LAPSE OF TIME

SM/21/15

February 4, 2021

To: Members of the Executive Board

From: The Secretary

Subject: **Malaysia—Staff Report for the 2021 Article IV Consultation**

Board Action:	Executive Directors' **consideration** on a lapse of time basis as management has determined it meets the established criteria, including (i) there are no acute risks that single out Malaysia from the rest of the membership, or general policy issues requirement a Board discussion; (ii) policies and circumstances are unlikely to have significant regional or global impact in the near-term and (iii) the use of Fund resources is not under discussion nor anticipated.
Deadline to Request Board meeting:	**Wednesday, February 17, 2021** **12:00 (noon)**
Proposed Decision Deemed Approved:	Friday, February 19, 2021
Provisional Board Meeting Date: (if requested)	Friday, February 19, 2021
Proposed Decision:	Page 17
Publication:	Not yet decided* Press Release will be based on the staff appraisal if there is no request for a Board discussion, as attached.
Questions:	Ms. Choueiri, APD (ext. 34095)

***At the time of circulation of this paper to the Board, the authorities have indicated that they need more time to consider whether they will consent to the Fund's publication of this paper. Publication will only proceed upon the receipt by the Fund of the member's explicit consent.**

Document Transmittal in the Absence of an Objection and in accordance with Board policy:	After Board Consideration—ASEAN+3 Macroeconomic Research Office, Asian Development Bank, Asian Infrastructure Investment Bank, Food and Agriculture Organization, Islamic Development Bank, United Nations Development Programme, World Trade Organization

INTERNATIONAL MONETARY FUND

MALAYSIA

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION

February 3, 2021

KEY ISSUES

Context. Malaysia entered the pandemic from a robust economic position but has nonetheless been significantly affected. A synchronous fiscal, monetary and financial policy response has helped cushion the economic impact. As a result, after a deep recession in 2020, and assuming the pandemic is brought under control in Malaysia and globally, growth would rebound to 6.5 percent in 2021 as supply side constraints are lifted and domestic and external demand recover. Large downside risks will remain.

Main Economic Policy Recommendations:

- The 2021 budget strikes a balance between protecting the economy and the vulnerable and initiating gradual fiscal consolidation. Additional fiscal support may be needed should the pandemic continue to intensify.
- Once the economy recovers, gradual fiscal consolidation should resume. To pave the way, work on a medium-term revenue strategy and evaluation of specific revenue options should proceed. Work towards improving the fiscal framework through the enactment of a Fiscal Responsibility Law should promptly resume.
- Social protection reform to improve efficiency and coverage would help achieve Malaysia's social objectives and contribute to external rebalancing.
- The accommodative monetary policy stance is appropriate and monetary policy should remain data dependent. In case of adverse shocks, there is space to further ease monetary policy and exchange rate flexibility should be maintained.
- The financial sector's sizable buffers, combined with policy support measures, should enable Malaysia's banks to absorb possible large losses from the crisis. As debt moratoria gradually end, banks and supervisors should stand ready to address a possible rise in impairments. Welcome recent enhancements to the debt resolution frameworks should help in this process.
- Structural reforms in the financial sector are appropriately focused on further inclusion and managing climate change risks. Upgrading the digital infrastructure and greening the economy will help strengthen the economic recovery.
- Further progress on governance reforms and anchoring them in legislation would be needed to underpin a sustainable recovery.

Approved By
Odd Per Brekk and Maria Gonzalez

Mission meetings were held virtually during November 30-December 15, 2020. The mission team comprised: Nada Choueiri (Head), Emilia Jurzyk, Dan Nyberg, Nour Tawk (all APD), Natalia Novikova (Resident Representative), and Han Teng Chua (Economist in Singapore office). Zaidi Mahyuddin (OED) joined the mission. Alisara Mahasandana (Executive Director) and Odd Per Brekk (APD) joined the concluding meeting. Kaustubh Chahande and Justin Flinner (both APD) assisted in the preparation of this report. Data used in this report for staff analyses are as of January 25, 2020, unless otherwise noted.

CONTENTS

APPENDICES

PRE-COVID-19 CONTEXT

1. **Malaysia entered the pandemic from a robust economic position, amidst a political transition.** Diversification had supported a strong economic performance in recent decades as the economy weathered well both external shocks and internal challenges. Real per-capita GDP had been growing at an annual pace of 3¾ percent after the Global Financial Crisis, in the context of low inflation and unemployment, and inequality and poverty had declined since the mid-1970s. Following a surprise resignation of PM Mahathir Mohamad in February 2020, the King asked Mr. Muhyiddin Yassin to form a government. Early elections may be held as soon as the pandemic is under control.

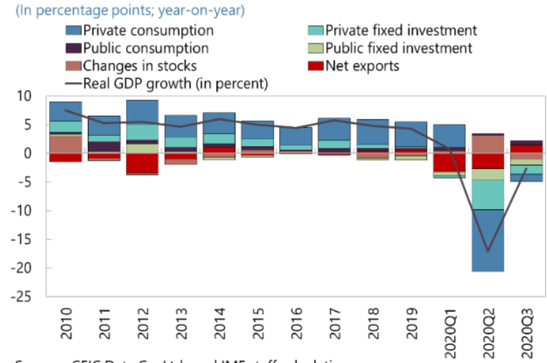
2. **Policies have been in line with past Fund advice, with some exceptions.** The government's plans for fiscal consolidation and structural and governance reforms have been broadly consistent with Fund recommendations but implementation has been delayed, recently because of the COVID-19 crisis. The monetary policy stance has been consistent with Fund advice and remained data dependent. The central bank continues to prioritize the development of domestic financial and foreign exchange markets, an objective supported by staff, but disagrees with staff on the role that capital flow management measures should play in the policy toolkit.

ECONOMIC IMPACT OF THE COVID-19 CRISIS

3. **Malaysia has been severely hit by the pandemic**. The initial, relatively muted, wave of infections in March 2020 was successfully contained as a nationwide Movement Control Order (MCO) was implemented, mandating closures of all non-essential businesses, schools, and borders (Appendix I). In May, less stringent measures saw economic activities resuming under Standard Operating Procedures. A more severe outbreak in September prompted the authorities to impose localized MCOs and conditional MCOs. By late-January 2021, Malaysia had recorded about 180 thousand cases, but only 0.4 percent fatalities.

Malaysia: Contributions to Real GDP Growth

(In percentage points; year-on-year)

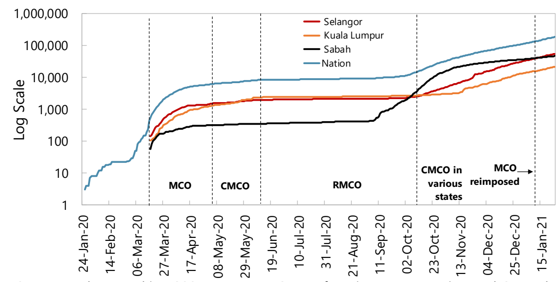


Sources: CEIC Data Co. Ltd.; and IMF staff calculations.

4. **The economic toll has been significant.** Growth is estimated at -6 percent in 2020 (2019: 4.3 percent), with private consumption, the main driver of growth in recent years, declining sharply. Economic losses were most pronounced in 2020Q2. The economy rallied in 2020Q3 supported by policy stimulus and the resumption of non-essential business operations. Exports also rebounded driven by strong demand for health-related and electronic equipment.

5. Unemployment has declined from a historic high in 2020Q2 but this improvement masks weaknesses. Unemployment fell to 4.8 percent in November from 5.3 percent in May 2020 but remained relatively high for both youth and women. Over 60 percent of job losses in the private sector in the year to December were in jobs earning under RM3,000 per month.[1] The pandemic has also unexpectedly displaced higher-skilled workers, with 39 percent of job losses concentrated among managers and professionals while three-quarters of new placements were in jobs earning under RM1,500 per month.

Confirmed COVID-19 Cases In Malaysia
(Number of cases confirmed-to-date; Log Scale)

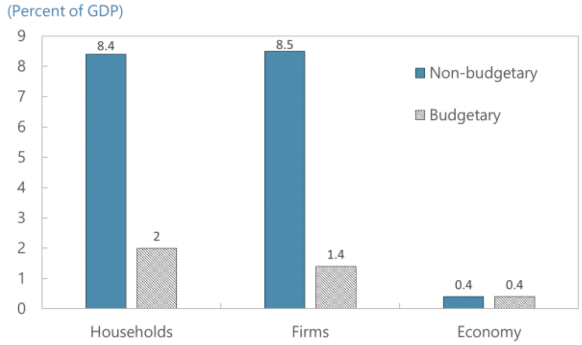


Sources: Johns Hopkins CSSE, European Centre for Disease Prevention and Control (ECDC), Ministry of Health of Malaysia
Note: Dates follow ECDC Reporting Dates; MCO=Movement Control Order; CMCO=Conditional MCO; RMCO=Recovery MCO.

6. Inflation has been muted. Headline inflation declined to -1.1 percent in 2020 (2019: 0.7 percent), reflecting lower fuel prices, wage contraction, and an electricity tariff rebate during April-December 2020. Core inflation remained broadly stable at 1 percent (2019: 1.1 percent).

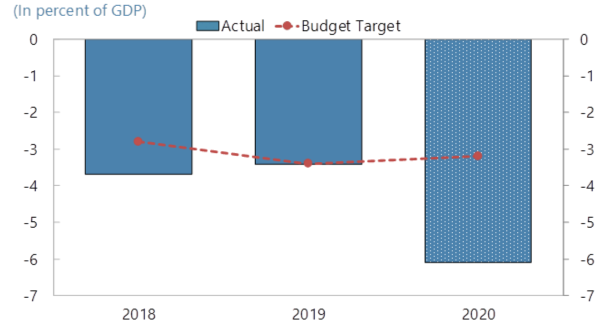
7. The policy response has widened the federal government deficit. Five COVID-19 relief packages were announced in 2020, totaling RM305 billion (21 percent of GDP). Given limited fiscal space, the budgetary component was 3.8 percent of GDP, with greater reliance on monetary and financial support (Appendix II). The rollout of the measures and their implementation has been gradual, responding to changing economic conditions. By year-end, the estimated total COVID-

Malaysia: Stimulus measures by recipient and type 1/
(Percent of GDP)



1/ Chart depict stimulus measures announced in five policy packages in 2020.
Sources: Malaysia authorities; and IMF staff estimates

Federal Budget Balance: Budget target vs. Actual
(In percent of GDP)



Note: The bar for 2020 reflects IMF staff's estimate. The budget target for 2020 was approved in late 2019 in the context of parliament approval of the 2020 budget, and before the COVID-19 outbreak.
Sources: Malaysian Ministry of Finance; Haver Analytics; and IMF Staff calculations.

related fiscal spending was RM38 billion (2.6 percent of GDP); the rest is planned to be spent in 2021. Higher crisis-related spending and a revenue shortfall of 2.9 percent of GDP were partly offset by additional dividends from government-related agencies, bringing the federal government deficit to an estimated 6 percent of GDP in 2020, 2.8 percent of GDP above target.

8. The central bank's substantial support has underpinned financial market stability. Bank Negara Malaysia (BNM) deployed its ample policy space with a cumulative 125 bps cut in the

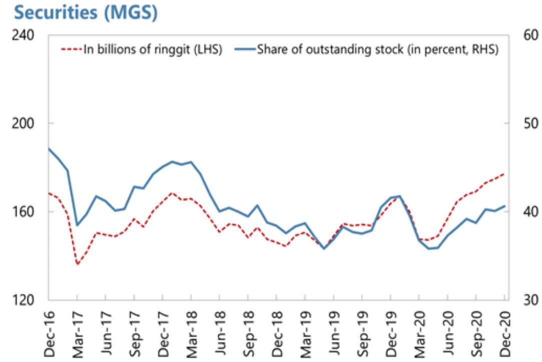
[1] Source: Employment Insurance System (EIS). The EIS covers 46 percent of total employment, which represents all declared salaried workers in the private sector.

overnight policy rate (OPR), a 100-bps cut in the statutory reserve requirement (SRR), allowing government securities' holdings to count towards the SRR, regulatory flexibility and enhanced support to SME lending. In addition, the BNM's open market operations, including the purchase of government securities (RM 8 billion in April 2020), supported the bond market amid significant capital outflows. Consequently, domestic financial conditions eased significantly.

9. **Banks entered the pandemic on a strong footing, and their financial indicators have remained above regulatory levels.** Aggregate banking sector total capital ratio and the liquidity coverage ratio stood at 18.5 percent and 150 percent, respectively, in November 2020. While profitability has been adversely impacted by increased provisioning, net impaired loans remained low at 0.9 percent of total loans in 2020Q3, supported by government relief measures and debt moratoria.

10. **Capital flows have stabilized following the March 2020 global risk-off episode.** This episode triggered net non-resident portfolio outflows of $6.3 billion in 2020Q1, largely driven by debt outflows. The swift and substantial actions by central banks including in advanced economies and Malaysia helped stabilize markets, and portfolio flows into Malaysia resumed. As a result, non-resident holdings of government securities had increased by 8.2 percent by end-2020 compared to end-2019.

Nonresident Holdings of Conventional Government Securities (MGS)



Sources: CEIC Data Co. Ltd.; and IMF staff calculations.

11. **The current account surplus has increased, largely due to pandemic-related factors.** It is estimated to have widened to 3.7 percent of GDP in 2020 (2019: 3.4 percent of GDP). A larger travel balance deficit due to international travel restrictions was offset by a stronger goods trade balance, reflecting increased external demand for health-related and electronic equipment, and weak imports.

OUTLOOK: RECOVERY BUT WITH DOWNSIDE RISKS

12. **The economy is expected to recover in the remainder of 2021, with inflation and the current account balance normalizing over the medium term.** Growth is projected to rebound to 6.5 percent in 2021, driven by a strong recovery in manufacturing and construction, and the impact of the vaccination rollout expected to begin in February (Appendix I). The recovery would be uneven across sectors, with persistent weakness in high-contact industries. On the demand side, government spending and a recovery in both domestic and external demand would underpin growth. The current account surplus would decline to 3 percent of GDP, as demand for pandemic-related equipment recedes and the rebound in domestic demand raises imports. The travel balance deficit would persist as international travel restrictions continue through 2021H1. Inflation would recover to 2 percent as electricity tariff rebates expire and energy prices rise. Over the medium term,

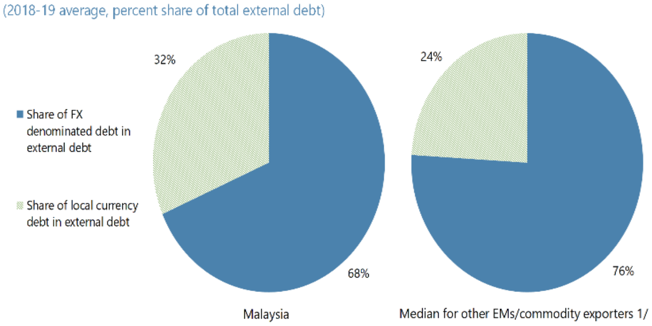
growth would converge to 5 percent, inflation stabilize at 2 percent, and the current account surplus return to its downward pre-pandemic path.

13. An intensification of the pandemic or realization of other risks could derail the recovery (Appendix III). The current wave could be protracted or could be followed by another severe wave, prompting the authorities to lengthen the duration of the MCOs. This would intensify the supply-side constraints on economic activity, and further dampen domestic demand. In this case, the recovery in 2021 would be significantly weaker. Also on the downside, Malaysia's highly open economy is vulnerable to escalating trade actions and weaker-than-expected trading partner growth. Domestically, fiscal risks from contingent liabilities could materialize while domestic policy uncertainty could dampen business confidence and investment. Faster-than-expected deployment of COVID-19 vaccines represents an upside risk.

14. Malaysia's external position in 2020 is assessed to be stronger than warranted by fundamentals and desired policies. This assessment takes into account the transitory nature of pandemic-related shocks (Appendix IV). Although the current account surplus helps reassure investors, it nevertheless represents a gap of 3.6 percent of GDP that cannot be fully explained by Malaysia's fundamentals and desired policies and is partly driven by relatively lower spending on social safety nets in Malaysia. Going forward, policies which strengthen social safety nets and continue to encourage private investment can help facilitate external rebalancing.

15. Malaysia's external debt remains high but manageable (Appendix V). External debt increased to 67.5 percent of GDP by end-September 2020 (63.4 percent in 2019) partly driven by higher nonresident holdings of ringgit-denominated debt instruments. The share of external debt denominated in foreign currency stands at about two-thirds of the total, which is low relative to peers. Gross official reserves are adequate ($107.6 billion at end-December 2020), at 126 percent of the Assessing Reserve Adequacy (ARA) metric for a floating exchange rate regime. When adjusted for net forward positions, reserves are at 117 percent of the metric.

External Debt by Currency Denomination
(2018-19 average, percent share of total external debt)



Sources: Haver Analytics; and IMF, *World Economic Outlook* database and staff calculations.
1/ Other EMs/commodity exporters: Argentina, Brazil, Chile, Colombia, Hungary, India, Indonesia, Mexico, Philippines, Poland, Russia, S. Africa, Thailand, and Turkey.

Authorities' Views

16. The authorities broadly agreed with staff's assessment of the outlook and risks. They saw growth at 6.5–7.5 percent in 2021, with inflation rebounding to about 2 percent. Growth would be primarily driven by robust external demand, and a rebound in investment as significant infrastructure projects resume. Ongoing stimulus measures would also continue to support the economy. The authorities agreed that risks to the medium-term outlook were tilted to the downside, with resurgences of COVID-19 cases representing the largest risk, but early vaccine availability posing an upside risk.

17. The authorities expressed reservations regarding the external balance assessment. They noted that external debt remains manageable given mitigating factors: (i) the share of external debt "at-risk"[2] (8.8 percent of total) is low and has been stable and (ii) banks' and corporations' intragroup borrowings (around two-fifths of FX external debt) are generally stable, with the remainder of FX external debt being largely subject to prudential and hedging requirements. The authorities continued to see limitations in the EBA model and expressed doubts regarding its ability to capture transitory effects, even with the staff-proposed adjustors. They are pursuing reforms to strengthen social safety nets and to encourage private investment and productivity growth.

POLICIES TO SECURE THE RECOVERY

18. Policies should buttress the recovery while facilitating the post-pandemic economic transformation. Synchronous monetary, financial and fiscal policy support helped prevent worse economic outcomes to-date. Targeted fiscal support should continue until the recovery takes hold, with reliance on accommodative monetary and financial policies given fiscal space at risk. Fiscal reform plans should be prepared to return to fiscal consolidation over the medium term. Governance and other structural reforms should continue to support the economic transformation impelled by the pandemic and technological change.

A. Fiscal Policy

19. The fiscal policy response is helping alleviate the effects of the pandemic. With fiscal space at risk, the authorities' direct fiscal response has been relatively limited, with monetary and financial measures playing a larger role. The fiscal response in 2020 included 1.1 percent of GDP in cash transfers to households and vulnerable groups; 1.0 percent of GDP in support to firms through wage subsidies; and 0.2 percent of GDP in grants to SMEs. The authorities also allocated 0.2 percent of GDP from the COVID-19 fund for small infrastructure projects. The cash transfer amounts were modest but reached over one-third of the population and wage subsidies were limited to lower-paid workers. The reliance on standing programs facilitated the delivery of support.

20. The 2021 budget strikes a balance between protecting the economy and the vulnerable and initiating a gradual fiscal consolidation. It allocates RM17 billion (1.1 percent of GDP) for cash transfers and wage subsidies, and an additional RM0.5 billion for medical equipment. Support will be front-loaded under a sixth package announced in January 2021 in response to the ongoing severe outbreak. Spending is planned on social and labor market programs, and on support for SMEs and firms operating in states under the MCO. . A significant increase in development expenditure is budgeted to rekindle infrastructure investment. Notwithstanding the

[2] External debt-at-risk refers to the proportion of banks' external debt that is more susceptible to sudden withdrawal shocks. This comprises deposits, interbank borrowings and short-term loans from unrelated non-resident counterparties.

additional spending, a recovery-driven revenue increase should help reduce the fiscal deficit to 5.4 percent of GDP in 2021.

21. Additional budget support may be needed if the pandemic continues to intensify. Under an adverse scenario of a protracted pandemic, the authorities would need to raise health spending and use scarce fiscal resources to provide additional targeted support to the economy, particularly to households facing prolonged unemployment. These measures would need to be appropriately calibrated as a complement to additional monetary and financial easing, where wider policy space remains, to overcome a larger downturn. Additional spending could be financed with borrowing under the COVID-19 fund, utilizing available space under the parliament-approved ceiling of RM65 billion.

22. Malaysia's public debt remains sustainable, but the temporary increase in the statutory debt limit underscores the need to improve the fiscal framework (Appendix VI). To accommodate higher spending, the authorities raised the domestic debt limit from 55 to 60 percent of GDP effective through end-2022. Limits on offshore borrowing and conventional Malaysia Treasury Bills remained unchanged, implying a new overall debt limit of around 63 percent of GDP. Staff expects federal government debt to increase to 61 percent of GDP in 2020 and, under unchanged policies, to remain close to 62 percent of GDP over the medium term. To better prepare for changes in the debt limit and better anchor public finances, the authorities should accelerate the preparation of the Fiscal Responsibility Act (FRA).[3] In line with past Fund advice, the FRA should allow temporary breaches of the debt limit in response to large shocks and define requirements to bring debt back on track after such breaches occur.[4]

23. Once the economy recovers, gradual fiscal consolidation is called for. Under unchanged policies, the fiscal deficit would average 4.7 percent of GDP over 2021–23, leaving fiscal space nearly exhausted. The authorities' target of 4.5 percent of GDP average deficit over 2021–2023 would only minimally increase fiscal space. A faster pace of adjustment, once the recovery is entrenched[5], would help rebuild necessary fiscal buffers. A modest additional fiscal effort of 0.5 percent of GDP per annum would help create fiscal space but would likely not suffice to lower debt below the previous limit of 55 percent of GDP by 2025. A larger effort of about 1 percent of GDP annually would bring debt below the previous fiscal anchor. Such consolidation could be achieved by a combination of spending rationalization and new revenue measures.

24. Social protection reform to improve efficiency and coverage would help achieve Malaysia's social objectives. The social protection system, including since 2018 unemployment insurance, covers a large share of the population and has helped reduce inequality and poverty over past decades. However, benefit levels are low, a non-negligible share goes to households in higher

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[3] The authorities' preparations of the FRA, started in early 2020 with IMF technical assistance, have been delayed because of the pandemic.

[4] IMF Country Report 20/57.

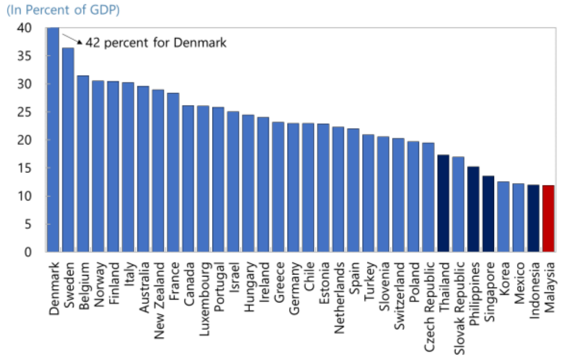
[5] Under staff's baseline, this would happen in 2022 following more than 2 quarters of real growth and widespread vaccination.

income deciles, and the unemployment and pension insurance exclude a large share of workers (Appendix VII). Consolidating and streamlining benefits would help improve the efficiency of their delivery; and increasing the share benefiting the most vulnerable population would help improve outcomes. The authorities' plans to review the social protection system are welcome.

25. Renewed efforts towards government revenue mobilization are needed over the medium term. Malaysia's government revenues are low compared to peers and OECD countries. Revenue mobilization would help finance priority spending, including on social protection, thus supporting inclusive growth and facilitating external rebalancing. Work on a medium-term revenue strategy initiated with IMF support before the pandemic should resume swiftly. At the same time, an evaluation of specific revenue options should proceed expeditiously to allow a timely roll-out of revenue-enhancing measures when the economy recovers. The authorities are considering various welcome options, including a carbon or pollution tax and reintroducing the GST, and IMF staff stand ready to support these efforts through technical advice.

Tax Revenue: OECD and ASEAN-5, 2019

(In Percent of GDP)



Sources: IMF *FAD Tax Revenue Indicators* database; and IMF staff calculations.

Authorities' Views

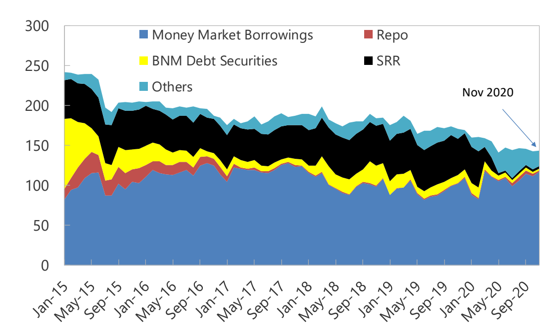
26. The authorities noted their policy response helped contain the crisis while the 2021 budget aims to support a continued recovery and build resilience. They viewed the policy response as well tailored to the economy's needs, with cash transfers representing the largest share of direct fiscal support. They have adjusted stimulus measures throughout the year to respond to changing needs of the economy and population. Fiscal support going forward will be increasingly focused on reskilling/upskilling, and on the most-affected sectors.

27. The authorities reaffirmed their commitment to medium-term fiscal consolidation. They noted that progress, temporarily delayed by the pandemic, would promptly resume in 2021. They will advance on the medium-term revenue strategy and consider new sources of revenues once the recovery is entrenched. They also reiterated their commitment to finalizing the FRA. Finally, the authorities noted that they are looking into options to reform social protection policies with a focus on improving protection for children and the elderly and consolidating service provision.

B. Monetary, Exchange Rates, and Financial Markets Policies

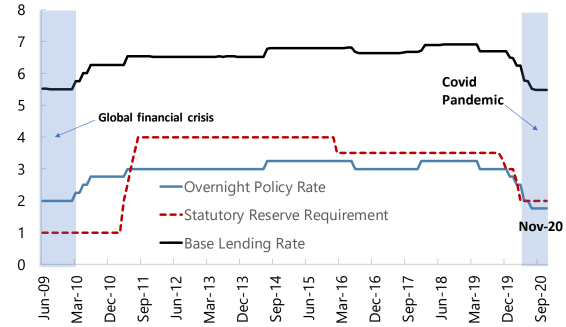
28. The BNM's proactive policy response to the crisis and the accommodative monetary policy stance have improved economic outcomes. The BNM's response helped cushion the

Banking Sector Liquidity Placed with BNM
(In RM bn)



Source: BNM.

Policy Rate, Reserve Requirement and Base Lending Rate
(In percent)



Source: Haver Analytics.

macro-financial impact of the crisis and sustain annual credit growth at around 3.8 percent as of November 2020. At 1.75 percent, the OPR stands at a record low. With one-year-ahead inflation expectations stable, the effective real policy rate is close to zero. There are no signs of liquidity strains, and both short- and long-term real interest rates suggest that domestic financial conditions are appropriately accommodative. Looking ahead, monetary policy should remain data dependent; if downside risks materialize, the BNM has comfortable space to further ease policy.

29. The authorities appropriately allowed the exchange rate to depreciate in response to the economic shock. The BNM's gross international reserve levels have remained stable around $100 billion and the authorities have not faced excessive financing pressures. Following a decline in March-April 2020, the monthly FX market turnover has returned to pre-COVID levels. The authorities should continue to allow the exchange rate to depreciate if downside risks materialize. In case of an inflow surge, some reserve accumulation would be appropriate while still allowing the exchange rate to adjust as a first line of defense.

30. The authorities have retained their focus on domestic financial market reform. A number of measures were implemented at end-April to enhance FX market functioning and improve efficiency,[6] including exempting exporters from the requirement to convert FX goods export proceeds below RM200,000 per transaction[7] and allowing hedging of foreign loan obligations up to the duration of underlying tenure (previously limited to 12 months). The BNM has also recently launched pilot programs to (i) facilitate selected FX forward trades without underlying assets to non-resident index-tracking investors, and (ii) allow selected licensed onshore banks or Appointed Overseas Offices to enter into ringgit-denominated interest rate swaps with non-resident financial institutions without underlying commitment. IMF staff is working with BNM staff upon their request to analyze the role of the exchange rate in Malaysia's economy and explore further options to deepen FX markets. The authorities' commitment to push ahead with this agenda is welcome. In this

[6] Against this background, FTSE Russell decided in September 2020 to maintain the current weighting for Malaysian bonds in the WGBI.

[7] Under the Fund's taxonomy, this would be considered as a Capital Flow Management measure (CFM) easing.

context, staff advise that the authorities gradually phase out existing CFM measures with due regard to market conditions.[8]

Authorities' Views

31. The authorities agreed with staff's assessment of monetary and financial markets policies, with some reservations. They noted the unprecedented support measures implemented to counter the crisis. With the OPR at a record-low level, they viewed monetary policy as highly accommodative and intend to maintain such accommodation until the recovery is firmly entrenched. Looking ahead, monetary policy will remain data dependent. Should the outlook significantly worsen, there is space to make monetary policy even more accommodative, closely coordinating with fiscal policy and other government support. Continued efforts to deepen domestic FX markets have bolstered the exchange rate's shock absorber role, and the level of the exchange rate will continue to be market determined. The authorities noted continued difference in views with staff on the recommendation to phase out the FX market development measures that staff classify as CFMs. They view the measures as necessary to deepen the onshore market, to manage contagion risk from opaque offshore markets, and to underpin Malaysia's long-standing policy on non-internationalization of the ringgit.

C. Financial Sector Policies

32. BNM's policies helped cushion the macro-financial impact of the pandemic. The loan moratoria, SME financing facilities, and encouragement of prudent loan restructuring and appropriate regulatory flexibility supported financial sector performance. The automatic loan payment moratorium through September 2020 provided relief to 95 percent of households and SMEs. With financial conditions improving, around 85 percent of borrowers had resumed payments by October. The BNM's long-standing support of financial innovation and digitalization has also contributed to increased use of e-payments during the pandemic (Appendix VIII).

33. Strong capital and liquidity positions, combined with policy support measures, should enable Malaysia's banks to absorb possibly large losses from the crisis. The BNM's most recent macro stress test, using both top-down and bottom-up approaches, suggests that banks would remain resilient;[9] the implied rise in overall impairments to just above 4 percent of total loans by end-2021 would lead to a 2 percentage points decline in banks' aggregate capital ratio, easily accommodated with existing buffers. However, with IMF staff's baseline pointing to continued stress on the banking system, and given downside risks, the BNM should update its stress tests and scenario analysis frequently to closely track evolving financial stability risks. Continued vigilance regarding commercial real estate sector exposures is notably warranted, given continued weakening in that sector against a backdrop of pre-existing oversupply.

[8] See IMF Country Report 20/57 for a discussion of the measures assessed as CFMs.

[9] The BNM's stress test assumed growth to have troughed in the second quarter of 2020 before gradually recovering in the second half of 2020 and rebounding in 2021.

34. Household debt requires continued close monitoring. Household debt increased to 87.5 percent of GDP by June 2020 (2019: 82.6 percent). Household assets (190 percent of GDP at end-2020Q2) cushion this risk and loan moratoria have provided relief. Nonetheless, BNM stress tests suggest that low-income households remain vulnerable: borrowers with monthly income below RM3,000 account for 66 percent of borrowers who would default by end-2021. Although associated loan impairment may not pose large systemic risks—these borrowers only hold 17.1 percent of total household debt—as the debt moratoria gradually end, banks and supervisors should stand ready to address a possible rise in household loan impairments.

35. The corporate sector entered the crisis with pre-existing vulnerabilities. Non-financial corporate debt increased to 108 percent of GDP by end-June 2020, from 99 percent at end-2019. About a quarter of this debt is externally held, with the remainder largely in the hands of domestic banks and institutional investors. IMF staff research suggests that the share of debt-at-risk at end 2019 was relatively high.[10] Corporates' non-performing loans, especially in sectors adversely affected by the pandemic, could rise significantly. As the automatic loan payment deferment programs did not include large corporates, banks have been supporting restructuring requests on a case-by-case basis. Financial conditions for the corporate sector are expected to remain challenging in 2021, and supervisors should continue monitoring credit developments and reviews to support efficient reallocation of credit from non-viable to viable firms. The unwinding of support measures should be calibrated to the pace of the recovery and start only after activity improves durably.

36. The debt resolution framework, established following the Asian Financial Crisis, has recently been enhanced. The authorities have refined operational procedures for the Corporate Debt Restructuring Committee, the out-of-court mechanism than handles larger corporates. The Small Debt Resolution Scheme, which handles SME's out-of-court debt restructuring, has been transferred (effective September 2020) from BNM to a specialized agency, the Credit Counseling and Debt Management Agency, whose resources were also increased. This agency now serves as a one-stop platform for individuals and SMEs seeking debt restructuring and provides financial education and advisory services. These enhancements are timely, and the authorities should stand ready to further increase resources allocated to debt resolution as needed.

37. The BNM is promoting inclusion objectives through digital bank licensing. Following a 6-months public consultation, BNM has issued on December 31, 2020, a policy document on the licensing framework for digital banks. Applications are due by end-June 2021, and the BNM plans to notify the granting of licenses to up to five applicants in the first quarter of 2022. The digital banks will operate under a simplified regulatory framework during a foundational phase, reducing regulatory burden for new entrants, while ensuring stability of the financial system. License approvals will prioritize value propositions to enhance access in financially underserved areas through innovation and digitalization, a welcome step in the context of e-payments' increased importance during the COVID-19 pandemic.

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[10] Kim, Li and Yoo; forthcoming IMF Working Paper.

38. The authorities are working to strengthen the framework for assessing climate change risks in the financial sector. In 2020 the Joint Committee on Climate Change (chaired by BNM and the Securities Commission) continued to meet regularly, with focus on (i) risk management; (ii) governance and disclosure; (iii) product and innovation; and (iv) engagement and capacity building. BNM is finalizing a Climate Change and Principles-Based Taxonomy, which aims to provide a common language to categorize economic activities based on their impact on climate change and to facilitate financial flows to activities that support the transition to a lower-carbon economy. BNM is currently focusing on strengthening its surveillance and supervisory frameworks to incorporate climate change risk, leveraging on its involvement in the Network of Central Banks and Supervisors for Greening the Financial System. Looking ahead, the lack of data needed to support risk management and product solutions remains an important challenge that would need to be addressed.

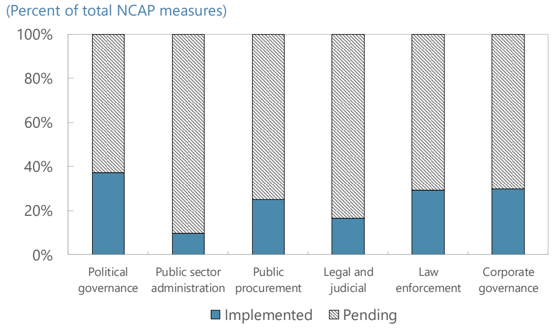
Authorities' Views

39. The authorities broadly shared staff's assessment of the financial sector. They agreed that the financial sector entered the pandemic with sizeable buffers. The impact of the pandemic on banking sector asset quality has been limited to-date, aided by the debt moratoria. While non-performing loans may rise in the coming year, banks have the necessary buffers to cope. Supervisory vigilance will be maintained, and greater reliance placed on institution-specific stress tests jointly conducted with banks, which provide granular insights to complement BNM's macro stress tests. Continued policy support may be needed to avoid pro-cyclical bank lending behavior. The insolvency regime has been enhanced in anticipation of corporate sector difficulties and more resources could be provided in that area if the need arises. On financial structural issues, the authorities noted their continuous focus on enabling financial innovation to reach financially underserved segments through the planned licensing of digital banks and on testing the banking system's operational resilience, including to climate change risks.

STRUCTURAL REFORMS

40. Further progress on governance reforms is needed to underpin a sustainable economic recovery and rekindle consumer and investor confidence. Around a quarter of the initiatives outlined in the 2019 National Anti-Corruption Plan (NACP) had been implemented as of end-December 2019. An asset declaration system for members of government and parliament was introduced in 2018, and monthly income and total asset data have been published.[11] The planned introduction of laws under the NACP to govern detailed asset declarations

Malaysia: Progress on Implementation of NCAP Measures
(Percent of total NCAP measures)



Note: Measures implemented as of December 31, 2019.
Source: Malaysian authorities.

[11] https://mydeclaration.sprm.gov.my.

(including beneficially owned assets) should be done to bring Malaysia in line with international best practice. Further reforms to strengthen the Malaysia Anti-Corruption Commission are needed to ensure independent appointment of its Chief Commissioner and to clarify their service and resignation/termination rules. The establishment of the Ministry of Finance LAKSANA unit to report on COVID-19 spending is welcome and should be enhanced by a publicly accessible database that tracks spending for each initiative. Notably, beneficial ownership information of companies awarded with procurement contracts should be published, to safeguard misuse of funds. Reforms delayed by the pandemic and the change in government should promptly resume, including legislative initiatives on procurement reform, freedom of information, and establishment of an Ombudsman.

41. The authorities should continue to enhance the effectiveness of the AML/CFT framework. Recent legislative steps to increase the transparency of beneficial ownership are welcome and need to be effectively implemented to ensure availability of accurate and up-to-date beneficial ownership information. Considering the main ML/TF risks for the financial sector, supervisory authorities should continue to focus on enforcing measures for politically-exposed-persons. Legal and implementation measures to regulate virtual assets are on track, and authorities seem well attuned to technological developments.

42. The authorities' structural reform agenda is appropriately focused on gaps highlighted by the COVID-19 crisis. The 12th Malaysia Plan's focus areas are welcome. Improving healthcare, inclusion, upgrading the digital infrastructure and greening the economy, will help strengthen the economic recovery. The authorities should articulate specific policies, including a medium-term public investment program, to help achieve these goals.

Authorities' Views

43. The authorities reaffirmed their commitment to improving governance and noted that their reform program will help address the fallout from the pandemic. They underscored that progress on governance reforms has been temporarily delayed by the pandemic, but broad engagement with stakeholders will resume to help advance reforms including on freedom of information, political financing and establishment of an Ombudsman. The Mid-Term Review of the NACP is expected to be submitted to parliament in 2021Q1. The authorities also underscored that the newly established LAKSANA unit is ensuring transparency of all COVID-19 fiscal spending. Regarding structural reforms, the authorities expect to launch the 12th Malaysia plan in 2021. The plan will help revitalize the economy. Sectoral priorities include services and agriculture. Another immediate focus will be improving digitalization, which will help bolster government services and enhance online education.

STAFF APPRAISAL

44. The authorities' robust policy response to the pandemic has cushioned the blow to Malaysia's economy, and vulnerabilities remain manageable. Activity plunged in 2020Q2 as measures were taken to limit the virus' spread; but the economy rebounded in 2020Q3, supported by a significant and coordinated monetary, financial and fiscal policy stimulus. Sizable pre-existing buffers are mitigating the macro-financial impact of the crisis, and external debt, although high, remains manageable. Malaysia's external position remains stronger than warranted by fundamentals and desired policies.

