

# Global Watch

March 2021  
Economic Update

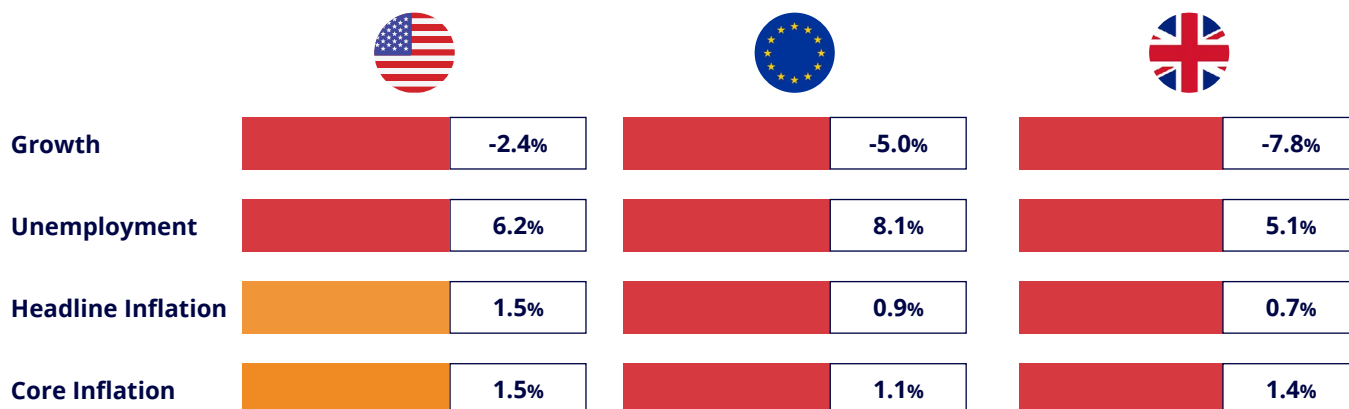


Bank of  
Ireland

## A shot in the arm for the global economy

The COVID-19 pandemic took a heavy toll on the world economy in 2020, with GDP falling by 3.5% according to the IMF's latest estimate. Activity in many countries has also been dampened by public health restrictions in the opening months of 2021, though the earlier than expected development and roll-out of vaccines has raised hopes that a sustained recovery will take hold later this year and into next. This together with the prospect of further fiscal stimulus in the US - the new Biden administration has proposed a \$1.9 trillion package of measures - has contributed to gains for equity markets and a notable rise in core bond yields recently. The IMF assumes that the softening in activity in early 2021 will give way to strengthening momentum from the second quarter onwards as vaccines become more readily available and more widely deployed, and on this basis is projecting an increase in global GDP of 5.5% this year and 4.2% in 2022. It notes that inoculation programmes could raise expectations of a faster end to the public health crisis than assumed, lifting confidence and spending and resulting in higher than forecast growth. Moreover its projections do not incorporate additional fiscal expansion in the US, which would have positive spill-overs to the world economy. Alternatively, growth could turn out to be weaker than anticipated if the impact of lockdowns and/or voluntary physical distancing proves stronger than expected. In any case, the IMF continues to warn against the premature withdrawal of policy supports until economic recovery is firmly underway. In this regard, the UK Chancellor in his March Budget extended the job furlough scheme to the end of September and announced new stimulus measures to boost investment.

## Economic Conditions



## Policy Stance

  
Committed to using full range of tools to support the economy

  
Will do everything necessary to help the economy through the COVID-19 crisis

  
Respond as necessary to the economic disruption caused by COVID-19

## Current Policy Rate

**0.0%-0.25%**

Fed Funds

**0.0%**

ECB Refi

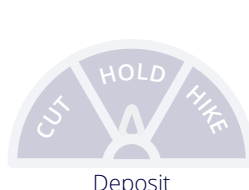
**-0.5%**

Deposit

**0.1%**

BOE Bank Rate

## Next Meeting



Source: Bank of Ireland, BEA, Eurostat, ONS, Fed, ECB, Bank of England

Growth: Annual % change in GDP (constant prices), US, Euro Area and UK Q4 2020

Unemployment: Rate (%), US February 2021, Euro Area January 2021, UK Q4 2020

Headline and Core Inflation: Annual % change, US PCE January 2021, Euro Area flash CPI February 2021, UK CPI January 2021, core inflation excludes food and energy (as well as alcohol and tobacco in the case of the Euro Area and UK)

