

Economic Outlook 2021 The road to redemption

Standard Chartered Global Research

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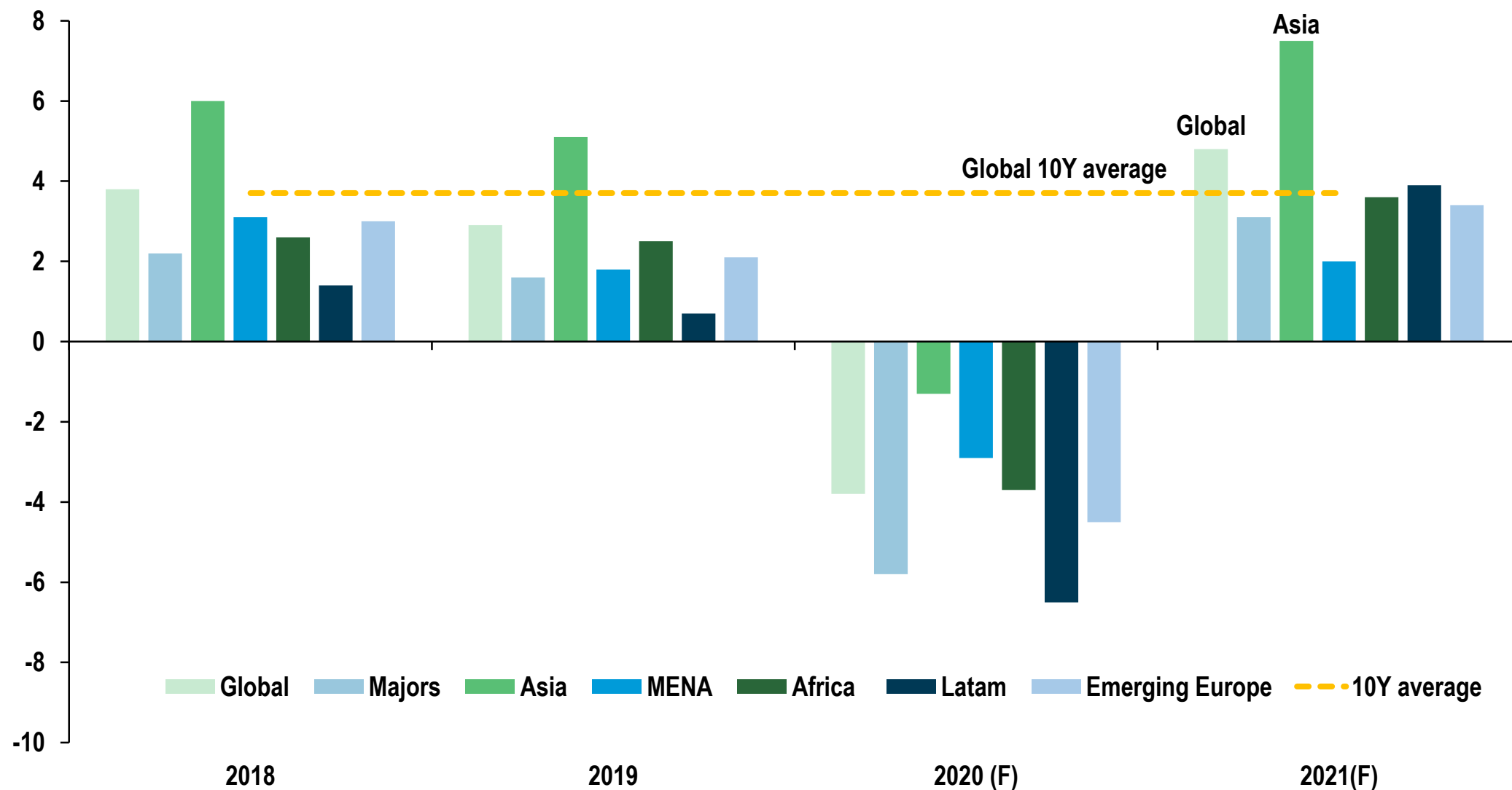


What is the economic outlook for 2021?