45. Macroeconomic policies should remain supportive until the recovery is fully entrenched. Staff's baseline scenario of a strong rebound in 2021 is subject to considerable downside risks, until the pandemic is brought under control in Malaysia and globally. Should these risks materialize, additional fiscal and monetary policy stimulus would be needed.

46. The authorities' commitment to fiscal consolidation and reform is welcome and should be followed through after the economy picks up. Adjustment through spending rationalization and revenue-increasing measures, once the recovery is cemented, would help rebuild fiscal buffers. Preparations for such measures should proceed without delay. Completion of the Fiscal Responsibility Act would help better anchor public finances. Strengthening the social protection system would improve efficiency and coverage and help facilitate external rebalancing.

47. The accommodative monetary policy stance is appropriate and financial supervisory authorities should remain vigilant. Indicators suggest that liquidity is appropriate, markets are functioning smoothly, and the banking system is financially sound. Supervisors should remain alert to the continued stress on banks in the near term. High household debt would also require close monitoring as borrowers will likely face increased stress with the gradual phasing out of loan moratoria. The authorities' enhancements to the debt resolution framework are welcome.

48. The authorities' initiatives to deepen domestic FX markets are welcome and should continue. Recent actions have appropriately improved efficiency and expanded available hedging instruments. The authorities should continue to allow the exchange rate to cushion shocks to the economy.

49. The authorities' focus on inclusion and climate change in the context of financial structural reforms are promising. Prioritizing, when approving digital bank licenses, value propositions that enhance access in financially underserved areas is a welcome step in the context of e-payments' increased importance during the COVID-19 pandemic. Incorporating climate change risk in reforms to the financial sector surveillance and supervisory framework is an important step towards a climate resilient economy.

50. Further progress on governance reforms is needed. The commitment to transparency, including regarding COVID-19 related spending, is welcome. The authorities should follow through on the initiatives outlined in the National Anti-Corruption Plan. Reforms delayed by the pandemic and the change in government should promptly resume, including inter alia legislative initiatives on asset declaration, procurement reform, freedom of information, and establishment of an Ombudsman.

51. It is recommended that the Article IV consultation with Malaysia be held on the standard 12-month cycle.

Proposed Decision

The following decision, which may be adopted by a majority of votes cast, is proposed for adoption by the Executive Board.

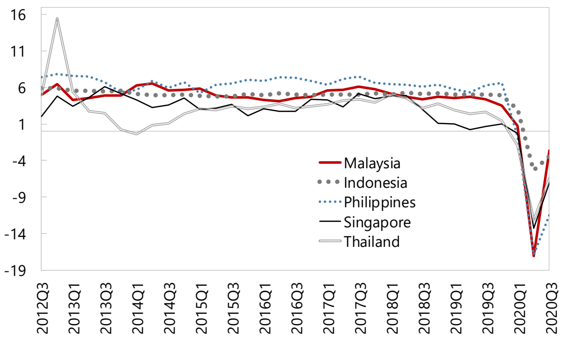
The Executive Board endorses the thrust of the staff appraisal in the report for the 2021 Article IV consultation with Malaysia (02/04/21).

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

Figure 1. Malaysia: Growth and Exports

Growth in Malaysia, and in other ASEAN countries, was hard-hit in 2020 by the COVID-19 pandemic…

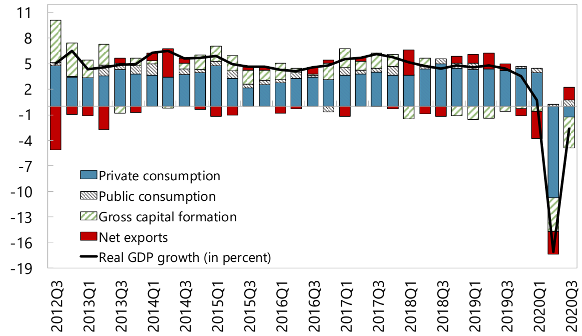
Real GDP Growth
(In Percent, Year-on-Year)



Sources: CEIC Data Co. Ltd., and IMF *World Economic Outlook*.

Private domestic demand, which had underpinned growth in recent years, contracted sharply in 2020Q2 against the backdrop of strict lockdown measures.

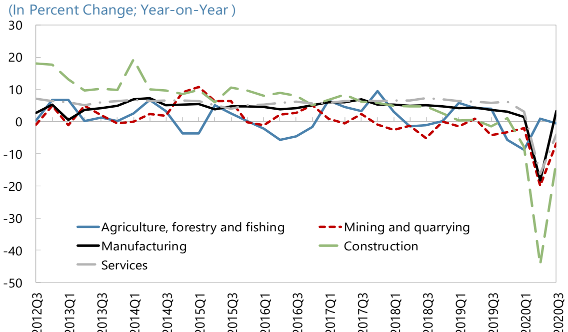
Contributions to Real GDP Growth
(In Percentage Points; Year-on-Year)



Sources: CEIC Data Co. Ltd., and IMF Staff calculations.

Growth improved in the agriculture sector in 2020Q2 while contracting sharply in all other sectors, led by construction, partly driven by restrictions from the MCO.

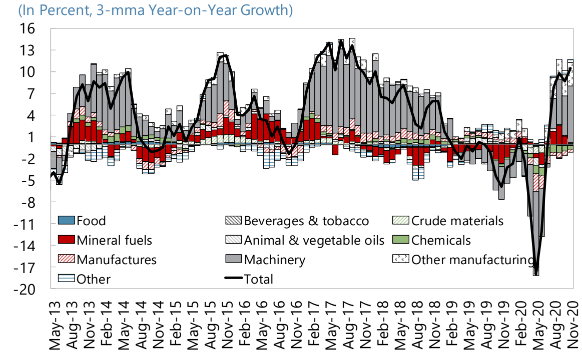
Real GDP by Industry
(In Percent Change; Year-on-Year)



Sources: Haver Analytics, and IMF Staff calculations.

Exports also strongly declined, but rebounded in Q3, supported by strong manufacturing exports, vegetable oils, and other manufacturing goods.

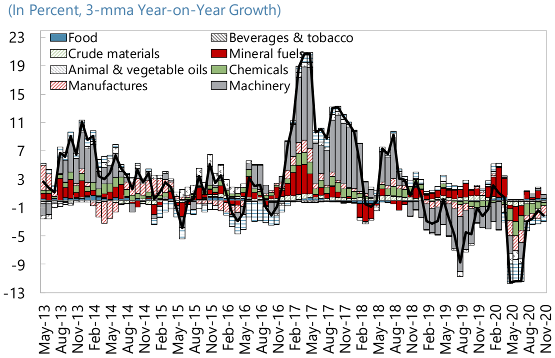
Export Volumes Growth Contribution
(In Percent, 3-mma Year-on-Year Growth)



Sources: IMF *Direction of Trade Statistics*, and IMF Staff calculations.

Import volumes fell (particularly sharply in 2020H1), led by machinery, mineral fuels and chemicals, as the adverse risk-sentiment weighed on domestic investment.

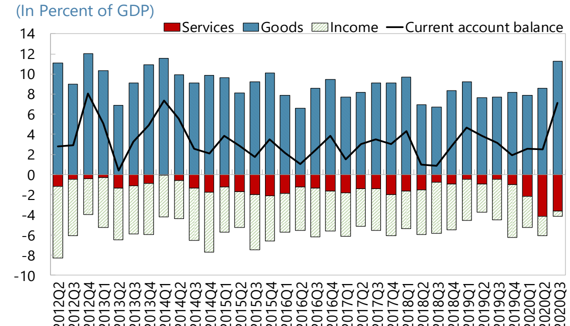
Import Volumes Growth Contribution
(In Percent, 3-mma Year-on-Year Growth)



Sources: IMF *Direction of Trade Statistics*, and IMF Staff calculations.

The current account surplus narrowed in 2020H1 relative to the previous year, but widened in Q3 following strong PPE exports.

Current Account Balance
(In Percent of GDP)



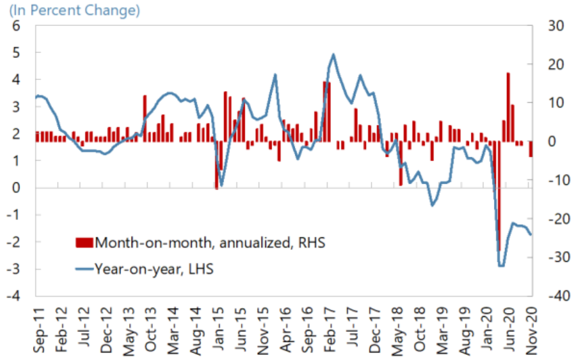
Sources: CEIC Data Co. Ltd.; and IMF staff calculations.

Figure 2. Malaysia: Inflation and Domestic Resource Constraints

Headline inflation fell sharply in 2020 on the back of lower global oil prices and electricity prices.

Consumer Price Index

(In Percent Change)

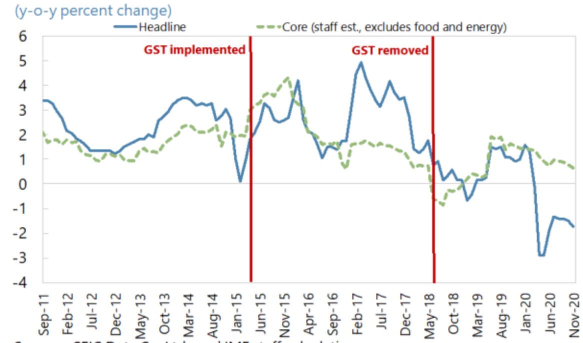


Sources: CEIC Data Co. Ltd., and IMF staff calculations.

Core inflation, however, remained stable.

Inflation Developments

(y-o-y percent change)



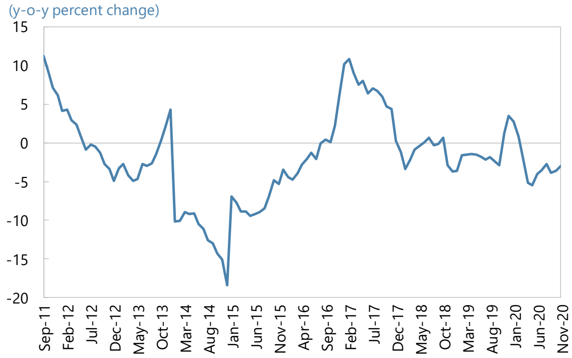
Sources: CEIC Data Co. Ltd.; and IMF staff calculations.

Note: The core inflation estimated by IMF staff does not exclude effects of consumption tax changes.

Producer prices also declined, driven by the slump in commodity and crude materials prices…

Producer Price Index

(y-o-y percent change)

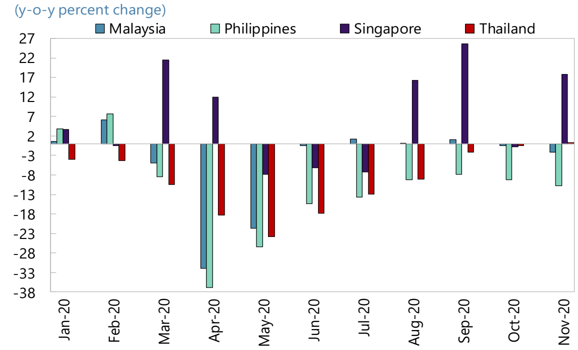


Sources: CEIC Data Co. Ltd.; and IMF staff calculations.

…while the pandemic and associated containment measures disrupted industrial production in Malaysia and other ASEAN countries.

Industrial Production in Selected ASEAN Countries

(y-o-y percent change)

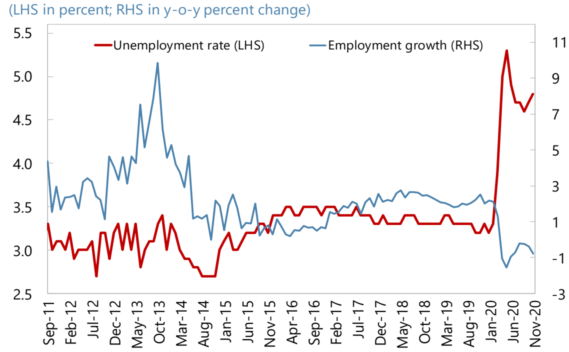


Sources: CEIC Data Co. Ltd.

Unemployment reached historic highs in 2020Q2 but later improved slightly, after restrictions from the MCO were eased…

Labor Market Developments

(LHS in percent; RHS in y-o-y percent change)

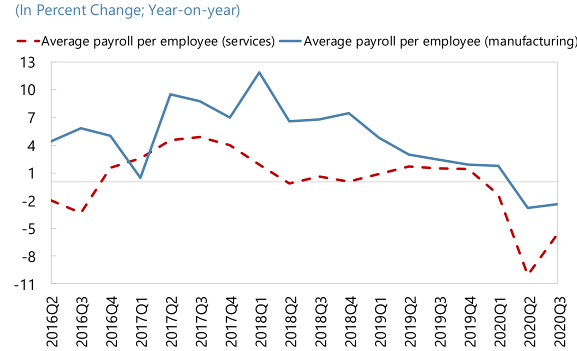


Sources: CEIC Data Co. Ltd., and IMF staff calculations.

…while growth in manufacturing and services wages contracted, as both sectors were badly hit by the pandemic.

Manufacturing and Services: Payroll

(In Percent Change; Year-on-year)

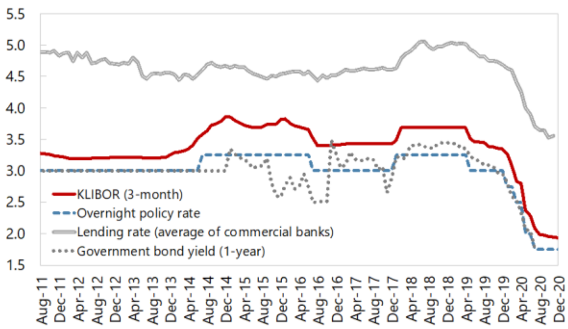


Sources: CEIC Data Co. Ltd; Haver Analytics; and IMF staff calculations.

Figure 3. Malaysia: Monetary Developments

The BNM has lowered the policy rate to historic lows and lending rates have declined.

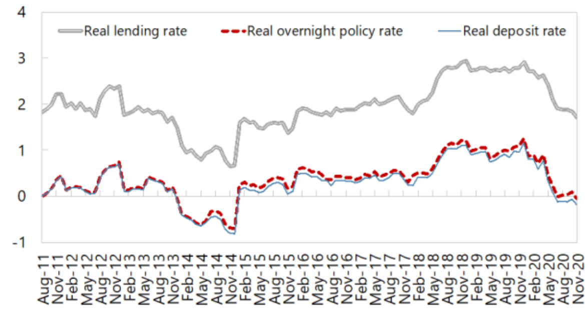
Interest Rates
(In Percent per Annum)



Sources: Bloomberg L.P.; and CEIC Data Co. Ltd.

Real interest rates have also declined.

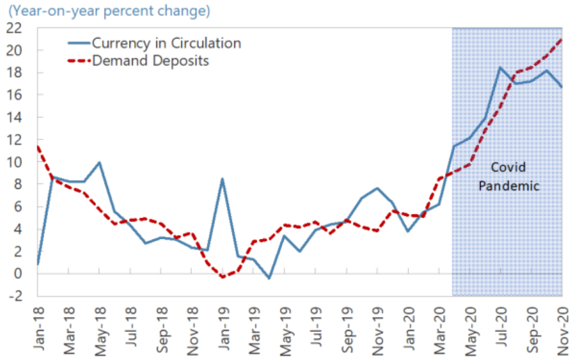
Real Interest Rates
(In Percent per Annum)



Sources: Bloomberg L.P.; CEIC Data Co. Ltd; Consensus Economics Inc.; and IMF staff calculations.
Note: Nominal rates adjusted for 1-year ahead of inflation expectations.

Demand deposits and currency in circulation have grown more rapidly in 2020…

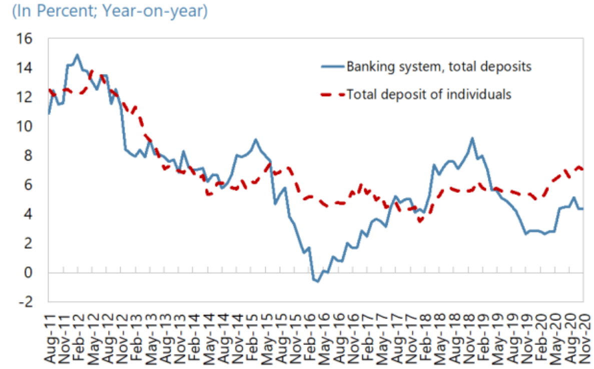
Demand Deposits and Currency in Circulation
(Year-on-year percent change)



Sources: Bank Negara Malaysia; and IMF staff calculations

…as have total deposits, potentially owing to precautionary motives in the context of elevated uncertainty…

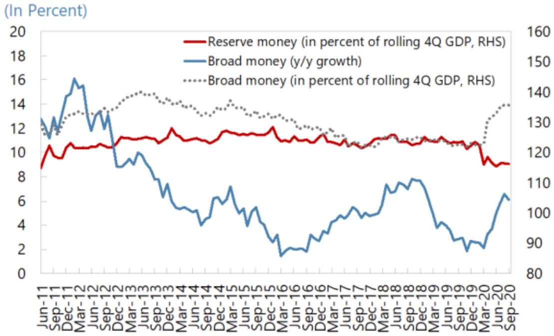
Banking System Deposit Growth
(In Percent; Year-on-year)



Sources: Bank Negara Malaysia; and IMF staff calculations.

…driving up broad money growth.

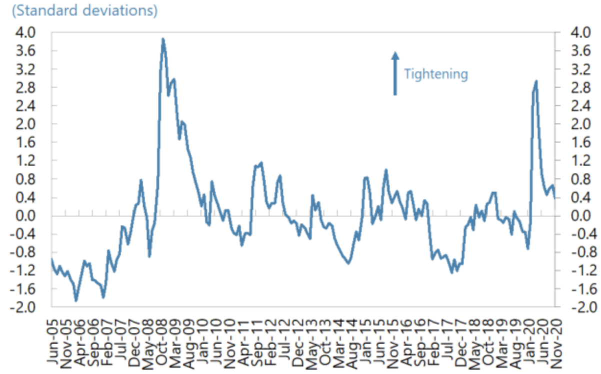
Monetary Aggregates 1/
(In Percent)



Sources: IMF, *Integrated Monetary database*; and IMF staff calculations.
1/ At depository corporations level.

After significantly tightening in early 2020, financial conditions are improving.

Malaysia Financial Conditions Index
(Standard deviations)

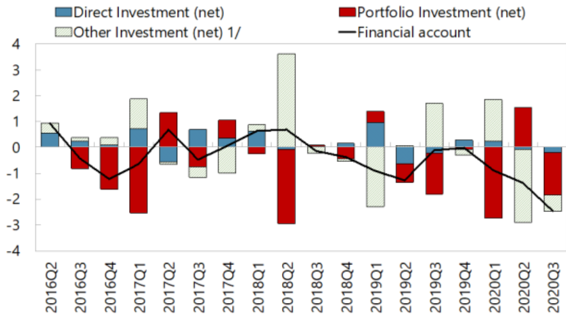


Sources: Bloomberg, CEIC Data Ltd., Haver Analytics, and IMF Staff Calculations

Figure 4. Malaysia: Capital Flows

Portfolio debt inflows returned in 2020Q2…

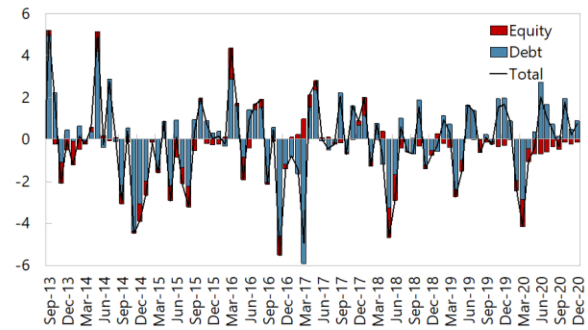
Financial Account Balance
(In percent of 4-quarter rolling GDP; positive = net inflows)



Sources: CEIC Data Co. Ltd.; and IMF staff calculations.
1/ Includes financial derivatives.

… while equity outflows persisted through end-2020.

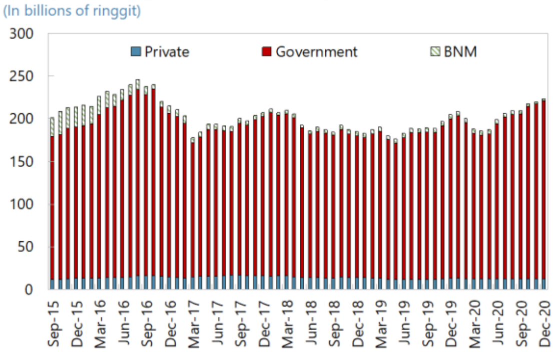
Malaysia: Nonresident Portfolio Capital Flows 1/
(In billion U.S. dollar; as of Dec 2020)



Sources: CEIC Data Co. Ltd.; and IMF staff estimates.
1/ Based on staff estimates from debt and equity markets data.

The ringgit-denominated Malaysian government securities markets have remained broadly stable.

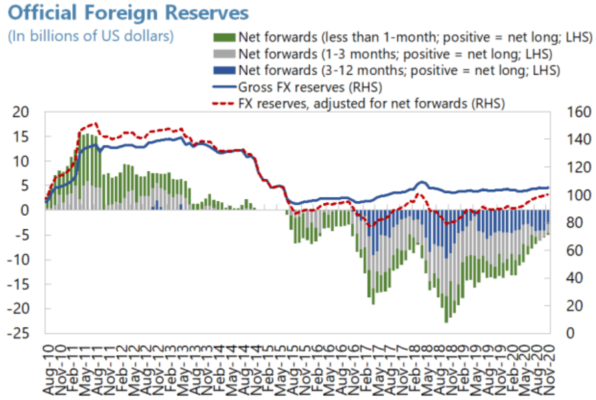
Foreign Holdings of Local-Currency Debt Securities
(In billions of ringgit)



Sources: CEIC Data Co. Ltd.; and IMF staff calculations.

BNM's gross FX reserves have stabilized.

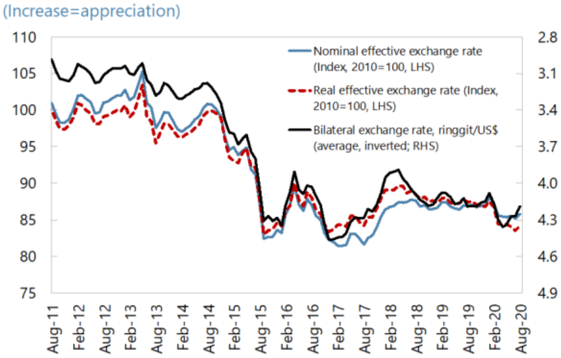
Official Foreign Reserves
(In billions of US dollars)



Sources: CEIC Data Co. Ltd.; and IMF staff calculations.

The currency has partly recovered after depreciation pressures in March and April 2020.

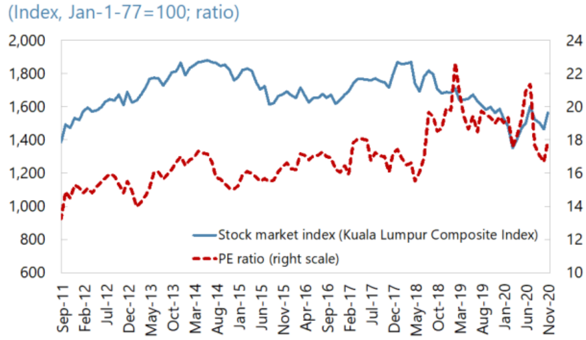
Exchange Rates
(Increase=appreciation)



Sources: CEIC Data Co. Ltd.; and IMF staff calculations.

The stock market has regained some of the March-April 2020 losses, contributing to easing financial conditions.

Stock Market Performance
(Index, Jan-1-77=100; ratio)

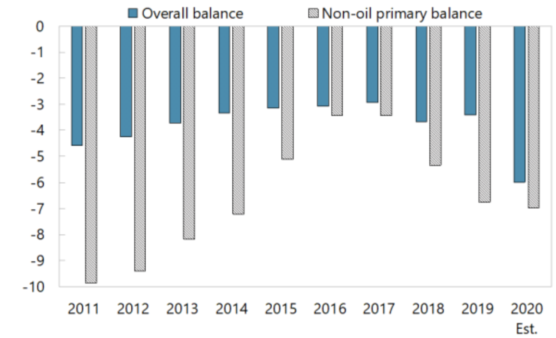


Sources: CEIC Data Co. Ltd.; and IMF staff calculations.
Note: The blip in P/E ratio in February 2019 is due to a sharp drop in profit of the constituent AXIATA for the FY2018 and a strong market capitalization as of end February 2019.

Figure 5. Malaysia: Fiscal Policy Developments

The COVID pandemic led to a sharp deterioration in the fiscal balance in 2020.

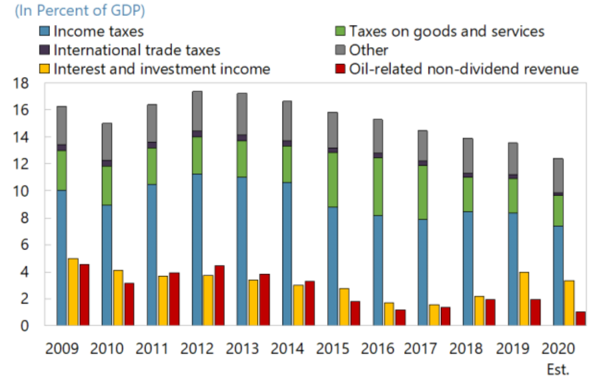
Federal Government: Overall and Non-Oil Balance
(In Percent of GDP)



Sources: Malaysian Authorities; and IMF staff calculations.

While revenues were supported by one-off dividends that exceeded budgeted levels…

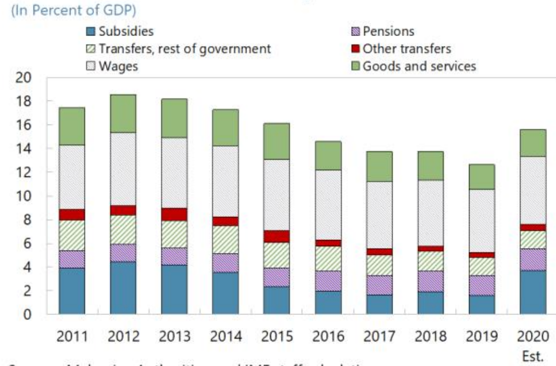
Federal Government Revenue
(In Percent of GDP)



Sources: Malaysian Authorities; and IMF staff estimates.

…expenditures increased significantly as the authorities implemented measures to counter the pandemic.

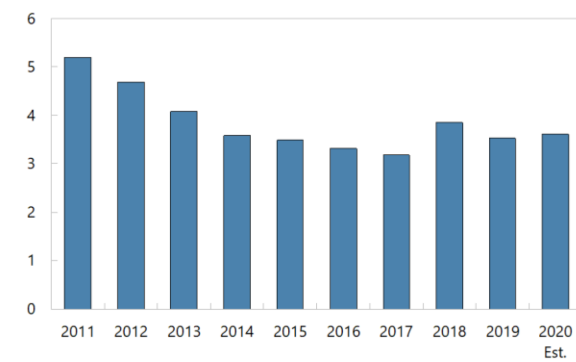
Federal Government Current Expenditures
(In Percent of GDP)



Sources: Malaysian Authorities; and IMF staff calculations.

Development spending has risen as a ratio to GDP in recent years.

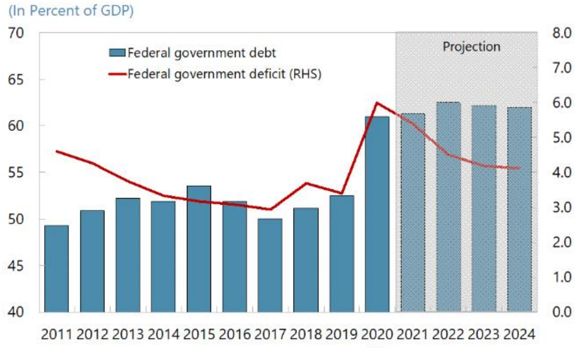
Federal Government Development Spending
(In Percent of GDP)



Sources: Malaysian Authorities; and IMF staff estimates.

Federal debt is estimated to have jumped as a share of GDP in 2020 due to an increase in nominal debt and a decline in GDP.

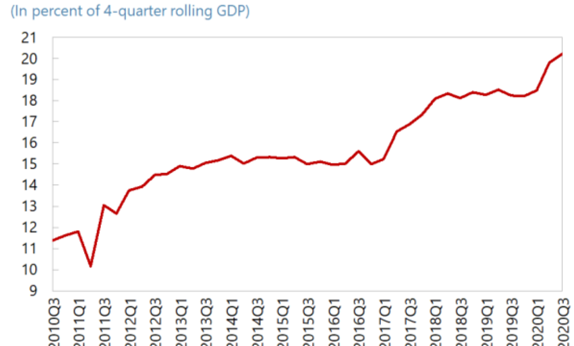
Medium–Term Fiscal Outlook
(In Percent of GDP)



Sources: Malaysia Authorities; and IMF staff estimates.

Guarantees, as a share of GDP, also increased after remaining stable for several years.

Federal Government Loan Guarantees
(In percent of 4-quarter rolling GDP)

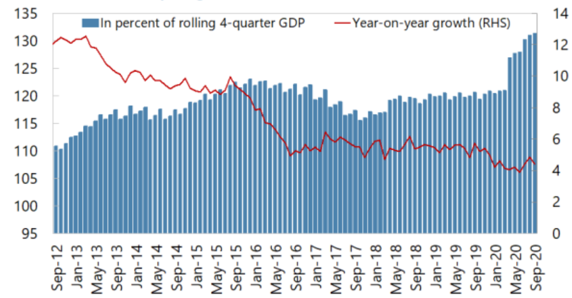


Sources: CEIC Data Co. Ltd.; and IMF staff calculations.

Figure 6. Malaysia: Financial Sector Developments

Credit growth has softened but GDP has declined sharply, resulting in an increase in the credit to GDP ratio.

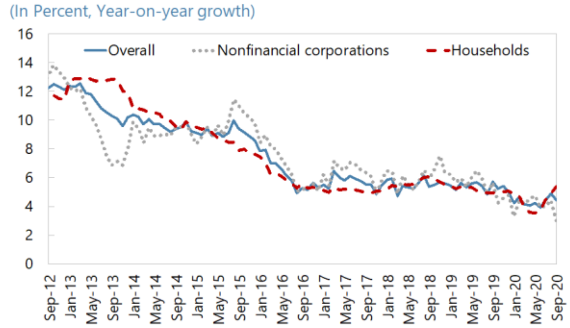
Banks' Credit to Private Sector 1/
(In Percent, Year-on-year growth)



Sources: IMF, *Integrated Monetary database*; and IMF staff calculations.
1/ The growth rates have been adjusted by staff to account for the re-classification of a non-bank to bank in April 2018.

Despite the sharp economic contraction, extraordinary government support has helped sustain credit growth.

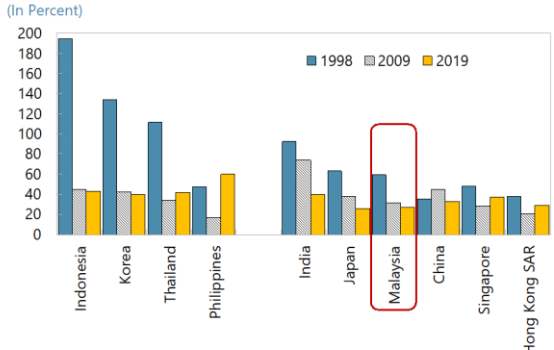
Banks' Credit to Private Sector 1/
(In Percent, Year-on-year growth)



Sources: IMF, *Integrated Monetary database*; and IMF staff calculations.
1/ The growth rates have been adjusted by staff to account for the re-classification of a non-bank to bank in April 2018.

Corporate sector leverage is below levels prior to the Asian Financial Crisis and compares favorably to peers.

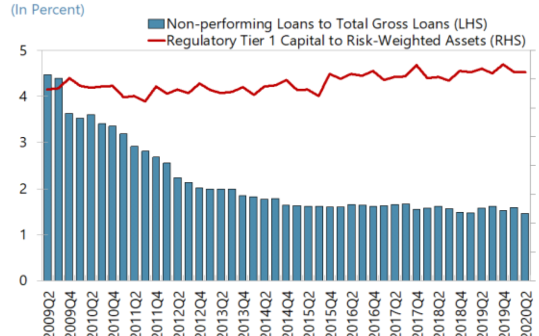
Corporate Debt-to-Equity Ratio 1/
(In Percent)



Source: IMF, *Corporate Vulnerability Indicators*.
1/ Median for nonfinancial corporates.

The banking system remains well capitalized and gross non-performing loans are low.

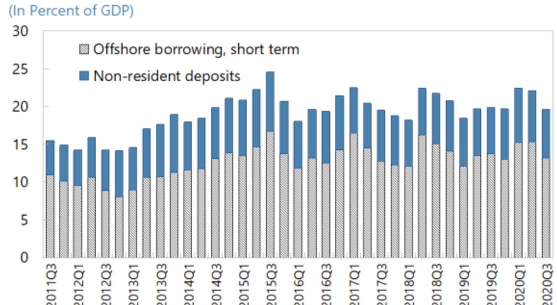
Banks' Financial Soundness Indicators
(In Percent)



Source: IMF, *Financial Soundness Indicators* database.

The banking system continues to rely on short-term external debt.

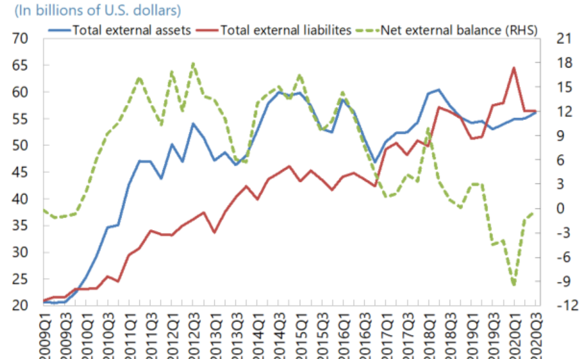
Banks' Short-Term External Debt: 2011:Q3–2020:Q3
(In Percent of GDP)



Sources: CEIC Data Co. Ltd.; and IMF staff calculations.
Note: Data as of 2017Q1 include a reclassification from medium/long-term to short-term external debt of a banking entity in Labuan.

Banks' net external asset position has declined since mid-2017.

Banking System: External Assets and Liabilities
(In billions of U.S. dollars)

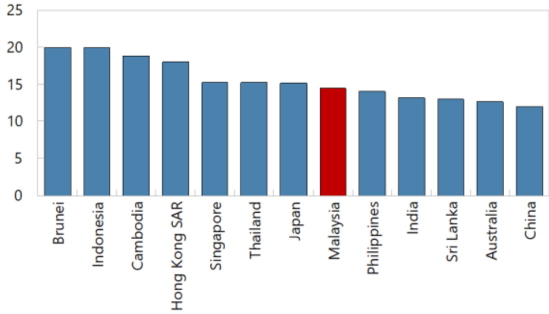


Sources: CEIC Data Co. Ltd; and IMF staff calculations.

Figure 7. Malaysia: Financial Soundness Indicators

Malaysian banks entered the crisis with solid capital buffers…

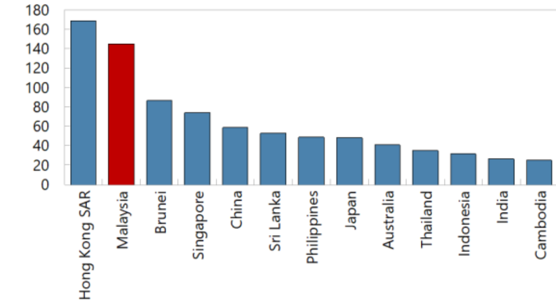
Regulatory Tier 1 Capital to Risk-Weighted Asset, 2020Q1
(In Percent)



Source: IMF, *Financial Soundness Indicators* database.
Note: Latest data available for Singapore, and Philippines are from 2019 Q4; and for Japan from 2019Q3.

…while liquidity provided strong cover for short-term liabilities relative to peers.

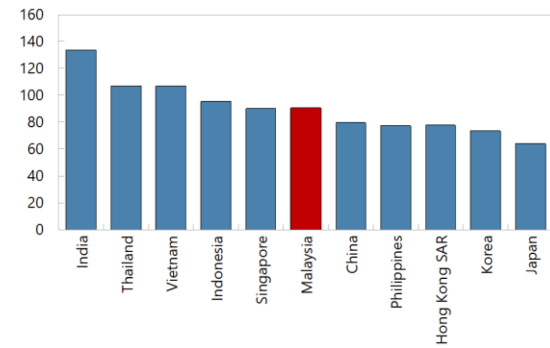
Liquid Assets to Short-Term Liabilities, 2020Q1
(In Percent)



Source: IMF, *Financial Soundness Indicators* database.
Note: Latest data available for Singapore, and Philippines are from 2019 Q4; and for Japan from 2019Q3.

Lending in proportion to deposits was in line with peers…

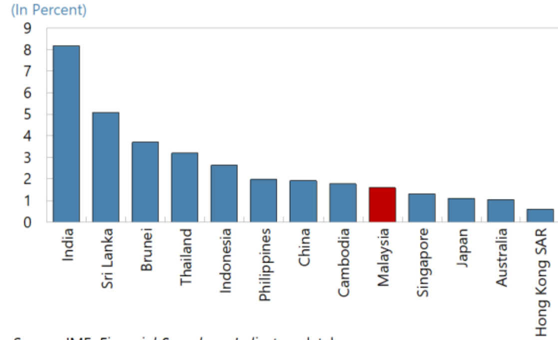
Loan to Deposit Ratio, 2020Q1
(In Percent)



Sources: CEIC Data Co. Ltd.; Haver Analytics; and IMF staff calculations.

… and asset quality was high.

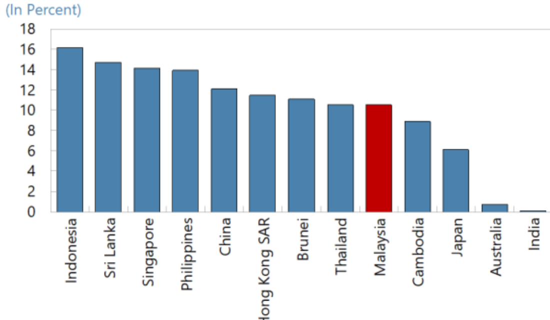
Nonperforming Loans to Total Gross Loans, 2020Q1
(In Percent)



Source: IMF, *Financial Soundness Indicators* database.
Note: Latest data available for Singapore, and Philippines are from 2019 Q4; and for Japan from 2019Q3.

Banks were profitable…

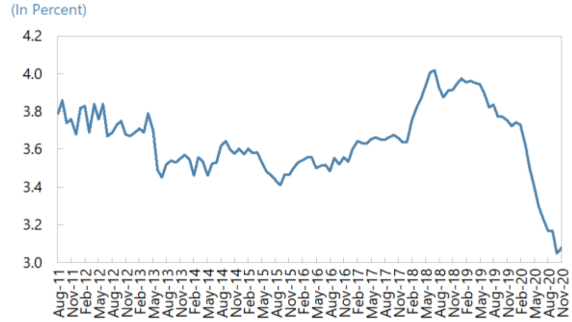
Return on Equity, 2020Q1
(In Percent)



Source: IMF, *Financial Soundness Indicators* database.
Note: Latest data available for Cambodia, Singapore, and Philippines are from 2019 Q4; and for Japan from 2019Q3.