Policy Rates: Federal Funds Rate, ECB Main Refinancing Rate and Deposit Rate, Bank of England Bank Rate

# Economy

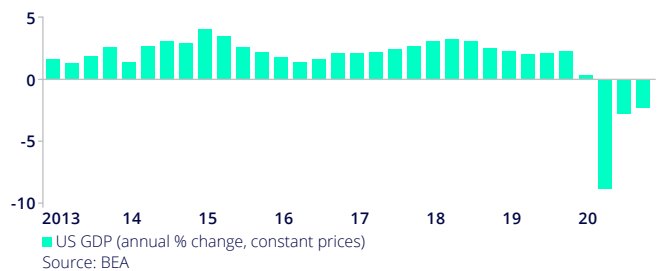
## Global activity recovering

The global Composite PMI remained above 50 for an eight consecutive month in February. The IMF estimates world GDP fell by 3.5% in 2020, but sees it increasing by 5.5% and 4.2% in 2021 and 2022 respectively.



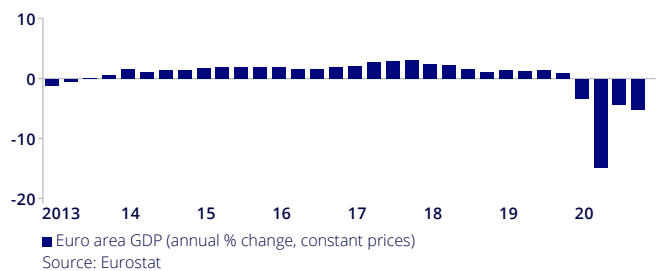
## US slowly improving

GDP in the US rose by 1.0% quarter-on-quarter in Q4 2020, though it posted a decline of 3.5% for the year as a whole. The IMF expects the economy to expand by 5.1% in 2021 before growth eases to 2.5% in 2022.



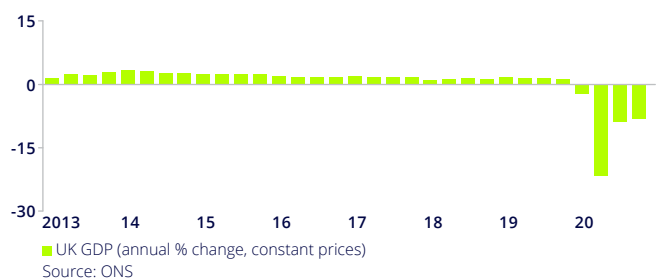
## Euro area contracts

Euro area GDP fell by 0.6% quarter-on-quarter in Q4 and by 6.8% for the full-year 2020. The IMF is forecasting an increase of 4.2% for this year though, and a further gain of 3.6% in 2022.



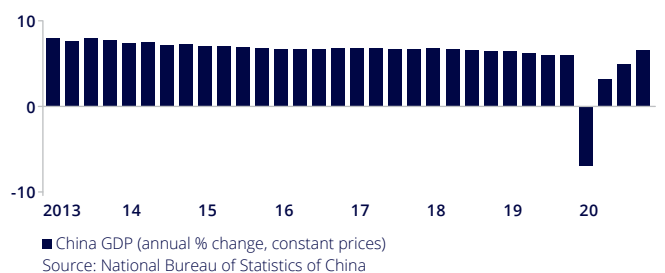
## Hesitant UK recovery

GDP in the UK rose by 1.0% quarter-on-quarter in Q4 2020 but was down 7.8% on an annual basis. After a record contraction of 9.9% last year, the IMF is projecting growth of 4.5% this year and 5.0% next year.



