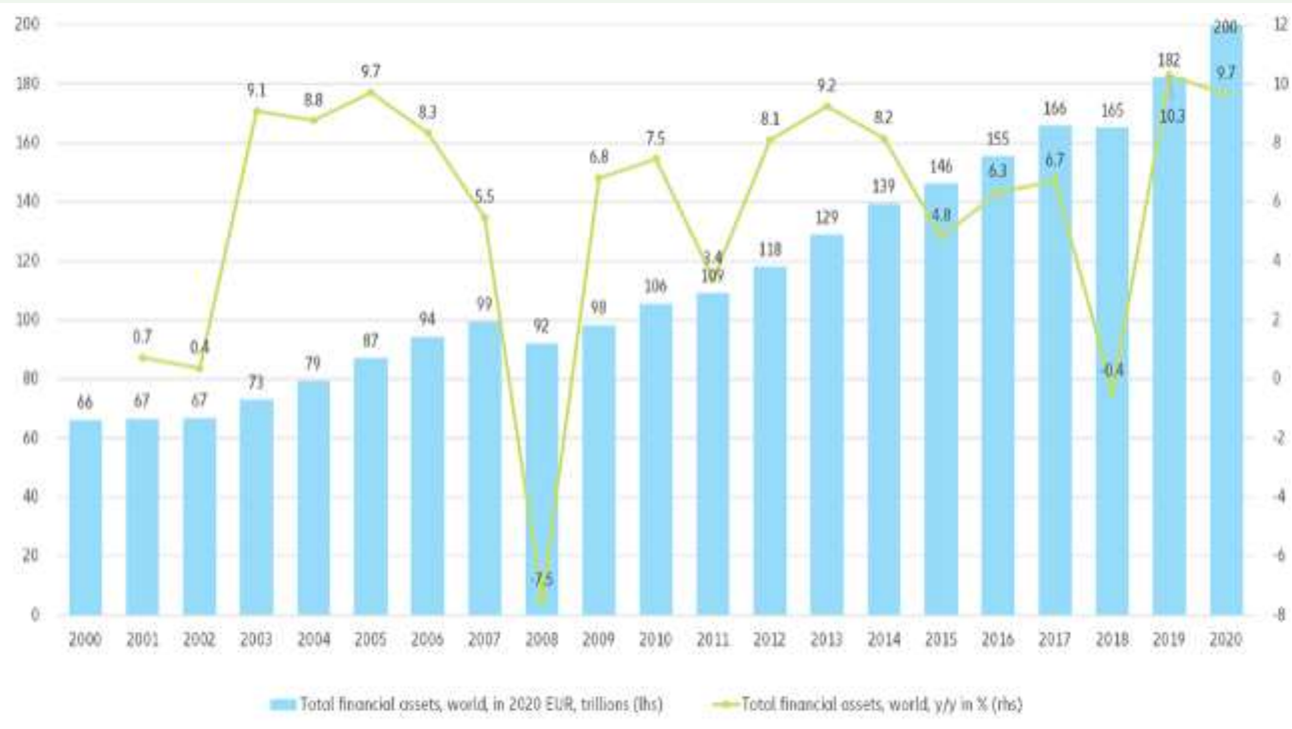
EUR200 trillion

2020 was the year of extreme contrasts. The novel Covid-19 virus destroyed millions of lives and livelihoods, plunging the global economy into its deepest recession since World War II, with global economic output plummeting by -3.3% in real terms. In comparison, in the aftermath of the Great Financial Crisis, the contraction in 2009 was only -0.1%.

At the same time, monetary and fiscal policy mobilized unimagined sums to support the economy, markets and people and succeeded: In many countries, especially industrialized ones, disposable incomes did not decline. In fact, they increased slightly. Global stock markets also benefited: An initial sharp slump was followed by a rapid recovery, and by the end of 2020, they were up a hefty +15.9% (MSCI World). Unimaginable at the beginning of the pandemic!

Against this backdrop, it is hardly surprising that households had another good year in 2020 despite Covid-19 – at least on the wealth side. Following record growth of +10.3% in 2019, global financial assets[1] increased by +9.7% in 2020, reaching the magic EUR200trn mark for the first time. In the last two years alone, the financial assets of private households increased by almost EUR35trn (see Figure 1).

Figure 1: Reaching EUR200trn – Global gross financial assets in EUR trillions and annual change in %



Source: Allianz Research.

1 *Financial assets include bank deposits, securities (listed shares, bonds, investment funds and other equities), insurance and pension funds. Cryptocurrencies are not included – although their value is no longer insignificant (see box Cryptocurrencies). The complete list of the 57 countries in scope – which represent more than 90% of global GDP – can be found in the appendices..*

300%

In fact, the discrepancy between wealth and economic growth has rarely been as pronounced as in 2020: Global financial assets grew by a staggering 11.6pp more than economic output. Only in 2008, at the height of the Great Financial Crisis, was the difference similarly high at 12pp, albeit with the opposite sign: At that time, financial assets contracted sharply, while global GDP was still growing (and only collapsed the following year).

As a result, global financial assets reached another milestone in 2020, exceeded 300% of global GDP for the first time (see Figure 2).

Figure 2: Reaching 300% – Global gross financial assets in EUR trillions and annual change in %

Source: Allianz Research.

Box: Cryptocurrencies

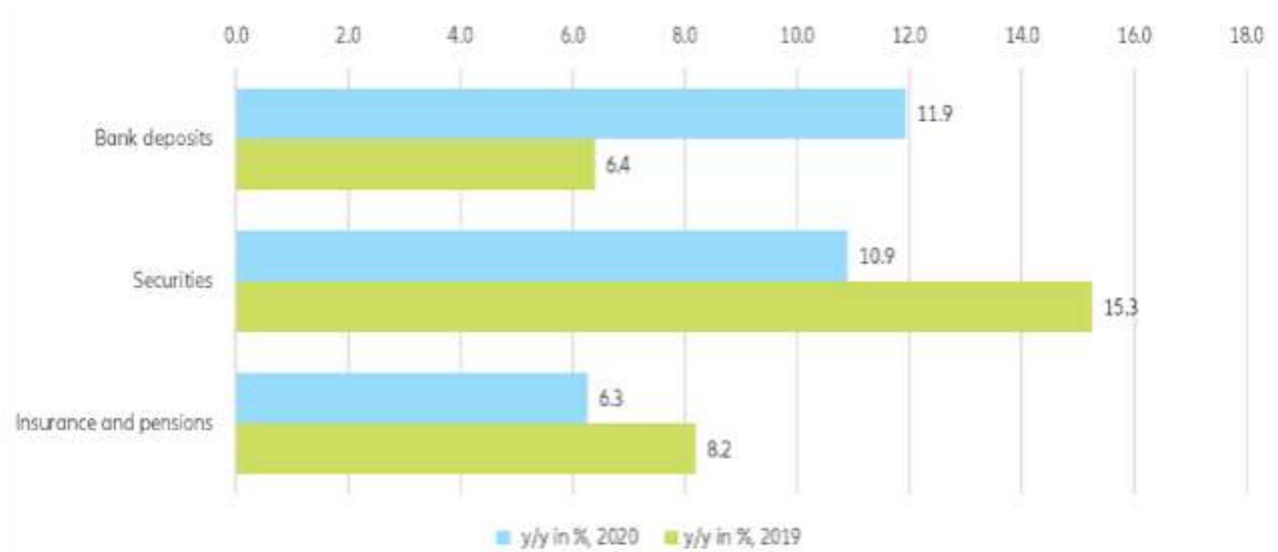
Digital assets became the new investment trend in 2020, and this has continued in 2021. In the case of cryptocurrencies, the combined market capitalization of all cryptocurrencies hit USD2trn in August 2021; this compares with around USD260bn a year before and around USD20bn in early 2017 (according to CoinDesk). With this increase, the size of the cryptocurrency market is now significant, though it still amounts to only around 1% of global private financial assets. Unlike the 2017 boom, which was propelled by retail investors, the current cryptocurrency rally is being driven by a combination of retail and professional investors, as well as big firms. With this new increase in demand, large financial institutions that offer related services have begun to expand their infrastructure to accommodate this style of investing. This "new" banking infrastructure investment has raised hopes that digital asset investing may be, in the future, accepted by a wide range of investors, thus leading to a market consolidation. But we are not there yet.

One of the key problems standing in the way of cryptocurrencies from being widely accepted is that their underlying behavior remains far from that of a currency. If one takes for example a look at the velocity of circulation of Bitcoin (i.e. the ratio of the number of Bitcoins exchanged to the number of Bitcoins in circulation) it would be in the range of 0.17 to 0.19 a year, which is much lower than the velocity of major currencies (about 10 times a year or 55 times the velocity of Bitcoin). These numbers highlight the fact that people are still using Bitcoin or other cryptocurrencies mainly for speculative rather than for payment purposes. Consequently, the market remains immature and volatile, making it unsuitable for most retail and professionally managed portfolios.

Saving by default

What made 2020 truly unique from the point of view of savers was not – as in the previous year – the stock markets climbing to record levels due to ultra-loose monetary policy, but the measures taken to contain the pandemic, namely the lockdowns that brought public life to a standstill in large parts of the world. The result was a drastic reduction in consumption opportunities; travel, visits to restaurants and concerts or even family gatherings became impossible. This led to a sharp increase in the savings rate. The global phenomenon of "forced savings" was born and is also reflected in our data. For the first time, bank deposits worldwide – the default option of forced savings, so to speak, which does not require households to make an active investment decision – grew at a double-digit rate of +11.9% (2019: +6.4%); the previous peak growth was +8% in the financial crisis year 2008. Bank deposits left behind even the asset class securities, which – thanks to the strong stock market performance – grew by +10.9% (2019: +15.3%). In contrast, insurance and pension fund assets showed much weaker development, rising by +6.3% (2019: 8.2%) (see Figure 3).

Figure 3: Bouncing bank deposits – Global gross financial assets in EUR trillions and annual change in %



Source: Allianz Research.

Box: Another bumper year?

Following the deep slump in the global economy in the previous year, an equally strong recovery is on the agenda in 2021. Despite a subdued start at the beginning of the year, continued bottlenecks in world trade and new virus variants forcing new restrictions, global GDP will grow strongly by around +5.5%. A triad of reasons is responsible for this: first and foremost, of course, the progress of the vaccination campaign, which allows economies to reopen and (partially) return to normality – especially with regard to social spending such as travel, restaurant visits or concerts. In addition, continued monetary and fiscal policy support play a major role: In 2021, most central banks have remained on the monetary gas pedal and finance ministers continue to provide generous support to businesses and stabilize the labor market.

What does this mean for savers worldwide, and for the development of global financial assets? As long as there is no severe slump in the stock markets in the last few months, 2021 should also be a good year for them. But let's take it one step at a time. There is no question that 2021 will again offer more opportunities for consumption and the era of "forced savings" is drawing to a close. However, the levels seen before Covid-19 will not yet be reached again, so the savings rate is likely to remain above its long-term average. This will primarily benefit bank deposits, which should no longer grow as exceptionally as in 2020 but still rise strongly. We expect growth of +7-8%. Securities as an asset class should also develop just as positively: The tailwind from the markets has been strong so far and interest in capital market investments such as equities or investment funds remains high. An increase of +9-10% therefore seems likely, roughly on a par with the previous year. In contrast, the trend for investments in insurance and pension funds is likely to be much more subdued. Here the slight rise in interest rates, albeit at a low level, plays a major role as it results in losses in the value of fixed-income securities. This is reminiscent of 2018, when this class of securities grew by only +1.3% globally. This year is not expected to be much better. Still, the bottom line should be strong, with overall growth in financial assets globally of around +7%. O Covid-19, where is thy sting for savers?

Monetary policy footprint

However, this has changed little in terms of the distribution of global financial assets. As before, the lion's share of 40.4% is held in securities (EUR81trn), followed by insurance and pension funds with 29% (EUR58trn) and bank deposits with 27.9% (EUR56trn).[2] In the longer term, however, since the Great Financial Crisis, clear shifts in portfolio structure have become visible: the big winners are securities such as equities and investment funds, whose share has risen since the low point in 2008 by a good 6pp. On the other hand, despite strong growth in 2020, the share of bank deposits fell by just under 2pp and that of insurance and pension funds by more than 3pp. The global asset structure thus also reflects the impact of the continued expansionary monetary policy (see Figure 4).

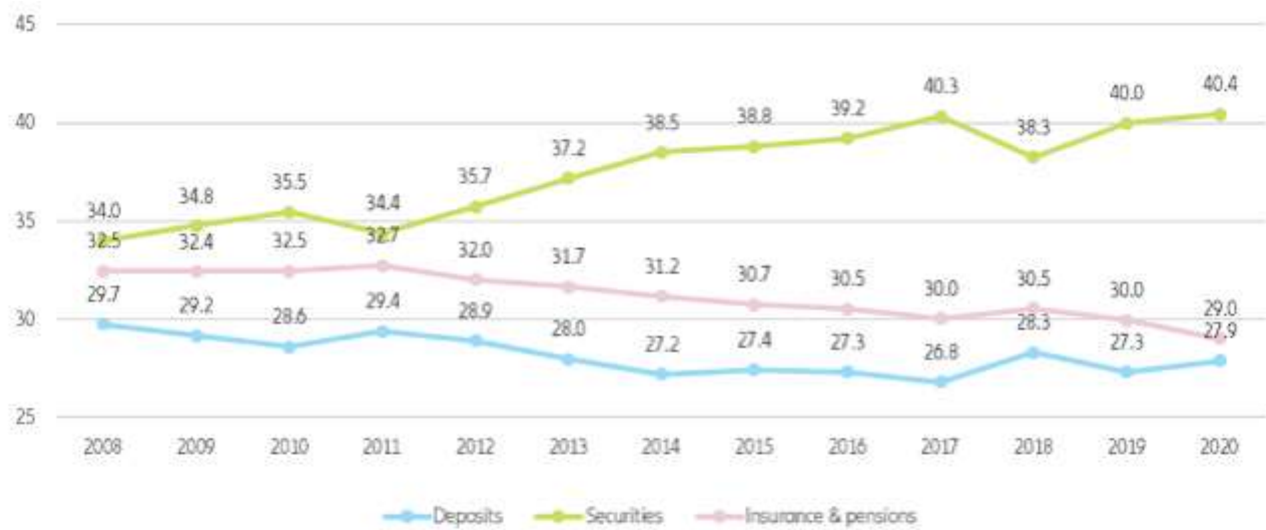
Savings shock

The phenomenon of forced savings becomes even more dramatic when looking at financial flows, i.e. the acquisition of financial assets.[3] Fresh savings jumped by +77% to EUR5.2trn in 2020, an absolute record. The reason for this "savings shock" is clear: while inflows into bank deposits almost tripled (+185%), purchases of securities actually declined (-32%), while allocations to insurance and pension funds only recorded a very small increase of just over +3%. This massive increase in savings also meant that in 2020 the ratio of the two growth drivers of financial assets – inflows to assets and increases in the value of asset holdings – was almost balanced at 45 to 55; in the previous year, it had been 20 to 80 in favor of increases in value.

US households were the main driver of this development, boosting their inflows into bank deposits by a staggering +374%; the US's share of fresh bank deposits worldwide subsequently jumped from 31% (2019) to 51% (2020). But it was not only in the US that the "default option" – leaving unspent income in the bank account – was the most widely used form of "savings" by a huge margin: Bank deposits accounted for half or more of fresh savings in all markets considered. The only exception was Australia, where pension funds ("superannuation") held their ground very narrowly ahead of bank deposits, with a share of 44%.

This result is somewhat surprising. After all, in 2020 there were increasing reports that savers in the pandemic – with time and money behind them – had rediscovered the securities markets; in some markets, investment funds even recorded record inflows. However, this is not the case for the world's largest market, the US, which accounted for 55% of fresh savings in 2020. Here purchases of securities fell by over -50%. Demand for investment funds in particular was significantly lower and bonds were even sold on a large scale. The only area where US households were more willing to spend was equities. This may reflect a general change in the investment behavior of retail investors, who increasingly invest in individual stocks, not least thanks to low-cost neo-brokers (see box: The new retail investor, opposite and on page 12).

Figure 4: The monetary policy footprint in the portfolio structure – Share of asset classes in total global financial assets, in %



Source: Allianz Research.

2 Furthermore, 2.6% of global financial assets are held in the category "other assets" such as loans.

3 The following analysis relates to Japan, Australia, Europe and North America, regions for which timely data on asset flows are available. This group of countries accounts for more than three quarters of global financial assets.

Figure 5: SFH – Saving from home; Net acquisition of financial assets, in EURbn

Source: Allianz Research.

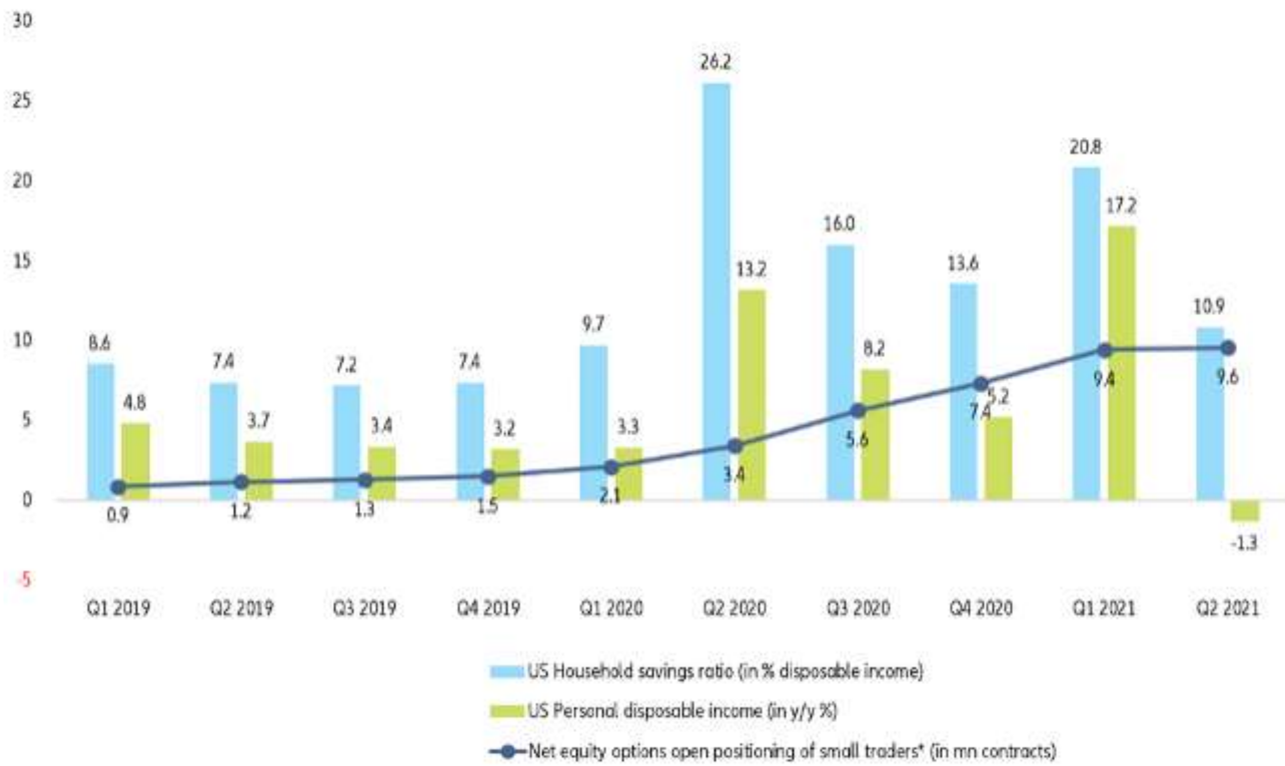
Box: The new retail investor

The Covid-19 outbreak came with an unexpected market surprise as US equities started rallying right after the initial market meltdown, catching more than one professional investor wrong-footed. This was particularly surprising as it was difficult to reconcile a quickly receding economy with booming markets. Nonetheless, this divergence from fundamentals caught the attention of a specific investor group that had until that moment remained rather muted: retail investors. This trend has continued as retail investors are now estimated to represent around 10% of daily trading volumes within US markets and around 5% within European markets. But why did retail investors enter the stage during one of the biggest economic crises? Five conditions were decisive for this development:

- The widespread and easy access to options trading, offered by trading apps since 2018.
- The surge in social media usage and proliferation of social media influencers as opinion leaders, creating an informal and "new" way of mobilizing capital (e.g. targeting heavily shorted stocks).
- A significant reduction in transaction costs for derivatives and trades in the small-cap market segment, where they could easily become prohibitive: Transaction fees were cut to almost zero by some trading apps in early 2020 (although retail investors are paying a wider bid-ask spread).
- The availability of liquidity with low opportunity costs: The first lockdown sparked an explosion in the saving ratio amid falling interest on bank accounts and limited spending possibilities (see Figure 6, page 12).
- Increased FOMO (Fear of Missing Out): Retail investors felt the need to rush into capital markets because, in the words of John Morgan, "Nothing so undermines your financial judgment as the sight of your neighbor getting rich".