…but profitability will be under pressure, partly reflecting lower interest rate spreads.

Malaysian Commercial Banks: Interest Rate Spreads
(In Percent)

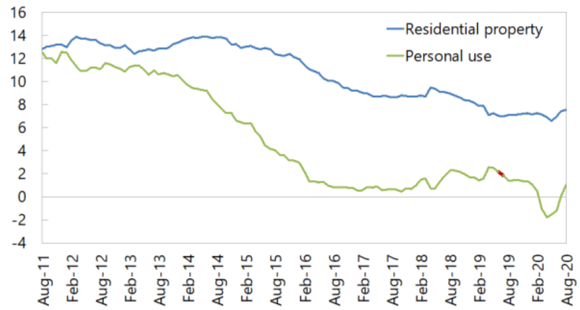


Sources: Bank Negara Malaysia; and IMF staff calculations.
Note: The interest rate spread is defined as difference between the lending rate and the rate on savings deposits.

Figure 8. Malaysia: Household Debt

Housing loan growth has remained stable.

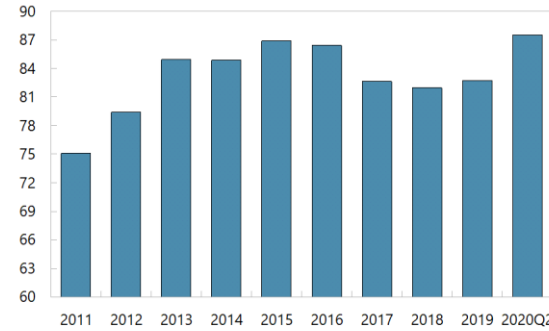
Household Loan Growth
(In Percent, Year-on-Year)



Sources: CEIC Data Co. Ltd; and IMF staff calculations.
Note: This chart is for household loan in the banking system only. The growth rate of loan for personal use has been adjusted by staff to account for the re-classification of a non-bank to bank in April 2018.

Household debt rose as a share of GDP, mainly owing to lower GDP.

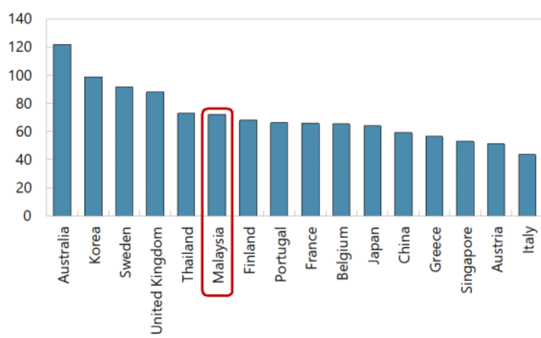
Household Debt
(In Percent of GDP)



Sources: Bank Negara Malaysia; CEIC Data Co. Ltd.; and IMF staff calculations.

Total credit to households & Non-Profit Institutions Serving Households (NPISH) as a proportion of GDP remains high compared to other countries…

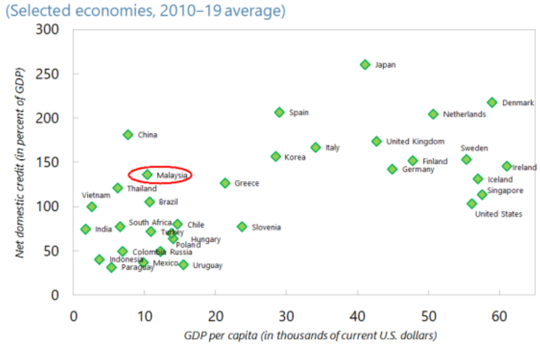
Total Credit to Households & NPISHs, 2020Q2
(In Percent of GDP; End of Period)



Sources: Bank for International Settlements.

…and is above the levels observed in countries with similar GDP per capita.

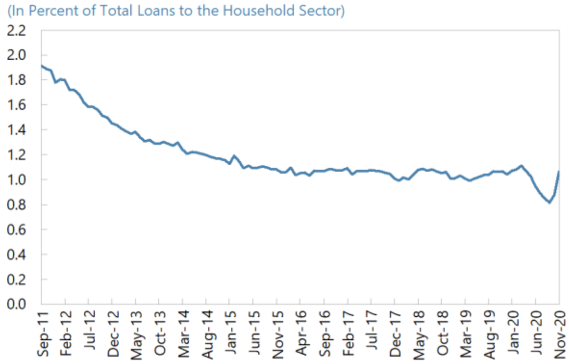
Net Domestic Credit and GDP per Capita
(Selected economies, 2010–19 average)



Sources: World Bank, *World Development Indicators*; IMF, *World Economic Outlook* and IMF staff calculations.

Household non-performing loans remain low, helped by the 6-month blanket loan moratorium.

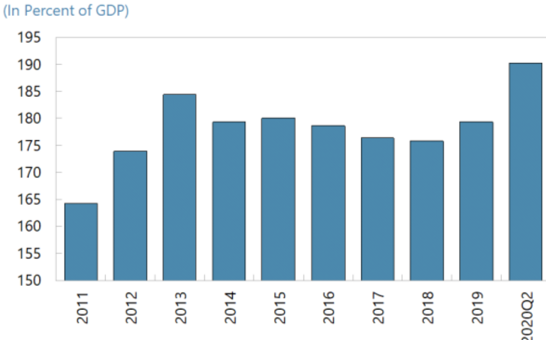
Malaysia - Household Sector NPLs
(In Percent of Total Loans to the Household Sector)



Sources: Haver Analytics and IMF Staff Calculations

High household financial assets help mitigate the vulnerability from growing household debt.

Household Financial Assets
(In Percent of GDP)

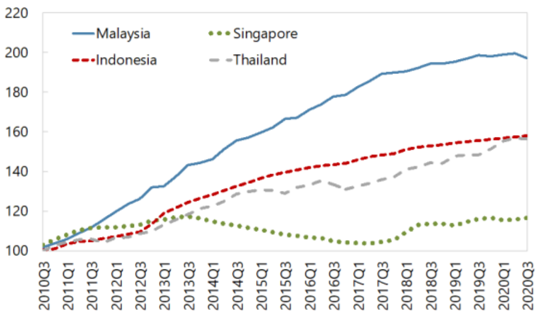


Sources: Bank Negara Malaysia; Malaysian Employee Provident Fund; CEIC Data Co. Ltd.; and IMF staff calculations.

Figure 9. Malaysia: House Prices

House prices have stabilized...

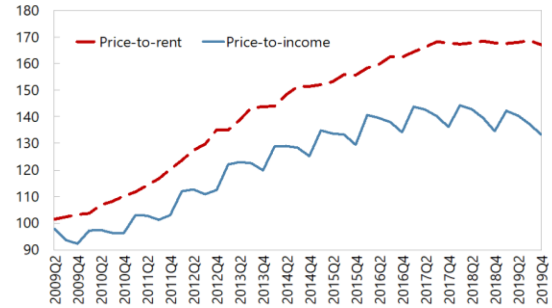
House Price Index
(2010:Q2 = 100)



Sources: CEIC Data Co. Ltd; and IMF staff calculations.

...also relative to income and rents.

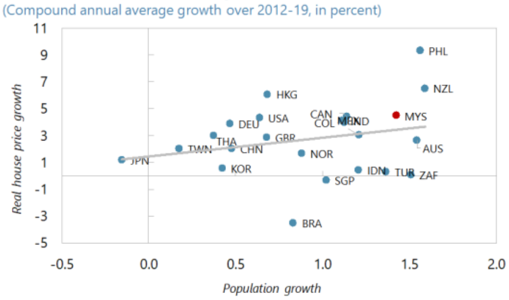
House Prices
(Ratio of indices, 2009:Q1=100)



Sources: CEIC Data Co. Ltd.; and IMF staff calculations.

Although population growth is strong, this alone cannot explain the rise in house prices relative to other countries.

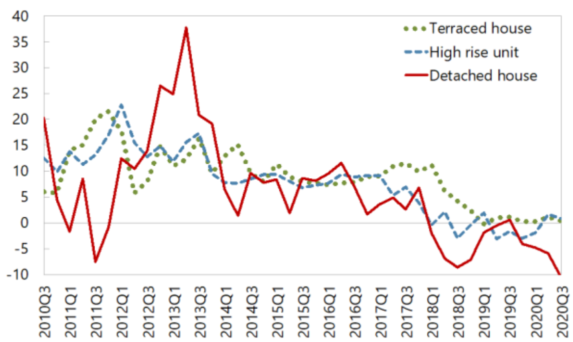
Real House Prices and Population
(Compound annual average growth over 2012-19, in percent)



Sources: CEIC Data Co. Ltd.; and IMF, Research Department database on housing prices, *World Economic Outlook* database, and IMF staff calculations.
Note: Real house prices data for Chile in 2019 are the average of 2019Q1-Q2.

The housing market in Kuala Lumpur is moderating.

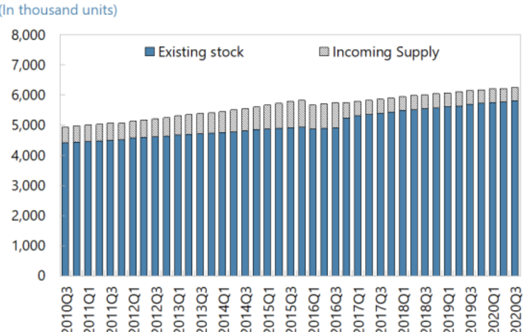
House Prices in Kuala Lumpur
(In Percentage Change; Year-on-year)



Source: CEIC Data Co. Ltd.

Residential supply has been increasing....

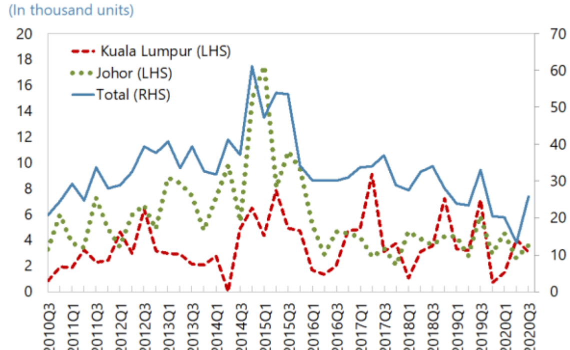
Residential Property Supply
(In thousand units)



Sources: CEIC Data Co. Ltd, and IMF staff calculations.

...although total construction starts are on a downward trend despite recovery of starts in Kuala Lumpur and Johor.

Residential Property: Construction Started
(In thousand units)



Source: CEIC Data Co. Ltd.

Table 1. Malaysia: Selected Economic and Financial Indicators, 2016–25

Nominal GDP (2019): US$364.7 billion
GDP per capita (2019, current prices): US$11,213
Unemployment rate (2019): 3.3 percent

Population (2019): 32.5 million
Poverty rate (2017, national poverty line): 0.4 percent
Adult literacy rate (2018): 95.9 percent

Main goods exports (share in total, 2019, preliminary): electrical & electronics (37.8 percent), commodities (14.7 percent), and petroleum products (7.2 percent).

					Est.	Proj.				
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Real GDP (percent change)	4.4	5.8	4.8	4.3	-6.0	6.5	6.0	5.7	5.3	5.0
Total domestic demand 1/	4.8	6.6	4.7	3.9	-4.7	5.3	5.3	6.2	5.7	5.6
Private consumption	5.9	6.9	8.0	7.6	-5.1	4.8	6.5	7.9	6.9	7.0
Public consumption	1.1	5.7	3.2	2.0	11.6	-2.3	1.3	1.6	1.9	1.7
Private investment	4.5	9.0	4.3	1.6	-7.3	7.0	6.0	6.0	5.0	4.0
Public gross fixed capital formation	-1.0	0.3	-5.0	-10.9	-29.9	9.2	1.6	-1.6	2.3	2.3
Net exports (contribution to growth, percentage points)	0.0	-0.3	0.4	0.6	-1.6	1.5	1.1	-0.1	0.0	-0.2
Saving and investment (in percent of GDP)										
Gross domestic investment	26.0	25.5	23.9	21.0	21.5	23.8	22.6	22.4	22.3	22.2
Gross national saving	28.4	28.3	26.1	24.4	25.1	26.8	25.6	25.2	25.1	24.9
Fiscal sector (in percent of GDP) 2/										
Federal government overall balance	-3.1	-2.9	-3.7	-3.4	-6.0	-5.4	-4.6	-4.3	-4.2	-4.2
Revenue	17.0	16.1	16.1	17.5	15.8	15.2	15.5	15.5	15.5	15.5
Expenditure and net lending	20.1	19.0	19.8	18.5	21.8	20.6	20.1	19.9	19.8	19.7
Tax refunds (Arrears) 3/				2.4						
Federal government non-oil primary balance	-3.4	-3.4	-5.3	-6.7	-7.0	-5.4	-4.9	-4.6	-4.4	-4.2
Consolidated public sector overall balance 4/	-5.0	-3.6	-2.9	-3.6	-7.3	-8.0	-6.5	-5.8	-5.6	-5.5
General government debt 4/	55.8	54.4	55.7	57.2	65.8	66.4	66.9	66.7	66.6	66.5
Of which: federal government debt	51.9	50.0	51.2	52.5	61.1	61.8	62.2	62.0	61.9	61.8
Inflation and unemployment (annual average, in percent)										
CPI inflation	2.1	3.7	1.0	0.7	-1.1	2.0	2.0	2.0	2.0	2.0
CPI inflation (excluding food and energy)	2.6	1.6	0.4	1.1	1.0	1.5	1.7	1.9	2.0	2.0
Unemployment rate	3.5	3.4	3.3	3.3	4.5	3.8	3.6	3.5	3.5	3.5
Macrofinancial variables (end of period)										
Broad money (percentage change) 5/	2.7	4.8	7.7	2.7	5.0	5.0	8.0	7.8	7.6	7.5
Credit to private sector (percentage change) 5/	5.3	5.4	8.3	5.0	4.0	8.3	7.3	7.8	7.6	8.3
Credit-to-GDP ratio (in percent) 6/ 7/	131.9	126.6	130.1	130.8	142.8	142.7	142.7	142.7	142.7	143.9
Overnight policy rate (in percent)	3.00	3.00	3.25	3.00	1.75	…	…	…	…	…
Three-month interbank rate (in percent)	3.4	3.5	3.6	3.3	2.0	…	…	…	…	…
Nonfinancial corporate sector debt (in percent of GDP) 8/	108.0	101.5	102.7	99.4	109.0	…	…	…	…	…
Nonfinancial corporate sector debt issuance (in percent of GDP)	3.1	3.3	2.0	1.8	1.5	…	…	…	…	…
Household debt (in percent of GDP) 8/	86.5	82.6	82.0	82.9	87.5	…	…	…	…	…
Household financial assets (in percent of GDP) 8/	178.6	176.4	175.7	179.2	190.0	…	…	…	…	…
House prices (percentage change)	7.1	6.5	3.3	1.5	2.2	…	…	…	…	…
Exchange rates (period average)										
Malaysian ringgit/U.S. dollar	4.15	4.30	4.04	4.14	4.18	…	…	…	…	…
Real effective exchange rate (percentage change)	-3.4	-1.6	4.1	-1.4	-2.0	…	…	…	…	…
Balance of payments (in billions of U.S. dollars) 6/										
Current account balance	7.2	8.9	8.0	12.3	12.6	11.5	12.2	12.8	13.5	14.0
(In percent of GDP)	2.4	2.8	2.2	3.4	3.7	3.0	3.0	2.9	2.8	2.7
Goods balance	24.6	27.2	28.4	29.8	32.4	37.0	34.0	32.5	32.5	32.8
Services balance	-4.6	-5.3	-4.3	-2.6	-11.5	-15.2	-6.9	-5.5	-5.0	-5.9
Income balance	-12.8	-13.0	-16.1	-14.9	-8.4	-10.3	-14.9	-14.3	-14.0	-12.9
Capital and financial account balance	0.0	-1.1	2.8	-8.1	-11.9	-9.8	-10.1	-14.0	-9.9	-12.1
Of which: Direct investment	3.3	3.8	2.5	1.3	-0.5	4.9	4.2	4.4	4.7	4.9
Errors and omissions	-5.8	-4.0	-8.9	-2.2	2.1	0.0	0.0	0.0	0.0	0.0
Overall balance	1.4	3.8	1.9	2.0	2.8	1.7	2.1	-1.2	3.7	1.9
Gross official reserves (US$ billions) 6/ 9/	94.5	102.4	101.4	103.6	106.4	108.1	110.2	108.9	112.6	114.5
(In months of following year's imports of goods and nonfactor services)	5.6	5.5	5.8	6.7	6.5	5.9	5.7	5.3	5.0	4.6
(In percent of short-term debt by original maturity)	112.2	117.8	103.5	108.3	109.5	111.0	118.4	131.4	145.8	156.5
(In percent of short-term debt by remaining maturity)	83.2	93.7	84.7	86.9	87.5	88.0	92.7	98.7	105.0	111.0
(In percent of reserve money)	…	…	…	…	…	…	…	…	…	…
(In percent of monetary base)	…	…	…	…	…	…	…	…	…	…
(In percent of broad money) 5/	…	…	…	…	…	…	…	…	…	…
Total external debt (in billions of U.S. dollars) 6/ 9/	203.8	218.8	223.3	231.1	237.9	243.4	241.6	241.2	238.4	245.8
(In percent of GDP)	67.7	68.6	62.3	63.4	69.3	63.8	58.7	54.0	49.6	47.6
Of which: short-term (in percent of total, original maturity)	41.3	39.7	43.9	41.4	40.8	40.0	38.5	34.4	32.4	29.8
short-term (in percent of total, remaining maturity)	55.7	50.0	53.6	51.6	51.1	50.4	49.2	45.8	45.0	42.0
Debt service ratio 6/										
(In percent of exports of goods and services) 10/	23.4	14.0	10.6	11.0	13.7	12.5	11.2	10.8	11.0	10.8
(In percent of exports of goods and nonfactor services)	24.8	14.8	11.2	11.7	14.5	13.2	11.8	11.4	11.6	11.4
Memorandum items:										
Nominal GDP (in billions of ringgit)	1,250	1,372	1,447	1,511	1,439	1,561	1,674	1,804	1,940	2,085

Sources: Data provided by the authorities; CEIC Data Co. Ltd.; World Bank; UNESCO; and IMF, *Integrated Monetary Database* and staff estimates.

1/ Based on data provided by the authorities except for 2015 data which is estimated using splicing methodology by IMF.
2/ Cash basis. The authorities plan to adopt accrual basis by 2021. For 2019, overall and primary balance includes the payment of outstanding tax refund (arrears) amounting to RM37 billion.
3/ Tax refunds in 2019 are allocated for payment of outstanding tax refunds.
4/ Consolidated public sector includes general government and nonfinancial public enterprises (NFPEs). General government includes federal government, state and local governments, and statutory bodies.
5/ Based on data provided by the authorities, but follows compilation methodology used in IMF's *Integrated Monetary Database* . Credit to private sector in 2018 onwards includes data for a newly licensed commercial bank from April 2018. The impact of this bank is excluded in the calculation of credit gap.
6/ IMF staff estimates. U.S. dollar values are estimated using official data published in national currency.
7/ Based on a broader measure of liquidity. Credit gap is estimated on quarterly data from 2000, using one-sided Hodrick-Prescott filter with a large parameter.
8/ Revisions in historical data reflect the change in base year for nominal GDP (from 2010=100 to 2015=100).
9/ The decrease in short-term debt by remaining maturity in 2017 was partly due to the implementation of an improved data compilation system that corrected previous overestimation.
10/ Includes receipts under the primary income account.

Table 2. Malaysia: Indicators of External Vulnerability, 2016–20

	2016	2017	2018	2019	2020 1/
Financial indicators					
General government debt (in percent of GDP) 2/	55.8	54.4	55.7	57.2	65.8
Broad money (end of period, year-on-year percent change) 3/	2.7	4.8	7.7	2.7	5.0
Private sector credit (end of period, year-on-year percent change) 3/	5.3	5.4	8.3	5.0	4.0
3-month interest rate (percent, 12-month average) 4/	3.6	3.4	3.7	3.5	2.6
External indicators 5/					
Goods exports, f.o.b. (percent change, 12-month basis, in U.S. dollars terms) 6/	-5.1	12.5	10.4	-4.3	-6.6
Goods imports, f.o.b. (percent change, 12-month basis, in U.S. dollars terms) 6/	-3.7	12.9	11.4	-5.8	-9.4
Current account balance (12-month basis, in billions of U.S. dollars) 6/	7.2	8.9	8.0	12.3	12.6
Current account balance (12-month basis, in percent of GDP)	2.4	2.8	2.2	3.4	3.7
Capital and financial account balance (12-month basis, in billions of U.S. dollars) 6/	0.0	-1.1	2.8	-8.1	-11.9
Gross official reserves (in billions of U.S. dollars)	94.5	102.4	101.4	103.6	105.0
In months of following year's imports of goods and nonfactor services 6/	5.6	5.5	5.8	6.7	6.5
As percent of broad money 3/ 6/	26.4	24.7	23.2	22.8	23.1
As percent of monetary base 3/ 6/	300.1	281.2	269.5	271.8	264.5
Total short-term external debt by: 6/ 7/					
Original maturity (in billions of U.S. dollars)	84.3	86.9	98.0	95.6	97.1
Remaining maturity (in billions of U.S. dollars)	113.6	109.3	119.8	119.2	121.6
Original maturity to reserves (in percent)	89.1	84.9	96.6	92.3	92.5
Original maturity to total external debt (in percent)	41.3	39.7	43.9	41.4	40.8
Remaining maturity to reserves (in percent)	120.1	106.7	118.1	115.0	115.8
Remaining maturity to total external debt (in percent)	55.7	50.0	53.6	51.6	51.1
Total external debt (in billions of U.S. dollars) 6/ 7/	203.8	218.8	223.3	231.1	237.9
Of which: public sector (medium- and long-term (MLT))	71.5	77.9	71.8	81.7	83.1
Total external debt to exports of goods and services (in percent) 6/ 8/	95.9	92.7	85.6	91.2	109.1
External amortization of MLT debt to exports of goods and services (in percent) 6/ 8/	21.7	12.4	8.6	8.6	10.8
Financial market indicators					
Kuala Lumpur Composite Index (KLCI), end of period	1,642	1,797	1,691	1,589	1,505
10-year government securities yield (percent per annum, average)	3.8	4.0	4.1	3.6	2.9

Sources: Haver Analytics; CEIC Data Co. Ltd.; data provided by the authorities; and IMF, *Integrated Monetary Database* and staff estimates.

1/ Latest available data or IMF staff estimates.

2/ Gross debt. General government includes the federal government, state and local governments, and the statutory bodies.

3/ Based on data provided by the authorities, but follows compilation methodology used in IMF's Integrated Monetary Database.

4/ Kuala Lumpur interbank offer rate.

5/ Based on balance of payments.

6/ IMF staff estimates. U.S. dollar values are estimated using official data published in national currency.

7/ Includes offshore borrowing, nonresident holdings of ringgit-denominated securities, nonresident deposits, and other short-term debt.

8/ Includes receipts under the primary income account.

Table 3. Malaysia: Balance of Payments, 2016–25 /1

					Est.	Proj.				
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
					(In billions of U.S. dollars)					
Current account balance	7.2	8.9	8.0	12.3	12.6	11.5	12.2	12.8	13.5	14.0
Goods balance	24.6	27.2	28.4	29.8	32.4	37.0	34.0	32.5	32.5	32.8
Exports, f.o.b.	165.6	186.4	205.7	196.9	183.8	196.6	211.7	221.4	233.6	243.9
Imports, f.o.b.	141.0	159.1	177.3	167.1	151.4	159.6	177.7	188.9	201.1	211.1
Services balance	-4.6	-5.3	-4.3	-2.6	-11.5	-15.2	-6.9	-5.5	-5.0	-5.9
Receipts	35.6	37.1	40.2	41.0	21.9	22.9	34.2	37.0	38.9	39.5
Payments	40.1	42.4	44.6	43.6	33.3	38.1	41.1	42.5	43.9	45.4
Primary income	-8.3	-9.0	-11.2	-9.7	-7.0	-7.9	-8.0	-8.1	-8.3	-8.3
Secondary income	-4.5	-4.0	-4.9	-5.1	-1.4	-2.4	-6.9	-6.2	-5.7	-4.6
Capital and financial account balance	0.0	-1.1	2.8	-8.1	-11.9	-9.8	-10.1	-14.0	-9.9	-12.1
Capital account	0.0	0.0	0.0	0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Financial account	-0.1	-1.1	2.8	-8.2	-11.8	-9.8	-10.1	-14.0	-9.9	-12.1
Direct investment	3.3	3.8	2.5	1.4	-0.5	4.9	4.2	4.4	4.7	4.9
Portfolio investment	-3.4	-3.6	-12.2	-7.0	-16.3	-3.0	-2.7	1.6	-0.5	-1.5
Other investment	0.0	-1.3	12.53	-2.5	5.0	-11.7	-11.6	-20.0	-14.0	-15.5
Errors and omissions	-5.8	-4.0	-8.9	-2.2	2.1	0.0	0.0	0.0	0.0	0.0
Overall balance	1.4	3.8	1.9	2.0	2.8	1.7	2.1	-1.2	3.7	1.9
Gross official reserves	94.5	102.4	101.4	103.6	106.4	108.1	110.2	108.9	112.6	114.5
In months of following year's imports of goods and nonfactor services	5.6	5.5	5.8	6.7	6.5	5.9	5.7	5.3	5.0	4.6
In percent of short-term debt 2/ 3/	83.2	93.7	84.7	86.9	87.5	88.0	92.7	98.7	105.0	111.0
					(In percent of GDP)					
Current account balance	2.4	2.8	2.2	3.4	3.7	3.0	3.0	2.9	2.8	2.7
(Excluding crude oil and liquefied natural gas)	-0.9	-0.9	-1.5	0.7	1.5	-1.2	0.0	0.3	0.4	0.4
Goods balance	8.2	8.5	7.9	8.2	9.4	9.7	8.3	7.3	6.7	6.3
Exports, f.o.b.	55.0	58.4	57.4	54.0	53.5	51.4	51.4	49.5	48.5	47.1
Imports, f.o.b.	46.8	49.9	49.4	45.8	44.1	41.7	43.1	42.2	41.8	40.8
Services balance	-1.5	-1.7	-1.2	-0.7	-3.3	-4.0	-1.7	-1.2	-1.0	-1.1
Primary income	-2.8	-2.8	-3.1	-2.7	-2.0	-2.1	-1.9	-1.8	-1.7	-1.6
Secondary income	-1.5	-1.3	-1.4	-1.4	-0.4	-0.6	-1.7	-1.4	-1.2	-0.9
Capital and financial account balance	0.0	-0.3	0.8	-2.2	-3.5	-2.6	-2.4	-3.1	-2.1	-2.3
Direct investment	1.1	1.2	0.7	0.4	-0.1	1.3	1.0	1.0	1.0	0.9
					(Annual percentage change)					
Memorandum items:										
Goods trade										
Exports, f.o.b., value growth (in U.S. dollars) 1/	-5.1	12.5	10.4	-4.3	-6.6	7.0	7.7	4.6	5.5	4.4
Export volume growth 4/	2.6	11.1	5.5	-1.6	-10.7	5.8	1.0	3.9	3.8	3.7
Imports, f.o.b., value growth (in U.S. dollars) 1/	-3.7	12.9	11.4	-5.8	-9.4	5.4	11.3	6.3	6.5	5.0
Import volume growth 4/	0.6	12.9	3.1	-3.2	-8.2	6.9	4.5	5.5	5.2	4.2
Terms of trade	-3.3	1.1	-0.4	1.1	-0.4	-1.3	0.1	0.0	0.0	0.0
Net international investment position 1/										
(In billions of U.S. dollars)	15.6	-7.5	-17.6	-10.8	...	...	...	...	...	...
(In percent of GDP)	5.2	-2.4	-4.9	-3.0	...	...	...	...	...	...

Sources: Data provided by the authorities; and IMF staff estimates.

1/ Information presented in this table is based on staff estimates using official data published in national currency.

2/ Based on IMF staff estimates of short-term external debt by remaining maturity.

3/ The decrease in short-term debt by remaining maturity in 2017 was partly due to the implementation of an improved data compilation system that corrected previous overestimation.

4/ Export and import volume growth in 2015-2018 is calculated using official export and import volume indices (2010=100).

Table 4. Malaysia: Illustrative Medium-Term Macroeconomic Framework, 2016–25 /1

					Est.			Proj.		
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Real sector (percent change)										
Real GDP growth	4.4	5.8	4.8	4.3	-6.0	6.5	6.0	5.7	5.3	5.0
Total domestic demand	4.8	6.6	4.7	3.9	-4.7	5.3	5.3	6.2	5.7	5.6
Of which: Private consumption	5.9	6.9	8.0	7.6	-5.1	4.8	6.5	7.9	6.9	7.0
Public consumption	1.1	5.7	3.2	2.0	11.6	-2.3	1.3	1.6	1.9	1.7
Private investment	4.5	9.0	4.3	1.6	-7.3	7.0	6.0	6.0	5.0	4.0
Public gross fixed capital formation	-1.0	0.3	-5.0	-10.9	-29.9	9.2	1.6	-1.6	2.3	2.3
Output gap (in percent) 2/	0.0	0.8	0.5	-0.1	-3.3	-2.5	-1.9	-1.5	-1.4	-1.4
Consumer prices (period average)	2.1	3.7	1.0	0.7	-1.1	2.0	2.0	2.0	2.0	2.0
Consumer prices, excluding food and energy (period average) 2/	2.6	1.6	0.4	1.1	1.0	1.5	1.7	1.9	2.0	2.0
GDP deflator	1.7	3.8	0.7	0.1	1.4	1.8	1.2	2.0	2.1	2.3
Saving and investment (in percent of GDP)										
Gross domestic investment	26.0	25.5	23.9	21.0	21.5	23.8	22.6	22.4	22.3	22.2
Private, including stocks	17.4	17.6	16.7	14.8	16.9	19.1	18.0	18.0	18.0	18.0
Of which: gross fixed capital formation	16.9	17.1	17.0	16.7	15.6	16.5	18.0	18.0	18.0	18.0
Public	8.6	8.0	7.2	6.2	4.6	4.7	4.7	4.4	4.2	4.2
Gross national saving	28.4	28.3	26.1	24.4	25.1	26.8	25.6	25.2	25.1	24.9
Private 3/	22.2	22.2	18.9	16.7	20.6	22.4	21.6	21.2	21.0	20.9
Public 3/	6.2	6.1	7.2	7.7	4.5	4.4	3.9	4.1	4.0	4.0
Fiscal sector (in percent of GDP)										
Federal government										
Revenue	17.0	16.1	16.1	17.5	15.8	15.2	15.5	15.5	15.5	15.5
Tax	13.6	12.9	12.0	12.0	10.6	11.2	11.7	11.7	11.7	11.7
Nontax	3.4	3.1	4.1	5.6	5.1	4.0	3.8	3.8	3.8	3.8
Expenditure and net lending	20.1	19.0	19.8	18.5	21.8	20.6	20.1	19.9	19.8	19.7
Current	16.8	15.8	15.9	14.9	18.2	16.1	16.0	15.9	15.9	15.9
Development	3.3	3.2	3.9	3.5	3.6	4.5	4.1	3.9	3.8	3.8
Overall balance	-3.1	-2.9	-3.7	-3.4	-6.0	-5.4	-4.6	-4.3	-4.2	-4.2
Cyclically-adjusted balance (in percent of potential GDP) 2/	-2.6	-3.0	-5.0	-3.3	-5.3	-5.0	-4.4	-4.1	-4.1	-4.0
Nonoil and gas primary balance	-3.4	-3.4	-5.3	-6.7	-7.0	-5.4	-4.9	-4.6	-4.4	-4.2
Federal government debt	51.9	50.0	51.2	52.5	61.1	61.8	62.2	62.0	61.9	61.8
Balance of payments (in billions of U.S. dollars) 2/										
Goods balance	24.6	27.2	28.4	29.8	32.4	37.0	34.0	32.5	32.5	32.8
Services balance	-4.6	-5.3	-4.3	-2.6	-11.5	-15.2	-6.9	-5.5	-5.0	-5.9
Income balance	-12.8	-13.0	-16.1	-14.9	-8.4	-10.3	-14.9	-14.3	-14.0	-12.9
Current account balance	7.2	8.9	8.0	12.3	12.6	11.5	12.2	12.8	13.5	14.0
(In percent of GDP)	2.4	2.8	2.2	3.4	3.7	3.0	3.0	2.9	2.8	2.7
Capital and financial account balance	0.0	-1.1	2.8	-8.1	-11.9	-9.8	-10.1	-14.0	-9.9	-12.1
Of which : Direct investment	3.3	3.8	2.5	1.3	-0.5	4.9	4.2	4.4	4.7	4.9
Errors and omissions	-5.8	-4.0	-8.9	-2.2	2.1	0.0	0.0	0.0	0.0	0.0
Overall balance	1.4	3.8	1.9	2.0	2.8	1.7	2.1	-1.2	3.7	1.9
International trade in goods (annual percent change) 2/										
Goods exports, f.o.b. (in U.S. dollars terms)	-5.1	12.5	10.4	-4.3	-6.6	7.0	7.7	4.6	5.5	4.4
Goods imports, f.o.b. (in U.S. dollars terms)	-3.7	12.9	11.4	-5.8	-9.4	5.4	11.3	6.3	6.5	5.0
Terms of trade	-3.3	1.1	-0.4	1.1	5.4	2.7	-0.1	-0.1	0.4	0.0
Gross official reserves (in billions of U.S. dollars) 4/	94.5	102.4	101.4	103.6	106.4	108.1	110.2	108.9	112.6	114.5
(In months of following year's imports of goods and nonfactor services)	5.6	5.5	5.8	6.7	6.5	5.9	5.7	5.3	5.0	4.6
(In percent of short-term debt by original maturity) 2/	112.2	117.8	103.5	108.3	109.5	111.0	118.4	131.4	145.8	156.5
(In percent of short-term debt by remaining maturity) 2/	83.2	93.7	84.7	86.9	87.5	88.0	92.7	98.7	105.0	111.0
Total external debt (in billions of U.S. dollars) 2/ 4/	203.8	218.8	223.3	231.1	237.9	243.4	241.6	241.2	238.4	245.8
(In percent of GDP)	67.7	68.6	62.3	63.4	69.3	63.7	58.6	53.9	49.5	47.5
Short-term external debt (percent of total, original maturity)	41.3	39.7	43.9	41.4	40.8	40.0	38.5	34.4	32.4	29.8
Short-term external debt (percent of total, remaining maturity)	55.7	50.0	53.6	51.6	51.1	50.4	49.2	45.8	45.0	42.0
Debt-service ratio 2/ 4/										
(In percent of exports of goods and nonfactor services)	24.8	14.8	11.2	11.7	14.5	13.2	11.8	11.4	11.6	11.4
Net international investment position (in billions of U.S. dollars) 2/	15.6	-7.5	-17.6	-10.8	...	...	...	...	...	...
Memorandum items:										
Nominal GDP (in billions of ringgit)	1,250	1,372	1,447	1,511	1,439	1,561	1,674	1,804	1,940	2,085

Sources: Data provided by the authorities; and IMF staff estimates.

1/ Period ending December 31.

2/ IMF staff estimates. U.S. dollar values are estimated using the official data published in national currency.

3/ IMF staff estimates are used 2015 onward.

4/ The decrease in short-term debt by remaining maturity in 2017 was partly due to the implementation of an improved data compilation system that corrected previous overestimation.

