INTERNATIONAL MONETARY FUND

IMF Country Report No. 25/57

MALAYSIA

March 2025

2025 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2025 Article IV consultation with Malaysia, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on December 13, 2024, with the officials of Malaysia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on February 6, 2025.
- An **Informational Annex** prepared by the IMF staff.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org

International Monetary Fund
Washington, D.C.

© 2025 International Monetary Fund

PRESS RELEASE

PR25/050

IMF Executive Board Concludes 2025 Article IV Consultation with Malaysia

FOR IMMEDIATE RELEASE

Washington, DC – March 3, 2025: On February 25, 2025, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Malaysia and endorsed the staff appraisal without a meeting on a lapse-of-time basis.[2]

Malaysia's economic performance has improved significantly in 2024. The economy grew by 5.2 percent (y/y) in the first three quarters of 2024, supported by strong private consumption, buoyant investment, improvements in external demand for electrical and electronic products, and a recovery in tourism. Labor market conditions have been strong, with the unemployment rate low at 3.2 percent in 2024Q3. Meanwhile, inflation has been stable around 2 percent, and the ringgit appreciated against the U.S. dollar by 2.6 percent in 2024.

Current policies are focused on rebuilding fiscal buffers, augmenting growth potential, and strengthening social protection while preserving macroeconomic and financial stability. The landmark Public Finance and Fiscal Responsibility Act (FRA), enacted in 2023, aims to strengthen fiscal management and governance. Fiscal consolidation continued in 2024, with the overall fiscal deficit estimated to have declined from 5.0 percent of GDP in 2023 to the budget target of 4.3 percent of GDP in 2024, supported by subsidy reforms and strengthening of the sales and service tax. Bank Negara Malaysia (BNM) has kept the Overnight Policy Rate (OPR) unchanged at 3.0 percent since May 2023. Under the Economy MADANI Framework, the authorities have developed a set of concerted policy frameworks that focus on increasing incomes, addressing climate change, promoting digitalization, and enhancing governance.

Executive Board Assessment

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

Malaysia's favorable economic conditions provide a window of opportunity to build macroeconomic policy buffers and accelerate structural reforms. Malaysia's strong growth momentum is expected to be sustained in the near term, with growth projected at 4.7 percent in 2025. Inflation, which eased to 1.8 percent in 2024, is projected to increase to 2.6 percent in 2025 on account of the anticipated implementation of gasoline subsidy reforms, before moderating to 2.3 percent in 2026. Malaysia's external position in 2024 is preliminarily

---

[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.

[2] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

assessed to be stronger than the level implied by medium-term fundamentals and desirable policies.

Risks to growth, mostly external, are tilted to the downside, while inflation risks are tilted to the upside. Downside external risks include deepening geoeconomic fragmentation, a growth slowdown in major trading partners, and intensification of geopolitical conflicts, while upside growth risks include faster implementation of investment projects. The upside risks to the inflation outlook stem from global commodity price shocks and potential wage pressures from increases in minimum wage and civil servants' pay.

Fiscal consolidation should continue to rebuild buffers and achieve the medium-term targets set under the FRA. Staff recommends achieving a small structural primary balance by 2027. Building on successful subsidy reforms, including for electricity and diesel, staff recommends gradually phasing out remaining fuel subsidies. Revenue mobilization efforts toward a more broad-based and efficient tax system are warranted. Reintroducing the GST could help achieve this goal. The associated impact of fiscal reforms on vulnerable households should be mitigated by well-targeted cash transfers. Staff welcomes the historic enactment of the FRA and recommends its swift and thorough implementation.

The current neutral monetary policy stance is appropriate. Going forward, monetary policy should remain data dependent. BNM should stand ready to tighten monetary policy if upside inflation risks materialize. Maintaining exchange rate flexibility is essential.

Financial systemic risks appear contained, and the financial sector remains sound. Banks' capital and liquidity positions are robust. Credit growth, corporate and household balance sheets, and real estate markets do not pose systemic risks at this juncture. Continued vigilance is warranted against pockets of more highly leveraged borrowers, interlinkages between banks and non-bank financial institutions, and climate and cyber risks—although spillover risks from these areas remain contained. Given the strong growth and accommodative financial conditions, pre-emptive broadening of the macroprudential policy toolkit could be considered.

Staff encourages swift implementation of the structural reform initiatives to enhance productivity and inclusive growth. The ongoing development of the PADU digital registry can help strengthen social safety nets and public service delivery. Investment incentives to promote high-growth and high-value industries should be well-targeted and ring-fenced. Further efforts are warranted toward Malaysia's transition to net-zero emissions and readiness for Artificial Intelligence. Staff welcomes the authorities' efforts to strengthen governance and the anti-corruption framework.

SELECTED ECONOMIC AND FINANCIAL INDICATORS, 2020–30

Nominal GDP (2023): US$399.7 billion

Population (2023): 33.4 million

GDP per capita (2023, current prices): US$11,967

Poverty rate (2019, national poverty line): 0.2 percent

Unemployment rate (2023, period average): 3.4 percent

Adult literacy rate (2019): 95.0 percent

Main domestic goods exports (share of total domestic exports, 2023): Machinery and Transport Equipment (45.6 percent), Manufactured Goods and Miscellaneous Manufactured Articles (19.0 percent), and Mineral Fuels, Lubricants etc. (16.5 percent).

					Proj.						
	2020	2021	2022	2023	2024 1/	2025	2026	2027	2028	2029	2030
Real GDP (percent change)	-5.5	3.3	8.9	3.6	5.0	4.7	4.4	4.0	4.0	4.0	4.0
Total domestic demand	-4.8	3.8	9.5	4.7	6.1	4.7	4.0	3.6	3.6	3.6	3.4
Private consumption	-3.9	1.8	11.3	4.7	5.3	4.5	3.9	3.4	3.9	3.8	3.7
Public consumption	4.1	5.8	5.1	3.3	4.3	3.5	2.7	2.4	2.3	2.3	2.3
Private investment	-11.9	2.8	7.2	4.6	12.0	6.0	5.1	4.0	4.0	4.0	4.0
Public gross fixed capital formation	-21.2	-11.0	5.3	8.6	11.2	4.0	2.8	2.3	2.1	2.0	2.1
Net exports (contribution to growth, percentage points)	-1.0	-0.3	-0.1	-0.9	-0.8	0.2	0.5	0.6	0.5	0.6	0.7
Output gap (in percent)	-4.0	-1.1	2.5	1.3	1.1	0.7	0.4	0.0	0.0	0.0	0.0
Saving and investment (in percent of GDP)											
Gross domestic investment	19.7	22.1	23.6	22.5	22.5	22.5	22.6	22.6	22.5	22.5	22.5
Gross national saving	23.8	26.0	26.8	24.0	24.5	24.7	25.0	25.3	25.4	25.5	25.5
Fiscal sector (in percent of GDP) 2/											
Federal government overall balance	-6.2	-6.4	-5.5	-5.0	-4.3	-3.8	-3.8	-3.8	-3.8	-3.8	-3.8
Revenue	15.9	15.1	16.4	17.3	16.5	16.2	15.4	15.1	14.8	14.6	14.4
Expenditure and net lending	22.0	21.5	22.0	22.3	20.8	20.0	19.2	18.9	18.6	18.4	18.2
Federal government non-oil primary balance	-7.5	-6.7	-7.8	-6.6	-4.9	-4.1	-3.7	-3.4	-3.0	-2.8	-2.6
Consolidated public sector overall balance 3/	-7.3	-8.3	-6.0	-5.9	-8.4	-6.7	-6.8	-6.9	-6.8	-6.9	-6.9
General government debt 3/	67.7	69.2	65.5	69.7	69.6	68.9	68.7	69.1	69.3	69.6	69.8
Of which: federal government debt	62.0	63.3	60.2	64.3	64.4	63.7	63.5	63.8	64.1	64.3	64.5
Inflation and unemployment (in percent)											
CPI inflation, annual average	-1.2	2.5	3.4	2.5	1.8	2.6	2.3	2.0	2.0	2.0	2.0
CPI inflation, end of period	-1.4	3.2	3.8	1.5	1.7	3.8	2.0	2.0	2.0	2.0	2.0
CPI inflation (excluding food and energy), annual average	1.1	0.7	3.0	3.0	1.8	2.4	2.2	2.0	2.0	2.0	2.0
CPI inflation (excluding food and energy), end of period	0.7	1.1	4.1	1.9	1.6	3.8	2.0	2.0	2.0	2.0	2.0
Unemployment rate	4.5	4.6	3.9	3.4	3.2	3.2	3.2	3.2	3.2	3.2	3.2
Macrofinancial variables (end of period)											
Broad money (percentage change) 4/	4.9	5.6	4.0	5.8	7.1	7.6	6.7	5.9	5.9	5.9	5.9
Credit to private sector (percentage change) 4/	4.0	3.8	3.0	5.2	6.2	6.1	6.0	5.9	5.9	5.9	5.9
Credit-to-GDP ratio (in percent) 5/ 6/	144.8	137.7	122.4	126.7	125.7	123.9	123.1	123.1	123.1	123.1	123.1
Overnight policy rate (in percent)	1.75	1.75	2.75	3.00	…	…	…	…	…	…	…
Three-month interbank rate (in percent)	1.9	2.0	3.6	3.7	…	…	…	…	…	…	…
Nonfinancial corporate sector debt (in percent of GDP) 7/	109.7	109.0	97.5	101.2	…	…	…	…	…	…	…
Nonfinancial corporate sector debt issuance (in percent of GDP)	2.3	2.6	2.4	2.5	…	…	…	…	…	…	…
Household debt (in percent of GDP) 7/	93.1	88.9	80.9	84.2	…	…	…	…	…	…	…
Household financial assets (in percent of GDP) 7/	204.5	191.9	167.3	174.3	…	…	…	…	…	…	…
House prices (percentage change)	1.2	1.9	3.9	3.8	…	…	…	…	…	…	…
Exchange rates (period average)											
Malaysian ringgit/U.S. dollar	4.19	4.14	4.40	4.56	…	…	…	…	…	…	…
Real effective exchange rate (percentage change)	-3.5	-1.3	-1.4	-2.5	…	…	…	…	…	…	…
Balance of payments (in billions of U.S. dollars) 5/											
Current account balance	14.1	14.5	13.0	6.2	8.7	10.2	12.0	14.3	16.1	17.6	19.4
(In percent of GDP)	4.2	3.9	3.2	1.5	2.0	2.2	2.4	2.7	2.9	3.0	3.1
Goods balance	32.7	42.9	42.6	29.9	26.3	29.3	31.8	33.9	36.5	39.2	43.7
Services balance	-11.2	-15.8	-13.2	-9.5	-4.4	-4.1	-3.1	-1.7	-1.3	-1.0	-1.5
Income balance	-7.4	-12.5	-16.3	-14.2	-13.2	-14.9	-16.7	-17.9	-19.2	-20.6	-22.8
Capital and financial account balance	-18.5	3.8	1.8	-3.4	-6.0	0.2	-3.0	-5.0	-6.2	-7.1	-8.2
Of which: Direct investment	0.7	7.5	2.9	0.0	-1.3	2.0	2.1	2.2	2.4	2.5	2.6
Errors and omissions	-0.1	-7.3	-2.7	-7.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-4.6	11.0	12.1	-4.5	2.7	10.4	9.0	9.3	9.9	10.6	11.2
Gross official reserves (US$ billions) 5/	107.6	116.9	114.7	113.5	116.2	126.6	135.6	144.9	154.8	165.4	176.6
(In months of following year's imports of goods and nonfactor services)	5.5	4.9	5.4	4.6	4.4	4.6	4.7	4.8	4.9	4.9	5.0
(In percent of short-term debt by original maturity)	117.6	120.8	104.9	100.3	99.4	98.3	97.2	97.0	97.3	97.9	98.9
(In percent of short-term debt by remaining maturity)	91.9	93.5	84.6	80.7	78.7	79.4	79.0	79.2	79.7	80.5	81.5
Total external debt (in billions of U.S. dollars) 5/	238.8	258.7	259.6	270.6	284.6	305.1	324.4	342.8	361.1	379.2	397.2
(In percent of GDP)	70.8	69.3	63.8	67.8	65.1	65.3	65.1	64.9	64.4	63.8	63.0
Of which: short-term (in percent of total, original maturity)	38.3	37.4	42.1	41.8	41.1	42.2	43.0	43.6	44.1	44.6	44.9
short-term (in percent of total, remaining maturity)	49.1	48.3	52.2	51.9	51.9	52.3	52.9	53.4	53.8	54.2	54.5
Debt service ratio 5/											
(In percent of exports of goods and services) 8/	13.6	10.5	9.7	11.8	12.1	12.1	10.1	9.8	9.7	9.6	9.5
(In percent of exports of goods and nonfactor services)	14.4	11.4	10.3	12.7	12.9	12.9	10.7	10.4	10.3	10.2	10.0
Memorandum items:											
Nominal GDP (in billions of ringgit)	1,418	1,549	1,794	1,823	1,952	2,099	2,241	2,373	2,512	2,660	2,817

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

1/ Data used in this report for staff analyses are as of January 29, 2025, unless otherwise noted.
2/ Cash basis.
3/ Consolidated public sector includes general government and nonfinancial public enterprises (NFPEs). General government includes federal government, state and local governments, and statutory bodies.
4/ 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.
5/ IMF staff estimates. U.S. dollar values are estimated using official data published in national currency.
6/ 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.
7/ Revisions in historical data reflect the change in base year for nominal GDP (from 2010=100 to 2015=100).
8/ Includes receipts under the primary income account.

INTERNATIONAL MONETARY FUND

MALAYSIA

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

February 6, 2025

KEY ISSUES

Context. Malaysia's economic performance has significantly improved in 2024, supported by strong domestic and external demand. Disinflation is taking hold and external pressures have eased. The favorable economic conditions provide a window of opportunity to build macroeconomic policy buffers and accelerate structural reforms, especially as risks to growth are tilted to the downside amid an uncertain global outlook. Risks to the inflation outlook are tilted to the upside, including from global commodity price shocks and potential wage pressures.

Economic Policy Recommendations.

- The authorities' commitment to fiscal consolidation and the historic enactment of the Public Finance and Fiscal Responsibility Act (FRA) are welcome. To rebuild fiscal buffers and meet the deficit and debt targets under the FRA, staff recommends continued fiscal consolidation toward a small structural primary balance by 2027, supported by high-quality, durable revenue and expenditure measures.
- The current neutral monetary policy stance is appropriate. Going forward, monetary policy should remain data-dependent and be mindful of upside risks to inflation. BNM should stand ready to tighten monetary policy if the upside inflation risks materialize. Maintaining exchange rate flexibility remains essential.
- Malaysia's financial sector remains sound. Banks' capital and liquidity positions are robust. Credit growth, corporate and household balance sheets, and real estate markets do not pose systemic risks at this juncture. Continued vigilance is warranted against highly leveraged borrowers, interlinkages between banks and NBFIs, and climate and cyber risks, although their spillover risks remain contained. Given the strong growth and accommodative financial conditions, pre-emptive broadening of the macroprudential policy toolkit could be considered.
- Timely implementation of the authorities' ambitious structural reform agenda remains essential for enhancing productivity and inclusive growth. Given the need to cushion the negative impacts of fiscal reforms on the poor and vulnerable, staff welcomes the progress made to develop the PADU digital registry, which can help strengthen social safety nets and public service delivery. Further efforts are warranted to facilitate Malaysia's transition to net-zero emissions and enhance readiness for Artificial Intelligence. Staff welcomes ongoing efforts to strengthen governance and the anti-corruption framework.

Approved By
Nada Choueiri (APD) and Anna Ivanova (SPR)

Discussions were held in Kuala Lumpur during December 3–13, 2024. The mission met with the Governor of Bank Negara Malaysia, the Secretary General of the Ministry of Finance, senior staff from various line ministries/public sector entities, and representatives from the private sector. Mission Team: Masahiro Nozaki (Head), Ritu Basu, Tristan Hennig, Sandile Hlatshwayo, Shujaat Khan (all APD), Purva Khera (Resident Representative), and Defa Zhao (economic analyst based in Singapore). Yati Kurniati (Executive Director) and Ahmad Faisal Bin Rozimi (Advisor to the Executive Director) joined the meetings. Nada Choueiri (APD) joined policy meetings. Wanying Li, Justin Flinner, and Mariam Souleyman (all APD) assisted in the preparation of this report. Data used in this report for staff analyses are as of January 29, 2025, unless otherwise noted.

CONTENTS

TABLES

ANNEXES

CONTEXT

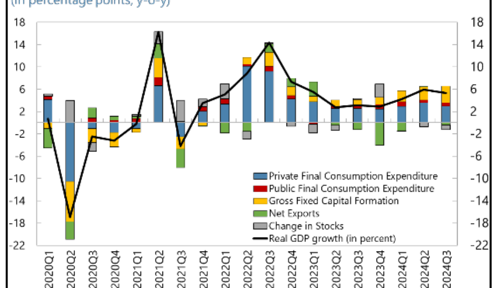
1. **Malaysia's economic performance has significantly improved since the last Article IV consultation.**[1] Following a moderation in 2023 due to weak external demand, growth picked up in 2024, supported by a strong labor market, buoyant investment activities, and improved investor confidence. The economy has been resilient against deepening geoeconomic fragmentation and China's growth slowdown. Inflation has been moderate.

