

**EXECUTIVE
BOARD
MEETING**

SM/21/15
Supplement 1

February 4, 2021

To: Members of the Executive Board

From: The Secretary

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

Board Action:	Executive Directors' consideration on a lapse of time basis
Publication:	Not yet decided*
Questions:	Ms. Choueiri, APD (ext. 34095)
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

***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.**



MALAYSIA

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION— INFORMATIONAL ANNEX

February 3, 2021

Prepared By

Asia and Pacific Department

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FUND RELATIONS

(As of December 31, 2020)

I. Membership Status: Joined March 7, 1958; Article VIII

II. General Resources Account

	SDR Millions	Percent of Quota
Quota	3,633.80	100.00
Fund holdings of currency (exchange rate)	2,640.83	72.67
Reserve tranche position	993.00	27.33
Lending to the Fund New Arrangement to Borrow	14.57	

III. SDR Department

	SDR Millions	Percent of Allocation
Net cumulative allocation	1,346.14	100.00
Holdings	824.21	61.23

Exchange Arrangement:

The de jure and de facto exchange rate arrangements are floating.

Malaysia maintains bilateral payments arrangements with 7 countries. The authorities have indicated that these arrangements do not have restrictive features.

The current foreign exchange administration (FEA) rules include prudential measures to promote monetary and financial stability while safeguarding the balance of payments position and value of the ringgit. The 2019 and 2020 Article IV Consultation Reports (IMF Country Reports No. 19/71 and No 20/57) list exchange rate measures that have been taken between December 2016 and December 2019.

In April 2020, the BNM announced further liberalization of the FEA policy aimed to improve business efficiency and provide flexibility for corporates to better manage their foreign exchange risk exposure.

The Malaysian authorities view remaining FEA rules as prudential in nature and necessary to ensure the availability of adequate information on the settlement of payments and receipts as part of the monitoring mechanism on capital flows. These controls do not contravene Malaysia's obligations under Article VIII. Malaysia has accepted the obligations of Article VIII, Sections 2, 3, and 4, and maintains a system free of restrictions on the making of payments and transfers for current

international transactions except for restrictions in place for security reasons notified to the Fund pursuant to Decision No. 144-(52/51).

Malaysia, in accordance with the UN Security Council resolutions implements the freezing without delay of funds and other financial resources, including funds derived or generated from property owned or controlled directly or indirectly by the designated individuals and entities. These measures are maintained for the reasons of national and international security and have been notified to the Fund pursuant to the IMF Executive Board Decision No. 144 (52/51). Malaysia also restricts any dealings or transactions with Israeli/Israel-related entities/individuals as well as in Israeli Shekel; however, since these restrictions affect the underlying transactions themselves, they are not subject to Fund jurisdiction under Article VIII, Section 2(b).

Article IV Consultation:

Malaysia is on the standard 12-month consultation cycle. Staff discussions for the 2021 Article IV consultation were conducted on a virtual mission during November 30–December 15, 2020.

Financial Sector Assessment Program (FSAP) Participation:

Malaysia conducted its first FSAP in 2012 (IMF Country Report Nos. 13/52, 13/53, and 13/56–13/60).

Technical Assistance:

Fiscal Affairs Department (FAD): A mission on fiscal responsibility law took place in February 2020. A seminar on treasury management took place in February 2020. A workshop on tax revenue strategy and Medium-Term Revenue Strategy was held in January 2020. A mission on revenue mobilization strategy was conducted in January 2020. A joint workshop on tax policy with MOF was held in July 2016. A mission on expenditure review was conducted in December 2016. A Public Investment Management Assessment (PIMA) mission took place in May 2017. A seminar on treasury modernization was held in July 2017. Technical Assistance on the Medium-Term Revenue Strategy and on the Fiscal Responsibility Act is planned for early 2020.

Legal Department (LEG): Missions were fielded in May and September 2011 to help draft a Centralized Asset Management Corporations Bill, in the context of a three-year project to assist Malaysia in implementing an asset forfeiture regime.

Monetary and Capital Markets Department (MCM): A mission on macrofinancial risk analysis and vulnerability analysis for corporate and financial institutions was conducted in October 2009. A workshop on monitoring financial risks was held in May 2010. Technical assistance missions on stress testing capital markets was conducted in 2013. Technical assistance discussions on further options to deepen FX markets and on analyzing the role of the exchange rate in Malaysia's economy are ongoing

Statistics Department (STA): Technical assistance and training missions on Government Financial Statistics (GFS) were conducted in March 2017 and March 2018, respectively, and follow-up GFS technical assistance missions were conducted in March and December 2019.

Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT):

In November 2014, Malaysia's AML/CFT regime was subject of an on-site assessment by the Asia Pacific Group on Money Laundering (APG) under the new methodology of the Financial Action Task Force (FATF), the global standard setter for AML/CFT. The Mutual Evaluation Report was published in September 2015. It concluded that overall Malaysia has a broadly robust legal AML/CFT framework with generally well-developed and implemented policies, but with a moderate level of effectiveness. The country developed an action plan to address the key deficiencies identified in the report. In February 2016, the FATF granted full membership to Malaysia based on its commitments to continue improving its AML/CFT regime. The FATF will continue to monitor the country's progress through its enhanced follow-up process. In the Third Enhanced Follow-up Report (October 2018), Malaysia made progress in addressing the technical compliance deficiencies, but remained under the FATF's enhanced follow-up process and will report back on progress made to strengthen its implementation of AML/CFT measures.

