



## ***A Race Against Time***

Growth forecasts for the global economy have been revised upwards over the spring. The OECD now sees the world economy expanding by 5.6% this year compared 4.2% in its previous update. The IMF is even more optimistic, upping its growth forecasts to 6% for this year and 4.4% in 2022. There are three main factors behind the recent upgrades.

First, the arrival and roll out of multiple vaccines that can reduce both the frequency and severity of infections, with strong evidence of this in countries that are well advanced in their vaccination programmes. Second, better adaptation to what the IMF calls “pandemic life” which has seen a stronger than expected global rebound since last summer despite continuing subdued mobility and the re-imposition of restrictions on activity in some countries, especially in Europe.

Third, additional budgetary supports have been announced in some major economies on top of the enormous fiscal response put in place last year and the ongoing very loose stance of monetary policy. This factor would appear to be particularly important, with the biggest upgrades to 2021 growth forecasts occurring in the US and UK, where significant additional fiscal stimulus has been put in place.

Both the OECD and IMF, though, express concern at the divergences in the pace of recovery across countries, linked to stark differences in the pace of vaccine rollout, the extent of policy support, and structural factors such as a reliance on tourism or commodities. Notably amongst advanced economies, the US is expected to surpass its pre-Covid GDP level in this quarter, compared to 2022 for most other countries. In developing economies, China has already returned to pre-Covid GDP levels, whereas many other countries are not expected to do so until 2023.

Furthermore, the income lost in this recession has been far greater in developing economies, whose governments have much less scope to provide budgetary supports. The IMF puts the income loss for these countries at around 20% excluding China, compared to circa 11% in advanced economies. Within countries, income losses have also been more heavily concentrated among low paid workers, again widening income inequality.

Both the OECD and IMF now view the risks to their forecasts as better balanced compared to previously, when they were tilted to the downside. To some extent, it boils down to a race between the virus and vaccines. The principal risk they identify surrounds the effectiveness of vaccines against new strains of the virus.

Thus, the OECD and IMF argue strongly that the top priority is to ensure all resources necessary are used to produce and fully deploy vaccinations as quickly as possible throughout the world. Delays in inoculating all parts of the world may result in new vaccine-resistant virus mutations. The IMF warns that this could lead to new outbreaks starting “anywhere and anytime”, necessitating the re-imposition of restrictions to slow transmission.

On the upside, an intensified, globally coordinated vaccination effort could end the pandemic more quickly and limit economic scarring. There may also be greater than expected longer-term positive effects on activity from the policy supports that have been put in place.



Overall, then, it is a race against time to bring the virus under control and escape the public health and economic crisis, with both the pace and breath of vaccinations playing a crucial role. Urgency is of the upmost importance in rolling out what are deemed safe and highly effective vaccines.

Oliver Mangan  
Chief Economist,  
AIB

\*\*\*\*\*

R:mrk-com/Mlt View/Mkt View2021/.doc

AIB Customer Treasury Services  
DUBLIN / CORK  
aib.ie/fxcentre

Customer Treasury Services NI  
BELFAST  
aibni.co.uk/fxcentre

Customer Treasury Services GB  
LONDON  
aibgb.co.uk/fxcentre

Customer Treasury Services US  
NEW YORK  
aib.ie/fxcentre

This publication is for information purposes and is not an invitation to deal. The information is believed to be reliable but is not guaranteed. Any expressions of opinions are subject to change without notice. This publication is not to be reproduced in whole or in part without prior permission. In the Republic of Ireland it is distributed by Allied Irish Banks, p.l.c. In the UK it is distributed by Allied Irish Banks, plc and Allied Irish Banks (GB). In Northern Ireland it is distributed by First Trust Bank. In the United States of America it is distributed by Allied Irish Banks, plc. Allied Irish Banks, p.l.c. is regulated by the Central Bank of Ireland. Allied Irish Bank (GB) and First Trust Bank are trademarks used under licence by AIB Group (UK) p.l.c. (a wholly owned subsidiary of Allied Irish Banks, p.l.c.), incorporated in Northern Ireland. Registered Office 92 Ann Street, Belfast BT1 3HH. Registered Number NI 018800. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. In the United States of America, Allied Irish Banks, p.l.c., New York Branch, is a branch licensed by the New York State Department of Financial Services. Deposits and other investment products are not FDIC insured, they are not guaranteed by any bank and they may lose value. Please note that telephone calls may be recorded in line with market practice.