With that in mind, one could argue that these neo-brokers have brought the toolbox of Wall Street to Main Street as retail investors have been ramping up leveraged trading through the derivatives market, primarily via call options. Using this mechanism, retail investors have exacerbated some positive feedback loops in which the increasing number of long calls has led brokers to buy the underlying asset and thus trigger a self-fulfilling bullish run. Although higher market participation is, in principle, a positive development for market liquidity and for price determination, the Covid-19 equity recovery has shown how retail investors behave in a bull market. Time will tell how these new investors behave in a market crash or bear market.

Figure 6: Saving ratio, disposable income and retail options trading in the US



Sources: Refinitiv, OCC, Allianz Research.

The investment behavior of US households stands out in yet another respect: They were the only savers to significantly increase their investments in insurance and pension funds – by as much as 31% in 2020. They thus appear to have used the savings surplus in the pandemic at least in part to boost their retirement accounts. This behavior cannot be observed elsewhere; investments in insurance and pension funds tended to be reduced or at best stagnated. This was no doubt helped by decisions in some countries to use pension contributions to mitigate the Covid-19 shock by suspending payments or allowing early withdrawals (see box: Covid-19 and old-age provisions). In Western Europe, too, there was an overall decline of -15% in these investments. Their share of new investments thus fell to 18% – after an average of over 50% in the previous decade. In contrast, securities were purchased again for the first time – after two years of net sales – although their share of fresh savings remained relatively low at 12%. That still represents a peak since the Great Financial Crisis. Only the next few years will show whether this is just a flash in the pan – as in 2017, for example – or the start of a new trend toward more capital market-oriented savings behavior in Europe.

Box: Covid-19 and old-age provisions

On the surface and from the global perspective, private households' capital-funded old-age provision was rather unaffected by the pandemic. Driven by the positive development of pension funds and other retirement savings vehicles assets[4] in the course of the rapid stock market recovery, private households' life insurance and pension assets increased by +6.3% in 2020, which was slightly stronger than the 10-year CAGR of +5.6%. The absolute amount reached a new record high EUR58trn.
The effects of Covid-19 on pension systems and especially on the individual pension benefit level will only be felt in the long term. To cushion the economic impact of the Covid-19 pandemic, many governments decided to lower the contribution rates to the public pay-as-you-go financed and capital-funded pension schemes temporarily, or, like Singapore, postponed already announced increases. The governments of Australia, Chile, Malaysia, Peru, Portugal and the US even allowed early withdrawals of pension fund savings up to a certain limit[5].

The lower contribution rates left many public pension schemes with higher deficits and in need for tax-financed state subsidies, additionally burdening the already stretched state budgets. The reduced contributions to capital-funded old-age saving vehicles slowed down the build-up of an adequate amount of capital to provide for a decent standard of living in old age, which is already hampered by the current low-yield environment. And not only did early withdrawals had the same effect, in the worst case they left savers without any private old-age provision. This holds especially true for Chile and Peru, where private households' insurance and pension fund assets declined by -3.8% and -5.8%, respectively. According to FIAP estimates, in Chile, the first allowance to withdraw capital had already left at least 17% of members without funds in their individual accounts. In Peru, this may hold true for 33%.[6]

As a consequence, the Covid-19 pandemic might worsen the pension income inequalities in the long run, as it was especially low-income earners that were hit the hardest by the economic impact of the pandemic and therefore made use of the offer to withdraw or reduce their pension savings.

4 *According to preliminary OECD figures, assets in pension funds and all retirement savings vehicles increased by more than 8% in 2020. See OECD (2021), Pension Funds in Figures 2021, p. 2.*
5 *See International Labour Organisation (2020).*
6 *Federacion Internacional de Administradoras de Fondos de Pensiones (FIAP): The Withdrawal of pension funds to mitigate the effects of Covid-19, FIAP Statement, November 2020.*

Back to the normal growth pattern

In another respect, however, 2020 marked a return to global wealth normality: financial assets in the emerging markets again grew faster than those in industrialized countries. After three years (2017 to 2019) in which the emerging markets lost their lead, the increase in 2020 was +13.1%, significantly higher than in the industrialized countries (+8.9%). This reflects a paradox of the first year of the pandemic: richer countries – despite better healthcare systems and more effective administrative structures – were hit harder by Covid-19 than poorer ones, with a higher number of deaths on average and a deeper GDP slump. At 4.2pp, however, the lead was not terribly large: In the first years of the millennium up to and including 2016, growth in financial assets in poorer countries was on average more than 12pp higher than in richer countries (see Figure 7).

Party in the USA

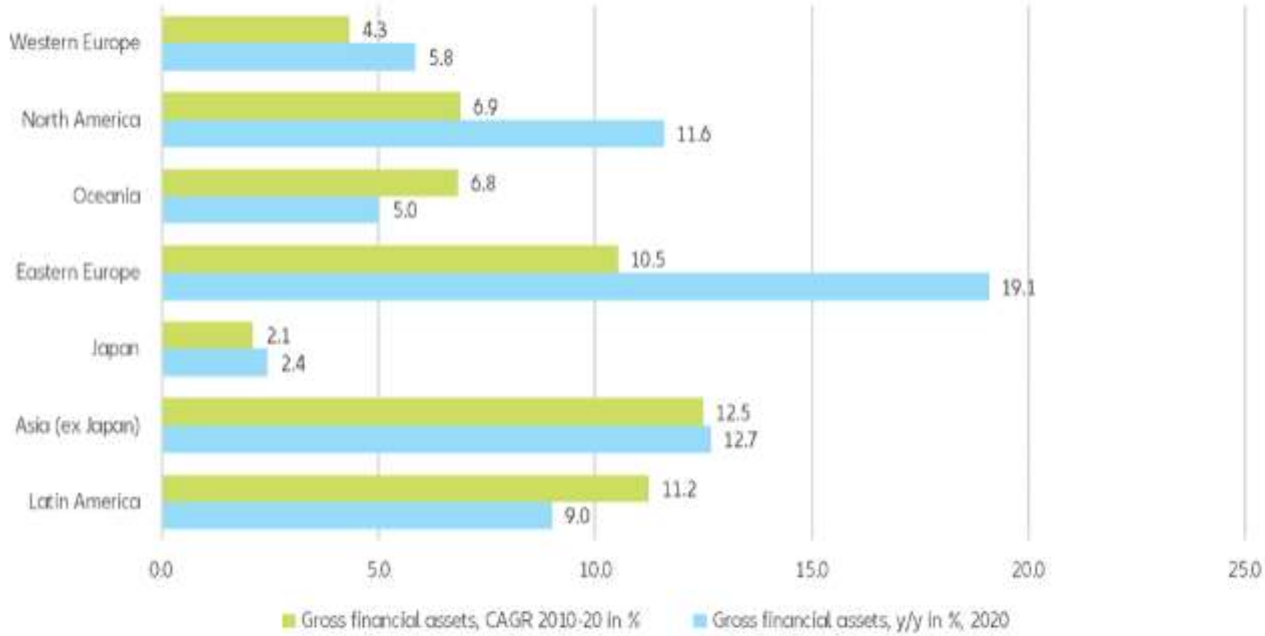
Both sides are responsible for the smaller lead. On the one hand, growth in the emerging markets has generally slowed somewhat in the past decade. This applies not least to Asia and here above all to China, which at +13.6% in 2020 achieved the highest growth since 2016, but also fell well short of the rates of the early 2010s that regularly exceeded 20%. A similar trend can also be observed in Latin America. Yet, Eastern Europe is an exception in this respect: This region grew significantly faster last year (+19.1%) than on average in the previous decade, mainly due to the extraordinarily strong development in Russia (+31.8%), by far the largest market in the region.

Secondly, growth in financial assets was also exceptionally high in the industrialized countries in 2020: in fact, the +8.9% achieved represents the third-highest figure since the turn of the millennium (after +10.3% in 2019 and +9.4% in 2005). The main driver here is the US: although Western Europe and Japan also grew in 2020 slightly above their long-term average at +5.8% and +2.4% respectively, US households achieved an increase of +11.9%, almost twice as high as in the previous ten years (see Figure 8, opposite).

Figure 7: Return to the normal growth pattern – total gross financial assets, y/y in %

Source: Allianz Research.

Figure 8: Party in the USA – Gross financial assets, CAGR and annual change by region



Source: Allianz Research.

Growth champion Asia (ex Japan)

In 2020, the Eastern Europe region was the undisputed growth champion. However, this was also partly due to the relatively high inflation rate (+5.3%), which was only higher in Latin America last year (+6.4%). In contrast, all other regions recorded markedly low inflation rates of around 1% or less. In Japan (-0.9%) and Western Europe (-0.1%), prices actually declined across the board.

More exciting than the snapshot of one year, however, is of course the long-term development. And here, the picture is different. Even taking population growth into account, Asia (ex Japan) has achieved the highest growth rates since the millennium: per capita financial assets have increased almost ninefold since 2000! Yet, the other two emerging regions follow closely behind, with per capita financial assets increasing by a factor of eight in both Latin America and Eastern Europe. As expected, the industrialized countries are far behind, with Japan bringing up the rear: here, growth was just under +40%, compared with around +100% in Western Europe and +160% in North America. However, the picture changes fundamentally if inflation is considered in addition to population growth. Naturally, asset growth is then lower as inflation was positive in all regions over this period, even in Japan. However, at 4pp, the difference between nominal and real growth in the Land of the Rising Sun is extremely small; the difference in development compared with Western Europe therefore virtually disappears. The difference between nominal and real growth is particularly pronounced in Eastern Europe and Latin America. Therefore, Asia (ex Japan) is growing twice as fast in real terms as these two other emerging regions. Even taking inflation into account, per capita financial assets in these countries have increased more than fivefold on average (see Figures 9a/b, page 16).

Figure 9a: Growth champion Asia (ex Japan); Gross financial assets per capita, 2000 = 100, nominal

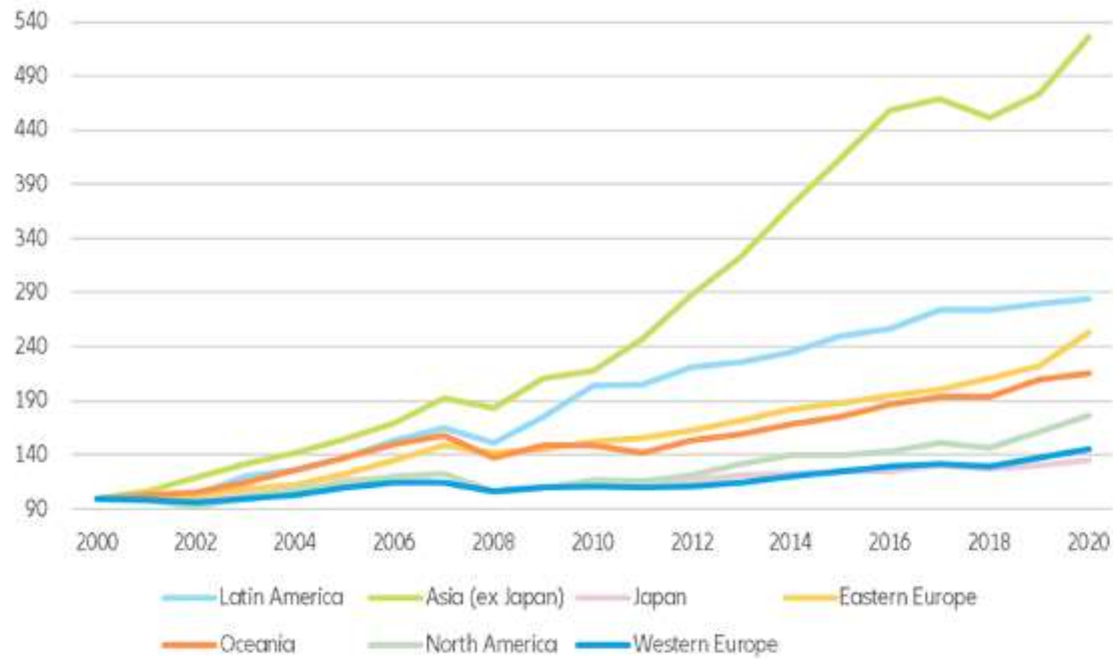
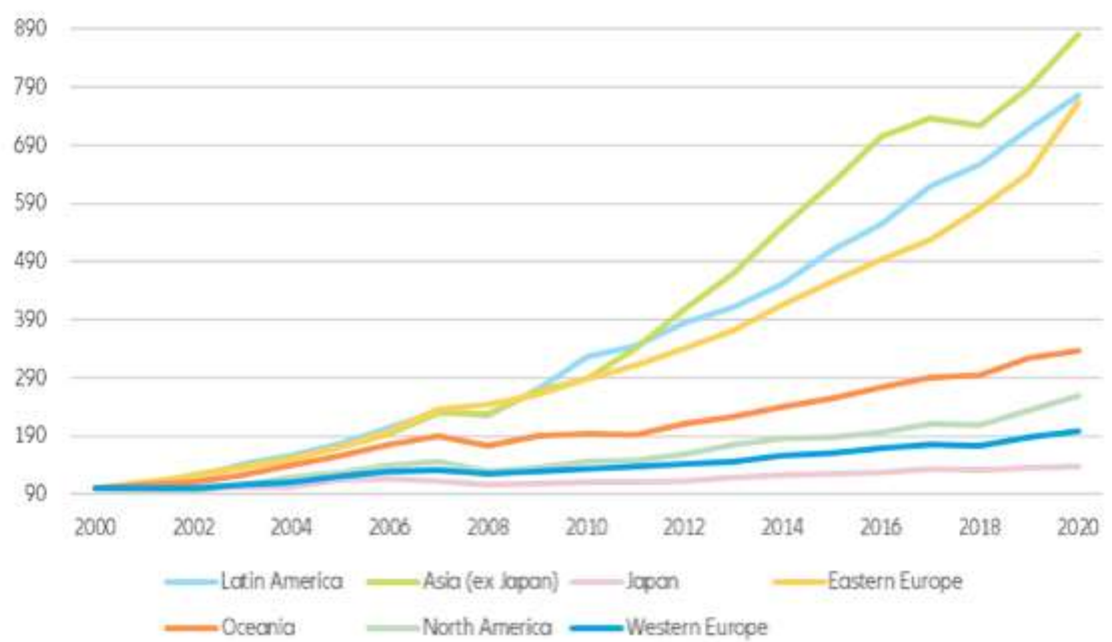


Figure 9b: Growth champion Asia (ex Japan); Gross financial assets per capita, 2000 = 100, inflation adjusted



Source: Allianz Research.

The undisputed wealth hegemon

This impressive growth story has also led to a shift in global weights. The share of Asia (ex Japan) in global financial assets has jumped from 11% to over 19% in the last ten years. At the same time, Western Europe and Japan have become significantly less important. However, something else is far more remarkable: Households in North America continue to hold almost half of the world's total private financial assets and their share has remained stable over the past decade. As a result, the gap between financial assets and GDP has also widened further: North America's share of global economic output was only 28% in 2020. In contrast, Asia (ex Japan) already accounted for 30% of global GDP. This shows once again that today's financial assets reflect current successes only to a limited extent; rather, they crystallize the achievements of past decades. Nevertheless, it remains remarkable how North Americans – and that means first and foremost Americans – unlike Western Europeans and the Japanese, have managed to successfully preserve and increase these returns even in a rapidly changing world (see Figure 10).

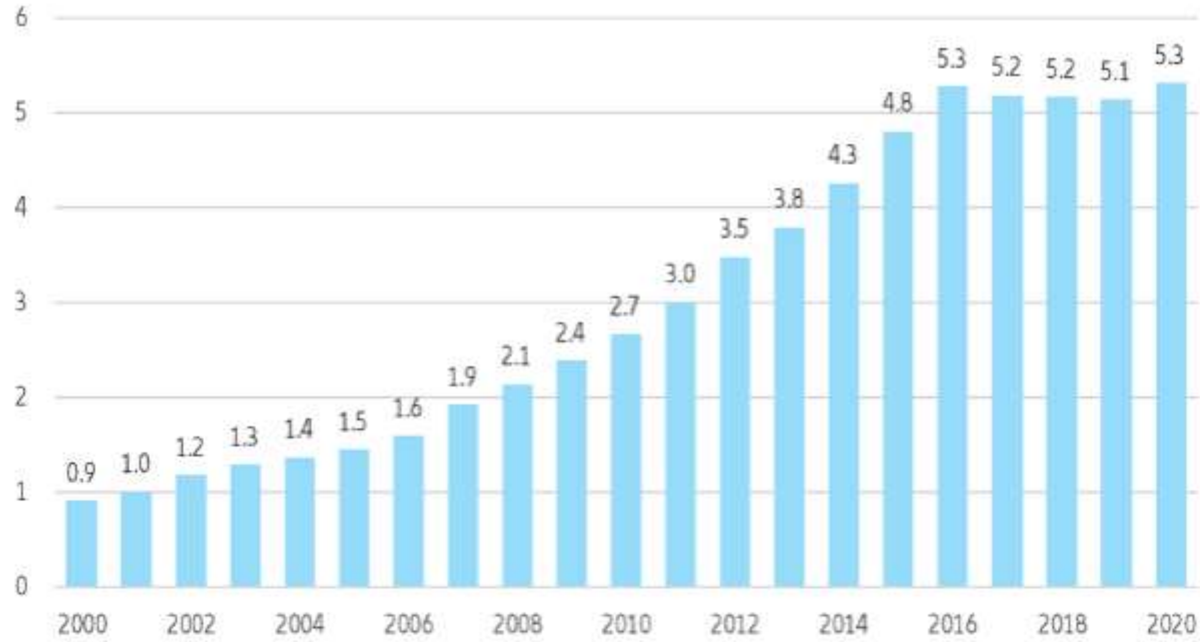
Mind the gap

Of course, this superiority is not only reflected in the global distribution of financial assets, but also in the absolute values per capita. At the end of 2020, average financial assets amounted to EUR260,580 in the US – a factor of 7.2 higher than the global average of EUR35,970. What's more, this factor has even increased slightly since the beginning of the millennium; in 2000, it was 7.0. The wealth of the US is increasingly decoupling from the rest of the world. This contrasts with the development in Western Europe: At EUR 99,270, not only is per capita financial wealth not even half as high as in the US, but the gap from the global average has also narrowed, with the corresponding factor falling from 3.5 (2000) to 2.8 (2020). A similar development can also be seen when the per capita financial assets of industrialized and developing countries are put into perspective. While the gap is still huge – EUR154,080 vs EUR8,190 – at least the relative gap (measured as the per capita financial assets of emerging markets as a percentage of assets in industrialized countries) has narrowed somewhat over the past two decades: the corresponding figure has risen from 0.9 to 5.3. However, this means that in 2020, the value already recorded in 2016 was only reached again – the last four years were lost years for the global catch-up process. (see Figure 11, page 18).