Global growth is set to rebound in 2021, partly due to base effect

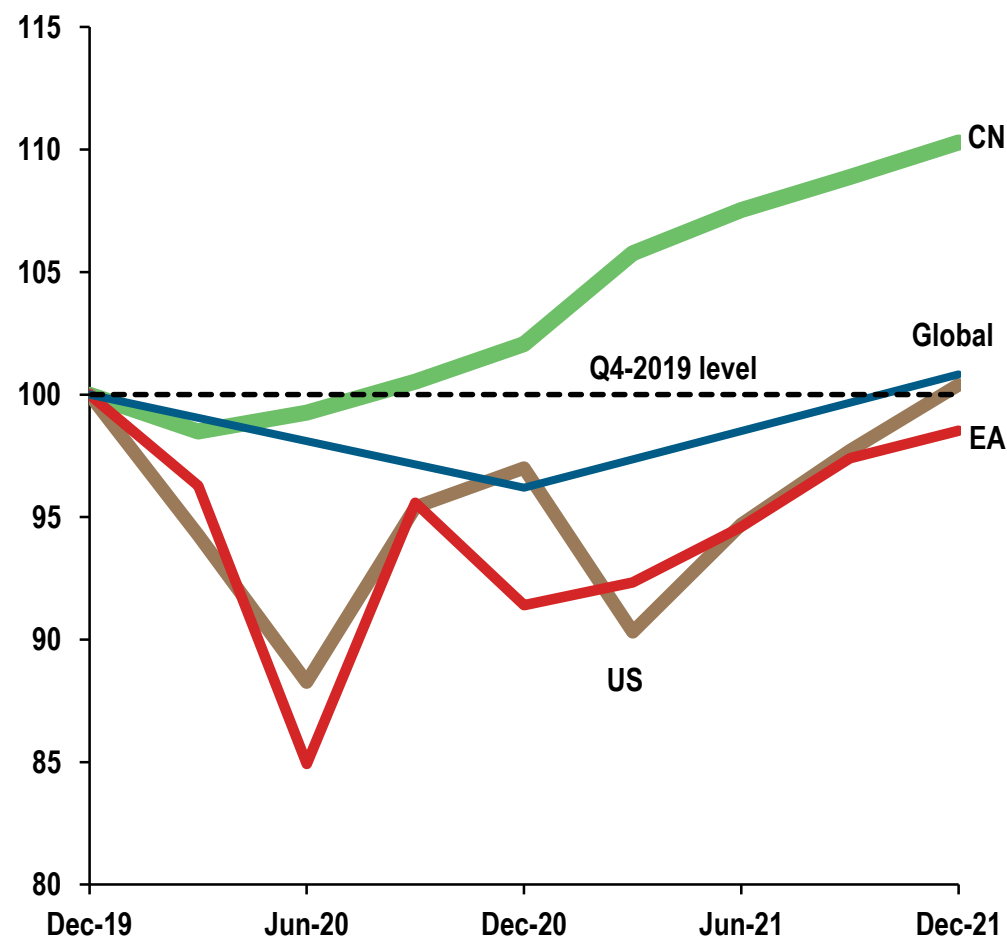
Asia is set to outperform again

GDP, annual %

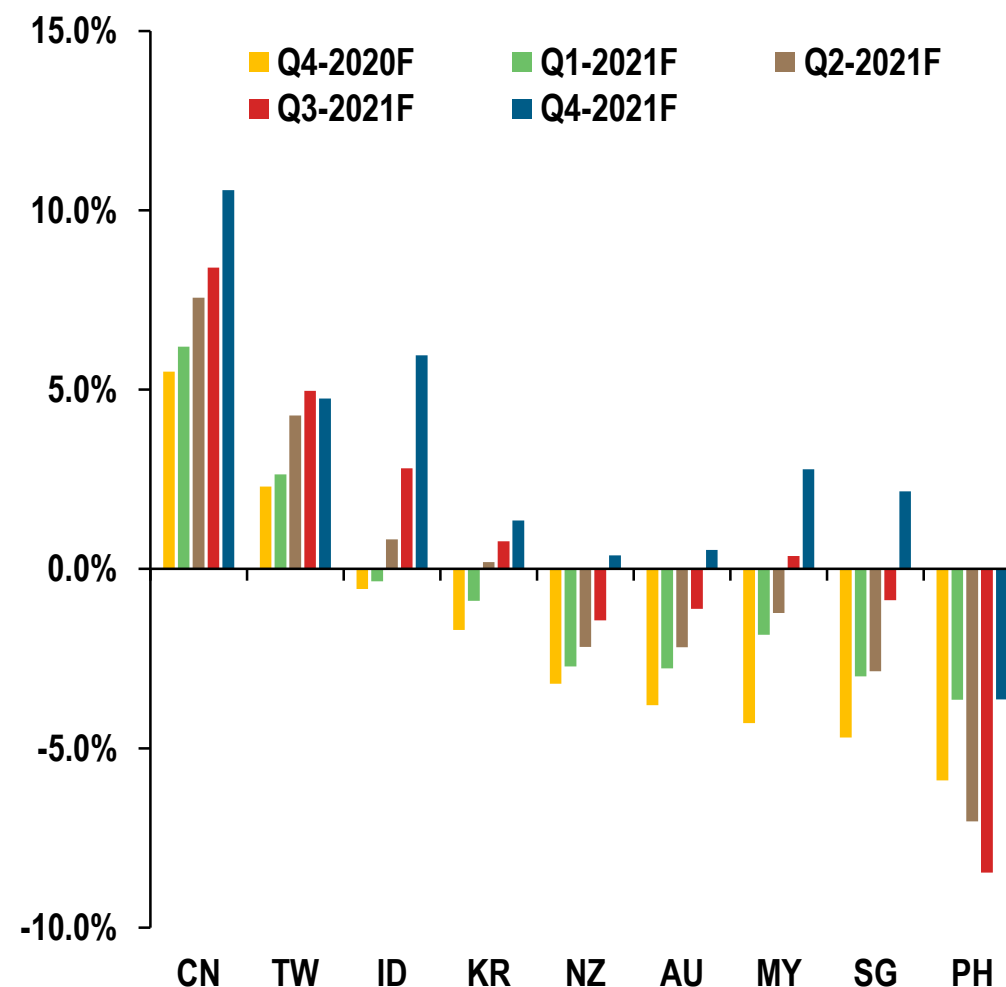


Most economies to recover to pre-COVID levels only by end-2021

**US to return to Q4-2019 GDP level by end-2021;
euro area to remain below**
GDP levels, Q4-2019 indexed to 100

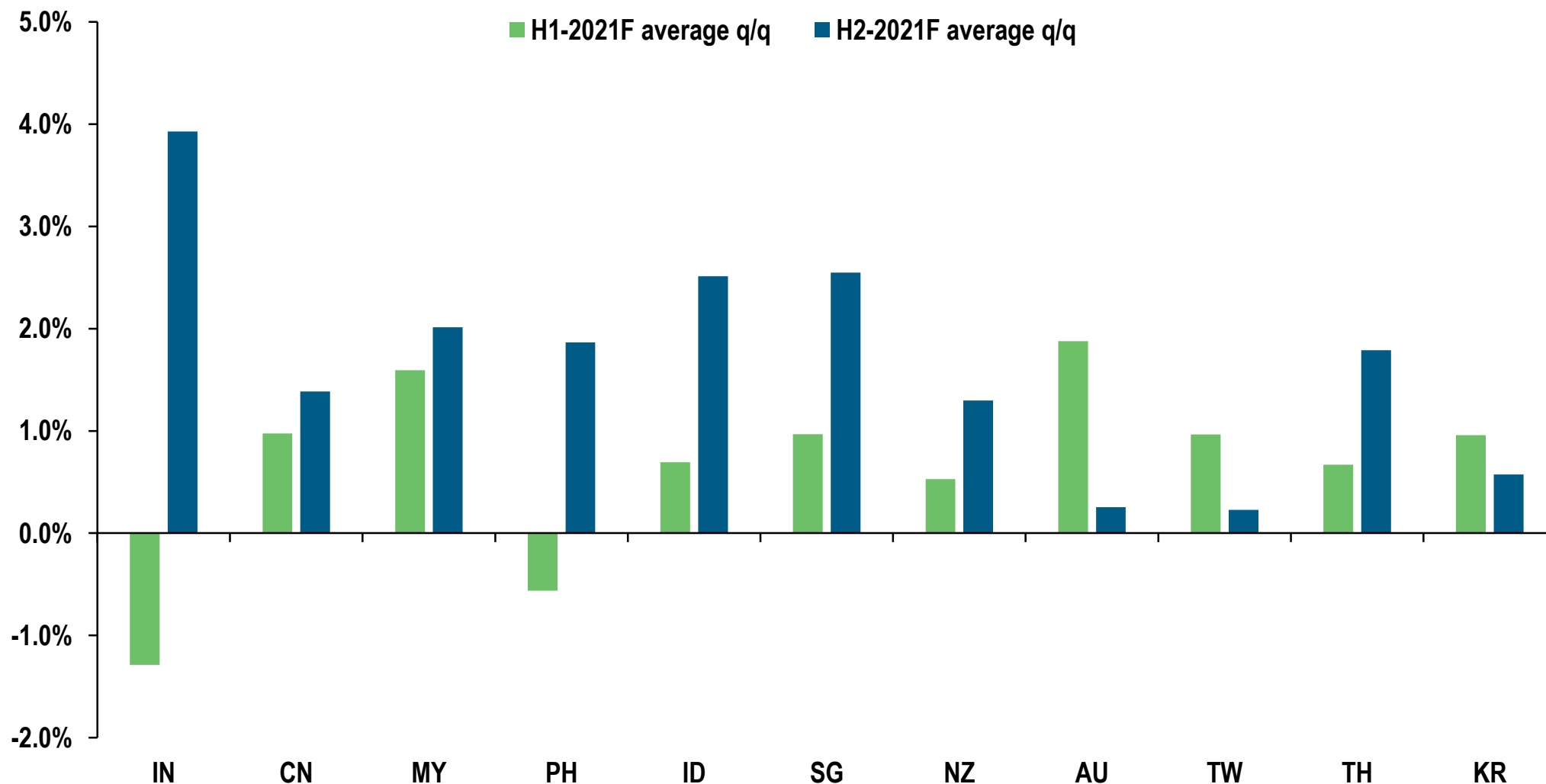


Only China and Taiwan begin 2021 with GDP activity above pre-COVID levels
GDP levels, % deviation from Q4-2019



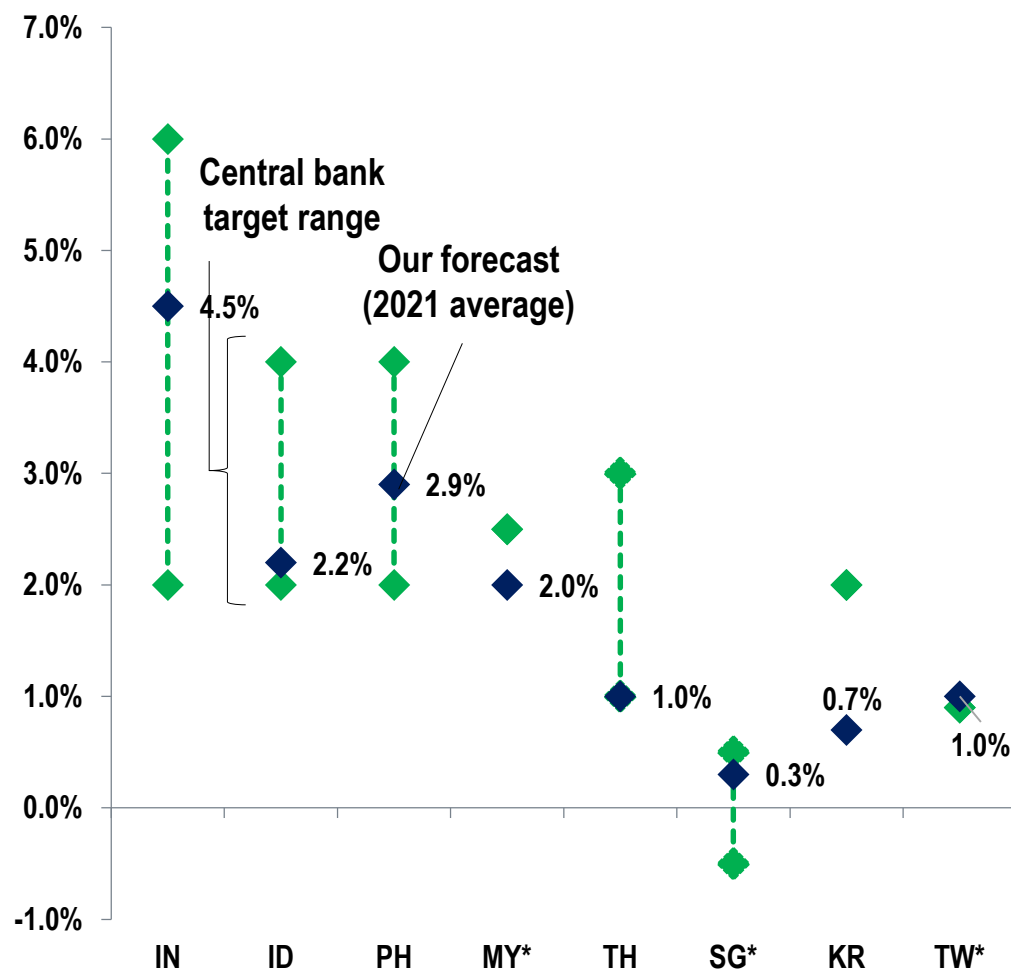
Economic recovery to pick up pace in H2 for most economies

Average sequential growth in H2 higher than in H1 for most economies on projected vaccine application in H2 (% q/q average in H1 and H2, economies ranked by 2021F y/y growth)

