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April 4, 2022

**Statement by Mr. El Qorchi and Mr. Belhaj on Malaysia
(Preliminary)
Executive Board Meeting
April 6, 2022**

We thank staff for their informative report and Ms. Lim, Mr. Mochtar, and Mr. Azlan Ariff for their helpful Buff statement. We commend the authorities for their strong and multi-pronged response to the 2021 pandemic, which has helped sustain the recovery. We note however the significant downside risks to the outlook that call for vigilance and appropriate and rapid adjustment of economic policies when needed. **We broadly agree with staff's appraisal and offer the following comments.**

We support staff's recommendation for additional budget support in the near term. We note that the recovery has been uneven, and that downside risks have increased significantly, including from the potential spillover effects of the war in Europe, posing risks of long-term economic scarring and increased vulnerability. We welcome the authorities and staff's convergence of views on the need for a carefully calibrated fiscal stimulus targeting vulnerable groups and affected SMEs to limit the loss of viable businesses and human capital. At the same time, this stimulus could support the authorities' efforts to promote new growth areas for a greener and more digital economy. We also welcome the authorities' commitment to medium-term fiscal consolidation based on a thorough prioritization of expenditures and a comprehensive revenue mobilization strategy, necessary to rebuild fiscal buffers and avoid slippage in public debt. We urge a swift adoption of the Fiscal Responsibility Act in 2022, which should help to anchor transparency, accountability, and good governance in public financial management.

We commend the authorities for their sound monetary framework and agree that the stance of monetary policy in the face of current uncertainties should be data dependent. The monetary policy stance remains appropriately accommodative, with well anchored inflation expectations. Going forward, dealing with the risks of higher inflation on the one hand and lower economic activity on the other will be particularly challenging for the

authorities, requiring delicate balancing and proper coordination of monetary and fiscal policies. We welcome the authorities' continued commitment to exchange rate flexibility and encourage accelerated work to deepen the foreign exchange market, which would help create the conditions for a gradual and smooth phase out of the remaining CFM measures. We recommend particular attention to pockets of vulnerability in the financial system, particularly those stemming from elevated household and corporate debt, and encourage more mitigating measures and developing mechanisms for orderly deleveraging.

We welcome the authorities' commitment to cross cutting structural reforms, backed by the 12th Malaysian Plan, and commend their greater focus on human capital and social safety nets as well as on a greener and digitalized economy. On another front, moving forward with reforms to improve governance and curb corruption would be key to boost confidence and improve the business climate. In this regard, we are pleased to note the progress made in implementing the strategies outlined in the National Anti-Corruption Plan (NACP) and in the authorities' commitment to implement more NACP initiatives in 2022.

With this, we wish the Malaysian authorities and people every success.