

SU/20/22

February 11, 2020

**The Acting Chair's Summing Up
Malaysia—2020 Article IV Consultation
Executive Board Meeting 20/15
February 7, 2020**

Executive Directors agreed with the thrust of the staff appraisal. They welcomed that the Malaysian economy has been stable despite internal and external challenges. Directors recognized the progress made on the reform agenda and encouraged the authorities to remain committed to governance and structural reforms. To address the risks facing the economy, Directors recommended that policy priorities ahead should continue to focus on a medium-term fiscal consolidation plan, while safeguarding growth and financial stability.

Directors welcomed the planned pace of fiscal consolidation and encouraged the authorities to identify well-defined spending and revenue measures to support this adjustment, including in the context of the upcoming medium-term revenue strategy preparation. They also encouraged the authorities to push ahead with the adoption of a Fiscal Responsibility Act, and with plans to improve debt management, public procurement, and the public investment framework.

Directors supported the broadly neutral monetary policy stance, given a closing output gap and broadly neutral financial conditions. They agreed that monetary policy should remain data dependent. Directors commended the authorities' commitment to exchange rate flexibility as well as recent initiatives to deepen the FX markets and encouraged them to explore further options in this area, as this would enhance the ability of the exchange rate to act as a shock absorber. In general, they advised the authorities to continue to review the effectiveness of FX market measures and consider gradual phasing out of such measures.

Directors agreed that the financial sector is stable, and that profitability, capitalization and asset quality of banks are sound. However, they noted that household debt is high compared to peers, with pockets of vulnerability among lower-income groups. Directors advised the authorities to closely monitor risks in the real estate and household sectors. Further enhancing the macroprudential toolkit would be helpful. Directors commended the ongoing efforts to strengthen financial literacy and manage cyber risks and climate change risks to the financial sector.

Directors commended the authorities' progress in developing and implementing governance reforms. They stressed the importance of sustaining the momentum and anchoring the reforms in legislation, particularly to help secure the independence of anti-

corruption institutions, freedom of information, and to establish an asset declaration system. Further strengthening the AML/CFT framework will also be important.

Directors underscored that continued structural reforms aimed at raising investment and productivity are important to safeguard macroeconomic and financial stability and help address the external imbalances over the medium term. They supported the authorities' emphasis on raising productivity as it would help achieve high-income status and inclusive growth. Directors advised that priority be given to enhancing the business environment and improving access to credit for SMEs; promoting trade openness; enhancing the quality of and access to education; encouraging innovation, including through digitalization of the economy; and boosting female labor participation.

It is expected that the next Article IV consultation with Malaysia will be held on the standard 12-month cycle.