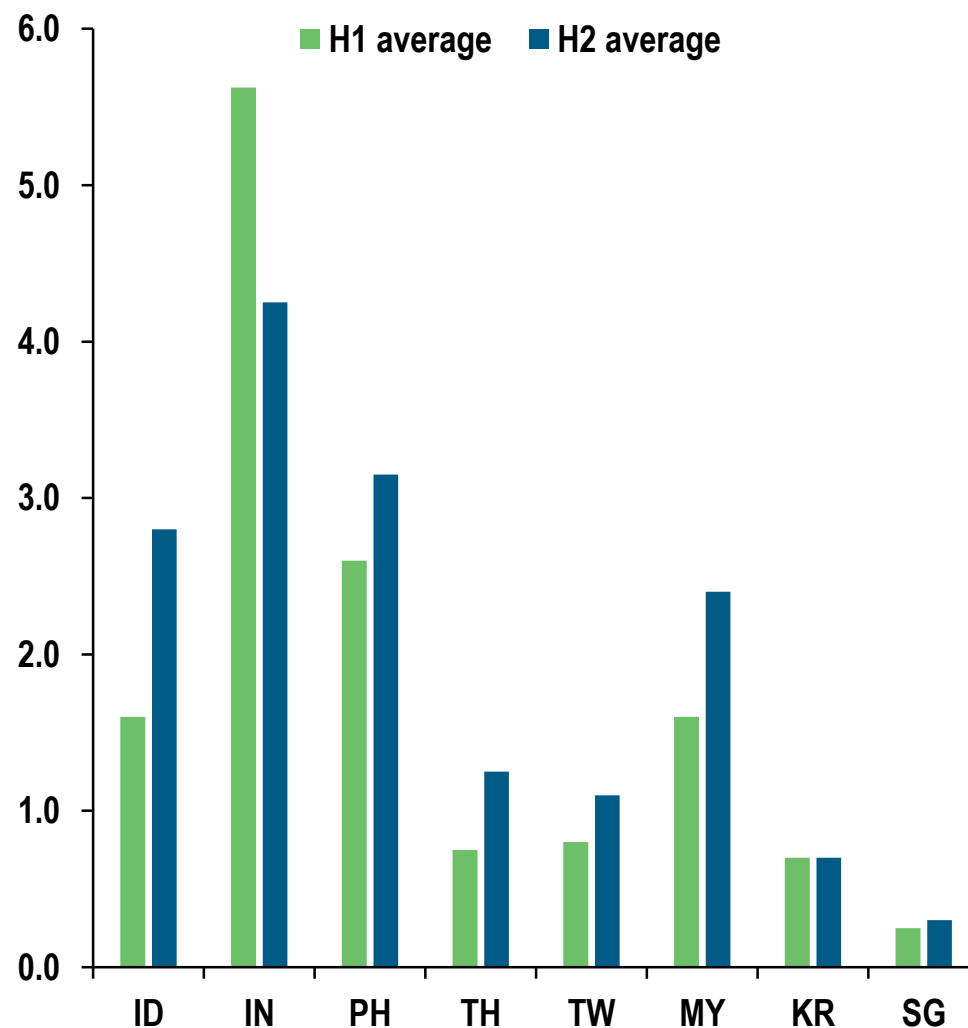


Inflation to remain subdued in 2021

2021 inflation to remain within or below central bank ranges (Inflation, %)



Inflation to pick up in H2 as negative output gap narrows on economic recovery (Inflation, %)



Preventing the risk of a fiscal cliff

Reduced fiscal deficit in 2021 but still substantial stimulus to prevent risk of a fiscal cliff

