QNB Economics
economics@qnb.com
20 December 2020

Covid-19 vaccines are key for a strong global recovery in 2021

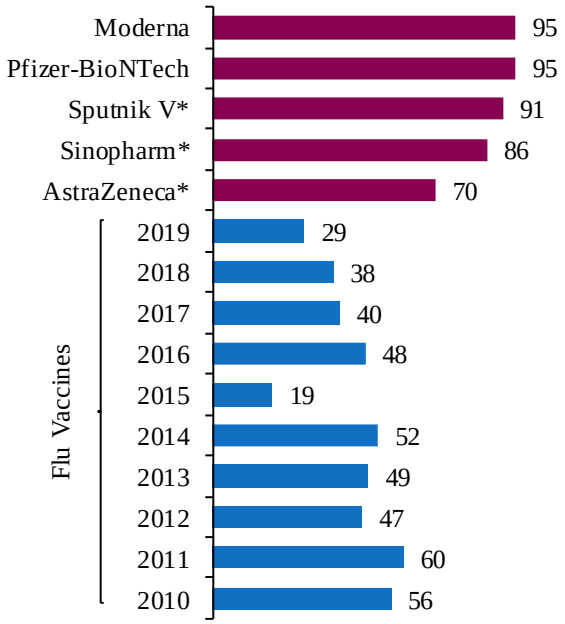
The global economy is in the middle of what could be one of the most dramatic economic recoveries in decades. After the Covid-19 shock produced the sharpest and deepest slowdown on record in Q2 2020, aggressive policy stimulus and the temporary containment of the pandemic led to a significant rebound last quarter. But the global economy is not out of the woods yet. As the pandemic continues, new cases of severe epidemics could create "double dip recessions" or significant slowdowns to the recovery process.

A sustained global economic recovery requires a more durable solution to the Covid-19 pandemic. Currently, that means the development of effective vaccines and their deployment for mass immunization globally. According to the World Health Organization (WHO), there is no clarity yet as to the percentage of people who need to have antibodies or be vaccinated in order to achieve herd immunity against Covid-19. But the general assumption from infectologists is that a large percentage of the global population needs to be vaccinated to break major chains of transmission, lowering the overall amount of virus able to spread in the whole population.

Vaccine development is not a trivial matter. In fact, it is a long, complex process, which in normal circumstances can last more than 10 years and involve a combination of public and private entities. But the emergency caused by the pandemic led to an unprecedented mobilization of resources for the development of a vaccine at record speed. So far, according to the WHO, there are 52 candidate vaccines in clinical evaluation.

Importantly, after months of research, several Covid-19 vaccines were set for emergency use authorization on the back of outstanding results from late stage development efficacy trials. At the time of writing, five vaccines have already been developed with efficacy rates above the 50% threshold required by key regulators. This includes vaccines developed in the US, Europe, Russia and China. And there is more to come, as several other vaccines are expected to achieve similar trial results soon. The efficacy of the new Covid-19 vaccines has so far proven to be significantly higher than the efficacy of traditional flu vaccines.

Key Covid-19 vaccines versus flu vaccines
(vaccine efficacy rate, %, 0 to 100)



Sources: QNB analysis; *pending confirmation of phase III trial results

Laboratories and pharmaceutical companies are already ramping up vaccine production. According to Dr. Moncef Slaoui, director of the US Operation Warp Speed, vaccine availability in the US will increase very rapidly, including 35-40 million doses this month, 60-70 million in January 2021, 90-120 million doses in February and more than 150 million doses per month after March. A ramp up in production and availability is also expected globally.

This piece dives into three main points about the current vaccine developments and their economic consequences.

First, the development of several vaccines is key to mitigate availability risks and provide flexibility to supply chains, which is essential for emergency mass immunization plans. The effort to vaccinate the globe relies on a plethora of professionals and infrastructure networks, including pharmacists, nurses, chemists, factory workers, truck drivers, pilots, data scientists and bureaucrats. Coordination

efforts are critical and all of the many and complicated links of the chain have to hold. With different vaccines using different technologies and supply chains, the vaccine provision infrastructure becomes more robust and less prone to disruption.

Second, most countries facing severe Covid-19 epidemics are mature advanced economies with vast resources, strong institutions and powerful administrative systems, which favours their capacity to acquire and distribute the vaccines *en masse*. This includes Europe and the US, some of the most vulnerable countries to Covid-19, due to their demographics (older population) and their inability to contain the early spread of the virus. As highly connected countries with more cases immunize their populations, the global spread of Covid-19 should slow rapidly.

Third, global mass immunization is likely to produce strong pent-up demand in key economic sectors, particularly services and activities that rely on face-to-face interactions. This will favour tourism, aviation, restaurants, entertainment, and medium and small businesses.

All in all, Covid-19 vaccines are a major tailwind for the global economy in 2021. Assuming no major problems in the mass production and distribution of vaccines, the global economy is expected to gradually "re-open" in the second and third quarters of 2021, which should accelerate the economic recovery.

QNB Economics Team:

James Mason
Senior Economist
+974-4453-4643

Luiz Pinto*
Economist
+974-4453-4642

Abdulrahman Al-Jehani
Research Analyst
+974-4453-4436

* Corresponding author