Table 5. Malaysia: Summary of Federal Government Operations and Stock Positions, 2016–25

					Est.			Proj.		
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
I. Statement of Government Operations 1/					(In billions of ringgit)					
Revenue	212.4	220.4	232.9	264.4	227.3	236.9	259.5	280.4	301.3	323.4
Taxes	169.3	177.7	174.1	180.6	153.3	174.4	195.7	211.6	227.4	244.1
Direct taxes	109.6	116.0	130.0	134.7	115.1	131.9	150.0	161.9	173.8	186.2
Indirect taxes	59.7	61.6	44.0	45.8	38.2	42.5	45.8	49.7	53.6	57.9
Non-tax revenue	43.1	42.7	58.8	83.8	74.0	62.5	63.7	68.8	73.9	79.3
Investment income	21.4	21.6	31.9	60.1	48.7	36.8	35.8	38.6	41.5	44.6
Other revenue	21.7	21.1	26.9	23.8	25.3	25.8	27.9	30.2	32.3	34.7
Expenditure and net lending	250.8	260.7	286.3	278.9	313.7	321.7	337.1	358.2	383.7	410.4
Current expenditure, including COVID fund	209.5	217.2	230.5	225.6	261.6	251.5	268.2	287.6	309.3	332.0
Expense			230.5	225.6	226.1	236.0	268.2	287.6	309.3	332.0
Compensation of employees	73.1	77.0	80.0	80.5	82.6	84.5	90.7	97.7	105.1	112.9
Use of goods and services	30.1	34.7	35.3	31.5	30.1	32.8	35.1	37.9	40.7	43.8
Interest	26.5	27.9	30.5	32.9	34.9	39.0	46.3	50.5	56.5	62.5
Subsidies and social assistance	24.7	22.4	27.5	23.9	20.1	18.9	32.0	32.9	33.8	34.7
Grants and transfers	33.2	31.3	30.9	29.1	29.6	32.7	34.5	36.7	38.9	41.3
Social benefits and other expense	21.9	23.8	26.3	27.6	28.7	28.1	29.6	31.9	34.3	36.9
COVID fund 2/					35.5	15.5				
Wage subsidies					14.1	4.2				
Social transfers					16.2	9.1				
Other spending					5.2	2.2				
Net acquisition of nonfinancial assets (incl. COVID spending) 3/	41.3	43.5	55.8	53.3	52.2	70.2	68.9	70.6	74.4	78.3
Gross operating balance	2.9	3.2	2.4	38.8	1.2	0.9	-8.8	-7.3	-8.1	-8.6
Net lending/borrowing	-38.4	-40.3	-53.4	-14.5	-86.5	-84.8	-77.7	-77.8	-82.4	-86.9
Tax refunds (Arrears) 4/				-37.0						
Overall fiscal balance (authorities' definition) 1/	-38.4	-40.3	-53.4	-51.5	-86.5	-84.8	-77.7	-77.8	-82.4	-86.9
					(In percent of GDP)					
Revenue	17.0	16.1	16.1	17.5	15.8	15.2	15.5	15.5	15.5	15.5
Taxes	13.6	12.9	12.0	12.0	10.6	11.2	11.7	11.7	11.7	11.7
Direct taxes	8.8	8.5	9.0	8.9	8.0	8.5	9.0	9.0	9.0	8.9
Indirect taxes	4.8	4.5	3.0	3.0	2.7	2.7	2.7	2.8	2.8	2.8
Non-tax revenue	3.4	3.1	4.1	5.6	5.1	4.0	3.8	3.8	3.8	3.8
Investment income	1.7	1.6	2.2	4.0	3.4	2.4	2.1	2.1	2.1	2.1
Other revenue	1.7	1.5	1.9	1.6	1.8	1.7	1.7	1.7	1.7	1.7
Expenditure and net lending	20.1	19.0	19.8	18.5	21.8	20.6	20.1	19.9	19.8	19.7
Current expenditure, including COVID fund	38.4	38.4	15.9	14.9	18.2	16.1	16.0	15.9	15.9	15.9
Expense	16.8	15.8	15.9	14.9	15.7	15.1	16.0	15.9	15.9	15.9
Compensation of employees	5.9	5.6	5.5	5.3	5.7	5.4	5.4	5.4	5.4	5.4
Use of goods and services	2.4	2.5	2.4	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Interest	2.1	2.0	2.1	2.2	2.4	2.5	2.8	2.8	2.9	3.0
Subsidies	2.0	1.6	1.9	1.6	1.4	1.2	1.9	1.8	1.7	1.7
Grants and transfers	2.7	2.3	2.1	1.9	2.1	2.1	2.1	2.0	2.0	2.0
Social benefits and other expense	1.8	1.7	1.8	1.8	2.0	1.8	1.8	1.8	1.8	1.8
COVID fund 2/					2.5	1.0				
Wage subsidies					1.0	0.3				
Social transfers					1.1	0.6				
Other spending					0.4	0.1				
Net acquisition of nonfinancial assets (incl. COVID spending) 3/	3.3	3.2	3.9	3.5	3.6	4.5	4.1	3.9	3.8	3.8
Gross operating balance	0.2	0.2	0.2	2.6	0.1	0.1	-0.5	-0.4	-0.4	-0.4
Net lending/borrowing	-3.1	-2.9	-3.7	-1.0	-6.0	-5.4	-4.6	-4.3	-4.2	-4.2
Tax refunds (Arrears) 4/				-2.4						
Overall fiscal balance (authorities' definition) 1/	-3.1	-2.9	-3.7	-3.4	-6.0	-5.4	-4.6	-4.3	-4.2	-4.2
II. Stock Positions					(In billions of ringgit)					
Federal government debt	648.5	686.8	741.1	793.0	879.5	963.7	1,041.3	1,119.2	1,201.6	1,288.5
(In percent of GDP)	51.9	50.0	51.2	52.5	61.1	61.8	62.2	62.0	61.9	61.8
Memorandum items:										
Structural balance (in billions of ringgit) 5/	-32.7	-41.6	-72.0	-49.7	-76.4	-78.3	-73.7	-74.5	-79.5	-84.1
Structural balance (percent of potential GDP) 5/	-2.6	-3.1	-5.0	-3.3	-5.1	-4.9	-4.3	-4.1	-4.0	-4.0
Structural primary balance (percent of potential GDP) 5/	-0.5	-1.0	-2.9	-1.1	-2.7	-2.4	-1.6	-1.3	-1.1	-1.0
Primary balance (percent of GDP)	-1.0	-0.9	-1.6	-1.2	-3.6	-2.9	-1.9	-1.5	-1.3	-1.2
Nonoil and gas primary balance (percent of GDP) 5/	-3.4	-3.4	-5.3	-6.7	-7.0	-5.4	-4.9	-4.6	-4.4	-4.2
Oil and gas revenues (percent of GDP)	2.5	2.5	3.8	5.5	3.4	2.4	3.0	3.0	3.0	3.0
General government debt (percent of GDP) 6/	55.8	54.4	55.7	57.2	65.8	66.4	66.9	66.7	66.6	66.5
General government balance (percent of GDP) 6/	-2.6	-2.4	-2.6	-2.2	-5.0	-4.4	-3.4	-3.1	-3.0	-2.9
Public sector balance (percent of GDP)	-5.0	-3.6	-2.9	-3.6	-7.3	-8.0	-6.5	-5.8	-5.6	-5.5
Nominal GDP (in billions of ringgit)	1,250	1,372	1,447	1,511	1,439	1,561	1,674	1,804	1,940	2,085

Sources: Data provided by the Malaysian authorities; and IMF staff estimates.

1/ Cash basis. The authorities plan to adopt accrual basis by 2021.

2/ The authorities established a dedicated COVID-19 trust fund where they channeled proceeds from borrowing needed to finance the additional spending on COVID-19 relief measures. All such expenditures are appropriated through the fund.

3/ Net acquisition of nonfinancial assets include lending and loan repayment to and from other government related entities. In 2020, it includes RM4bln of COVID-related projects.

4/ Tax refunds in 2019 are allocated for payment of outstanding tax refunds.

5/ Structural (primary) balance removes one-off revenues and tax refunds in 2019, while nonoil and gas primary balance does not exclude tax refunds in 2019.

6/ General government includes federal government, state and local governments, and statutory bodies. Public sector includes general government and nonfinancial public enterprises.

Table 6. Malaysia: Monetary Survey, 2016–20 /1

	2016	2017	2018	Est. 2019	Proj. 2020
			(In billions of ringgit; end of period)		
Net foreign assets	361.2	333.1	306.1	303.9	291.1
Foreign assets	584.6	583.4	584.0	588.6	598.3
Foreign liabilities	223.4	250.3	277.9	284.6	307.2
Net domestic assets	1,254.0	1,359.6	1,518.3	1,568.9	1,674.8
Net domestic credit	1,749.6	1,857.1	2,026.6	2,131.3	2,114.2
Net credit to nonfinancial public sector	142.2	161.7	195.0	209.0	232.3
Net credit to central government	125.3	144.4	170.9	184.8	208.2
Net credit to state & local government	1.0	1.9	1.9	2.0	1.9
Net credit to nonfinancial corporations	15.9	15.4	22.1	22.2	22.2
Credit to private sector 2/	1,524.9	1,607.6	1,741.7	1,828.4	1,901.5
Net credit to other financial corporations	82.5	87.8	89.9	93.8	89.4
Capital accounts	413.7	423.2	439.4	459.4	479.4
Other items (net)	-81.9	-74.3	-68.9	-103.0	40.0
Broad money 3/	1,605.1	1,681.5	1,810.8	1,859.3	1,952.2
Narrow money	419.5	449.9	454.1	466.2	489.6
Currency in circulation	85.5	92.4	94.3	97.0	101.9
Transferable deposits	334.0	357.5	359.8	369.2	387.7
Other deposits	1,160.9	1,199.4	1,314.0	1,344.8	1,412.0
Securities other than shares	24.6	32.2	42.7	48.2	50.6
			(Contributions to 12-month growth in broad money, in percentage points)		
Net foreign assets	0.1	-1.8	-1.6	-0.1	-0.7
Net domestic assets	2.6	6.6	9.4	2.8	5.7
Memorandum items:					
Broad money (12-month percent change)	2.7	4.8	7.7	2.7	5.0
Currency in circulation (12-month percent change)	11.5	8.1	2.1	2.9	5.0
Credit to private sector (12-month percent change)	5.3	5.4	8.3	5.0	4.0
Money multiplier (broad money/narrow money)	3.8	3.7	4.0	4.0	4.0

Sources: Data provided by the Malaysian authorities; and IMF, *Integrated Monetary Database* and staff calculations.

1/ Based on data provided by the authorities, but follows compilation methodology used in IMF's Integrated Monetary Database.

2/ Actual data as provided by the Malaysian monetary authorities in the Integrated Monetary Database.

3/ Broad money does not equal the sum of net foreign assets and net domestic assets due to non-liquid liabilities, primarily at the other depository corporations.

Table 7. Malaysia: Banks' Financial Soundness Indicators, 2016–20Q2

	2016	2017	2018	2019	2020Q2
	(In percent; end of period)				
Capital adequacy					
Regulatory capital to risk-weighted assets	17.0	17.8	18.1	18.6	17.7
Regulatory Tier 1 capital to risk-weighted assets	14.6	15.0	14.6	15.1	14.5
Asset quality					
Nonperforming loans net of provisions to capital 1/	6.6	6.2	4.9	5.2	5.0
Nonperforming loans to total gross loans	1.6	1.5	1.5	1.5	1.5
Earnings and profitability					
Return on assets	1.3	1.4	1.4	1.5	1.2
Return on equity	12.3	13.1	12.6	12.9	10.3
Interest margin to gross income	61.0	61.1	61.0	57.8	54.7
Non-interest expenses to gross income	44.0	43.2	42.0	42.3	43.0
Liquidity					
Liquid assets to total assets (liquid asset ratio)	20.7	22.0	23.1	23.0	22.7
Liquid assets to short-term liabilities	130.3	138.3	151.0	158.8	151.0
Loan-deposit ratio 2/	89.8	89.6	88.3	88.8	87.2
Liquidity Coverage Ratio 3/	124.3	134.9	143.2	149.1	149.2
Sensitivity to market risk					
Net open position in foreign exchange to capital	6.3	6.1	5.5	4.2	4.9
Sectoral distribution of total loans to nonbanking sector					
Residents	97.3	97.0	97.1	97.5	97.5
Other financial corporations	3.5	3.3	3.2	3.5	3.5
General government	1.6	1.9	2.0	1.8	2.0
Nonfinancial corporations	36.7	35.9	35.5	35.4	35.5
Other domestic sectors	55.5	56.0	56.3	56.9	56.5
Nonresidents	2.7	3.0	2.9	2.5	2.5

Sources: Bank Negara Malaysia; and IMF, *Financial Soundness Indicators* database.

1/ Loans are classified as nonperforming if payments are overdue for three months or more. Total loans include housing loans sold to Cagamas Berhad. Net nonperforming loans exclude interest-in-suspense and specific provisions. There is a methodology change since 2018 following the implementation of Malaysian Financial Reporting Standards (MFRS) 9.

2/ Deposits exclude those accepted from banking institutions and Bank Negara Malaysia. Loans exclude loans sold to Cagamas Berhad and loans extended to banking institutions. Beginning July 2015, loans exclude financing funded by Islamic Investment Accounts.

3/ Introduced in July 2015.

Appendix I. The COVID-19 Pandemic in Malaysia[1]

Malaysia initially succeeded in halting the spread of COVID-19, by putting in place a stringent Movement Control Order (MCO) from March to May 2020 and ramping up public health measures, but suffered unprecedented economic losses in 2020Q2. While economic activity has since rebounded, a resurgence of COVID-19 cases following state elections in Sabah has prompted the authorities to re-impose restrictions to contain the new and more pronounced wave of infections.

A. The COVID-19 Outbreak in Malaysia

1. Malaysia was one of the first ASEAN countries to import a COVID-19 case, on January 24, 2020. This first recorded incidence was linked to a delegation of eight Chinese nationals who entered Malaysia via Johor Bahru through the southern border with Singapore on January 23, with three of them subsequently testing positive. Meanwhile, the first Malaysian COVID-19 infection was confirmed on February 3, following travels in Singapore between January 23 and 26, and meetings that were also attended by a delegation from China. This prompted Malaysian authorities to swiftly impose international travel restrictions on Chinese nationals and travelers arriving from the Hubei province and Wuhan from January 27, and on all travelers from other Chinese provinces from early-February. As a result, new COVID-19 cases over the rest of January and February remained low and were mainly linked to travel, with total infections numbering 23 as of February 29.

2. The first local outbreak emerged in March. A substantial outbreak was linked to an annual mass religious event held in Kuala Lumpur from February 27 to March 1, which was attended by around 14,500 local and 1,500 international participants. The sharp rise in new cases following the gathering triggered a range of containment measures, as Malaysia's government announced on March 13 cancellations of all international meetings, sports, social and religious events until April 30. By March 17, confirmed cases had surged to 673 and the first COVID-19 related fatality was recorded, prompting stringent containment measures.

3. Malaysia's Movement Control Order (MCO) was implemented nationwide on March 18, 2020, placing the nation under a stringent lockdown. Under the MCO, all Malaysians were ordered to stay at home while international and interstate borders, schools and higher education institutes as well as non-essential businesses were shut, and all public gatherings were banned. Public transportation hours were also limited. The MCO was initially set to last for two weeks until March 31 but was extended several times and was only relaxed on May 4.

4. Containment measures were combined with public health measures to halt the spread of COVID-19. Individuals that entered Malaysia were subject to a compulsory quarantine period of 14 days or any duration stipulated by public health authorities at designated centers. Malaysia's public health authorities implemented contact tracing as a key approach to control the spread of the

[1] Prepared by Nour Tawk and Han Teng Chua.

virus.[2] Individuals who tested positive and close contacts of confirmed cases were hospitalized. The government also increased the number of hospitals and beds[3] that can provide treatment for COVID-19 and prepared indoor stadiums and public halls for utilization should daily cases reach 1,000 a day. Testing capacity was also gradually ramped up, from 0.02 per thousand to almost 1 per thousand from mid-March to mid-May, second to Singapore in ASEAN countries (where testing averaged 1 per thousand per day). The authorities issued standard operating procedures (SOPs) to set new norms regarding work practices, mobility and daily social interactions. The government also launched public awareness campaigns through major media platforms, as well as through daily press briefings and briefing recordings. Information on basic hygiene practices such as hand-washing methods, the use of hand sanitizers and face masks were also disseminated through these channels (Shah, Ain Umaira Md, et al. 2020).

5. **Strict containment measures were eased from May 4 as new daily cases of COVID-19 declined.** Under the less stringent Conditional Movement Control Order (CMCO), most businesses reopened but remained subject to social distancing and other precautionary measures. The CMCO remained in place until June 9, as Malaysia succeeded to sustain a declining trend in new COVID-19 daily cases. The Recovery Movement Control Order (RMCO) followed, under which restrictions were gradually relaxed further, including the reopening of schools, allowing interstate travel as well as certain religious activities. Meanwhile, international travel remained largely banned except for specific groups and countries that have set up special arrangements[4]. The RMCO was initially set to last until August 31 but was further extended to December 31 and subsequently to March 31, 2021, in light of the new wave of infections (see below).

B. The Impact of Containment Measures on Economic Activity

6. **The short-term economic consequences of COVID-19 containment measures have been dire.** In the absence of effective treatments and vaccines, measures targeted reducing mobility, in order to create social distancing and slow the spread of the pandemic. Consequently, mobility in Malaysia declined drastically in mid-March, 90 percent below its observed levels weeks before the MCO was implemented. Meanwhile, as shutdowns of businesses and stay-at-home orders were enforced, the unemployment rate rose to historical levels while business and consumer confidence worsened, all of which led to a strong contraction in retail sales and credit card transactions during March and April.

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[2] The use of MySejahtera mobile application helped to simplify the contact tracing process. The app was launched in April 2020 and allows users to conduct personal health self-assessments, information on which was available to the Ministry of Health. The app also provides latest updated COVID-19 and health-related information.

[3] For example, Sungai Buloh hospital, a public hospital located approximately 25 kilometers northwest of capital city Kuala Lumpur, was renovated so that its bed capacity increased to over 2,000 from 900 previously. The hospital was designated as Malaysia's main COVID-19 hospital on March 12.

[4] For example, Malaysia and Singapore have agreed to allow cross-border travel for residents who hold long-term immigration passes for business purposes through establishing a Reciprocal Green Lane (RGL) and a Periodic Commuting Arrangement (PCA). This agreement was implemented starting August 17.

7. Sectors which rely on close human interaction, such as tourism and services, were badly hit. The domestic and international travel ban had a severe impact on tourism: as of end-November 2020, international and domestic flights had almost completely halted, while hotel revenues declined by almost -94 percent relative to 2019 during 2020Q2, but had slightly recovered by year-end. By end-September, tourist arrivals had also declined year-on-year by an unprecedented 100 percent, with similar contractions seen in other countries in the region.

8. The shutdown of non-essential businesses, including manufacturing companies and industries, led to a dramatic decline of exports and imports of goods. Novel daily data on seaborne trade constructed from Automatic Identification System (AIS) signals emitted by global vessel fleets through their transponders showed that Malaysia's maritime imports and exports decelerated rapidly around the time that the MCO was put in place, and reached their lowest levels in early May. This decline was also reflected in the contraction of overall imports and exports in 2020Q2. After the MCO was relaxed, maritime exports quickly rebounded, but fell sharply again in 2020Q4. Imports recovered after the MCO was lifted, albeit at a slower pace.

C. The Latest COVID-19 Wave of Infections

9. Infections again surged in late September prompting the government to tighten restrictions in various states and territories from mid-October. The new outbreak was largely concentrated in the state of Sabah, where new cases accounted for approximately 65 percent of the nation's total new cases from September 20 until the state's peak on November 6. The surge in infections was attributed to a lack of adherence to social distancing restrictions during the Sabah local elections that took place on September 26.

10. The government took several steps to contain the new wave. Four districts in Sabah were initially placed under a Targeted Enhanced Movement Control Order (TEMCO) effective September 29. Under the TEMCO, closures of non-essential businesses, stay-at-home orders and restrictions on movement were implemented. Interstate borders were closed to non-residents and visitors to halt travel into the districts. The government subsequently imposed a CMCO[5] on the rest of Sabah, effective October 13. As the outbreak spread to other states, CMCOs were implemented in Selangor, Kuala Lumpur and Putrajaya.

11. Movement restrictions were further tightened as the virus spread continued to worsen. By November 9, Malaysia had reinstated CMCOs across all but three states (Kelantan, Perlis and Pahang) in Peninsular Malaysia until December 6, and enforced closures of schools and entertainment outlets, restricted operating hours of restaurants, shops and convenience stores, prohibited inter-district and inter-state travel, and curbed individuals' mobility. Public health authorities continued to adjust movement restrictions to the evolution of the pandemic across various states. At the time of writing, the authorities had further increased restrictions across most states, given continued virus spread. Under the latest restrictions, the manufacturing, construction,

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[5] The CMCO is less stringent than the TEMCO as most businesses can remain open.

trade and distribution sectors are deemed essential and remain open but may be subject to a shutdown if cases continue to surge.

12. Healthcare measures have also been ramped up to cope with the rising number of infections. Nationwide testing capacity has increased to almost 55,000 per day in mid-October from approximately 38,000 per day in September. The number of hospital beds available across Malaysia has also been expanded from around 6,000 early in October to 25,456 by late-December. In the state of Sabah, hospital beds have been quadrupled (to around 8,500 in early-November from 2,100 in September), while health authorities have designated specific hospitals to deal with COVID-19 cases.

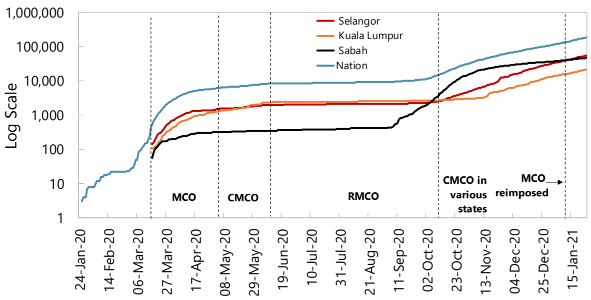
13. Malaysia is working on procuring access to COVID-19 vaccines from different suppliers. Progress to date suggests vaccines for about 80 percent of the population have been secured: Malaysia has signed deals with Pfizer-BioNTech to inoculate 39 percent of the population, with COVAX for another 10 percent of the population, and with AstraZeneca to procure vaccines for an additional 10 percent of the population. Supply for an additional 20 percent of the population has also been recently secured through partnering with Chinese pharmaceutical company Sinovac. At the time of writing, Malaysia was also in talks to secure additional vaccine doses from Sinovac and other Chinese manufacturers, as well as from Russia's manufacturer of Sputnik V vaccine. Malaysia plans to begin administering the Pfizer-BioNTech's vaccine as early as February. The vaccine will be first given to frontline healthcare workers and high-risk groups such as the elderly, those with non-communicable diseases and chronic respiratory diseases.

Figure 1. Malaysia: COVID-19 Developments

Malaysia successfully contained COVID-19 infections using different MCOs, but cases again surged beginning in September….

Confirmed COVID-19 Cases In Malaysia

(Number of cases confirmed-to-date; Log Scale)

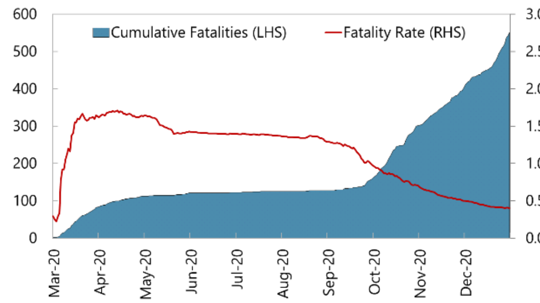


Sources: Johns Hopkins CSSE, European Centre for Disease Prevention and Control (ECDC), Ministry of Health of Malaysia
Note: Dates follow ECDC Reporting Dates; MCO=Movement Control Order; CMCO=Conditional MCO; RMCO=Recovery MCO.

…while fatalities have remained relatively low, they have also increased since September…

COVID-19 Fatalities in Malaysia

(LHS: Number, confirmed to date; RHS: Percent)

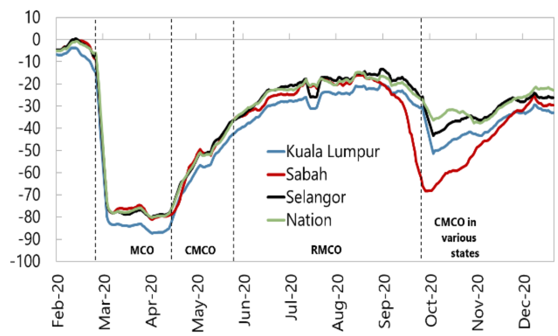


Sources: Ministry of Health, Johns Hopkins CSSE, European Centre for Disease Prevention and Control (ECDC)

Stringent containment measures under the MCO reduced mobility and created social distancing…

Malaysia Google Mobility Trends

(Retail and Recreation; Percent from Baseline - Median Value during the 5-week period from Jan 3-Feb 6, 2020)

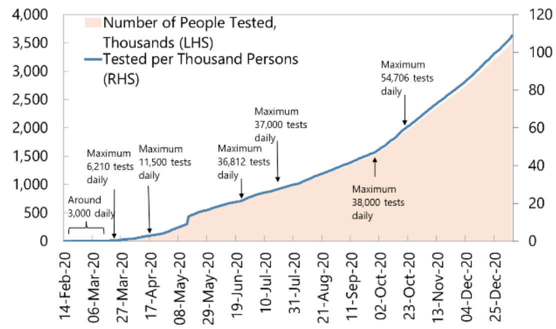


Sources: Google Mobility Community Reports, IMF staff
Note: MCO=Movement Control Order; CMCO=Conditional MCO; RMCO= Recovery MCO

… and were combined with ramped-up testing for COVID-19 infections…

COVID-19 Testing in Malaysia

(Cumulative Number-To-Date)

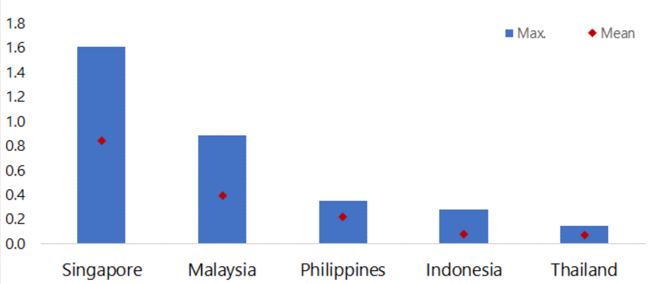


Sources: Our World in Data, IMF staff

…with testing in Malaysia being the second highest among ASEAN5 countries…

COVID-19 Tests Per Day, Selected ASEAN Countries, as of January 7, 2021.

(Per Thousand, 7-Day Moving Average)

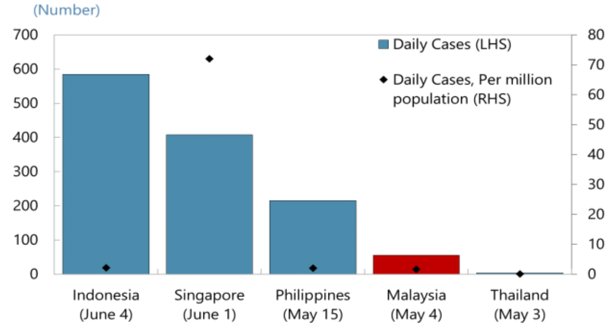


Sources: Our World in Data, IMF staff calculations.
Note: the data sample is from 14 April to 19 October 2020. "Max." refers to the maximum number of people tested during that period.

…while new COVID-19 cases at the time of relaxing containment measures was the second lowest…

New COVID-19 Cases at Time of Exit

(Number)

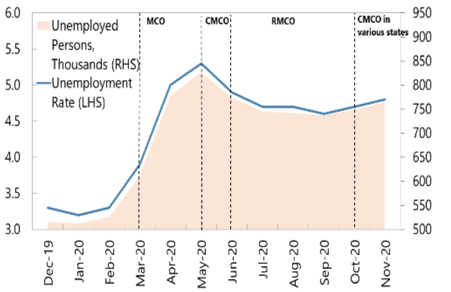


Sources: Sources: Johns Hopkins CSSE, European Centre for Disease Prevention and Control (ECDC)

Figure 2. Malaysia: Economic Indicators During COVID-19

As the unemployment rate rose…

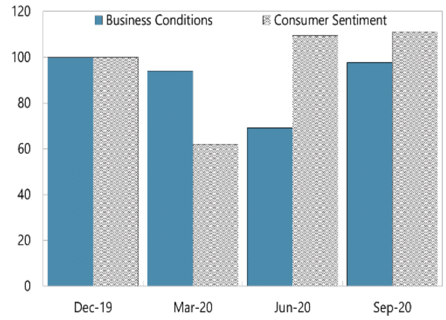
Unemployment
(LHS: Percent; RHS: Number in Thousands)



Sources: CEIC Data Co. Ltd.; Department of Statistics Malaysia; and IMF staff calculations. Note: MCO=Movement Control Order; CMCO=Conditional MCO; RMCO Recovery MCO

…and business conditions and consumer sentiment worsened…

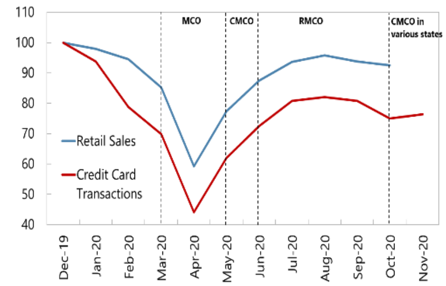
Business Conditions and Consumer Sentiment
(Index; Dec-2019=100)



Sources: CEIC Data Co. Ltd.; and IMF staff calculations

…retail sales and credit card transactions contracted.

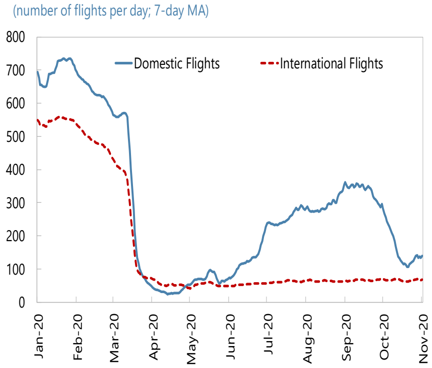
Retail Sales and Credit Card Transactions
(Index; Dec-2019=100)



Sources: BNM; CEIC Data Co. Ltd.; and IMF staff calculations. Note: MCO=Movement Control Order; CMCO=Conditional MCO; RMCO= Recovery MCO

International and domestic flights almost completely halted in March…

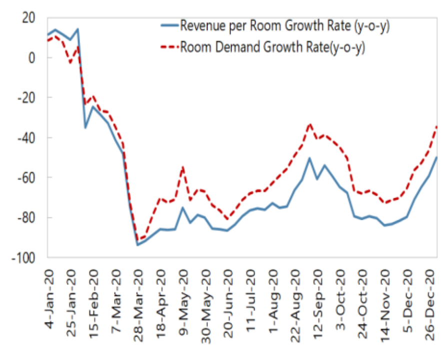
Flights Per Day, Malaysia
(number of flights per day; 7-day MA)



Sources: FlightRadar24.

…leading hotel revenue to significantly decline compared to previous years…

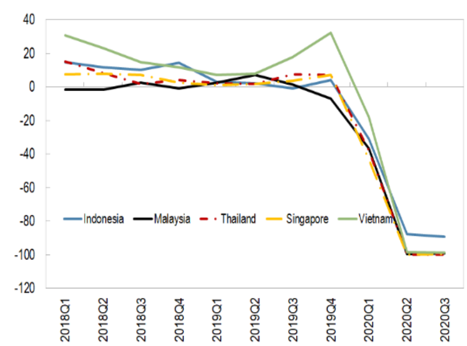
Hotel Rooms and Revenue, Malaysia
(year-on-year growth rate)



Sources: STR Database.

…with losses to the tourism sector compounded by the stop in tourist arrivals.

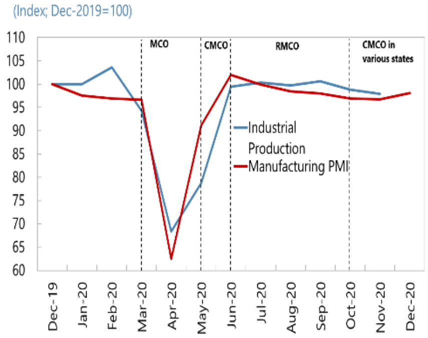
Tourist Arrivals, Selected ASEAN Countries
(Annual Percent Change)



Sources: Haver, IMF staff calculations.

Industrial production and manufacturing PMIs also contracted following the MCO…

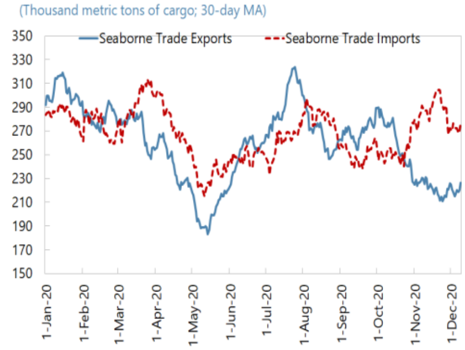
Industrial Production and Manufacturing PMI
(Index; Dec-2019=100)



Sources: CEIC Data Co. Ltd.; Haver Analytics; and IMF staff calculations. Note: MCO=Movement Control Order; CMCO=Conditional MCO; RMCO= Recovery MCO

…. while maritime imports and exports rapidly decelerated…

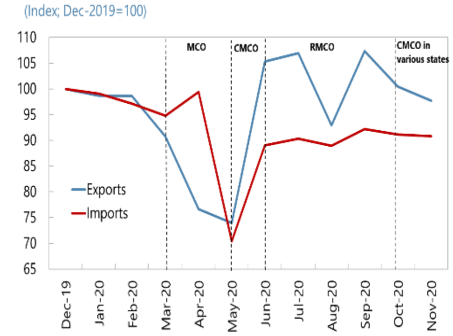
Real Time Seaborne Trade AIS Estimates
(Thousand metric tons of cargo; 30-day MA)



Sources: MarineTraffic; and UN COMTRADE Monitor.

…leading to a stark decline in both imports and exports during 2020Q2.

Exports and Imports
(Index; Dec-2019=100)



Sources: CEIC Data Co. Ltd.; and IMF staff calculations. Note: MCO=Movement Control Order; CMCO=Conditional MCO; RMCO= Recovery MCO

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Appendix II. Malaysia's Policy Response to the COVID-19 Crisis[1]

To address the economic fallout from the pandemic, the Malaysian government introduced five policy packages between February and September 2020, totaling RM 305 billion (21¼ percent of GDP). A sixth package amounting to RM 15 billion was announced on January 18, 2021. The wide-ranging measures included spending on health care; cash transfers and other support to vulnerable households; wage subsidies, tax relief, and grants to enterprises; deferment of payments to the Employee Provident Fund (EPF) for employers; reduced contributions to, and tax-free early withdrawals from, the EPF for employees; and infrastructure spending. Additionally, the BNM eased monetary policy by reducing the policy rate to record-low levels; introduced payment moratoria on bank loans and new credit and guarantee facilities to support households and SMEs; and implemented regulatory and supervisory initiatives to support the financial sector.

A. Support to Households

1. **Support to households included cash transfers, reduced fees, and tax breaks.** All policy packages introduced direct cash transfers to the population. Initially, these were to help groups most affected by the pandemic (e.g., taxi and bus drivers), but subsequently they were significantly broadened to cover the eligible 5.1 million households earning below RM8,000 a month and 3.4 million single individuals earning below RM4,000 per month. Other eligible beneficiaries comprised e-hailing drivers, gig economy workers, students, civil servants, government pensioners, and others. Households also benefited from reduced fees on utilities, childcare, housing, and public transportation, as well as tax breaks and e-vouchers. Funds were also allocated to provide job training for the unemployed workers. Employee contributions to the EPF were reduced from 11 percent to 7 percent, and workers were allowed to withdraw RM500 a month from the EPF savings account between April 2020 and March 2021 and without tax penalties. In the context of the January 2021 package, the authorities accelerated social security payments under the existing programs, allowed for accelerated withdrawals from the EPF, and extended tax relief on communication equipment and locally produced cars. The unemployment benefits eligibility criteria were relaxed, and the term extended.

2. **Households also benefited from financial relief measures introduced by BNM.** These measures included: (i) a 6-month deferment offered by banking institutions to individuals (and SMEs) on all loan/financing repayments (except credit card balances) effective April 1, 2020.[2] This initial blanket moratorium was time-bound. Ahead of its expiration on September 30, 2020, BNM worked pro-actively with banks to ensure that assistance would continue to be provided to borrowers that remain affected by COVID-19 on a case-by-case basis; (ii) an option provided to credit cardholders to convert their outstanding balances to a 3-year term loan at a lower interest/profit rate; (iii) An option for affected life policyholders and family takaful participants to defer premiums/contribution payments due for three months without affecting policy coverage, with effect from April 1, 2020; (iv)

[1] Prepared by Emilia Jurzyk and Dan Nyberg.

[2] To be eligible for the debt payment moratorium, the borrower had to be in good standing with the bank.

flexibility provided by general insurers and takaful operators for policyholders and takaful participants to meet premiums/contributions due, including by restructuring of policies/certificates; (v) expedited insurance and takaful claims processes related to COVID-19.[3] In November 2020, the BNM announced enhancements to the targeted repayment assistance, including the assistance to the B40 (bottom-40 percent of the income distribution) and microenterprises, which can request either deferring monthly installments for 3 months or reduce monthly installments by 50 percent for 6 months.

B. Support to Firms

3. **Several measures aimed at shoring up firm finances.** To support employment, the authorities introduced wage subsidies in the March policy package, whereby firms affected by the pandemic could have part of the salaries of eligible employees covered by official payments for 3 months. These subsidies were subsequently extended in the April, June, and September policy packages. The 2021 budget noted the subsidies would be henceforth targeted to the tourism sector only but, in response to the resurgence of the virus, the January 2021 policy package broadened the subsidies to all firms operating in states affected by the MCO. The authorities also introduced grants for microenterprises and SMEs, tax and fee reliefs for certain groups of enterprises, as well as deferral of employers' contributions to EPF. Firms also benefited from the debt moratoria mentioned in the previous paragraph.

4. **Moreover, BNM's Fund for SMEs was enhanced to provide immediate relief for SMEs to withstand the economic fallout from the pandemic.** The enhancements covered three facilities: (i) Special Relief Facility (SRF) to help alleviate the short-term cash flow problems faced by affected SMEs with a total amount of RM10 bn (0.7 percent of GDP); (ii) Agrofood Facility (AF) to increase food production for both domestic consumption and exports; and (ii) Automation and Digitalization Facility (ADF) to incentivize SMEs to automate processes and digitalize operations to increase productivity. The BNM also reduced the maximum financing rates charged to SMEs. In November 2020, the BNM announced several additional facilities and enhancements for SME support, including the establishment of (i) RM2 bn Targeted Relief and Recovery Facility (TRRF); (ii) RM 500 mn High Tech Facility (HTF); and (iii) RM 110 mn enhancement to the existing Micro Enterprise Facility.

5. **As part of the June 2020 Penjana recovery plan, the authorities introduced policy measures to support a range of economic sectors, including the real estate sector.** The Home Ownership Campaign was re-launched in June 2020, with stamp duty exemptions granted for purchase agreements signed between June 1, 2020 and May 31, 2021; the Loan-to-Value requirement of 70 percent for third mortgages was lifted until May 2021; and gains arising from disposal of up to three residential properties per individual between June 1, 2020 and December 31, 2021 was exempted from the real property gains tax.

[3] Takaful is a type of Islamic insurance where members contribute money to a pool system to protect participants against loss or damage.

C. Impact of Household and Firm Support Measures.

6. The take-up of measures has been significant:

- In 2020, cash assistance and e-voucher programs reached around one-third of the population. Over 322 thousand firms and 2.6 million employees participated in the wage subsidy program. Around 129 thousand employees secured jobs through the Hiring Incentive Program and Training Assistance and over 130 thousand individuals have been approved to participate in the reskilling and upskilling programs.[4]

- On the financial side, more than 95 percent of individual and SME borrowers made use of the automatic repayment deferral initially. As of November 2020, around 85 percent of borrowers had resumed making their monthly payments. As for the targeted repayment assistance upon request following the end of the automatic deferral period, banking institutions had facilitated, as of end-December 2020, 1.3 million applications for repayment assistance by individuals and SMEs in COVID-19-affected sectors, with an approval rate of 95 percent.[5]

7. The SRF has met with very strong demand. The original RM5bn allocation was quickly exhausted leading the BNM to extend the SRF to RM10bn. The BNM stopped accepting new applications to the SRF in early May by which time 21,240 accounts had been established. On average, banks took 2-5 days to approve an SRF loan. With the SRF closed to new applications, commercial banks were subsequently expected to continue supporting SMEs through regular lending operations. About half of the SRF lending was to SMEs in the wholesale, retail and hospitality sectors. The BNM estimates that the SRF lending provided support to around 200,000 jobs.

D. Support to the Economy

8. The authorities took a number of steps aimed at supporting overall economic activity:

- The economic stimulus packages contained measures to fund infrastructure projects, boost internet connectivity and digitalization, ensure food security, and help industries most affected by the COVID-19 pandemic, such as tourism and entertainment.

- On the financial side, the BNM introduced several regulatory and supervisory measures aimed at increasing the space for banks to further support customers. First, banks were allowed to draw down the capital conservation buffer of 2.5 percent, operate temporarily below the minimum liquidity coverage ratio of 100 percent and utilize the regulatory reserves[6] that were set aside during periods of strong loan growth. These buffers are expected to be restored within a

[4] 35th LAKSANA Report.

[5] Commercial banks have substantially increased provisions in anticipation of the debt moratorium ending.

[6] These refer to capital above the regulatory requirement and includes in addition to the capital conservation buffer bank-specific requirements set by BNM.

reasonable period[7] after December 31, 2020. Second, BNM set the Minimum Net Stable Funding Ratio requirement at 80 percent, effective on July 1, 2020. The minimum NSFR requirement will be reset at 100 percent from September 30, 2021.

- The BNM's Monetary Policy Committee (MPC) reduced the Overnight Policy Rate (OPR) by a cumulative 125 basis points in 2020. The OPR currently stands at 1.75 percent—a record low.