Fiscal balance, % of GDP

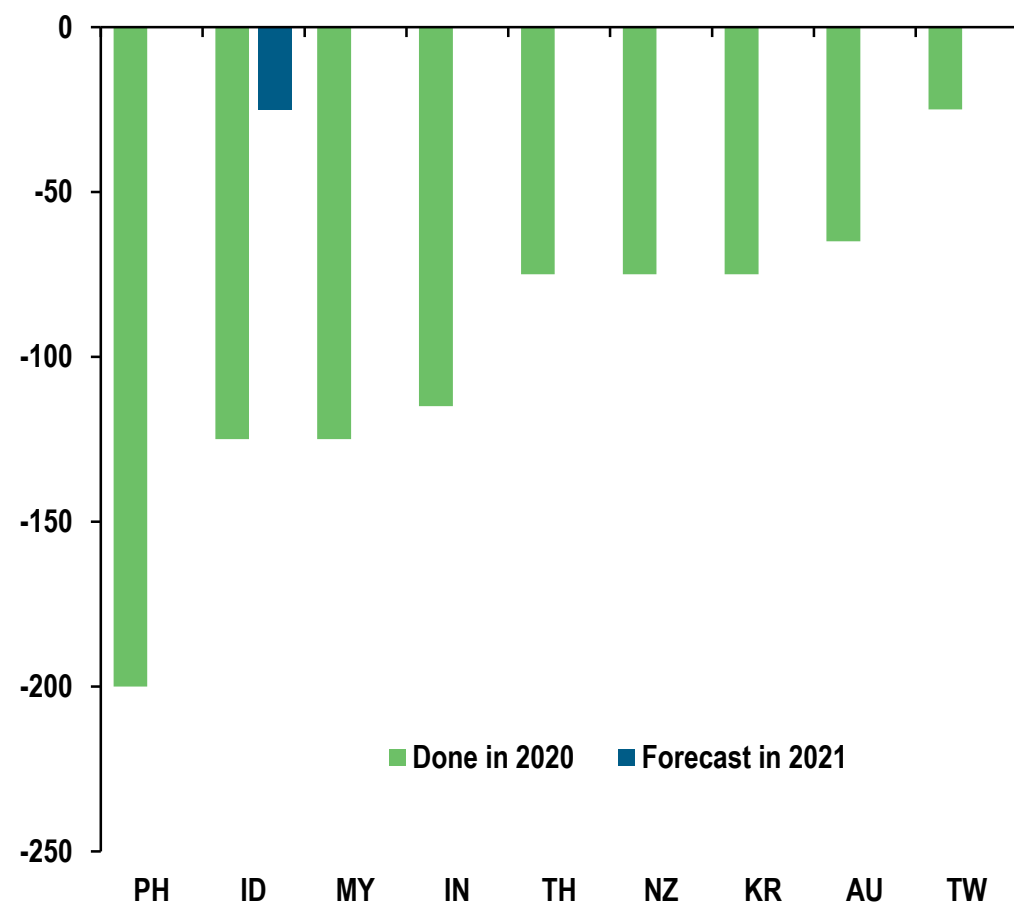


Risks to recovery besides COVID-19

Potential premature withdrawal of policy support is a risk

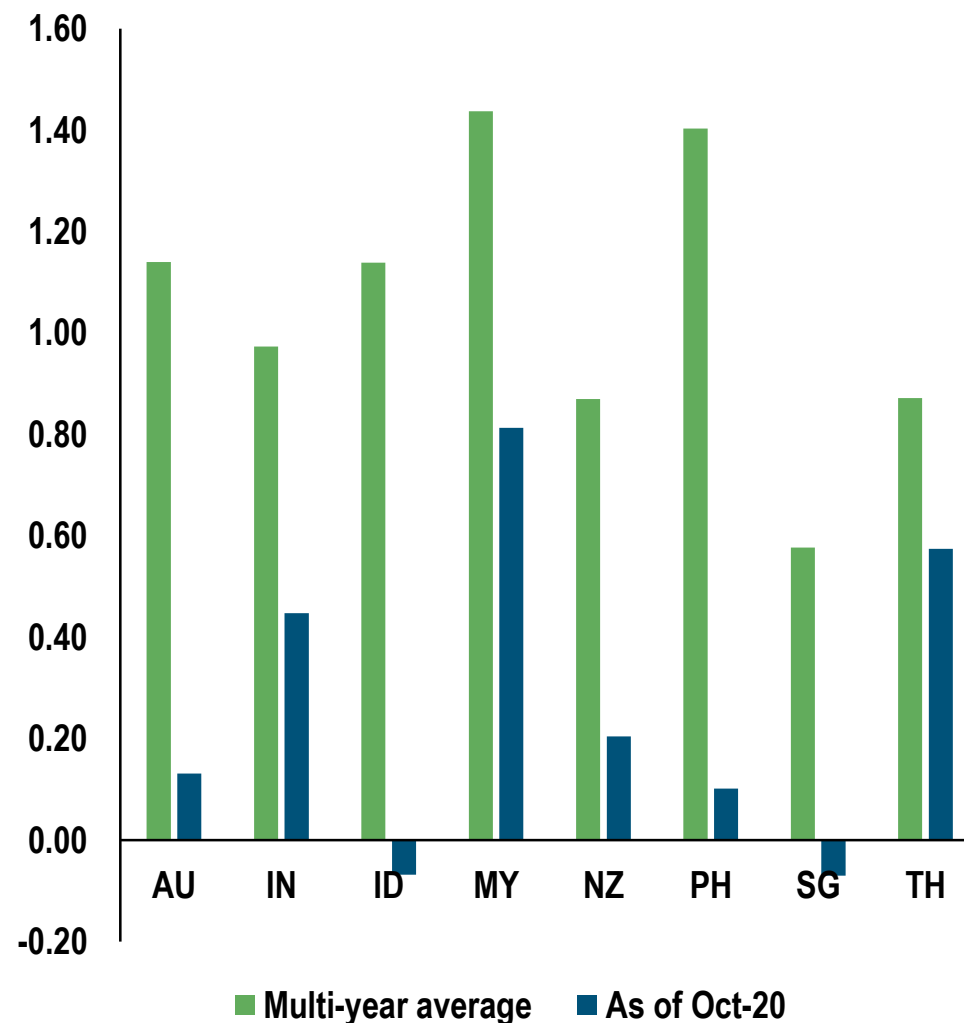
Rate cuts have been front-loaded

Policy rate cuts, bps



Animal spirits remain lacking in Main Street

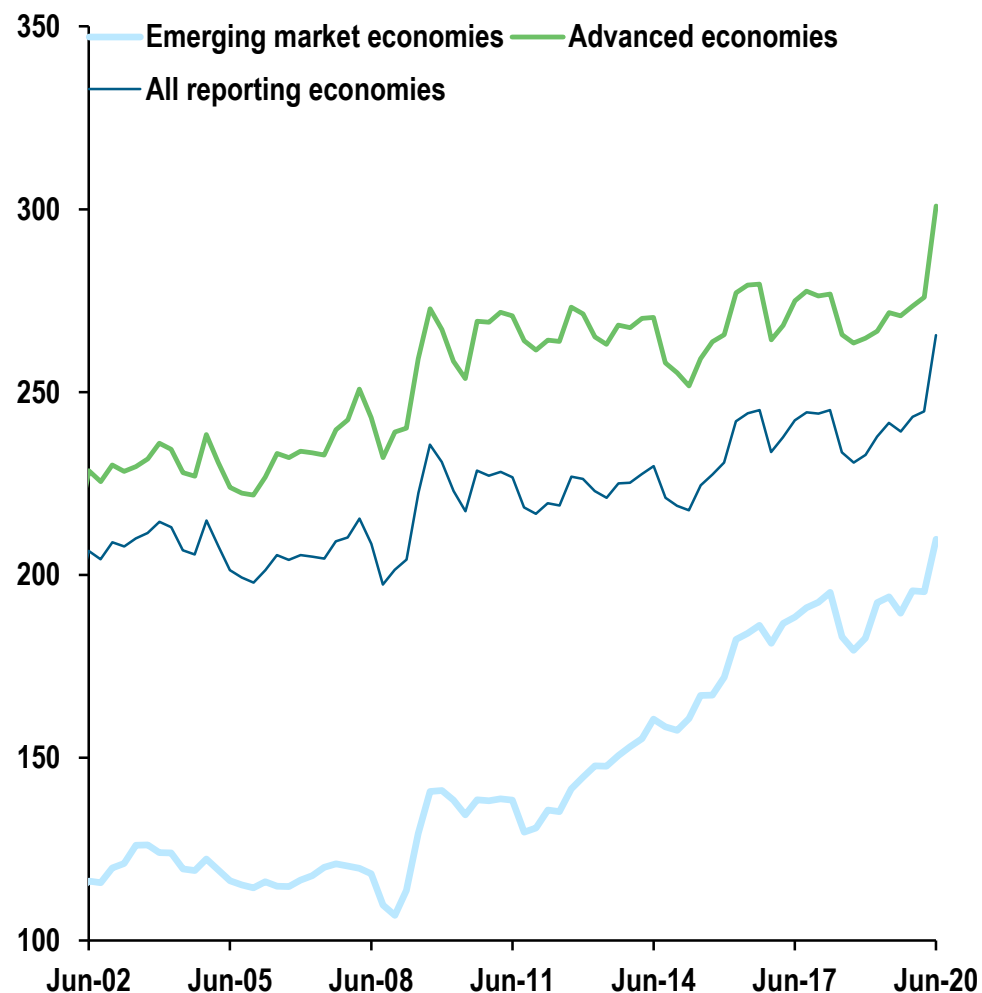
Loan growth y/y to broad money growth y/y ratio



Risk of potential financial stresses due to higher leverage

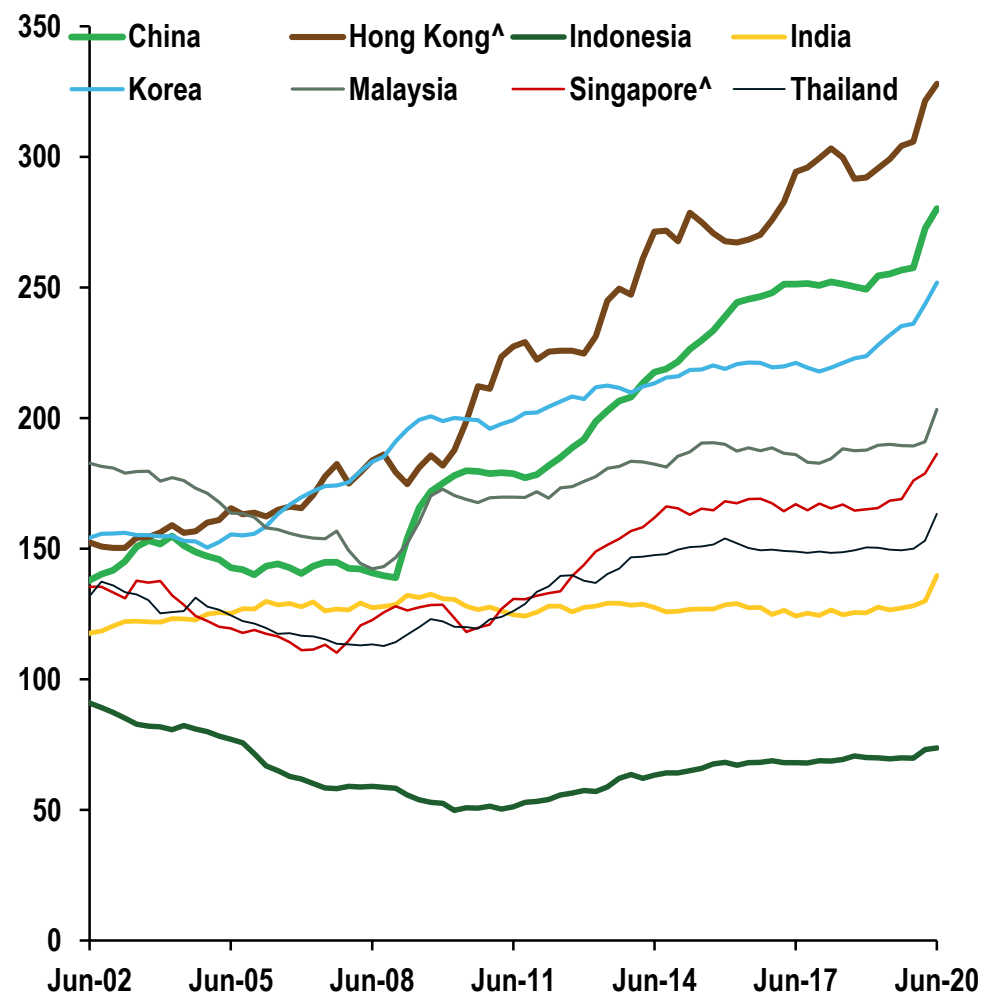
Global debt to GDP rose more than 20ppt since end-2019 as of Q2-2020