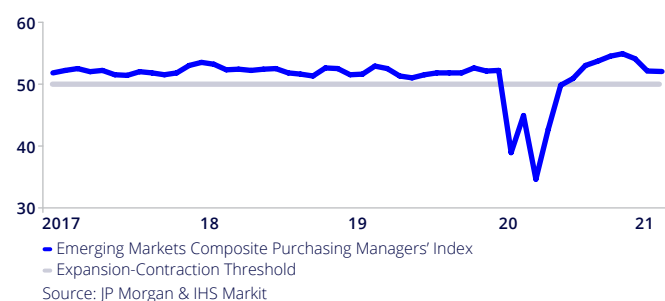
## China advancing

China's GDP growth picked up to 6.5% year-on-year in Q4 2020 and averaged 2.3% for the year as a whole. The IMF sees the economy expanding by 8.1% in 2021 and by 5.6% in 2022.



## EMs expanding

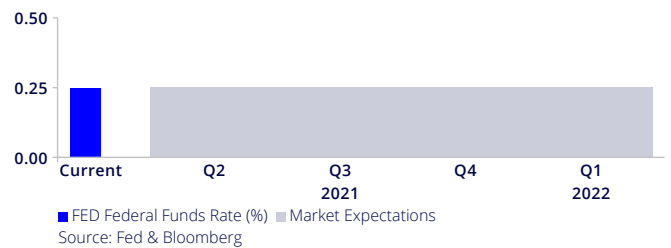
The emerging markets Composite PMI has eased recently but remains in expansionary territory. After an expected decline of 2.4% in 2020, the IMF is forecasting an increase in GDP of 6.3% in 2021 and 5.0% in 2022.



# Monetary

## Fed stays on hold

The Fed left policy unchanged again in January and reiterated that it expects to keep interest rates at 0%-0.25% until inflation is on track to moderately exceed 2%.



## ECB ups QE

Having increased the size and extended the duration of its emergency bond purchases programme at its final meeting of 2020, the ECB stood pat at its first meeting of 2021.



## BOE keeps rates unchanged

The Bank of England left interest rates at 0.1% in February. It also requested lenders to be ready to implement negative rates while stressing they were "not imminent if at all".



# Policy & Politics

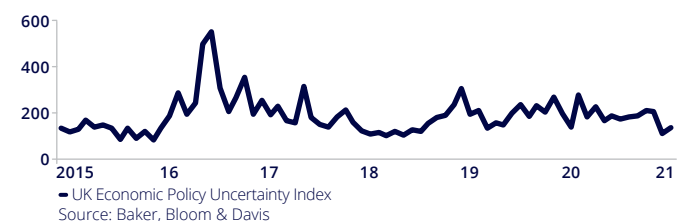
## Uncertainty eases

While uncertainty is still quite elevated it has receded from the COVID-19 related highs of last year, helped by positive developments on the vaccine front recently.



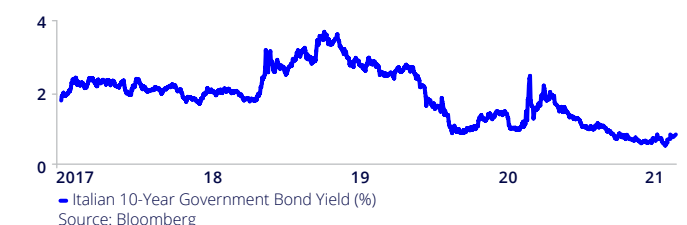
## Brexit deal done

The UK and EU agreed a deal just before the end of the transition period covering tariff- and quota-free trade in goods, though there has been some disruption related to customs checks, increased paperwork etc.