- To ensure adequate liquidity in the banking system, the BNM lowered the Statutory Reserve Requirement (SRR) ratio from 3 percent to 2 percent effective March 2020 and allowed banks to recognize Malaysian Government Securities (MGS) and Malaysian Government Investment Issues (MGII) against the SRR requirement effective May 16, 2020. This flexibility to the banking institutions, initially available until May 31, 2021, was recently extended to December 31, 2022.

Malaysia: Policy Response to COVID-19 1/

Measure	Planned amount over 2020-21 (RM billion)		Disbursed (RM billion) 2/
	Total	O/w budgetary measures (2020-21)	
Support for households			
Cash assistance amd e-vouchers	28.4	26.5	18.4
Reduced EPF contributions and retitement savings withdrawals	50.8		17.1
Reskilling and upskilling	2.0	1.4	0.3
Individul tax cuts	1.3		0.0
Loan moratoria for households	65.0		65.0
Other	2.9	0.8	2.7
Support for enterprises			
Wage subsidies & hiring and training incentives	18.3	16.5	13.0
Credit and grants to firms (incl. microenterprises and SMEs)	72.8	3.8	14.2
Tax and fee relief for businesses	7.2		2.1
Deferral of employers' EPF contributions	10.0		0.1
Loan moratoria for firms	35.0		35.0
Support to the economy			
Additional spending on health and food security	2.6	2.2	1.7
Infrastructure and connectivity	8.4	3.9	6.5
Other	0.3	0.0	0.0
Total	**305.0**	**55.0**	**176.2**

1/ Table presents stimulus measures announced in five policy packages in 2020
2/ Disbursed as of November 30, 2020

[7] BNM expects banks to restore these buffers by September 30, 2021, in a gradual and non-disruptive manner, and will continue to review the timeline as appropriate based economic developments.

Appendix III. Risk Assessment Matrix[1]

Risks	Likelihood and Transmission	Expected Impact of Risk	Recommended Policy Responses
External			
Unexpected shift in the COVID-19 pandemic: Downside	**High** The disease proves harder to eradicate, requiring more containment efforts and impacting economic activity directly and through persistent behavioral changes. Financial markets reassess real economy risks leading to a repricing of risk assets, unmasking of debt-related vulnerabilities, and weakening banks and nonbank financial intermediaries–forcing them to reduce credit (further weighing on growth). Pandemic-prompted protectionist actions (e.g., export controls) reemerge, disrupting trade and global value chains.	**High** With a highly open economy, Malaysia is vulnerable to a protracted impact of COVID-19 on global trade. The impact would be both directly and indirectly (via trading partner exposures). High household debt is a vulnerability and a protracted impact of COVID-19 can be expected to constrain domestic consumption and lead to a deterioration of bank asset quality. Protracted measures to contain the pandemic can exacerbate scarring in the real economy. Higher financing costs for the sovereign; a relatively high public debt; and realization of contingent liabilities would exacerbate concerns about public debt sustainability and could lead to an adverse feedback loop of spikes in domestic interest rates and exit of foreign investors.	With buffers diminished following the initial impact of COVID-19, the ability of macroeconomic policies to provide a cushion against a protracted slump is limited. On the fiscal side, provide targeted fiscal support to directly impacted households and firms, while developing a credible medium-term plan for fiscal consolidation. Allow FX flexibility to continue acting as a shock absorber. On the macrofinancial side, continue to ensure sufficient liquidity, including more accommodative monetary policy, combined with close monitoring of asset quality, especially with a view to assessing viable from non-viable firms.
Unexpected shift in the COVID-19 pandemic: Upside	**Low** Recovery from the pandemic is faster than expected due to the discovery of an effective and widely available vaccine and/or a faster-than-expected behavioral adjustment to the virus that boosts confidence and economic activity.	**Medium/High** A recovery in domestic activity and global trade would positively impact Malaysia's economy.	Implement a clear exit strategy for government support measures, including a credible medium-term plan to rebuild fiscal buffers.
Accelerating de-globalization	**High** Geopolitical competition and fraying consensus about the benefits of globalization lead to further fragmentation. Reshoring and less trade reduce potential growth.	**Medium** With a highly open economy, Malaysia is vulnerable to measures aimed at curtailing global trade. The impact would be felt both directly and indirectly (via trading partner exposures).	The exchange rate should continue to act as a main shock absorber. Ongoing efforts to accelerate the ASEAN regional integration agenda, and pursuing new, high-standard regional trade agreements, such as the CPTPP, would help mitigate the impact of this shock.
Oversupply and volatility in the oil market.	**Medium** Supply increases following OPEC+ disagreements and lower demand keep energy prices close to historical lows, but uncertainty about possible production cuts and the pace of demand recovery lead to bouts of volatility.	**Low** Substantial declines in commodity prices could push Malaysia to a twin deficit and trigger an adverse feedback loop of higher interest costs and undermine investor confidence.	. The exchange rate can provide the first line of defense in the short term. Fiscal reforms to continue reducing the reliance on oil revenues, such as broad-based taxes, are critical. Investment in infrastructure and other productivity-boosting structural reforms could also help
Domestic			
Fiscal risks from public debt and contingent liabilities (Short- to medium-term).	**Medium** The COVID-19 pandemic could trigger realization of risks that would have adverse consequences for fiscal policy, raising the sovereign's financing cost and requiring even stronger fiscal adjustment to restore fiscal sustainability.	**Medium/High** Higher financing costs for the sovereign; a relatively high public debt; and realization of contingent liabilities would exacerbate concerns about public debt sustainability and could lead to an adverse feedback loop of spikes in domestic interest rates and exit of foreign investors.	The authorities' ability to mount countercyclical responses would be boosted by medium-term fiscal consolidation. Continued progress in reforming fiscal institutions can mitigate the impact, including improving the fiscal risks management framework and publication of annual fiscal risks statement, along with increased transparency of GLC operations.
Cyber-attacks (Short- to medium-term)	**Medium** Attacks on critical global financial, or communication infrastructure and broader private and public institutions trigger systemic financial instability or widespread disruptions in socio-economic activities.	**Medium/High** Disruptions in secure remote work from home, theft of personal information, SWIFT fraud, hacked crypto-asset exchanges, and business disruptions across the supply chain could materialize.	Continued investment in the cyber security strategy. Existing IT security frameworks could be strengthened, and new lines of defense could be built to eliminate the risk of such attacks and minimize their impact.

[1] Prepared by Dan Nyberg. The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability of 30 percent or more). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Appendix IV. External Sector Assessment[1]

<table>
<tr><td colspan="7">Overall Assessment: On a preliminary basis, and adjusting for transitory factors, recent developments suggest that the external position in 2020 remained stronger than the level implied by medium-term fundamentals and desirable policies. However, this assessment is highly uncertain given the lack of full-year data for 2020 and the COVID-19 crisis, and a complete analysis will be provided in the 2021 External Sector Report.

Potential Policy Responses: Near-term policies should continue to support the recovery through targeted lifelines to households and businesses in the context of accommodative monetary and financial policies. If the distortions that existed prior to the COVID-19 shock persist in the medium term, policies to strengthen the social safety nets and continue to encourage private investment and productivity growth should help restore external balance.</td></tr>
<tr><td>Foreign Asset and Liability Position and Trajectory</td><td colspan="6">Background. Since 2010, Malaysia's NIIP has averaged around 1 percent of GDP. The NIIP was estimated at about 5.8 percent of GDP (compared with –3 percent of GDP at end-2019), reflecting higher net direct investment and net other investment, a decline in portfolio liabilities, and an increase in reserve assets. Direct investment abroad and official reserves contribute most to assets, whereas direct investment and portfolio liabilities contribute most to liabilities. Total external debt, measured in US dollars, was about 67.5[1] percent of GDP in 2020Q3 (end-2019: 63.4 percent), of which about two-thirds was in foreign currency and 39 percent in short-term debt, by original maturity.

Assessment. Malaysia's NIIP is projected to rise over the medium-term reflecting projected CA surpluses. Malaysia's balance sheet strength, exchange rate flexibility and increased domestic investor participation, should continue to help withstand shocks (as they have in the context of the COVID-19 crisis).[2]</td></tr>
<tr><td>2020 (% GDP)</td><td>NIIP: 5.8</td><td>Gross Assets: 135.7</td><td colspan="2">Res. Assets: 30.9</td><td>Gross Liab.: 128.1</td><td>Debt Liab.: 27.1</td></tr>
<tr><td>Current Account</td><td colspan="6">Background. Between 2010 and 2019, Malaysia's CA surplus was reduced by 7 percentage points, underpinned by lower national savings and a robust domestic demand. As of the third quarter of 2020, the CA account surplus had increased to 4.2 percent of GDP, as the decline in tourism income was offset by an increase in COVID-19 related exports, namely rubber glove products and electronic equipment, and a one-off transaction in 2020Q3 created a surplus in the secondary income balance.

Assessment. The 2020 EBA estimates remain very preliminary and uncertain given the pandemic. The EBA CA model estimates a cyclically adjusted CA of 4.1 percent of GDP and a CA norm at -0.4 percent of GDP for 2020. After factoring in the transitory effect[3] of the higher than usual exports of rubber products (0.6 percent of GDP), the one-off transaction in 2020Q3 (0.8 percent of GDP), and the decline in tourism receipts (0.5 percent), the preliminary estimate of the staff CA gap is about 3.6 percent of GDP (+/-1 percent of GDP). The CA gap is mainly attributed to policy distortions. Low public health expenditure compared to the rest of the world contributes 0.7 ppt to the CA gap, while the looser fiscal policies adopted in 2020 in the rest of the world relative to Malaysia contribute 2 ppt to the excess surplus. Unidentified residuals potentially reflect structural impediments and country-specific factors not included in the model.</td></tr>
<tr><td>2020 (% GDP)</td><td>Actual CA: 3.7</td><td>Cycl. Adj. CA: 4.1</td><td>EBA CA Norm: -0.4</td><td>EBA CA Gap: 4.5</td><td>Staff Adj.: -0.9</td><td>Staff CA Gap: 3.6</td></tr>
<tr><td>Real Exchange Rate</td><td colspan="6">Background. Through August 2020, the REER has depreciated by 2.8 percent relative to the 2019 average and is about 5 percent lower than its 2015 level. The depreciation in 2020 can be mainly explained by the impact of capital outflows and lower commodity prices on the NEER.

Assessment. The EBA REER Index and Level models estimate Malaysia's REER to be undervalued by -30 percent and -39 percent respectively. However, the lack of underlying macroeconomic stresses such as inflation or wage pressures, and the absence of a significant buildup of FX reserves cast doubts on such undervaluation. Consistent with the staff CA gap, staff assess the REER gap in 2020 at -8 percent (+/-2 percent of GDP).[4]</td></tr>
<tr><td colspan="7">[1] The increase in the external debt ratio is largely explained by the decline in GDP following the COVID-19 shock.

[2] Over one-third of external debt is denominated in local currency and is largely of medium-term maturity, helping reduce FX and rollover risks. Malaysia's local currency external debt reflects holdings of domestically issued debt (mainly Malaysian government securities) by nonresident investors (about 15 percent of GDP as of 2020:Q3), while short-term FX-denominated debt largely belongs to the banking system (about 20 percent of GDP), and a good portion is matched by short-term foreign currency assets, which are being closely supervised by Bank Negara Malaysia.

[3] The adjustors for rubber product exports and tourism receipts are estimated based on the deviations from historical values of their contributions to the current account.

[4] The REER gap is based on the estimated semi-elasticity of CA to REER at 0.46.</td></tr>
</table>

[1] Prepared by Nour Tawk.

Capital and Financial Accounts: Flows and Policy Measures	**Background.** Since the global financial crisis, Malaysia has experienced periods of significant capital flow volatility, largely driven by portfolio flows in and out of the local-currency debt market, in response to both the change in global financial conditions and domestic factors. Since late 2016, the Financial Markets Committee has implemented measures to develop the onshore FX market.[5] **Assessment.** Continued exchange rate flexibility and macroeconomic policy adjustments are necessary to manage capital flow volatility. CFM measures should be gradually phased out, with due regard for market conditions.
FX Intervention and Reserves Level	**Background.** Malaysia's official reserves slightly increased in 2019, reaching US$103.6 billion by December 2019. The risk-off episode caused by the COVID-19 pandemic, reduced reserves by about $US1.9 bn by March 2020, to US$101.7 billion. Since March, reserve levels have been on the rise, and stood at US$105 billion as of September 2020. **Assessment.** Under the IMF's composite reserve adequacy metric (ARA), reserves remain broadly adequate. Gross and net official reserves are about 123 percent and 114 percent of the ARA metric as of September 2020 respectively. Given limited reserves and the increased hedging opportunities since 2017, FX interventions should be limited to preventing disorderly market conditions. In case of an inflow surge, some reserve accumulation would be appropriate to increase the reserve coverage ratio.

[5] On December 2, 2016, the Financial Markets Committee announced a package of measures aimed at facilitating onshore FX risk management and enhancing the depth and liquidity of onshore financial markets. Two of these measures were classified as CFMs under the IMF's institutional view on capital flows. In addition, the authorities' strengthened enforcement of regulations on resident banks' noninvolvement in offshore ringgit transactions was considered enhanced enforcement of an existing capital flow management measure. Over the course of 2017-2019, additional measures were announced to help deepen the onshore financial market and facilitate currency risk management.

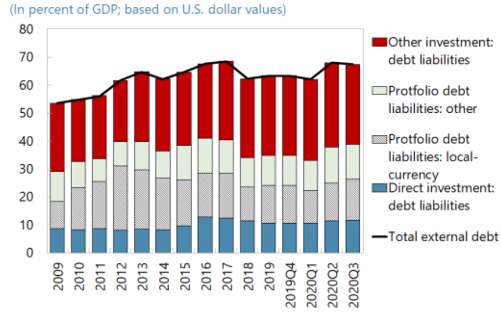
Appendix V. External Debt Sustainability Analysis[1]

Malaysia's external debt increased in 2020, driven by the COVID-induced decline in growth as well as higher public sector borrowing. External debt remains manageable, with one-third of debt denominated in local currency, while almost half of short-term external debt is in the form of intragroup borrowings among banks and corporations, which are generally stable and have remained so in 2020.

1. Malaysia's external debt increased in 2020 on the backdrop of the COVID-19 pandemic, after having remained stable for the past two years. Malaysia's external debt-to-GDP ratio stands at 67.5 percent as of 2020Q3, up from 63.4 percent at end-2019 (end-2018: 62.3 percent). This increase in external debt was namely driven by the decline in GDP in 2020, following the adverse impact of the COVID-19 pandemic and the ensuing containment measures put in place to halt its spread. Public sector borrowing increased by almost 2 percent of GDP compared to 2019 (accounting for more than a third of the increase in external debt), while non-resident holdings of local-currency debt securities increased overall by 1.1 percent of GDP.

Malaysia: External Debt

(In percent of GDP; based on U.S. dollar values)



Sources: Bank Negara Malaysia; and IMF staff calculations.

2. The currency profile of external debt is stable. As of 2020Q3, about one-third of external debt (22 percent of GDP) is denominated in ringgit, largely in the form of nonresident holdings of domestic debt securities (65.4 percent of ringgit-denominated external debt) and in ringgit deposits (17 percent) in domestic banking institutions. As such, these liabilities are not subject to valuation changes arising from exchange rate fluctuations. The remaining two-thirds of external debt (49 percent of GDP) is denominated in foreign currency (FC). The non-financial corporate sector accounted for slightly more than half of FC-denominated external debt, which is largely subject to prudential and hedging requirements.[2] Another 35 percent of FC-denominated external debt is accounted by interbank borrowings and FC deposits in the domestic banking system. (Text Table)

3. From a maturity perspective, the share of short-term external debt <u>by original maturity</u> remained stable in recent years. Short-term debt by original maturity accounted for 39 percent of total external debt (26 percent of GDP) as of 2020Q3. About 45 percent of the short-term external debt are intragroup borrowings among banks and corporations which are generally stable and remained stable during the pandemic. Meanwhile, another 13 percent are accounted by trade credits, largely backed by export earnings.

4. Over the medium term, the external debt-to-GDP ratio is projected to return to a steady downward path, falling to about 50 percent by 2025. This baseline path reflects the net

[1] Prepared by Nour Tawk.

[2] The central bank uses an approval framework to ascertain that corporate external borrowings are utilized for productive purposes and that they are supported by foreign currency earnings.

effect of continued current account (CA) surpluses (excluding interest payments), a recovery in economic growth supported by domestic demand, capital inflows, and low external financing rates. The share of short-term debt, by original maturity, is projected to stabilize at about 30 percent of total external debt by the end of the medium term. Gross external financing needs, which are estimated to have reached 31 percent of GDP in 2020, are expected to moderate to about 24 percent of GDP by 2025. (Table 2)

5. Sizable external debt would keep Malaysia's external vulnerabilities elevated, albeit manageable. Standard stress tests under the external DSA indicate that external debt is most vulnerable to exchange rate and current account shocks. A 30 percent real exchange rate depreciation in 2021 could push external debt above 63 percent of GDP by 2025. Moreover, a permanent drop in CA balance (of 1.5 percent of GDP, excluding interest payments) could lead to an external debt level in excess of 54 percent of GDP in the outer years. Other scenarios—such as a deceleration in real GDP growth—which materialized in 2020—and a rise in the interest rate, would lead to moderate increases in external debt. The impact of these shocks would be mitigated by: (i) the high share of ringgit-denominated external debt (about 33 percent of total external debt) and (ii) largely stable intercompany loans (15 percent of external debt) and interbank borrowings (29 percent of external debt, about four-fifth of which are in the term of intragroup borrowings from related offices abroad).

6. Risks to Malaysia's external debt sustainability arising from the above vulnerabilities could be managed via a variety of mitigation measures. As of December 2020, gross official reserves stood at $107.6 billion, which cover over 100 percent of short-term external debt by original maturity. Gross official reserves are adequate under the IMF reserve adequacy metric (ARA) (about 126 percent of the metric)[3]. Exchange rate flexibility, a moderate CA surplus, and the relatively large share of ringgit-denominated external debt will continue to serve as important buffers against potential external shocks. Moreover, banks' exposure in the form of interbank borrowing, NR deposits and debt issuance are subject to prudential requirements on liquidity and funding risk management, while corporations are subject to an approval framework to ascertain that external borrowings are utilized for productive purposes and that they are supported by foreign currency earnings.

[3] Net reserves adjusted for net forwards positions are about 117 percent of the ARA metric.

Table 1. Malaysia: Profile of External Debt

(In percent of GDP unless otherwise mentioned; original maturity)

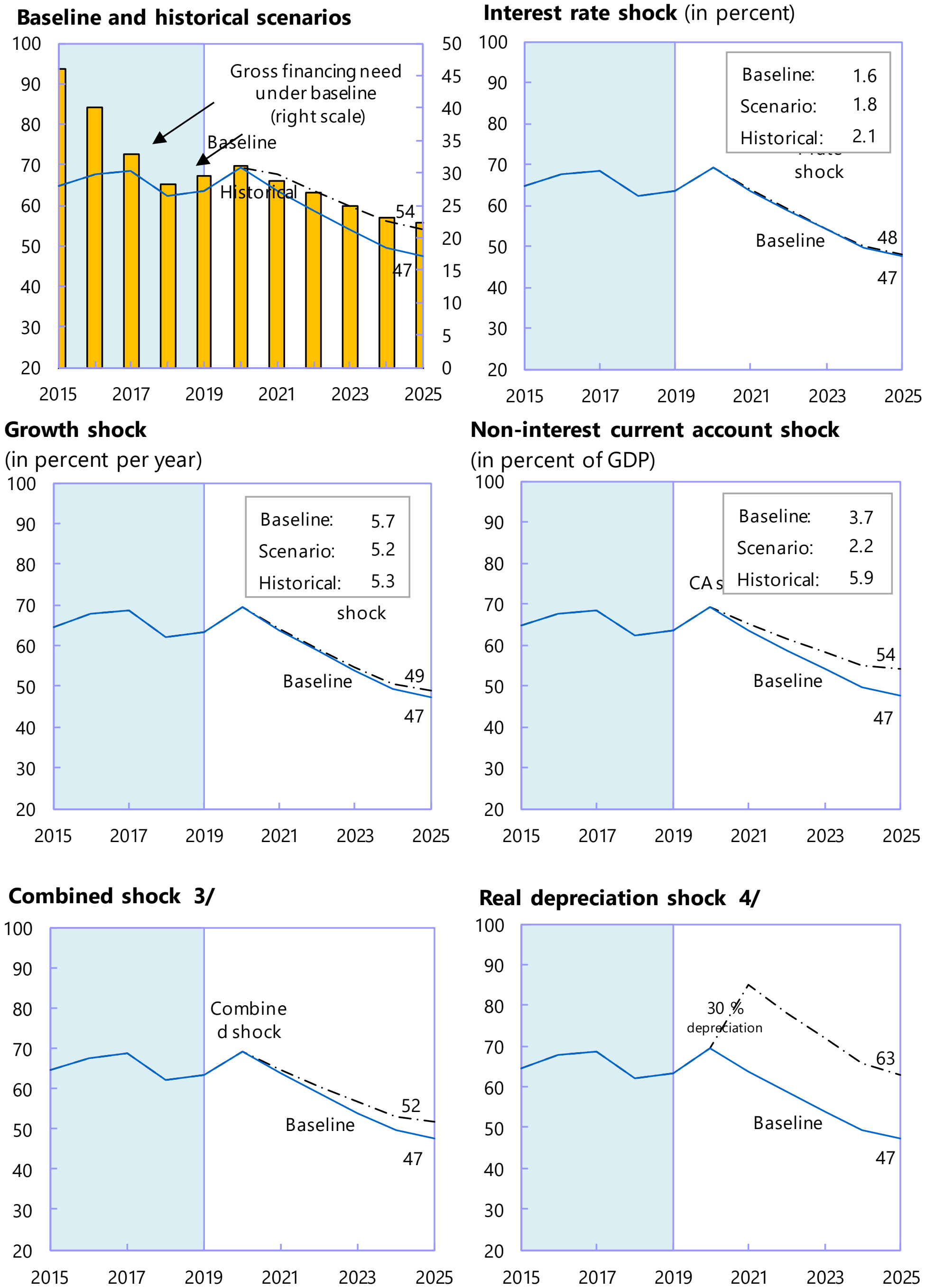
	2016	2017	2018	2019	2020Q1	2020Q2	2020Q3
Total external debt (staff estimate) 1/	67.7	68.6	62.3	63.4	62.0	68.1	67.5
Medium- and long-term	*39.7*	*41.3*	*34.9*	*37.1*	*35.2*	*39.9*	*41.3*
Offshore borrowing	23.9	24.9	22.4	23.1	22.7	26.0	25.9
Public sector	9.7	10.3	9.3	8.6	8.3	10.5	10.5
Federal government	1.4	1.3	1.1	1.6	1.6	1.7	1.7
Public enterprises	8.3	9.0	8.2	7.0	6.7	8.8	8.7
Private sector	14.2	14.6	13.1	14.4	14.4	15.5	15.5
Banks	3.9	3.6	3.2	3.6	3.7	3.9	3.9
Nonbanks	10.3	11.0	9.8	10.8	10.7	11.6	11.6
Nonresident holdings of ringgit-denominated debt instruments	14.9	15.2	11.4	13.0	11.4	12.7	14.0
Government securities	14.1	14.2	10.7	12.2	10.5	11.9	13.2
Other securities	0.9	1.0	0.7	0.7	0.9	0.7	0.8
Other	0.9	1.3	1.1	1.1	1.2	1.3	1.3
Short-term	*28.0*	*27.2*	*27.3*	*26.2*	*26.8*	*28.1*	*26.2*
Offshore borrowing	15.4	14.5	15.8	14.5	15.4	16.4	14.5
Public sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private sector	15.4	14.5	15.8	14.5	15.4	16.4	14.5
Banks	12.7	13.3	13.8	13.4	14.2	15.2	13.5
Nonbanks	2.7	1.2	2.0	1.1	1.1	1.2	1.1
Nonresident holdings of ringgit-denominated debt instruments	0.8	0.9	0.7	0.6	0.5	0.7	0.6
Government securities	0.1	0.3	0.3	0.1	0.1	0.3	0.3
Other securities	0.7	0.6	0.5	0.5	0.4	0.4	0.3
Nonresident deposits	6.4	7.1	6.6	6.9	6.7	6.7	6.6
Other	5.4	4.7	4.2	4.2	4.2	4.4	4.5
Memorandum items:							
	(In percent of total external debt unless otherwise mentioned)						
By original maturity:							
Short-term	41.3	39.7	43.9	41.4	43.2	41.3	38.8
Medium- and long-term	58.7	60.3	56.1	58.6	56.8	58.7	61.2
By currency:							
Local currency denominated	34.0	34.4	30.3	32.0	30.4	30.4	33.1
Foreign currency denominated	66.0	65.6	69.9	68.0	69.6	69.6	66.9
By instrument:							
Nonresident holdings of ringgit-denominated debt instruments	23.3	23.4	19.5	21.3	19.1	19.6	21.6
Interbank borrowing	18.7	19.2	22.1	31.2	32.6	31.9	29.6
as share of GDP	12.6	13.2	13.8	19.8	20.2	21.7	20.0
Bonds and notes	18.5	17.4	16.8	24.5	23.6	26.6	27.1
Intercompany loans	15.0	11.3	11.3	14.1	14.0	14.3	15.0
as share of GDP	10.2	7.7	7.0	8.9	8.7	9.7	10.1
Nonresident deposits	9.4	10.4	10.6	7.4	7.1	5.9	5.6
Loans	5.9	5.8	7.8	11.9	11.7	11.0	11.7
Gross official foreign exchange reserves (US$ billion)	94.5	102.4	101.4	103.6	101.7	103.4	105.0

Sources: Bank Negara Malaysia; and IMF staff calculations.

1/ Based on staff's estimate of external debt and nominal GDP in U.S. dollar. Authorities' data are in ringgit terms. Differences with the authorities' debt-to-GDP ratio may occur on account of the exchange rate assumptions.

Figure 1. Malaysia: External Debt Sustainability: Bound Tests 1/ 2/

(In percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

4/ One-time real depreciation of 30 percent occurs in 2021.

Table 2. Malaysia: External Debt Sustainability Framework, 2015–2025

(In percent of GDP, unless otherwise indicated)

	Actual							Est.	Proj.					
	2015	2016	2017	2018	2019			2020	2021	2022	2023	2024	2025	Debt-stabilizing non-interest current account 6/
1 **Baseline: External debt**	64.7	67.7	68.6	62.3	63.4			**69.3**	**63.7**	**58.6**	**53.9**	**49.5**	**47.5**	**-3.5**
2 Change in external debt	2.5	3.0	0.9	-6.3	1.1			5.9	-5.6	-5.0	-4.7	-4.4	-2.0	
3 Identified external debt-creating flows (4+8+9)	3.2	-4.5	-9.3	-8.4	-4.8			0.2	-8.6	-7.8	-7.1	-6.6	-6.0	
4 Current account deficit, excluding interest payments	-4.1	-3.6	-4.0	-3.7	-5.0			-5.5	-4.2	-3.7	-3.6	-3.6	-3.5	
5 Deficit in balance of goods and services	-7.5	-6.7	-6.9	-6.7	-7.4			-6.1	-5.7	-6.6	-6.0	-5.7	-5.2	
6 Exports	69.4	66.8	70.0	68.6	65.2			59.9	57.4	59.7	57.7	56.6	54.7	
7 Imports	61.9	60.1	63.1	61.9	57.8			53.8	51.7	53.1	51.7	50.9	49.5	
8 Net non-debt creating capital inflows (negative)	1.8	-0.9	-2.0	0.1	0.2			-0.1	-1.5	-1.3	-1.2	-1.2	-0.9	
9 Automatic debt dynamics 1/	5.5	0.0	-3.4	-4.8	0.1			5.9	-2.9	-2.8	-2.3	-1.8	-1.5	
10 Contribution from nominal interest rate	1.1	1.2	1.2	1.5	1.6			1.8	1.2	0.8	0.8	0.8	0.8	
11 Contribution from real GDP growth	-3.5	-2.9	-3.7	-2.9	-2.6			4.0	-4.0	-3.5	-3.1	-2.7	-2.3	
12 Contribution from price and exchange rate changes 2/	7.9	1.6	-0.9	-3.4	1.1			...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	-0.7	7.5	10.2	2.1	5.9			5.7	3.0	2.7	2.4	2.3	3.9	
External debt-to-exports ratio (in percent)	93.2	101.3	97.9	90.8	97.2			115.7	110.9	98.3	93.3	87.5	86.7	
Gross external financing need (in billions of US dollars) 4/	139.0	120.8	104.7	101.3	107.5			106.6	110.1	111.1	111.6	111.4	114.8	
in percent of GDP	46.1	40.1	32.8	28.2	29.5	10-Year	10-Year	31.0	28.8	27.0	25.0	23.1	22.2	
Scenario with key variables at their historical averages 5/								**69.3**	**67.5**	**63.4**	**59.9**	**56.0**	**54.1**	**-1.6**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	5.0	4.4	5.8	4.8	4.3	5.3	1.0	-6.0	6.5	6.0	5.7	5.3	5.0	
GDP deflator in US dollars (change in percent)	-16.3	-4.3	0.1	7.3	-2.5	0.6	8.5	0.2	4.5	1.7	2.7	2.2	2.4	
Nominal external interest rate (in percent)	1.6	1.9	1.8	2.4	2.7	2.1	0.3	2.7	1.9	1.3	1.4	1.7	1.8	
Growth of exports (US dollar terms, in percent)	-16.1	-3.9	11.1	10.1	-3.3	3.1	10.7	-13.5	6.7	12.0	5.1	5.5	4.0	
Growth of imports (US dollar terms, in percent)	-14.4	-2.9	11.2	10.1	-5.0	4.4	11.4	-12.3	7.1	10.6	5.8	5.9	4.7	
Current account balance, excluding interest payments	4.1	3.6	4.0	3.7	5.0	5.9	3.0	5.5	4.2	3.7	3.6	3.6	3.5	
Net non-debt creating capital inflows	-1.8	0.9	2.0	-0.1	-0.2	-0.4	1.2	0.1	1.5	1.3	1.2	1.2	0.9	

Sources: Data provided by the authorities; and IMF staff estimates.

1/ Derived as $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, ε = nominal appreciation (increase in dollar value of domestic currency), and α = share of domestic-currency denominated debt in total external debt.

2/ Derived as $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, ε = nominal appreciation (increase in dollar value of domestic currency), and α = share of domestic-currency denominated debt in total external debt.

3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Appendix VI. Public Debt Sustainability Analysis[1]

While Malaysia's debt remains sustainable, its fiscal space is at risk. Under current policies, Malaysia's federal government debt is projected to remain below the new temporary threshold of around 63 percent of GDP in 2020 and to stabilize around 61 percent of GDP in the medium term. Debt levels could increase further if risks materialize. Existing sizable external financing risks and contingent liabilities exacerbate sustainability risks. Reducing the debt level below the previous threshold of around 57 percent of GDP anchor will require additional fiscal consolidation.

1. Baseline macro-fiscal assumptions. The macroeconomic and policy assumptions follow the team's baseline projections. In 2021, the economy is projected to recover from the COVID-19-induced slowdown and expand at 6.5/8.4 percent in real/nominal terms. The fiscal deficit, which widened to 6.0 percent of GDP in 2020 as a result of a pandemic-related decline in revenues and a sharp increase in discretionary expenditures aimed to address the health crisis and support the economy, is expected to narrow to 5.4 percent in 2021 as the authorities reduce the pandemic-related spending and revenues bounce back due to the economic recovery. Under unchanged policies, the deficit is expected to average 4.8 percent of GDP over 2021-23, above the authorities' target of 4.5 percent, and decline to 4.0 percent of GDP over the medium term.

2. Financing needs. Under the baseline scenario, Malaysia's gross financing needs (defined as the sum of the fiscal deficit and maturing debt) are projected to stand at 11.3 percent of GDP in 2021: a decline from 13.4 percent of GDP in 2020 but above the pre-2020 average.

3. Debt profile. The debt path in the DSA is based on the federal government budget, consistent with the data on government debt reported by the authorities. This definition of debt covers more than 90 percent of general government debt. However, it does not include local and state governments and statutory bodies which typically receive explicit government guarantees. The external financing requirement, defined as a sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period, is high at 31 percent of GDP while the share of debt denominated in foreign currency is low, at 3.6 percent of total debt.

4. Debt limit. Malaysia's debt ceiling is defined separately for three types of instruments: Malaysia Government Securities (MGS), Malaysia Government Investment Issues (MGII, includes Sukuk Prihatin in 2020), and Malaysia Islamic Treasury Bills (MITBs) taken together; Malaysia Treasury Bills (MTBs); and offshore borrowing. The debt limit for MGS+MGII+MITBs has been raised in 2020 from 55 percent of GDP to 60 percent of GDP, to allow for increased borrowing to finance COVID-related spending. Under the current legislature, that increase will remain in place until the end of 2022, and the debt ceiling for these instruments will revert to 55 percent of GDP in 2023, unless a new bill is passed. The debt limit for the MTBs and offshore borrowing stands at RM10 billion and RM35 billion, respectively, and has not been amended. Thus, the effective debt ceiling for federal government debt stands at around 63 percent of GDP in 2020 and is expected to gradually decline to 62/57 percent by 2026, depending on whether the 60 percent threshold is allowed to lapse in 2023 or not.

[1] Prepared by Emilia Jurzyk

5. Realism of Baseline Assumptions.

- Past assumptions on real growth and primary balance are neither too optimistic nor pessimistic. The highest median forecast error for the GDP deflator is -1.8 percent, suggesting that the staff forecasts have been relatively optimistic. The forecast bias has improved in the past few years.
- Under the baseline scenario, the projected 3-year adjustment in the cyclically adjusted primary balance (CAPB) is relatively small, with a percentile rank of 33 percent compared to the historical experience for high-debt market access countries. The CAPB level is in a percent rank of 77 percent.

6. The fan charts illustrate the possible evolution of the debt ratio over the medium term, under symmetric and asymmetric distributions of risk based on historical outturns. Under a symmetric distribution, there is around 50 percent probability that debt will remain below 62 percent of GDP over the medium term. If restrictions are imposed—i.e., an asymmetric scenario where it is assumed that there are no positive shocks to the primary balance—there is a probability of around 33 percent that the debt path will remain below 62 percent of GDP over the projection horizon.

7. Stress Tests, Reform Scenario and Risks. Under the baseline scenario, the federal government debt will remain within the authorities' new debt anchor of around 63 percent of GDP in 2020 and remain within the limit (and under the DSA's debt burden benchmark of 70 percent) in the medium term. However, debt would breach the 70 percent threshold under some of the stress scenarios:

- *Macro-fiscal stress tests.* Debt is expected to rise above the authorities' defined limit in the medium-term under the real interest rate shock and the primary balance shock. The real growth shock would cause an even higher increase in debt, to just below 70 percent of GDP, while a combined shock would bring it over 70 percent of GDP in the medium term.
- *Contingent liability shock*. This shock assumes that the government is obliged to absorb all guarantees, including those extended through the COVID-19 packages, totaling 20 percent of GDP, over 5 years. This shock also assumes negative feedback effect on interest rate. The debt-to-GDP ratio would rise to 82 percent of GDP in the medium-term, breaching the DSA threshold.
- *Illustrative fiscal consolidation scenario.* Under the baseline scenario, the higher debt ceiling is set to expire at the end of 2022. Thus, a gradual fiscal consolidation will be required to lower the public debt levels to around 57 percent of GDP in the medium-term (such gradualism would help avoid a sharp fiscal consolidation in 2022). Staff estimate that a fiscal effort of around 1 percent of GDP *per annum* would allow the authorities to achieve that outcome. The consolidation could be achieved either by raising non-oil revenues (e.g., reinstating the Goods and Services Tax), trimming expenditures, or a combination of both.
- *Heat map.* Malaysia continues to face risks from its large external financing requirement, which is above the upper threshold of early warning benchmarks. The share of debt held by foreigners is also high at 26 percent of GDP, above the lower threshold of early warning benchmarks. Nevertheless, the existence of large domestic institutional investors who tend to make opportunistic investments is a mitigating factor of this risk.

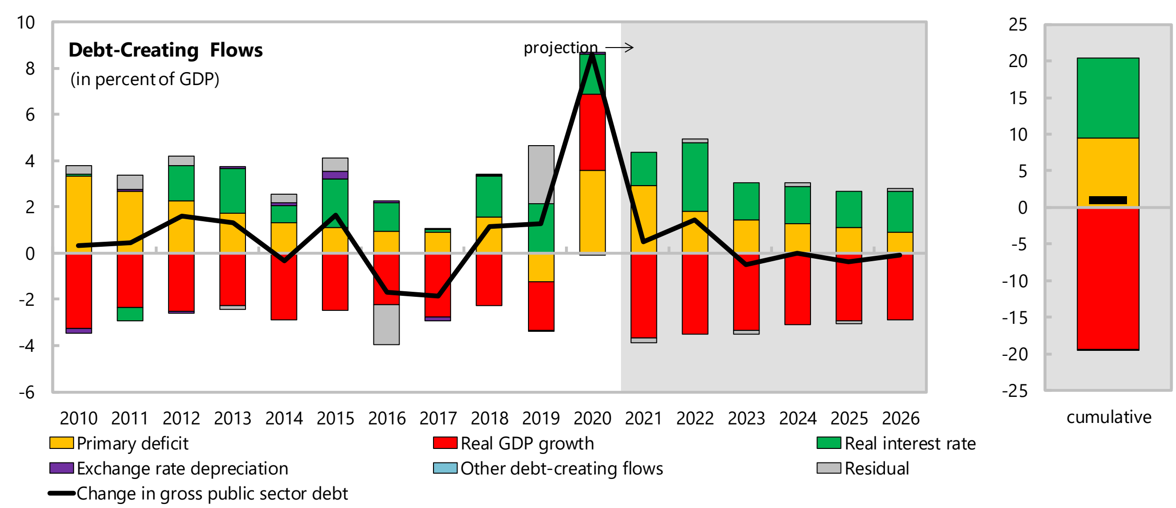
Figure 1. Malaysia: Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario
(Percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators [1]

	Actual			Projections						As of December 31, 2020		
	2010-2018 [2]	2019	2020	2021	2022	2023	2024	2025	2026	Sovereign Spreads		
Nominal gross public debt	51.1	52.5	61.1	61.6	63.0	62.6	62.5	62.2	62.1	EMBIG (bp) 3/	174	
Public gross financing needs	8.8	4.1	9.3	11.3	9.6	9.1	8.5	7.5	8.0	5Y CDS (bp)	37	
Real GDP growth (in percent)	5.4	4.3	-6.0	6.5	6.0	5.7	5.3	5.0	5.0	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	2.1	0.1	1.4	1.8	-0.3	2.0	2.1	2.3	2.2	Moody's	A3	Aa3
Nominal GDP growth (in percent)	7.7	4.4	-4.7	8.4	5.7	7.8	7.5	7.5	7.3	S&Ps	A-	A
Effective interest rate (in percent) [4]	4.3	4.4	4.4	4.4	4.8	4.8	5.1	5.2	5.3	Fitch	BBB+	BBB+

Contribution to Changes in Public Debt

	Actual			Projections							
	2010-2018	2019	2020	2021	2022	2023	2024	2025	2026	cumulative	debt-stabilizing
Change in gross public sector debt	0.3	1.3	8.6	0.5	1.5	-0.5	0.0	-0.4	-0.1	1.0	primary
Identified debt-creating flows	0.2	-1.2	8.7	0.7	1.3	-0.3	-0.2	-0.2	-0.2	1.0	balance [9]
Primary deficit	1.8	-1.2	3.6	2.9	1.8	1.4	1.3	1.1	0.9	9.5	-1.2
Primary (noninterest) revenue and grants	18.7	17.5	15.8	15.2	15.6	15.6	15.6	15.6	15.7	93.3	
Primary (noninterest) expenditure	20.5	16.3	19.4	18.1	17.4	17.1	16.9	16.7	16.6	102.7	
Automatic debt dynamics [5]	-1.5	0.0	5.1	-2.2	-0.5	-1.7	-1.4	-1.3	-1.2	-8.4	
Interest rate/growth differential [6]	-1.6	0.0	5.0	-2.2	-0.5	-1.7	-1.4	-1.3	-1.2	-8.4	
Of which: real interest rate	1.0	2.1	1.7	1.4	3.0	1.6	1.6	1.6	1.7	11.0	
Of which: real GDP growth	-2.6	-2.1	3.3	-3.7	-3.5	-3.3	-3.1	-2.9	-2.9	-19.4	
Exchange rate depreciation [7]	0.0	0.0	0.1	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8]	0.1	2.5	-0.1	-0.2	0.2	-0.2	0.2	-0.2	0.1	-0.1	



Source: IMF staff.