Debt-to-GDP aggregates, %*



China likely to guide credit growth lower to stabilize the macro leverage

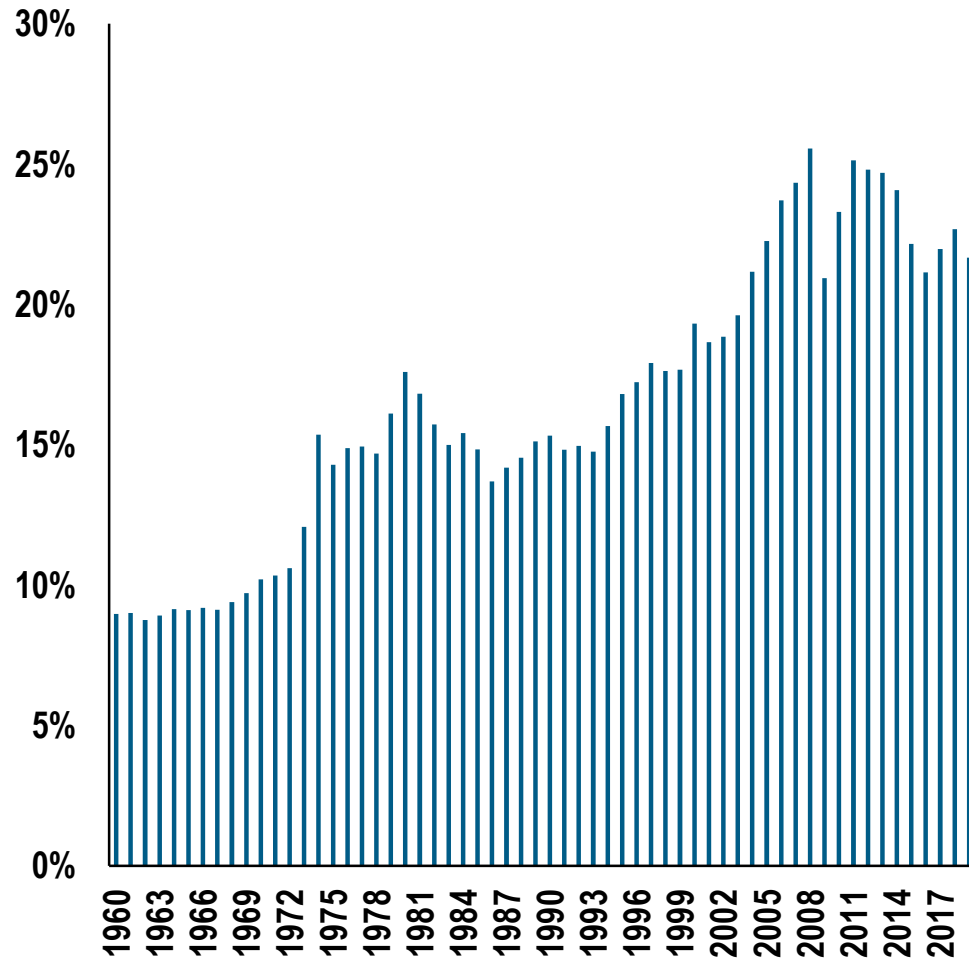
Debt-to-GDP, %



Tenuous US-China relationship remains a key geopolitical risk

Global trade appears to have peaked

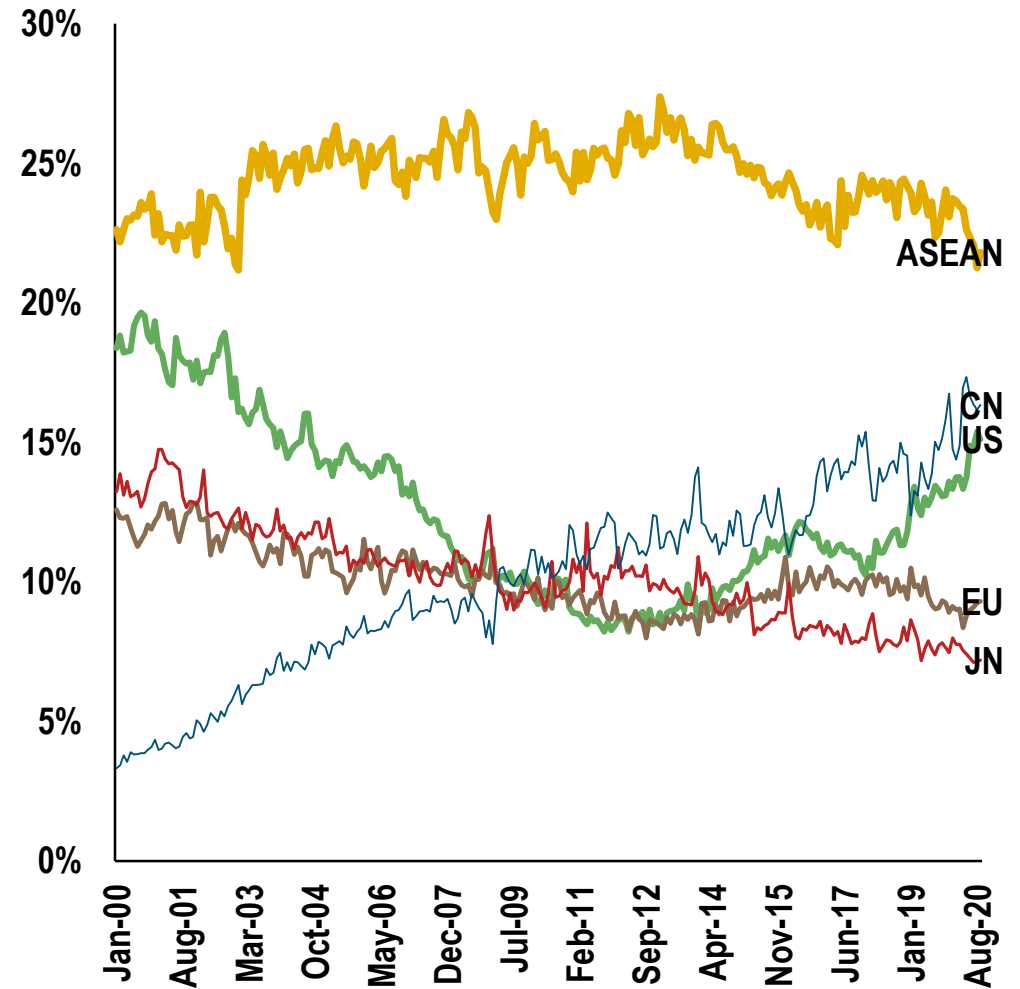
World exports-to-GDP ratio



Source: World Bank, Standard Chartered Research

Is ASEAN becoming the middle-man?

% of ASEAN total exports



Source: CEIC, Standard Chartered Research

Malaysia – Watch the labour market

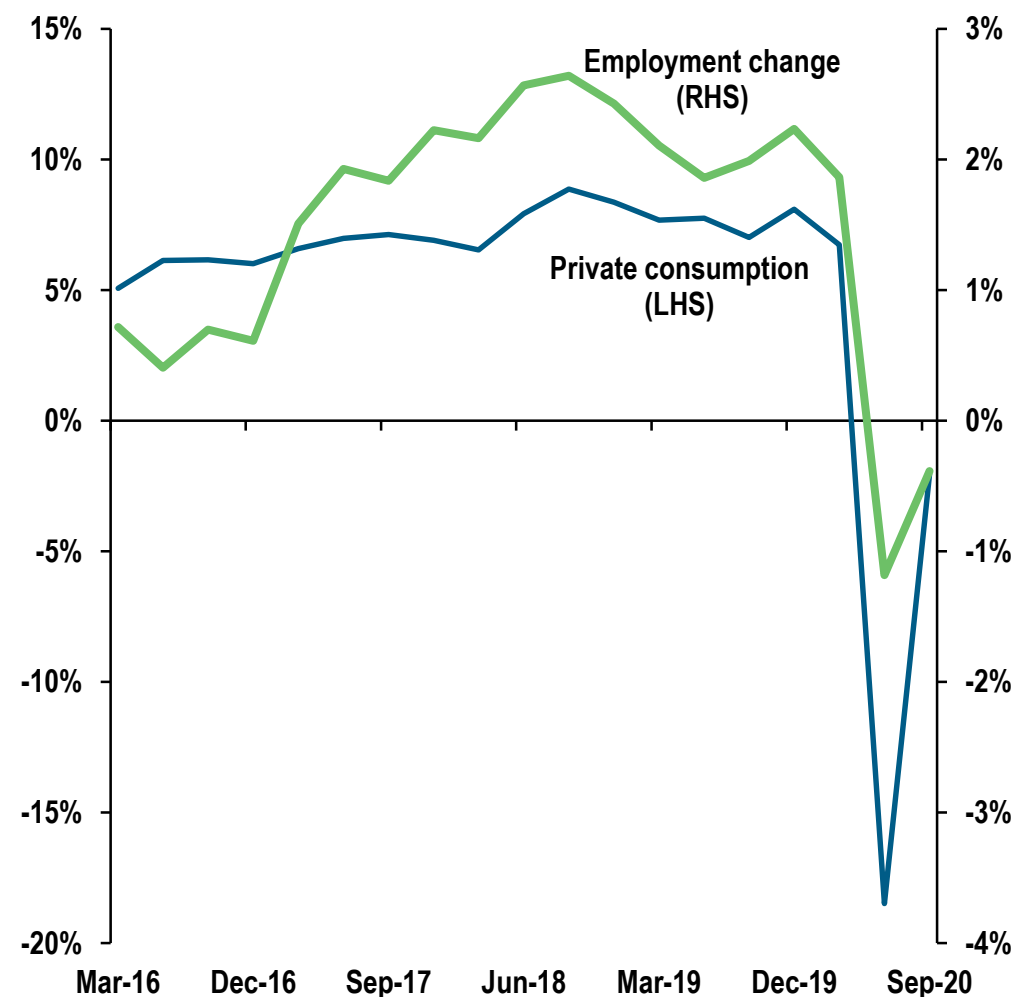
Malaysia macroeconomic forecasts

	2020	2021	2022
GDP growth (real % y/y)	-5.8	7.5	5.5
CPI (% annual average)	-1.1	2.0	2.7
Policy rate (%)*	1.75	1.75	1.75
USD-MYR*	4.05	3.90	3.90
Current account balance (% GDP)	3.6	1.7	1.8
Fiscal balance (% GDP)	-6.0	-5.4	-4.5