## New PM in Italy

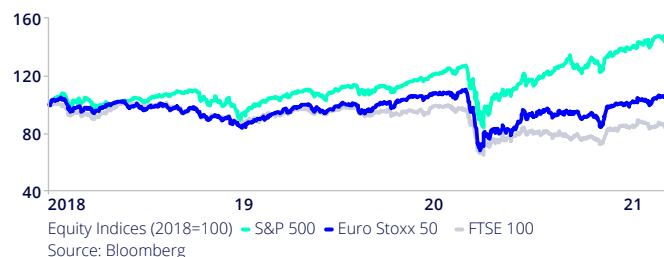
Mario Draghi is the Prime Minister of a new government of national unity, succeeding Giuseppe Conte who resigned after losing the support of one of the parties in the previous coalition administration.



# Markets

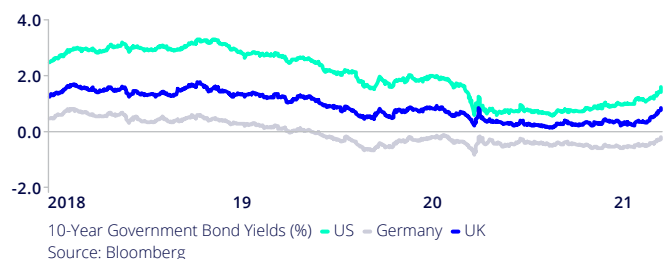
## Stocks higher

The prospect of a vaccine-driven global recovery has prompted solid gains in international equity markets, with US indices setting new all-time highs recently.



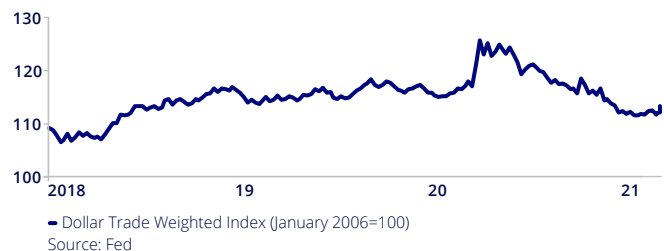
## Bond yields rise

The likelihood of another large fiscal stimulus package for the US economy has prompted an increase in bond yields in the core markets since the start of this year.



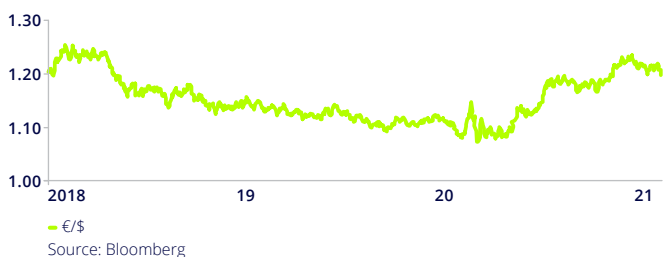
## Dollar steadies

Having fallen against trading partner currencies over the second half of last year, the dollar has steadied in 2021 to date supported by relatively high US bond yields.



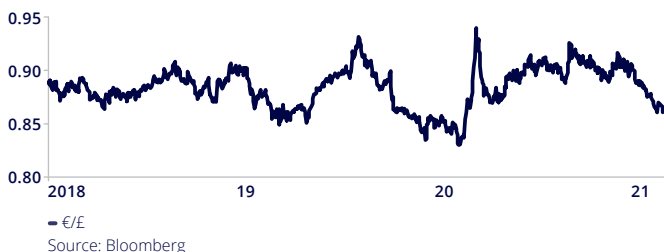
## Euro loses ground

The single currency rose to a near 3-year high of just over \$1.23 in early January this year before easing back by about 4 cents to c.\$1.19.



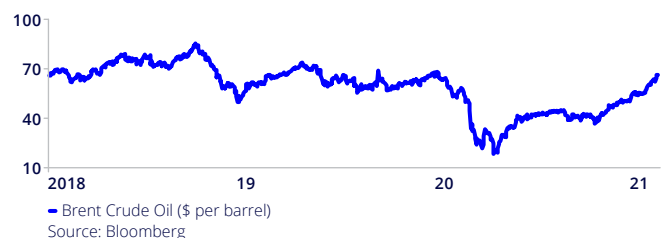
## Sterling firmer

The pound has gained ground since the UK and EU agreed a trade deal on Christmas Eve, strengthening by a few pence to about 86p against the euro.