1/ Public sector is defined as central government.

2/ Based on available data.

3/ Long-term bond spread over U.S. bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

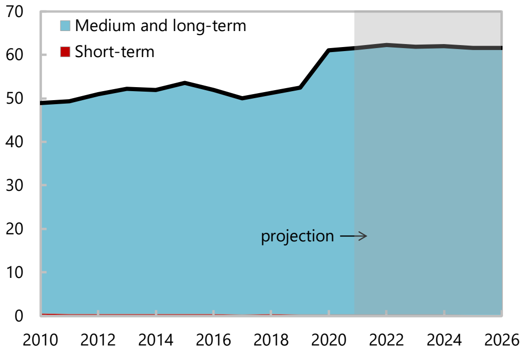
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 2. Malaysia: Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

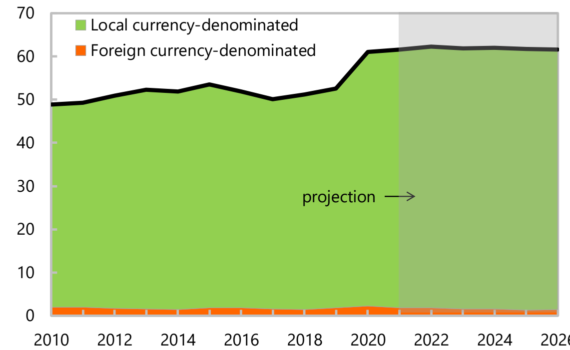
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

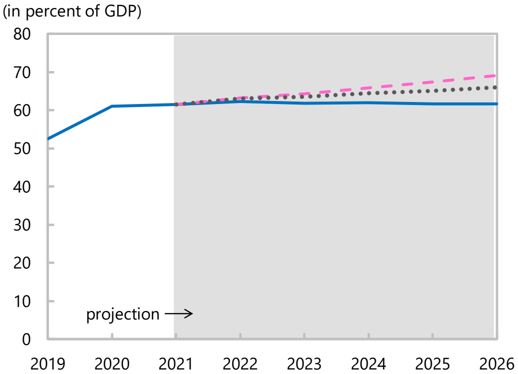


Alternative Scenarios

Baseline   Historical   Constant Primary Balance

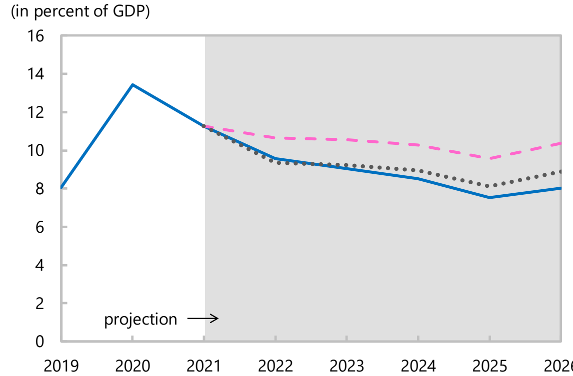
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

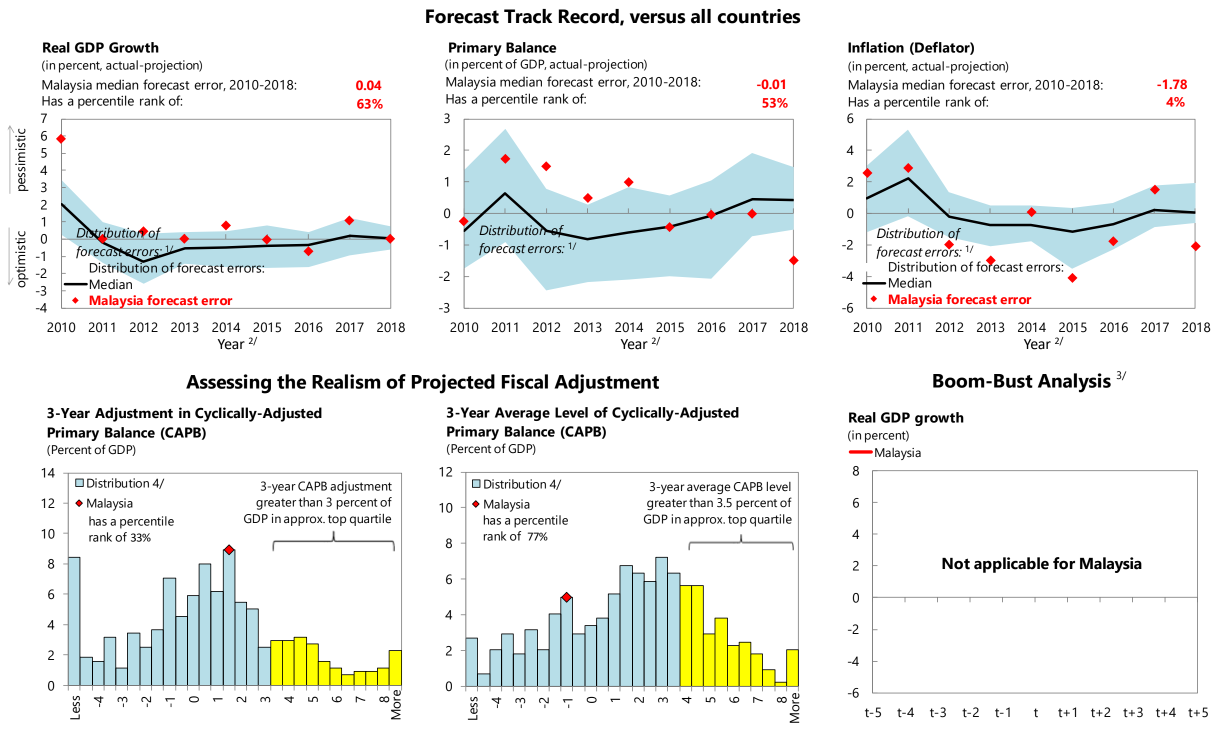
(in percent)

Baseline Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	6.5	6.0	5.7	5.3	5.0	5.0
Inflation	1.8	1.2	2.0	2.1	2.3	2.2
Primary Balance	-2.9	-1.9	-1.5	-1.3	-1.2	-1.0
Effective interest rate	4.4	4.8	4.8	5.1	5.2	5.3
Constant Primary Balance Scenario						
Real GDP growth	6.5	6.0	5.7	5.3	5.0	5.0
Inflation	1.8	1.2	2.0	2.1	2.3	2.2
Primary Balance	-2.9	-2.9	-2.9	-2.9	-2.9	-2.9
Effective interest rate	4.4	4.8	4.9	5.1	5.2	5.3

Historical Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	6.5	4.0	4.0	4.0	4.0	4.0
Inflation	1.8	1.2	2.0	2.1	2.3	2.2
Primary Balance	-2.9	-1.5	-1.5	-1.5	-1.5	-1.5
Effective interest rate	4.4	4.8	4.8	5.0	5.1	5.2

Source: IMF staff.

Figure 3. Malaysia: Public DSA – Realism of Baseline Assumptions



Source : IMF Staff.

1/ Plotted distribution includes all countries, percentile rank refers to all countries.

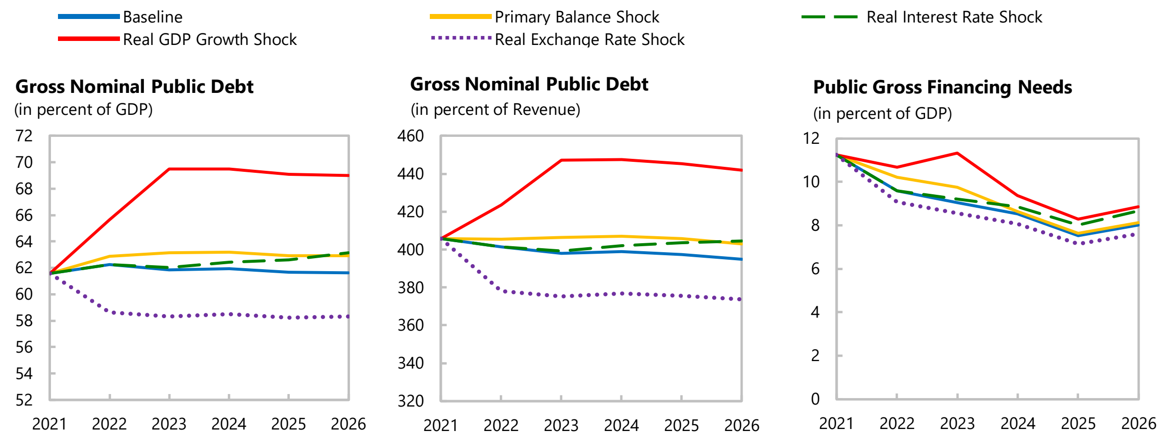
2/ Projections made in the spring WEO vintage of the preceding year.

3/ Not applicable for Malaysia, as it meets neither the positive output gap criterion nor the private credit growth criterion.

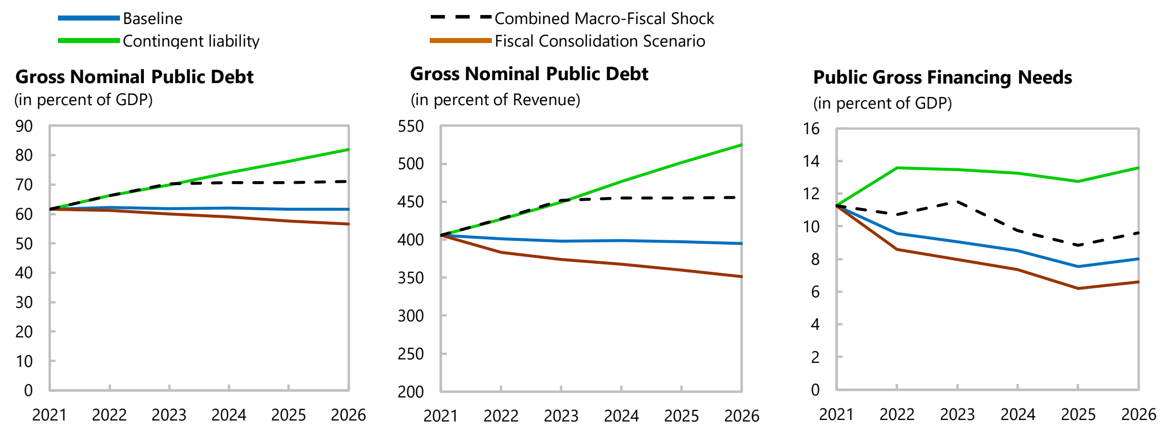
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 4. Malaysia: Public DSA – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

Primary Balance Shock	2021	2022	2023	2024	2025	2026
Real GDP growth	6.5	6.0	5.7	5.3	5.0	5.0
Inflation	1.8	1.2	2.0	2.1	2.3	2.2
Primary balance	-2.9	-2.5	-2.2	-1.3	-1.2	-1.0
Effective interest rate	4.4	4.8	4.9	5.1	5.2	5.3
Real Interest Rate Shock						
Real GDP growth	6.5	6.0	5.7	5.3	5.0	5.0
Inflation	1.8	1.2	2.0	2.1	2.3	2.2
Primary balance	-2.9	-1.9	-1.5	-1.3	-1.2	-1.0
Effective interest rate	4.4	4.8	5.2	5.6	6.0	6.3
Combined Shock						
Real GDP growth	6.5	2.4	2.1	5.3	5.0	5.0
Inflation	1.8	0.3	1.1	2.1	2.3	2.2
Primary balance	-2.9	-2.6	-3.0	-1.3	-1.2	-1.0
Effective interest rate	4.4	4.9	5.2	5.7	6.0	6.3

Real GDP Growth Shock	2021	2022	2023	2024	2025	2026
Real GDP growth	6.5	2.4	2.1	5.3	5.0	5.0
Inflation	1.8	0.3	1.1	2.1	2.3	2.2
Primary balance	-2.9	-2.6	-3.0	-1.3	-1.2	-1.0
Effective interest rate	4.4	4.8	4.9	5.2	5.3	5.4
Real Exchange Rate Shock						
Real GDP growth	6.5	6.0	5.7	5.3	5.0	5.0
Inflation	1.8	8.7	2.0	2.1	2.3	2.2
Primary balance	-2.9	-1.9	-1.5	-1.3	-1.2	-1.0
Effective interest rate	4.4	4.9	4.8	5.1	5.2	5.3

Source: IMF staff.

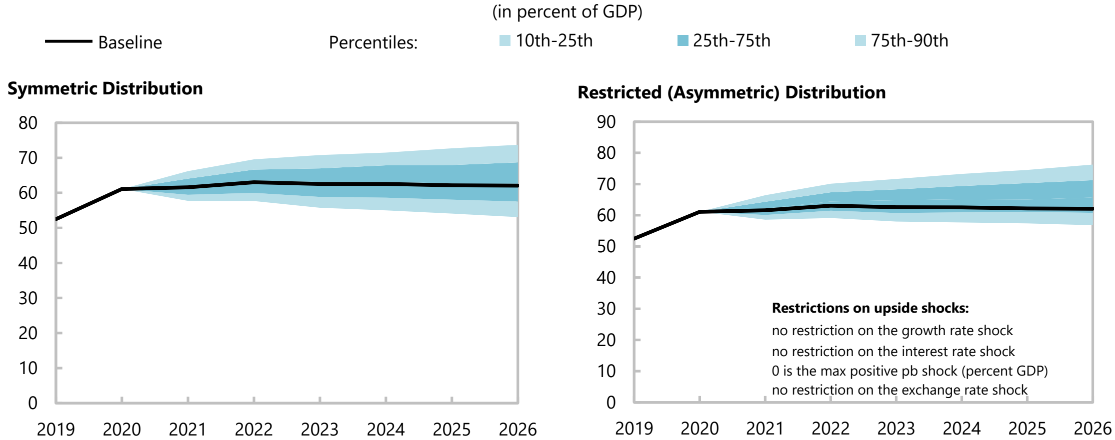
Figure 5. Malaysia: Public DSA Risk Assessment

Heat Map

Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

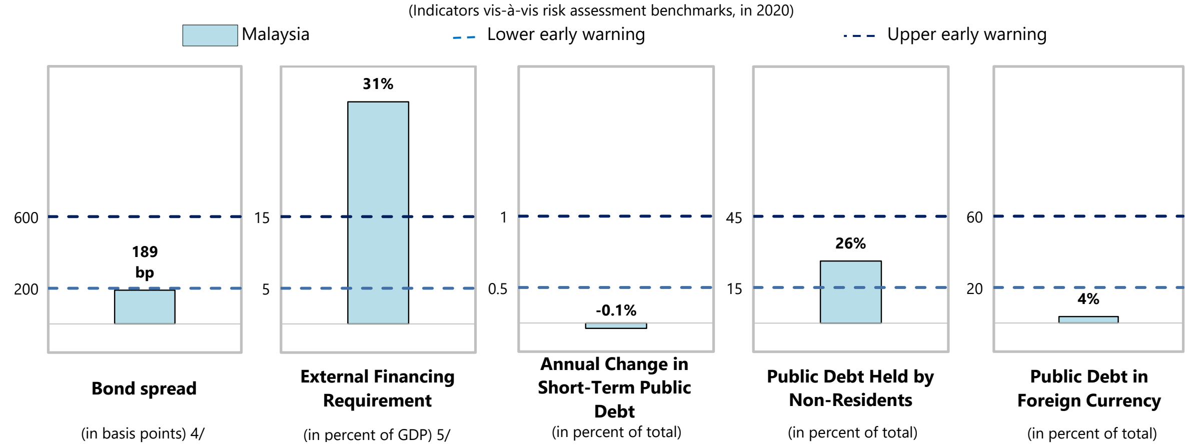
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2020)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.

Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ Long-term bond spread over U.S. bonds, an average over the last 3 months, 02-Oct-20 through 31-Dec-20.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Appendix VII. Inequality, Poverty, and Social Protection in Malaysia[1]

The pandemic underscored the need to evaluate the system of social protection in Malaysia. In recent decades, inequality and poverty rates in Malaysia have declined substantially, though they remain elevated compared to other countries in the region , and when measured using relative rather than absolute metrics. Social protection, which covers a large share of the population, has helped achieve better outcomes. However, room for reform remains, as public benefits are small, a non-negligible share is directed to households in higher deciles of the income distribution, and the unemployment and pension insurance leave out a large share of workers. The society is also projected to age rapidly, which will increase the need to raise expenditures on social protection and health. Reforming the social protection system to provide better cover for the vulnerable will require additional fiscal spending, underscoring the importance of creating more fiscal space in Malaysia.

A. Introduction

1. **The COVID-19 pandemic put to the test the system of social protection and social insurance in Malaysia**. The emergence of the pandemic in Malaysia in February 2020 necessitated wide-spread closures of businesses and bans of public gatherings and travel to protect lives. The unemployment rate increased from 3.3 percent in Q1 2020 to 5.1 percent in Q2, and most affected sectors—notably manufacturing, transportation, and tourism—saw over 5 percent decline in employment within that quarter. Workers laid off from standard full-time jobs could claim unemployment benefits through the Employment Insurance System introduced in 2018. However, these benefits did not cover street vendors, e-hailing drivers or the growing number of other workers operating in the informal or gig economy.[2] The pandemic also strained the country's healthcare sector. As the authorities rolled out a series of measures aimed at protecting those who may not be otherwise covered (or covered inadequately) by the existing schemes, the pandemic underscored the need to review the system of social insurance and social protection in Malaysia against the changing structure and needs of the population.

B. Inequality and Poverty in Malaysia: Progress Over the Years but Room for Improvement

2. **In contrast to many countries in the region, inequality in Malaysia has declined in the last four decades.** The economic transformation that started in the 1970s with the commodity price boom and a push for affirmative action for disadvantaged groups under the New Economic Policy, brought with it upward social mobility and increase in living standards for much of the population

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[1] Prepared by Emilia Jurzyk. The analysis is based on the World Bank ASPIRE database, and also draws on the WB (2020).

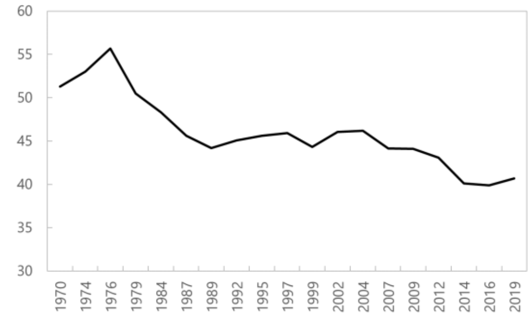
[2] In 2017, Malaysia implemented Self-Employment Social Security Scheme through SOCSO. The scheme provides protection for self-employed insured persons against employment injuries including occupational diseases and accidents during work-related activities. It does not, however, provide unemployment benefits.

(Hill, 2010). The biggest strides in reducing inequality took place between 1976-1989, and progress slowed in the aftermath of the Asia Financial Crisis and the resulting painful economic adjustments. Inequality improved after the GFC, though at a much slower pace than in earlier decades, and it increased again in 2019.

3. Inequality, however, remains higher than in some countries in the region, even after accounting for redistribution. Market inequality—measured before taxes and transfers—remains somewhat above the averages in the Asian EMs, though it is lower than the advanced economies average. Net inequality (measured after taxes and transfers) also remains above the average in EM Asia, and is significantly higher than in the AEs, the group of countries Malaysia aspires to join.

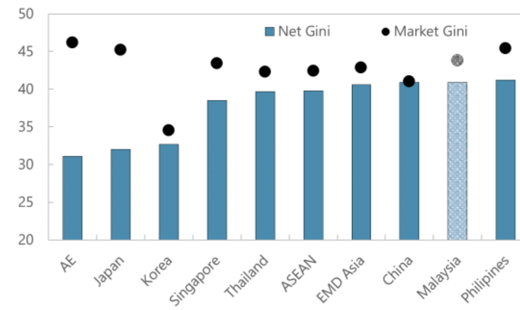
4. The growth rate of real income of the bottom 40 percent of the population earlier exceeded that of the top two deciles, but has slowed in the last two decades. Growth incidence curves show the annualized growth rate of real income for three strata of the Malaysian population: B40, M40, and T20 between two points in time. Real income grew at a relatively steady rate of 3¼ percent p.a. for the two wealthiest deciles of the population over the whole period. At the same time, the growth rate of real income for the remaining 80 percent of the population remained above the T20 levels, though it slowed in the last two decades. That has likely contributed to the slowdown in reduction in poverty and inequality in Malaysia.

Inequality in Malaysia: market Gini coefficient
(Index, 1-100)



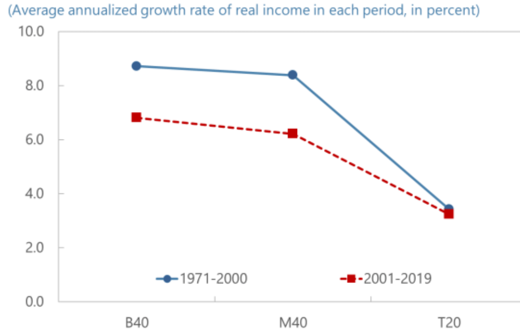
Source: DSO

Inequality: Malaysia vs. comparator countries
(Gini coefficient, index 1-100)



Source: SWIID Database; and Fund staff calculations

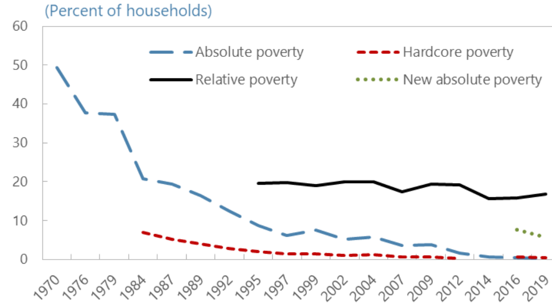
Average growth rate of real income by group
(Average annualized growth rate of real income in each period, in percent)



Sources: DSO; IMF IFS; and Fund staff calculations.

5. The official data indicate that absolute poverty has been significantly reduced. The share of population living in absolute poverty—measured as a share of households with income below the established minimum requirement for food and non-food items—declined from almost 50 percent at the beginning of the 1970s to 0.2 percent in 2019. In 2019, the poverty line income was revised up, from RM983 to RM2,208, to reflect changes in household needs. As a result, the share of households living in absolute poverty increased to 5.6 percent (though it fell by 2 percentage points compared to 2016). Also, some differences persist: poverty rates are higher in rural compared to urban areas, in Sabah and Sarawak compared to other provinces, and among some ethnic groups. Hardcore poverty—measured as the share of households with income below the minimum requirement for food only—has also declined to 0.2 percent, or to 0.4 percent under the new methodology (DOS, 2019). The share of population living below the World Bank's poverty line, set at of \$1.90 a day at 2011 PPP levels, also stands at very low levels, at 0.01 percent in 2015.

Poverty in Malaysia 1/
(Percent of households)

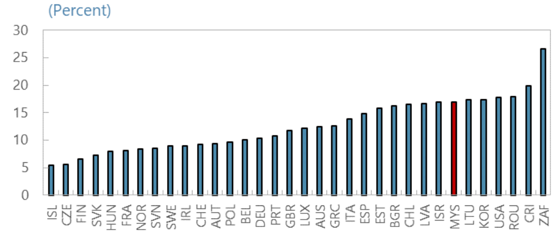


1/ Poverty is calculated using Cost of Basic Needs approach, which establishes a minimum income (Poverty Line Income or PLI) for food and non-food items. The value of Food PLI is obtained by identifying calorie requirements for a household. A household is considered absolute poor if its total income is below the Food and Non-Food PLI, and hardcore poor if its total income is below the Food PLI. Relative poverty line is defined as half of the median household income in a given year. Value of PLI revised up in 2019, with revision to 2016 data.
Sources: DSO

6. However, the outcomes are less encouraging when the poverty line accounts for Malaysia's level of development. Ravallion and Chen, 2018, estimate that poverty line in countries with similar income levels stands at USD12 a day per person in 2011 PPP terms, above the poverty line of USD5.5 per day, set by the World Bank for upper middle-income countries like Malaysia. Recent report by the WB (2020) estimates that the poverty line of USD12 per person per day would translate into RM20 per day or RM2,433 per month for a family of four. That would imply that the poverty rate in Malaysia would stand at 16 percent in 2016, close to the relative poverty rate (see below).

7. Furthermore, relative poverty remains relatively elevated. The OECD measure defines relative poverty as a share of people who subsist on half or less of the median income in the country. In 2019, almost 17 percent of Malaysian households lived in relative poverty. The improvement since 1995 (when the measure was first available) suggests a smaller decline in relative poverty than in absolute poverty. Relative poverty is also high compared to other countries: in 80 percent of the OECD countries (a comparator chosen due to data availability but also helpful given the authorities' aspiration to high-income status), the share of households living in relative poverty is lower than in Malaysia.

Relative poverty 1/
(Percent)



1/ Share of population living in households with income below half of the medan income in the country. Latest available data for each country (2019 for Malaysia)
Sources: OECD; DOS.

C. Social Assistance: Broad Coverage but Limited Benefits

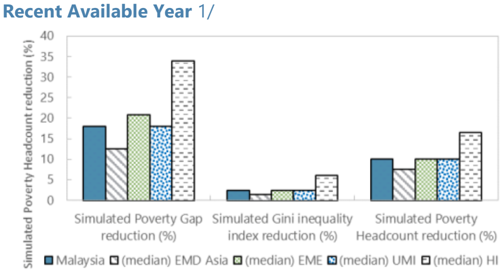
8. As in other countries, the non-contributory social assistance constitutes the first pillar of the social protection system in Malaysia. *Social assistance* comprises the unconditional cash transfer program and other benefits aimed to protect the vulnerable. The cash transfer program, the Bantuan Sara Hidup (BSH) or the Household Living Aid Program has been introduced in 2018 to replace the Bantuan Rakyat 1 Malaysia (BR1M), or 1Malaysia People's Aid Program. It constitutes the largest component of the social assistance and targets households with income less than RM4,000 a month (roughly the B40 group), with the amount of assistance—RM 500 to RM1,000 a year, paid in three installments—depending on monthly income, household type (single vs. family) and the number of children (up to four). BSH is administered by the Inland Revenue Board of Malaysia (operating under the Ministry of Finance). Additional benefits (for children, elderly, disabled) are provided by the Department of Social Welfare (JSK). The social assistance scheme also includes programs to support student education, fuel and other subsidies, the *zakat* (Islamic welfare scheme) and others (see WB (2020) for details).

9. **Total spending on social assistance programs in Malaysia is lower than in other emerging markets and higher income countries** (Figure 1, panel 1). In 2016, the Malaysian government devoted around 0.8 percent of GDP to social assistance programs, which was comparable to other countries in the region, but significantly below the median levels of spending in other EMs or in countries with comparable or higher income levels. The majority of spending in Malaysia (around ¾ of the total) was used for unconditional cash transfers (a much higher share of total than elsewhere), around 20 percent on school feedings, and the remainder on other programs. Notably, there is no social pension, so elderly vulnerable Malaysians must rely on cash transfers to protect them from poverty.

10. **The coverage of the social assistance programs is broader than in other Emerging Markets.** (Figure 1, panel 2) Around ¾ of the Malaysian population is covered by various social assistance programs. This is significantly higher than in other Emerging Markets (in Asia and elsewhere) and also in higher income countries. The coverage declines with income: the coverage is almost universal among the population in the lowest income quintile, falling to 93 percent in the second quintile, and declining to 44 percent for the top 20 percent. In contrast, in higher income countries, around 80 percent of the population in the bottom quintile receive social protection benefits, and the shares are even lower in other countries.

11. **Benefits in Malaysia are small in absolute terms and the share of the total benefits directed to the poorest is smaller than in other EMs.** (Figure 1, panel 3 and 4) On average, social assistance benefits constitute 3 percent of income of the beneficiaries, significantly less than in other Asian or world EMs or in higher income countries. Even among the poor, social assistance constitutes 9 percent of their income, similar to the median in other Asian EMs, but significantly below the 20 percent in EMs across the world or 30 percent in high income countries. The share of benefits directed to the poorest is also lower than elsewhere: around 30 percent of all social assistance payments are received by the poorest 20 percent of the population—less than in Asian and in EMs on average. In contrast to other countries, population in second to fourth quintile receives a higher share of total benefits than elsewhere, and almost 10 percent of the benefits payments are directed to the richest 20 percent in the society. This begs the question whether targeting of payments should not be improved, and limited resources redirected to the B40 to increase the coverage of the poorest and most vulnerable households.

Simulated Impact Variables for All Social Assistance, Most Recent Available Year 1/



Source: ASPIRE Database (World Bank)
1/ Indicator measured assuming the absence of pre-transfer welfare distribution, percentage change. For example, Simulated Gini inequality reduction is computed as (Gini coefficient pre transfer- Gini coefficient post transfer) / Gini coefficient pre transfer.

12. The impact of social assistance on poverty reduction may therefore be limited. Social assistance is estimated to close less than 20 percent of the poverty gap (the average percentage shortfall of income of poor people from the poverty line) and reduce the number of the poor by around 10 percent (see text chart). While this outcome is similar to that achieved in other EMs, it lags behind the high-income countries. In addition, the measure should be treated with caution given the very small number of people living in Malaysian households with income below the World Bank's poverty line (see above). The decline in inequality due to the social assistance programs is also modest.

D. Social Insurance

13. The second pillar or the social protection system, the social insurance includes unemployment insurance as well as public and private pension schemes and healthcare insurance.

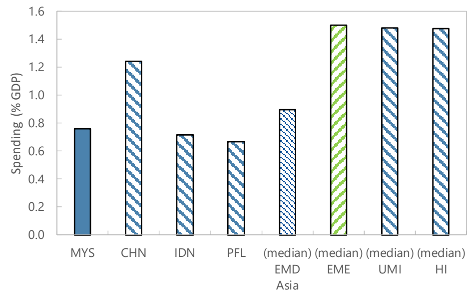
- *Unemployment and other social insurance*. In 2018, Malaysia for the first time introduced the Employment Insurance System (EIS), which is administered by the Social Security Organization (SOCSO). The participation is mandatory for all employees covered by social security, both workers and employers contribute monthly to the scheme, and benefit amount depends on the length of insured employment. SOCSO also administers protection schemes against work-related injuries, invalidity, or death. A similar scheme, administered by the Ministry of Finance, covers civil servants (see Hamid and Sazali (2020) for a detailed discussion).

- *Pensions*. Three main schemes administer pensions: The Employees Provident Fund (EPF) for the private sector workers, the Public Service Pension Fund (Kumpulan Wang Persaraan, KWAP) for the civil servants, and the Armed Forces Board Fund (Lembaga Tabung Angkatan Tentera, LTAT) for the military. EPF is mandatory for all private sector workers with standard employment contracts, and both workers and employers contribute a percentage of wages, 7 percent (minimum) and 12-13 percent, respectively. Self-employed and non-Malaysians can also elect to contribute to the EPF. Employees save into two accounts: "Account I", which includes 70 percent of contributions and can only be withdrawn upon retirement (at age 55) and "Account II" which stores the remaining 30 percent and can be drawn upon starting at the age of 50 to finance permitted outlays like down payment on the first house, or health and educational expenses. All withdrawals are in lump-sum payments as the EPF does not provide the annuity option. KWAP is funded by the government through general tax revenues and operates as a defined benefit scheme. LTAT operates as a defined contribution scheme, with members contributing 10 percent of salary, and the government 15 percent. Both private and public sector workers can also participate in a voluntary private retirement scheme.

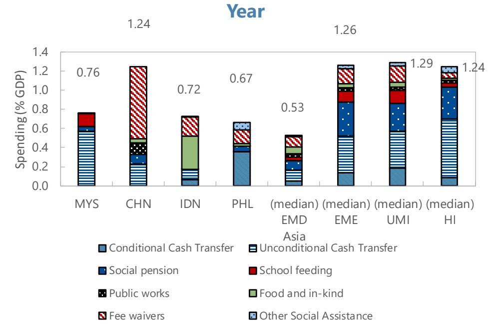
- *Health insurance*. The healthcare system in Malaysia consists of a public universal healthcare system and a co-existing private one. The public system is funded by taxes and administered by the Ministry of Health. Private insurance is funded by out-of-pocket contribution of the plan's members.

Figure 1. Malaysia: Overview of Social Assistance 1/

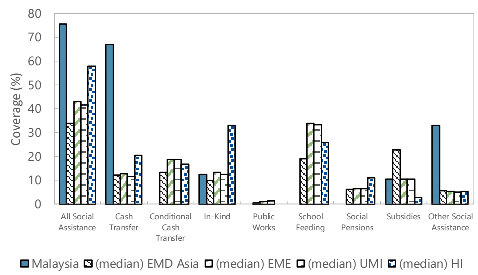
Total Social Assistance Spending (percent of GDP), Most Recent Available Year



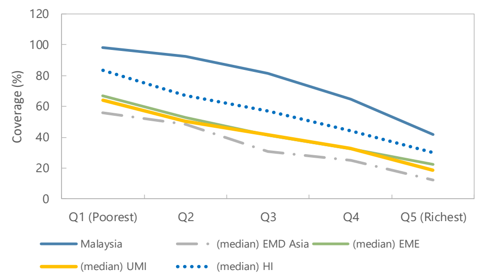
Annual Spending (percent of GDP) by composition in Most Recent Available Year



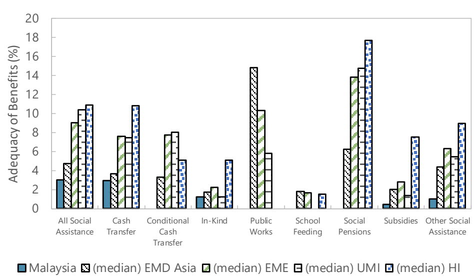
Coverage for All Social Assistance, Most Recent Available Year



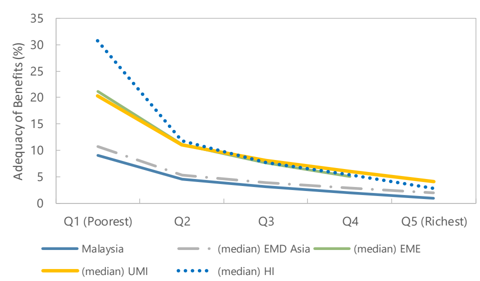
Coverage by quintile, All Social Assistance, Most Recent Available Year



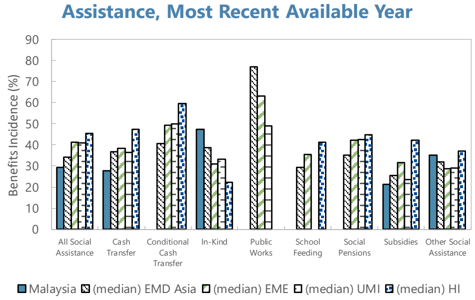
Adequacy of Benefits for All Social Assistance, Most Recent Available Year



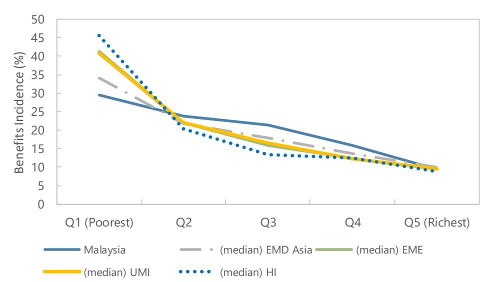
Adequacy of Benefits by quintile, All Social Assistance, Most Recent Available Year



Benefits Incidence Q1 (Poorest) All Social Assistance, Most Recent Available Year



Benefits Incidence by quintile, All Social Assistance, Most Recent Available Year



Source: ASPIRE (World Bank)

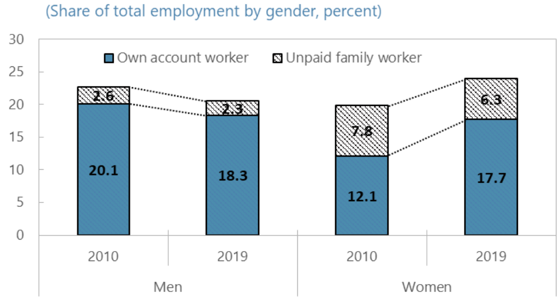
1/ Latest available data. **Social assistance coverage** is defined as number of individuals in the quintile who live in a household where at least one member receives the transfer to number of individuals in that quintile. **Adequacy of benefits** is defined as the amount of transfers received by beneficiaries in a quintile to total income or consumption of beneficiaries in that quintile. **Benefits incidence** is defined as sum of all transfers received by all individuals in the quintile to sum of all transfers received by all individuals in the population.

Unemployment and Other Social Insurance

14. The unemployment insurance benefits are funded by direct contributions from covered workers and employers (see Table 1). Similar to China, Japan, and Korea, unemployment insurance is funded by direct contributions by covered workers and employers though total contributions, at 0.2 percent of wages/payroll for employers/employees, are lower than in other countries. This contrasts with the approach of countries like Australia, Hong Kong SAR, or New Zealand where the unemployment scheme is directly funded by the government. Benefits, which start at 80 percent replacement rate, taper off quickly and last only up to 6 months, compared to 8 to 11 months in Korea and Japan, and 2 years in China.

