

IMF Revises Global Economic Growth Projection Upward to 6.0%

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On April 6, the International Monetary Fund released its latest World Economic Outlook, projecting global economic growth at 6.0% for 2021. The new projection represents an upward revision from 5.5% as announced last January. By country, the United States is forecast to score an attention-attracting growth rate of 6.4%, the highest among advanced economies, up 1.3 percentage points from the previous projection. Backed by steady progress in COVID-19 vaccination and the Biden administration's \$1.9 trillion economic stimulus package, the U.S. economy is expected to drive global economic growth.

China, which has served as the driver of global economic growth over the long term, is projected to score an extremely fast growth rate of 8.4% in 2021. An important point is that China is forecast to post such high growth after being the only major country to enjoy positive growth in 2020. Its growth rate last year was 2.3%. India is expected to register an even higher growth rate of 12.5% in 2021 in reaction to an 8.0% contraction in 2020. The Chinese economy is thus projected to drive global growth for two years on end. At a time when the fate of the tough U.S.-China confrontation known as a new cold war is attracting global attention, U.S. and Chinese economic trends will remain important for driving global economic growth.

The IMF projected the global economy to grow 4.4% in 2022 in continuation of a moderate recovery. This growth projection also represented a 0.2-point upward revision from the previous one at 4.2%. While growth projections for developing economies were left unchanged, those for advanced economies were revised upward, including a U.S. growth projection that was raised by 1.0 points. The latest IMF World Economic Outlook thus featured an upward revision of a global economic growth projection led by the United States and China, as well as growth gaps between advanced and developing economies or between major countries.

As a matter of course, it is unknown whether the global economy would grow 6.0% in 2021 or whether major economies and the global economy would recover steadily as projected. The global economy faces various uncertainties and challenges. One of the biggest challenges is whether the COVID-19 pandemic would steadily be phased out. Vaccination will make progress, producing positive effects. Nevertheless, vaccination gaps are growing remarkable between major countries and between advanced and developing economies. As indicated by the word "pandemic," COVID-19 is spreading globally. Any real end to the pandemic should be global. Even in countries where vaccination is making progress, carelessness could bring about an infection spread again. Furthermore, unanswered questions still exist, including how the spread of variant COVID-19 viruses would affect vaccination effects. In fact, Europe and Japan have seen third or fourth waves of COVID-19 infections. We will have to closely watch future COVID-19 pandemic trends and their impacts on the global economy.

As for massive fiscal expansion and monetary easing for economic stimuli in major

countries that have led the IMF to raise economic growth projections, some analysts call for paying attention to their negative impacts as well as their positive effects. Strong economic stimulus packages have led to growing hopes on an economic recovery, encouraging money to flow into stock markets. The stock market upsurge is adding fuel to hopes on economic growth. If stock and other asset prices rise too fast or too much, however, asset bubbles may emerge. Money is flowing into all risky asset markets including crude oil futures.

Fiscal expansion and monetary easing have also led inflation risks to attract attention. In the United States, long-term interest rates are rising, inviting the dollar's appreciation. If emerging market and developing economies poor with fiscal resources raise interest rates and tighten monetary policy in the face of their currencies' depreciation, it may dampen a global economic pickup. While economic stimulus packages are producing positive effects to accelerate economic growth, attention may have to be paid to their potential negative impacts. A good sense of balance is required to steer the global economy.

We must also pay attention to the negative impacts of the escalating U.S.-China confrontation. If global supply chain reform and competition for securing supply of strategically important materials or goods are intensified under the escalating bilateral confrontation and growing geopolitical tensions, the global economy may deviate from a path giving top priority to global economic efficiency and come under downside pressure. We will have to closely watch how various uncertain factors will impact the global economy.

Global economic trends naturally exert great impacts on international energy markets. The Institute of Energy Economics, Japan, posted a report titled "Global Oil, Natural Gas and LNG Demand Outlook through 2022 – Uncertain Recovery from COVID-19 and Its Impacts" on its website on March 29. Referring to the IMF's World Economic Outlook published in January to foresee the uncertain future, the report assumed global economic growth at 5.5% for 2021 in a mainstream reference scenario and analyzed global oil, natural gas and LNG demand outlook.

In the reference scenario, for instance, global oil demand will rise back to 95.9 million barrels per day in 2021 and 99.8 million bpd in 2022 after plunging from 99.7 million bpd in 2019 to 91 million bpd in 2020. By increasing by 4.9 million bpd or 5.3% from the previous year in 2021 and by 3.9 million bpd or 4.1% in 2022, global oil demand will restore the 2019 level at last. Natural gas and LNG demand decreased more slowly than oil demand in 2020. Particularly, LNG demand posted a slight increase in the year as LNG supply capacity growth characteristically worked to drive market expansion. In 2021 and 2022, LNG demand will steadily increase on economic growth.

What would happen if global economic growth is faster? The abovementioned report also analyzed a high growth scenario with global economic growth above 6% and a low growth scenario with such growth below 5%. Given the IMF's upward revision of economic growth projections, I here cite the high growth scenario in which global oil demand will total 96.8 million bpd in 2021 and 101.4 million bpd, some 1 million bpd more than in the reference scenario in each year. The 1 million bpd increase in oil demand would have great impacts on the oil production policy of the Organization of the Petroleum Exporting Countries and non-OPEC oil producing countries, the supply-demand balance on the international oil market and crude oil prices. A similar increase in natural gas and LNG demand will also exert remarkable impacts on the supply-demand balance and prices. While watching the global economic recovery that is accompanied by some uncertainties, we will have to pay attention to how such energy demand growth would influence the international energy situation and the balance of power between oil-producing and -consuming countries, or

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between suppliers and consumers.

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