EXECUTIVE BOARD MEETING

SM/21/15
Correction 3

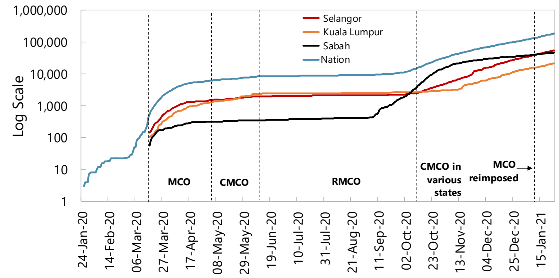
February 18, 2021

To:	Members of the Executive Board
From:	The Secretary
Subject:	**Malaysia—Staff Report for the 2021 Article IV Consultation**

Board Action:	The attached corrections to SM/21/15 (2/4/21) have been provided by the staff:
Mischaracterizations of the Views of the Authorities	**Page 83**
Evident Ambiguity	**Pages 13 (para. 34, line 7) and 41 (para. 1, line 14)**
Factual Errors Not Affecting the Presentation of Staff's Analysis or Views	**Pages 5, 6, 8, 13 (para. 34, line 2), 14, 15, 27, 28, 29, 30, 41 (chapeau; para. 1, lines 11 and 13), 55, 61, 62, 70, 88, 91**
Typographical Errors	**Page 13 (para. 36)**
Questions:	Ms. Choueiri, APD (ext. 34095)

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)

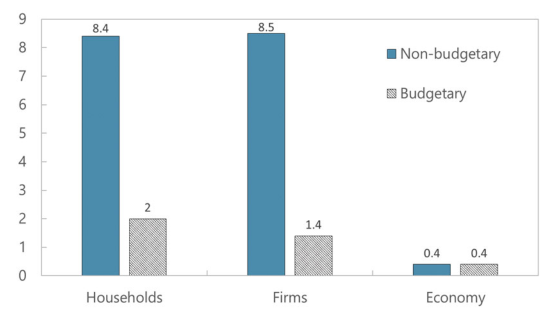


Sources: Johns Hopkins CSSE, European Centre for Disease Prevention and Control (ECDC), Ministry of Health of Malaysia
Note: Dates follow ECDC Reporting Dates; MCO=Movement Control Order; CMCO=Conditional MCO; RMCO=Recovery MCO.

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).

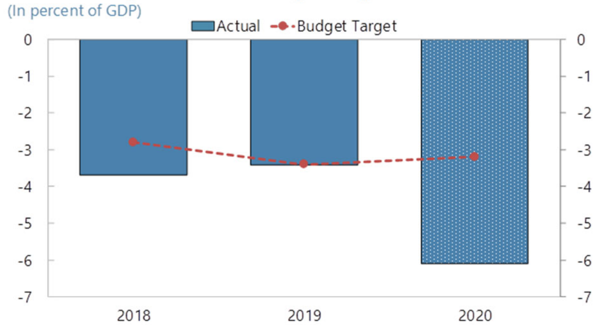
7. The policy response has widened the federal government deficit. Five COVID-19 relief packages were announced in 2020, totaling RM305 billion (21¼ percent of GDP). Given limited fiscal space, the budgetary component was 3.8 percent of GDP, with greater reliance on monetary and financial support (Appendix II). The rollout of the measures and their implementation has been gradual, responding to changing economic conditions. By year-end, the estimated total COVID-

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 2.6~~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

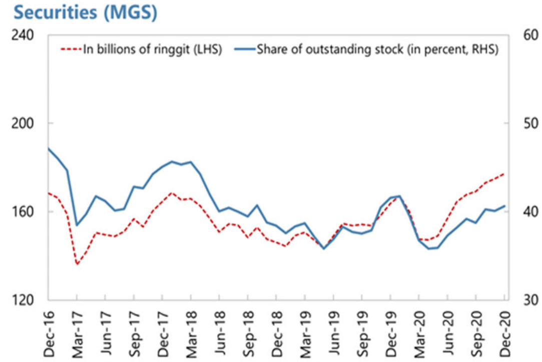
[1] Source: Employment Insurance System (EIS). The EIS covers 46 percent of total employment, which represents all declared salaried workers in the private sector.