*end-period; Source: Standard Chartered Research

Employment is key to a consumption revival

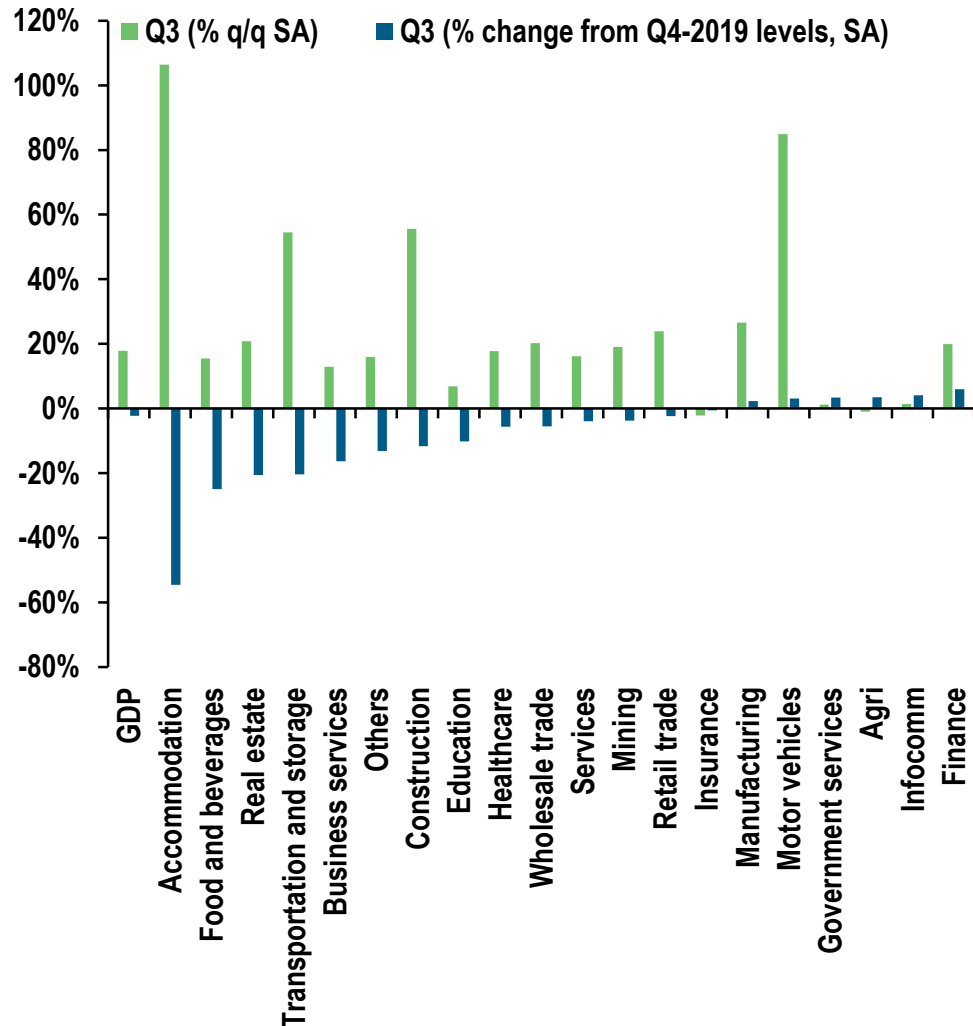
% y/y



Source: CEIC, Standard Chartered Research

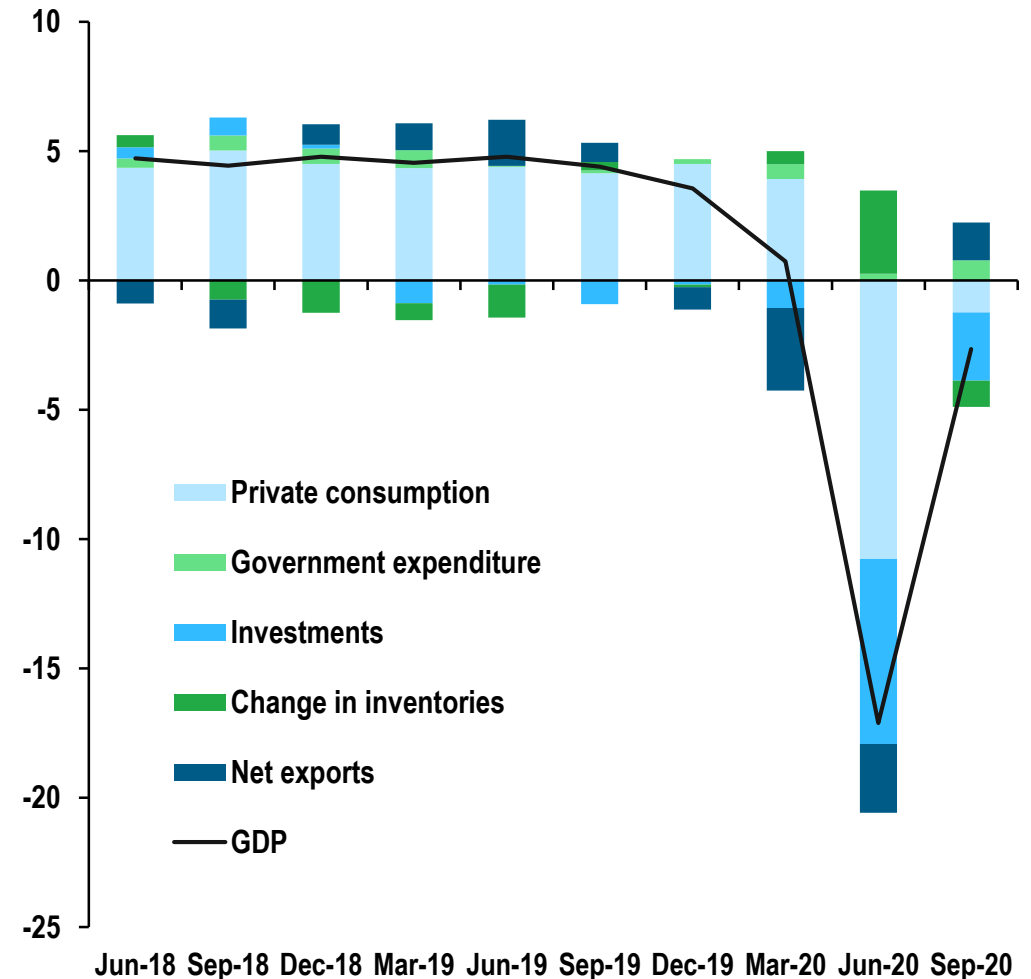
Still making up for lost activity

Uneven hit to sectors from the pandemic %



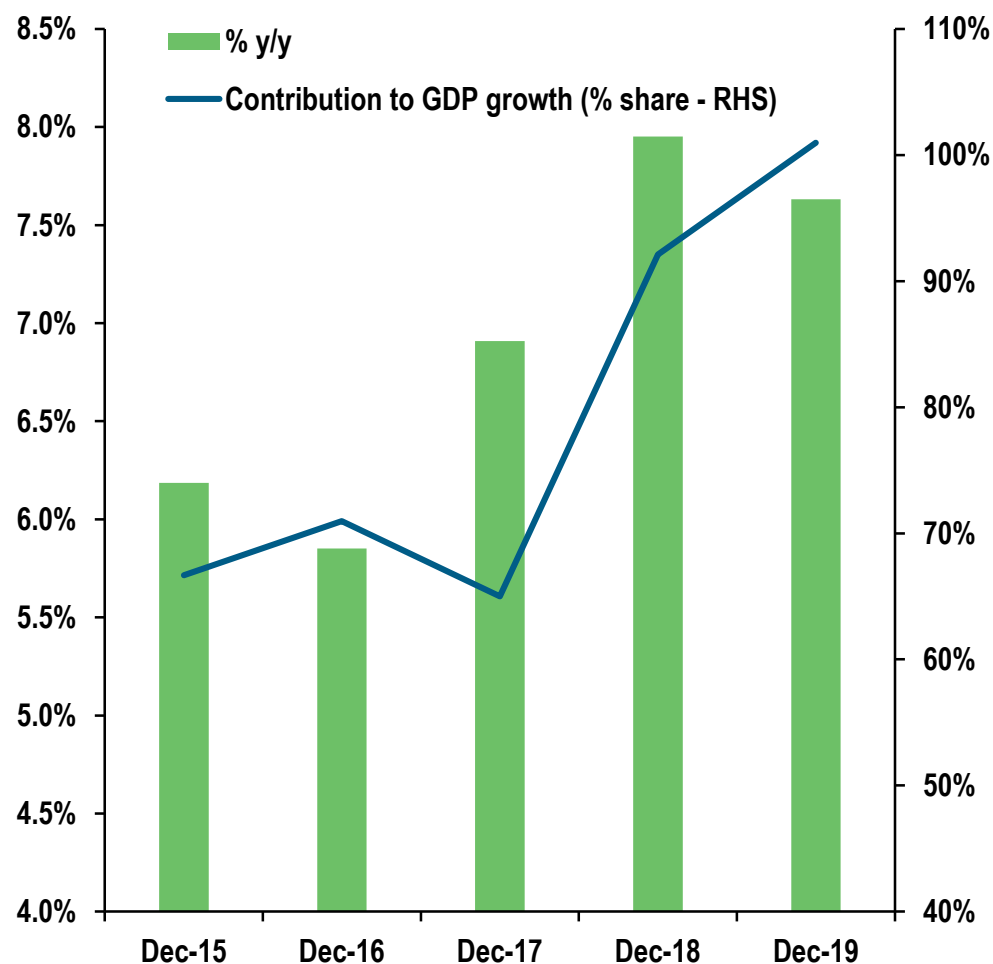
Private consumption and investment hit hard by the pandemic

