LAPSE OF TIME

SM/21/15
Correction 1

February 5, 2021

To: Members of the Executive Board

From: The Secretary

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

Board Action: The attached correction to SM/21/15 (2/4/21) has been provided by the staff:

Factual Errors Not Affecting the Presentation of Staff's Analysis or Views

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Questions: Ms. Choueiri, APD (ext. 34095)

Executive Board Assessment[2]

In concluding the 202~~19~~1 Article IV consultation with Malaysia~~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.