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~~6.9 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~~84 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, 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 (i.) 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; and (ii.) the share of corporate external debt at risk~~.~~

34. Household debt requires continued close monitoring. Household debt increased to 87.5 percent of GDP by June 2020 (2019: 82.~~6~~9 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 banking system household debt, as at end-June 2020—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 that~~n~~ 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.

[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

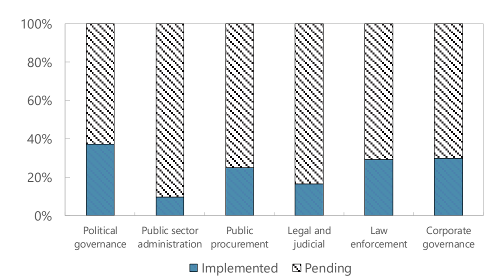
39. The authorities broadly shared staff's assessment of the financial sector. They agreed that the financial sector entered the pandemic with sizeable buffers. The impact of the pandemic on banking sector asset quality has been limited to-date, aided by the debt moratoria. While non-performing loans 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 2019–2023 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 2019~~8~~, and monthly income and total asset data have been published.[11] The planned introduction of laws under the NACP to govern detailed asset declarations (including beneficially

Progress on Implementation of ~~NCAP~~ NACP Measures

(Percent of total ~~NCAP~~NACP measures)



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

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

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 Twelfth~~12th~~ Malaysia Plan's (12MP) 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 Twelfth~~12th~~ Malaysia ~~p~~Plan (12MP) 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

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 (2019, national poverty line): 5.6 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	-4.3	-4.2
Consolidated public sector overall balance 4/	-5.0	-3.6	-4.6	-9.3	-11.1	-11.8	-10.4	-9.7	-9.5	-9.3
General government debt 4/	55.8	54.4	55.7	57.0	65.6	66.2	66.7	66.5	66.4	66.3
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	4.20	...	...	...	...	...
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	107.6	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	110.8	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	88.5	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	57.0	65.6
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	107.6
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	23.6
As percent of monetary base 3/ 6/	300.1	281.2	269.5	271.8	271.1
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	90.3
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	113.0
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	1,627
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

	2016	2017	2018	2019	Est. 2020	Proj. 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	107.6	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	88.5	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	20.8	20.9	26.6	26.7	25.1	24.6	24.5	24.3
Public 3/	6.2	6.1	5.3	3.5	-1.5	0.1	0.5	0.6	0.6	0.6
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	-4.3	-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	107.6	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	110.8	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.

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 Private Retirement Scheme (PRS)~~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 income tax relief on communication equipment and sales tax exemption on locally produced cars (until June 30, 2021). 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.

Figure 1. Malaysia: Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

(Percent of GDP unless otherwise indicated)

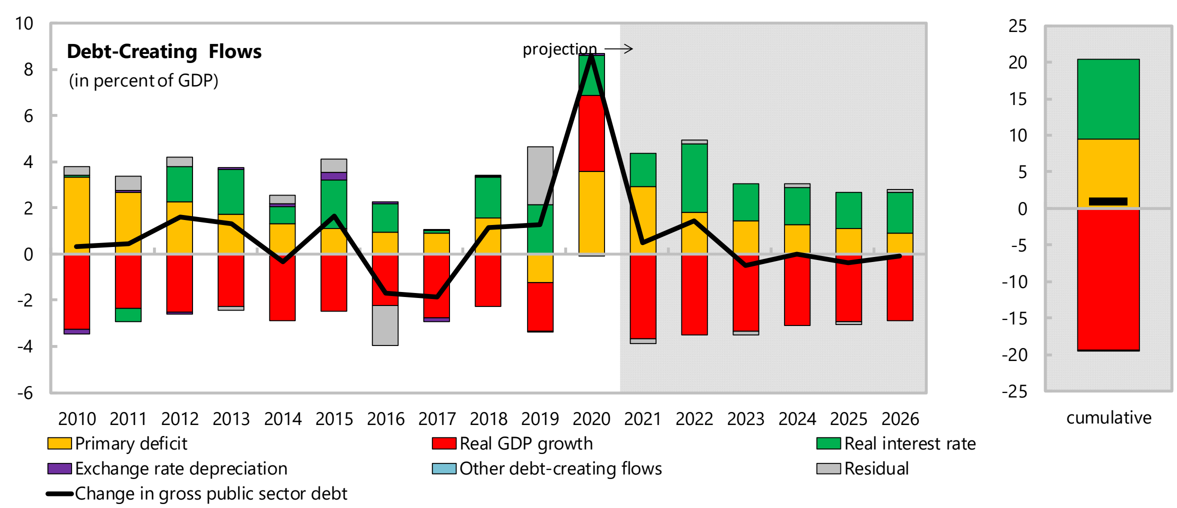
Debt, Economic and Market Indicators [1]