Figure 10: US – the undisputed wealth hegemon; Global gross financial assets by regions, in %, 2010 (inner circle); 2020 (outer circle)

Source: Allianz Research.

Figure 11: Mind the gap; Gross financial assets per capita in EM as % of gross financial assets per capita in advanced markets



Source: Allianz Research.

Switzerland on top

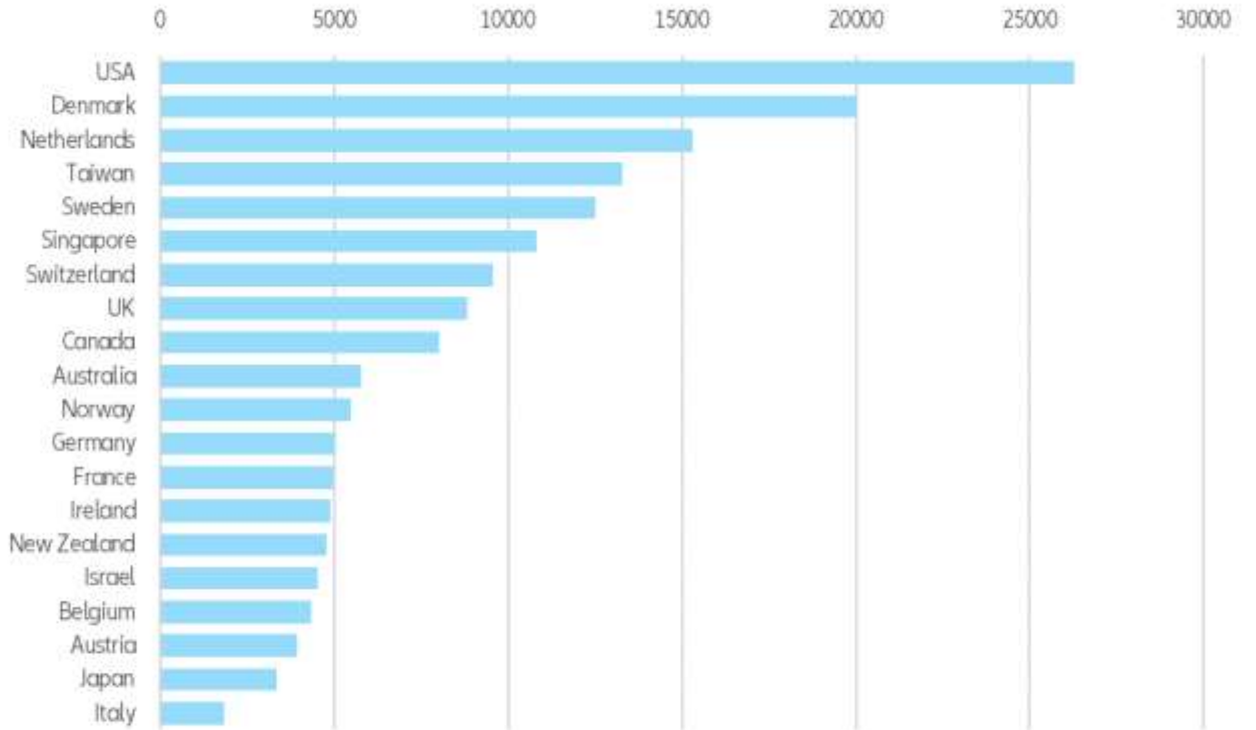
In the last two years in particular, financial assets in the US have risen sharply, with per capita values increasing by double digits in each case. As a result, average financial assets increased by EUR26,280 in 2020 alone – roughly the amount that describes total financial assets per capita in Greece. Savers in no other country in the world were able to enjoy such huge increases in wealth. The closest to the Americans were the Danes and the Dutch. Nevertheless, the Americans are not the richest savers in the world; this "honor" still belongs to the Swiss with a comfortable lead of over EUR50,000; at the turn of the millennium, however, Switzerland was still ahead with over EUR100,000 (see Figures 12a/b, opposite).

Equities or not

What is the secret to the US's success in recent years? In 2020, very generous social transfers certainly contributed to the increase in financial assets, i.e. bank deposits. In the long term, however, the key to high growth lies in the portfolio structure, i.e. in savings behavior. US savers hold just under 55% of their financial assets in the form of securities, primarily equities, and have therefore been able to benefit greatly from the stock market boom of recent years. In Western Europe, however, this proportion is just under 28% and in Japan only 16% (see Figure 13, page 20).

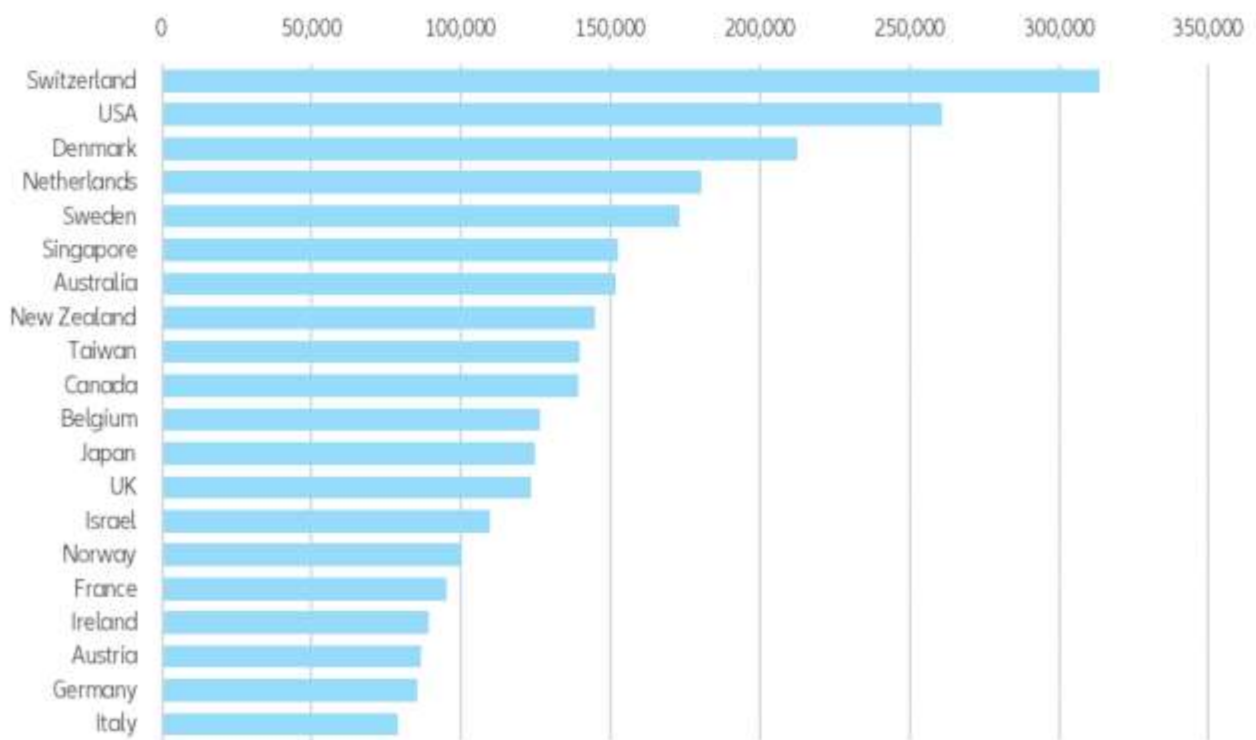
The success of this investment strategy can be clearly quantified. Over the past five years, the increase in value of asset holdings accounted for 70% of total asset growth in the US. For Western Europe, this ratio is 46% and for Germany a very modest 11% (Japan: 6%). The Germans may be world champions in saving, but they are unable to overcome this "handicap" as the comparison of asset growth over this period (2016 to 2020) shows: the US saw +39% compared to Germany's +26%. Certainly the different performances of stock markets also plays a role here. But on the one hand, savers today have global stock markets open to them for their investment, and on the other hand, the differences have not been so huge in recent years in particular. This is also shown by the fact that high increases in value is by no means a privilege of Americans. Other savers, such as the Danes and the Dutch – who also performed excellently in 2020 – have also recorded high increases in value in recent years. The decisive factor for investment success remains the investment decision: savers ignore the stock market to their own detriment. Whether they choose the direct route via shares and investment funds (e.g. in the US) or the indirect route via pension funds (e.g. the Netherlands) is ultimately irrelevant (see Figure 14, page 20).

Figure 12a: Switzerland on top; Gross financial assets per capita, increase in 2020 in EUR



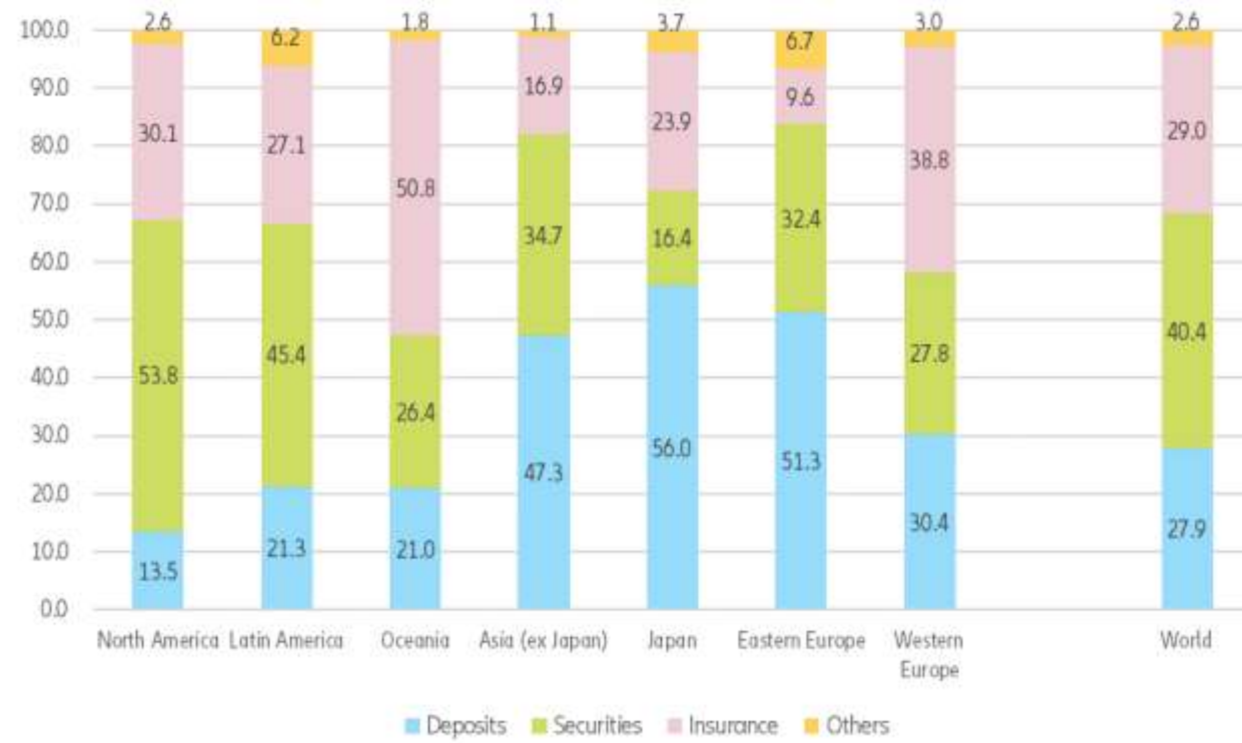
Source: Allianz Research.

Figure 12b: Switzerland on top; Gross financial assets per capita, increase level end-2020 in EUR



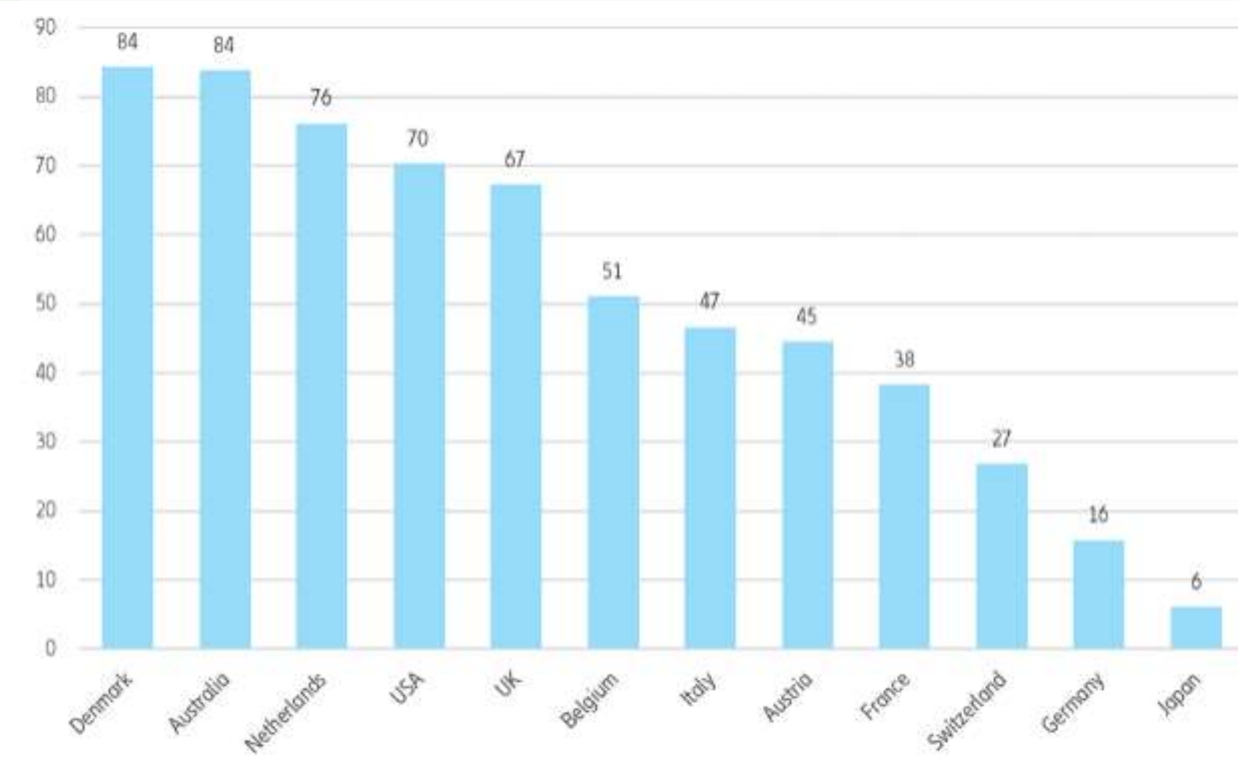
Source: Allianz Research.

Figure 13: Equities or not, Part I – Asset classes in percentage of total gross financial assets, by regions, in %



Source: Allianz Research.

Figure 14: Equities or not, Part II – Share of increase in value in total growth of financial assets, in %, 2016 – 2020, selected markets



Source: Allianz Research.

WEALTH DISTRIBUTION: LONG COVID

Trend reversal (temporarily) stopped

Global net financial assets increased by 11% in 2020, reaching EUR153.5trn. Moreover, in parallel with the development of gross financial assets, net financial assets also showed a return to familiar patterns in 2020: for the first time in three years, the emerging economies (+13.9%) grew faster than the industrialized countries (+10.4%). At 3.5pp, however, the lead was relatively small; in the first half of the 2010s, the difference was still more than 20pp (see Figure 15, opposite).

As a result, the prosperity gap between rich and poor countries has also narrowed somewhat. In 2000, net financial assets per capita were around 89 times higher on average in the industrialized countries than in the emerging economies; by 2016, this ratio had fallen to 19. Following an interim rise to 22 (2019), it fell back to 21 in 2020. Nevertheless, the number of members of the global middle wealth class[7] continued to decline in 2020: from around 785 million people in 2019 to around 735 million people last year. However, this development has more to do with the US than emerging markets. In the US, more people can again count themselves as members of the global wealth upper class, thanks to the strong +13.6% increase in net financial assets.

The trend reversal that we diagnosed last year[8] – the renewed drifting apart of the poorer and richer countries – thus appears to have been halted for the time being. Yet it is (much) too early to sound the all-clear. The development in 2020 was clearly distorted by Covid-19 and the measures taken to contain it. While many developing countries performed surprisingly well in the first year of the pandemic, there are many indications that the long-term consequences could primarily affect poorer countries. The two megatrends of decarbonization and digitalization could also accentuate the differences between countries again (see box: Inequality & Covid-19, part I, opposite).

7 The classification in wealth classes is based on worldwide average net financial assets per capita, which stood at EUR27,630 in 2020. The global middle wealth class ("middle wealth", MW) includes all individuals with assets of between 30% and 180% of the global average. This means that for 2020, asset thresholds for the global middle wealth class are EUR8,300 and EUR49,700. The "low wealth" (LW) category, on the other hand, includes those individuals with net financial assets that are below a EUR 8,300 threshold, while the term "high wealth" (HW) applies to those with net financial assets of more than EUR 49,700 (for details on how the asset thresholds are set, see Appendix A).

8 See the Allianz Global Wealth Report 2020.

Figure 15: Trend reversal stopped; Total net financial assets, y/y in %

Source: Allianz Research.

Box: Inequality and Covid 19, Part I

In 2020, Covid-19 tended to narrow the prosperity gap between poorer and richer countries as the latter were more affected by the pandemic (see also chapter 1). But in the medium and long term, Covid-19 and its consequences will hit emerging markets harder. This is already becoming apparent today. Compared with industrialized countries, the vaccination campaign in poorer countries is proceeding very slowly, with few exceptions, because there is still a shortage of vaccines. Whereas in the richer countries the population can be expected to be largely immune this year – and social interaction can be expected to return to normal to a large extent – this milestone is still a long way off for most other countries. Covid-19 will therefore continue to hold back economic development in this group of countries over the next two years. Added to this is fast rising public debt, which restricts the scope for action, especially if interest rates actually rise again in the next few years. This will also place a disproportionate burden on the poorer countries.

In addition to these immediate consequences of Covid-19, there are also global trends to consider which, while not triggered by Covid-19, have been given an additional boost by the pandemic. Already last year we noted that the growth of the global middle class has arguably stalled as the age of hyper-globalization is nearing its end. Covid-19 has accelerated this process. Even before Covid-19, increasing trade disputes and growing protectionism were causing a slowdown in international trade. After Covid-19, world trade will be impacted by the shift towards sustainability, and the logic of globally interconnected supply chains is increasingly being called into question: instead of maximum efficiency, resilience will become the yardstick. This implies a shortening of supply chains and could also lead to the on- or near-shoring of production.

