

Macroeconomic Outlook

Highlights

- Global growth to improve at an uneven pace in 2021.
- Similarly, the Malaysian economy to recover, albeit at an uneven pace in 2021.
- Headline inflation is expected to average higher in 2021, due mainly to higher global oil prices.

A more positive but diverging global economic outlook in 2021

At the April World Economic Outlook, the IMF revised its projection of global growth in 2021 from 5.5% to 6.0%. This upward revision was driven by larger fiscal measures in several major economies and continued progress in the vaccination rollout, which will facilitate the easing of containment measures especially in the second half of the year.

However, the outlook between advanced economies (AEs) and emerging market economies (EMEs) is expected to diverge, due mainly to differences in the pace of vaccination. AEs are expected to recover earlier, as sufficient vaccines have been secured to achieve herd immunity by the end of 2021, thus facilitating the resumption of economic activity. Additional fiscal measures among some AEs will also provide further support to domestic demand conditions. Meanwhile, most EMEs will likely recover at a slower pace. The pace of vaccination is slower compared to AEs, hence potentially necessitating some re-imposition of containment measures, which will weaken the economic recovery.

The balance of risk remains tilted to the downside, with concerns over the pandemic remaining a key downside risk. This includes a resurgence in COVID-19 cases globally, a lower effectiveness of vaccines amid mutations in virus strains, and a slower-than-expected rollout of vaccines. There are some upside risks to growth, such as faster-than-expected vaccination progress and more forthcoming fiscal stimulus, particularly in AEs.

The Malaysian economy is on the recovery path supported by better external and domestic demand

Despite the recent re-imposition of containment measures, the impact on growth would be less severe than that experienced in 2020, as almost all economic sectors are allowed to operate. Overall, the growth recovery will benefit from better global demand, increased public and private sector expenditure as well as continued policy support. This will also be reflected in the recovery in labour market conditions, especially in the gradual improvement in hiring activity. Higher production from existing and new manufacturing facilities, particularly in the E&E and primary-related subsectors, as well as oil and gas facilities will provide further impetus to growth. The roll-out of the domestic COVID-19 vaccine programme will also lift sentiments and contribute towards recovery in economic activity. Nevertheless, the pace of recovery will be uneven across economic sectors.

The balance of risks remains tilted to the downside, arising mainly from ongoing uncertainties in developments related to the pandemic, and continued challenges that affect the roll-out of vaccines both globally and domestically.

Headline inflation is expected to average higher in 2021, due mainly to higher global oil prices

For 2021 as a whole, headline inflation is expected to average higher between 2.5% and 4.0%, primarily due to the cost-push factor of higher global oil prices. To a lesser extent, the

higher headline inflation rate is also partly due to the lapse in the impact from the tiered electricity tariff rebate implemented from April to December 2020.

In terms of trajectory, headline inflation is projected to temporarily spike in the second quarter of 2021, driven by the lower base from the low domestic retail fuel prices¹¹ in the corresponding quarter of 2020. Headline inflation in April and May may rise to approximately between 6.5% and 7.0%. However, this will be transitory as headline inflation is expected to return to below 5.0% in June, and continue to moderate thereafter as the base effect dissipates. Several other countries¹² are also expecting a similar phenomenon with surges in inflation amid higher energy prices and the base effect of having come from a low inflation rate in the same period last year.

Underlying inflation, as measured by core inflation, is expected to remain subdued, averaging between 0.5% and 1.5% for the year, amid continued spare capacity in the economy.

The inflation outlook, however, is subject to global oil and commodity price developments. In terms of upside risks, the impact on domestic retail fuel prices from higher global oil prices would be limited to some extent by the price ceilings¹³ effective February 2021. In addition, the enhanced Festive Season Maximum Price Control Scheme¹⁴ would help to curb price increases especially in fresh foods, thereby containing overall food inflation in the near term.

¹¹ 2Q 2020 average domestic retail fuel price (RON 95): RM 1.37/litre; Year-to-date (up to 7th May 2021): RM 1.99/litre.

¹² These countries include the euro area, the United Kingdom, Thailand, and Philippines.

¹³ Under the new pricing mechanism, the maximum price for RON 95 and Diesel is set at RM 2.05/litre and RM 2.15/litre, respectively.

¹⁴ The Hari Raya Aidilfitri Festive Season Maximum Price Control Scheme is in effect for 30 days from 21st April – 20th May 2021 (2020: 15 days). Rolled out in phases, there are a total of 32 items subject to price ceilings as of 6th May 2021.