Ppt contribution to y/y GDP growth

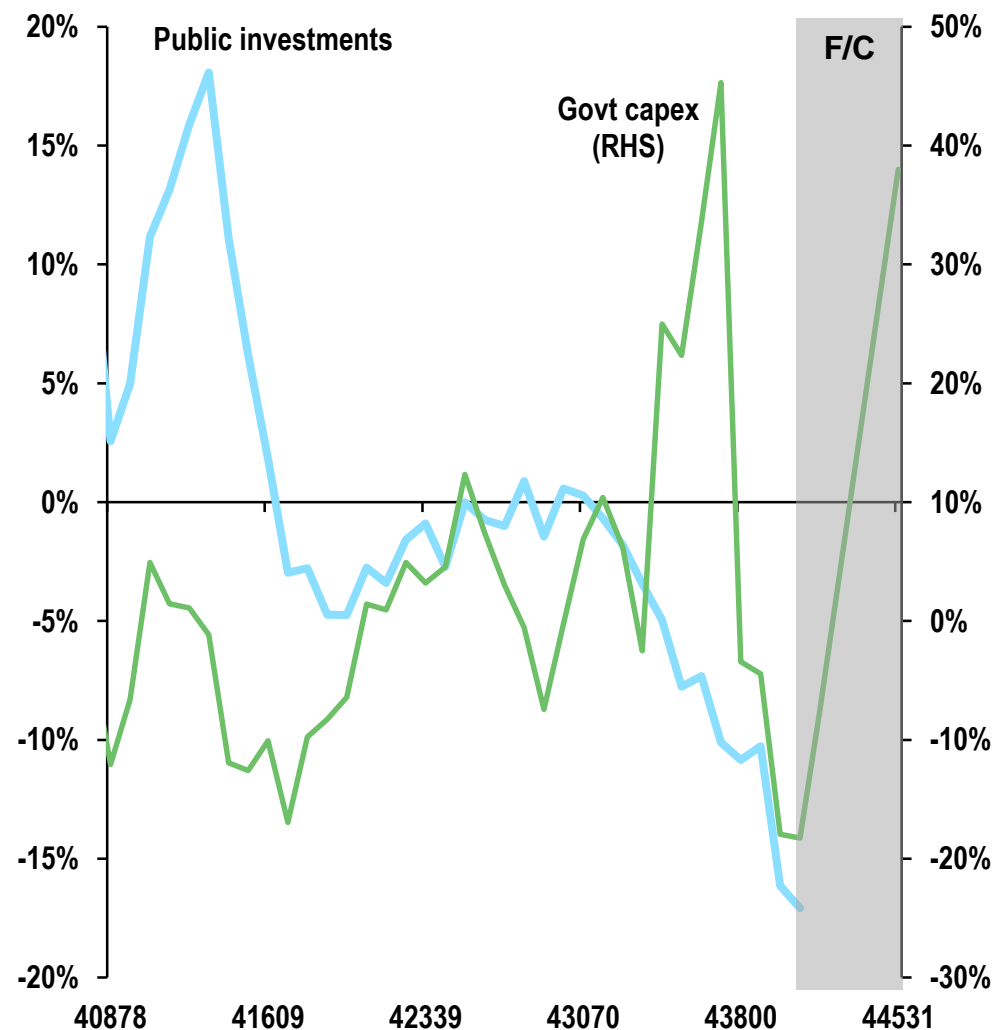


Growth recovery hinges on recovery of the consumer

Consumer spending contributed more than 90% to GDP growth in two years pre-COVID
% y/y (LHS); % share (RHS)



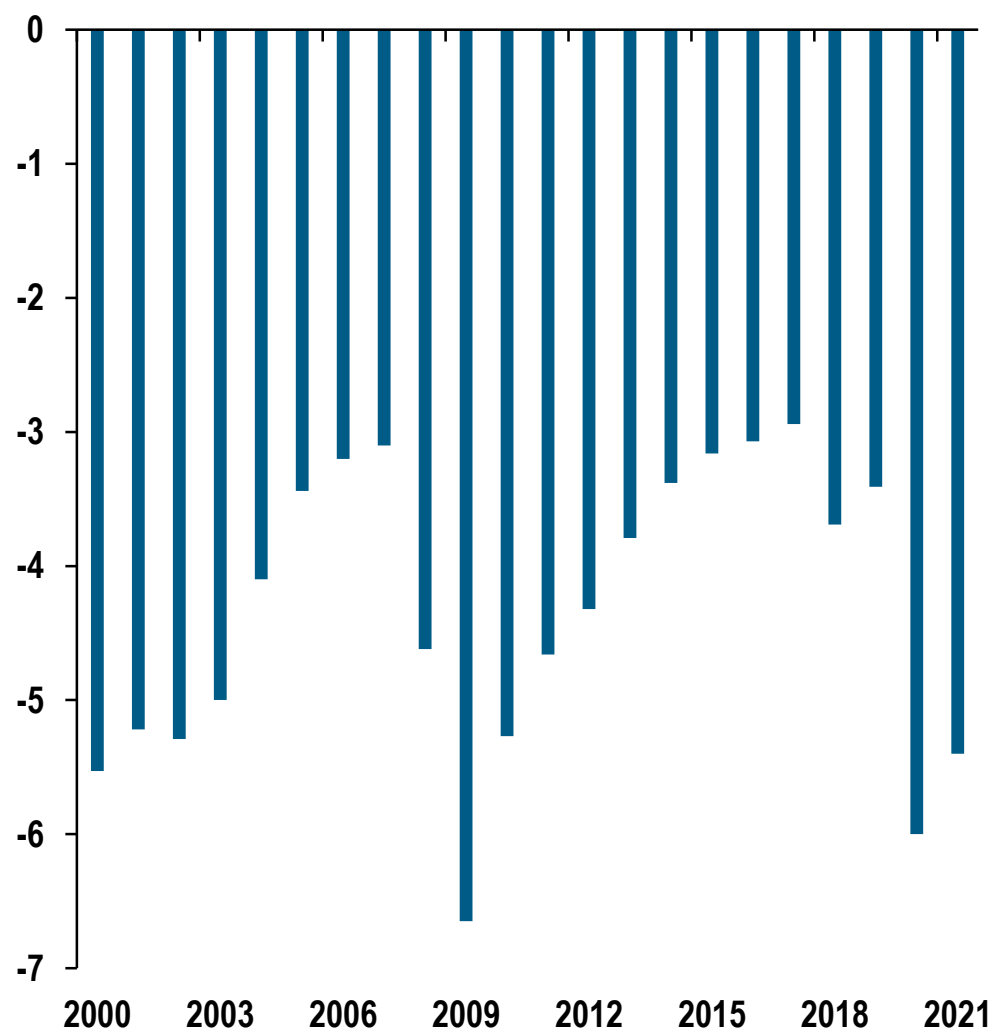
Public investment weighed on 2019 growth
% y/y 4QMA



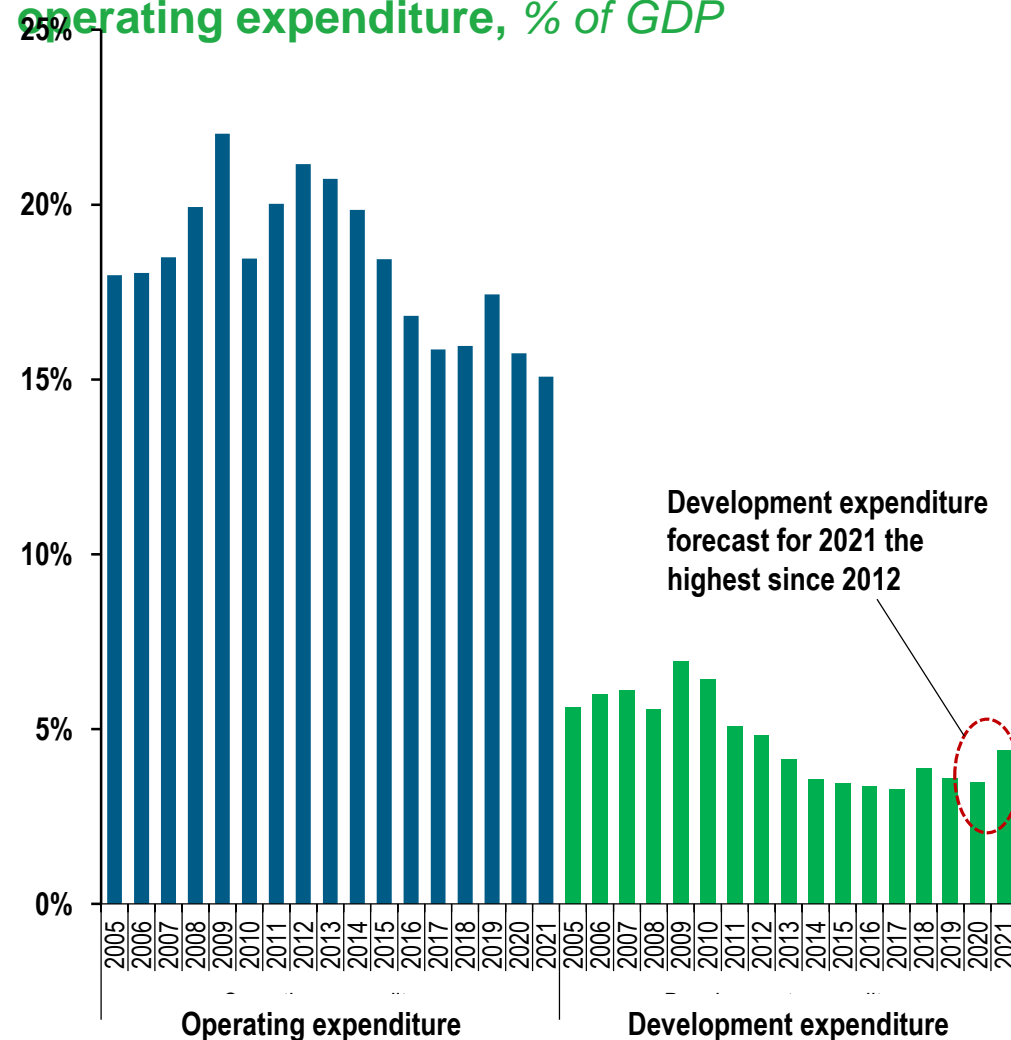
Preventing the risk of a fiscal cliff – Still-substantial fiscal deficit in 2021

Largest budget deficit since 2009

Budget balance (% of GDP)