At the same time, Covid-19 has finally helped digitalization to make a breakthrough. Big Data, artificial intelligence and connected automation will permanently change the world of work. The comparative advantages of relatively cheap labor – on which the rise of emerging markets and the global middle class in recent decades was primarily based – count for less in this new world. And last but not least, the green transformation i.e. the decarbonization of the economy will lead to an investment boom – especially in the richer countries. At the same time, consumer demand in these countries will (have to) undergo a structural transformation. This will have an impact on the economic model of many emerging markets, whether they are suppliers of raw materials or producers of goods. The conclusion: For emerging markets, Covid-19 itself is not the only major challenge. They will also find themselves afterwards in a world that will make it increasingly difficult for them to play out their comparative advantages in a proven way. Closing the prosperity gap is not (any longer) a no-brainer, but will require concerted and tremendous efforts by all stakeholders.

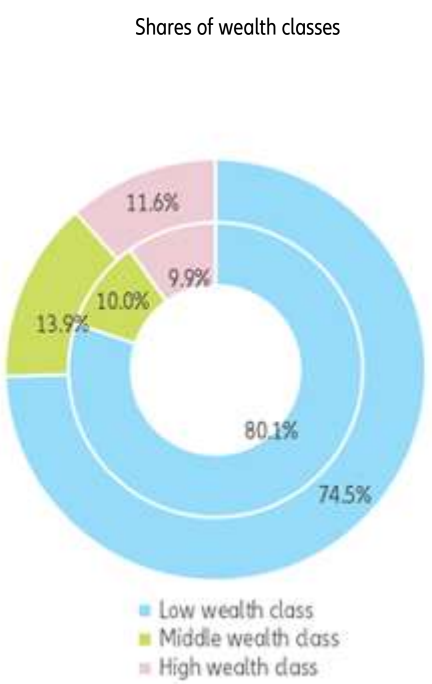
Less poverty

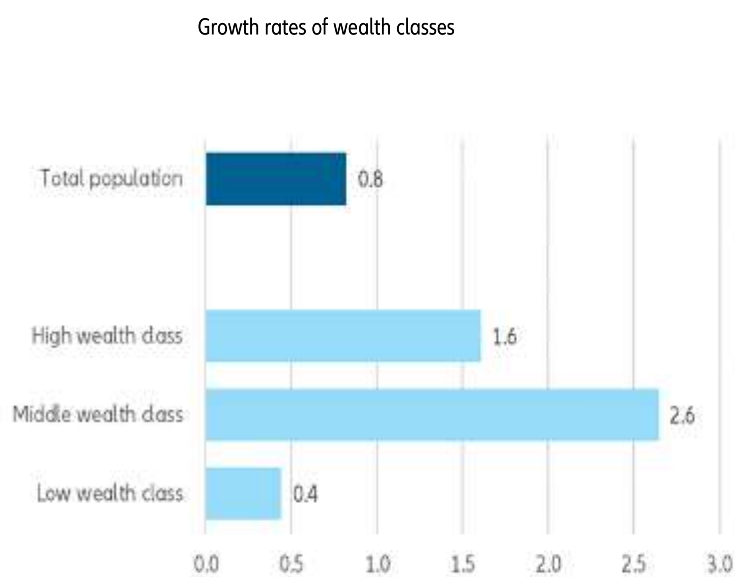
Unsurprisingly, the majority of people in the countries we studied still belong to the global low wealth class. In total, just under 3.9bn people in the countries we studied belong to this class; their share in 2020 was 75% – over 4pp below the figure for 2000. The shares of the other two wealth classes increased slightly accordingly. The different dynamics of the wealth classes also become clear when their growth is set in relation to general population growth over this period: The global low wealth class grew much more slowly, while the upper and middle classes grew much faster than the overall population. Overall, the figures suggest that global poverty has declined over the last two decades – although certainly not to the extent that would have been desirable (see Figure 16).

Europe and Japan's lost decade

Even more revealing than the general trend is a closer look at the individual wealth classes. Only around 7% of the members of the global low wealth class come from the richer regions (Western Europe, North America, Oceania and Japan); these regions are thus also "underrepresented" in this wealth class in terms of their population shares. Since our classification of wealth classes is based on global thresholds, this finding is not surprising. Other developments are more interesting. For example, China is now also underrepresented in the low wealth class (even though around a quarter of its members still come from the Middle Kingdom). What's more, the low wealth class in China has shrunk over the past two decades – contrary to the general population trend – as it has in Eastern Europe and Oceania. In all other regions, however, it has grown in numbers. However, there are only two regions where this growth has outpaced general population growth: Western Europe and Japan. For Western Europe, this is due to the crises of recent years, not least the Euro Crisis. The proportion of Western Europeans who are part of the global low wealth class has thus risen to 31.5% (2000: 29%). However, it is by no means only the countries of the southern periphery, such as Greece, Spain and Portugal, where this wealth class has grown in number; a similar development can also be observed in the Netherlands, Norway and Switzerland as a result of increasingly high indebtedness among the lower deciles of the population. The same applies to Japan, where the development is additionally reinforced by better survey methods, which make the extent of indebtedness more clearly visible (see Figure 17, opposite).

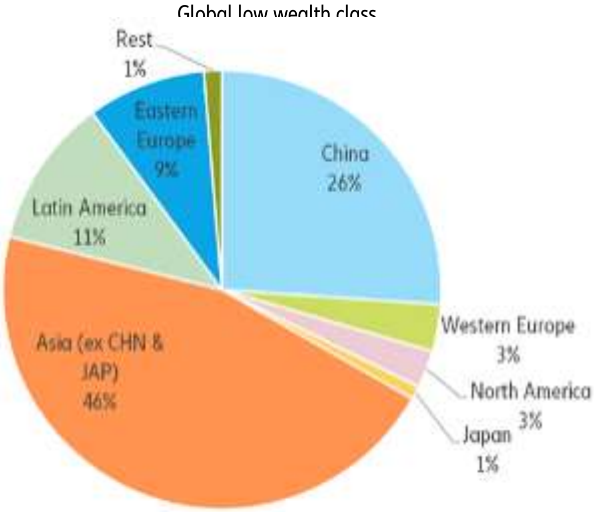
Figure 16: Less poverty; Shares & growth rates of wealth classes in %; 2000 (inner circle), 2020 (outer circle); and CAGR 2000–2020

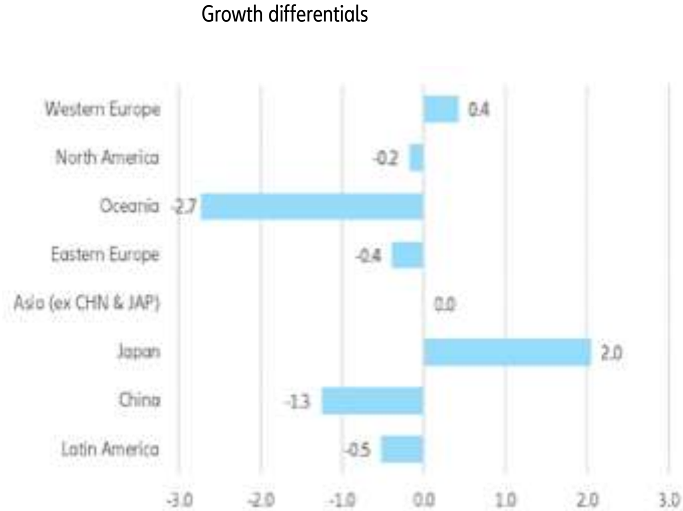




Source: Allianz Research.

Figure 17: Europe's and Japan's lost decade; Global low wealth class, by regions in % and growth differentials (low wealth members less total population growth, CAGR 2000 - 2020), by region in %





Source: Allianz Research.

Latin America rising

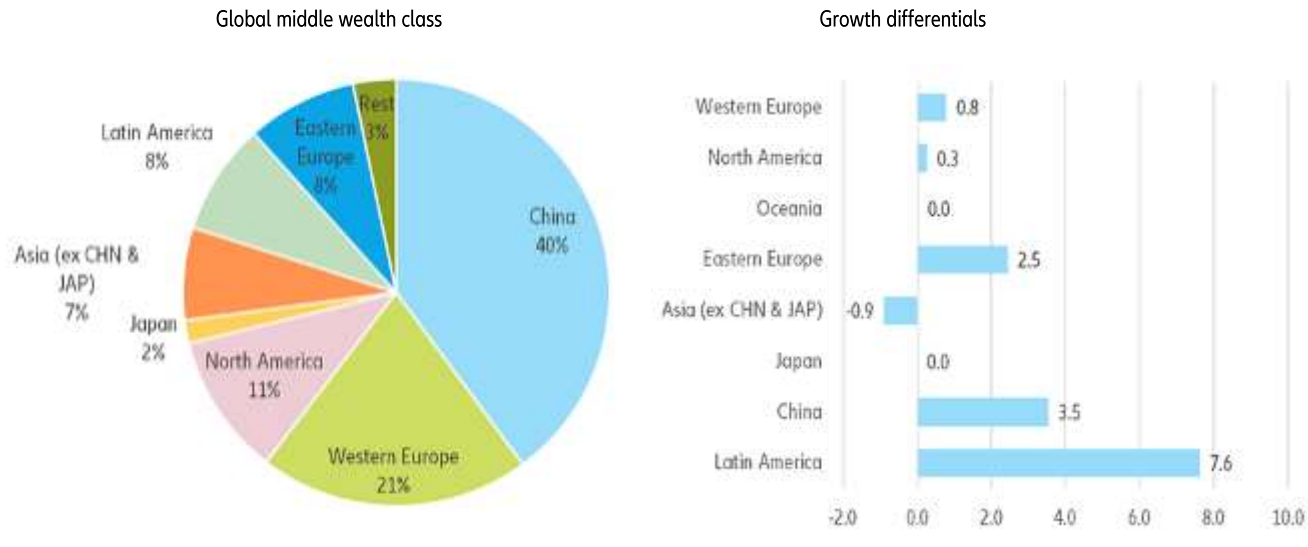
The global middle wealth class accounts for just under 14% of the population in the countries we studied; this corresponds to around 735mn people. With growth of +2.6% per year since the turn of the millennium, it is the group that has developed by far the most dynamically. China clearly dominates this class, accounting for 40% or just under 300 million people, more than double compared to the turn of the millennium. Yet, another region is showing even higher growth: Latin America, where the number has more than quintupled. However, at around 60 million people, this still only represents just over 12% of the total population in the region; for comparison, this figure is already 20% in China. In the other regions, too, the number of people belonging to the global middle wealth class increased strongly. But there is one exception: in the rest of Asia, their growth lagged overall population growth. Why? On the one hand, static development in the two most populous countries, India and Indonesia, plays a role, but so does 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 class was fed by a steady influx of upward movers from the lower class, in the case of the rest of Asia, this means that the decline in the middle class is also partly due to the rise of the upper class (see Figure 18), opposite.

China's rise

Finally, the global high wealth class accounts for just under 12% of the population in the countries we studied; this corresponds to around 600 million people. With growth of +1.6% per year since the turn of the millennium, it has grown exactly twice as fast as the overall population.

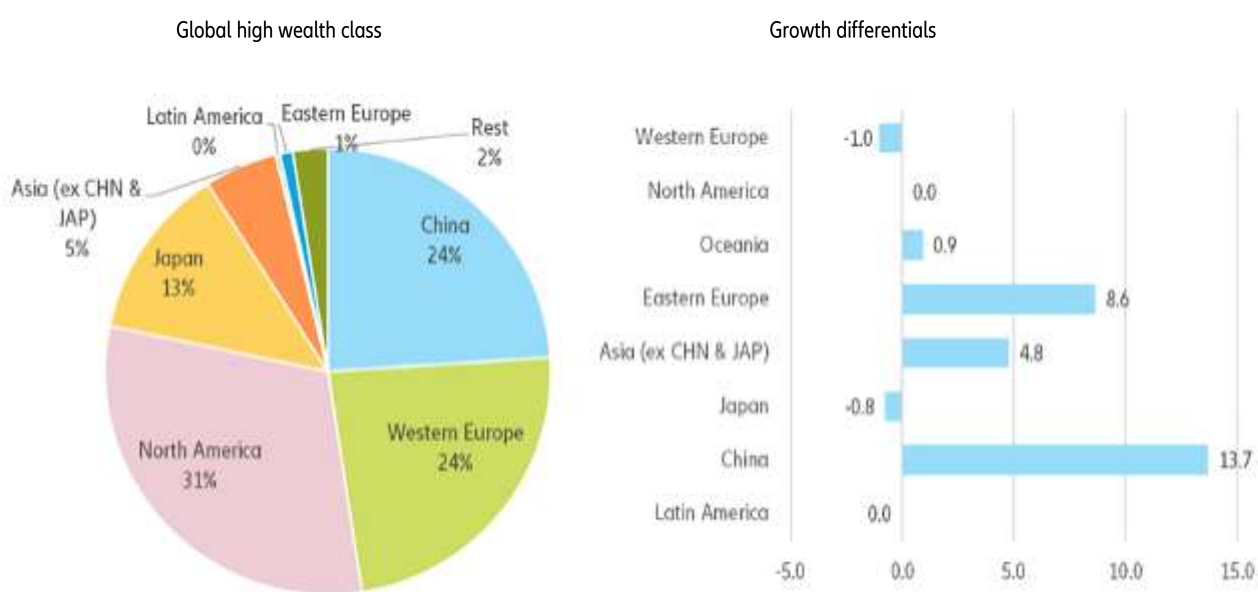
This growth has a name: China. In terms of the number of members of the global high wealth class, China has now even caught up with Western Europe (around 140mn people each). Other regions such as Eastern Europe and the rest of Asia have also seen strong growth over the past 20 years, albeit at a much lower level. A reflection of China's rise is the loss of importance of the "old" industrialized countries: The share of Western Europe, North America and Japan in the global high wealth class has fallen from 93% (2000) to 67%. For Japan and Western Europe, this development is also backed by absolute declines. In Western Europe, for example, the share of the population that can consider itself as part of this class was still 41% at the turn of the millennium; today it is only 33%. In North America, on the other hand, around half of the population still belongs to the global high wealth class. This once again underscores America's exceptionalism in wealth matters: Despite all the crises and shifts in the global economy, US households are able to maintain their position. The Japanese and Western Europeans have not managed to do so in recent years (see Figure 19, opposite).

Figure 18: Latin America rising; Global middle wealth class, by regions in % (left panel) and growth differentials (middle wealth members less total population growth, CAGR 2000 - 2020), by region in %



Source: Allianz Research.

Figure 19: China's rise; Global high wealth class, by regions in % (left panel) and growth differentials (high wealth members less total population growth, CAGR 2000 - 2020), by region in %



Source: Allianz Research.

Falling wealth concentration – at a snail's pace

Despite the rise of emerging markets and the serious shifts in the distribution of global wealth over the last two decades, the concentration of financial assets at the global level remains extremely high. This becomes clear when the total population of the countries we analyze is broken down by population decile on the basis of net financial assets.

This shows that the richest 10% of the world's population – around 520mn people in the countries under consideration, with an average net financial assets of EUR250,000 – together owned more than 84% of total net financial assets in 2020; among them, the richest 1% – with an average net financial assets of more than EUR1.2mn – owned almost 41%. As unequal as the distribution of wealth is on a global scale, these shares have fallen over time: at the turn of the millennium, the corresponding figures were still 91% and 43%, respectively.

At the other end of the spectrum, among the bottom half of the population accounting for some 2.6bn people, less than 1% remains. The latter figure should be interpreted with caution, however, as the people with the lowest wealth include many indebted people from the richest countries; the "poorest" decile of the world's population has negative net financial assets, but high debt does not necessarily equate to poverty. The Scandinavian countries are a good example of this. Households in Denmark and Sweden are among the most indebted in the world. However, this high debt is generally offset by tangible assets, especially real estate. A happy homeowner in Denmark should not be confused with a penniless day laborer in India. As a result of this high global wealth concentration, there is also a large gap between the global median and the global average of net financial assets. While the median of net financial assets in 2020 was EUR1,950 per capita, the average was more than fourteen times higher (EUR27,630). However, the two indicators have developed very differently over the last two decades: While the average value increased by +4.9% per year, the median value reached an annual growth of +10%. This implies faster wealth growth in the lower half of the population.

This different speed is also reflected in the respective growth rates of the deciles. Average net wealth per capita shows the lowest growth rates in the two richest deciles, while it grew much faster in the lower and middle deciles; this applies in particular to deciles 5 to 7, i.e. precisely those in which the new middle class of the emerging markets is found. A word about the 1st decile with the lowest net financial assets: Its negative growth rate has a simple reason. On average, people in this decile are overindebted and the decline in their "net financial assets" means nothing other than rising debt (see Figures 20a/b, opposite).

The shrinking middle

What is true for the global perspective – growth in the middle – is not necessarily true in the national context. In many – but by no means all – countries, the national middle class[9] has shrunk in recent years. This applies less to the number of its members, which has remained remarkably stable in most of the countries studied, with the exception of China, where there has been a sharp decline. But their share of total national wealth has nevertheless declined in many places. This is particularly true for the 2010s. While the share of the national middle wealth class in total wealth was still rising in Brazil and Mexico, for example, compared with 2000, this is no longer true for the last ten years. The same is true for other emerging markets such as Turkey or European countries such as France, Belgium and Sweden. In 2020, the (unweighted) average share of the middle class fell below the 40% mark for the first time to 39%. In many (very) rich countries such as the US, Switzerland or even Germany, as well as in some developing countries such as Indonesia, South Africa but also China, this share was even below 30%. For comparison, in some Eastern European countries with their much shorter "wealth history" such as Slovakia, Poland and the Czech Republic, this figure is well above 50%.

The major declines since 2010 in China, Romania, Germany, Greece and Spain also reflect a numerical bloodletting – but for different reasons: While in Germany, Greece and Romania the national middle class shrank because slightly more people can again be attributed to the national high wealth class, the movement in China and Spain was in the opposite direction: households descended from the national middle wealth class to the lower class. But in both cases, the shrinking of the middle class suggests a greater polarization of society on wealth issues, a development that can become socially explosive in the long run. The extent to which this dynamic will be affected by Covid-19 is impossible to predict at this time. For 2020 at least, the immense social transfers seem to have successfully counteracted a further drifting apart of the social classes (see box: Inequality and Covid-19, part II). When it comes to the US, which is generally regarded as the most divided society in this respect, the share of the middle class in the wealth pie has actually increased somewhat in recent years, but at a very low level: only 26% of total net financial assets are accounted for by the middle class (see Figure 21, opposite).

