QNB Economics
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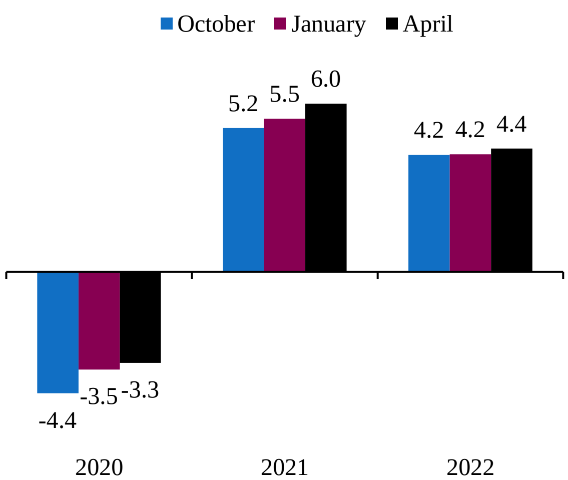
The IMF has again upgraded its outlook for the global economy

One year since the start of the global Covid-19 pandemic, the global economy remains under pressure as the human toll rises and millions remain unemployed. However, the way out of this crisis is increasingly visible, despite considerable uncertainty about the future path of the pandemic. Hundreds of millions of people are being vaccinated at an unprecedented pace and are adapting to ways of working with reduced mobility.

The International Monetary Fund (IMF) recently published the April update of its World Economic Outlook (WEO), entitled "Managing divergent recoveries". Four points summarize the updated IMF take on the global economy. Stronger estimates for growth in 2020 and higher growth expectations for 2021, despite divergence across countries and persistently elevated uncertainty.

Outlook for global real GDP growth
(% change per year)

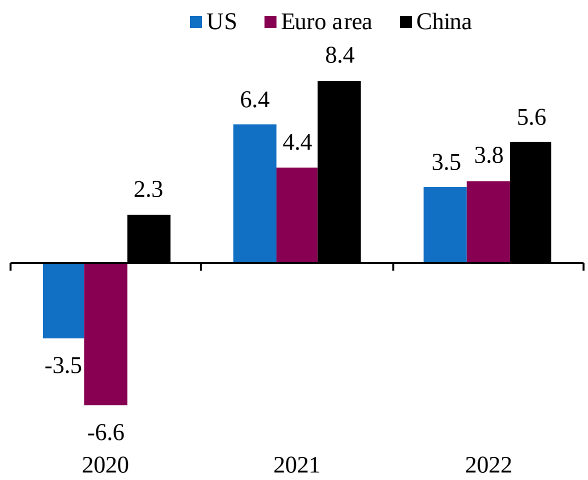


Sources: Haver, IMF, QNB analysis

First, the IMF has continued to revise up its estimates of global economic output in 2020. While the IMF in October 2020 forecast a global GDP contraction of 4.4% for 2020, it now estimates a smaller contraction of 3.3%. The higher estimates for 2020 are mainly thanks to the swift policy action that was taken worldwide, including USD 16 trillion dollars of fiscal support, which have prevented a far worse outcome. Indeed, IMF estimates suggest that last year's collapse could have been three times worse without such support.

Second, the upgrade to global growth for 2021 is mainly due to a substantial upgrade for the United States (US), which is now expected to grow at 6.4% this year. Indeed, US stimulus is so strong that it is expected to surpass the level of GDP it was forecast to have in 2022 before Covid-19 caused a global pandemic. In addition, the continued effective rollout of vaccines is expected to lead to a strengthening of activity later in the year, despite the drag on near-term impact due to rising Covid-19 infections.

Real GDP growth outlook, three major economies
(% change per year)



Sources: Haver, IMF, QNB analysis

Third, the recovery is diverging across countries and regions. The strength of the outlook varies depending on two main factors, the severity of the pandemic in each country, and the effectiveness of policy stimulus. Not only has the US outperformed in terms of policy stimulus, it has already administered over 50 doses of vaccines per hundred people, which is already slowing the spread of Covid-19. China also provided powerful policy stimulus, but has relied on effective testing, contact tracing and targeted localised lockdowns to avoid another surge in Covid-19 cases, despite a slower pace of vaccination. In contrast, the Euro area has struggled to deliver either effective policy stimulus or a rapid vaccine rollout and is still suffering from a surge in Covid-19 cases. Indeed, European Union (EU) bureaucracy, supply constraints, and vaccine hesitancy mean that the EU has administered around 20 doses of vaccines per hundred people. This is only around 40% of what the US is able to deliver, weakening and delaying the recovery until later in the year.

Fourth, a high degree of uncertainty still surrounds the global outlook. The two main risks are around the future path of the pandemic and US interest rates. Faster progress with vaccinations could drive further upgrades to the forecast. The emergence of new virus variants, that reduce the efficacy of vaccines and require regular boosters, could cause a sharp downgrade. Divergent recoveries could pose financial risks if the strong growth in the US drives up interest rates in unexpected ways. This could cause inflated asset valuations to unwind in a disorderly manner, financial conditions to tighten sharply and recovery prospects to deteriorate.

All in all, despite short-term challenges associated with new waves of Covid-19 and a softer recovery in Europe, the IMF has again upgraded its outlook for the global economy. Nonetheless, the future presents daunting challenges. The pandemic is yet to be defeated as virus cases are accelerating in some countries. Recoveries are also diverging across regions where economies with slower vaccine rollout and more limited policy support perform less well.

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