Resident Representative/Advisor: None.

STATISTICAL ISSUES

(As of January 2021)

I. Assessment of Data Adequacy for Surveillance
<p>General: Data provision is adequate for surveillance.</p>
<p>National accounts: Currently, the Department of Statistics Malaysia (DOSM) publishes annual and quarterly estimates of GDP, compiled by the production, expenditure, and (annual only) income approaches, at current and constant 2015 prices, based on the <i>2008 SNA</i>. The DOSM also disseminates annual estimates for gross disposable income, saving, and net lending for the economy, as well as supply and use tables. Quarterly GDP estimates are released about one and a half months after the reference quarter.</p> <p>Price statistics: The monthly CPI and the PPI are available on a timely and comprehensive basis. A quarterly Services PPI and monthly building cost index are also published. In 2021 the weights of the CPI basket will be updated using 2019 as a reference year (instead of 2016), based on the results of the latest <i>Household Income, Expenditure, and Basic Amenities Survey</i>.</p>
<p>Government finance statistics: Adoption of accrual reporting is necessary to capture a consolidated view of both assets and liabilities. There is a need to improve the timeliness, detail, and availability of data on nonfinancial public enterprises (NFPEs) and the state and local governments. Dissemination of more detailed data on non-listed NFPEs' assets and liabilities and domestic and foreign financing by type of debt instrument and holder would be desirable; efforts in this direction will require continued close collaboration among agencies, including the Ministry of Finance, the Department of Statistics Malaysia (DOSM), and Bank Negara Malaysia (BNM). There is also a need to disseminate more information on public private partnerships.</p>
<p>Monetary statistics: The monetary and financial statistics (MFS) are reported on a timely and regular basis and are broadly in conformity with the Fund's data needs. BNM reports the standardized report forms (SRFs) 1SR for central bank and 2SR for other depository corporations for publication in the <i>International Financial Statistics</i> with a lag of about two months. There is a need to improve the institutional coverage of the financial corporations, sectorization of the domestic economy, and classification and valuation of financial instruments to ensure full adherence to the IMF's <i>Monetary and Financial Statistics Manual and Compilation Guide</i>. In addition, due to the growing importance of insurance corporations, pension funds, and other financial intermediaries in Malaysia, coverage of MFS should be expanded to include these institutions.</p>
<p>Financial Soundness Indicators: The BNM reports the 12 core financial soundness indicators (FSIs) and only one of the 13 encouraged FSIs for deposit taking institutions for posting on the IMF's FSI website. FSIs are reported with a lag of one quarter.</p> <p>Financial Access Survey: BNM reports data on several key series and indicators of the Financial Access Survey (FAS), including mobile money and the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).</p>
<p>Balance of payments: Department of Statistics Malaysia compiles and publishes quarterly balance of payments and international investment position (IIP) estimates in accordance with the sixth edition of the <i>Balance of Payments and International Investment Position Manual</i>. The quarterly data are released about one and a half month after the reference quarter. The authorities improved reporting of BOP with much more detailed items starting in 2018. The IIP data are reported without a breakdown by institutional sector and data on other investment—assets and liabilities—are reported only in an aggregate form.</p>
II. Data Standards and Quality
<p>Malaysia subscribes to the Special Data Dissemination Standard (SDDS). It is using a timeliness flexibility option for general government operations (publishing these data within three quarters since the end of reference year).</p>

Malaysia: Table of Common Indicators Required for Surveillance
(As of January 15, 2021)

	Date of Latest Observation	Date Received	Frequency of Data ⁶	Frequency of Reporting ⁶	Frequency of Publication ⁶
Exchange rates	01/11/2021	01/11/2021	D	D	D
International reserve assets and reserve liabilities of the monetary authorities ¹	12/30/2020	01/08/2021	M	M	M
Reserve/base money	11/2020	12/31/2020	M	M	M
Broad money	11/2020	12/31/2020	M	M	M
Central bank balance sheet	11/2020	12/31/2020	M	M	M
Consolidated balance sheet of the banking system	11/2020	12/31/2020	M	M	M
Interest rates ²	01/11/2021	01/11/2021	D	D	D
Consumer price index	12/2020	01/24/2021	M	M	M
Revenue, expenditure, balance and composition of financing ³ —general government ⁴	2019	2020	A	A	A
Revenue, expenditure, balance and composition of financing ³ —federal government	2020:Q3	11/2020	Q	Q	Q
Stocks of central government and central government guaranteed debt ⁵	2020:Q3	11/2020	Q	Q	Q
External current account balance	2020:Q3	11/2020	Q	Q	Q
Exports and imports of goods	11/2020	01/2021	M	M	M
Exports and imports of services	2020:Q3	11/2020	Q	Q	Q
GDP/GNP	2020:Q3	11/2020	Q	Q	Q
Gross external debt	2020:Q3	11/2020	Q	Q	Q
International Investment Position	2020:Q3	11/2020	Q	Q	Q

¹Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

²Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes, and bonds.

³Foreign, domestic bank, and domestic nonbank financing is only available on an annual basis.

⁴The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) state and local governments.

⁵Including currency and maturity composition.

⁶Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A).