2. **The favorable economic conditions provide Malaysia with a precious window of opportunity to advance its ambitious reform agenda.** The government's structural reform plans under the Economy MADANI Framework are appropriately focused on increasing incomes, addressing climate change, promoting digitalization, and enhancing governance. The passage of the Public Finance and Fiscal Responsibility Act in 2023 marked a significant milestone for fiscal management and governance. However, in the face of an increasingly uncertain global environment, Malaysia needs to rebuild fiscal buffers, enhance growth potential, and strengthen social protection, while preserving macroeconomic and financial stability. Swift reform implementation is therefore vital.

RECENT DEVELOPMENTS

3. **Growth has accelerated and is broad-based.** Malaysia's economy grew by 5.2 percent (y/y) in the first three quarters of 2024, up from 3.6 percent in 2023. Robust growth was observed across all sectors. Strong private consumption, buoyant investment, improvements in external demand for electrical and electronic products, and a recovery in tourism supported growth. Staff estimates real GDP growth to reach 5 percent of GDP in 2024, with a positive output gap of 1.1 percent of GDP.

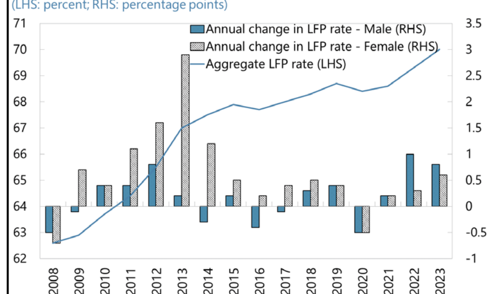
Contributions to Real GDP Growth
(In percentage points, y-o-y)



Sources: MYS Dept. of Statistics; Haver Analytics; and IMF staff calculations.

4. **Labor market conditions have been strong.** The unemployment rate remained low at 3.2 percent in 2024Q3. Employment grew by 2.9 percent (y/y) in 2024Q3, with the labor force participation rate rising slightly to 70.5 percent. Real wage growth remains stable. However, an ongoing civil service wage hike (¶15) and an expected minimum wage increase by 13 percent in February 2025 may translate into wage pressures in the near term.

Labor Force Participation (LFP) Rate
(LHS: percent; RHS: percentage points)



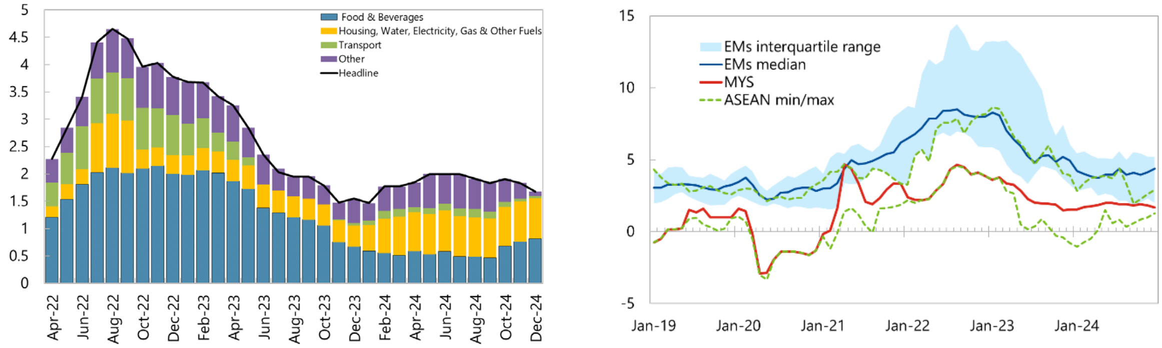
Sources: Department of Statistics Malaysia and IMF staff calculations.

[1] See Annex V for staff policy advice from the 2024 Article IV consultation and policy actions.

5. Inflation increased slightly in 2024H1 but has since stabilized and remains moderate. After peaking at 4.7 percent in August 2022, inflation declined in 2023 as prices for food and fuel reverted. Core inflation has also declined and remains stable near 2 percent since November 2023. The implementation of subsidy reforms since 2023 for electricity, diesel, and water (¶17) drove a small uptick in headline inflation in 2024H1.

Malaysia: Inflation

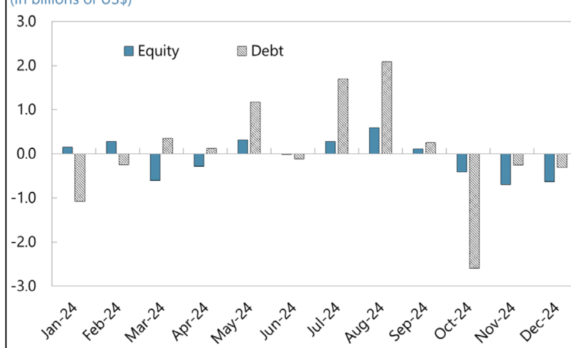
CPI Breakdown (In percent, year-on-year) | **Headline Inflation** (In percent, year-on-year)



Sources: Haver Analytics; and IMF Staff Calculations. | Sources: Haver Analytics; and IMF staff calculations.

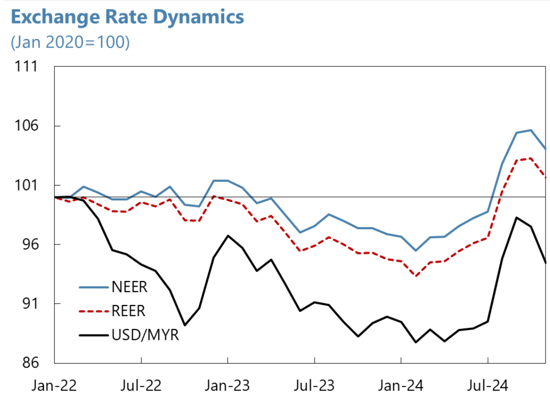
6. The ringgit appreciated in 2024. It started to strengthen in mid-April 2024 and appreciated sharply in July-August 2024. Several factors contributed to the strengthening of the ringgit, including: (i) more certainty around the loosening of U.S. monetary policy and an associated tightening in the interest rate differential vis-à-vis the U.S.; (ii) foreign exchange (FX) repatriation and conversion by government-linked companies (GLCs) and government-linked investment companies (GLICs); and (iii) improvements in investor confidence, supported by political stability and Malaysia's ongoing economic reforms. Following depreciation in 2024Q4 in line with other Asian currencies, the ringgit appreciated against the U.S. dollar by 2.6 percent in 2024.

Non-Resident Portfolio Flows
(In billions of US$)

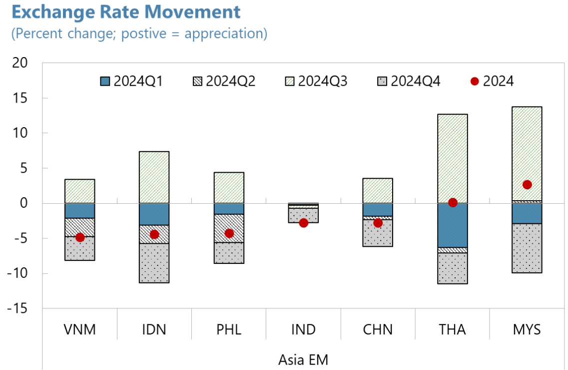


Sources: International Institute of Finance; and IMF staff calculations.

Malaysia: Exchange Rate



Sources: Bank Negara Malaysia; and IMF staff calculations.



Sources: Bloomberg Finance L.P.

7. **Fiscal consolidation continued in 2024.** The overall fiscal deficit is estimated to have declined from 5.0 percent of GDP in 2023 to the budget target of 4.3 percent of GDP in 2024, supported by subsidy reforms (see below) and a strengthening of the sales and service tax. Adjusting for one-off factors, the 2024 fiscal policy stance[2] was moderately tighter relative to 2023. With public debt at 64.4 percent of GDP in 2024, Malaysia remains at moderate risk of debt distress (Annex VIII).

Malaysia: Key Fiscal Indicators
(Percent of GDP)

Malaysia: Key Fiscal Indicators (Percent of GDP)	2021	2022	2023	Est 2024
Revenue and grants	15.1	16.4	17.3	16.5
of which oil-related revenues	2.8	4.6	4.1	3.2
Expenditure and net lending	21.5	22.0	22.3	20.8
of which subsidies and social assistance	1.5	3.8	3.9	3.1
Overall balance	-6.4	-5.5	-5.0	-4.3
Memorandum items				
Fiscal impulse	1.5	0.8	-0.1	-0.2

[2] Measured by the change in the structural primary balance.

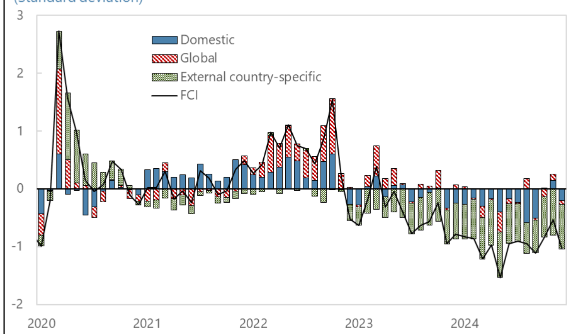
Box 1. Malaysia: Recent Subsidy and Social Assistance Reforms and Adjustments

In 2023-24, the authorities undertook reforms and adjustments to their subsidy programs. Concurrently, the authorities helped shield vulnerable populations from negative impacts of the reforms by introducing a supplementary cash transfer program (Sumbangan Asas Rahmah or SARA), expanding cash assistance coverage to more households (e.g., families with five or more children and single and impoverished senior citizens), and increasing the levels and duration of assistance. Together, spending on subsidies and social assistance decreased from 3.9 percent of GDP in 2023 to 3.1 percent of GDP in 2024, with savings from subsidy rationalization more than offsetting the increase in social assistance spending.

- Diesel: In June 2024, the government raised the diesel pump price to its market value for Peninsular Malaysia while leaving diesel subsides intact in Sabah and Sarawak (where the retail diesel price remained at MYR 2.15/liter). To replace the subsidies, the government launched Budi MADANI, a more targeted subsidy program directed at diesel vehicle owners with an income of MYR 100,000 or below (MYR 200/month), small-scale commodity growers and farmers (MYR 200/month), and logistics and essential services providers (MYR 2.15/liter pump price). Fishermen continue to face a subsidized diesel price of MYR 1.65/liter.
- Electricity: During the pandemic, the government absorbed the charges associated with its Imbalance Cost Pass-Through Mechanism (ICPT)—which features adjustments to electricity tariffs based on fuel prices and generation costs for Peninsular Malaysia—and offered widespread rebates to help contain the cost-of-living. From January to July 2023, the government began charging ICPT surcharges once again to large commercial and industrial firms, as well as residential consumers with high usage (1 percent of residential users that use more than 1,500 kWh per month). In January 2024, the government moved to limit rebates to only residential consumers with low usage (600 kWh and below, estimated to account for around 24 percent of consumers), with no surcharges for consumption between 600-1,500 kWh per month, and surcharges on consumption of 1,500 kwh/month or higher. The surcharges from high consumption users are now being put into a fund that covers the cost of rebates for low consumption consumers; the fund is expected to eliminate the need for budget financing of electricity subsidies from 2025 onwards.
- Water: In early 2024, several state governments revised up their water tariffs by an average of 30 percent, for the first time in over two decades in some regions. Some states have helped offset a portion of the increases by providing free water up to 20 cubic meters or via discounts for vulnerable households.
- Food: Subsidies for poultry farmers and price controls for chicken were removed in November 2023. An egg subsidy of MYR 0.10/egg remains in place to encourage production.
- Other: To subsidize small-scale rubber producers' income, government increased subsidies in 2024 from MYR 2.70/kg to 3.00/kg and distributed MYR 800/person to such producers during the monsoon season. Paddy farmers saw an increase in subsidies from MYR 360 to 500 per metric ton in 2024 and a price floor change from MYR 1,200 to 1,300 per metric ton. Fishermen also get an incentive of up to MYR 1,000 per month.

8. Bank Negara Malaysia (BNM) has kept the Overnight Policy Rate (OPR) unchanged at 3.0 percent since May 2023. BNM's January 2025 monetary policy statement noted that the monetary policy stance and the decision to maintain the OPR at 3.0 percent remained supportive of the economy and consistent with BNM's inflation and growth prospects.[3] Financial conditions remain accommodative, driven by a narrowing of spreads and the recent appreciation of the ringgit (¶6).

Financial Conditions Index
(Standard deviation)

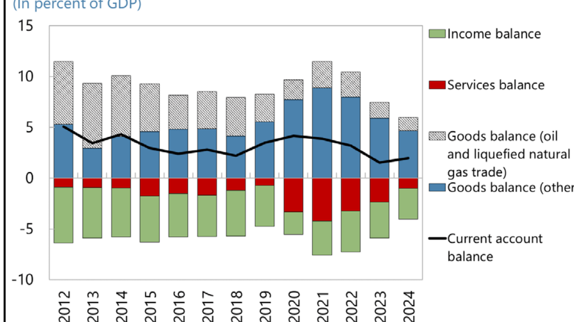


Sources: Bloomberg; CEIC Data Co. Ltd.; Haver Analytics; and IMF staff calculations.
Note: **Domestic:** short term real rates, fx return, equity real return, equity volatility, term spread. **Global**: Vix and Move indexes, China real return. **External country-specific:** Corporate USD spread, Sovereign USD spread, Sovereign spread.

9. Malaysia's financial system remains well capitalized and liquid. The banking sector's total capital adequacy ratio stood at 18.2 percent in September 2024, with the common equity Tier 1 capital ratio at 15.0 percent, comfortably above regulatory minimums. Liquidity remains robust, with the liquidity coverage ratio and net stable funding ratio at 146.6 percent and 115.1 percent, respectively, in September 2024. Asset quality has been strong, reflected in the low share of nonperforming loans (NPLs) at 1.5 percent in September 2024.

10. Malaysia's external position in 2024 is preliminarily assessed to be stronger than warranted by fundamentals and desired policies (Annex VI). The current account surplus is estimated to increase to 2.0 percent of GDP in 2024 from 1.5 percent of GDP in 2023. Adjusting for cyclical factors, Malaysia's current account gap is assessed in the range of 2.1-3.1 percent of GDP, which corresponds to an undervaluation of the real effective exchange rate (REER) in the range of 4.1-6.1 percent. The current account gap is partially explained by relative policy gaps, originating mainly from Malaysia's relatively weak social safety nets (proxied by low public health spending) and tighter fiscal policies relative to the rest of the world.

Current Account Balance
(In percent of GDP)



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

OUTLOOK AND RISKS

11. The strong growth momentum is expected to be sustained in the near term. Growth is projected to moderate from 5 percent in 2024 to 4.7 percent in 2025, reflecting a moderation in investment growth and continued fiscal consolidation. Over the medium term, growth is projected

[3] Malaysia is not an inflation targetter. BNM seeks to maintain low and predictable inflation, taking into consideration economic developments and the outlook. See Appendix VI of IMF Country Report 20/57 for a description of BNM's monetary policy framework.

to converge to a potential rate of 4 percent. The output gap is projected to close gradually, reaching 1.1 percent in 2024 and 0.7 percent in 2025.

12. Risks to the growth outlook are tilted to the downside and mainly stem from external factors.

- Deepening geoeconomic fragmentation poses significant uncertainty for Malaysia in the near term. Staff analysis suggests that Malaysia is among those ASEAN economies that captured export opportunities presented by the 2018-19 China-U.S. trade tensions (Annex I); however, an intensification of protectionist policies, for instance in the form of a new wave of tariffs, could reduce external demand and raise global inflation, hurting countries with strong trade linkages within the global economy, including Malaysia.

- Other downside risks in the near term include: (i) an abrupt slowdown in major economies, including from a deeper or prolonged contraction in China's property sector[4]; (ii) intensification of geopolitical conflicts disrupting global trade and FDI; and (iii) tightening global financial conditions from potential interest rate hikes due to monetary policy miscalibration in major advanced economies. In the medium term, climate-change induced weather events, particularly floods, may also become more frequent.

- Upside risks to growth entail more robust tourism activity, faster-than-envisaged implementation of large public and private investment projects, and an acceleration of credit growth amid accommodative financial conditions (¶8).

13. Inflation is projected to rise next year, with risks tilted to the upside. Assuming the implementation of RON95 gasoline subsidy reforms (¶17) in mid-2025 and tight labor market conditions, average headline inflation is projected to rise from 1.8 percent in 2024 to 2.6 percent in 2025, before moderating to 2.3 percent in 2026. Risks to the inflation outlook are tilted to the upside, particularly due to geopolitical tensions disrupting global supply chains, which could raise commodity and import prices. Domestically, generalized wage pressures from increases in minimum wage and civil service pay and the materialization of upside growth risks (¶12) would lead to upward pressure on prices. While second-round effects of the gasoline price adjustment are expected to be small, they pose a risk of de-anchoring inflation expectations.

