Banc Ceannais na hÉireann
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Box A: QB 2 – April 2021

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The International Economic Outlook

By the Monetary Policy Division

The outlook for the global economy has improved in recent months, but growth prospects vary widely between countries and sectors. While uneven across countries, vaccine rollout is gaining momentum and government stimulus, particularly in the United States, is likely to provide a major boost to economic activity. After a fall of 3.4 per cent last year, the OECD expects global GDP to rise by 5.6 per cent in 2021 and a further 4.0 per cent in 2022 (March 2021 forecasts). In January, the IMF projected global growth to rebound to 5.5 per cent in 2021, and then rise by 4.2 per cent in 2022. The growth outlook would markedly improve if production and distribution of vaccines accelerate and are better coordinated around the world, getting ahead of virus mutations.

Euro area quarterly GDP decreased by 0.7 per cent in the fourth quarter of 2020; this decline follows the strong rebound in the third quarter (+12.5 per cent) and the contraction in the second quarter (–11.6 per cent), the sharpest observed since the series started. March ECB projections assessed that the recent intensification of the pandemic has weakened the near-term outlook for euro area activity but not derailed the recovery.[1] Euro area GDP is expected to increase by 4.0 per cent in 2021 (slightly up from December 2020's forecast of 3.9 per cent), 4.1 per cent in 2022 (slightly down from 4.2 per cent), and 2.1 per cent in 2023 (unchanged).

In January 2021, the euro are unemployment rate was 8.1 per cent according to Eurostat, down from the August 2020 high of 8.7 per cent, but 0.8 percentage points higher than it was in February 2020. Current unemployment estimates should be read with caution, as they are based on the globally used International Labour Organisation standard definition of unemployment, which does not fully capture the unprecedented labour market situation triggered by the pandemic. The Markit Eurozone Composite PMI posted 48.8 in February (up from 47.8 in January), signalling that the euro area private sector economy experienced a further modest drop in that month. PMI data continue to indicate a two-speed economy, with manufacturing registering its strongest expansion of output in four months

[1] The ECB baseline projections rest on the assumptions of a swift relaxation of containment measures from the second quarter of 2021 and a resolution of the health crisis in early 2022.

but services – especially business areas impacted the most by social-contact restrictions – recording another marked contraction of activity.

Euro area annual HICP inflation is expected to be 0.9 per cent in February 2021 (Eurostat flash estimate), unchanged from January. Annual energy price inflation is expected to stabilise (–1.7 per cent, up from -4.2 per cent in January), while HICP inflation excluding energy and unprocessed food is expected to remained broadly stable, but subdued (1.2 per cent, down from 1.4 per cent in January). ECB projections for the euro area inflation have been revised upward for this year and next, with an annual HICP inflation rate of 1.5 per cent in 2021 (up from the December 2020 forecast of 1.0 per cent), 1.2 per cent in 2022 (up from 1.1 per cent), and 1.4 per cent in 2023 (unchanged).

In March, the Governing Council (GC) of the ECB confirmed that it will continue to conduct net asset purchases under the pandemic emergency purchase programme (PEPP) with a total envelope of €1,850 billion until at least the end of March 2022 and, in any case, until it judges that the coronavirus crisis phase is over. Based on a joint assessment of financing conditions and the inflation outlook, the GC expects purchases under the PEPP to be conducted over the second quarter of 2021 at a significantly higher pace than during the first months of the year. The GC confirmed its commitments with respect to the key ECB interest rates, the asset purchase programme (APP), the expected PEPP reinvestment phase, and the third series of targeted longer-term refinancing operations (TLTRO III).

In the United States, quarterly GDP increased by 1.0 per cent in the fourth quarter of 2020, after a 7.5 per cent increase in the third quarter. In January, the unemployment rate edged down to 6.3 per cent, decreasing by 0.4 percentage points over the month, but remaining 2.8 points higher than it was in January 2020. At its January meeting, the Federal Open Market Committee (FOMC) of the US Federal Reserve maintained the target range for the federal funds rate at 0 to 0.25 per cent. The FOMC remains committed to an accommodative stance of monetary policy until it achieves maximum employment and inflation moderately above 2 per cent for some time so that inflation averages 2 per cent over time.

In the United Kingdom, quarterly GDP increased by 1.0 per cent in the fourth quarter of 2020, following a revised 16.1 per cent growth rate in the third quarter. Despite two consecutive quarters of growth, over the year 2020 as a whole, GDP contracted by 9.9 percent, marking the largest annual fall in UK GDP on record. Looking ahead, GDP is projected to recover rapidly towards pre-Covid levels over 2021, as the UK vaccination programme is assumed to lead to an easing of Covid-related restrictions. Projected activity is also supported by the substantial fiscal and monetary policy actions already announced. At its February meeting, the Bank of England maintained the Bank Rate at 0.1 per cent and confirmed the continuation of its quantitative easing programme, maintaining the total target stock of asset purchases at £895 billion.