

Virulence and variance

Policymakers have little option but to renew economic activities after rapid vaccination

The IMF's latest update to its World Economic Outlook spotlights the starkly widening variance in the global recovery from the economic strains caused by the pandemic. And the primary fault line precipitating the divergence of the world's economies into two blocs – those that are normalising activities from the COVID-19-induced curbs and those that are still struggling – is vaccine access and the pace of vaccination coverage. Three months since its April forecast, the IMF projects the global economy to expand at an unchanged pace of 6% this year. But it sees the world's advanced economies registering faster growth than forecast earlier, while emerging markets and developing economies are expected to post appreciably slower recoveries. The IMF projects Advanced Economies to grow by 5.6% in 2021, 0.5 percentage point quicker than forecast in April. Undergirding this anticipated acceleration, the U.S. economy is seen expanding by 7% – a 0.6 percentage point upgrade – on the back of an expansive vaccine roll-out that has helped enable substantial normalisation in activity, and expectations of additional fiscal support. Emerging market and developing economies on the other hand are seen expanding by 6.3%, 0.4 percentage point slower than projected in April.

India is seen as the largest drag, with the Fund cutting its growth forecast for South Asia's largest economy by 3 percentage points to 9.5%. Citing the impact of the 'severe second wave' and expected 'slow recovery in confidence' as a reason for its downgrade, the IMF has warned that "countries lagging in vaccination, such as India and Indonesia, would suffer the most among G20 economies" in the event of the emergence of a super-contagious virus variant. With just a little over 7% of the population fully vaccinated, India significantly lags the estimated global average of almost 14%, Brazil's 18% and is way behind the 50% and 55% coverage achieved in the U.S. and the U.K., respectively. The Fund was effusive in its praise for India's 'decisive action' in January, when it forecast 11.5% growth for the fiscal year ending in March 2022, before raising that projection to 12.5% in April, after the economy appeared to rebound well in the January-March quarter. That it has now downgraded its outlook so substantially reflects the extent to which the second wave has severely impaired momentum. With inflation looming as a visceral threat, demand yet to regain traction and political appetite in government for more fiscal support negligible, India's policymakers have little option but to hasten the vaccine roll-out on a war footing. Failure to expedite the coverage could cost the country dearly.