Authorities' Views

14. The authorities expected the Malaysian economy to sustain its strong performance. They projected growth in the range of 4.5–5.5 percent in 2025, driven by robust private investment as well as a continued recovery in electrical and electronic product exports and tourism. The output gap is assessed to be positive but small in 2024-25. Risks to growth would be balanced. The authorities acknowledged that a major slowdown in external demand due to increasing geopolitical

[4] Staff analysis shows that 8 percent of Malaysia's total value added was ultimately absorbed by China's aggregate demand in 2022 (Annex I).

tensions poses a risk to economies in the region, but they also highlighted that Malaysia may benefit from increased foreign investment amid further supply chain diversification, as in previous episodes of trade tensions. More robust tourism activity and faster-than-envisaged implementation of investment projects would present upside risks to growth. The authorities expected inflation to be in the range of 2.0–3.5 percent in 2025 subject to the yet-to-be determined RON95 gasoline subsidy retargeting modalities. Upside risks to inflation exist but would not be significant, because the increases in the minimum wage and civil servant salaries would not feed through to generalized wage pressures, and the second-round effect of the RON95 gasoline price adjustment would be limited.

POLICY DISCUSSIONS

Fiscal consolidation should continue to rebuild buffers and meet the authorities' medium-term targets, supported by high-quality, durable revenue and expenditure measures. The current monetary policy stance is appropriate, and BNM should stand ready to tighten monetary policy if upside inflationary risks materialize. Maintaining exchange rate flexibility and preserving reserve adequacy remain essential. The financial sector remains resilient and continued vigilance is required against existing vulnerabilities. Timely implementation of the authorities' ambitious structural reform agenda is essential, focusing on enhancing social safety nets, facilitating the transition to net-zero emissions, preparing for Artificial Intelligence adoption, and improving governance.

A. Fiscal Policy

15. The 2025 Budget appropriately envisages continued fiscal consolidation, reducing the overall deficit by 0.5 percent of GDP to 3.8 percent of GDP.[5] One key expenditure measure is the retargeting of RON95 gasoline subsidies to remove support for 15 percent of consumers (e.g., wealthy households) in mid-2025 to reduce leakages and better target intended recipients. The authorities are also implementing phased increases in civil sector pay to account for changes in cost of living and to raise the salaries of low-level civil servants to that of the national minimum wage.[6] They also announced major 2025 revenue measures which include expanding the Sales Tax and Service Tax (SST) to commercial services and applying sales taxes on some non-essential items.[7] Together with longer-term planned reductions in reliance on petroleum-related revenues, lower oil prices are also expected to drive down oil and gas revenues over the medium term, offsetting part of the effects of an increase in SST revenues.

---

[5] This would be a contractionary fiscal position under staff's baseline, with a fiscal impulse of -0.6 percent of GDP.

[6] The last revision of civil sector pay occurred in 2012.

[7] Other announced revenue measures are expected to impact outturns beyond 2025, including a two percent tax on individual dividend income exceeding MYR 100,000, the Global Minimum Tax, and a carbon tax on iron and steel. The implementation details of these measures are still being developed; hence they are not incorporated in staff's baseline forecasts.

16. Fiscal consolidation should continue, with concrete measures to rebuild buffers and meet the authorities' medium-term fiscal targets under the Public Finance and Fiscal Responsibility Act (FRA).

- The authorities are targeting an overall deficit of 3 percent of GDP in the medium term.
- Given that revenue and expenditure measures beyond 2025 have yet to be clarified, staff's baseline projects the overall and primary fiscal deficits as constant at 3.8 percent of GDP and 1.2 percent of GDP from 2026 onwards. Federal government debt remains high at around 64 percent of GDP over 2026-29, with guaranteed debt posing potential fiscal risks. To achieve the authorities' medium-term targets set under the FRA (Annex II)—an overall deficit at or below 3 percent of GDP and federal government debt at or below 60 percent of GDP—further fiscal efforts are needed, building on the successful consolidation in recent years.
- Against this backdrop, staff recommends improving the structural primary balance to a surplus of 0.3 percent of GDP by 2027—amounting to additional total fiscal effort of 1.4 percent of GDP over 2025-27 relative to staff's baseline. This would reduce the overall deficit to around 2.3 percent of GDP and federal government debt to 60 percent of GDP by end-2028, meeting the FRA targets and building credibility for the authorities' new fiscal framework.[8] A menu of options is presented in Text Table 1, and discussed in detail in ¶17 and ¶18—including some measures currently in the authorities' medium-term pipeline.
- In the event that downside risks materialize (¶12), the authorities should still pursue fiscal consolidation given limited fiscal space, while strengthening support for vulnerable populations.

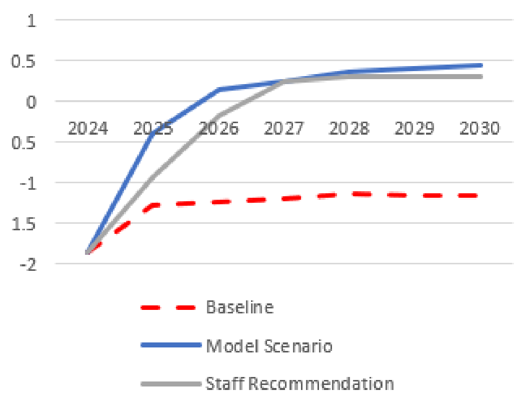
Text Table 1. Possible Fiscal Measures
(Percent of GDP)

Further progress on fuel (diesel and gasoline) subsidy retargeting and/or rationalization	0.5-1.0
Offsetting social assistance measures coupled with further fuel subsidy reform	-
Reintroduction of the GST	0.5-1.5
Strengthening of personal income tax	+
Rationalization of corporate tax incentives, coupled with planned implementation of the Global Minimum Tax (GMT)	+
Improved tax administration (e.g., through full implementation of e-invoicing) and public financial management	+

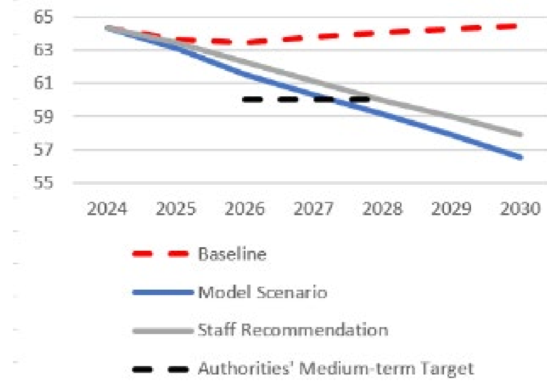
[8] A model-based adjustment scenario, which features tradeoffs between near-term economic stabilization and debt sustainability with increasing borrowing costs at higher levels of debt, calls for frontloaded consolidation in 2025. See Appendix VII in Country Report No. 22/126 for more details on the model. The adjustment path recommended by staff allows for durable fiscal consolidation, underpinned by high-quality revenue and expenditure measures.

Figure 1. Malaysia: Fiscal Policy: Baseline and Proposed Staff Advice

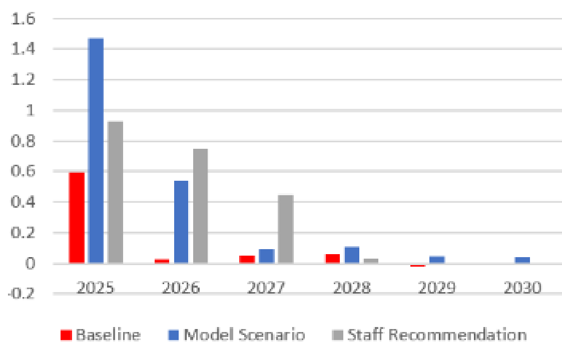
Structural Primary Balance
(In percent of potential GDP)



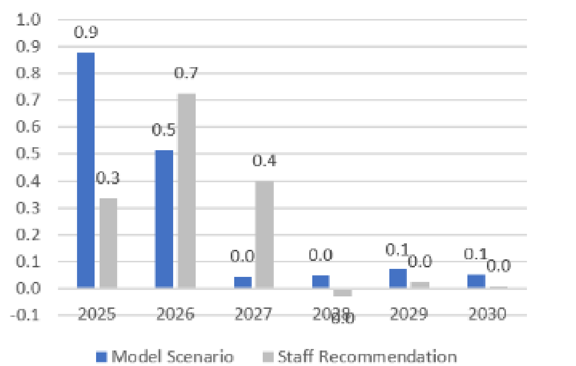
Federal Government Debt
(In percent of GDP)



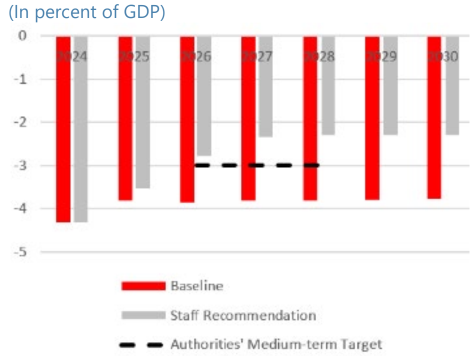
Change in Structural Primary Balance
(In percent of potential GDP; higher = more contractionary)



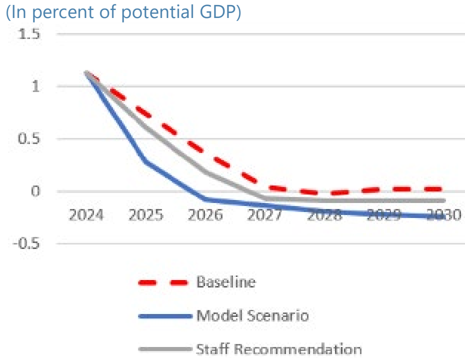
Additional Fiscal Effort vs. Baseline
(Additional change in structural primary balance vs. baseline; in percent of potential GDP)



Overall Deficit
(In percent of GDP)



Output Gap
(In percent of potential GDP)



Sources: MoF; and IMF staff calculations.

Note: See appendix VII in the 2022 Article IV CR 22/126 on the optimal fiscal stance model. The staff scenario assumes a fiscal multiplier of 0.6, a conservative estimate of the multiplier based on the bucket approach (Batini et al. 2014) and the findings of Dime et al. (2021). Debt servicing payments are estimated at the same share of GDP as in the baseline.

17. High-quality public expenditure reforms should continue. Subsidy reforms since 2023, including a significant reduction in diesel and electricity subsidies, have both improved the overall progressivity of public spending and contributed to reducing the fiscal deficit. Building on this success, staff recommends gradually phasing out remaining gasoline (RON95) subsidies and most diesel subsidies during 2025-27. Fuel subsidies (both diesel and RON95) are estimated at 1.5 percent of GDP in 2024. In addition to crafting a comprehensive communication plan, the negative impact on vulnerable households should be simultaneously mitigated by well-targeted cash transfers, complemented by the new comprehensive national registry, Pangkalan Data Utama (PADU, see ¶33).[9] Over the medium term, reform of civil service pension is also warranted to put the pension system on a sound footing.

18. Revenue mobilization is also critical to support fiscal consolidation and ensure space for growth-enhancing public spending. Malaysia's tax to GDP ratio declined to 12.3 percent in 2024, but staff's tax frontier analysis suggests that Malaysia can collect additional revenues of 3 percent of GDP with appropriate tax reforms.[10] Reintroducing the Goods and Services Tax (GST), which was introduced in 2015 but abolished and replaced by the SST in 2018, could help achieve this goal. Relative to the SST, the GST can: broaden the tax base; increase tax compliance; and reduce the size of the shadow economy. The GST can also reduce cascading effects. However, a broad-based GST would be regressive. Together with compensatory measures for the removal of subsidies, targeted cash transfers could help offset regressivity associated with the GST. Tax incentives have also recently increased, raising the size of foregone revenues. Together with the intended implementation of the Global Minimum Tax (GMT), the existing incentive framework should be rationalized while also maintaining Malaysia's competitiveness as an investment destination (¶32). Building on prior reforms, further efforts to enhance the progressivity of personal income tax (PIT) can also generate additional revenues in an equitable manner, given that PIT revenues as a share of GDP in Malaysia are below the regional average. Staff supports the authorities' ongoing efforts to improve tax compliance, such as the mandatory use of e-invoicing, which began in August 2024.

19. The historic enactment of the FRA in 2023 is expected to enhance fiscal responsibility and transparency (Annex II)**.** The FRA includes desirable features such as fiscal objectives and quantitative values, comprehensive planning and reporting requirements, and a focus on proactively mitigating fiscal risks. Going forward, implementation of the FRA is key. Budget 2025, the first budget after the FRA's passing, featured many of its requirements but staff encourages the authorities to promptly develop and publish the required fiscal risk statement and tax expenditure statement—together with publishing a more detailed medium-term fiscal framework, complemented by medium-term revenue and expenditure strategies. The IMF can continue to support these efforts through capacity development. The FRA can also be strengthened going

[9] See Appendix VI of CR 23/185 for more details on the elements needed for a successful long-lasting subsidy reform drawing on past country experiences.

[10] See Appendix VI of CR 24/73 for details on the frontier analysis.

forward by requiring the annual budget to be consistent with the authorities' medium-term fiscal strategy (see Annex II for more detail).

Authorities' Views

20. The authorities are committed to advancing fiscal consolidation to rebuild buffers and meet the FRA's targets over the medium term. The government is committed to widening the revenue base and reducing its reliance on petroleum-related revenue in the medium term. To achieve this, they plan to increase tax revenues to 14 percent of GDP. In 2024, the government increased the service tax rate from 6 to 8 percent and introduced e-invoicing to improve tax administration and compliance. In the recently approved Budget 2025, the government has continued with the enhancement of the scope of the SST and introduced a new tax on dividend income. The authorities are committed to expenditure reforms, including further subsidy rationalization with improved social assistance targeting (e.g., a higher 2025 allocation for cash assistance programs—namely Sumbangan Tunai Rahmah (STR), Sumbangan Asas Rahmah (SARA), and monthly cash assistance under the Department of Social Welfare—to ease cost of living and support vulnerable groups), as well as rationalization of government agencies and statutory bodies. The authorities are focused on implementing the FRA and developing a detailed Medium-term Fiscal Framework, a Medium-term Revenue Strategy, a Medium-term Expenditure Strategy, and published fiscal risk and tax expenditure statements. Their current aim, aligned with FRA, is to link the medium-term strategy to the annual budget. The authorities have produced a fiscal strategy and pre-budget statement to facilitate interim discussions with the Fiscal Policy Committee prior to the annual budget's finalization.

B. Monetary and Exchange Rate Policies

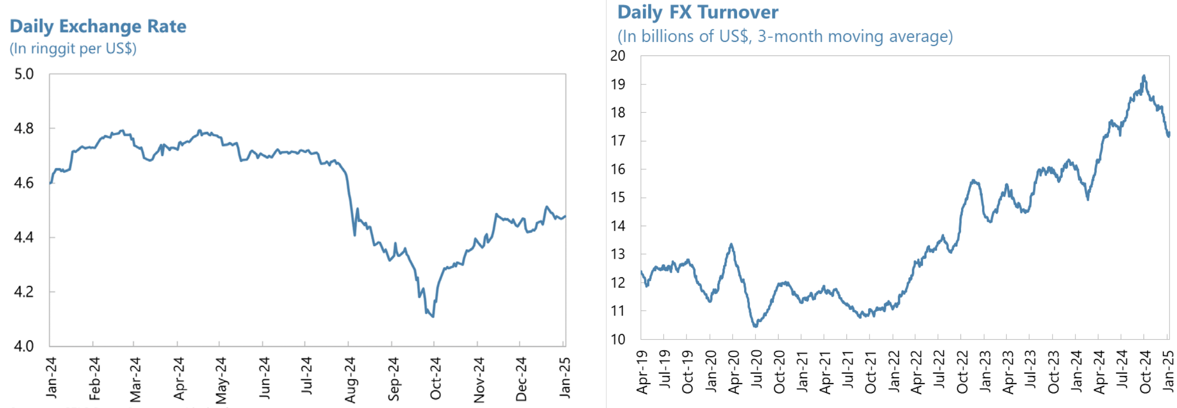
21. BNM should remain vigilant against upside risks to inflation. Staff estimates of the neutral real rate suggest that the current monetary policy stance is broadly neutral,[11] which is appropriate at the current juncture, given that disinflation is taking hold and underlying inflation has remained low and stable since mid-2023. Nonetheless, going forward, BNM should be mindful of the upside risks to inflation (see ¶13), and monetary policy should remain data dependent, to ensure that inflation expectations stay well-anchored. A tightening bias is warranted. Namely, BNM should stand ready to tighten monetary policy if the reform of gasoline subsidies triggers second-round effects that threaten to de-anchor inflation expectations, or if generalized wage pressures emerge from increases in the minimum wage or civil servants' salaries. Premature monetary policy easing in response to transient declines in inflation is better avoided.