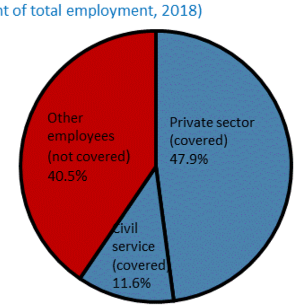
15. However, the scheme only covers workers on "salaried" contracts, leaving a significant share of employees without protection in case of job losses. The 2019 Malaysian Informal Sector Workforce Survey estimates that around 8.3 percent of Malaysian workers were counted as working in the informal sector, i.e. for firms or employers that were profit-oriented but not registered with the Companies Commission of Malaysia or local government or professional bodies, and had less than ten workers. This measure, however, undercounts the number of workers not covered by social insurance schemes as it excludes both agricultural employment (although that exclusion is currently recommended by the international Labor Organization) and the informal employment within the formal sector (i.e. workers either self-employed or working on contracts that do not include social insurance coverage, like gig economy workers) (Hamid and Sazali, 2020). Thus, the share of self-employed workers and unpaid family workers may be a better indicator of informal employment in Malaysia. In 2019, that number stood at 22 percent, though that number is likely overestimated as some own-account workers may be employed in the formal sector. Accounting for that distinction, the 2019 Informal Workforce Survey Report found that the share of informal workers employed in the Malaysia economy stood at 16.2 percent. Women were especially prone to working jobs without unemployment insurance. This occurred mostly due to an increase in the share of self-employed women, which grew by 5.5 percent over the last 10 years, outweighing a decline in a number of women working as unpaid household workers. In addition, the share of employees not covered by work-related injury schemes are close to 40 percent (see Hamid and Sazali (2020), for a detailed discussion).

Workers outside of formal employment
(Share of total employment by gender, percent)



Source: CEIC; and IMF staff calculations

Coverage of social insurance schemes
(Percent of total employment, 2018)



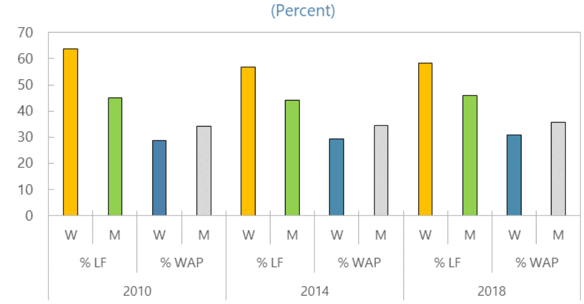
Sources: CEIC, Speech by Chief Secretary to the Government on Apr 30, 2019, and IMF staff calculations

Pension Schemes

16. Participation in the pension schemes is mandatory for qualified workers but a large share of the working age population is not covered, especially women. Contributions to the EPF are mandatory for private sector employees and public sector employees not covered by the public sector system, and are voluntary for the self-employed, household workers and foreign workers. In 2018, the EPF and KWAP are estimated to have covered around 50 percent of Malaysian labor force. While the share of men actively contributing to the pension insurance scheme remained stable over time, the share of women has declined, likely due to their increased take-up of non-standard jobs. The share of contributing population is lower when computed against the number of working age population: only around a third of working age population are active members. Moreover, given a much lower share of women than men in the Malaysian labor force, almost 70 percent of women of working age are not contributing to the insurance schemes compared to 64 percent of men.

Participation in EPF and KWAP incurance schemes 1/

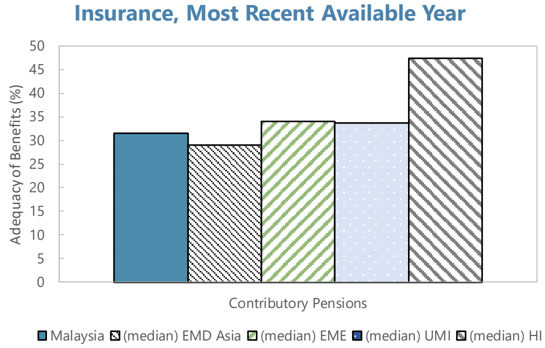
(Percent)



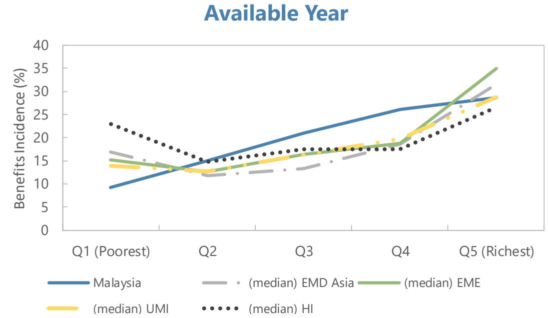
1/LF: labor force, WAP: working ag population. Calculations do not include members of the LTAT. Assumes equal split in the membership of KWAP between men and women.
Sources: CEIC; ILO; EPF and KWAP Annual Reports; adn IMF staff claculations.

17. Pensions as a share of pre-transfer income are comparable to other EMs but lower than in high-income countries, likely because of the setup of the scheme. In Malaysia, workers participating in the EPF are eligible to withdraw their balances at the age of 50 (for Account I) and 55 (for Account II) – a significantly lower age than elsewhere (see Table 2), and below the minimum retirement age of 60. A study by WB (2020) demonstrates that, given low balances accumulated, ¾ of contributors will only be eligible for a monthly benefit of RM1,050, just above the Malaysia's food Poverty income Line (PLI) of RM980. Given that benefits depend on the accumulated balances, higher income groups receive a higher share of total payments. That further underscores the precarious situation of poor citizens as they approach the retirement age.

Adequacy of Benefits for All Social Insurance, Most Recent Available Year



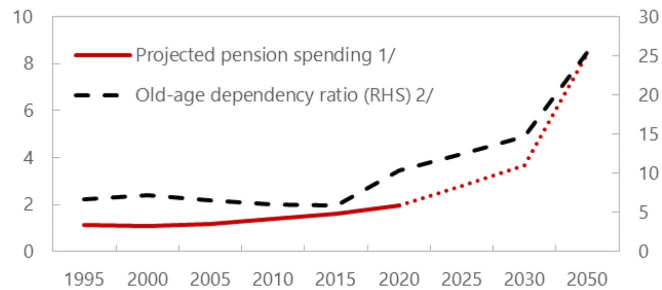
Benefits Incidence by quintile, Contributory Pensions, Most Recent Available Year



Latest available data. **Adequacy of benefits** is defined as the amount of transfers received by beneficiaries in a quintile to total income or consumption of beneficiaries in that quintile. **Benefits incidence** is defined as sum of all transfers received by all individuals in the quintile to sum of all transfers received by all individuals in the population.
Source: ASPIRE (World Bank)

18. Projected rapid population aging, along with low private retirement savings, will likely require a substantial increase in public sector spending on old age benefits. The UN projects that the old age dependency ratio will increase over 2.5 times between 2050 and 2050. That implies that while now one elderly person is being supported by around 10 people of the working-age, in 2050 that ratio will decline to 4. Calculations based on the methodology developed by Clements and others (2013) indicate that pension spending is projected to increase by 6.5 percent of GDP between now and 2050. These estimates are likely conservative given that they do not incorporate the impact of aging on economic activity.

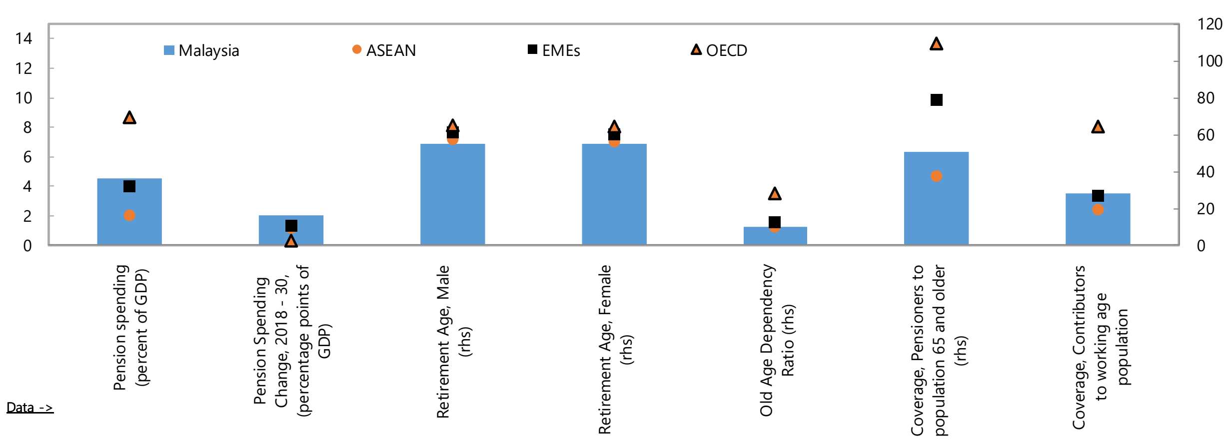
Old age dependency ratio and public pension spending
(Percent of GDP)



1/ IMF's Fiscal Affairs Department template for assessing the fiscal implications of demographic shifts.
2/ In percent, population above 65 divided by population 25-64.
Sources: IMF FAD database; UN World Population Prospects 2019; IMF WEO database.

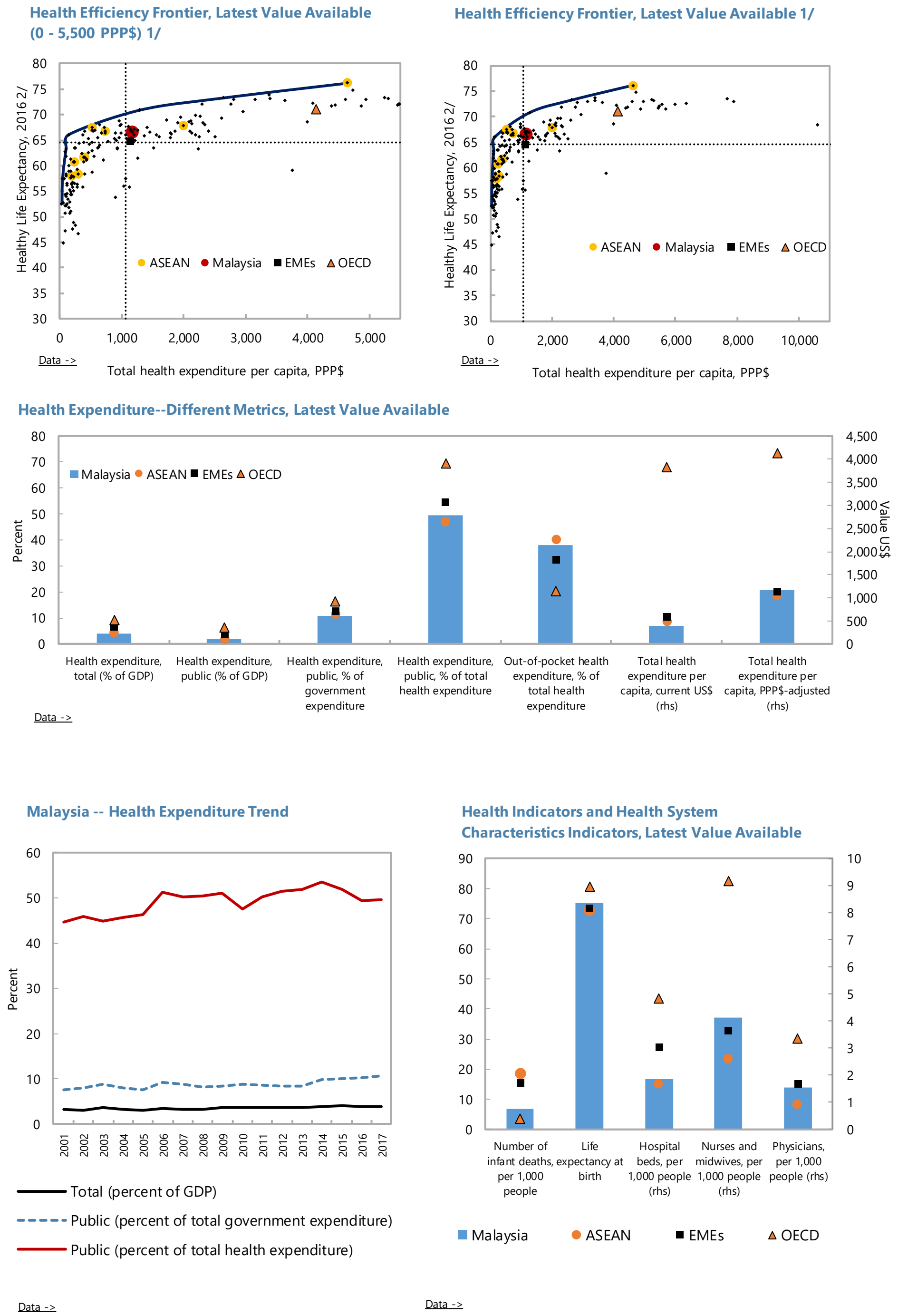
19. Higher minimum withdrawal age and extension of the EPF to categories of employment currently not covered by the scheme would help Malaysians secure adequate savings for retirement. As estimated by WB (2020), increasing the minimum withdrawal age by 10 years, to the age of 65, would effectively double the replacement rate for those working since the age of 30 due to a longer period of contributions and investment dividends and a shorter payout period.

Pension Indicators, Latest Value Available



Sources: IMF FAD Expenditure Assessment Tool (EAT), World Economic Outlook, ASPIRE, and IMF Pension Indicators.

Figure 2. Malaysia: Health Expenditures



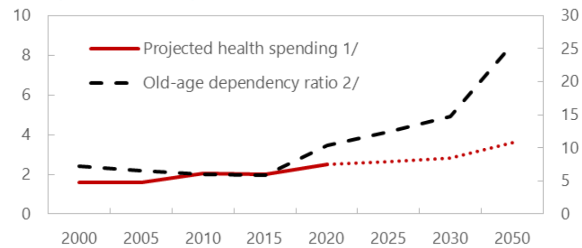
Source: IMF FAD Expenditure Assessment Tool (EAT), World Bank, World Health Organization.
1/ Dashes are the average of ASEAN.
2/ Healthy life expectancy (HALE) is a measure of health expectancy that applies disability weights to health states to compute the equivalent number of years of life expected to be lived in full health.

Healthcare

20. Over the past four decades, Malaysia's health indicators have improved significantly. Since the 1970s, life expectancy has increased by 11 years for women and 10 years for men and now exceeds that of other ASEAN countries and the EMs, though it continues to lag the high-income countries. Infant mortality rate has declined from 37 to 7 deaths per 1,000 live births, i.e. to a level below that in high-income countries, and mortality rate for new mothers is almost zero.

21. The level of public spending on health, close to other countries in the region, appears to produce good health outcomes. Malaysia's government devotes around 2 percent of GDP (or close to 11 percent of total public spending) per year to public health. In addition, out-of-pocket health expenditures consume another 2 percent of GDP. Such expenditure levels are comparable to the average in the ASEAN countries and appear to produce good health outcomes (see above). The analysis of the healthy life expectancy indicator (HALE, Figure 2, top panel) indicates that some room for improvement remains given that other countries (including some in the ASEAN region) achieve similar HALE outcomes with lower per capita spending on healthcare, though a more detailed study would be needed to determined where such efficiencies could be realized.[3]

Old age dependency ratio and public health spending
(Percent of GDP)



1/ IMF's Fiscal Affairs Department template for assessing the fiscal implications of demographic shifts.
2/ In percent, population above 65 divided by population 25-64.
Sources: IMF FAD database; UN World Population Prospects 2019; IMF WEO database.

22. Health spending is expected to increase given the projected aging of the Malaysian population. With the old-age dependency ratio expected to increase 2.5 times between now and 2020, public health spending could increase by 1.5 percentage points of GDP, almost doubling from the current levels (for details on the methodology, see Clements and others (2015). That underscores the need to ensure efficiency of spending, as well as securing additional sources of revenue in the medium-term to fund higher spending needs.

E. COVID-19 Response

23. To address the economic fallout from the COVID-19 pandemic, the authorities introduced five policy packages between February and September 2020. The enhanced social insurance and social protection measures included in the plan ranged from cash transfers to individuals, wage subsidies for firms, reduced contributions and tax-free early withdrawals to/from the EPF, and hiring and training grants (see New Straits Times, 2020; Penjana, 2020; PRIHATIN, 2020; Malaysia 2020; KITA PRIHATIN, 2020; for details of stimulus packages)). Total expenditure on subsidies and social assistance stood at RM20 billion, or around 1.4 percent of GDP. Additional

[3] HALE adjusts standard life-expectancy measures for severity of illnesses and quality of life factors. Factors such as the quality of health care environment are not considered. HALE is calculated by subtracting the years of ill health (weighted according to severity) from overall life expectancy.

spending to address the impact of the COVID-19 pandemic on the population has also been included in the 2021 budget, bringing the total spending on subsidies and social assistance to 18.9 billion, or estimated 1.2 percent of GDP.

24. Direct cash transfers constituted almost one third of the fiscal response. New universal cash transfers, put in place in the March and September packages, covered not only the B40 group (a recipient of the BSH benefits) but, for the first time, also channeled aid to households in the M40 group. The benefit amount varied with income and household size, and also declined between the first and the second package. In total, RM17bln or 1.2 percent of GDP were earmarked for these benefits. In addition, the authorities also implemented cash transfers targeted to the vulnerable and those adversely affected by the pandemic: medical personnel, taxi, bus and e-hauling drivers, students and gig economy workers, as well as civil servants and government pensioners, though their estimated cost is much smaller, at around RM0.6bln or 0.04 percent of GDP. Households also benefited from reduced fees on utilities, childcare, housing, and public transportation, and tax reliefs and e-vouchers.[4] In the 2021 budget, the authorities replaced BSH program with new benefit, Bantuan Prihatin Rakyat or BPR. The new program will offer assistance to broader group of households (families with income up to RM5,000 and single-person households with income up to RM2,500), and at higher rates (RM350-1,200, plus child supplements).

	Transfer amount RM)	Recipients (mln)
	March package	
HH with income≤4,000	1600	4
HH with income 4,001-8,000	1000	0.1
Single indiv. with income ≤2,000	800	3
Single indiv. With income 2,001-4,000	500	0.4
	September package	
B40 households	1000	3.7
M40 households	600	1.4
B40 single	500	3.8
M40 single	300	1.7

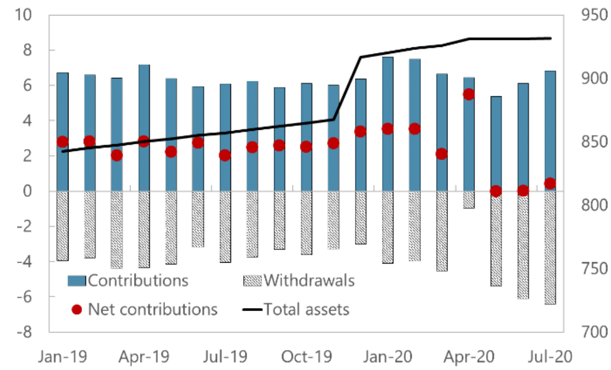
Source: Authorities' publications

25. Wage subsidies for low wage workers were the second major pillar of the government's policy response. In the March package, the authorities committed to paying RM600 for three months per employee earning less than RM4,000 a month, working in firms that experienced 50 percent decline in income since the beginning of the year. The recipient firm had to pledge not to lay off workers or send them on unpaid leave for three months after the end of the program. In the subsequent package, the subsidy was augmented, with the amount per worker tied to firm size (with smaller firms getting higher subsidies). The recipient firms also had to be registered with the Companies of Malaysia prior to January 1, 2020 and had to commit to retain workers for 6 months after the subsidy ended. The authorities estimated that the subsidy will benefit up to 4.8 million workers. The 2021 budget extended the wage subsidy by another three months and raised the limit of employees per application from 200 to 500. The new subsidy, however, targeted only the tourism sector. The authorities expect that the new measure will benefit up to 0.9 million employees.

[4] The packages also included measures not related to social assistance/insurance, which are not mentioned here.

26. To improve cash flow of the households and firms affected by the pandemic, the authorities also introduced a measure targeting the EPF. Households were allowed to reduce their EPF contribution rates from 11 percent to 7 percent between April and December 2020. They were also allowed to withdraw RM500 a month from their Account II without tax penalties between April 2020 and March 2021. Employers were given an option to defer or restructure their EPF payments. Both measures aimed to improve cash flow of households and firms, at RM40bln and RM10bln, respectively, or 3.5 percent of GDP (total). As a result, net contributions between April-July 2020 stood at around 60 percent of the 2019 levels. In addition, under the 2021, the authorities allowed additional withdrawal from Account II of the EPF to purchase life and medical insurance and takaful products. Under the 2021 budget, households were allowed to withdraw up to RM500 per month for 12 months from Account I (a maximum of RM6,000), starting from January 2021. The authorities expect withdrawals from Account I to total RM4 billion.

EPF: contributions, withdrawals, and total assets
(RM billion)



Sources: CEIC; and IMF staff calculations.

27. Additional spending was also allocated to hiring and training of unemployed workers, and to extend the unemployment benefits. Initially, the authorities doubled the tax deductions for expenses on tourism-related training. Subsequently, recognizing the limited coverage of the EIS, the authorities provided a training allowance of RM4,000 for workers not covered by the scheme. The also offered grants to firms hiring the unemployed, with the amount increasing with the age of the jobseeker and the length of the unemployment spell. They also allocated RM2 billion in additional resources to the re-skilling and upskilling courses run by the Human Resources Development Fund. In the 2021 budget, the authorities allocated RM3.7 billion to skills development and retraining programs, RM1 billion to reskilling and upskilling programs, and RM0.7 billion to short-term employment program. The authorities also extended the duration of unemployment benefits from 6 to 9 months, setting the allowance at 80 percent of the employee's monthly salary in the first month, 50 percent in months two to six, and 30 percent in the remaining three months. The authorities allocated RM150 million for this benefit, expecting it to benefit up to 130,000 jobseekers.

F. Policy Implications

28. The pandemic underscored the need to reform the system of social protection in Malaysia.

- *Social assistance – reduce coverage of the rich, increase benefits for the poor*. Social assistance payments cover a majority of the population, with 9.5 percent of social assistance benefits directed to the households in the upper deciles of the income distribution. A more targeted approach focused on supporting the poorest members of the society would allow to better allocate the limited resources and achieve even greater progress in reducing poverty and inequality.

- *Unemployment insurance: reform to align with the latest labor market trends.* Introduction of the unemployment insurance in Malaysia in 2018 was a major step forward. However, a significant share of workers is not covered by the scheme, and that share is likely to increase over time given the increased incidence of temporary and gig jobs and self-employment. The scheme would ideally cover these workers as well, also to protect them from work-related injuries.

- *Pensions.* The pension scheme for private sector workers leaves out a significant share of employees and may not provide adequate benefits for those who participate. Measures to encourage households to replenish their EPF accounts once the recovery takes hold should be considered. This will be especially important for low income households that had low retirement savings before the pandemic and might have depleted them further. A broader mandatory enrollment, together with higher minimum withdrawal age, would help increase benefits in the old age. Given the speed with which population is aging, Malaysia may also consider introducing a social pension.

- *Coordination*. Given the number of agencies involved in designing and administering various elements of the social protection scheme, unification, streamlining, and better coordination between various programs should be considered. Malaysia Social Protection Council, established to strengthen the social protection system, including social assistance, social insurance, labor market intervention and management of data, could lead that initiative.

- *Funding*. Reforming the social protection system to provide better cover for the vulnerable will require additional fiscal spending. Given the limited fiscal space, additional revenue sources would be needed in the medium-term, putting greater weight on the importance of adopting a MTRS.

Table 1. Unemployment Protection Schemes Across Asia

	MYS	AUS	CHN	HKG	JPN	KOR	NZL
Adopted	2017	1944	1986	1977	1947	1993	1930
Type	Social insurance	Social assistance	Social insurance	Social assistance	Social insurance	Social insurance	Social assistance
Coverage	Private-sector employees aged 18 to 60	All residents	Employees in urban enterprises and institutions	All residents	Employed persons. Voluntary coverage for persons employed in agricultural, forestry, and fishery establishments with fewer than five regular employees. Special system for elderly/daily/sesonal workers.	Voluntary coverage for certain small businesses; certain self-employed persons; and persons working less than 60 hours a month or less than 15 working hours a week.	Citizens or permanent residents
Exclusions	Self-employed persons, casual workers, household workers, foreign workers, civil servants, farmers, spouses of business owners, and private-sector employees aged 57 or older on January 1, 2018 without previous social insurance coverage	none	Self-employed persons. Special system for civil servants.	none	Workers with less than 20 scheduled working hours a week; self-employed persons; and certain employees of national, prefectural, or municipal governments.	Household workers and family labor	Pensioners, full-time students, and striking workers
Source of funds	Insured person: 0.2% of monthly covered earnings; Employer: 0.2% of monthly covered payroll, both based on max earnings of RM4,000	Government	Insured person: Up to 1% of gross earnings, employer: up to 2% of payroll, both depending on local government regulations.	Government	Insured person: 0.3% of monthly earnings; 0.4% for certain industries; Employer: 0.6% of payroll; 0.7%-0.8% for certain industries. Government: 2.5% of the cost of the unemployment benefit.	Insured person: 0.65% of gross annual wages. Self-employed person: 2.25% of declared wages. Employer: 0.9% to 1.5% of annual payroll, depending on the type of business.	Government
Qualifying conditions	At least 12 months of contributions in the 24 months before the first claim, more for subsequent claims.	Various conditions apply, including mutual obligation requirements	Min. 12 months of covered employment	Aged 15 to 59, with at least one year of residency in Hong Kong SAR. Asset test.	Min. 12 months of coverage in the past 24 months.	6 months of coverage in the last 18 months before unemployment	Aged 18 or older (aged 20 or older with a dependent child); at least two years of continuous residence. Income test.
Separate	n.a.	Yes, for unemployed younger	n.a.	n.a.	Yes, for workers older than 65	n.a.	Yes, for workers younger than
Benefit length	up to 6 months	n.a.	Up to 2 years depending on length of contribution period	n.a.	90 to 330 days	Up to 240 days, depending on the length of coverage and age	none
Allowance amount	80% in first month, falling to 30% in months 5 and 6	Varies (depending on marital status, dependents), and income and asset tests apply.	Set by local governments at a level higher than the local public assistance benefit but lower than the local minimum wage	HK$2,455 a month (if living alone) or HK$1,760 to HK$2,190 a month (if living with other family members)	50% to 80% of the insured's average daily wages (higher for lower-wage earners) in the six months before unemployment; 45% to 80% if aged 60-64.	60% of the insured's average daily earnings in the three months before unemployment, minimum is 90% of the minimum daily wage	Up to NZ$215.34 a week if aged 25 or older, single, and no children; NZ$334.05 a week is paid if single with children
Wait time?	7 days	7 days (ordinary waiting period)	n.a.	n.a.	7 days	7 days	Up to 14 days

Indonesia: No statutory unemployment benefits. Mandatory severance pay if dismissed due to a change in company status or ownership, company closure due to financial loss or bankruptcy, prolonged illness or disability (at least 12 months) or reaching the mandatory retirement age. Severance amount depends on the years of service.

Philipines: No statutory unemployment benefits. Mandatory severance pay if dismissed due to illness, downsizing, or redundancy. The benefit amount is half a month of the employee's pay for each year of service if the dismissal is due to illness or downsizing; one month of pay for each year of service if the dismissal is due to redundancy.

Singapore: No statutory unemployment benefits. The Workfare Training Support Scheme provides subsidized employment training, including a training allowance of up to S$4.50 an hour of training completed, to persons who qualify for the Workfare Income Support Scheme.

Source: Scott (2020), International Social Security Association data.

Table 2. Old Age Protection Schemes Across Asia

	MYS	AUS	CHN	HKG	IDN
Adopted	1951	1908	1951	1971	1977
Pension type	1. Provident fund (account 1 for retirement, Account 2 can be accessed for other needs) 2. Social insurance 3. Social assistance	1: Social pension for all residents. 2: Mandatory occupational pension for all employees with earnings greater than A$450 a month. Voluntary coverage for self-employed.	1: Social pension and mandatory individual accounts for urban workers. 2: Pension and individual accounts for rural workers and non-salaried urban residents (contributory and noncontributory) 3. Separate noncontributory pension system for employees in the government and public service units	1. Social assistance 2. Mandatory occupational pension	1. Social insurance 2. Provident fund
Coverage	1. Private-sector employees, including apprentices, and certain public-sector employees not covered by a separate public-sector system. Voluntary for self-employed, household workers, foreign workers, and certain others. 2. Private-sector employees and certain public-sector employees not covered by a separate public-sector system. 3. Needy citizens	1: All residents	1: Employees (including legally employed foreigners and migrants, and part-time employees) in urban enterprises and urban institutions managed as enterprises; self-employed persons and small business owners with no employees; casual workers; and civil servants and certain public-sector employees. 2: Rural and nonsalaried urban residents aged 16 or older.	1. All residents 2. Employees under contract for at least 60 days (shorter periods for employees in the catering and construction industries) and most categories of self-employed persons.	1. Public- and private-sector employees. 2. Employed persons, including foreign workers who have worked at least six months in Indonesia.Voluntary coverage for self-employed persons. Special systems for public-sector employees and military and police personnel.
Exclusions	2. Exclusions: self-employed, household workers, spouses of business owners, and foreign workers.	n.a.	Students and persons covered under the basic pension insurance scheme	Self-employed hawkers; household workers; persons covered by statutory pension plans or provident funds, incl. civil servants and teachers; members of occupational retirement plans who are granted exemption certificates; and foreign workers in HKG for less than 13 months or covered by another country's retirement system.	1. Self-employed
Source of funds	1. Employees: 11% of monthly earnings for those younger than 60. Employers: 12-13 percent of monthly earnings, depending on employee's age 2. Employee and employer: 0.5% of monthly covered earnings, each 3. Government	Government for social pension. Mandatory occupational pension: employees' contributions are voluntary and capped. Employers' contribution at 9.5 percent of employees' ordinary time earnings, set to increase by 0.5 percentage point annually, starting from 2021 and up to 12 percent by 2023.	System 1: Insured person: 8% monthly earnings for mandatory individual account For rural residents: contribution depends on local government regulation Self employed: 20% of gross average monthly earning for social insurance and mandatory individual account. Employer: up to 20 percent of payroll. System 2 (contributory part), contribution from RMB100–500 (rural) and RMB100–1,000 (urban); government contribution of at least RMB30.	1. Government 2. Employees/self employed: at least 5% of monthly earnings/ income. Employers: at least 5% of monthly payroll	1. Insured person: 1% of gross monthly covered earnings. Employers: 2% of gross monthly covered payroll 2. Insured person and self-employed: 2% of gross monthly covered earnings. Employers: 3.7% of gross monthly payroll.
Qualifying conditions	1. Age 55 (different age for qualified withdrawals from Account 2) 2. Payable in case of permanent disability, as survivor pension,and funeral grant 3. Age 60 if no support of family members, means-tested	SS pension: Age 66, set to increase to 67 by July 2023. Residence rules apply.	Age 60 (men and professional women), age 55 (nonprofessional salaried women), or age 50 (other categories of women), with at least 15 years of contributions. Rural residents: Age 60 and not entitled to a social insurance old-age pension under the basic pension insurance program. Min. 15 years of contributions	1. Age 65/70 depending on the scheme, with min. 7 years residency. Means/asset test 2. Age 65	1. Age 56, gradually rising in the future, with at least 180 months of contributions. 2. Age 56, gradually rising in the future
Pension amount	3. RM350 a month	Up to A$860.60 (if single) or A$648.70 (if partnered) is paid every two weeks. Means tested. Additional assistance available (pension and energy supplements).	System 1: Social pension: average monthly local wage in the previous year plus the average individual monthly wage used to calculate contributions, divided by two and multiplied by 1% for each year of contributions. The minimum combined social insurance and mandatory individual account pension is usually 40% to 60% of the average monthly local wage in the previous year, depending on the region. Individual account: total employee contributions plus accrued interest, divided by the actuarial month. if benefits exhausted, on indiv. account, benefits paid from local pooling fund. System 2: flat pension plus annuity from funded defined contribution account.	1. HK$1,345 to HK$5,440 per month, depending on the scheme 2. The balance of total employee and employer contributions plus accrued interest is paid as a lump sum or periodic payments.	1. 1% of the insured's average adjusted annual earnings divided by 12 and multiplied by the number of years of contributions is paid, with min and max amounts. 2. A lump sum of total employee and employer provident fund contributions plus accrued interest is paid. Members with more than 50 million rupiah in their provident fund accounts may opt for a periodic payment.

	JPN	KOR	NZL	PHL	SGP
Adopted	1941	1973	1898	1954	1953
Pension type	Social insurance	1. Social insurance 2. Social assistance	Social assistance	1. Social insurance 2. Social assistance	1. Provident Fund; four types of accounts: Ordinary Account (OA) for approved investment, Special Account (SA), mainly for retirement, Medisave Account (MA for medical expenses), and Retirement Account (RA) set up at age 55 to finance monthly payments at retirement 2. Social assistance
Coverage	1. National pension program:: residents aged 20 to 59, voluntary for those aged 60-65 2. Employees' pension insurance: Employed persons younger than age 70 in covered firms. Voluntary for those aged 70 and above.	1. Employed and self-employed persons, including farmers and fisherman. Special systems for civil servants, private-school employees, military personnel, and employees of the special post office. 2. Low-income citizens	All residents	1. Private sector employees, self employed persons, household workers. Voluntary coverage for citizens working abroad, persons who previously had mandatory coverage, and nonworking spouses of insured persons.Special systems for government employees and military personnel. 2. Needy citizens	1. Employed persons, including most public-sector employees; self-employed with annual net income greater than S$6,000 (MA account only). Voluntary for persons without mandatory coverage. 2. Needy elderly citizens
Exclusions			None	n.a.	
Source of funds	1. Fixed contribution per month (16,340 yen in March 2019). Government: 50% of the cost of benefits and the total cost of administratio. 2. 9.15% of monthly wage and bonus, paid by employer and employee each. Government: total cost of administration	1. Employees: 4.5% of gross monthly covered earnings. Employer: 4.5% of gross monthly covered payrollSelf-employed: 9% of gross monthly covered earnings (with min and max levels). 2. Government	Government	1. Payments based on 31 wage classes collected from workers, self employed, and employers. Government finances any deficit. 2. Government	1. Employees: 20% of monthly earnings of at least S$750 if younger than age 56, tapering off for older citizens. Self-employed: 4% to 10.5% of annual net trade income (MA only). Employers: 17% of monthly payroll for employees younger than 56, tapers off for older employees. Government: subsidizes payments for certain low income employees.
Qualifying conditions	1. Age 65 with at least 10 years paid or credited contributions 2. Age 63 (men) 61 (women), will rise in the future. Lower age for certain groups	1. Age 61, gradually rising in the future, with at least 20 years of coverage. Income test 2. Age 65, income test	Old-age pension: age 65 with at least 10 years of residence including at least five after age 50, and a resident on the date of application. No income test. Old-age assistance benefits for the needy available.	1. Age 60 with at least 120 months of contributions before the six-month period when the pension is first paid; early retirement for certain workers. For pensioners up to age 65, employment or self-employment must cease. 2. Age 60 and assessed as poor by the National Household Targeting System for Poverty Reduction.	Age 55. Members with at least S$60,000 in the RA at age 65 are automatically enrolled in a life annuity program. 2. Age 65 and total CPF contributions of up to S$70,000 by age 55 and household per capita monthly income of up to S$1,100.
Pension amount	1. 779,300 yen a year (full benefit) 2. Based on the insured's average monthly wage over the full career multiplied by a coefficient determined by the insured's date of birth multiplied by the number of months of coverage. Paid every two months.	1. 1.35 (coeff. decreasing in the future) times the sum of the national average indexed monthly wage in the three years immediately before the year in which the pension is first paid and the insured's average monthly wage over the total contribution period. An increment is paid for years of coverage exceeding 20 years. 2. Up to 209,960 won a month, depending on income	NZ$423.83 (if single and living alone), NZ$391.22 (single sharing accommodation), or NZ$326.02 (couple) a week.	1 The highest of: 300 pesos plus 20% of the insured's average monthly covered earnings and 2% of average monthly covered earnings for each credited year of service exceeding 10 years; 40% of the insured's average monthly covered earnings; 1,200 pesos with at least 10 but less than 20 credited years of service; or 2,400 pesos with at least 20 credited years of service. 2. 500 pesos a month	1. In addition to life annuity or monthly payout from the RA (until its depletion), a lump sum paid of the account balance exceeding the minimum required balance in the RA, or S$5,000, whichever is greater. 2. S$300 to S$750 a quarter is paid, depending on the beneficiary's place of residence.

Source: International Social Security Association data.

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Appendix VIII. E-Payments and the COVID-19 Pandemic[1]

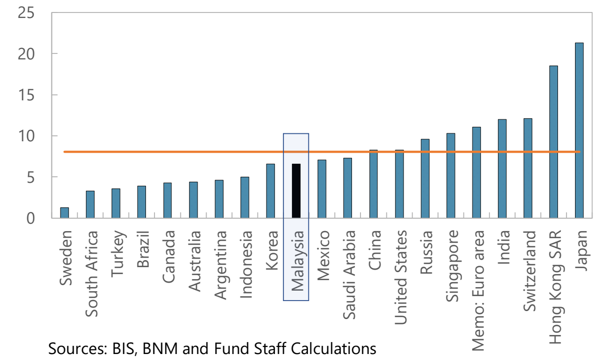
The COVID-19 pandemic is accelerating trends towards increased digital payment system solutions in many countries. In Malaysia, electronic payment (e-payment) via mobile and internet banking has increased sharply during the COVID-19 pandemic, supported by strong connectivity and robust payments infrastructures. However, cash-in-circulation appears resilient, potentially reflecting precautionary demand for a universally accepted store of value in the context of elevated macroeconomic uncertainty. Looking ahead, increasing digitalization brings opportunities related to financial inclusion, but also challenges spanning consumer protection, market power and financial stability.

A. Introduction

1. **Digital innovation is changing how financial services are delivered in Malaysia.** There is a long-standing literature explaining demand for cash, including its use as (i) *medium of exchange* as cash is widely accepted, easy to use, anonymous, and not dependent on information technology connectivity or a bank account; and (ii) *store of value,* which is often relevant in periods of elevated macroeconomic or political uncertainty (Bech et al, 2018). Cash use in Malaysia is relatively low in an international context (text chart). This partly reflects digital payment adaptation such as mobile banking accounts and e-money transactions, including the use of e-wallets.[2] This shift towards digital payments has been enabled by robust information technology infrastructure, such as the widespread availability of high-speed internet, and supporting prevalent smart phone use. Malaysia's ecosystem of fintech innovation is also helping (see UNCTAD, 2020; IMF, 2020).

Currency in Circulation, 2019 1/

(Share of GDP)

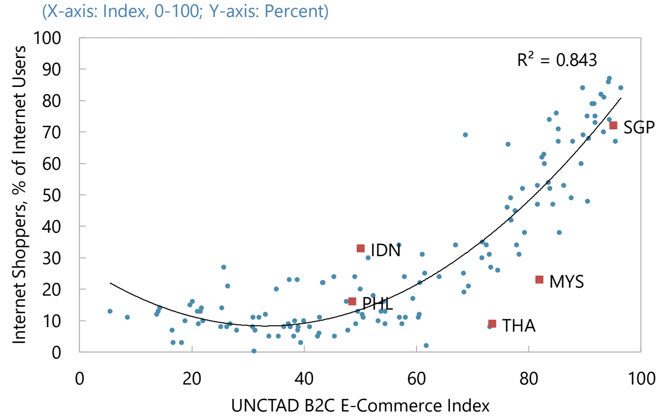


Sources: BIS, BNM and Fund Staff Calculations

1/ Some Emerging Market countries have substantial dollarization (e.g. Argentina) which may skew comparisons.

