



Vaccines to Power Economic Recovery

The IMF last week published a relatively positive assessment of the economic outlook over the next two years, but a lot rests on non-economic variables, in particular the roll out of vaccines. Approvals of vaccines and the launch of vaccination programmes in numerous countries in the past couple of months have raised hopes of an eventual end to the Covid-19 pandemic.

Moreover, economic data in recent months point to a stronger-than-expected rebound in activity across the world economy in the second half of 2020. The IMF notes that despite the high and rising human toll of the pandemic, economies appears to be adapting to restrictions on activity with the passage of time.

This better than expected performance in the latter half of last year means a stronger starting point for the global economy in 2021 than was anticipated even up to quite recently. This is in spite of the upsurge in Covid cases and new restrictions on activity seen over the winter.

Furthermore, macro-economic policies continue to be geared towards supporting activity, with recently announced additional policy measures, most notably in the United States, set to provide further help to the global economy. Thus, the IMF has upped its growth forecast for the world economy in 2021 from 5.2% to 5.5% and is forecasting further strong growth of 4.2% in 2022.

However, the IMF does acknowledge that the surging infections in the past couple of months, including from new variants of the virus, renewed lockdowns, vaccine production constraints and logistical problems with their distribution, as well as uncertainty about take-up, are important counterpoints to the more favourable outlook.

A key question in regard to the outlook for growth is for how long restrictions on activity will be needed to curb transmission before vaccines begin delivering effective society-wide protection that allow a broad based and permanent re-opening of economies. It is clear that high levels of infections and greater restrictions on activity will soften momentum in the early part 2021. GDP seems likely to contract in many economies in the first quarter of the year.

However, the IMF believes that this softening in activity will give way to an acceleration in growth from the second quarter as vaccines and therapies become more readily available. The sharp decline in number of new cases of Covid-19 in many countries over the past couple of weeks suggests that restrictions can start to be eased over the course of the spring, allowing activity to pick up pace again. We saw in the third quarter of last year that economies can rebound rapidly when restrictions are relaxed.

Beyond this though, the key determinant remains the roll-out of vaccines. In this regard, the news last week that two more pharma companies have had positive results in clinical vaccine trials is a very welcome development. Furthermore, other companies are also conducting clinical trials, which hopefully will have positive outcomes too.



A growing list of approved manufacturers should lead to what the IMF calls “a vaccine-powered strengthening of activity” later in the 2021 and form the basis for a robust and sustained recovery by the global economy over the next number of years.

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