22. Maintaining exchange rate flexibility remains essential. Staff welcomes BNM's commitment to exchange rate flexibility, which has been demonstrated by fluctuations in the ringgit during 2024. The daily FX turnover, which had remained relatively steady between 2022–23—a

[11] As of October 2024, the estimated neutral real rate is in the range of 1.1–1.3 percent, relative to a real policy rate of 1.1 percent.

period marked by heightened external pressures and subdued FX conversions by exporters—resumed its upward trajectory in 2024, rising above US$19 billion. This is encouraging and reflective of the ongoing and welcome steps taken by BNM to liberalize and deepen the FX market and enhance price discovery.[12] The increase in FX turnover starting in 2024Q2 was also supported by efforts made by the authorities to encourage GLCs and GLICs to repatriate and convert FX, which, according to the authorities, has led to stable FX supply in the market.

Malaysia: Daily Exchange Rate and Turnover

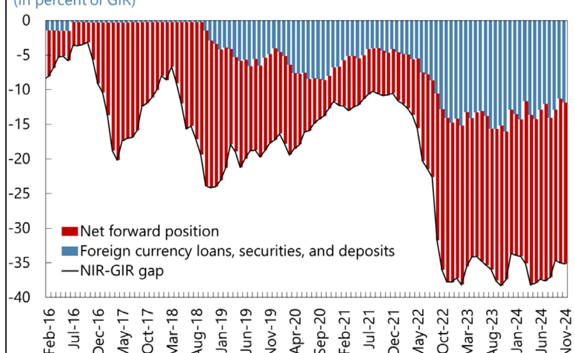


Sources: CEIC Data Company Limited.

Sources: Bank Negara Malaysia; and IMF staff calculations.

23. Reserve adequacy should be preserved. Malaysia's gross international reserves (GIR) amounted to US$116.2 billion as of end-December 2024, which remain adequate based on the IMF's ARA metric (109 percent). However, the gap between GIR and net international reserves (NIR) widened in late 2022 and has remained broadly unchanged since then.[13] This originated from increases in (i) BNM's net short forward positions in FX swaps with banks, which in turn reflected reduced conversion of FX proceeds by exporters, higher domestic FX balances, and the need to address an associated increase in ringgit liquidity demand, and (ii) short-term FX deposits at BNM. Risks from the GIR-NIR gap are mitigated because the counterparties in the FX swap contracts are domestic entities and the rise in FX deposits has been bolstered by increased FX holdings by corporates and exporters, which are expected to be stable. However, staff recommends opportunistic reserve accumulation during risk-on episodes to maintain adequate reserve coverage while gradually unwinding the short FX swap positions.

Short-term Drains on FX Reserves
(In percent of GIR)



Sources: Bank Negara Malaysia; and IMF staff calculations.

---

12 BNM has implemented several measures over the years to deepen the onshore market and improve market efficiency by simplifying market regulation, enhancing FX hedging instruments, and extending trading hours.

13 See IMF Country Report No. 24/73 for details.

Authorities' Views

24. **BNM agreed with staff's assessment that the current monetary policy stance is broadly neutral and appropriate.** The upside risks to inflation are not significant enough to necessitate changes in the monetary policy stance at this juncture. Nonetheless, monetary policy adjustments will remain data-driven and forward-looking to ensure price stability in an environment of sustainable growth. The authorities reaffirmed their commitment to maintaining exchange rate flexibility, supported by ongoing efforts to deepen the FX market. BNM also assured that its reserves continue to be adequate, with gross reserves being fully usable, supported by the ample FX liquidity within the banking system. The increase in BNM's net short positions in FX swaps have resulted primarily from demand from banks in managing ringgit liquidity and are expected to be gradually unwound. BNM agreed that opportunistic reserve accumulation would be appropriate when market conditions allow.

C. Macro-Financial Policies

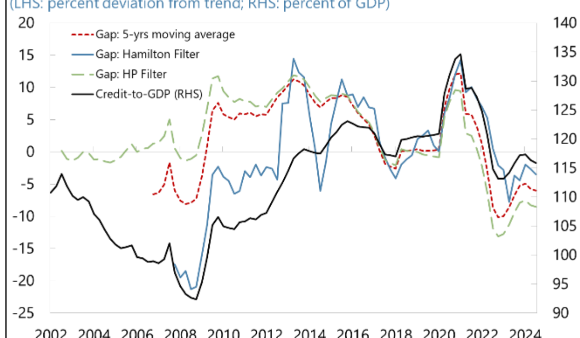
25. **Systemic risks in Malaysia's financial sector remain contained, but continued vigilance is warranted for highly leveraged borrowers, nonbank financial institutions (NBFIs), and climate risks.** Banks remain resilient and asset quality has been robust, marked by low NPLs (see ¶9). Credit growth, balance sheets of corporates and households, and real estate markets do not pose systemic risks at this juncture, although vigilance is warranted against highly leveraged borrowers (¶26 and ¶27). NBFIs—including pension funds, insurance companies, and investment funds—hold half of the total financial system assets and maintain significant interconnections with banks, posing potential contagion risks through balance sheet linkages. The risks are mitigated by banks' strong capital and liquidity positions, and oversight over most NBFIs' management and operations.[14] Given the exposure of the financial system to climate risks, implementing climate risk disclosure requirements for financial institutions by end-2024, along with climate risk stress testing by end-2025, is a welcome step.

26. **While rising credit growth does not show major signs of imbalances, pockets of vulnerabilities require vigilance.**

- Bank credit growth to the private sector remains strong at 5.9 percent (y/y) in nominal terms in June 2024, commensurate with the overall pace of economic growth. Staff's assessment of the credit gap suggests that credit growth at the current juncture is not excessive.

Credit Gap

(LHS: percent deviation from trend; RHS: percent of GDP)



Sources: CEIC Data Company Limited; and IMF staff calculations.

[14] BNM's Financial Stability Review 2023H2, Box Article "Contagion Risk from NBFIs Activities" analyzes the banking sector's exposure to NBFIs through assets and liabilities as well as common asset holdings.

- While overall household debt is high in Malaysia (83.8 percent of GDP in 2024Q2), their financial assets remain 2.1 times as large as their debt. The share of firms-at-risk[15], though elevated at 23.4 percent as of June 2024, has seen a reduction from 28.4 percent at end-2023. Nonetheless, there are pockets of vulnerabilities related to some households and firms that are highly leveraged and have low buffers. The authorities should continue to assess risks emanating from such entities while increasing awareness of preventative measures, such as out-of-court debt restructuring as well as insolvency and bankruptcy procedures.

- Malaysia's macroprudential toolkit for households purchasing residential properties primarily includes a loan-to-value (LTV) limit of 70 percent on the third and subsequent mortgages, along with a maximum mortgage term of 35 years. Given the risk of accelerating credit growth amid the strong economic growth and accommodative financial conditions (¶8), the authorities could consider pre-emptive broadening of their macroprudential policy toolkit to ensure that a variety of tools are ready to be deployed to address any risk build-up. For instance, introducing sector-wide LTVs on first and second properties and debt-service-to-income limits for new mortgage borrowers can mitigate potential risks arising from the sizeable share of floating rate loans. In addition, the authorities could consider increasing the neutral rate for the countercyclical capital buffer from its existing rate of 0 percent.

27. Financial sector risks from property markets are contained. House price and affordability indicators suggest that risks of imbalances or sharp price corrections are limited. The predominance of owner-occupied homes further mitigates potential vulnerabilities. Unsold housing inventory still exists albeit declining, and incoming housing supply is steady, further supporting market stability. While high vacancy rates in office spaces and shopping complexes have been a longstanding concern in Malaysia’s commercial real estate sector, risks to the overall financial system are contained, with office spaces and shopping complexes only accounting for 2.6 percent of total banking system loans in June 2024.

28. While Malaysia’s efforts to digitalize its payment system continue, vigilance is warranted against cyber risks. Malaysia has witnessed robust growth in e-payment adoption, and collaboration on cross-border instant payments with neighborhood countries continues. BNM is also exploring the potential of Central Bank Digital Currency (CBDC), with a focus on wholesale CBDC, to further enhance the efficiency of both domestic and cross-border payments. With the growing digitalization of financial services and reliance on third-party service providers, staff welcomes BNM’s vigilance over responses of financial institutions to cyber risks.

29. Malaysia should continue to enhance the AML/CFT framework. The authorities have taken tangible steps to strengthen corporate transparency to better track ownership structures and curb illicit financial activities. The Companies (Amendment) Act 2024 has introduced a comprehensive framework of mandatory beneficial ownership (BO) reporting, requiring companies to maintain a register with detailed information on beneficial owners. The Act also expands

[15] Share of firms with interest coverage ratio less than 2.

definition of beneficial owners and specifies that the obligation to report beneficial ownership also applies to foreign companies. The Companies Commission of Malaysia published a revised guideline to assist reporting companies in complying with the new BO reporting obligations. In August 2024, BNM completed its updated national risk assessment, which identified high-risk crimes and led to a more coordinated response to counter high-risk threats.

Authorities' Views

30. The authorities concurred with the staff's assessment that systemic risks within Malaysia's financial sector remain contained. They observed that financial conditions have been supportive of economic activities, without indications of overall credit excesses. Banks continue to maintain robust capital and liquidity buffers, surpassing regulatory minimums. BNM continues to monitor small pockets of vulnerabilities among highly leveraged households as well as SMEs in the wholesale, retail, and primary manufacturing sectors, although impairment ratios for these segments remain very low. Proactive measures by the authorities have led to increased enrollment in debt management and counseling programs, which contributed towards mitigating future financial risks. Banks' exposure to the commercial real estate sector is low, and about 80 percent of mortgage loans are for owner-occupied properties, mitigating financial sector risks from the property markets. BNM acknowledged that the current macroprudential measures are effective, with no immediate need for recalibration. However, they affirmed that BNM is prepared to expand and deploy its macroprudential toolkit preemptively in a timely manner if necessary. Efforts have been made to mitigate cyber and climate risks.

D. Macro-Structural Policies

31. Structural reforms are crucial for enhancing productivity and inclusive growth in Malaysia. Staff analysis found that structural reforms such as reducing non-tariff barriers, making the labor market more flexible, and speeding up business de-regulation can enhance economic complexity and raise labor share of income in Malaysia.[16] Under the Economy MADANI Framework, the authorities have developed a set of concerted policy frameworks, to help bring Malaysia to a high-income status. They are reviewing non-tariff measures to reduce trade restrictions through improved transparency, streamlined procedures, and digital transformation, including through the Government Efficiency Commitment initiative and the Malaysian Productivity Corporation, all aligned with New Industrial Master Plan (NIMP) 2030 goals. Malaysia's Progressive Wage Policy, launched in June 2024 as a pilot, aims to boost wages and productivity for targeted sectors through voluntary participation and incentives. Continued implementation of reforms, leveraging periodic evaluations, remains critical.

32. Investment incentives to promote high-growth and high-value industries should be well-targeted and ring-fenced. Recently announced industrial policy (IP) measures include fiscal support, such as tax incentives, grants, and infrastructure support, to upgrade Malaysia's

[16] Staff conducted in-depth assessment of structural reforms in the 2024 Article IV consultation with Malaysia. See IMF Country Report No. 24/73.

semiconductor industry under the National Semiconductor Strategy; a new investment incentive framework to be implemented in 2025Q3; and incentives for the Johor-Singapore Special Economic Zone (SEZ). Tax incentives should be targeted to achieve the authorities' objectives of increasing the complexity of the Malaysian economy, continue to be linked to outcomes like investments, properly ring-fenced, and subject to a sunset clause, while minimizing revenue losses and governance risks and avoiding discriminatory measures that distort trade and investment flows. Periodic, evidence-based public assessments are warranted. While Malaysia should be mindful of costs and benefits of IP measures, staff welcomes the authorities' plan under the NIMP to review tax incentives and to improve Malaysia's overall investment climate. Staff also welcomes the planned implementation of the GMT.

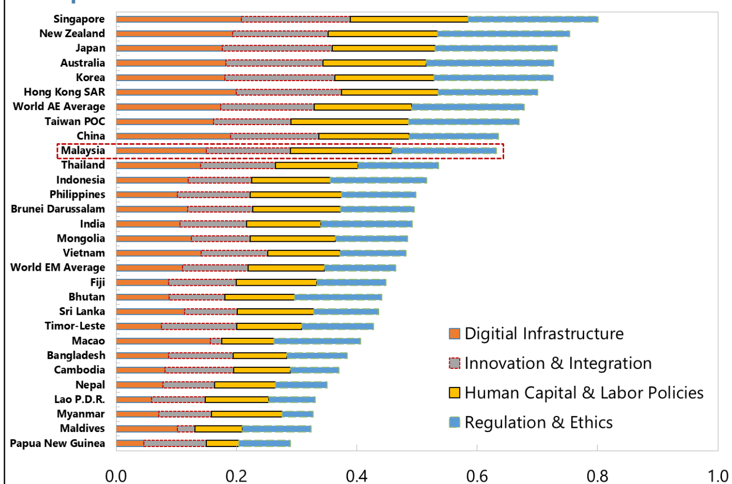
33. Malaysia should continue to strengthen social safety nets and develop a centralized socio-economic national database. Well-developed social safety nets are critical to proceed with further subsidy and tax reforms to cushion their negative impacts on the poor and vulnerable, and would also help address external imbalances (¶10, Annex VI). Existing targeted cash transfer schemes, such as the Rahmah Cash Aid scheme (STR) that covers over half of Malaysia's households, still appear to suffer from inadequate coverage. In this context, staff welcomes the progress made with developing the Pangkalan Data Utama (PADU), a centralized digital national registry that captures the socio-economic data of individuals and households (Annex III). The PADU has covered about 90 percent of Malaysia's total population; the registration milestone was achieved by integrating previously unlinked data sources from various agencies into the PADU. Additionally, during the first phase of registration in 2024Q1, supplemental data updates were provided by 47 percent of citizens and permanent residents aged 18 and above. The PADU can potentially help to implement the planned retargeting of RON95 gasoline subsidies. The government also intends to use the PADU to improve socio-economic policy making and program design.

34. A transition to a greener economy poses a significant long-term challenge for Malaysia. The National Energy Transition Roadmap (NETR) seeks to meet Malaysia's target to achieve net zero emissions by 2050 via comprehensive policy efforts. The envisaged financing needs of MYR1.2-1.3 trillion over 2023-50 (more than 60 percent of 2024 GDP) require careful evaluation for macroeconomic and fiscal sustainability, along with cooperation among multilateral, bilateral, and private institutions.[17] The budget increased the allocation for National Energy Transition Fund (NETF), from MYR100 million in 2024 to MYR300 million in 2025, to catalyze blended finance for the projects under the NETR and attract private investments for marginally bankable projects. Staff welcomes the government's plan to introduce a carbon tax on iron, steel, and energy sectors by 2026. Further phasing out fuel subsidies (¶17) and broadening the coverage of carbon pricing, as envisaged in the NETR, could help reduce business uncertainty and promote steady decarbonization. Revenues from carbon pricing could be used for protecting the vulnerable from higher energy prices and for financing mitigation projects and adaptation spending.

[17] See IMF Departmental Paper No 2024/001:"Unlocking Climate Finance in Asia-Pacific: Transitioning to a Sustainable Future."

35. As Malaysia advances its digitalization efforts, it is important to further enhance AI readiness and ensure a smooth transition for workers exposed to AI. The country has successfully attracted substantial foreign investment in data centers, including large AI-ready data centers, positioning itself to achieve one of the highest capacities in the Asia-Pacific region. This robust foundation is reflected in the IMF's AI Preparedness Index (AIPI)[18], where Malaysia outperforms its peers in its readiness for AI adoption. Enhancing digital infrastructure and increasing R&D spending can further bolster Malaysia's AI readiness. Staff analysis suggests that a significant portion of works in AI-exposed occupations are employed in roles with low AI complementarity. Accordingly, appropriate reskilling and upskilling programs are essential to leverage the benefits of AI, while minimizing labor market disruptions.[19]

AI Preparedness Index



Sources: Cazzaniga et al. (2024)

36. Staff welcomes the authorities' focus on governance reforms. The recently adopted National Anti-Corruption Strategy 2024-28 acknowledges that corruption poses a significant barrier to Malaysia's economic and social advancement. It envisions the introduction of the Government Procurement Act and the Freedom of Information Act, which could reduce opportunities for corruption and strengthen government transparency and accountability. The amended Audit Act now empowers the Auditor General to audit public funds, including those of companies that receive government guarantees. Additionally, the planned amendment of the Whistleblower Protection Act and further strengthening of the investigative and prosecutorial powers of the Anti-Corruption Commission can enhance enforcement. Staff encourages the authorities to expedite the implementation of these reforms, as they can not only boost growth but also catalyze public support for broader structural reforms.

Authorities' Views

37. The authorities affirmed their commitment to advance structural reforms toward an inclusive, greener, and advanced economy with increased complexity. The PADU database is expected to reduce inclusion and exclusion errors of social assistance programs, help to implement the planned RON95 gasoline subsidy retargeting, and further strengthen socioeconomic program design beyond social safety nets. Through the NIMP 2030, Malaysia aims to advance the electrical and electronic industry; attract FDI for semiconductor design, packaging, and manufacturing;

[18] See https://www.imf.org/external/datamapper/datasets/AIPI.