	Actual			Projections					
	2010-2018 [2]	2019	2020	2021	2022	2023	2024	2025	2026
Nominal gross public debt	51.1	52.5	61.1	61.6	63.0	62.6	62.5	62.2	62.1
Public gross financing needs	8.8	4.1	9.3	11.3	9.6	9.1	8.5	7.5	8.0
Real GDP growth (in percent)	5.4	4.3	-6.0	6.5	6.0	5.7	5.3	5.0	5.0
Inflation (GDP deflator, in percent)	2.1	0.1	1.4	1.8	-0.3	2.0	2.1	2.3	2.2
Nominal GDP growth (in percent)	7.7	4.4	-4.7	8.4	5.7	7.8	7.5	7.5	7.3
Effective interest rate (in percent) [4]	4.3	4.4	4.4	4.4	4.8	4.8	5.1	5.2	5.3

As of December 31, 2020		
Sovereign Spreads		
EMBIG (bp) 3/	174	
5Y CDS (bp)	37	
Ratings	Foreign	Local
Moody's	A3	Aa3
S&Ps	A-	A
Fitch	BBB+	BBB+

Contribution to Changes in Public Debt

	Actual			Projections							
	2010-2018	2019	2020	2021	2022	2023	2024	2025	2026	cumulative	debt-stabilizing primary balance [9]
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	
Identified debt-creating flows	0.2	-1.2	8.7	0.7	1.3	-0.3	-0.2	-0.2	-0.2	1.0	
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.

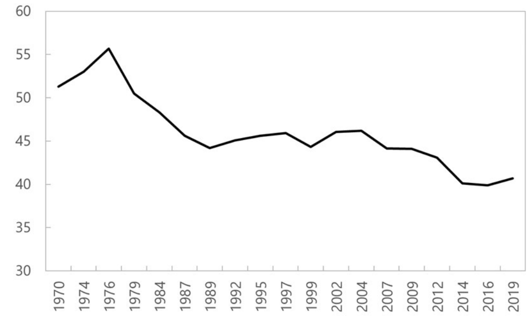
7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

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.

(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.

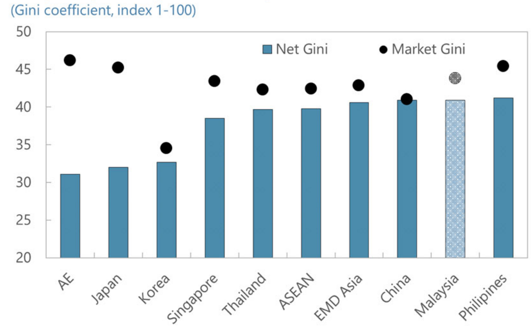
Inequality in Malaysia: market Gini coefficient
(Index, 1-100)



Source: DSO

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.

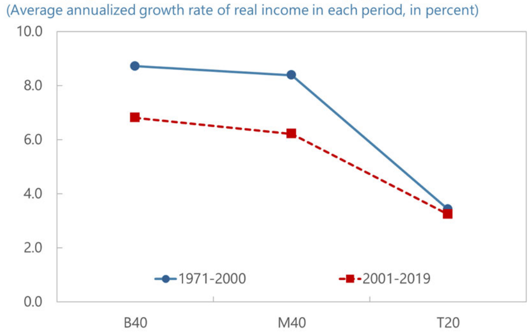
Inequality: Malaysia vs. comparator countries
(Gini coefficient, index 1-100)



Source: SWIID Database; and Fund staff calculations

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.

