

Macroeconomic Outlook

HIGHLIGHTS

- Global recovery projected in 2021, but subject to major downside risks.
- Malaysian economy to register a recovery.
- Headline inflation is expected to be higher in 2021.

Precarious global recovery

At the October World Economic Outlook, the IMF revised up its projection of global growth in 2020 to -4.4% (June projection: -4.9%). This was primarily due to better-than-expected growth outturns, particularly in advanced economies, where labour markets recovered more quickly than expected.

For 2021, the IMF projects the global economy to grow by 5.2%, although this outlook is highly conditional on progress in the resolution of the pandemic. The recent

resurgence in COVID-19 cases across some advanced and emerging economies therefore poses a downside to the outlook. Some major economies have already begun to reinstate containment measures and delay plans to reopen. This will dampen growth prospects in the fourth quarter of 2020 and recovery momentum heading into 2021. Although the more recent containment measures have not been imposed to the same degree observed in the second quarter, higher risk aversion will suppress private sector demand and weigh on growth.

The Malaysian economy in on track for a recovery after a trough in the second quarter of 2020

In the third quarter, the Malaysian economy improved markedly following the gradual lifting of nationwide containment measures, as well as support from better external demand conditions. The recent resurgence of COVID-19 cases and targeted containment measures in most states could affect the momentum of the recovery in the final quarter of the year. However, as most economic sectors have been allowed to continue to operate, subject to sectoral standard operating procedures (SOPs), the impact is unlikely to be as severe as the containment measures during previous periods.

Going into 2021, growth is expected to improve further, benefitting from the recovery in global demand and

spillovers onto the domestic sectors, continued policy support including the recent KITA PRIHATIN and 2021 Budget measures, as well as higher production from existing and new facilities. However, the pace of recovery will be uneven across sectors with some industries expected to remain below pre-pandemic levels, and a slower improvement in the labour market.

The balance of risks is tilted to the downside, emanating mainly from ongoing uncertainties surrounding COVID-19 globally and domestically. However, the economy could benefit from a larger-than-expected positive impact from various policy measures, and better-than-expected recovery in global economy.

Headline inflation in 2021 is projected to average higher

The annual average headline inflation is expected to be negative in 2020. For the remainder of the year, annual headline inflation will primarily reflect the downward contribution from lower retail fuel prices, due to lower global oil prices, and the tiered electricity tariff rebate that remains in place until the end of 2020.

In 2021, headline inflation is expected to average higher, mainly due to higher projected global oil prices and the lapse in the effect from the tiered electricity tariff rebate. Underlying inflation is expected to be subdued amid spare capacity in the economy. The outlook for inflation is subject to uncertainty, with the trajectory mainly depending on global oil and commodity price developments.