[19] See Annex IV on the analysis of AI's impact on Malaysia's labor market.

become a global semiconductor R&D hub; and develop competitive SMEs in global value chains. A new outcome-based incentive framework to be introduced in 2025, will help improve the cost-effectiveness of tax incentives, as Malaysia started to implement the GMT in January 2025. To improve the business climate, the authorities have streamlined administrative procedures for investment and new businesses under an initiative called the Government Efficiency Commitment. The Progressive Wage Policy provides structured incentives for improving worker productivity and raising private sector wages, mainly targeting SMEs. This will be complemented by ongoing labor market reforms, such as a comprehensive talent strategy combining skill-based immigration, expanded Technical and Vocational Education and Training programs, enhanced job mobility and matching, and strategic workforce planning. To adopt AI, a national institution to supervise AI initiatives has been established, while efforts to implement upskilling and reskilling programs are ongoing. To support the 2050 net-zero carbon emission target, the NETR aims to boost renewable energy and adopt carbon capture and storage, while challenges would remain in accessing large-scale climate finance. The authorities are committed to continue advancing governance and anti-corruption reforms as a key pillar of the Economy MADANI Framework.

STAFF APPRAISAL

38. Malaysia's favorable economic conditions provide a window of opportunity to build macroeconomic policy buffers and accelerate structural reforms. Malaysia's strong growth momentum is expected to be sustained in the near term, with growth projected at 4.7 percent in 2025. Inflation, which eased to 1.8 percent in 2024, is projected to increase to 2.6 percent in 2025 on account of the anticipated implementation of gasoline subsidy reforms, before moderating to 2.3 percent in 2026. Malaysia's external position in 2024 is preliminarily assessed to be stronger than the level implied by medium-term fundamentals and desirable policies.

39. Risks to growth, mostly external, are tilted to the downside, while inflation risks are tilted to the upside. Downside external risks include deepening geoeconomic fragmentation, a growth slowdown in major trading partners, and intensification of geopolitical conflicts, while upside growth risks include faster implementation of investment projects. The upside risks to the inflation outlook stem from global commodity price shocks and potential wage pressures from increases in minimum wage and civil servants' pay.

40. Fiscal consolidation should continue to rebuild buffers and achieve the medium-term targets set under the FRA. Staff recommends achieving a small structural primary balance by 2027. Building on successful subsidy reforms, including for electricity and diesel, staff recommends gradually phasing out remaining fuel subsidies. Revenue mobilization efforts toward a more broad-based and efficient tax system are warranted. Reintroducing the GST could help achieve this goal. The associated impact of fiscal reforms on vulnerable households should be mitigated by well-targeted cash transfers. Staff welcomes the historic enactment of the FRA and recommends its swift and thorough implementation.

41. The current neutral monetary policy stance is appropriate. Going forward, monetary policy should remain data dependent. BNM should stand ready to tighten monetary policy if upside inflation risks materialize. Maintaining exchange rate flexibility is essential.

42. Financial systemic risks appear contained, and the financial sector remains sound. Banks' capital and liquidity positions are robust. Credit growth, corporate and household balance sheets, and real estate markets do not pose systemic risks at this juncture. Continued vigilance is warranted against pockets of more highly leveraged borrowers, interlinkages between banks and non-bank financial institutions, and climate and cyber risks—although spillover risks from these areas remain contained. Given the strong growth and accommodative financial conditions, pre-emptive broadening of the macroprudential policy toolkit could be considered.

43. Staff encourages swift implementation of the structural reform initiatives to enhance productivity and inclusive growth. The ongoing development of the PADU digital registry can help strengthen social safety nets and public service delivery. Investment incentives to promote high-growth and high-value industries should be well-targeted and ring-fenced. Further efforts are warranted toward Malaysia's transition to net-zero emissions and readiness for Artificial Intelligence. Staff welcomes the authorities' efforts to strengthen governance and the anti-corruption framework.

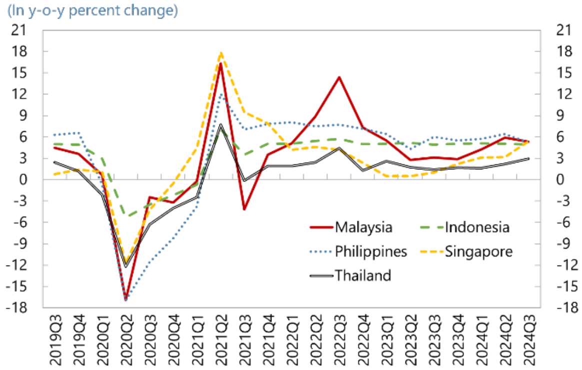
44. It is recommended that the Article IV consultation with Malaysia be held on the standard 12-month cycle.

Figure 2. Malaysia: Growth and Exports

Growth is picking up after moderating in 2023…

Real GDP Growth

(In y-o-y percent change)

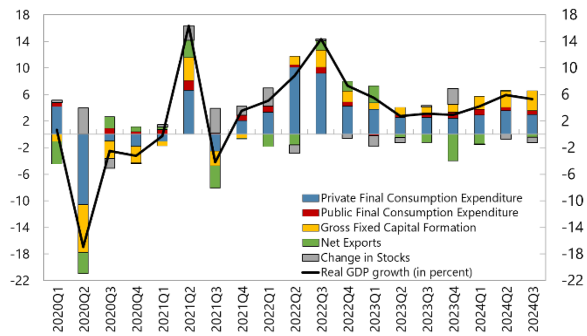


Sources: CEIC Data Company Limited.

… driven by resilient domestic demand and an improvement in external demand.

Contributions to Real GDP Growth

(In percentage points, y-o-y)

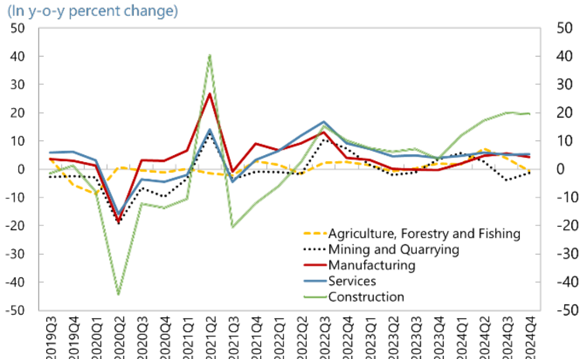


Sources: MYS Dept. of Statistics; Haver Analytics; and IMF staff calculations.

Growth is broad-based, with construction and manufacturing experiencing an increase in activity…

Real GDP by Industry

(In y-o-y percent change)

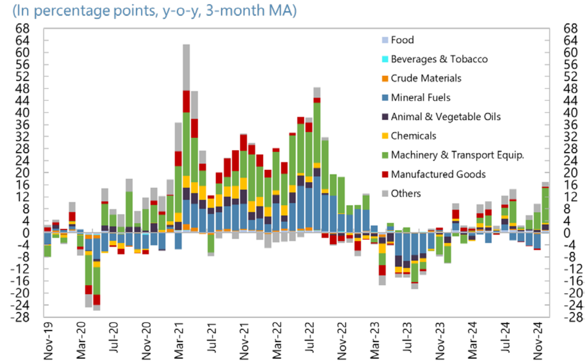


Sources: MYS Dept. of Statistics; Haver Analytics; and IMF staff calculations.

… propelled by a turnaround in export growth…

Contribution to Merchandise Export Growth

(In percentage points, y-o-y, 3-month MA)

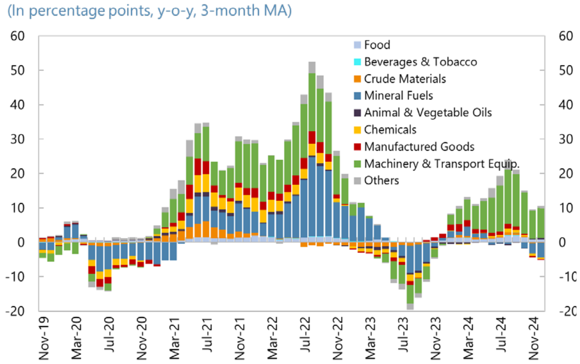


Sources: MYS Dept. of Statistics; Haver Analytics; and IMF staff calculations.

… and also leading to an increase in imports of intermediate inputs.

Contribution to Merchandise Import Growth

(In percentage points, y-o-y, 3-month MA)

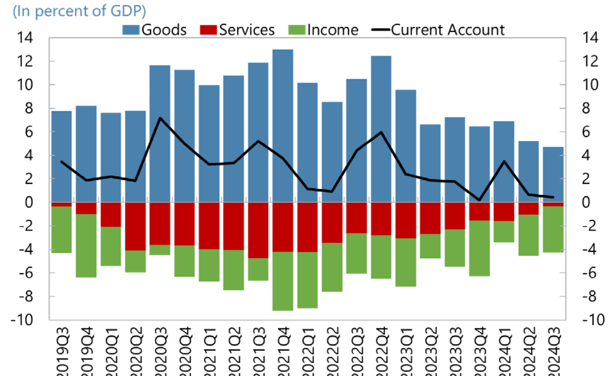


Sources: MYS Dept. of Statistics; Haver Analytics; and IMF staff calculations.

Malaysia's current account balance remains positive but narrowed in 2024Q2 and 2024Q3.

Current Account Balance

(In percent of GDP)

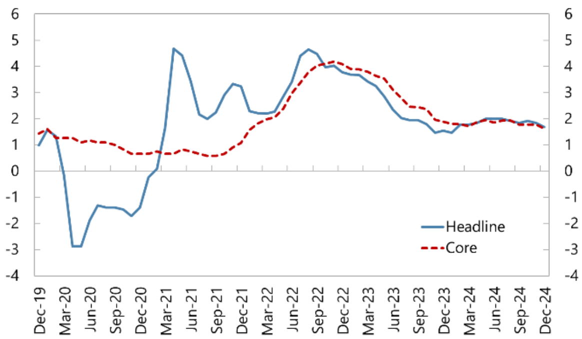


Sources: MYS Dept. of Statistics; CEIC Data Company Ltd; and IMF staff calculations.

Figure 3. Malaysia: Inflation

Disinflation has taken hold…

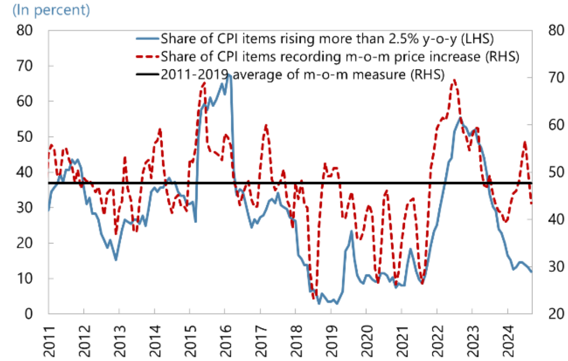
Inflation Developments
(In y-o-y percent change)



Sources: CEIC Data Company Ltd; MYS Dept. of Statistics; and IMF staff calculations.

… and inflation pervasiveness has declined.

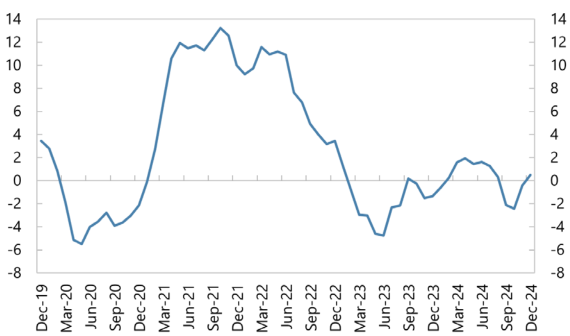
Inflation Broadness Indices
(In percent)



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

Producer prices have also moderated significantly.

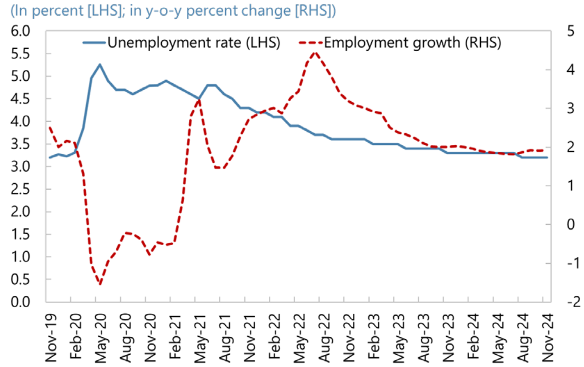
Producer Price Index
(In y-o-y percent change)



Sources: CEIC Data Company Limited; and MYS Dept. of Statistics.

The unemployment rate is back to pre-pandemic levels.

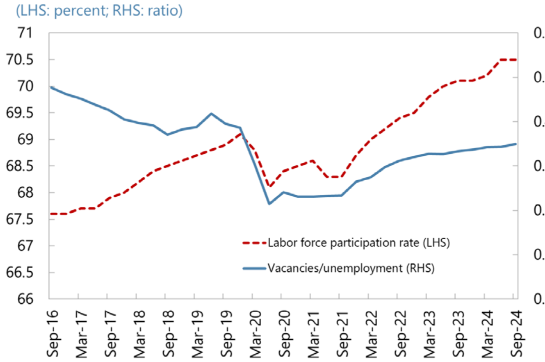
Labor Market Developments
(In percent [LHS]; in y-o-y percent change [RHS])



Sources: CEIC Data Company Limited.

The labor market is tightening and labor force participation has increased.

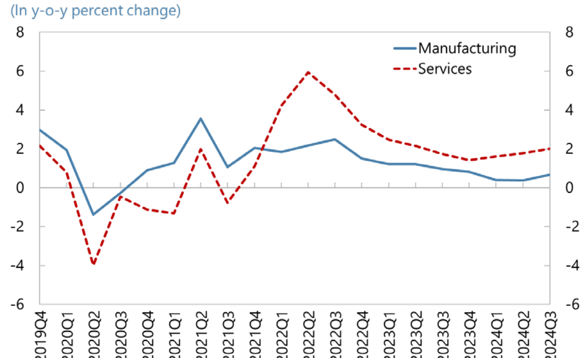
Labor Market Tightness
(LHS: percent; RHS: ratio)



Sources: MYS Dept. of Statistics; and IMF staff calculations.

Wage growth has been moderate after rising in 2022.

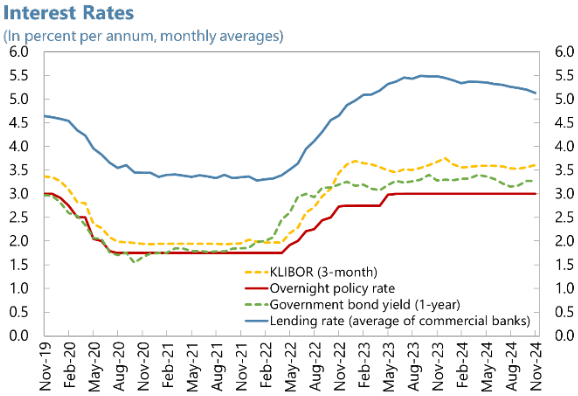
Growth in Average Monthly Salary & Wages
(In y-o-y percent change)



Sources: MYS Dept. of Statistics; Haver Analytics; and IMF staff calculations.

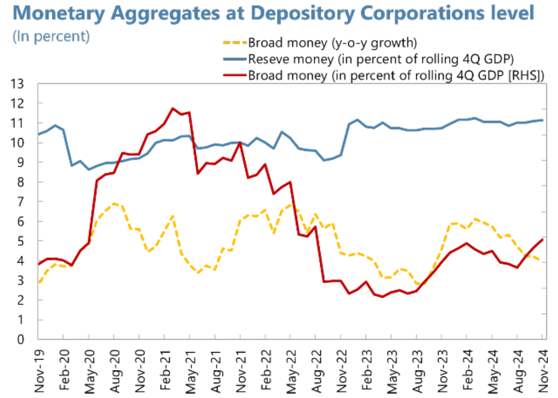
Figure 4. Malaysia: Monetary Developments

BNM has kept the OPR unchanged since May 2023, after a cumulative rate hike of 125bps over the previous year.



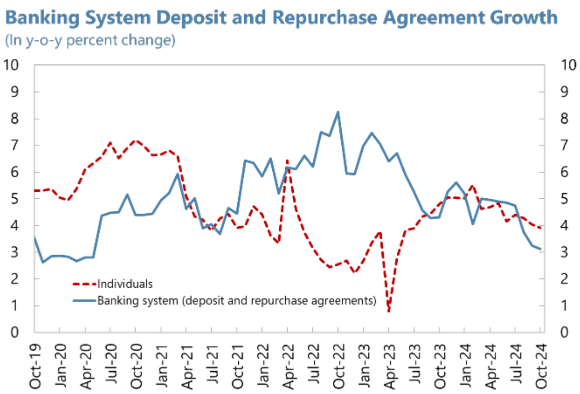
Sources: Bank Negara Malaysia; and Haver Analytics.

Broad money growth has been largely stable in 2024.