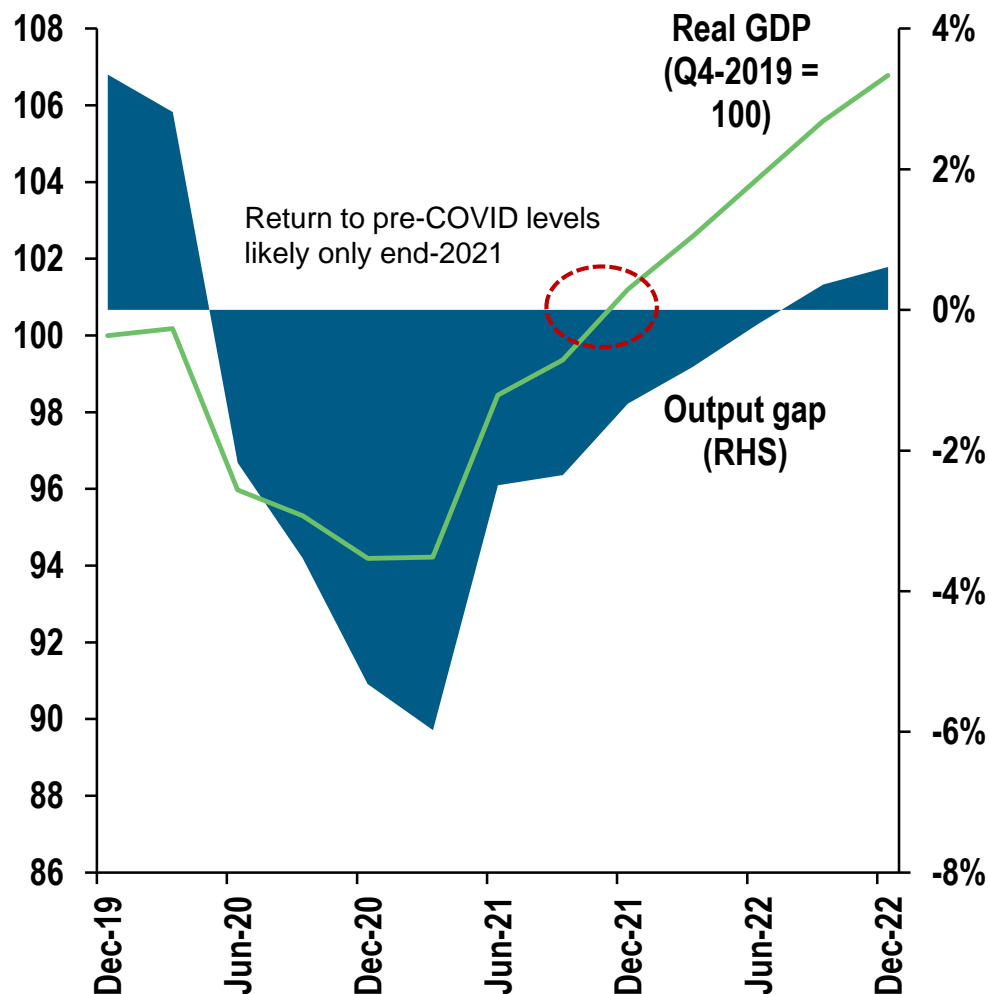


Increased allocation to development expenditure but reduced allocation to operating expenditure, % of GDP

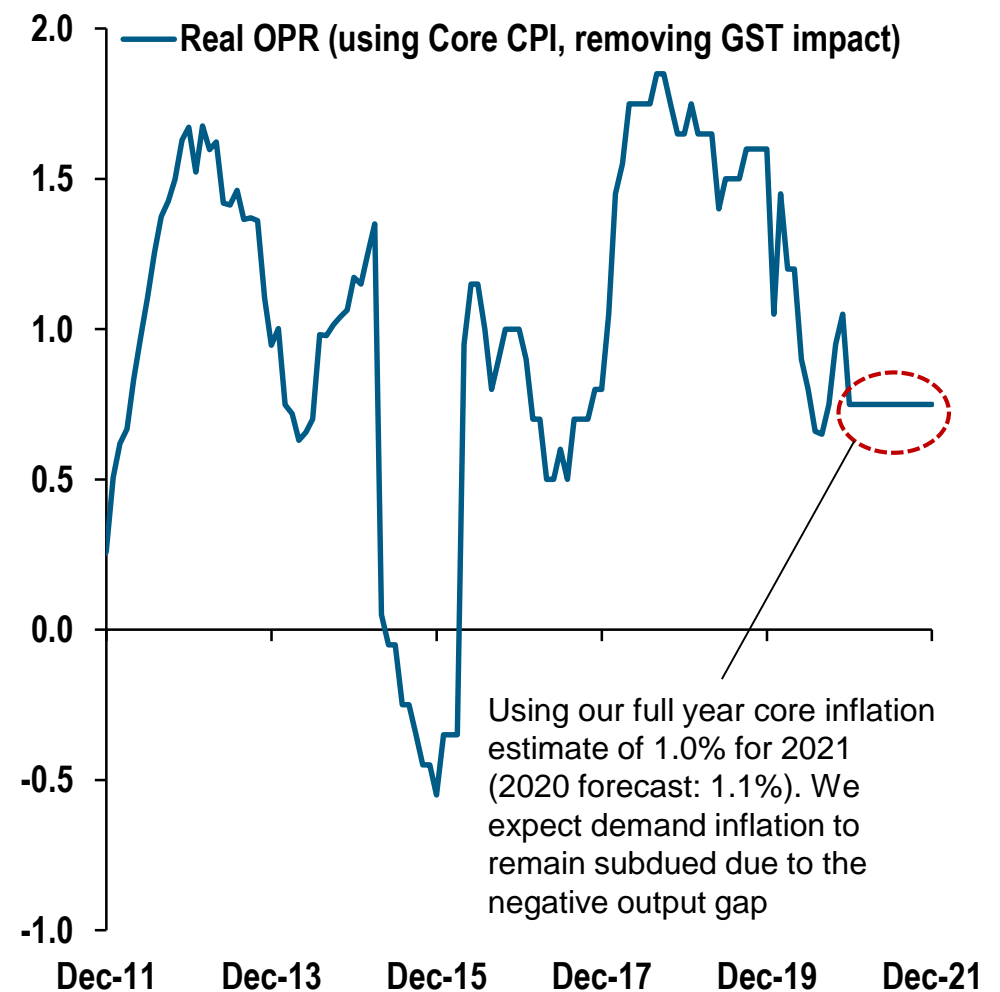


We expect BNM to pause for now but risk is another cut

Demand inflation to remain subdued amid negative output gap, Real GDP 4QMS, Q4-2019 indexed to 100 (LHS); % (RHS)



Real rates likely still elevated on subdued core inflation; inflation unlikely a threat, ppt



We expect the MYR to be a key beneficiary of improved global trade, higher commodity prices and a stronger CNY

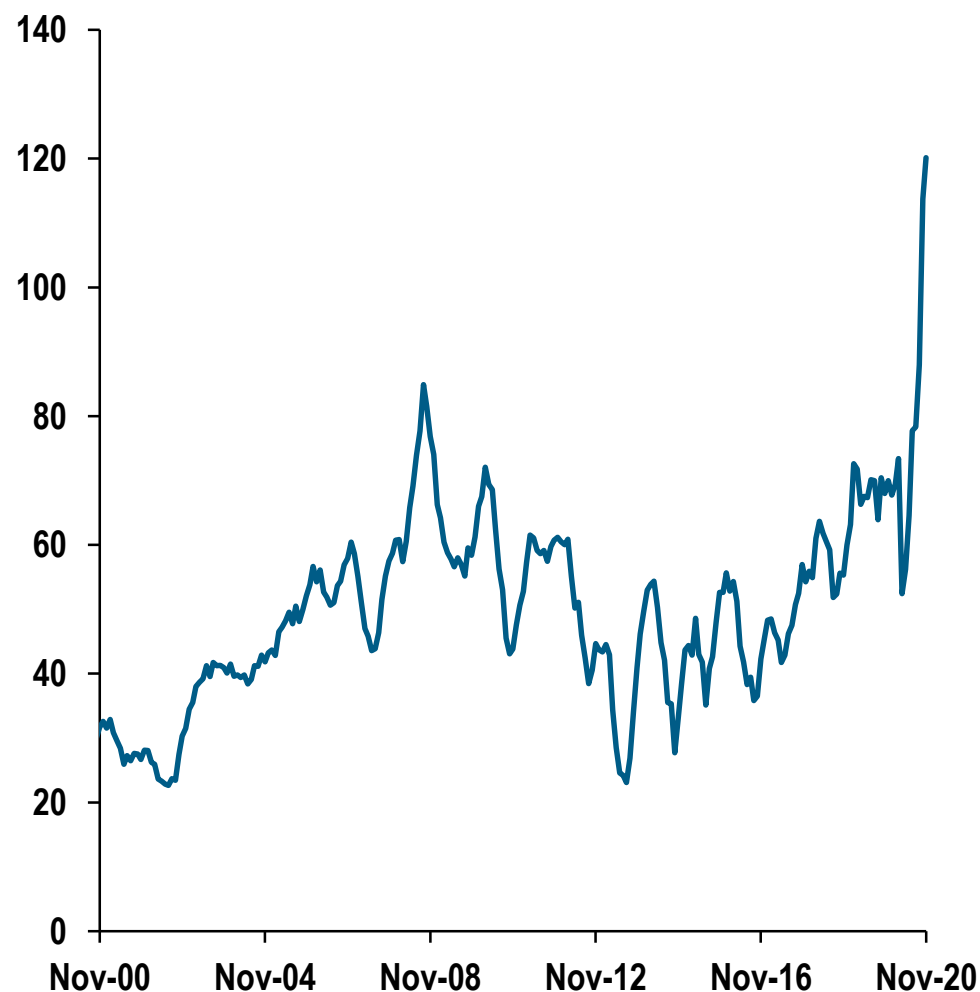
MYR valuations remain favourable and are unlikely to impede further appreciation

MYR REER



Rising trade surplus has been a favourable dynamic for the MYR

Trade balance, rolling 6M (MYR bn)



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