9 *We calculate the national wealth classes analogously to the procedure for the global wealth classes: A band of 30% to 180% is placed around the national mean, which defines the middle wealth class.*

Figure 20a: Falling wealth concentration – at a snail's pace; Average net financial assets per capita, per decile in EUR

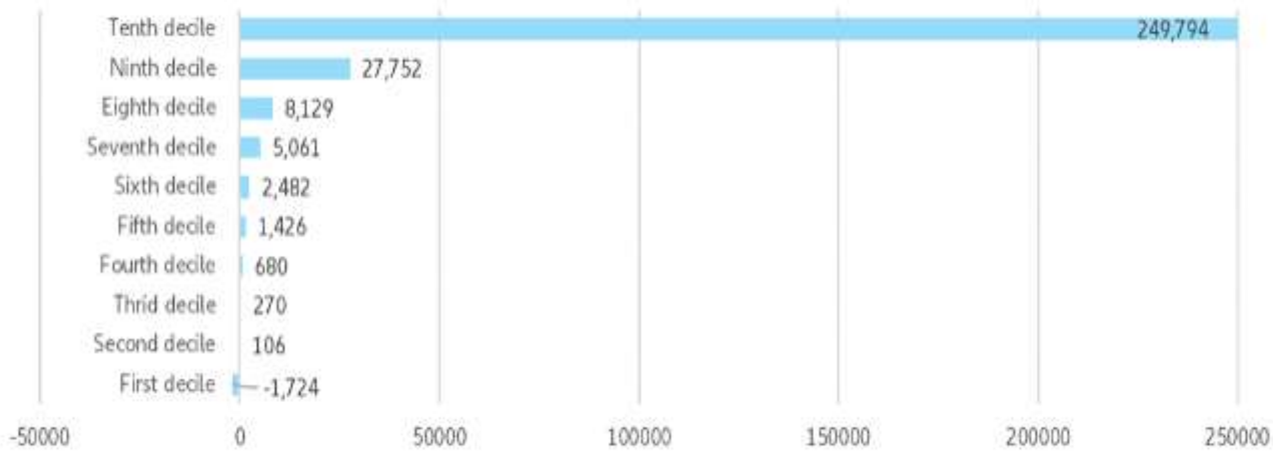


Figure 20b: Falling wealth concentration – at a snail's pace; growth of average net financial assets per capita, per decile in %

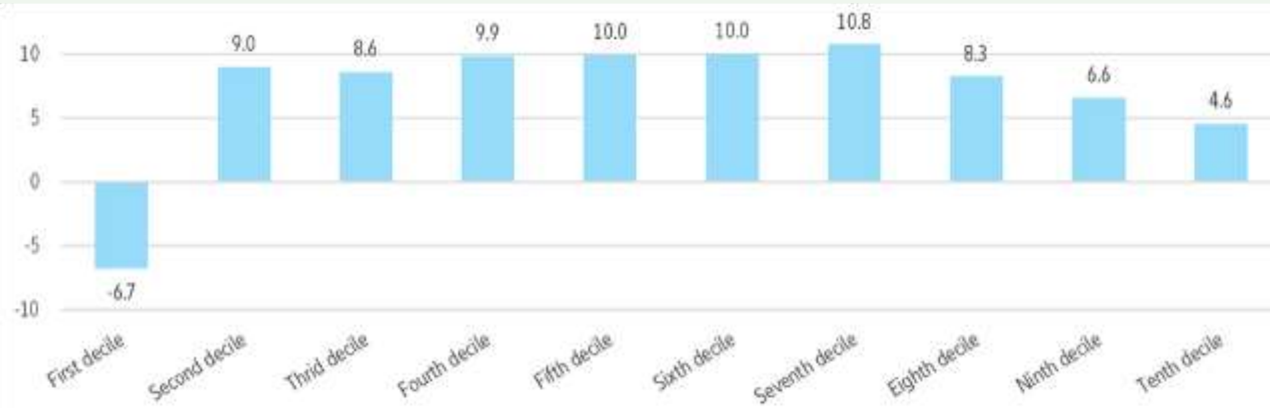
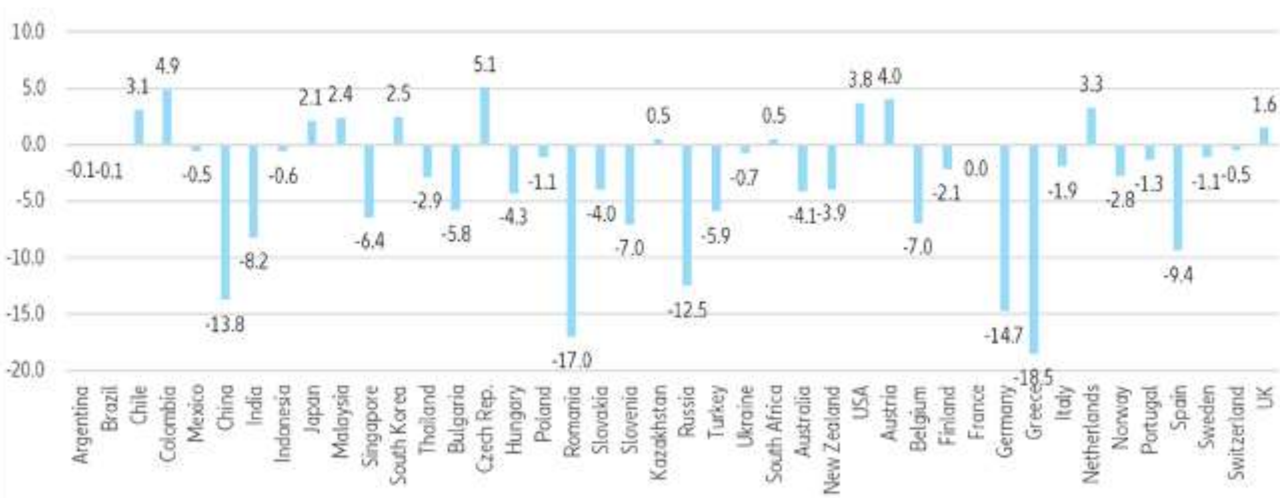


Figure 21: The shrinking middle; Share of the national middle wealth class in total net financial assets, change from 2010 to 2020 in pp



Sources for figures 20-21: Allianz Research.

Box: Inequality and Covid 19, Part II

The direct impact of Covid-19 is more likely to have increased inequality in many countries. Lockdowns and sanitation measures to contain the pandemic have primarily affected jobs with direct social contact, such as those in hospitality and other services. Earnings in these jobs are often below average, while above-average numbers of women and young people work in them. The home office, on the other hand, is primarily a privilege of well-educated and high-earning employees. This was also shown, for example, in our "Allianz Pulse"[10] survey. In this survey, 33% of German respondents stated that their economic situation had worsened during the pandemic; however, among 18-24 year-olds, this figure was 43%, while it fell to less than 30% among the over-45s. The differences between men and women are also striking. Among Italian respondents, for example, the ratio of those affected by the pandemic is 41% (women) to 31% (men). There are equally wide divergences among income groups. In France, more than one-third of respondents with low net incomes (below EUR2,000) report having suffered economically from Covid-19; for higher incomes (between EUR4,000 and 5,000), this proportion drops to 15%. However, the ratio rises again for top earners (above EUR5,000 net income) as they are likely to include many self-employed individuals who have been hit hard. This shows that even the direct effects of Covid-19 are not just black and white.

The picture becomes even more complex when the (very) generous government aid is taken into account. In some cases, this not only stabilized incomes, but also led to overcompensation and thus to rising incomes for those affected, from which poorer sections of the population benefited first and foremost. Initial studies therefore also conclude that income inequality may even have decreased in 2020, at least in the rich countries[11]. The US distributional financial accounts[12] even suggest that the overall distribution of wealth will not have changed in 2020 either (even if the richest 1% could slightly increase their share of total wealth).

But this state of affairs will be of limited duration. With the expiry of state support, the direct effects of the crisis – the loss of millions of jobs – will once again be felt. Above all, however, another channel of impact is causing concern: Covid-19 led to a significant impairment in school education. The consequences – ranging from major gaps in knowledge to dropping-out from school – will affect above all the lower educated classes, where there is a lack of education and (financial) resources to compensate for the shortfalls in instruction[13]. Covid-19 is thus likely to further entrench social immobility.

Add to this the impact of the pandemic on monetary policy, which is now likely to remain extremely loose for even longer. Record low or even negative interest rates will therefore remain a driver of asset prices for the foreseeable future, benefiting above all the owners of shares and real estate – who are also generally already among the better-off. In the future, many (younger) savers are likely to find it even more difficult to acquire real assets, in particular houses – the gap between those who already own houses (or will at least inherit them) and those who do not could thus widen even further. This would fuel overall wealth inequality, which is generally linked to the homeownership ratio (see Figure 22, opposite).

However, there is also an important point that could counteract the further widening of the wealth gap: redistributive policies. Covid-19 was also the hour of fiscal policy, which successfully countered the crisis with billions. A return to the status quo ante seems unlikely at present; politicians will want to use their newfound power in the future as well. And in contrast to the financial crisis, when the experience with (extremely) expansive monetary and fiscal policy was still new and the return to stability was high on the agenda, this time the economic policy landscape is fundamentally different. The political shocks of recent years (Trump & Brexit), which have sharpened the sense for the importance of inclusive growth, also contribute to this. So it cannot be ruled out that the structural upheavals looming in the next few years will be politically hemmed in. What this would then mean for long-term growth and prosperity in general is another matter.

10 Allianz Pulse 2021: Old beliefs die hard.

11 See for example Clark, A., D'Ambrosio, C. & Lepinteur, A. (2020), The Fall in Income Inequality during COVID-19 in Five European Countries, ECINEQ Working Paper 2020-565, Society for the Study of Economic Inequality, Palma de Mallorca, Spain. Or Grabka, M. (2021), Einkommensungleichheit stagniert langfristig, sinkt aber während der Corona-Pandemie leicht, DIW Wochenbericht 18.

12 The Fed - Distributional Financial Accounts Overview (federalreserve.gov).

13 See for example Fuchs-Schündeln, N., Krueger, D., Ludwig, A. and I. Popova (2020), The Long-Term Distributional and Welfare Effects of Covid-19 School Closures, National Bureau of Economic Research, Working Paper No 27773.

Figure 22: Home, sweet home; Homeownership ratios and the wealth Gini-coefficient in selected European countries

Source: Allianz Research.

Box: Calculation of the Allianz Wealth Equity Indicator (AWEI)

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

- The share of the national middle wealth 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%.

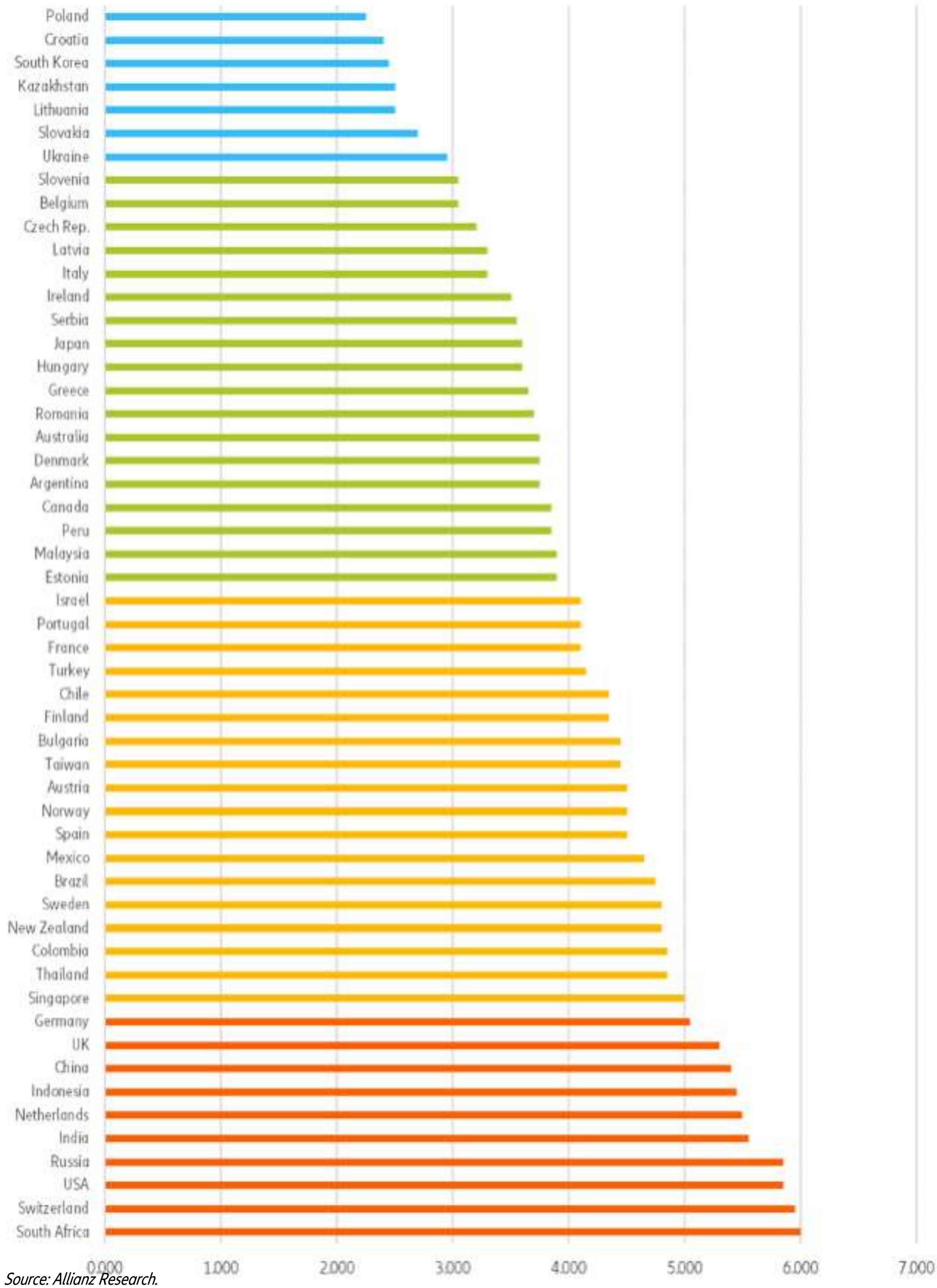
The original values for the parameters are transferred to a scale of 1 to 7, in which 1 represents the best figure. The distribution of individual figures is based on a normal distribution, i.e. the parameter values are assessed not on the basis of normative guidelines – e.g. a wealth concentration of 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).

All the shades of inequality

As well as analyzing the share of the middle wealth class, 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 introduced a new indicator, the Allianz Wealth Equity Indicator (AWEI) (see box), which takes into account various other parameters relating to wealth distribution and its development over time (see Figure 23, opposite).

The AWEI makes it clear that, with regard to the development of wealth distribution, there is no one narrative that applies to all countries. But of course there are also commonalities. For example, it is striking that it is primarily Eastern European countries that perform well in the AWEI, i.e. have a relatively balanced wealth distribution. This is probably due not least to the late start of the free market economy, with its opportunities for private wealth accumulation. Wealth as well as wealth inequality generally take time to grow (at least on this side of Silicon Valley). However, the fact that this is by no means an "insurance policy" against excessive inequality is shown by the example of Russia, which is one of the countries with the greatest differences between rich and poor. This group also includes the US, South Africa, India, Indonesia and the UK, among others, all countries that are "traditionally" characterized by large differences between social groups. Similarly, Switzerland probably owes its place primarily to its attraction for the super-rich from all over the world and the Netherlands because of the increasing indebtedness of some Dutch households. Finally, China and Germany round out the ranks of unequal countries. With growth slowing down, wealth dynamics in Chinese society have become more uneven. While the first years after the opening of the economy were dominated by asset accumulation through savings, gains in value have also played a bigger role more recently, i.e. access to higher-yield investments – which is generally likely to be easier for households that are already wealthier. And Germany? The high level of wealth inequality is probably primarily a legacy of late reunification.

Figure 23: Inequality in its full potential – The Allianz Wealth Equity Indicator (AWEI)



Source: Allianz Research.

DEVELOPMENTS IN GLOBAL LIABILITIES: DEBT MAN WALKING

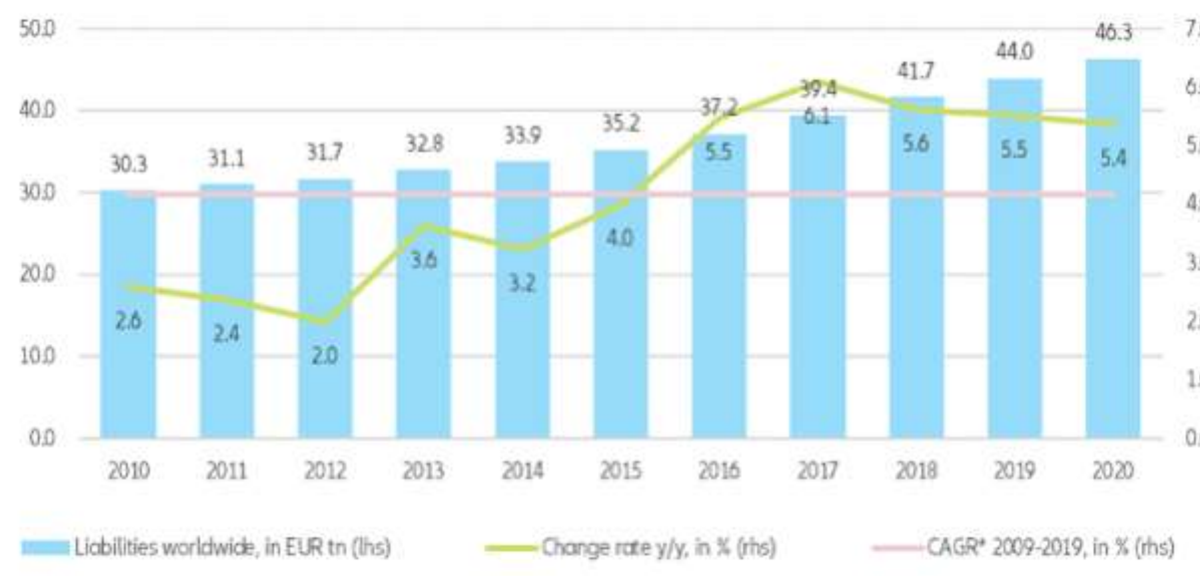
The concept of household financial stability is relatively new. It emerged after the Great Financial Crisis out of a need to understand how and if a lack of household capacity to face shocks could have spillovers to the rest of the economy. Crises are often accompanied by household debt distress; therefore, governments often intervene in household credit.

The debt pattern during the pandemic has vastly differed from other crises, likely because policy responses, notably generous social transfers, debt deferral and debt forbearance policies prevented consumers from falling into debt delinquency. At the end of 2020, after growing +5.4% y/y, global household debt stood at EUR46.3trn, thus staying stable compared to the +5.5% growth of 2019. However, it was significantly higher than the long-run compound annual growth rate (CAGR 10-20) of +4.2%. As observed in recent years, debt growth was much faster in emerging markets (see Figures 24a/b, opposite).

The Covid-19 crisis has lasted more than anyone could have foreseen, thus handing households a difficult card to play when it came to managing the financial shock. As we have seen, many households have fared well with growing savings and more disposable income, but this is not the case for households across the board. Household liabilities are important for economic growth as 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. 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 shocks. During the Covid-19 crisis, we saw households benefit and lose, but regardless of where they stood what was lost was consumer confidence. While household fresh savings grew massively (EUR5.2trn), fresh liabilities grew by only EUR1.1trn last year. To decide to take on a loan implies that the borrower is confident that they will be able to repay that financial obligation. It seems that consumers, despite the increase in savings, were not willing to put their future money into debt.