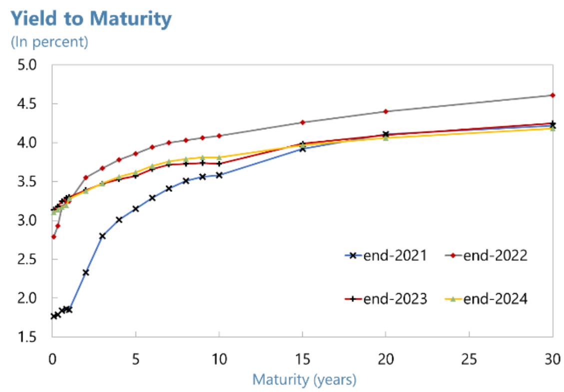
Sources: Bank Negara Malaysia; MYS Dept. of Statistics; CEIC Data; and IMF staff calculations.

Individuals' deposits in the banking system have increased.



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

The yield curve has flattened since BNM tightened monetary policy.



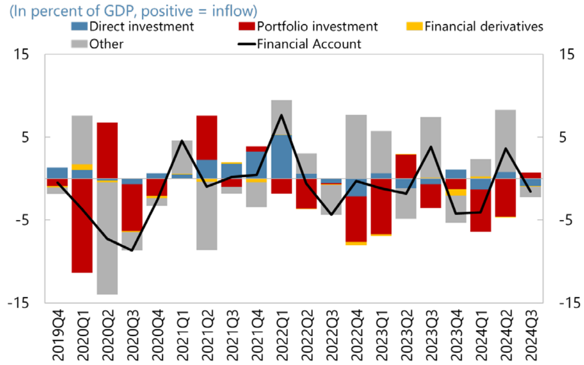
Sources: Bank Negara Malaysia; and IMF staff calculations.

Figure 5. Malaysia: Capital Flows

Portfolio outflows continued in 2024 though other investments saw inflows.

Financial Account Balance, Net

(In percent of GDP, positive = inflow)

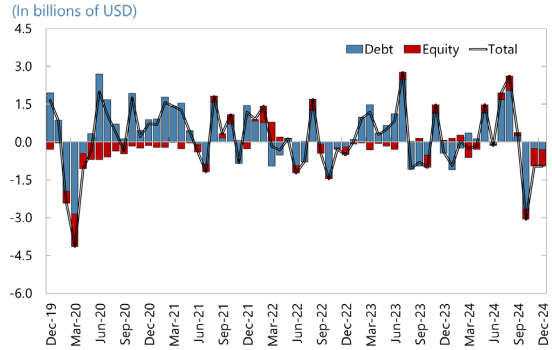


Sources: MYS Dept. of Statistics; CEIC Data Company Ltd; and IMF staff calculations.

Non-residents' holding of portfolio debt have fluctuated with expectations about future AE monetary policy paths...

Nonresident Portfolio Capital Flows

(In billions of USD)

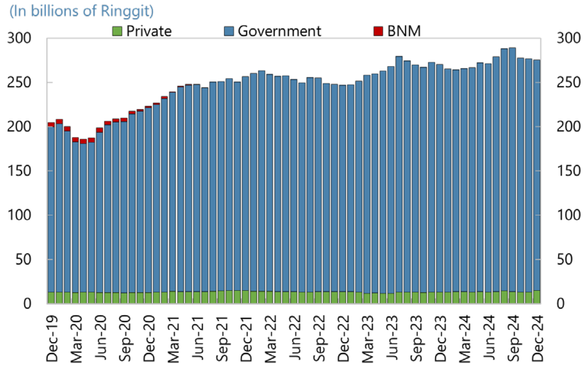


Note: Based on staff estimates from debt and equity markets data.
Sources: Bank Negara Malaysia; Bursa Malaysia; CEIC Data Ltd; and IMF staff calculations.

... but have remained stable on net.

Foreign Holdings of Local-Currency Debt Securities

(In billions of Ringgit)

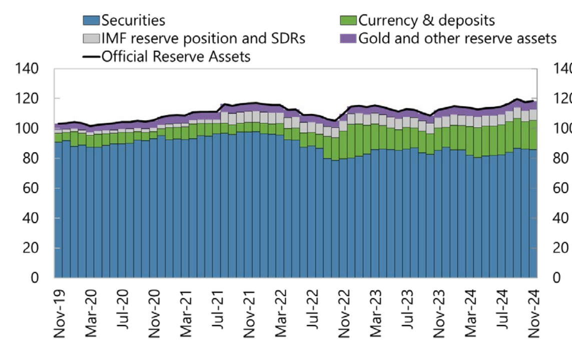


Sources: Bank Negara Malaysia; CEIC Data Company Ltd; and IMF staff calculations.

Gross FX reserves increased slightly in 2024.

Gross International Reserves

(In billions of USD)

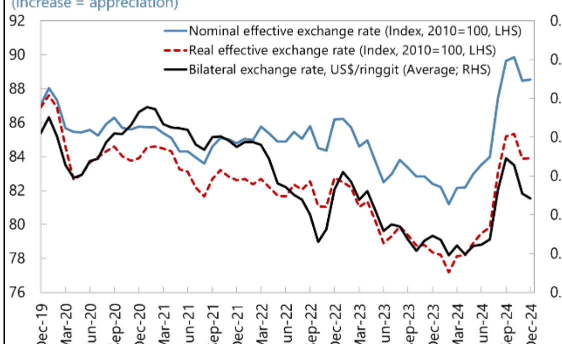


Sources: Bank Negara Malaysia; CEIC Data Company Ltd; and IMF staff calculations.

Following a depreciation trend over the previous two years, the ringgit appreciated slightly in 2024.

Exchange Rates

(Increase = appreciation)

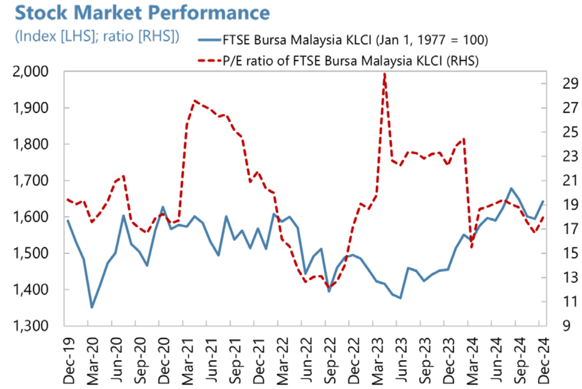


Sources: IMF, *International Financial Statistics*.

The stock market closed in profits as of end-September 2024, relative to end-2023.

Stock Market Performance

(Index [LHS]; ratio [RHS])



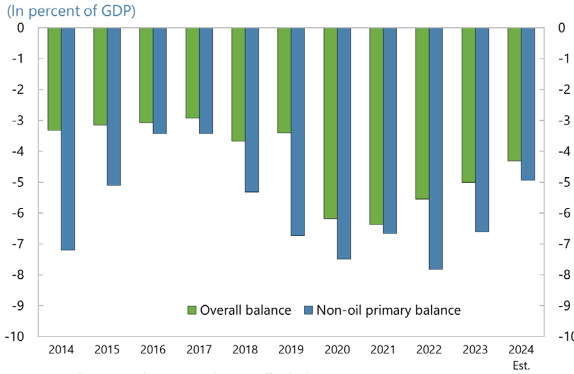
Sources: Bursa Malaysia; and CEIC Data Company Ltd.

Figure 6. Malaysia: Fiscal Policy Developments

Following a large widening during the pandemic, the deficit is narrowing.

Federal Government: Overall and Non-Oil Balance

(In percent of GDP)

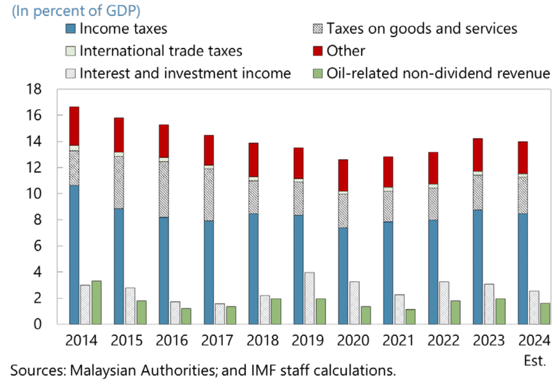


Sources: Malaysian Authorities; and IMF staff calculations.

Total revenues to GDP declined in 2024 due to lower oil-related revenues and despite stronger indirect tax collection.

Federal Government Revenue

(In percent of GDP)

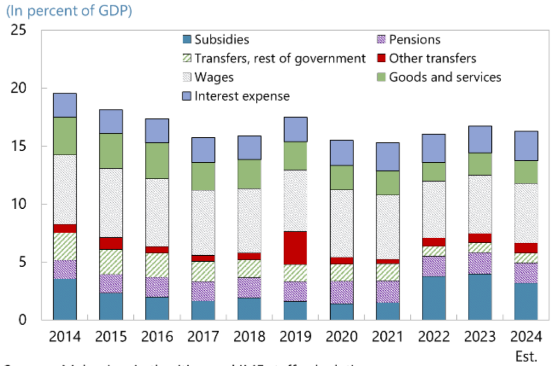


Sources: Malaysian Authorities; and IMF staff calculations.

Current expenditures declined slightly in 2024, largely due to lower spending on subsidies.

Federal Government Current Expenditures

(In percent of GDP)

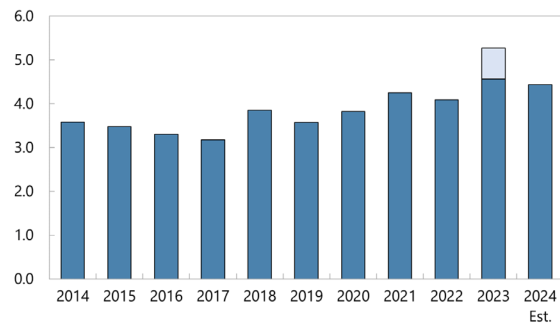


Sources: Malaysian Authorities; and IMF staff calculations.

Development spending has been high in recent years.

Federal Government Development Spending

(In percent of GDP)

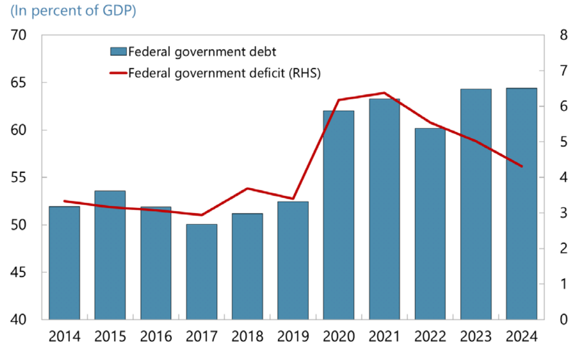


Note: The lightly shaded portion represents a one-off 1MDB bond redemption.
Sources: Malaysian Authorities; and IMF staff calculations.

Public debt rose in 2020 due to the fiscal response to the pandemic and remains elevated.

Federal Government Debt, Budget Balance

(In percent of GDP)

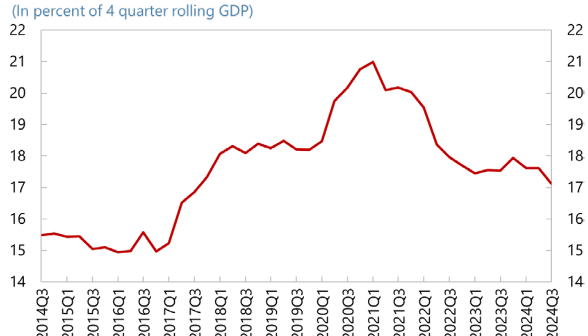


Sources: Malaysia Authorities; and IMF staff estimates.

Government guarantees fell slightly to 17 percent of GDP in 2024.

Federal Government Loan Guarantees

(In percent of 4 quarter rolling GDP)

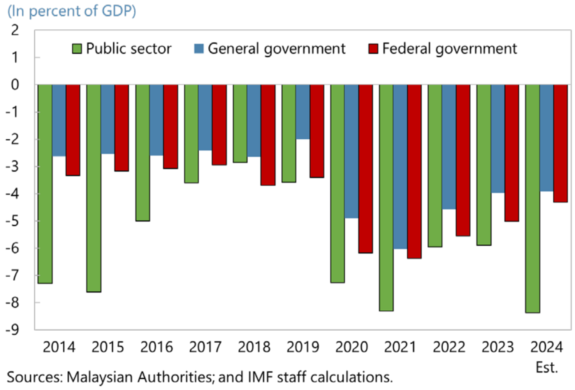


Note: Coverage is limited to guarantees under Act 96.
Sources: Bank Negara Malaysia; CEIC Data Company Ltd; and IMF staff calculations.

Figure 7. Malaysia: Public Sector Fiscal Stance and Prospects

The non-financial public sector deficit worsened in 2024.

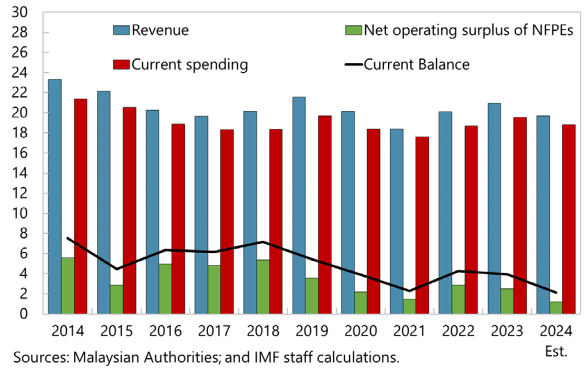
Fiscal Balance
(In percent of GDP)



Sources: Malaysian Authorities; and IMF staff calculations.

Public companies' net operating surpluses fell in 2024.

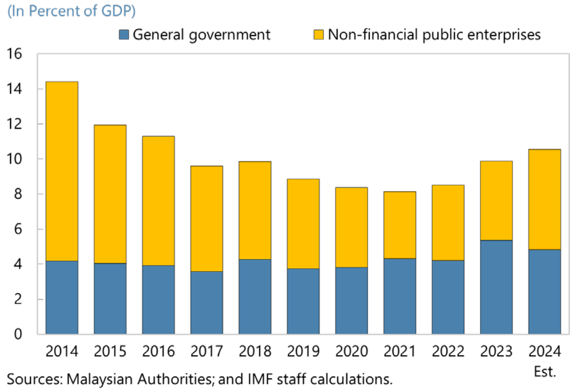
Current Balance of the Public Sector
(In Percent of GDP)



Sources: Malaysian Authorities; and IMF staff calculations.

Non-financial public sector development spending is close to its pre-pandemic levels.

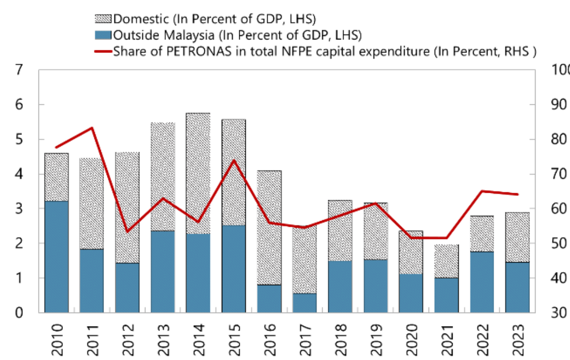
Development Spending
(In Percent of GDP)



Sources: Malaysian Authorities; and IMF staff calculations.

Petronas accounts for the majority of development spending by nonfinancial public enterprises.

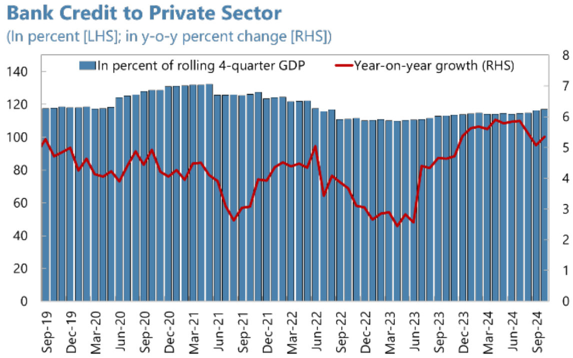
Capital Spending by PETRONAS



Sources: PETRONAS; Malaysian Authorities; and IMF staff calculations.

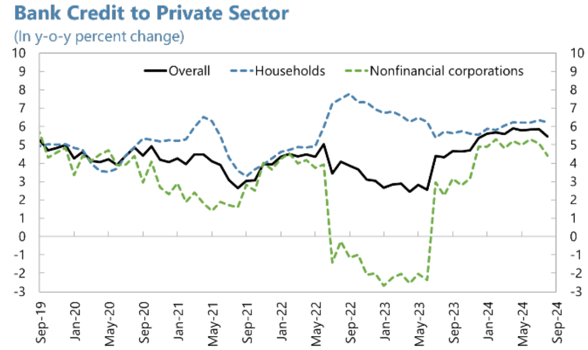
Figure 8. Malaysia: Financial Sector Developments

Credit to private sector picked up…



Note: The growth rates have been adjusted by staff to account for the re-classification of a non-bank to bank in April 2018.
Sources: IMF, *Integrated Monetary Database*; MYS Dept. of Statistics; CEIC Data; & IMF staff calculations.

…supported by credit demand from both households and non-financial corporations.

