

# Macroeconomic Outlook

## HIGHLIGHTS

- Global growth to improve in 2021, but subject to downside risks.
- The Malaysian economy to recover in 2021.
- Headline inflation is projected to be higher in 2021, while core inflation would remain subdued.

### Cautious optimism going into 2021

At the January World Economic Outlook update, the IMF revised its projection of global growth in 2020 to -3.5% (October projection: -4.4%). This upward revision was primarily due to better-than-expected growth outturns in the third quarter of 2020 across both advanced and emerging market economies.

For 2021, the IMF projects the global economy to grow by 5.5% (October projection: 5.2%). The outlook is underpinned by the 'vaccine-virus race', that is,

the interplay between the ongoing rollout of mass inoculation against COVID-19 and the resurgence in cases. The vaccine is expected to facilitate the eventual resumption of economic activity. However, in the near term, resurgences may still necessitate the reintroduction of containment measures. Consequently, a key downside risk is a re-escalation of the pandemic before coverage rates required for population immunity are reached, particularly if there are delays in the production and distribution of vaccines.

### The Malaysian economy to recover supported by better external demand and the 2021 Budget measures

For Malaysia, the momentum in economic recovery was affected by the resurgence in COVID-19 cases and the introduction of targeted containment measures in several states in the fourth quarter. While there were minimal restrictions on production capacity, the movement restrictions implemented in selected states partly affected domestic demand during the quarter.

For 2021, while near-term growth will be affected by the re-introduction of stricter containment measures, the impact, however, will be less severe than that experienced in 2020. The growth trajectory is projected to improve from the second quarter onwards. The

improvement will be driven by the recovery in global demand, turnaround in public and private sector expenditure amid continued support from policy measures including PENJANA, KITA PRIHATIN, 2021 Budget and PERMAI, and higher production from existing and new facilities in the manufacturing and mining sectors. The vaccine rollout from February onwards is also expected to lift sentiments.

The balance of risks remains tilted to the downside, stemming mainly from ongoing uncertainties surrounding the dynamics of the pandemic and potential challenges that might affect the rollout of vaccines both globally and domestically.

## **Headline inflation is projected to be higher in 2021, while core inflation would remain subdued**

In line with earlier assessments, the average headline inflation was negative at -1.2% in 2020 due mainly to the substantially lower global oil prices. For 2021, headline inflation is projected to average higher, primarily due to higher global oil prices. Underlying

inflation, as measured by core inflation, is expected to remain subdued amid continued spare capacity in the economy. The outlook, however, is subject to global oil and commodity price developments.