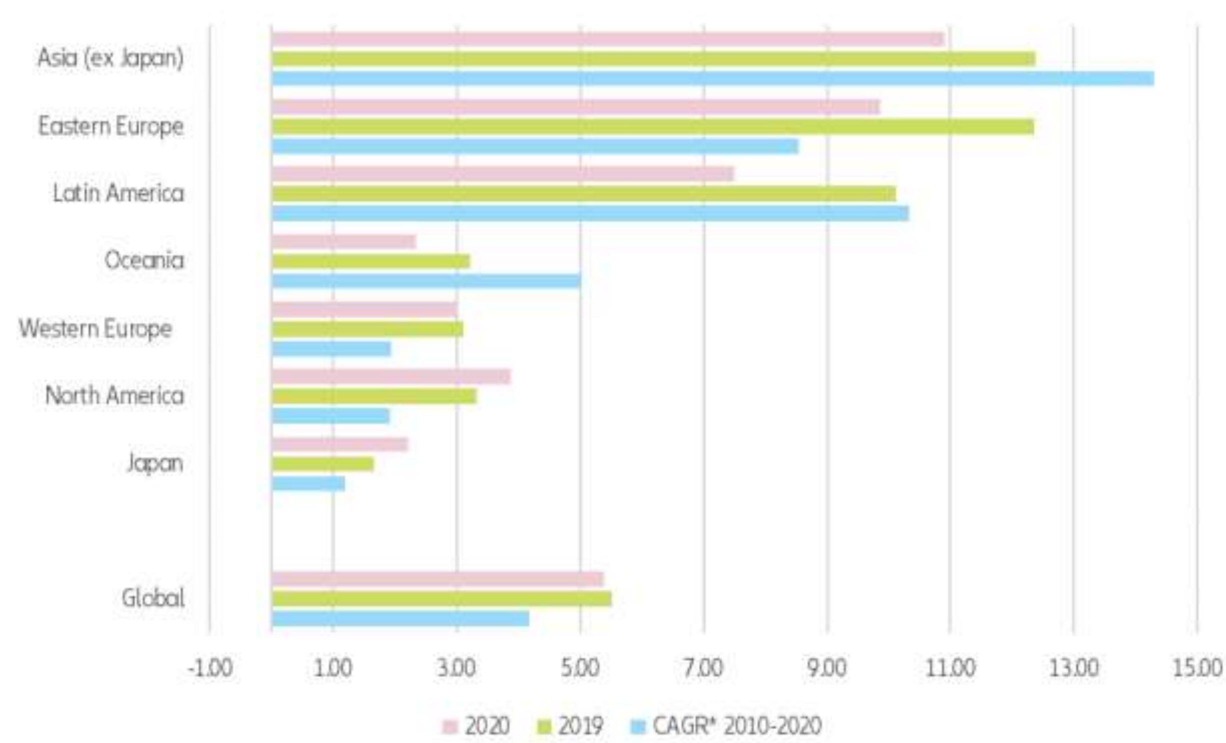
The geographic allocation of debt has changed since the last crisis. At the height of the GFC, the US held 41% of the global debt burden while now the share of American debt (EUR13.9trn) has fallen to 30% and grown over the past decade by +3.9% on average (CAGR 10-20). Western Europe also holds a large share of global debt at 25.9% (EUR12trn), but this has also decreased in the past decade, when it represented 33% of global household debt. The debt burden in most advanced markets is in decline, but emerging markets account for an ever-rising portion of global debt, first and foremost Asia ex Japan: it is today not only the second largest region in terms of debt (26.1% of global liabilities or EUR12.1trn) but its global share has increased by +235% in the past decade. In terms of liabilities per capita, however, the region remains a laggard: with slightly above EUR3,300 it stands at a fraction of the EUR32,990 per capita seen in the advanced markets (see Figures 25a/b, page 36).

Figure 24a: Global household debt growth; Development of global debt burden



Sources: National statistic offices, central banks, Allianz Research.

Figure 24b: Global household debt growth; increase of debt by region, in %



Sources: National statistic offices, central banks, Allianz Research.

Figure 25a: Global debt shares – Weight of debt, in EUR trn

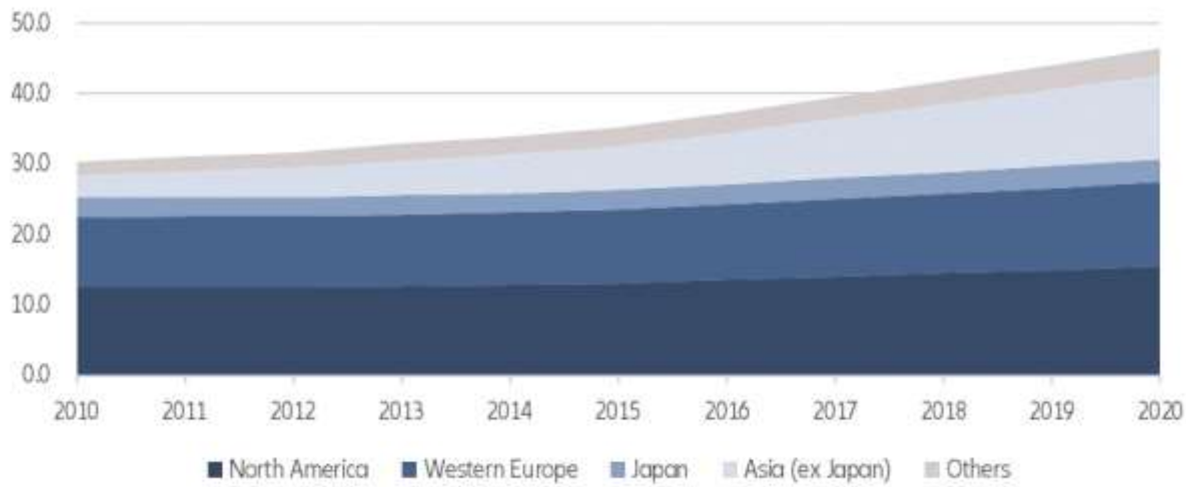
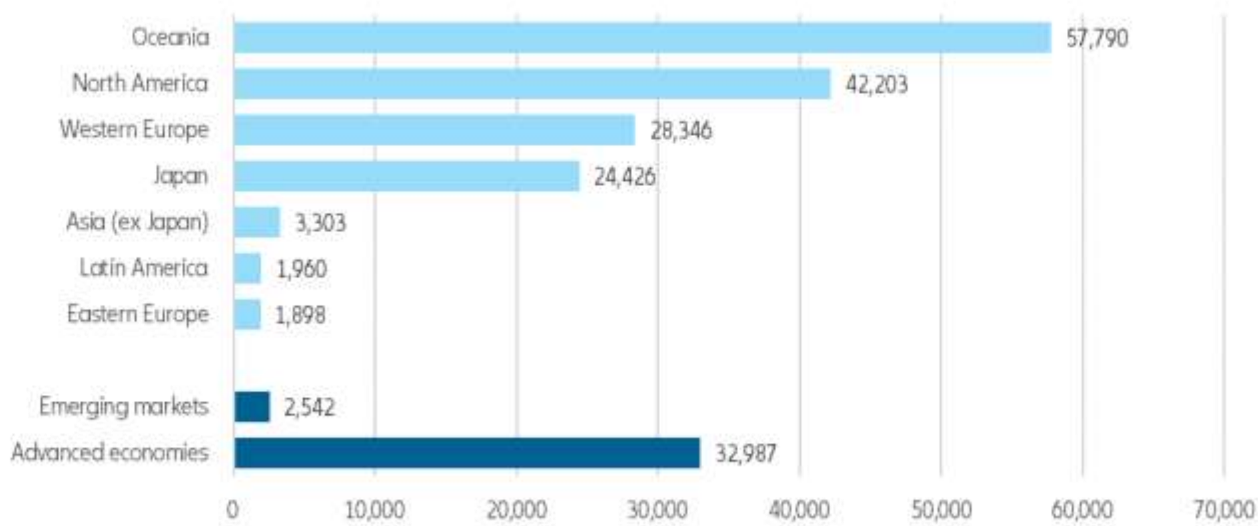


Figure 25b: Global debt shares – debt per capita 2020, in EUR



Following the GFC, household liabilities had been growing at a fraction of the modest global output growth. In 2016, growth in liabilities finally overtook global GDP growth (+5.5% compared to +4.2% for the latter) and since then, global liabilities have grown at a faster pace than GDP (2020 growth: debt +5.4%; nominal GDP -1.9%, see Fig. 26a, opposite.

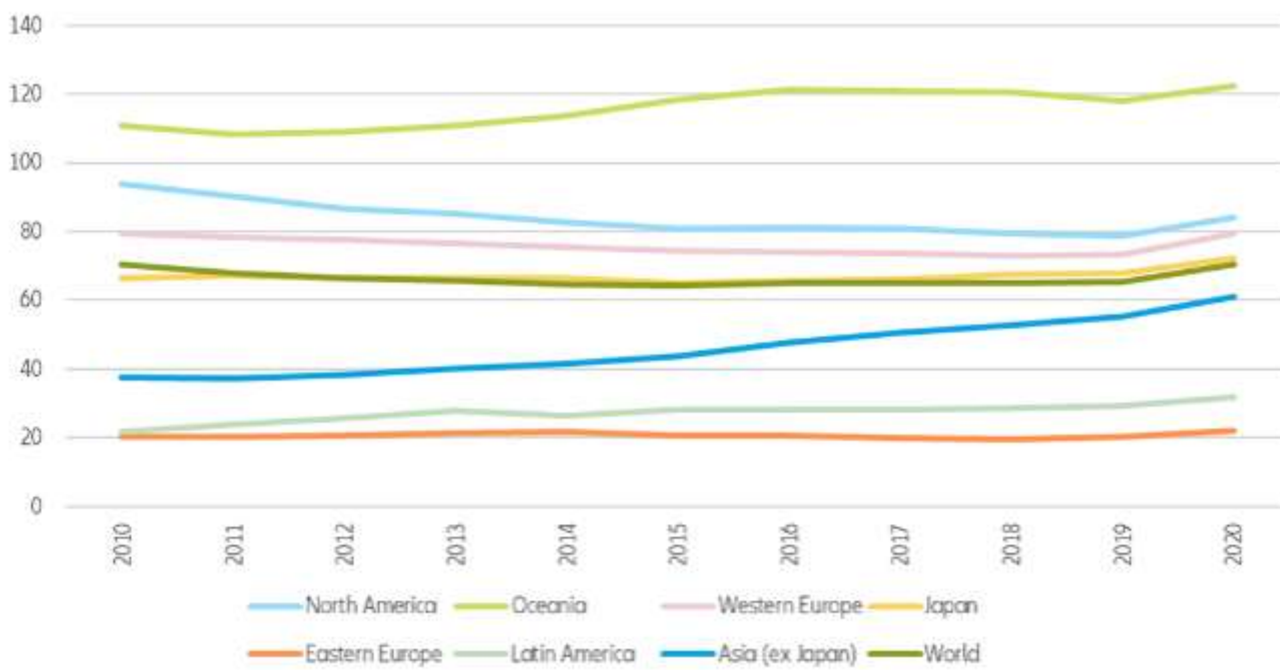
Before the pandemic the trend of household debt-to-GDP was flat, for the first time, the ratio had a visible uptick, not so much because of an increase in debt, but because of the fall in output. The pre-pandemic prevalence of low interest rates made borrowing more attractive. Therefore, households in advanced markets did not deleverage at the pace that was expected post-GFC, but rather households in emerging markets took on more liabilities. Nonetheless, despite these developments, household debt has remained stable in most regions, with the notable exception of Asia (ex Japan) and Oceania where the trend is high and rising, as shown in Figure 26b, opposite.

Sources for figures 25a/b: National statistic offices, central banks; Allianz Research.

Figure 26a: Debt and GDP – GDP growth and household liabilities growth, y/y in %

Sources: National statistic offices, central banks, Allianz Research.

Figure 26b: Debt and GDP – Liabilities as % of nominal GDP



Sources: National statistic offices, central banks, Allianz Research.

North America

In 2020, North American households held EUR15.6trn in liabilities, of which EUR13.9trn belonged to the US. Debt in the US represents 81.5% of output, while in Canada household liabilities are 114.7% of GDP. The ratio increased substantially from 2019 (US: 76.6%; CAN: 105.3%), not so much because of the increase in liabilities, which was also at highs not seen since 2007 (EUR522bn), but rather because of the sharp economic contraction of 2020. Nonetheless, over the course of the pandemic, efforts were put in place to maintain household financial stability, not just short-term employment or cash transfers, but also debt deferral schemes. This forbearance or temporary debt relief allowed consumers to have some relief on their debt obligations for the period when the pandemic was raging along with unemployment and other economic hardships. As a result, debt delinquency was at a 13-year record low. This pattern differs from past economic contractions when we could observe an increase in delinquency and debt levels. Debt forbearance allows for consumers to suspend their debt payments when they are having troubles repaying their loans, but these agreements do not forgive unpaid loans; they are to be paid over an extended period. A whopping 44% of the outstanding balances were originated over the past year, accounting for both new mortgages and refinancing (see Figures 27a/b, below, opposite).

There are still 2mn borrowers in debt forbearance who are vulnerable to financial distress once the forbearance programs come to an end. As of today, debt delinquency is not a problem. But going forward, when the pandemic protections expire, the historical debt burden in the US, not just among households, but also related to the government, might become a risk factor in the road to recovery.

In Canada, mortgages represent 66% of total household liabilities, which has slightly increased since its 60% share at height of the GFC. In the US, mortgages have decreased as a share of household debt from 73% in 2008 to 64% in 2020. 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 – US households increased their liabilities gradually in the following years, but the growth in debt at around +3.1% remains relatively subdued. Canadian households, in contrast, never trimmed their debt burden but continued to borrow heavily. With growth rates of +4% and +5% in the last few years, the increase in liabilities is still higher than in the US. Consequently, liabilities per capita are now higher in Canada than in the US.: EUR42,110 in the US and EUR42,980 in Canada. Just before the GFC, US households' debt burden was on average more than 50% higher than that of Canadian households. Mortgages and increasing housing and construction prices have pushed up consumer debt levels in Canada. However, despite the increase in mortgage debt, the consumer protection schemes in Canada may have influenced the decrease in debt of -1.5% compared to end of 2019, which had not happened before in our records that date back to 1995. More than 3mn Canadians took part in the debt forbearance schemes, but deferral programs in are also ending and pockets of financial stress will potentially emerge for some consumers, keeping the recovery uneven.

The ratio of assets to liabilities has halved since the GFC: In 2008, the ratio in North America was 38% and at the end of 2020 it stood at 17%. While in Canada the assets-to-liabilities ratio remains at 31%, from 39% in the GFC, for the US the ratio is only 16%, down from 30%. On average, the North American population holds EUR206,000 worth of net financial assets. The truth hidden by this average is the inequality in the distribution of these assets.

Figure 27a: Debt situation in North America – Debt growth y/y, in %

Sources: National statistic offices, central banks, Allianz Research.

Figure 27b: Debt situation in North America – Debt as a percentage of disposable income

Sources: National statistic offices, central banks, Allianz Research.

Box: Monetary policy, inequality and the recovery from Covid-19

Before a crisis hits, there are three stability concepts: financial stability, which regulators look after; price stability, in the hands of central banks and fiscal stability, taken care of by governments.

The link between monetary policy and growing inequality has been at the forefront of policy discussions in recent years mostly because after the GFC, major central banks kept interest rates low and started buying securities (mainly government bonds), therefore boosting prices of assets commonly held by the highest wealth echelon – such as equities – and reducing the yields of bank deposits. But the relationship between monetary policy and inequality is less straightforward than that. Essentially, long-term inequality trends are not a monetary phenomenon, but rather a structural one. Moderating and limiting business cycle fluctuations contributes to household financial stability. When there is an economic crisis, the poorest segment of the population suffers more from price inflation, unemployment, and economic hardships. Thus, expansionary monetary policy might help the poorer households as well.

But it also works the other way round: Inequality per se could cause a more unstable economic development; the uneven recovery after Covid-19 is a point in case. Stabilizing those forces i.e. fighting macroeconomic and financial instability, is the monetary policy mandate. Therefore, while combating inequality is not the direct goal of a central bank, it can work as a complementary consideration, especially given the growing weight of inequality in economic stability.

Generally, in the developed world, the higher-income and higher-wealth households are shouldering the highest share of debt, while lower-income households are vulnerable to higher debt service over time. There is a myriad of nuances that contribute to monetary shocks affecting these households but generally they tend to depend on the income and wealth level of the households. Highly indebted households reduce their consumption and durable expenditure in response to contractionary monetary policies, but low-debt households may be unresponsive to these shocks as they hold interest-earning assets. This is why the advanced economies put in place debt forbearance schemes to help SMEs (small and medium enterprises). However, as of today, this temporary relief – though necessary – masks the financial challenges that the most vulnerable households are facing.

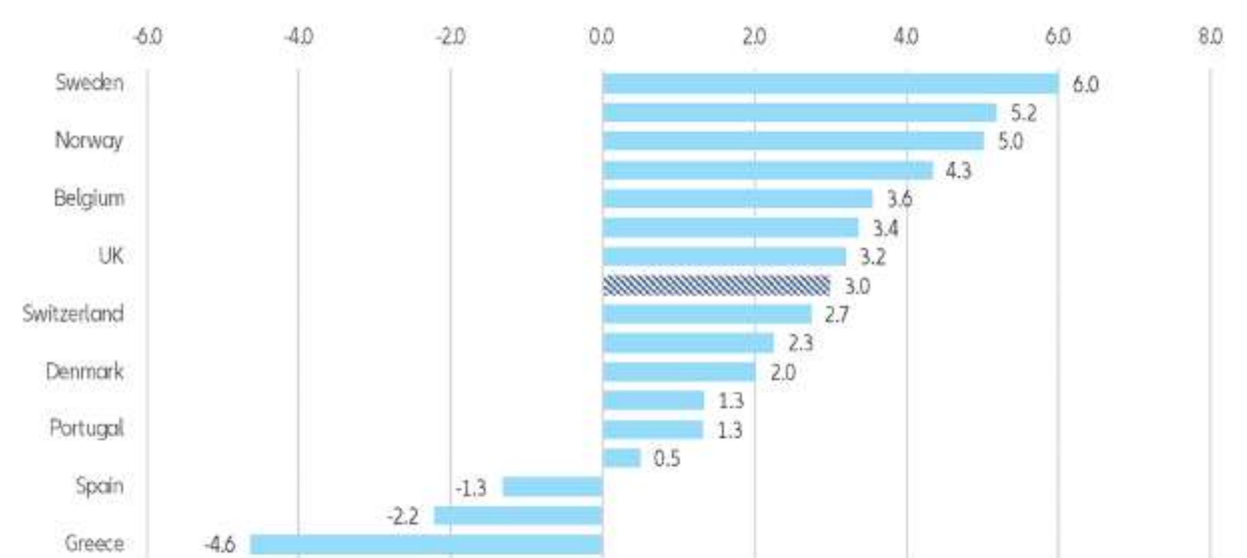
Household debt will play a key role in the economic recovery trajectory after the pandemic. Past recoveries from recessions were preceded by an increase in real estate and durable goods purchases, in other words, by acquiring debt. Some economists argue that countries with a high debt burden have a slower path to economic recovery in the event of a recession. Under this economic view, if household debt is under control, households can engage with 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: with new waves and new variants and debt payments in the horizon, this recovery might be more muted than previously anticipated.

Western Europe

Western European households hold EUR12trn in debt, accounting for 26% of global household liabilities. The size of private debt and its management are critical factors for the economic recovery in the region. Nonetheless, thus far in the pandemic, there is little to no evidence that the debt burden has hindered the recovery or amplified the recession. Looking at the debt burden in terms of liabilities per capita, on average, the Swiss carry the heaviest debt burden of about EUR101,210, almost five times to the regional average of EUR28,350 per inhabitant. Nonetheless, they also have the highest net worth of EUR212,050 per capita, far more than Denmark, the runner up, whose citizens hold EUR149,240 in net financial assets on average. After the GFC and the euro crisis, liabilities growth in Europe has been subdued: In 2020, household debt grew by a modest +3.0%. The country with the highest household debt growth was Sweden with +6.0%; Greece (-4.6%), Ireland (-2.2%), and Spain (-1.3%), on the other hand, still saw declining rates (see Figure 28). In terms of net assets per capita, the average European holds EUR28,350. The country level differences are wide and varied: from Ireland (EUR10,325 per capita) to Switzerland (EUR 101,200 per capita).

