

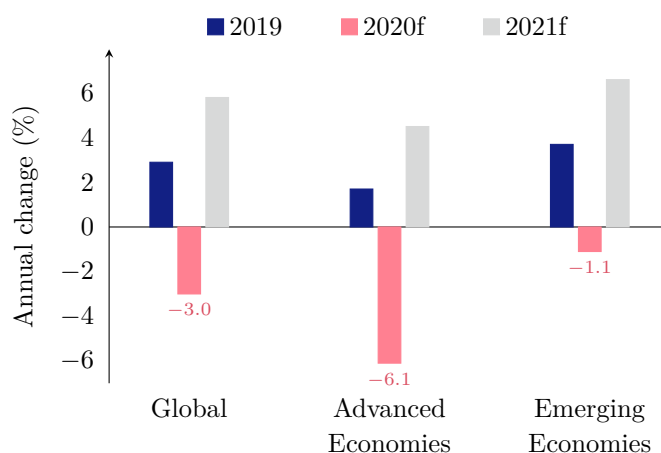
Macroeconomic Outlook

Highlights

- A global recession is expected in 2020 due to the measures taken to contain the COVID-19 pandemic.
- Malaysian economy to be affected by weak global demand and containment measures particularly in 1H 2020 before a gradual recovery in 2H 2020.
- Muted inflationary pressures in 2020.

The global economy to enter a severe recession in 2020

Chart 26: GDP Growth of Selected Economies



Source: IMF World Economic Outlook (April 2020)

The IMF projects global growth in 2020 to be -3.0%, the weakest since the Great Depression. A recovery in 2021 is expected, conditional on the gradual dissipation of the COVID-19 pandemic in the second half of 2020, as well as its successful containment by end-2020.

In PR China, with containment measures in Hubei Province lifted since April, domestic demand is expected to recover gradually, weighed partly by continued social distancing behaviour as COVID-19 contin-

ues to spread at a slower rate. High frequency activity indicators such as the Purchasing Managers' Index, as well as exports have bottomed out in the first quarter, pointing further towards a recovery in growth. Nevertheless, as containment measures are introduced globally amid a broad escalation in COVID-19 cases, external demand is expected to weaken in the near-term.

The recovery in PR China will anchor growth in regional economies, whose domestic demand conditions are expected to experience a transitory slowdown. Nevertheless, policy responses have been timely and forthcoming, such as in Singapore where fiscal measures totalled 13.0% of GDP, allowing a sustained recovery to be secured as the pandemic begin to dissipate.

Major advanced economies have introduced unprecedented policy responses to limit the economic fallout from the COVID-19 pandemic. Policy rates were broadly reduced to the zero lower bound, while the magnitude of quantitative easing exceeded that of the Global Financial Crisis within the first months of the pandemic, including the US, euro area and Japan. Large fiscal stimulus packages were additionally intro-

duced, especially in the US and Japan. These measures were primarily aimed at preventing hysteresis in labour market and output, as well as limiting the deterioration in private sector balance sheet conditions, by sustaining income flows amid low economic activity.

Downside risks to the growth outlook remain, arising from a more severe impact from the COVID-19 pandemic and the resurgence of COVID-19 cases. In vulnerable emerging economies, sharp and volatile two-way capital flows could lead to the unwinding of external sector imbalances. In the US, the downgrades in corporate credit ratings and earnings weakness in severely affected sectors, may lead to a continued tightening of financial conditions. The materialisation of these financial sector vulnerabilities may further exacerbate the downturn in the global economy.

The Malaysian economy to be significantly impacted by COVID-19

Malaysia's economic prospects for 2020 is being severely affected by the COVID-19 pandemic. Strict measures to contain the spread of the pandemic, both globally and domestically, will weigh considerably on both external demand and domestic growth.

Domestically, the economic impact of the MCO is expected to be broad-based, with the largest impact likely felt by the consumer-oriented and labour-intensive industries. This includes the services sector, particularly consumer services and construction sectors. Capital-intensive sectors such as mining and E&E are expected to be the least impacted. In terms of employment, the impact from the slowdown would be larger on the self-employed and those working in small and medium enterprises. However, under the Conditional MCO that was effective 4 May 2020, most sectors of the economy were allowed to operate, albeit in a controlled and prudent setting and by observing stringent Standard Operating Procedures (SOPs). Notwithstanding the lifting of movement restrictions, international travel restrictions and social distancing measures are expected to continue for the remainder of the year.

Reflecting the longer duration of the MCO, followed by the Conditional MCO from 4 May to 9 June 2020, the Malaysian economy is expected to contract in the sec-

ond quarter. However, economic activity is expected to gradually pick up in 2H 2020, following the lifting of the MCO, support from fiscal, monetary and financial measures and progress in transport-related projects by the public sector. The Malaysian economy is expected to register a positive recovery in 2021, in line with the projected improvement in global growth.

The economic stimulus measures announced will provide sizeable assistance to households and businesses. This is further augmented by the Bank's broad array of measures, including reductions in the OPR and SRR, deferment of loan and financing repayments for a period of six months for individual and SME borrowers, daily market operations to ensure ample liquidity and enhancements to existing financing facilities under BNM's Fund for SMEs. The Bank has also allowed banks to utilise their regulatory buffers to further ensure continued financial intermediation.

The growth outlook is subject to significant downside risks. This arises mainly from the uncertainties surrounding the spread of COVID-19 and the duration of containment measures globally. This uncertainty may also result in delays in household spending and business investments. In addition, the risks of commodity supply shocks remain.

Inflationary pressures to be muted in 2020

Average headline inflation is likely to turn negative this year, mainly due to the projections of significantly lower global oil prices. In terms of food inflation, the outlook is uncertain and depends on the interplay between global and domestic supply and demand factors. Nevertheless, the ceiling prices implemented on select essential food items, in addition to the upcoming festive season price control scheme, are expected to contain food prices in the near term. Going forward,

the outlook of headline inflation remains significantly affected by global oil and other commodity prices including food, as well as evolving demand conditions.

Underlying inflation, as measured by core inflation, is expected to be subdued amid the projections of weaker domestic growth prospects and labour market conditions.