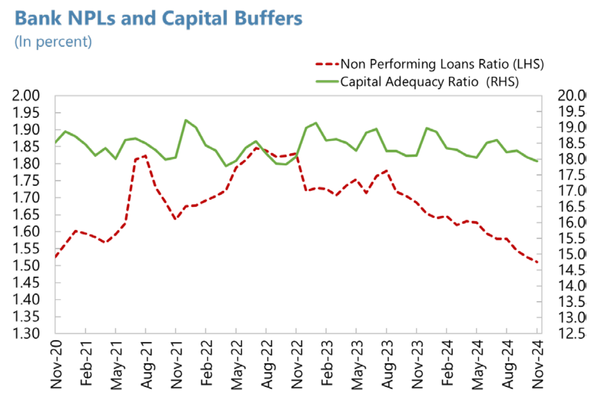


Note: The growth rates have been adjusted by staff to account for the re-classification of a non-bank to bank in April 2018.
Sources: IMF, *Integrated Monetary Database*; and IMF staff calculations.

Corporate leverage continues to compare favorably to peers.

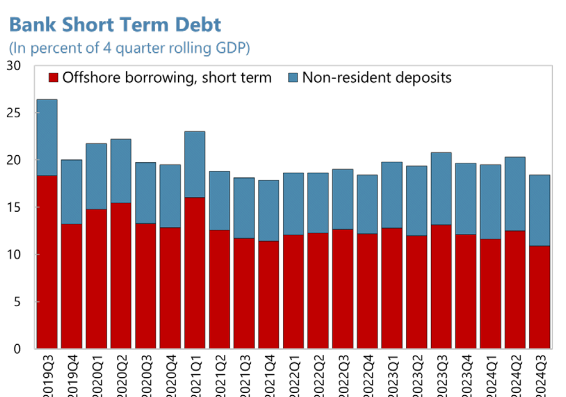
Note: Values presented are median values for nonfinancial sector. The data for Philippines and Thailand are from 2022.
Sources: IMF, *Corporate Vulnerability Indicators*.

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



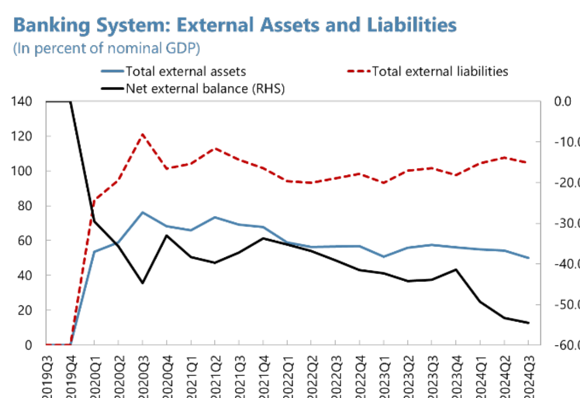
Sources: Bank Negara Malaysia; and CEIC Data Company Ltd.

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



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

Banks' net external asset position remains weak.

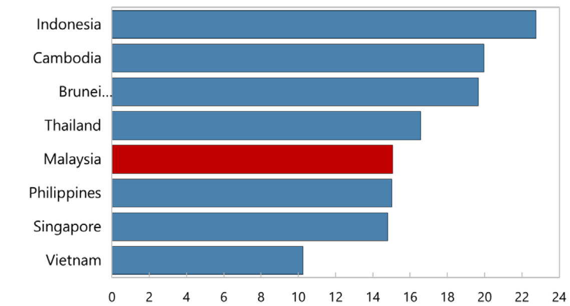


Sources: Bank Negara Malaysia; CEIC Data Company Limited; and IMF staff calculations.

Figure 9. Malaysia: Financial Soundness Indicators

Malaysian banks have strong capital buffers…

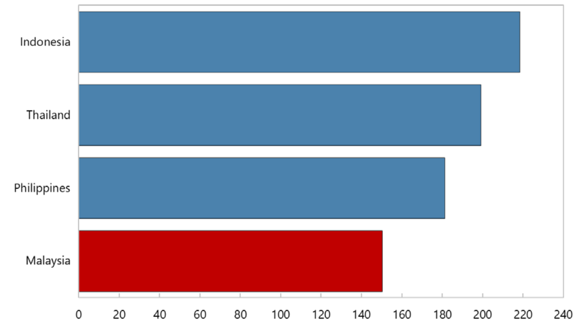
Regulatory Tier 1 Capital to Risk-Weighted Assets
(In percent)



Note: All except for Vietnam (2023Q2), Singapore (2023Q3), and Brunei (2023Q2) as of 2024Q1.
Sources: IMF, *Financial Soundness Indicators*.

… and sufficient liquidity coverage.

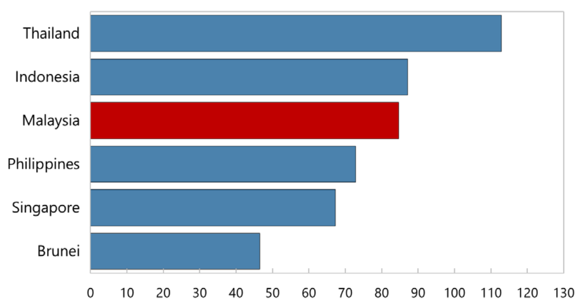
Liquidity Coverage Ratio
(In percent)



Note: All are as of 2024Q1.
Sources: IMF, *Financial Soundness Indicators*.

Lending in proportion of deposits remains moderate and in line with peers…

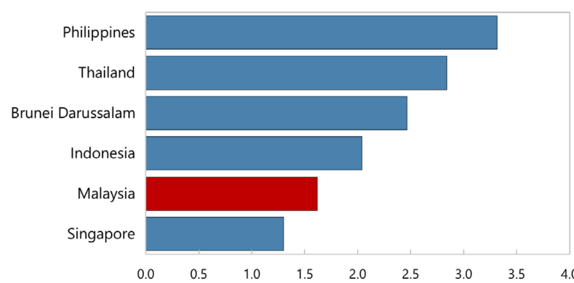
Loans to Deposits Ratio for Commercial Banks
(In percent, end of period)



Note: All are as of 2024M06.
Sources: CEIC Data Company Ltd.

… and asset quality remains high.

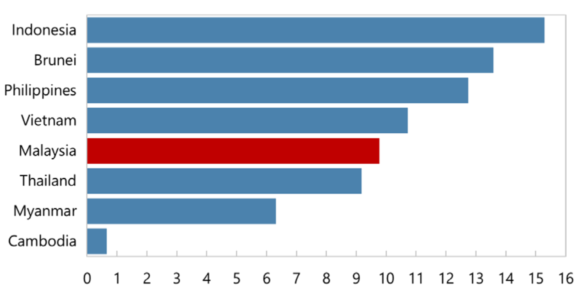
Nonperforming Loans to Total Gross Loans
(In percent)



Note: All except for Singapore (2023Q3), Vietnam (2023Q2) and Brunei (2023Q2) are as of 2024Q1.
Sources: IMF, *Financial Soundness Indicators*.

Banks remain profitable…

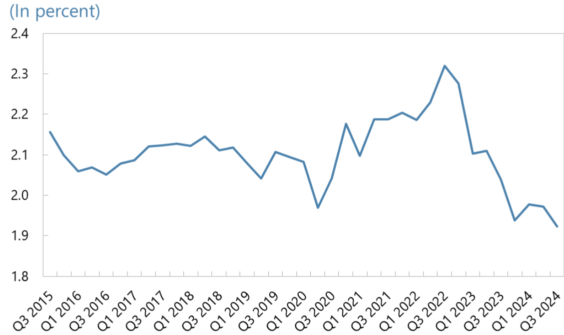
Return on Equity
(In percent)



Note: All except for Brunei (2023Q2), Singapore (2023Q3), Vietnam (2023Q2), and Myanmar (2023Q4) are as of 2024Q1.
Sources: IMF, *Financial Soundness Indicators*.

… although their net interest margins declined through most of 2023.

Banks Net Interest Margin
(In percent)

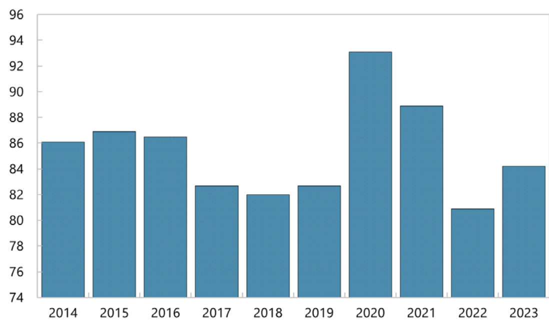


Note: Net Interest Margin (NIM) is the average of eight largest Malaysian commercial banks's NIMs for each Financial Quarter.
Sources: S&P Capital IQ; and IMF staff calculations.

Figure 10. Malaysia: Household Debt

Household debt (in the banking system) as share of GDP increased slightly...

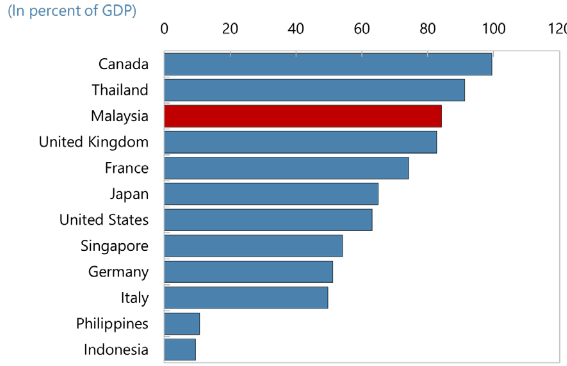
Household Debt
(In percent of GDP)



Sources: CEIC Data Company Limited; and Bank Negara Malaysia.

... and remains high compared to peers.

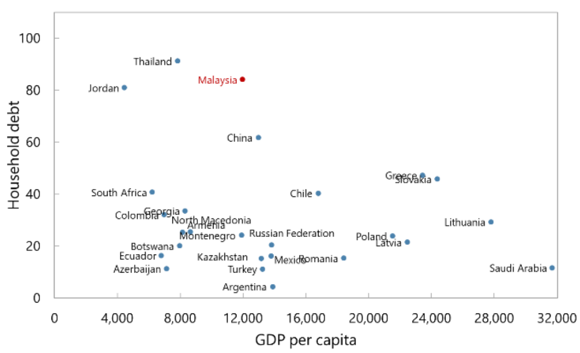
Household Debt Across G7 and ASEAN-5 Countries, 2023
(In percent of GDP)



Sources: CEIC Data Company Limited, *Global Economic Monitor*.

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

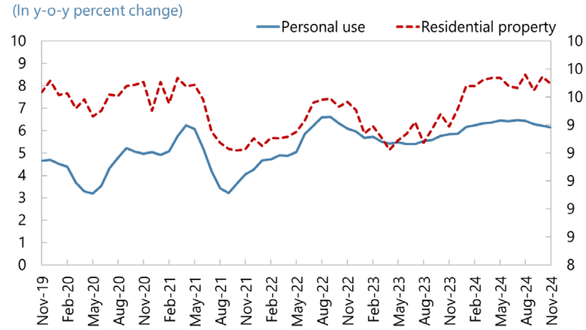
Household Debt and GDP per Capita
(2013-23 averages; in current USD [X axis]; in percent of GDP [Y axis])



Sources: CEIC Data Company Limited, *Global Economic Monitor*.

Household loan growth was propelled by housing loans.

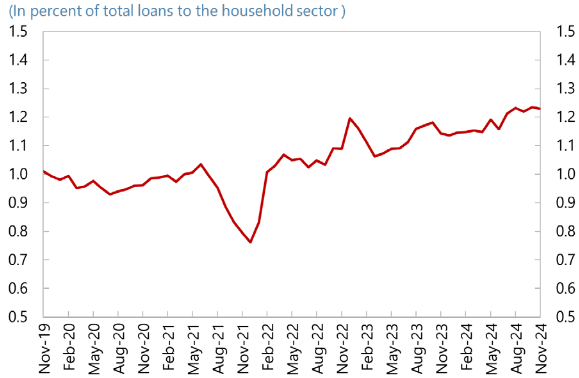
Household Loan Growth
(In y-o-y percent change)



Note: This chart is for household loan in the banking system only. Presented growth rates have been adjusted by staff to account for the re-classification of a non-bank to bank in April 2018.
Sources: CEIC Data Company Ltd; Bank Negara Malaysia; and IMF staff calculations.

Household non-performing loans remain low but slightly above pre-pandemic level after exit from loan moratorium...

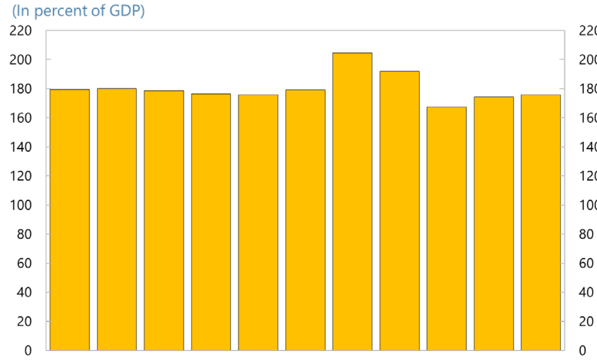
Household Sector NPLs
(In percent of total loans to the household sector)



Sources: Bank Negara Malaysia; Haver Analytics; and IMF staff calculations.

... and households continue to own financial assets that exceed their debt.

Household Financial Assets
(In percent of GDP)

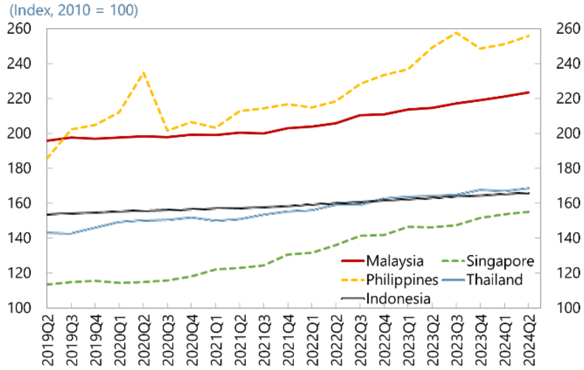


Sources: Bank Negara Malaysia; MYS Dept. of Statistics; Haver Analytics; & IMF staff calculations.

Figure 11. Malaysia: Housing Market Developments

House prices have remained broadly stable over recent years…

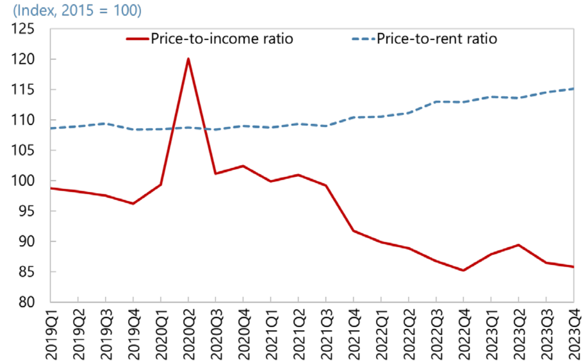
House Price Index
(Index, 2010 = 100)



Sources: Bank for International Settlements; and CEIC Data Company Limited.

… and also relative to rent but have been on a declining trend relative to income after the pandemic peak.

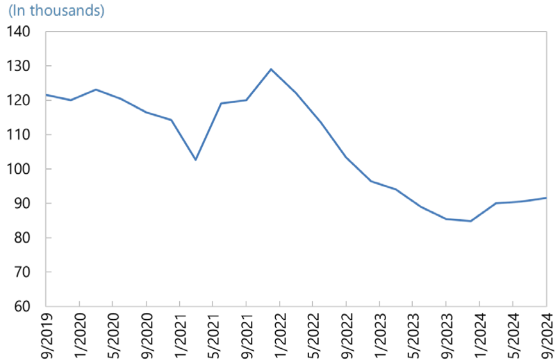
House Prices Relative to Rents and Income
(Index, 2015 = 100)



Sources: IMF, *Research Dept.* - *"Real State Markets Module"*.

The number of unsold residential properties has declined.

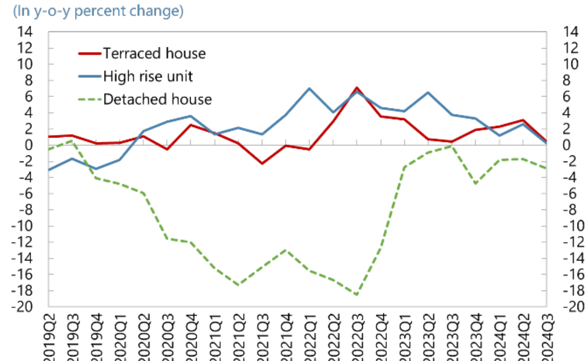
Unsold Residential Properties
(In thousands)



Sources: CEIC Data Company Ltd.; MYS Ministry of Finance; and IMF staff calculations.

The housing market in Kuala Lumpur moderated but shows signs of a pickup in detached and terraced house segments.