In general, the debt situation is not a matter of great concern in Western Europe. On average, the debt ratio (liabilities as a percentage of GDP) stood at 73.2% at the end of 2020, which is slightly below the advanced economies average of 77%. In some countries, however, it easily exceeds the 100% threshold, namely in Switzerland (135%), Denmark (118.5%), the Netherlands (111%) and Norway (121.1%). And because of the persistently low interest rates, debt levels are still manageable for the time being: debt service ratios in many countries are below their historical averages. Moreover, over the past decade, we have observed a faster average growth in gross financial assets, with a CAGR 10-20 of +4.3%, while household liabilities exhibited a CAGR 10-20 of +1.9%. Consequently, the liability-asset-ratio (liabilities as a percentage of gross assets) has significantly improved: from 38% during the GFC to 29% in 2020. This leaves European countries on a healthier financial footing during the pandemic, see Figure 28a, and Figure 28b, opposite.

Figure 28a: Liabilities in Western Europe – Debt growth by country, 2020/2019 in %



Sources: National statistical offices, Eurostat, Allianz Research.

Figure 28a: Liabilities in Western Europe – Debt growth by country, 2020/2019 in %

Sources: National statistical offices, Eurostat, Allianz Research.

Oceania

In New Zealand and Australia, households hold EUR1.8trn of liabilities, a symptom of an old malaise: high housing prices. Australia's debt ratio is the second highest worldwide, and reached a historical high of 129.3% in 2020, reflecting the burden that construction and housing prices have put in household balance sheets. The situation is not as critical in New Zealand: Growth in liabilities remained slightly elevated at +5.7% in 2020 compared to the 10-20 CAGR of +5.3%, but at 77.6% of the national output. Australians are shouldering, on average, EUR63,000 of liabilities per capita, 94.2% of which is in mortgage debt. In New Zealand, the liabilities per capita amount to "only" EUR30,500, of which 88% are mortgages (see Fig. 29a/b).

Net financial assets in Oceania have grown almost twice as fast as liabilities (+8.2% vs +5.0%) annually in the last decade and have increased more than twofold since 2010 to reach EUR2.8trn. Because of asset growth outpacing liability growth, the liability-to-asset-ratio has improved significantly in the last decade: from 49% in the wake of the GFC to 38.4% in 2020. With net financial assets per capita of EUR88,735 in Australia and EUR114,200 in New Zealand, the countries are ranked in places 8 and 13, respectively, in the global wealth table.

Figure 29a: Debt in Oceania – Net financial assets and debt per capita, in EUR

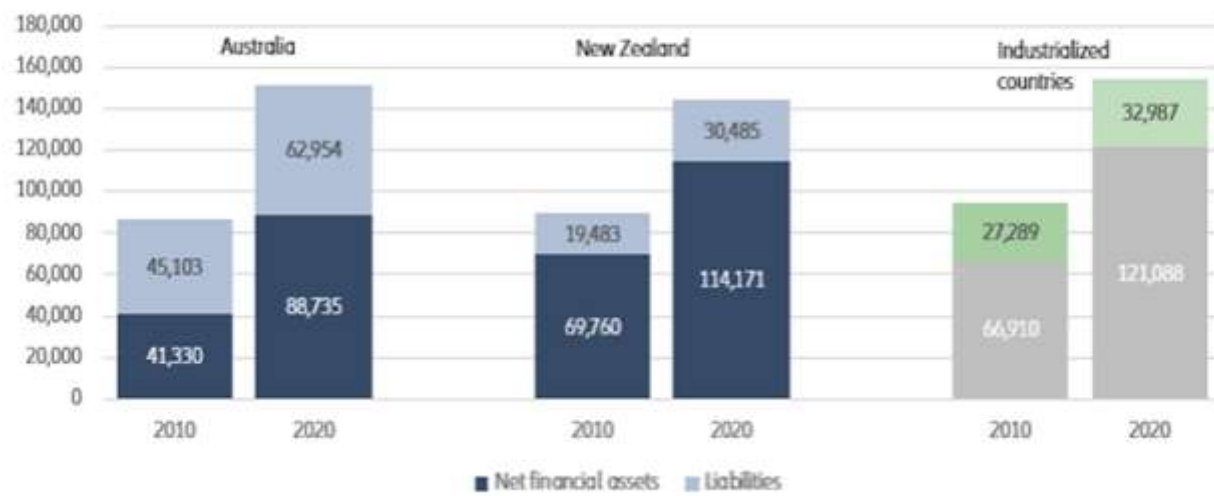
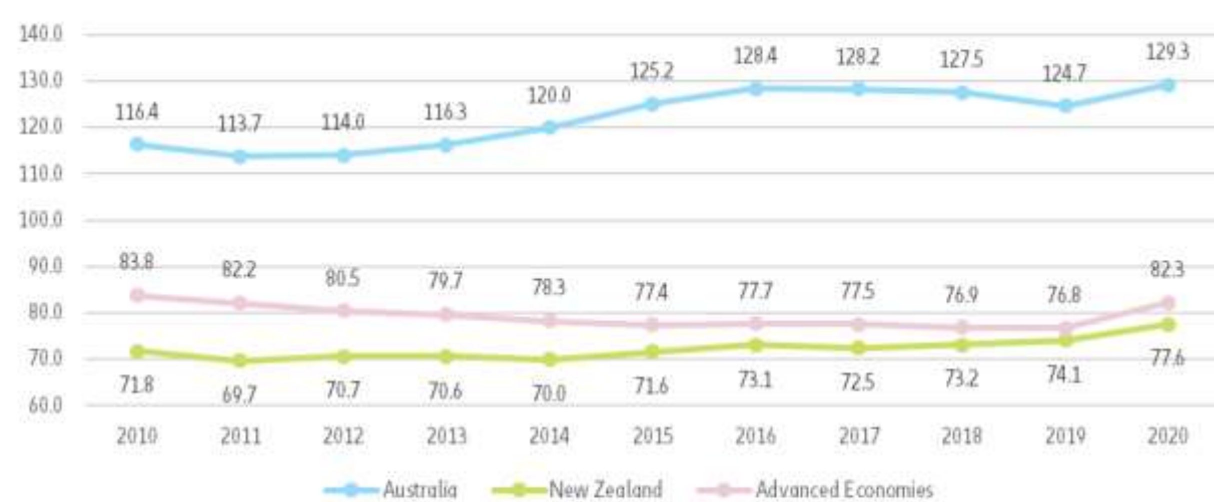


Figure 29b: Debt in Oceania – Net financial assets and debt per capita, in EUR



Sources for figures 29a/b: National statistic offices, central banks, Allianz Research.

Asia

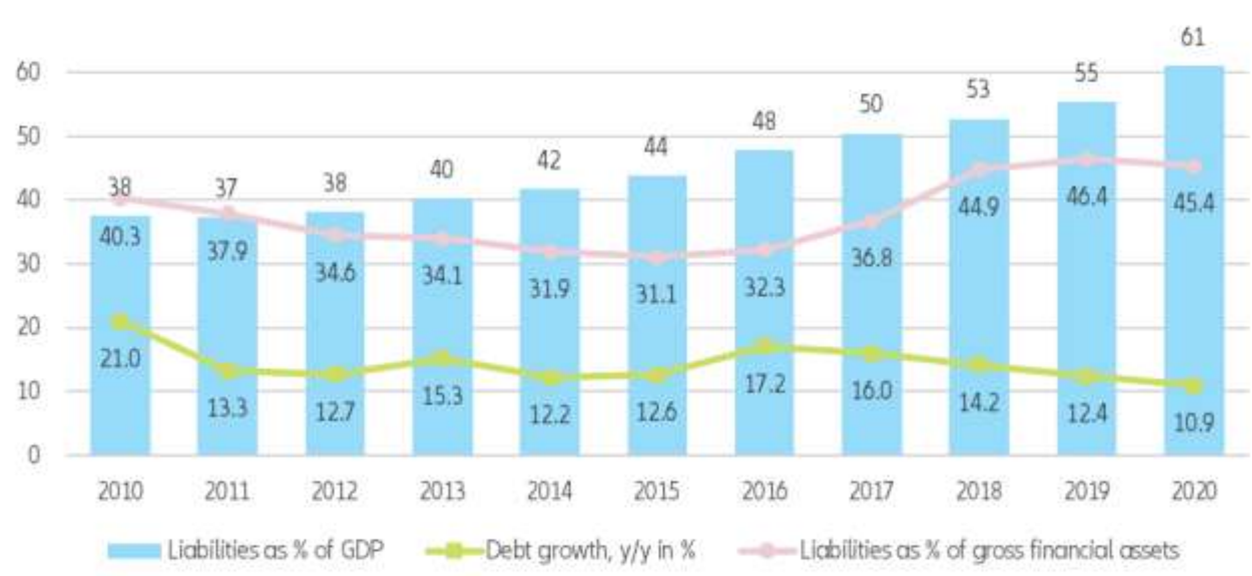
Debt has had a different trajectory in emerging markets compared to advanced economies. Last year, double-digit growth of around +10.9% was observed in Asia (excluding Japan), though this was the slowest growth in the past decade compared to the CAGR of +14.3%. Most of this growth can be attributed to developments in the Chinese market (see Figures 30a/b, below and page 44).

The slowdown of debt growth in Asia could be a symptom of the pandemic malaise: when consumers are not feeling confident about their future, they tend to shy away from entering commitments like debt. Even though Chinese liabilities have been accelerating for the past decade, last year China experienced "a slowdown" in double-digit growth of +12.9% as compared to the 10-year CAGR of +20.2%. Despite this "mild growth", household liabilities in China grew by a massive EUR889bn to almost EUR7.8trn in 2020. China's weight in Asia (excluding Japan) went from 19% in 2009 to 51% at the end of 2020. In 2009, Japan stood on EUR2.7trn of household debt, which was roughly three times as large as China's EUR1.03trn household debt. Currently Japanese household debt amounts to about EUR3.1trn, less than 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 EUR5,420 on average at the end of 2020, the figure for Japan was EUR24,430. The assets-to-liabilities ratio is relatively low in most Asian countries, but in Pakistan (91%) and Thailand (58%) it is particularly elevated.

In terms of net financial assets, Asia (ex Japan) has seen important developments in the past two decades: the figure per capita was EUR970 back in 2000 and now it is EUR7,280 (end-2020). Chinese net assets per capita at the end of 2009 were at EUR3,010 and are currently at EUR12,430. Singapore has also increased its net wealth per capita by two-fold in the past decade to EUR118,930. Singapore is now the richest country in the region in net financial assets per capita terms, followed by Taiwan (EUR117,660) and Japan (EUR100,470). Nonetheless, countries like Cambodia (EU710 per capita) and the Philippines (EUR1,660 per capita) have yet to catch up in terms of wealth and financial inclusion.

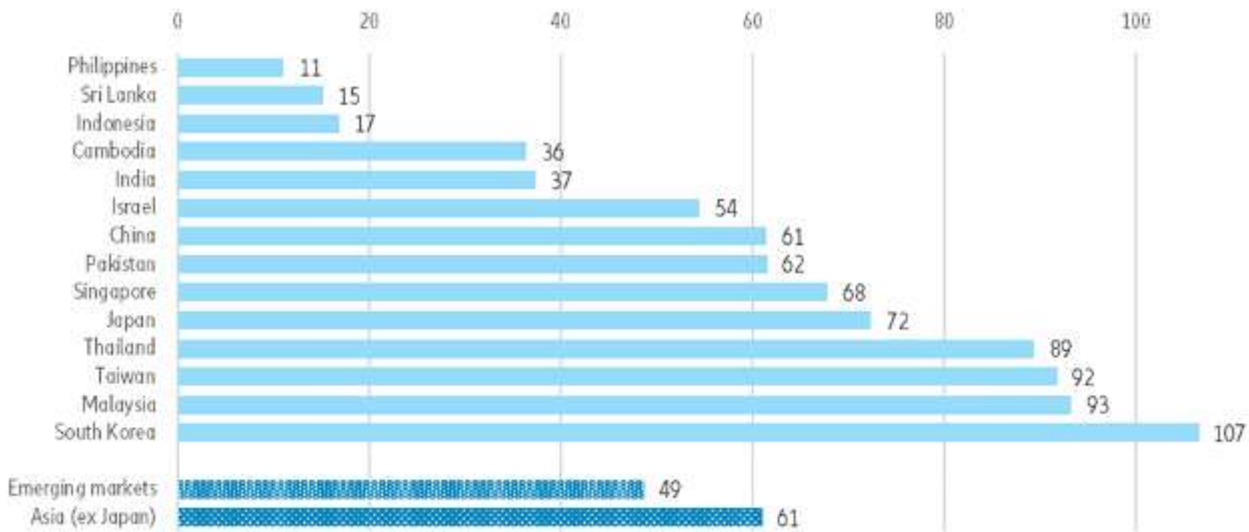
In smaller Asian countries like Thailand and Malaysia, the debt ratio has ballooned due to booms in the auto and housing industries. In Thailand, household debt as a percentage of GDP stands at 89.4%. Similarly, in Malaysia, the ratio is also high at 93.3% and. In South Korea, liabilities represent 106.6% of net financial assets. For the whole region, the ratio reached 63% in 2020 – it is the only region where it is considerably higher today than a decade ago. As a means of comparison, the ratio is 48.7% for emerging markets in our sample and advanced economies stand at 82.3%. 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 around 70% of GDP, while in the Eurozone, it represents around 50%. Therefore, it is crucial for economic growth and well-being to maintain household finances and indebtedness in check.

Figure 30a: Household and debt developments – Growth in liabilities since 2010, Asia ex Japan



Sources: National statistic offices, central banks, Allianz Research.

Figure 30b: Household and debt developments – Debt as % of GDP in 2020, by country



Sources: National statistic offices, central banks, Allianz Research.

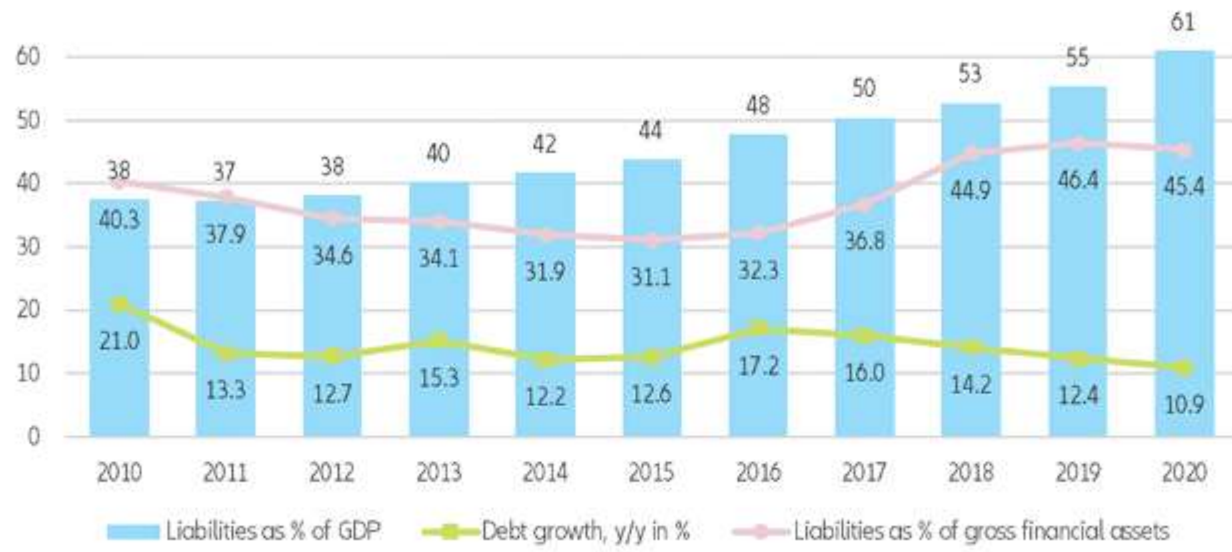
Latin America

Latin American households added EUR67bn of debt to their portfolios and collectively reached EUR960bn (+7.5% y-o-y growth). The region's heavyweights are Brazil (EUR536bn) and Mexico (EUR165bn) as they account for 73% 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 +10.4% in the past decade, increasing almost threefold. The debt ratio, however, stood still at a relatively modest 45.8% at the end of 2020, over 10pp higher than a decade ago (see Figures 31a/b, opposite).

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 pandemic had an effect on indebtedness in the region: we saw a growth slowdown in most markets and even a decrease of -3.1% in liabilities in Peru. Yet, these statistics mask the resources that vulnerable households use in the region: microcredit and pawnshops. Informality is not only a factor in the labor market in Latin America but also in financing. As of now, we don't have a clear view of household welfare post-pandemic, but anecdotal evidence seems to suggest that hospital bills and economic hardship left the vulnerable segment of the population with very little options, thus forcing them to turn to microfinance and pawnshops. Debt in terms of assets is therefore not necessarily representative of the debt situation in the region (assets-to-liabilities: 27%)

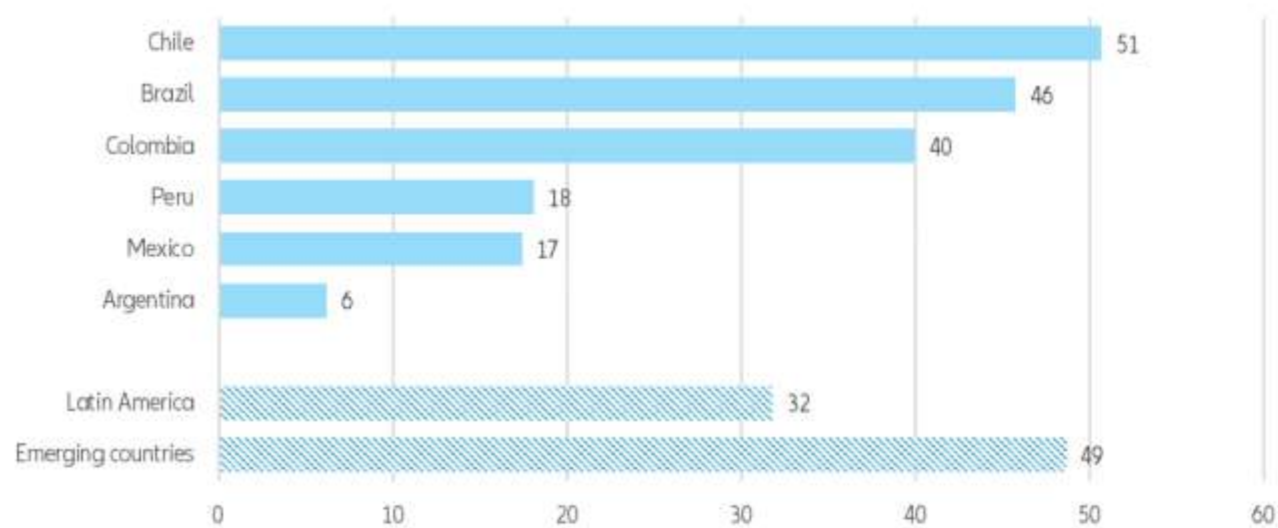
The net assets per capita of emerging markets currently stands at EUR5,650. However, half of the Latin American countries in our sample fall under this figure, with the regional average at EUR5,390. The net assets per capita go from EUR930 in Argentina to EUR 17,430 in Chile, which is the only country in Latin America that is part of the middle wealth country group. The region has been hit hard by the pandemic, economic output will probably take years to go back to pre-crisis levels and business confidence does not paint a pretty picture in the short term. In this context, the still-raging pandemic and poor public response in the region will set Latin America back in its efforts to increase human development.

