

Macroeconomic Outlook

Highlights

- Deep global recession projected in 2020.
- Malaysian economy to recover gradually in 2H 2020.
- Muted inflationary pressures to continue in 2H 2020.

Global economy to enter a severe recession in 2020

The IMF revised down its projection of global growth in 2020 to -4.9% in June from its earlier estimate of -3.0% in April. The slowdown in economic conditions from the containment measures and weakness in labour market conditions were deeper than expected. Although growth is expected to recover in 2021, this is conditional on the effective curbing of the COVID-19 pandemic by the end of 2020.

The projected growth contraction in 2020 across the advanced and emerging economies is expected to be deeper compared to the Global Financial Crisis. Overall, consumption and services output are expected to decline, as restricted mobility hampers retail sales, tourism and recreation, and transportation.

Private sector expenditure and external demand conditions will remain muted as labour market weaknesses persist. Nevertheless, proactive government stimulus measures are a key support to growth, and the gradual re-opening of economic sectors will reduce the degree of the contraction.

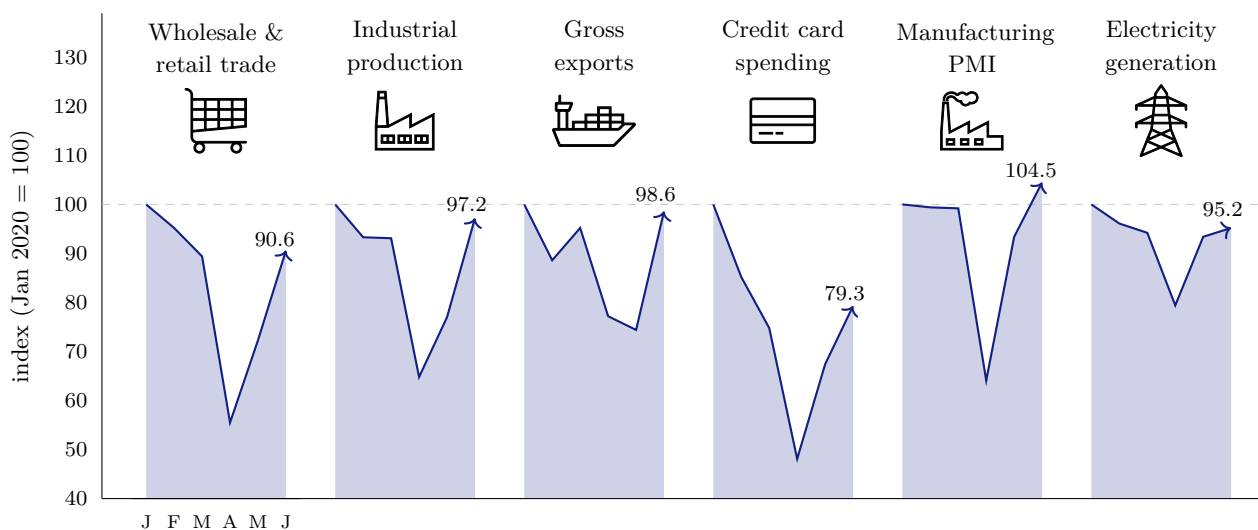
Downside risks to global growth remain elevated. A resurgence in COVID-19 cases could necessitate economies to reinstate lockdown measures, which will further dampen growth prospects. This will also accentuate the volatility of capital flows in vulnerable EMEs and could trigger an unwinding of external sector imbalances.

Malaysian economy to recover gradually as the economy progressively re-opens and external demand improves

Economic activity in Malaysia contracted sharply in the first half of the year (-8.3%) as the measures introduced to contain the pandemic globally and domestically resulted in a concurrent supply and demand shock to the economy. However, growth is expected to have troughed in 2Q 2020. Economic activity has

resumed significantly since the economy began to re-open in early May. Monthly indicators such as wholesale and retail trade, industrial production, electricity generation, and gross exports all grew faster in June than in the period between March and May.

Chart 26: Key Economic Indicators



Source: Department of Statistics Malaysia, IHS Markit, Tenaga Nasional Berhad, and Bank Negara Malaysia

The improvement in growth in 2H 2020 will also be supported by the recovery in global growth and continued policy support. In particular, consumption and investment activities are expected to benefit from the wide-range of measures in the fiscal stimulus packages, continued financial measures and low interest environment. While there is upside potential to growth, the pace and strength of the recovery remain susceptible

to downside risks emanating from domestic and external factors. Growth could potentially be lifted by a larger-than-expected impact from stimulus measures. Nevertheless, the prospect of secondary COVID-19 outbreaks leading to the re-imposition of containment measures, more persistent weakness in labour market conditions, and a weaker-than-expected recovery in global growth pose downside risks to growth.

Inflationary pressures to remain muted in 2H 2020

In 2H 2020, average headline inflation is expected to remain negative largely due to low retail fuel prices. Stimulus measures to alleviate cost burdens, such as the tiered electricity tariff rebate, would also keep inflation low. However, headline inflation is projected to decline by a smaller magnitude compared to 2Q 2020 as global oil prices continue to recover and economic conditions gradually improve.

The risks of a broad-based and persistent decline in prices are assessed to be limited as economic activity gradually resumes and demand conditions improve. While underlying inflation, as measured by core inflation, is expected to be subdued, it is projected to average within earlier expectations for the year as a whole.