

Macroeconomic Outlook

HIGHLIGHTS

- Global economic activity to register a marginal improvement in 2020.
- The Malaysian economy will remain supported by private sector activity in 2020.
- Headline inflation in 2020 is projected to average higher but remain modest.

Global growth to register a mild improvement in 2020

After its weakest performance since the Global Financial Crisis at 2.9% in 2019, global growth is expected to improve marginally in 2020. Trade activity will be supported by the Phase One agreement between the US and PR China.

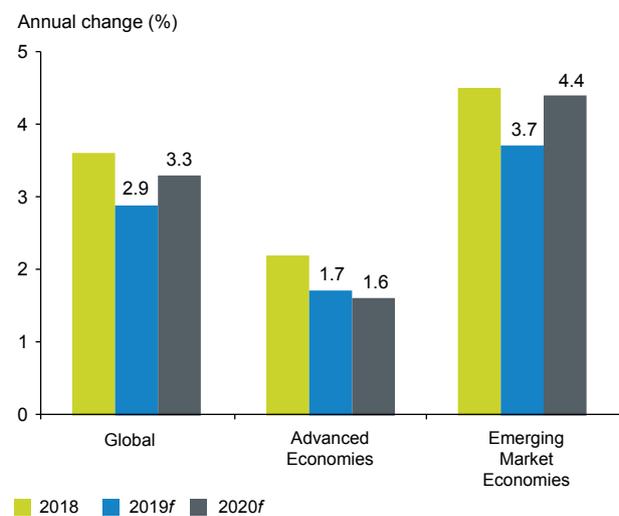
Growth in the advanced economies is projected to be stagnant. The US economy is expected to moderate as labour market conditions soften, with continued weakness in investment and production activity. In the euro area, recovery from previous disruptions in the manufacturing sector will support growth prospects.

PR China and the regional economies are expected to benefit from an improved trade outlook from the Phase One agreement. However, near-term growth prospects will be weighed by the ongoing coronavirus outbreak. Domestic and international travel restrictions, as well as an extension to the Lunar New Year holiday for many businesses in the manufacturing sector, will suppress private sector activity, particularly in the first quarter of the year.

On balance, risks to the global outlook are tilted to the downside, emanating mainly from geopolitical risks, a re-escalation of lingering trade tensions and the severity and duration of the coronavirus outbreak. Such episodes could also cause a resurgence of financial market volatility and further weigh on global growth prospects.

Global growth to marginally improve in 2020

Chart 26: GDP Growth



f Forecast

Source: IMF World Economic Outlook (January 2020)

The Malaysian economy is expected to remain supported by private sector activity in 2020

The Malaysian economy expanded by 4.3% in 2019. Going into 2020, growth, particularly in the first quarter of the year, will be affected by the coronavirus outbreak. The impact will be felt largely in tourism-related sectors, and to a certain extent, in the manufacturing sector through disruptions within the global supply chain and the expected slowdown in PR China. The overall impact on the Malaysian economy will, however, depend on the duration and spread of the outbreak as well as policy responses by authorities.

For the year as a whole, growth will be supported by household spending, underpinned by continued income and employment growth amid modest price pressures. Investment is projected to record a modest recovery, supported by the realisation of approved private investment projects in recent periods, and higher public sector capital spending, particularly in the transport-related segment. Meanwhile, the external sector is expected to benefit

from the gradual recovery in global growth and trade.

The growth momentum is subject to high near-term downside risks. The most significant would be the prolonged impact of the coronavirus. In addition, uncertainties remain in global economic and financial conditions. On the domestic front, risks emanate mainly from weakness in the commodities sector and delays in projects implementation.

Headline inflation is expected to be higher but remain modest in 2020

The annual average headline inflation is projected to be higher but remain modest in 2020. The trajectory of headline inflation will be dependent on global oil and commodity price developments and the timing of the lifting of the domestic retail fuel price ceilings.

Underlying inflation is expected to be broadly stable, reflecting the continued expansion in economic activity and the absence of strong demand pressures.