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

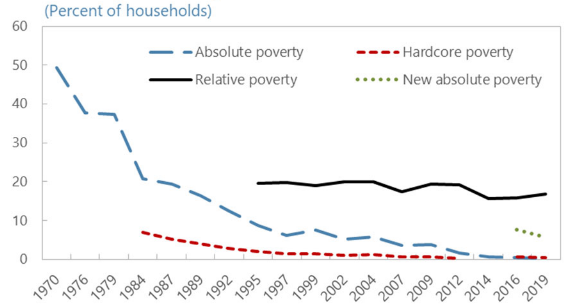


Sources: DSO; IMF IFS; and Fund staff calculations.

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~~0.4 percent in 2016. ~~In 2019, t~~The poverty line income was revised up, from RM980~~3~~ in 2016 to RM2,208 in 2019, 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 from~~to~~ ~~0.2~~0.6 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)



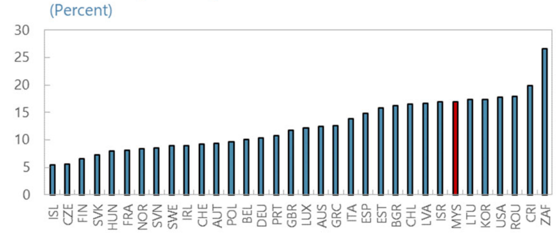
1/ Poverty is calculated using Cost of Basic Needs approach, which establishes a minimum income (Poverty Line Income or PLI) for food and non-food items. The value of Food PLI is obtained by identifying calorie requirements for a household. A household is considered absolute poor if its total income 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

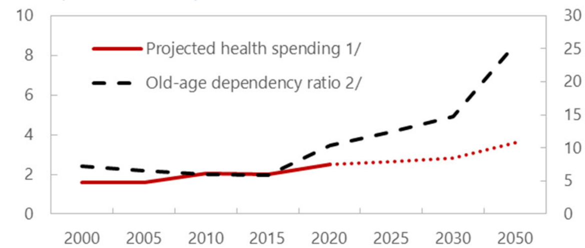
8. **As in other countries, the non-contributory social assistance constitutes the first pillar of the social protection system in Malaysia.** *Social assistance* comprises the unconditional cash transfer program and other benefits aimed to protect the vulnerable. The cash transfer program, the Bantuan 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

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.

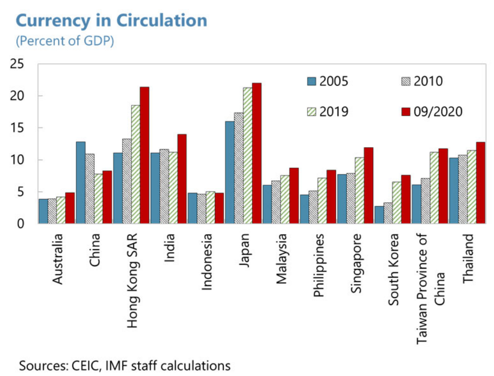
22. Health spending is expected to increase given the projected aging of the Malaysian population. With the old-age dependency ratio expected to increase 2.5 times between now and 2020, public health spending could increase by 1.5 percentage points of GDP, almost doubling from the current levels (for 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.

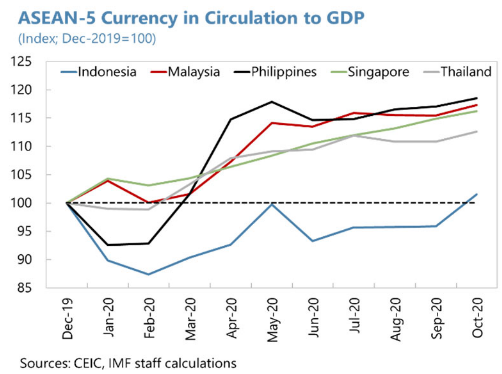
E. COVID-19 Response

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/PRS without penalties, 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.

[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.

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]





11. The increased use of online transactions during the pandemic has been supported by recent policy initiatives. BNM actively~~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.

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~~6.5 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.

700 19th Street NW
Washington, DC 20431
USA

Malaysia: Selected Economic and Financial Indicators, 2016–25

Nominal GDP (2019): US$364.7 billion — Population (2019): 32.5 million
GDP per capita (2019, current prices): US$11,213 — Poverty rate (2019, national poverty line): 5.6 percent
Unemployment rate (2019): 3.3 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	107.6	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.