## Oil prices climb

Oil prices have risen further since the turn of the year, with Brent crude up \$16 to \$68 per barrel, partly reflecting a cut in output by Saudi Arabia.



# Forecasts

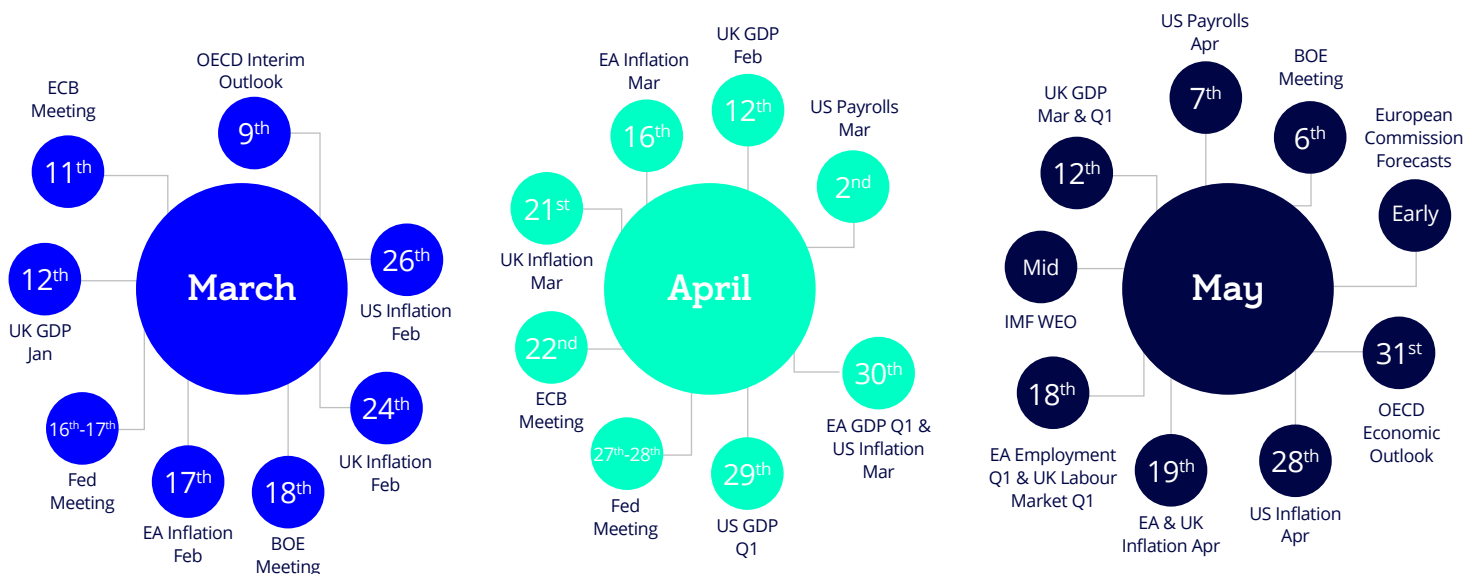
GDP Growth*	2020 (e)	2021 (f)	2022 (f)
Global Economy	-3.5%	5.5%	4.2%
Advanced	-4.9%	4.3%	3.1%
Emerging	-2.4%	6.3%	5.0%

FX**	Current	End Mar 2021	End Jun 2021
€/\$	1.19	1.19	1.18
€/£	0.86	0.86	0.85
£/\$	1.38	1.38	1.39

\*Annual % change, constant prices (Source: IMF)

\*\*Current Rate is as of 5<sup>th</sup> March 2021 (Source: Bloomberg); Rate forecasts (Source: Bank of Ireland)

# Upcoming Events



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