Figure 31a: Liabilities in Latin America – Debt development since 2010, Latin America



Sources: National statistic offices, central banks, Allianz Research.

Figure 31b Liabilities in Latin America – Debt ratio by country 2020, in %



Sources: National statistic offices, central banks, Allianz Research.

Emerging Europe

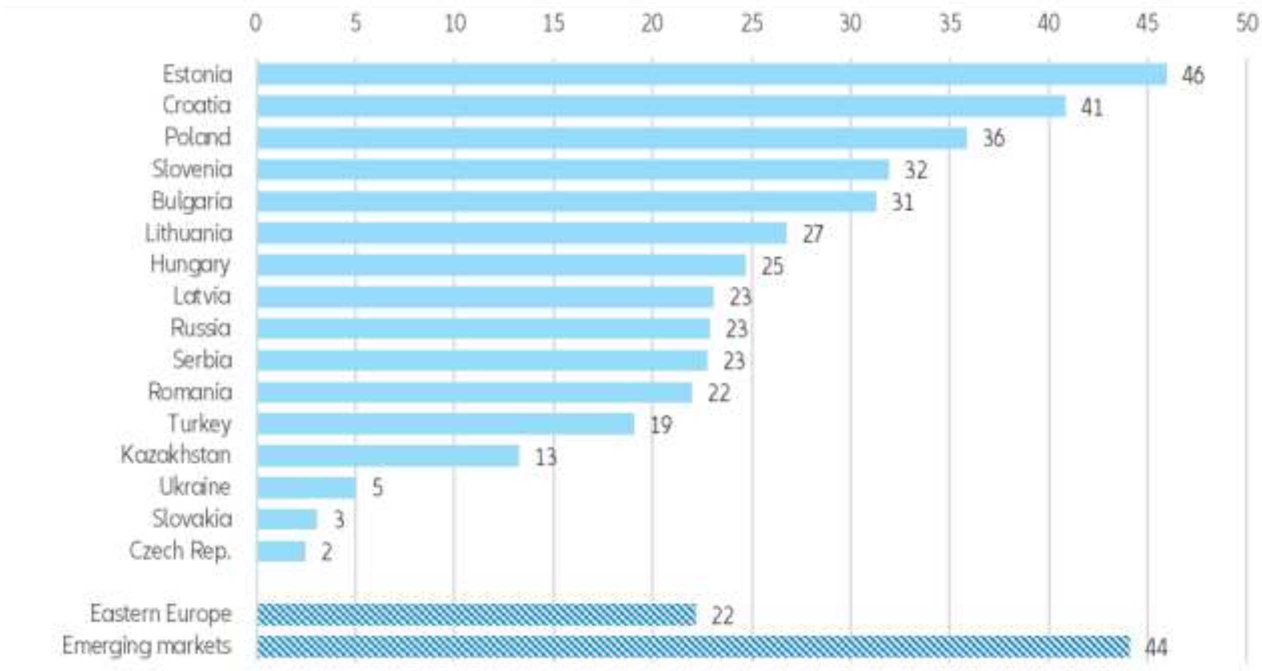
Emerging Europe had an above long-term average growth of +9.9% in 2020, compared to the CAGR 10-20 of +8.5%; the level of debt stands at EUR766bn. Russia (EUR270bn), Poland (EUR182bn) and Turkey (EUR106bn) are the region's largest markets for debt in terms of volume. In terms of the debt ratio (liabilities as a percentage of GDP), the largest debt burdens are in Estonia (45.9%) and Czech Republic (40.9%) although these ratios still fall into the category of rather low debt. Pre-pandemic trends are bound to be exacerbated by the current crisis. In Turkey, where there was a growth trend, we observed a +37.6% jump y/y in household liabilities (partially explained by rampant inflation), a byproduct of the country's loan expansion, which has helped to re-suscitate the economy but at the expense of a massive increase in consumer and corporate debt. However, at 19.1%, Turkey's household debt ratio is still very modest (see Figures 32a/b, below and opposite).

Thanks to strong asset growth over the last decade, the liability-asset ratio for the region as a whole fell significantly to 24% in 2020, down from 30% in 2009. 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 almost doubled since the 2010 to EUR29,450; with that, Czech households are by far the richest in the region, followed by Slovenian ones (EUR23,010). But other countries saw huge increases as well, Poland, for example, went from EUR4,040 in 2010 to EUR9,880 and Bulgaria increased its net assets per capita almost twofold to EUR10,010 since 2010. Countries like Russia (EUR5,870 per capita) and Turkey (EUR2,370 per capita), on the other hand, have also increased their net wealth since the end of the GFC, but their wealth level in general is still below their EU peers. The timely pandemic response by some countries in the region has resulted in better outcomes. But even before the pandemic there were countries with a high rate of over-indebted households. This is partly driven by new forms of credit like BNPL (buy now, pay later) (see box). In this context, much work lies ahead for policymakers to continue to protect the most vulnerable ones.

Figure 32a: Liabilities in Eastern Europe – Growth in liabilities since 2010, Emerging Europe

Sources: National statistic offices, central banks, Allianz Research.

Figure 32b: Liabilities in Eastern Europe – Debt as % of GDP in 2020, by country



Sources: National statistic offices, central banks, Allianz Research.

Box: Buy now, pay later (BNPL)

Delayed payment options or BNPL are one of the buzzwords in finance. For consumers in times of economic distress it seems idyllic: buy now whatever you like and pay for it in a deferred period. Even before the pandemic, this mechanism had a very special allure: it was designed for the omnichannel shopping era. Behind it is a digital platform, not necessarily a bank, that is authorized to collect payments and is dedicated to users on both sides of the transaction. It has uses for various fields from retail to insurance. When using this payment collection engine service, the consumer can make a payment either through physical or digital channels and in a single payment the provider will automatically distribute the collections to the various players in the supply chain. It is a very convenient and easy to use tool, and it is worthwhile looking at the advantages and disadvantages of this mechanism.

One of the biggest advantages – not only in the design and user experience – is the democratization of credit. These types of apps generate revenue based on small fees (typically around 2-6% of the purchase value) and are paid for by the merchants and low interest rates from the consumers. As a result, scalability is key. BNPL has become popular among Generation-Z and lower-income households because it represents "instant gratification" and it is an alluring alternative to expensive bank credit: the cash limits are low, the time periods are short and there are opportunities to pay it off early. BNPL is a good alternative to credit cards and traditional credit schemes if used responsibly. But the convenience of delayed payments can create a present bias for consumers. As in the marshmallow experiment for children, who tend to prefer a smaller reward now over a promise of a larger one in the future, shoppers prefer shopping now and paying later.

A simplistic understanding of BNPL customers is that they are a demographic that is spending money they don't have with minimal credit checks. Though the credit checks are minimal, the consequences in terms of fees and credit scores are not minimal; the late payment fees are the most profitable part of the BNPL service. It is important to highlight that although this part of consumer spending is not reported as debt, it is still debt and will come back to haunt consumers if they are irresponsible. In the EU, even before the pandemic, 22% of the population was estimated to be at risk of over-indebtedness (and this could worsen if BNPL services are mismanaged (see Figure 33, page 48)

Figure 33: Portion of people at risk of over-indebtedness

Source: Eurofound.

Appendix A: Methodological comments

General assumptions

The Allianz Global Wealth Report is based on data from 57 countries. This group of countries covers 91% of global GDP and 68% 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 some countries, it is still extremely difficult to find data on the financial assets of private households. Let's take the Latin American countries as an example. For many countries, the only information that can be found relates to the entire private sector or the economy as a whole, which is often of only limited use as far as the situation of private households is concerned. In addition to Chile, Columbia has fairly good data that can be used to analyze the financial structure of private household assets. In Argentina, for example, we were able to estimate financial assets with the help of data on bank deposits and insurance reserves. In order to rule out exchange rate distortions over time, the financial assets were converted into the national currency based on the fixed exchange rate at the end of 2020.

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. According to Davies et al. (2009), private individuals 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 Davies et al., 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 8,300 and EUR 49,700 for the global middle wealth class in 2020.

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 8,300 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 8,300 and EUR 49,700; finally, all countries with even higher average net per capita financial assets are described as "high wealth countries" (HWCs).

Appendix B1: Gross financial assets

Appendix B: Financial assets by country	Gross financial assets				Liabilities			
	in EUR bn	2020, yoy in %	EUR per capita	as a % of GDP	in EUR bn	2019, yoy in %	EUR per capita	as a % of GDP
Argentina	59	59.3	1,296	22	17	31.1	365	6
Brazil	1,765	13.2	8,302	151	536	11.2	2,523	46
Chile	450	4.3	23,542	195	117	1.8	6,111	51
Colombia	286	-2.0	5,625	119	96	3.8	1,882	40
Mexico	933	5.3	7,237	98	165	2.8	1,282	17
Peru	105	10.7	3,185	65	29	-3.1	882	18
Cambodia	20	26.5	1,185	92	8	32.3	471	36
China	25,689	13.6	17,848	202	7,804	12.9	5,422	61
India	2,343	11.9	1,698	107	818	10.5	593	37
Indonesia	361	9.5	1,321	40	151	0.5	553	17
Israel	949	6.0	109,670	269	192	5.1	22,212	54
Japan	15,797	2.4	124,897	370	3,089	2.2	24,426	72
Malaysia	590	7.3	18,241	205	268	5.5	8,290	93
Pakistan	144	13.1	650	67	131	12.7	594	62
Philippines	215	5.3	1,966	70	34	4.6	309	11
Singapore	907	8.9	152,590	313	197	-1.7	33,656	68
South Korea	3,413	13.9	66,576	236	1,544	9.2	30,109	107
Sri Lanka	48	17.9	2,262	73	10	14.3	467	15
Taiwan	3,330	10.7	139,831	579	528	6.8	22,172	92
Thailand	664	7.5	9,511	155	383	4.1	5,487	89
Bulgaria	88	0.1	12,714	147	19	5.0	2,707	31
Croatia	71	5.3	17,386	146	20	2.7	4,875	41
Czech Rep.	321	11.0	29,988	150	90	8.2	8,381	42
Estonia	39	4.3	29,087	142	12	5.7	9,407	46
Hungary	189	9.9	19,514	144	32	11.9	3,355	25
Latvia	30	9.0	16,040	103	7	-1.4	3,587	23
Lithuania	48	12.6	17,502	98	13	-0.2	4,801	27
Poland	556	12.1	14,702	109	182	3.2	4,820	36
Romania	170	8.8	8,814	79	47	5.2	2,462	22
Slovakia	87	8.3	15,982	96	46	5.8	8,451	51
Slovenia	63	7.7	30,128	135	15	0.1	7,117	32
Kazakhstan	27	16.3	1,432	20	18	13.1	932	13
Russia	1,127	31.8	7,723	96	270	11.9	1,849	23
Serbia	20	10.5	2,285	43	11	11.8	1,210	23
Turkey	306	35.3	3,626	55	106	37.6	1,256	19
Ukraine	28	19.7	650	24	6	-2.8	136	5
South Africa	512	5.0	8,627	185	132	4.3	2,229	48
Australia	3,868	5.2	151,689	312	1,605	2.0	62,954	129
New Zealand	698	4.3	144,656	368	147	5.7	30,485	78
Canada	5,262	7.0	139,413	372	1,622	3.9	42,984	115
USA	86,253	11.9	260,582	504	13,940	3.9	42,114	81
Austria	779	5.3	86,502	207	206	3.4	22,914	55
Belgium	1,466	4.0	126,463	326	319	3.6	27,534	71
Denmark	1,231	10.8	212,568	398	367	2.0	63,328	118
Finland	384	6.9	69,304	162	190	1.3	34,372	80
France	6,200	5.7	94,986	272	1,855	5.2	28,424	81
Germany	7,152	6.6	85,367	215	1,978	4.3	23,607	59
Greece	282	3.3	27,057	170	108	-4.6	10,325	65
Ireland	441	7.0	89,299	120	143	-2.2	28,935	39
Italy	4,769	2.2	78,880	289	974	0.5	16,105	59
Netherlands	3,088	9.5	180,193	387	885	2.3	51,636	111
Norway	544	6.6	100,334	167	394	5.0	72,708	121
Portugal	455	3.9	44,601	224	170	1.3	16,684	84
Spain	2,347	-1.7	50,201	210	757	-1.3	16,189	68
Sweden	1,749	8.5	173,133	355	489	6.0	48,370	99
Switzerland	2,711	3.9	313,259	418	876	2.7	101,207	135
UK	8,390	8.3	123,583	355	2,279	3.2	33,566	97

Appendix B2: Net financial assets

Appendix B: Financial assets by country	Net financial assets in EUR bn	2020, yoy in %	EUR per capita	Gini coefficient of wealth distribution in %	GDP EUR per capita
Argentina	42	74.0	931	0.70	5,899
Brazil	1,228	14.1	5,779	0.75	5,513
Chile	333	5.2	17,431	0.73	12,048
Colombia	190	-4.7	3,742	0.74	4,708
Mexico	768	5.9	5,955	0.72	7,356
Peru	76	17.0	2,303	0.69	4,881
Cambodia	12	22.9	714	0.68	1,294
China	17,886	13.9	12,426	0.71	8,821
India	1,525	12.7	1,105	0.73	1,588
Indonesia	210	17.1	768	0.74	3,282
Israel	757	6.2	87,459	0.66	40,761
Japan	12,707	2.5	100,471	0.62	33,740
Malaysia	322	8.8	9,951	0.69	8,884
Pakistan	12	17.8	55	0.68	966
Philippines	182	5.4	1,657	0.69	2,792
Singapore	710	12.2	118,934	0.70	49,584
South Korea	1,870	18.2	36,467	0.56	28,241
Sri Lanka	38	18.9	1,795	0.71	3,085
Taiwan	2,802	11.4	117,659	0.65	24,150
Thailand	281	12.4	4,023	0.71	6,137
Bulgaria	70	-1.1	10,008	0.69	8,646
Croatia	51	6.3	12,511	0.58	11,933
Czech Rep.	231	12.1	21,607	0.61	19,927
Estonia	26	3.7	19,680	0.67	20,480
Hungary	156	9.4	16,159	0.63	13,587
Latvia	23	12.4	12,453	0.66	15,552
Lithuania	35	18.3	12,701	0.56	17,924
Poland	374	17.0	9,882	0.55	13,429
Romania	122	10.2	6,351	0.63	11,205
Slovakia	41	11.2	7,531	0.51	16,705
Slovenia	48	10.2	23,011	0.58	22,270
Kazakhstan	9	22.6	500	0.64	7,033
Russia	857	39.6	5,874	0.75	8,072
Serbia	9	9.0	1,075	0.64	5,319
Turkey	200	34.1	2,369	0.69	6,577
Ukraine	22	27.6	514	0.63	2,698
South Africa	379	5.2	6,398	0.78	4,666
Australia	2,263	7.5	88,735	0.61	48,694
New Zealand	551	3.9	114,171	0.66	39,297
Canada	3,639	8.5	96,429	0.66	37,463
USA	72,314	13.6	218,469	0.78	51,686
Austria	573	6.1	63,588	0.70	41,699
Belgium	1,147	4.1	98,929	0.61	38,791
Denmark	864	15.0	149,241	0.69	53,450
Finland	194	13.0	34,932	0.65	42,798
France	4,345	6.0	66,562	0.66	34,887
Germany	5,175	7.5	61,760	0.71	39,772
Greece	174	8.9	16,733	0.59	15,910
Ireland	298	12.0	60,364	0.65	74,301
Italy	3,795	2.7	62,775	0.60	27,316
Netherlands	2,203	12.7	128,557	0.76	46,508
Norway	150	11.0	27,626	0.72	60,018
Portugal	285	5.6	27,917	0.65	19,880
Spain	1,590	-1.9	34,012	0.65	23,954
Sweden	1,260	9.5	124,763	0.79	48,792
Switzerland	1,835	4.5	212,052	0.78	74,971
UK	6,111	10.3	90,018	0.74	34,774

Appendix C: Global Ranking

... by net financial assets per capita (in EUR)			... by gross financial assets per capita (in EUR)		
1	USA	218,469	1	Switzerland	313,259
2	Switzerland	212,052	2	USA	260,582
3	Denmark	149,241	3	Denmark	212,568
4	Netherlands	128,557	4	Netherlands	180,193
5	Sweden	124,763	5	Sweden	173,133
6	Singapore	118,934	6	Singapore	152,590
7	Taiwan	117,659	7	Australia	151,689
8	New Zealand	114,171	8	New Zealand	144,656
9	Japan	100,471	9	Taiwan	139,831
10	Belgium	98,929	10	Canada	139,413
11	Canada	96,429	11	Belgium	126,463
12	UK	90,018	12	Japan	124,897
13	Australia	88,735	13	UK	123,583
14	Israel	87,459	14	Israel	109,670
15	France	66,562	15	Norway	100,334
16	Austria	63,588	16	France	94,986
17	Italy	62,775	17	Ireland	89,299
18	Germany	61,760	18	Austria	86,502
19	Ireland	60,364	19	Germany	85,367
20	South Korea	36,467	20	Italy	78,880
21	Finland	34,932	21	Finland	69,304
22	Spain	34,012	22	South Korea	66,576
23	Portugal	27,917	23	Spain	50,201
24	Norway	27,626	24	Portugal	44,601
25	Slovenia	23,011	25	Slovenia	30,128
26	Czech Rep.	21,607	26	Czech Rep.	29,988
27	Estonia	19,680	27	Estonia	29,087
28	Chile	17,431	28	Greece	27,057
29	Greece	16,733	29	Chile	23,542
30	Hungary	16,159	30	Hungary	19,514
31	Lithuania	12,701	31	Malaysia	18,241
32	Croatia	12,511	32	China	17,848
33	Latvia	12,453	33	Lithuania	17,502
34	China	12,426	34	Croatia	17,386
35	Bulgaria	10,008	35	Latvia	16,040
36	Malaysia	9,951	36	Slovakia	15,982
37	Poland	9,882	37	Poland	14,702
38	Slovakia	7,531	38	Bulgaria	12,714
39	South Africa	6,398	39	Thailand	9,511
40	Romania	6,351	40	Romania	8,814
41	Mexico	5,955	41	South Africa	8,627
42	Russia	5,874	42	Brazil	8,302
43	Brazil	5,779	43	Russia	7,723
44	Thailand	4,023	44	Mexico	7,237
45	Colombia	3,742	45	Colombia	5,625
46	Turkey	2,369	46	Turkey	3,626
47	Peru	2,303	47	Peru	3,185
48	Sri Lanka	1,795	48	Serbia	2,285
49	Philippines	1,657	49	Sri Lanka	2,262
50	India	1,105	50	Philippines	1,966
51	Serbia	1,075	51	India	1,698
52	Argentina	931	52	Kazakhstan	1,432
53	Indonesia	768	53	Indonesia	1,321
54	Cambodia	714	54	Argentina	1,296
55	Ukraine	514	55	Cambodia	1,185
56	Kazakhstan	500	56	Ukraine	650
57	Pakistan	55	57	Pakistan	650

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