E-Commerce Ranking

(X-axis: Index, 0-100; Y-axis: Percent)



Sources: UNCTAD

2. **The COVID-19 pandemic is accelerating a longer-term shift away from the use of physical cash in advanced and emerging market countries** with alternative fintech payment methods emerging. In some

[1] Prepared by Dan Nyberg and Han Teng Chua.

[2] Domestic players including Boost, Mpay and Grabpay have established e-wallets, while major Chinese technology companies such as Tencent (WeChat Pay MY) have entered the Malaysian market (see IMF, 2020 for further discussion).

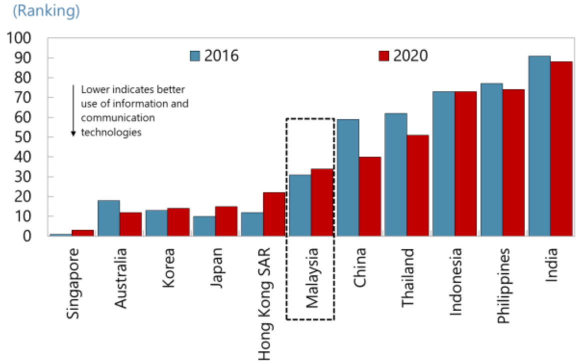
advanced economies, such as Sweden and Norway, cash use has declined to such low levels that merchants find it increasingly costly to accept and handle cash. Among emerging markets, China is rapidly transiting towards e-payment platforms, such as WeChat Pay and Alipay, and away from physical cash. These trends may be accelerated by the belief that the COVID-19 virus can survive on cash for substantial periods of time (Auer et al, 2020), discouraging the use of cash.

3. **This appendix briefly reviews the rise of e-payments in Malaysia and analyzes how e-payment methods and cash have fared during the pandemic.** The strict movement control order (MCO)[3] to curb the virus spread prevented many customers from physically visiting stores, shifting activity to online channels while using cash to make purchases remotely became relatively more difficult. The next section discusses existing e-payments infrastructure in Malaysia and government support to encourage digital solutions. The following section analyzes payments system use during the pandemic and the MCO. The note concludes with a discussion of opportunities and policy challenges arising from increasing use of e-payments.

B. E-Payment Growth Supported by Robust Internet Infrastructure, Access to Digital Financial Services and Government Initiatives

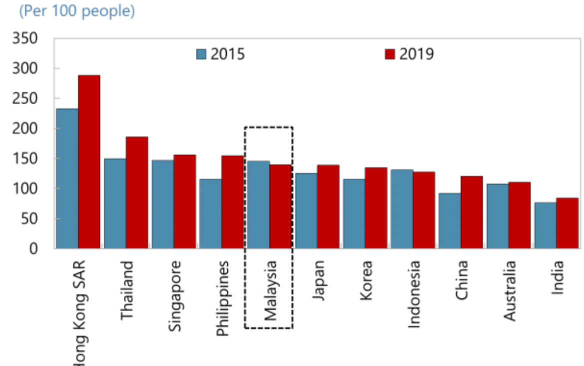
4. **Well-developed internet connectivity has enabled the growth of digital solutions**. Information technology connectivity in Malaysia is well advanced, helped by widespread internet penetration and smartphone usage, even though fixed broadband penetration is lagging (IMF, 2020 and text charts). Digital consumers are set to increase to 21 million in 2020 from 13 million in 2017. As a share of the adult population, digital customers would rise to 83 percent in 2020 from 54 percent in 2017 according to Facebook and Bain. This is the highest among ASEAN-6 (text chart).

Networked Readiness Index
(Ranking)



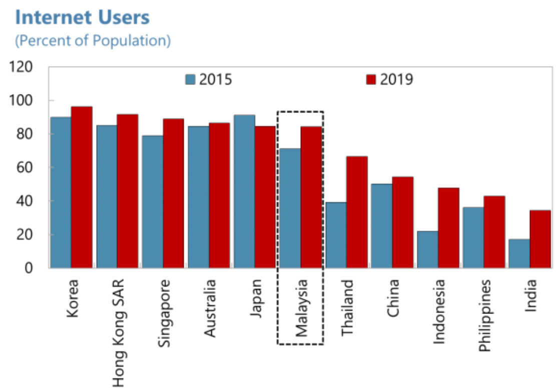
Sources: Portulans Institute, World Economic Forum, IMF staff
Note: 2016: Out of 139 economies; 2020: Out of 134 economies

Mobile Subscriptions
(Per 100 people)

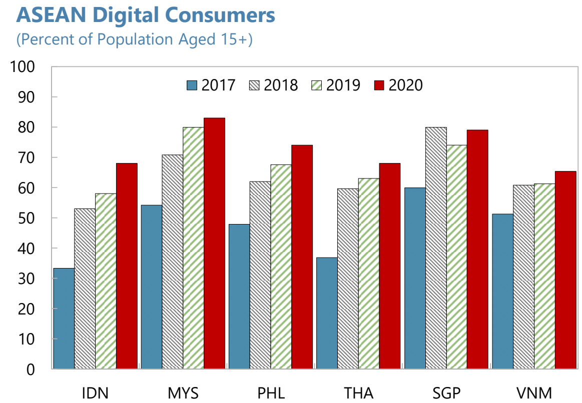


Sources: International Telecommunications Union, IMF staff

[3] The MCO in Malaysia took place from March 18, 2020 to May 3, 2020. All businesses except for essential services and schools were closed. General movement of people and gatherings including social and religious activities were banned.



Sources: International Telecommunications Union, IMF staff



Sources: Facebook, Bain & Company

5. **Malaysia has good access to digital financial services.** Financial inclusion is high compared to peers. Around 85 percent of Malaysia's adult population had an account with a financial institution as of 2017 according to World Bank data (Table 1).[4] Credit card and debit card ownership came in at 21 and 74 percent, respectively, second only to Singapore among the ASEAN-6[5] and above EM average. Internet and mobile banking usage are widespread as penetration soared over the past decade. Internet banking penetration rose to almost 100 percent in 2019 from below 30 percent in 2009. Mobile banking penetration exceeded 50 percent in 2019 compared to about 2 percent in 2009. Access to mobile money accounts also increased. Over 10 percent of Malaysia's adult population had access to mobile money accounts in 2017, up from around 3 percent in 2014. This was the highest among the ASEAN-6 countries and recent information suggests that this share may have more than quadrupled by end-2020.[6]

ASEAN-6 Financial Penetration Indicators (Percent of Population Aged 15+; 2017)

	Credit card ownership	Debit card ownership	Financial institution account
Indonesia	2.44	30.81	48.39
Malaysia	21.31	73.76	85.13
Philippines	1.94	21.01	31.80
Thailand	9.80	59.85	80.96
Singapore	48.90	91.85	97.81
Vietnam	4.12	26.74	30.02
ASEAN Average (excluding Malaysia)	13.44	46.05	57.80
EM Average (excluding Malaysia)	13.36	42.76	58.26

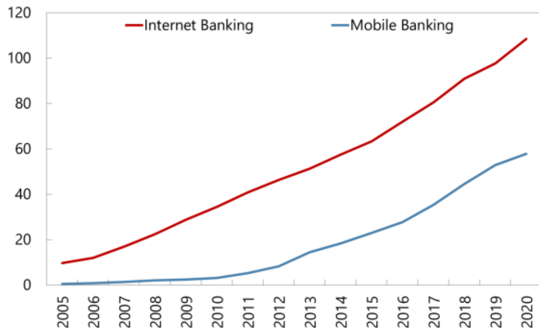
Source: World Bank Global Findex Database.
Note: EM includes Brazil, China, Indonesia, India, Mexico, Philippines, Thailand, Turkey, Vietnam, for data where available.

[4] A study conducted by Bank Negara Malaysia in 2018 suggests that this share increased to 95 percent in 2018 (BNM, Financial Stability Report, 2018).

[5] ASEAN-6 includes Indonesia, Malaysia, Philippines, Thailand, Singapore, Vietnam.

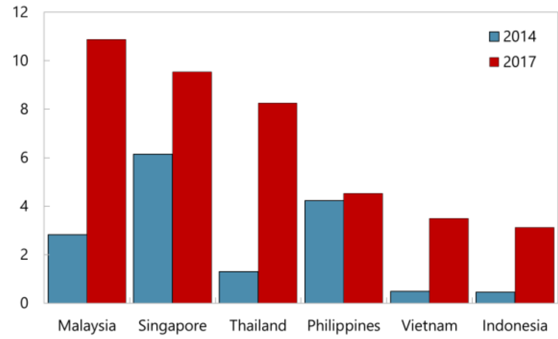
[6] The authorities report that, in the context of the Malaysian Government's ePENJANA initiative, 11.4 million unique e-wallet subscribers (adults aged 18 and above) were registered to receive a RM50 credit. This accounted for about 45.3 percent of the 25.1 million adult population in Malaysia aged 15 and above (Ministry of Finance, 2020).

Mobile and Internet Banking Penetration
(Percent of Total Population)



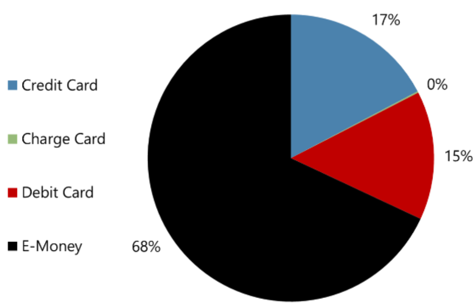
Sources: Bank Negara Malaysia, IMF staff

Access to Mobile Money Account
(Percent of Population Aged 15+)



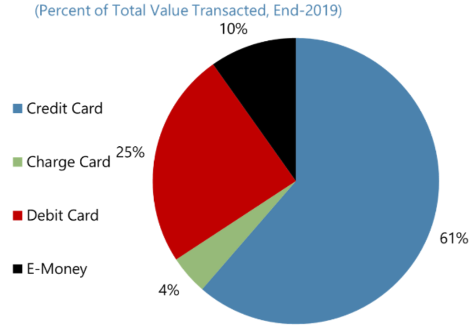
Sources: World Bank Global Findex Database, IMF staff

Card and E-money
(Percent of Total Volume Transacted, End-2019)



Sources: Bank Negara Malaysia, CEIC, IMF staff

Card and E-money
(Percent of Total Value Transacted, End-2019)



Sources: Bank Negara Malaysia, CEIC, IMF staff

6. **Credit cards are often used for larger value purchases, while E-money is frequently used for lower value payments.** Of the total spending using cards and E-money at end-2019, credit cards represented 61 percent of the value of transactions, while E-money stood at 10 percent of total value transacted. In terms of volumes, E-money constituted around 2/3 of transactions (e.g. paying tolls etc.), while credit and debit cards stood at 1/3 of total transactions.

7. **Encouraging usage of e-payments is an important component of the authorities' financial development plans.** Bank Negara Malaysia (BNM) has a longstanding commitment to drive greater adoption of e-payments, as outlined in the Financial Sector Blueprint (2011 – 2020) (FSB). The FSB proposes five recommendations[7] to foster an enabling environment to accelerate migration to e-payments. This includes enhancing the payment infrastructure, including through the implementation of a Real-time Retail Payments Platform to facilitate payments between users, and promoting greater adoption of payment cards and mobile payments. BNM aims to publish the next

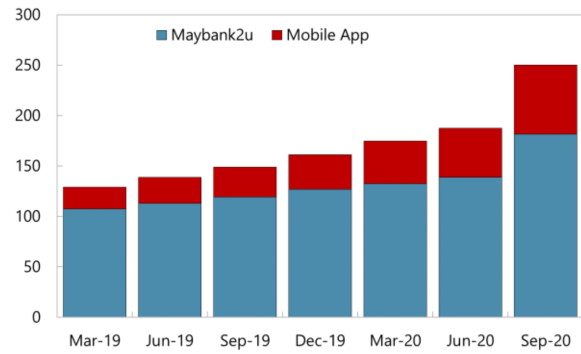
[7] The five broad recommendations include: (1) Enhance the e-payments infrastructure by introducing improvements and new services; (2) Enhance the mobile banking channel by driving the adoption of the mobile phone as a simple and convenient channel to conduct banking and payment transactions; (3) Widen the payment card infrastructure with the aim of increasing the use of debit cards from 0.6 transactions per capita in 2010 to 30 transactions per capita by 2020; (4) Promote a conducive pricing structure for payment services that facilitates the use of more cost effective payment methods and undertake appropriate measures to reduce the use of cheques from 207 million in 2010 to 100 million by 2020; (5) Enhance awareness and promote user confidence in using e-payments.

blueprint for the financial sector in 2021, which will likely identify additional initiatives to encourage increased usage of e-payment services (BNM, 2020b).

C. The Use of Payment Systems and Cash in Malaysia During the COVID-19 Pandemic

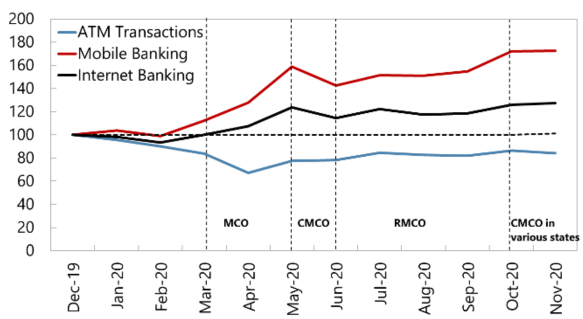
8. Online payments via mobile and internet banking have increased sharply during the pandemic. The usage of mobile banking increased during the MCO, likely reflecting the need for remote transactions when in-store purchases were not feasible. Internet banking usage in terms of volume rose even though value declined, possibly reflecting lower incomes as result of the recession stemming from the pandemic. As Malaysia exited the MCO, the value of internet banking transactions has recovered to pre-COVID levels. In contrast, Automated Teller Machine (ATM) transactions plunged in both volume and value terms and have yet to return to pre-COVID levels even as the economy gradually recovers from the exit of the MCO. Malaysia's largest bank by assets, Maybank, also reported strong growth in digital transactions via its e-payments platforms. Transaction volume expanded 2 percent q/q 2020Q3 under Maybank2u[8] and 3 percent q/q under the mobile app. In value terms, digital transactions expanded 30 percent q/q and 40 percent q/q, respectively, under the two platforms. The second largest bank in Malaysia, CIMB (2020), reported that Touch 'n Go Digital[9] recorded strong online volumes during the MCO, where registered users grew to 10.9 million, with 200,000 merchants as at June 2020.

Maybank Digital Transactions
(Billions of Malaysian Ringgit)



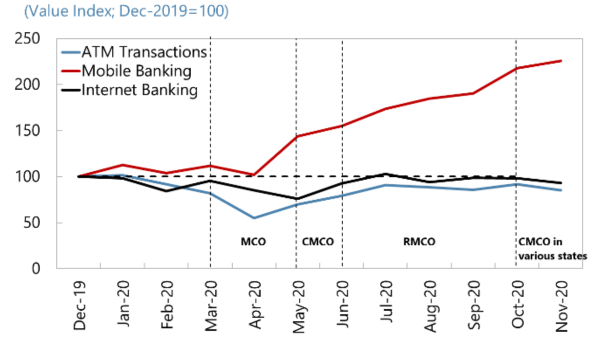
Sources: Maybank Presentations, IMF staff

ATM Transactions, Mobile and Internet Banking
(Volume Index; Dec-2019=100)



Sources: CEIC, IMF staff calculations.
Note: MCO=Movement Control Order; CMCO=Conditional MCO; RMCO=Recovery MCO

ATM Transactions, Mobile and Internet Banking
(Value Index; Dec-2019=100)



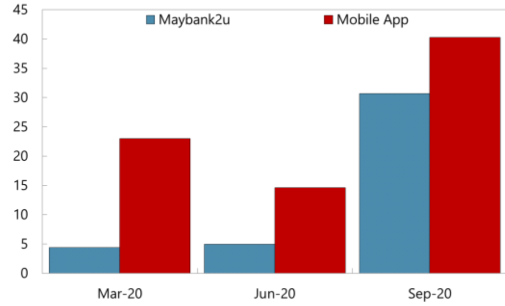
Sources: CEIC, IMF staff calculations.
Note: MCO=Movement Control Order; CMCO=Conditional MCO; RMCO=Recovery MCO

[8] Maybank2u is a one-stop online internet banking service offered by Maybank.

[9] Touch 'n Go Digital is an e-wallet and online payments platform established in 2017.

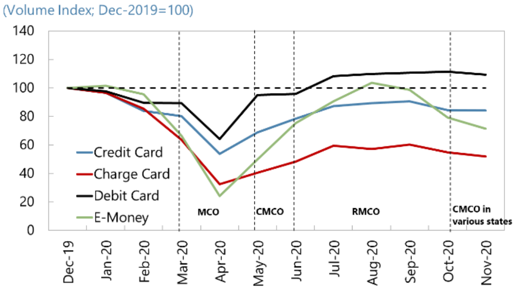
9. Card and e-money transactions declined during the MCO and have partly recovered in 2020H2. Credit and debit cards and e-money usage fell significantly during the MCO likely due to lower consumer spending from the loss of incomes. Since the MCO ended, debit card and e-money usage in both volume and value terms have partly recovered with the resumption of business activity. The recovery of credit and charge card has been slower than other payment instruments, likely reflecting lower discretionary spending associated with the impact of the adverse income shock and elevated uncertainty relating to the macroeconomic outlook. Indeed, credit and charge cards, with average ticket size of about RM260 and RM3,200, respectively, between January and September 2020, are typically used to facilitate discretionary spending, whereas, debit card and e-wallets with a smaller average ticket size of about RM120 and RM30, respectively, are more likely to be used for day-to-day payments.

Maybank Digital Transactions
(Monetary Transaction Value, % q/q)



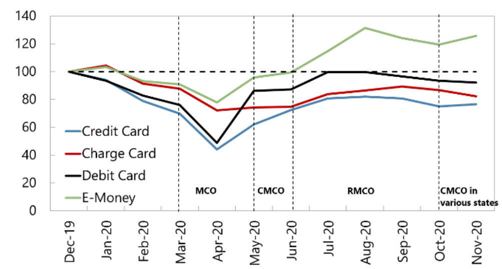
Sources: Maybank Presentations, IMF staff

Card and E-money
(Volume Index; Dec-2019=100)



Sources: Bank Negara Malaysia, CEIC, IMF staff calculations.
Note: MCO=Movement Control Order; CMCO=Conditional MCO; RMCO= Recovery MCO

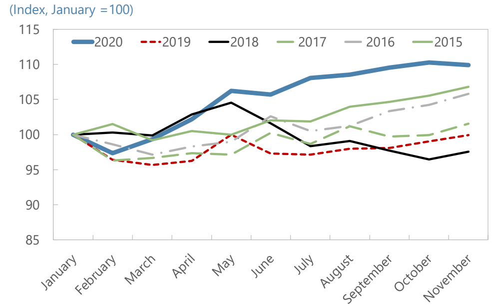
Card and E-money
(Value Index; Dec-2019=100)



Sources: Bank Negara Malaysia, CEIC, IMF staff calculations.
Note: MCO=Movement Control Order; CMCO=Conditional MCO; RMCO= Recovery MCO

10. Despite increased difficulty using cash during the MCO, Malaysia's currency in circulation[10] has remained broadly stable, potentially reflecting precautionary demand. Currency in circulation as a share of GDP in Malaysia has risen by 17 percent compared to pre-COVID levels and the increase is the second highest among the ASEAN-5[11] economies. This likely reflects relatively stable demand for cash while GDP plummeted with the economic fallout of the COVID-19 pandemic, possibly driven by precautionary demand for cash in view of substantial macroeconomic uncertainty (Caswell et al, 2020). In this context, demand for larger denomination bills (RM100) has been relatively high in 2020 following the COVID

Demand for RM100 Bills
(Index, January =100)

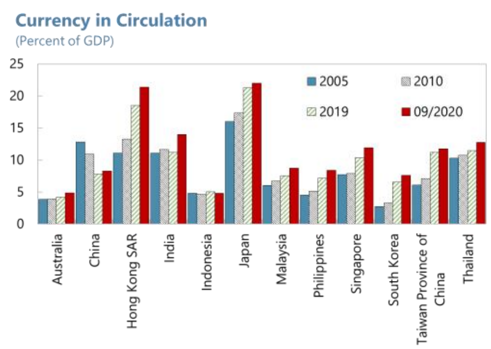


Sources: BNM and Fund Staff Calculations

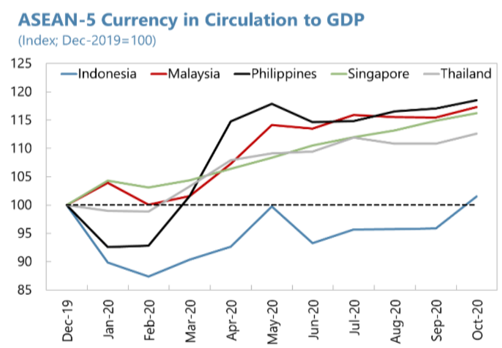
[10] Currency in circulation measures the total amount of cash held by the public – consumers, businesses and banks – and is a proxy of cash usage.

[11] ASEAN-5 includes Indonesia, Malaysia, Philippines, Thailand, Singapore.

outbreak, which could indicate demand for store of value amidst pandemic uncertainty. This is also consistent with the observation in Williams et al (2017) that the predictions of the demise of cash are "greatly exaggerated."[12]



Sources: CEIC, IMF staff calculations



Sources: CEIC, IMF staff calculations

11. The increased use of online transactions during the pandemic has been supported by recent policy initiatives. BNM strongly encouraged the use of electronic channels during the MCO even though essential financial services including bank counter services were in operation on a limited basis. Eligible recipients were given RM50 worth of e-wallet credits and additional RM50 through vouchers, cashback and discounts through e-wallets from July to September 2020 under the national economic recovery plan (PENJANA). Specific policy initiatives include, "Shop Malaysia Online" to boost online spending; adoption of digital solutions to improve financial inclusion; and the Micro and SME e-Commerce Campaign to help local businesses increase their productivity and operations through the adoption of e-commerce and digitalization. Under the latter, over 45,000 enterprises have registered through the e-commerce platforms, and generated total sales of more than RM332 million, while the Shop Malaysia Online campaign has been used by 213,000 local sellers and generated sales of RM896 million.[13] The government also introduced the eBelia Programme under Budget 2021, which would disburse aid via e-wallets to encourage e-payments usage among youths.

D. E-payments: Opportunities and Risks Ahead

12. As digital solutions and e-payments grow in use, there are both opportunities and risks. While e-payments have supported economic activity during and outside of the pandemic, associated risks need to be managed:[14]

[12] Cash remains important for as a safe store of value, time-tested means of payment that is universally accepted, especially for people who may face challenges accessing alternative payment methods.

[13] See Ministry of Finance, 2020.

[14] See Mancini-Griffioli et at 2018.

- **E-payments bring opportunities** to enhance financial inclusion, governance and transparency, while ensuring that vulnerable groups have continued access to an effective means of payment. BNM has announced plans for licensing up to five digital banks. BNM released a policy document on the licensing framework for digital banks on December 31, 2020 and invited applications by June 30, 2021.[15] It is envisioned that digital banks will promote continued fintech innovation, especially in the areas of financial underserved segments such as B40 (bottom 40 percent of the income distribution) and SMEs. Increasing use of e-payments also brings opportunities to enhance governance and transparency, and to improve the control and targeting of budget spending and the efficiency of tax collection. However, as e-payments become increasingly available and more widely adopted, it may be challenging to maintain merchants' acceptance of cash and continued efforts will be needed to reach the under-served part of population, including older and low-income groups.

- **Consumer protection and integrity risks**. In the context of inadequate regulation or enforcement, data privacy risks may emerge if transaction data is mined to provide other financial services or paired with social media. Digital solutions also require appropriate safeguards to ensure proper know-your-customer and AML/CFT procedures.[16]

- **Financial stability risks.** Deposits are traditionally considered a stable source of funding for banks. The emergence of innovative savings and payments products from fintech companies may erode the deposit base and make it more volatile, and banks could be forced to rely more on wholesale funding to maintain lending. As fintech credit provision is currently relatively small, the risks to financial stability appear limited, but as digital forms of lending gain wider use there may be financial stability risks, including from potential runs on e-money (see Bech et al, 2018).[17]

- **Monetary policy implementation risks and opportunities.** Widespread e-money substitution could lead to loss of monetary policy control, including from high market concentration of e-money providers which may be foreign and natural monopolies owing to network effects, high sunk entry costs, and benefits of data, although financial inclusion of the unbanked population could be enhanced in such context (see IMF, 2020b for a macro financial discussion of digital money and cross-border issues). In the Malaysia context, the risks of e-money substitution are mitigated as e-money issued for domestic payments must be denominated in Malaysian ringgit and customer's e-money balances must be placed in a trust account or dedicated bank account with licensed banks in Malaysia. Nevertheless, this requires careful government monitoring and regulation (e.g. discussion of global stable coins such as Libra, Financial Stability Board (2020a, b)). There are also opportunities to enhance, monetary policy control via digitalization, especially

[15] See https://www.bnm.gov.my/-/policy-document-on-licensing-framework-for-digital-banks.

[16] In Malaysia, banks and non-bank payment service providers are subject to data protection and AML/CFT requirements to mitigate risks to data privacy and financial integrity.

[17] Pursuant to the Guidelines on Electronic Money (E-money) issued by BNM, e-money issuers (EMIs) are prohibited from using e-money balances for lending purposes. E-money balances must be placed in a trust fund or a dedicated bank account with licensed banks in Malaysia with usage limited to settling payments to merchants and facilitating refunds to customers.

through Central Bank Digital Currencies (CBDC), where central banks could offer digital payments for real-time final settlement between individuals, and possibly better control of monetary policy, for instance through the use of interest remuneration on central bank accounts (see He, 2018 for an overview).

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PRESS RELEASE

Appendix IX. Draft Press Release

IMF Executive Board Concludes 2021 Article IV Consultation with Malaysia

FOR IMMEDIATE RELEASE

Washington, DC – February 19, 2021: The Executive Board of the International Monetary Fund (IMF) concluded the 2021 Article IV consultation[1] with Malaysia.

Malaysia's economy entered the pandemic from a strong position but has nevertheless been hit very hard. GDP declined by 5.8 percent in 2020 as private investment and consumption, which had been the main drivers of growth in recent years, decelerated sharply. Unemployment reached a historic high in May 2020, and inflation has been subdued. The global risk-off episode in March 2020 triggered capital outflows from EMs such as Malaysia, but a swift and large global policy response helped stabilize markets, and inflows resumed starting late April. In Malaysia, a strong fiscal, monetary and financial policy response has helped cushion the economic shock from the pandemic and ensure financial stability. The current account registered a surplus due to both increased pandemic-related external demand for health-related and electronic equipment and weak imports.

The Malaysian economy is set to recover in 2021, with growth projected at 7 percent, driven by a strong recovery in manufacturing and construction. The recovery is expected to be uneven across sectors, resting on an improvement in both domestic and external demand. Inflation would recover to 2.2 percent and the current account surplus is on course to decline as demand for pandemic-related products starts receding and the rebound in domestic demand raises imports.

An intensification of the pandemic and materialization of other risks could derail the recovery. A protracted spread of the virus could prompt the authorities to tighten health and physical distancing measures, with negative impact on growth. Also on the downside, Malaysia's open economy is vulnerable to escalating trade tensions and weaker-than-expected growth in trading partners. Domestic policy uncertainty could also dampen business confidence and investment, with negative impact on economy activity. On the upside, faster-than expected deployment of COVID-19 vaccines could raise growth.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

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Executive Board Assessment[2]

In concluding the 2019 Article IV consultation with Brunei Darussalam, Executive Directors endorsed staff's appraisal, as follows:

The authorities' robust policy response to the pandemic has cushioned the blow to Malaysia's economy, and vulnerabilities remain manageable. Activity plunged in 2020Q2 as measures were taken to limit the virus' spread; but the economy rebounded in 2020Q3, supported by a significant and coordinated monetary, financial and fiscal policy stimulus. Sizable pre-existing buffers are mitigating the macro-financial impact of the crisis, and external debt, although high, remains manageable. Malaysia's external position remains stronger than warranted by fundamentals and desired policies.

Macroeconomic policies should remain supportive until the recovery is fully entrenched. Staff's baseline scenario of a strong rebound in 2021 is subject to considerable downside risks, until the pandemic is brought under control in Malaysia and globally. Should these risks materialize, additional fiscal and monetary policy stimulus would be needed.

The authorities' commitment to fiscal consolidation and reform is welcome and should be followed through after the economy picks up. Adjustment through spending rationalization and revenue-increasing measures, once the recovery is cemented, would help rebuild fiscal buffers. Preparations for such measures should proceed without delay. Completion of the Fiscal Responsibility Act would help better anchor public finances. Strengthening the social protection system would improve efficiency and coverage and help facilitate external rebalancing.

The accommodative monetary policy stance is appropriate and financial supervisory authorities should remain vigilant. Indicators suggest that liquidity is appropriate, markets are functioning smoothly, and the banking system is financially sound. Supervisors should remain alert to the continued stress on banks in the near term. High household debt would also require close monitoring as borrowers will likely face increased stress with the gradual phasing out of loan moratoria. The authorities' enhancements to the debt resolution framework are welcome.

The authorities' initiatives to deepen domestic FX markets are welcome and should continue. Recent actions have appropriately improved efficiency and expanded available hedging instruments. The authorities should continue to allow the exchange rate to cushion shocks to the economy.

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[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

The authorities' focus on inclusion and climate change in the context of financial structural reforms are promising. Prioritizing, when approving digital bank licenses, value propositions that enhance access in financially underserved areas is a welcome step in the context of e-payments' increased importance during the COVID-19 pandemic. Incorporating climate change risk in reforms to the financial sector surveillance and supervisory framework is an important step towards a climate resilient economy.

Further progress on governance reforms is needed. The commitment to transparency, including regarding COVID-19 related spending, is welcome. The authorities should follow through on the initiatives outlined in the National Anti-Corruption Plan. Reforms delayed by the pandemic and the change in government should promptly resume, including inter alia legislative initiatives on asset declaration, procurement reform, freedom of information, and establishment of an Ombudsman.

Malaysia: Selected Economic and Financial Indicators, 2016–25

Nominal GDP (2019): US$364.7 billion
GDP per capita (2019, current prices): US$11,213
Unemployment rate (2019): 3.3 percent
Population (2019): 32.5 million
Poverty rate (2017, national poverty line): 0.4 percent
Adult literacy rate (2018): 95.9 percent
Main goods exports (share in total, 2019, preliminary): electrical & electronics (37.8 percent), commodities (14.7 percent), and petroleum products (7.2 percent).

					Est.	Proj.				
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Real GDP (percent change)	4.4	5.8	4.8	4.3	-6.0	6.5	6.0	5.7	5.3	5.0
Total domestic demand 1/	4.8	6.6	4.7	3.9	-4.7	5.3	5.3	6.2	5.7	5.6
Private consumption	5.9	6.9	8.0	7.6	-5.1	4.8	6.5	7.9	6.9	7.0
Public consumption	1.1	5.7	3.2	2.0	11.6	-2.3	1.3	1.6	1.9	1.7
Private investment	4.5	9.0	4.3	1.6	-7.3	7.0	6.0	6.0	5.0	4.0
Public gross fixed capital formation	-1.0	0.3	-5.0	-10.9	-29.9	9.2	1.6	-1.6	2.3	2.3
Net exports (contribution to growth, percentage points)	0.0	-0.3	0.4	0.6	-1.6	1.5	1.1	-0.1	0.0	-0.2
Saving and investment (in percent of GDP)										
Gross domestic investment	26.0	25.5	23.9	21.0	21.5	23.8	22.6	22.4	22.3	22.2
Gross national saving	28.4	28.3	26.1	24.4	25.1	26.8	25.6	25.2	25.1	24.9
Fiscal sector (in percent of GDP) 2/										
Federal government overall balance	-3.1	-2.9	-3.7	-3.4	-6.0	-5.4	-4.6	-4.3	-4.2	-4.2
Revenue	17.0	16.1	16.1	17.5	15.8	15.2	15.5	15.5	15.5	15.5
Expenditure and net lending	20.1	19.0	19.8	18.5	21.8	20.6	20.1	19.9	19.8	19.7
Tax refunds (Arrears) 3/				2.4						
Federal government non-oil primary balance	-3.4	-3.4	-5.3	-6.7	-7.0	-5.4	-4.9	-4.6	-4.4	-4.2
Consolidated public sector overall balance 4/	-5.0	-3.6	-2.9	-3.6	-7.3	-8.0	-6.5	-5.8	-5.6	-5.5
General government debt 4/	55.8	54.4	55.7	57.2	65.8	66.4	66.9	66.7	66.6	66.5
Of which: federal government debt	51.9	50.0	51.2	52.5	61.1	61.8	62.2	62.0	61.9	61.8
Inflation and unemployment (annual average, in percent)										
CPI inflation	2.1	3.7	1.0	0.7	-1.1	2.0	2.0	2.0	2.0	2.0
CPI inflation (excluding food and energy)	2.6	1.6	0.4	1.1	1.0	1.5	1.7	1.9	2.0	2.0
Unemployment rate	3.5	3.4	3.3	3.3	4.5	3.8	3.6	3.5	3.5	3.5
Macrofinancial variables (end of period)										
Broad money (percentage change) 5/	2.7	4.8	7.7	2.7	5.0	5.0	8.0	7.8	7.6	7.5
Credit to private sector (percentage change) 5/	5.3	5.4	8.3	5.0	4.0	8.3	7.3	7.8	7.6	8.3
Credit-to-GDP ratio (in percent) 6/ 7/	131.9	126.6	130.1	130.8	142.8	142.7	142.7	142.7	142.7	143.9
Overnight policy rate (in percent)	3.00	3.00	3.25	3.00	1.75	…	…	…	…	…
Three-month interbank rate (in percent)	3.4	3.5	3.6	3.3	2.0	…	…	…	…	…
Nonfinancial corporate sector debt (in percent of GDP) 8/	108.0	101.5	102.7	99.4	109.0	…	…	…	…	…
Nonfinancial corporate sector debt issuance (in percent of GDP)	3.1	3.3	2.0	1.8	1.5	…	…	…	…	…
Household debt (in percent of GDP) 8/	86.5	82.6	82.0	82.9	87.5	…	…	…	…	…
Household financial assets (in percent of GDP) 8/	178.6	176.4	175.7	179.2	190.0	…	…	…	…	…
House prices (percentage change)	7.1	6.5	3.3	1.5	2.2	…	…	…	…	…
Exchange rates (period average)										
Malaysian ringgit/U.S. dollar	4.15	4.30	4.04	4.14	4.18	…	…	…	…	…
Real effective exchange rate (percentage change)	-3.4	-1.6	4.1	-1.4	-2.0	…	…	…	…	…
Balance of payments (in billions of U.S. dollars) 6/										
Current account balance	7.2	8.9	8.0	12.3	12.6	11.5	12.2	12.8	13.5	14.0
(In percent of GDP)	2.4	2.8	2.2	3.4	3.7	3.0	3.0	2.9	2.8	2.7
Goods balance	24.6	27.2	28.4	29.8	32.4	37.0	34.0	32.5	32.5	32.8
Services balance	-4.6	-5.3	-4.3	-2.6	-11.5	-15.2	-6.9	-5.5	-5.0	-5.9
Income balance	-12.8	-13.0	-16.1	-14.9	-8.4	-10.3	-14.9	-14.3	-14.0	-12.9
Capital and financial account balance	0.0	-1.1	2.8	-8.1	-11.9	-9.8	-10.1	-14.0	-9.9	-12.1
Of which: Direct investment	3.3	3.8	2.5	1.3	-0.5	4.9	4.2	4.4	4.7	4.9
Errors and omissions	-5.8	-4.0	-8.9	-2.2	2.1	0.0	0.0	0.0	0.0	0.0
Overall balance	1.4	3.8	1.9	2.0	2.8	1.7	2.1	-1.2	3.7	1.9
Gross official reserves (US$ billions) 6/ 9/	94.5	102.4	101.4	103.6	106.4	108.1	110.2	108.9	112.6	114.5
(In months of following year's imports of goods and nonfactor services)	5.6	5.5	5.8	6.7	6.5	5.9	5.7	5.3	5.0	4.6
(In percent of short-term debt by original maturity)	112.2	117.8	103.5	108.3	109.5	111.0	118.4	131.4	145.8	156.5
(In percent of short-term debt by remaining maturity)	83.2	93.7	84.7	86.9	87.5	88.0	92.7	98.7	105.0	111.0
Total external debt (in billions of U.S. dollars) 6/ 9/	203.8	218.8	223.3	231.1	237.9	243.4	241.6	241.2	238.4	245.8
(In percent of GDP)	67.7	68.6	62.3	63.4	69.3	63.8	58.7	54.0	49.6	47.6
Of which: short-term (in percent of total, original maturity)	41.3	39.7	43.9	41.4	40.8	40.0	38.5	34.4	32.4	29.8
short-term (in percent of total, remaining maturity)	55.7	50.0	53.6	51.6	51.1	50.4	49.2	45.8	45.0	42.0
Debt service ratio 6/										
(In percent of exports of goods and services) 10/	23.4	14.0	10.6	11.0	13.7	12.5	11.2	10.8	11.0	10.8
(In percent of exports of goods and nonfactor services)	24.8	14.8	11.2	11.7	14.5	13.2	11.8	11.4	11.6	11.4
Memorandum items:										
Nominal GDP (in billions of ringgit)	1,250	1,372	1,447	1,511	1,439	1,561	1,674	1,804	1,940	2,085

Sources: Data provided by the authorities; CEIC Data Co. Ltd.; World Bank; UNESCO; and IMF, *Integrated Monetary Database* and staff estimates.
1/ Based on data provided by the authorities except for 2015 data which is estimated using splicing methodology by IMF.
2/ Cash basis. The authorities plan to adopt accrual basis by 2021. For 2019, overall and primary balance includes the payment of outstanding tax refund (arrears) amounting to RM37 billion.
3/ Tax refunds in 2019 are allocated for payment of outstanding tax refunds.
4/ Consolidated public sector includes general government and nonfinancial public enterprises (NFPEs). General government includes federal government, state and local governments, and statutory bodies.
5/ Based on data provided by the authorities, but follows compilation methodology used in IMF's *Integrated Monetary Database*. Credit to private sector in 2018 onwards includes data for a newly licensed commercial bank from April 2018. The impact of this bank is excluded in the calculation of credit gap.
6/ IMF staff estimates. U.S. dollar values are estimated using official data published in national currency.
7/ Based on a broader measure of liquidity. Credit gap is estimated on quarterly data from 2000, using one-sided Hodrick-Prescott filter with a large parameter.
8/ Revisions in historical data reflect the change in base year for nominal GDP (from 2010=100 to 2015=100).
9/ The decrease in short-term debt by remaining maturity in 2017 was partly due to the implementation of an improved data compilation system that corrected previous overestimation.
10/ Includes receipts under the primary income account.