



## ***The Big Picture***

The latest quarterly update from the IMF published last week saw it stick to its forecast that the global economy would expand by 6% this year. However, it upgraded its forecast for advanced economies by 0.5% and downgraded the projection for developing economies by 0.4%, with a big downward revision for India in particular.

The IMF highlights that vaccine access has emerged as “the principal fault line” along which the world economy splits into two blocs. Almost all advanced economies can expect a normalisation of economic activity later this year on the back of their vaccine roll out programmes. By contrast, economic recovery is lagging in many developing economies where vaccinations rates are low and infection numbers and Covid related deaths are still high.

The IMF upgraded its forecast for global growth in 2022 by 0.5% to 4.9%, again largely due to a better performance in advanced economies, where growth prospects have also been helped by additional policy support measures. The IMF warns, though, that the risks to its forecasts are to the downside. The recovery is not assured even in countries where infections rates are now very low. The slow rollout of vaccines globally could allow the virus to mutate further and it says risks will remain for so long as the virus continues to circulate.

Indeed, many Western countries have seen a spike in new Covid cases recently owing to the Delta variant, although this has not translated into sharply higher hospitalisation numbers and deaths, or derailed the re-opening of their economies. Not surprisingly, the IMF says the immediate priority is to greatly step up efforts to ensure rapid worldwide access to vaccines to suppress the pandemic globally.

Financial markets were in a risk adverse mood during July, partly due to the marked rise in Delta variant Covid cases and concerns about a possible disruptive fourth wave to the pandemic. The marked rally by bonds in July despite worsening inflation figures, as well as bouts of nervousness seen on stock markets in recent weeks, suggest some concerns about the sustainability of the current strong rebound in activity. Meanwhile, the more cautious mood in markets is also evident in a scaling back of expectations in regard to interest rate hikes.

If the IMF is correct in its view that the pace of vaccine rollout and policy supports are key in terms of growth prospects, then Ireland is fast moving to the front of the class. Data published last week show 71% of the adult population are fully vaccinated and 86% are partially vaccinated, with the numbers climbing steadily. Ireland is now on a par with the UK in terms of numbers fully vaccinated and will soon surpass it, while it is well ahead of the US at 50% and EU at 54%.

Meanwhile, the level of Covid fiscal support for the economy is also very large at €41 billion or close to 20% of national income over 2021-22. Furthermore, recent projections from the Dept. of Finance point to an ongoing supportive stance to fiscal policy over the next number of years.

It is not surprising, then, that most recent forecasts are for very strong growth by the Irish economy over the period 2021-23. The Dept. of Finance is projecting that the Irish GDP will increase by 8.8% this year, followed



by 5.1% and 3.7% in 2022 and 2023, respectively. The Central Bank is projecting growth rates of 8.3%, 5.4% and 4.8% for the next three years, giving an average rate of 6.2% for the period 2021-2023. It sees growth in the domestic part of the economy averaging 4.6% over this period.

Ireland still needs to look the bigger picture, though, and actively support plans for a major worldwide vaccination programme that would bring global herd immunity. The IMF argues that this would save many lives, prevent new variants from emerging and add trillions to the global economic recovery. It is in all our interests.

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