Macroeconomic Outlook

HIGHLIGHTS

- Continued expansion in global growth, underpinned by the advanced and emerging market economies.
- The Malaysian economy is expected to remain on a steady growth path in 2018.
- Headline inflation is expected to moderate in 2018 due mainly to the changes in the consumption tax policy.

Global growth to continue expanding

Global economic momentum, although still strong, is expected to moderate in the second half of 2018.

In advanced economies, activity will continue to be driven by strong labour market conditions, lending support to private consumption. The US economy will also continue to benefit from the impact of expansionary fiscal policy on business spending, amid more moderate investments in other advanced nations.

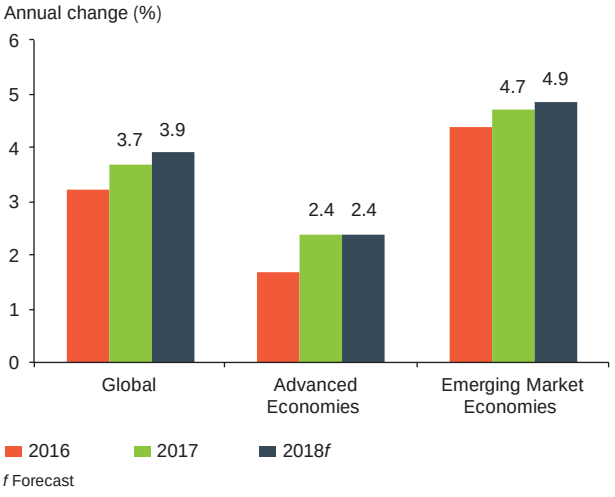
Growth in the Asian region is expected to slow in the second half of the year, as the global trade cycle normalises. Nevertheless, domestic activity will continue to anchor growth, supported by expansionary fiscal measures, such as higher infrastructure spending.

Downside risks to the global economy have risen in recent months. Trade developments remain the primary source of concern, as conflicts among major economies continue to worsen. Further escalation is likely to weigh on trade and business sentiment in export-related industries. There will also be disruptions in the global supply chains from higher input costs, which will constrain profitability.

Downside risks also stem from ongoing monetary policy normalisation in the advanced economies. Amid rising inflationary pressures, a faster-than-expected pace of tightening could accelerate capital outflows from emerging economies, posing further risk to the global outlook.

Growth improvements projected across regions

Chart 27: GDP Growth

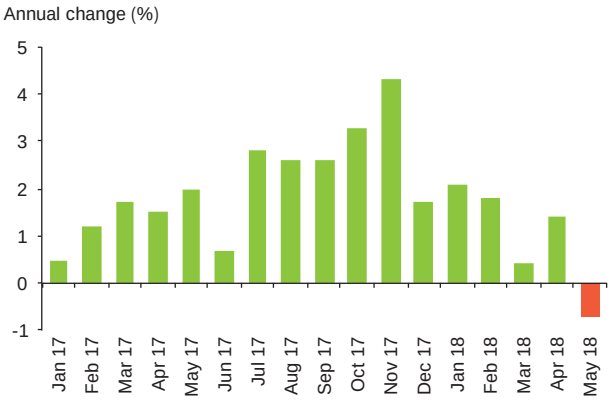


f Forecast

Source: IMF World Economic Outlook (July 2018)

Mixed performance of leading indicator in recent months

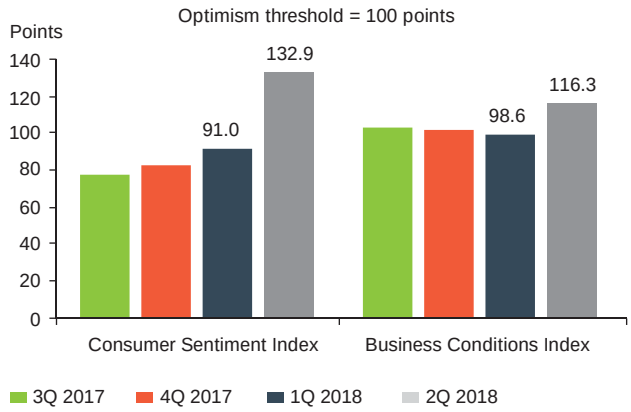
Chart 28: Composite Leading Index



Source: Department of Statistics, Malaysia

Strong improvements in sentiment indicators in 2Q 2018

Chart 29: MIER Consumer Sentiments and Business Conditions Index



Source: Malaysian Institute of Economic Research

The Malaysian economy is expected to remain on a steady growth path in 2018

The Malaysian economy continued to expand in the first half of 2018. Private sector activity remained firm. Going forward, growth is expected to be broadly sustained, supported mainly by private sector spending.

While the Department of Statistics, Malaysia's Composite Leading Index indicated mixed performance in recent months, the strong improvements in the MIER Consumer Sentiments Index and MIER Business Conditions Index are expected to be supportive of private sector spending. Private consumption will be underpinned by continued wage and employment growth, with an additional impetus from higher household spending due to the zerorisation of GST. Investment activity will be driven by capacity expansion mainly in the export-oriented industries and ongoing infrastructure projects, particularly in the transport and utilities sub-sectors. Nevertheless, overall growth may be partially weighed down by lower public sector spending. On the external front, trade activity will continue to benefit from the continued expansion in global growth. As such, Malaysia is still expected to achieve a healthy current account surplus of 2-3% of GNI for the year.

Greater certainty in domestic policy in the coming months is expected to provide support to growth prospects. Malaysia's macroeconomic fundamentals remain strong, and thus provides the country with the requisite buffers to effectively manage potential shocks to the economy.

While headline inflation is expected to moderate, the extent of moderation would depend on the pass-through from changes in the consumption tax policy

Headline inflation is projected to remain moderate during the zerorisation of the GST, before it increases in September after the implementation of the sales and services tax (SST). This inflation outlook would depend on the extent of pass-through from the zerorisation of the GST rate and from the SST. For 2018 as a whole, headline inflation could be lower than earlier forecast.

Underlying inflation, which excludes the impact of changes in the consumption tax policy, is expected to remain relatively stable in the coming quarters supported by sustained private sector spending. Demand-driven inflationary pressures is expected to remain contained amid the lack of persistent tightness in capital stock and wage pressures.