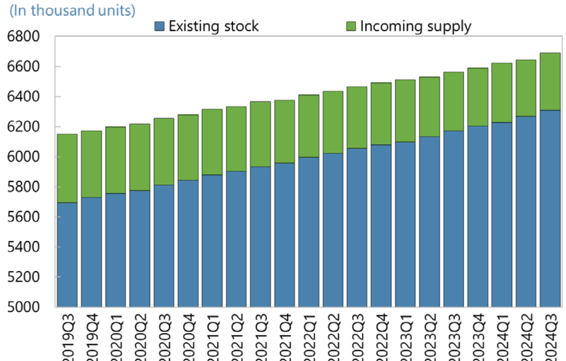
House Prices in Kuala Lumpur
(In y-o-y percent change)



Sources: MYS Ministry of Finance; and IMF staff calculations.

Residential supply continued to increase…

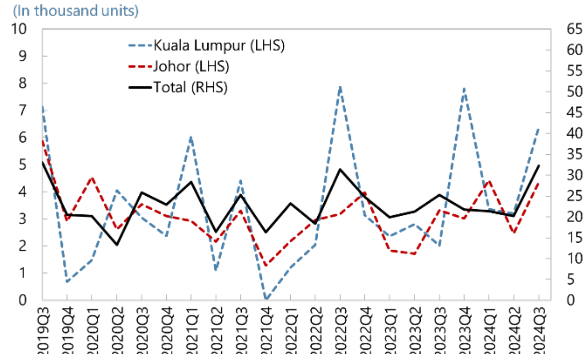
Residential Property Supply
(In thousand units)



Sources: MYS Ministry of Finance; and IMF staff calculations.

… and construction started picked up in 2024Q3.

Residential Property: Construction Started
(In thousand units)



Sources: MYS Ministry of Finance; and IMF staff calculations.

Table 1. Malaysia: Selected Economic and Financial Indicators, 2020–30

Nominal GDP (2023): US$399.7 billion
GDP per capita (2023, current prices): US$11,967
Unemployment rate (2023, period average): 3.4 percent

Population (2023): 33.4 million
Poverty rate (2019, national poverty line): 0.2 percent
Adult literacy rate (2019): 95.0 percent

Main domestic goods exports (share of total domestic exports, 2023): Machinery and Transport Equipment (45.6 percent), Manufactured Goods and Miscellaneous Manufactured Articles (19.0 percent), and Mineral Fuels, Lubricants etc. (16.5 percent).

					Proj.						
	2020	2021	2022	2023 1/	2024	2025	2026	2027	2028	2029	2030
Real GDP (percent change)	-5.5	3.3	8.9	3.6	5.0	4.7	4.4	4.0	4.0	4.0	4.0
Total domestic demand	-4.8	3.8	9.5	4.7	6.1	4.7	4.0	3.6	3.6	3.6	3.4
Private consumption	-3.9	1.8	11.3	4.7	5.3	4.5	3.9	3.4	3.9	3.8	3.7
Public consumption	4.1	5.8	5.1	3.3	4.3	3.5	2.7	2.4	2.3	2.3	2.3
Private investment	-11.9	2.8	7.2	4.6	12.0	6.0	5.1	4.0	4.0	4.0	4.0
Public gross fixed capital formation	-21.2	-11.0	5.3	8.6	11.2	4.0	2.8	2.3	2.1	2.0	2.1
Net exports (contribution to growth, percentage points)	-1.0	-0.3	-0.1	-0.9	-0.8	0.2	0.5	0.6	0.5	0.6	0.7
Output gap (in percent)	-4.0	-1.1	2.5	1.3	1.1	0.7	0.4	0.0	0.0	0.0	0.0
Saving and investment (in percent of GDP)											
Gross domestic investment	19.7	22.1	23.6	22.5	22.5	22.5	22.6	22.6	22.5	22.5	22.5
Gross national saving	23.8	26.0	26.8	24.0	24.5	24.7	25.0	25.3	25.4	25.5	25.5
Fiscal sector (in percent of GDP) 2/											
Federal government overall balance	-6.2	-6.4	-5.5	-5.0	-4.3	-3.8	-3.8	-3.8	-3.8	-3.8	-3.8
Revenue	15.9	15.1	16.4	17.3	16.5	16.2	15.4	15.1	14.8	14.6	14.4
Expenditure and net lending	22.0	21.5	22.0	22.3	20.8	20.0	19.2	18.9	18.6	18.4	18.2
Federal government non-oil primary balance	-7.5	-6.7	-7.8	-6.6	-4.9	-4.1	-3.7	-3.4	-3.0	-2.8	-2.6
Consolidated public sector overall balance 3/	-7.3	-8.3	-6.0	-5.9	-8.4	-6.7	-6.8	-6.9	-6.8	-6.9	-6.9
General government debt 3/	67.7	69.2	65.5	69.7	69.6	68.9	68.7	69.1	69.3	69.6	69.8
Of which: federal government debt	62.0	63.3	60.2	64.3	64.4	63.7	63.5	63.8	64.1	64.3	64.5
Inflation and unemployment (in percent)											
CPI inflation, annual average	-1.2	2.5	3.4	2.5	1.8	2.6	2.3	2.0	2.0	2.0	2.0
CPI inflation, end of period	-1.4	3.2	3.8	1.5	1.7	3.8	2.0	2.0	2.0	2.0	2.0
CPI inflation (excluding food and energy), annual average	1.1	0.7	3.0	3.0	1.8	2.4	2.2	2.0	2.0	2.0	2.0
CPI inflation (excluding food and energy), end of period	0.7	1.1	4.1	1.9	1.6	3.8	2.0	2.0	2.0	2.0	2.0
Unemployment rate	4.5	4.6	3.9	3.4	3.2	3.2	3.2	3.2	3.2	3.2	3.2
Macrofinancial variables (end of period)											
Broad money (percentage change) 4/	4.9	5.6	4.0	5.8	7.1	7.6	6.7	5.9	5.9	5.9	5.9
Credit to private sector (percentage change) 4/	4.0	3.8	3.0	5.2	6.2	6.1	6.0	5.9	5.9	5.9	5.9
Credit-to-GDP ratio (in percent) 5/ 6/	144.8	137.7	122.4	126.7	125.7	123.9	123.1	123.1	123.1	123.1	123.1
Overnight policy rate (in percent)	1.75	1.75	2.75	3.00	…	…	…	…	…	…	…
Three-month interbank rate (in percent)	1.9	2.0	3.6	3.7	…	…	…	…	…	…	…
Nonfinancial corporate sector debt (in percent of GDP) 7/	109.7	109.0	97.5	101.2	…	…	…	…	…	…	…
Nonfinancial corporate sector debt issuance (in percent of GDP)	2.3	2.6	2.4	2.5	…	…	…	…	…	…	…
Household debt (in percent of GDP) 7/	93.1	88.9	80.9	84.2	…	…	…	…	…	…	…
Household financial assets (in percent of GDP) 7/	204.5	191.9	167.3	174.3	…	…	…	…	…	…	…
House prices (percentage change)	1.2	1.9	3.9	3.8	…	…	…	…	…	…	…
Exchange rates (period average)											
Malaysian ringgit/U.S. dollar	4.19	4.14	4.40	4.56	…	…	…	…	…	…	…
Real effective exchange rate (percentage change)	-3.5	-1.3	-1.4	-2.5	…	…	…	…	…	…	…
Balance of payments (in billions of U.S. dollars) 5/											
Current account balance	14.1	14.5	13.0	6.2	8.7	10.2	12.0	14.3	16.1	17.6	19.4
(In percent of GDP)	4.2	3.9	3.2	1.5	2.0	2.2	2.4	2.7	2.9	3.0	3.1
Goods balance	32.7	42.9	42.6	29.9	26.3	29.3	31.8	33.9	36.5	39.2	43.7
Services balance	-11.2	-15.8	-13.2	-9.5	-4.4	-4.1	-3.1	-1.7	-1.3	-1.0	-1.5
Income balance	-7.4	-12.5	-16.3	-14.2	-13.2	-14.9	-16.7	-17.9	-19.2	-20.6	-22.8
Capital and financial account balance	-18.5	3.8	1.8	-3.4	-6.0	0.2	-3.0	-5.0	-6.2	-7.1	-8.2
Of which: Direct investment	0.7	7.5	2.9	0.0	-1.3	2.0	2.1	2.2	2.4	2.5	2.6
Errors and omissions	-0.1	-7.3	-2.7	-7.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-4.6	11.0	12.1	-4.5	2.7	10.4	9.0	9.3	9.9	10.6	11.2
Gross official reserves (US$ billions) 5/	107.6	116.9	114.7	113.5	116.2	126.6	135.6	144.9	154.8	165.4	176.6
(In months of following year's imports of goods and nonfactor services)	5.5	4.9	5.4	4.6	4.4	4.6	4.7	4.8	4.9	4.9	5.0
(In percent of short-term debt by original maturity)	117.6	120.8	104.9	100.3	99.4	98.3	97.2	97.0	97.3	97.9	98.9
(In percent of short-term debt by remaining maturity)	91.9	93.5	84.6	80.7	78.7	79.4	79.0	79.2	79.7	80.5	81.5
Total external debt (in billions of U.S. dollars) 5/	238.8	258.7	259.6	270.6	284.6	305.1	324.4	342.8	361.1	379.2	397.2
(In percent of GDP)	70.8	69.3	63.8	67.8	65.1	65.3	65.1	64.9	64.4	63.8	63.0
Of which: short-term (in percent of total, original maturity)	38.3	37.4	42.1	41.8	41.1	42.2	43.0	43.6	44.1	44.6	44.9
short-term (in percent of total, remaining maturity)	49.1	48.3	52.2	51.9	51.9	52.3	52.9	53.4	53.8	54.2	54.5
Debt service ratio 5/											
(In percent of exports of goods and services) 8/	13.6	10.5	9.7	11.8	12.1	12.1	10.1	9.8	9.7	9.6	9.5
(In percent of exports of goods and nonfactor services)	14.4	11.4	10.3	12.7	12.9	12.9	10.7	10.4	10.3	10.2	10.0
Memorandum items:											
Nominal GDP (in billions of ringgit)	1,418	1,549	1,794	1,823	1,952	2,099	2,241	2,373	2,512	2,660	2,817

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

1/ Data used in this report for staff analyses are as of January 29, 2025, unless otherwise noted.

2/ Cash basis.

3/ Consolidated public sector includes general government and nonfinancial public enterprises (NFPEs). General government includes federal government, state and local governments, and statutory bodies.

4/ 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.

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

6/ 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.

7/ Revisions in historical data reflect the change in base year for nominal GDP (from 2010=100 to 2015=100).

8/ Includes receipts under the primary income account.

Table 2. Malaysia: Indicators of External Vulnerability, 2020–24

	2020	2021	2022	2023	2024 1/
Financial indicators					
General government debt (in percent of GDP) 2/	67.7	69.2	65.5	69.7	69.6
Broad money (end of period, year-on-year percent change) 3/	4.9	5.6	4.0	5.8	7.1
Private sector credit (end of period, year-on-year percent change) 3/	4.0	3.8	3.0	5.2	6.2
3-month interest rate (percent, 12-month average) 4/	2.4	1.9	2.6	3.6	3.6
External indicators 5/					
Goods exports, f.o.b. (percent change, 12-month basis, in U.S. dollars terms) 6/	-5.9	30.7	15.8	-17.7	14.9
Goods imports, f.o.b. (percent change, 12-month basis, in U.S. dollars terms) 6/	-8.5	30.7	19.3	-15.5	18.9
Current account balance (12-month basis, in billions of U.S. dollars) 6/	14.1	14.5	13.0	6.2	8.7
Current account balance (12-month basis, in percent of GDP)	4.2	3.9	3.2	1.5	2.0
Capital and financial account balance (12-month basis, in billions of U.S. dollars) 6/	-18.5	3.8	1.8	-3.4	-6.0
Gross official reserves (in billions of U.S. dollars)	107.6	117.0	114.7	113.5	116.2
In months of following year's imports of goods and nonfactor services 6/	5.5	4.9	5.4	4.6	4.4
As percent of broad money 3/ 6/	22.2	23.8	23.7	23.1	21.4
As percent of monetary base 3/ 6/	270.7	298.2	314.9	382.4	366.5
Total short-term external debt by: 6/ 7/					
Original maturity (in billions of U.S. dollars)	91.5	96.8	109.3	113.1	116.9
Remaining maturity (in billions of U.S. dollars)	117.2	125.0	135.5	140.5	147.6
Original maturity to reserves (in percent)	85.0	82.7	95.4	99.7	100.6
Original maturity to total external debt (in percent)	38.3	37.4	42.1	41.8	41.1
Remaining maturity to reserves (in percent)	108.8	106.8	118.2	123.9	127.0
Remaining maturity to total external debt (in percent)	49.1	48.3	52.2	51.9	51.9
Total external debt (in billions of U.S. dollars) 6/ 7/	238.8	258.7	259.6	270.6	284.6
Of which: public sector (medium- and long-term (MLT))	85.6	94.7	84.3	86.8	96.6
Total external debt to exports of goods and services (in percent) 6/ 8/	108.4	90.0	77.6	92.1	84.0
External amortization of MLT debt to exports of goods and services (in percent) 6/ 8/	10.8	8.9	8.4	8.9	8.1
Financial market indicators					
Kuala Lumpur Composite Index (KLCI), end of period	1,627	1,568	1,495	1,455	1,649
10-year government securities yield (percent per annum, average)	2.8	3.3	4.1	3.9	3.8

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, 2020–30 1/

	2020	2021	2022	2023	Proj. 2024	2025	2026	2027	2028	2029	2030
(In billions of U.S. dollars)											
Current account balance	14.1	14.5	13.0	6.2	8.7	10.2	12.0	14.3	16.1	17.6	19.4
Goods balance	32.7	42.9	42.6	29.9	26.3	29.3	31.8	33.9	36.5	39.2	43.7
Exports, f.o.b.	185.7	242.8	281.1	231.4	265.9	285.9	303.1	319.4	336.4	354.1	374.4
Imports, f.o.b.	153.0	199.9	238.6	201.5	239.6	256.6	271.3	285.5	299.9	314.9	330.8
Services balance	-11.2	-15.8	-13.2	-9.5	-4.4	-4.1	-3.1	-1.7	-1.3	-1.0	-1.5
Receipts	22.1	21.3	32.1	42.8	52.6	55.3	58.1	61.0	63.5	66.4	69.2
Payments	33.3	37.1	45.4	52.2	57.0	59.4	61.2	62.7	64.8	67.4	70.7
Primary income	-6.8	-10.2	-12.9	-11.6	-11.9	-13.1	-14.2	-15.0	-16.1	-17.3	-19.0
Secondary income	-0.6	-2.3	-3.4	-2.6	-1.3	-1.9	-2.5	-2.9	-3.1	-3.3	-3.8
Capital and financial account balance	-18.5	3.8	1.8	-3.4	-6.0	0.2	-3.0	-5.0	-6.2	-7.1	-8.2
Capital account	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	-18.4	3.9	1.9	-3.4	-6.0	0.2	-3.0	-5.0	-6.2	-7.1	-8.2
Direct investment	0.7	7.5	2.9	0.0	-1.3	2.0	2.1	2.2	2.4	2.5	2.6
Portfolio investment	-11.8	4.5	-11.4	-8.0	-1.1	-6.1	-7.4	-7.9	-8.4	-8.6	-8.8
Other investment	-7.4	-8.1	10.5	4.6	-3.5	4.2	2.2	0.7	-0.1	-0.9	-2.0
Errors and omissions	-0.1	-7.3	-2.7	-7.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-4.6	11.0	12.1	-4.5	2.7	10.4	9.0	9.3	9.9	10.6	11.2
Gross official reserves	107.6	116.9	114.7	113.5	116.2	126.6	135.6	144.9	154.8	165.4	176.6
In months of following year's imports of goods and nonfactor services	5.5	4.9	5.4	4.6	4.4	4.6	4.7	4.8	4.9	4.9	5.0
In percent of short-term debt 2/	91.9	93.5	84.6	80.7	78.7	79.4	79.0	79.2	79.7	80.5	81.5
(In percent of GDP)											
Current account balance	4.2	3.9	3.2	1.5	2.0	2.2	2.4	2.7	2.9	3.0	3.1
(Excluding crude oil and liquefied natural gas)	2.2	1.3	0.7	0.0	0.6	0.6	0.7	1.0	1.1	1.2	1.3
Goods balance	9.7	11.5	10.4	7.5	6.01	6.3	6.4	6.4	6.5	6.6	6.9
Exports, f.o.b.	55.0	64.9	69.0	57.9	60.7	61.1	60.7	60.3	59.9	59.5	59.3
Imports, f.o.b.	45.3	53.5	58.5	50.4	54.7	54.9	54.4	53.9	53.4	52.9	52.4
Services balance	-3.3	-4.2	-3.2	-2.4	-1.0	-0.9	-0.6	-0.3	-0.2	-0.2	-0.2
Primary income	-2.0	-2.7	-3.2	-2.9	-2.7	-2.8	-2.8	-2.8	-2.9	-2.9	-3.0
Secondary income	-0.2	-0.6	-0.8	-0.6	-0.3	-0.4	-0.5	-0.6	-0.6	-0.6	-0.6
Capital and financial account balance	-5.5	1.0	0.5	-0.9	-1.4	0.0	-0.6	-0.9	-1.1	-1.2	-1.3
Direct investment	0.2	2.0	0.7	0.0	-0.3	0.4	0.4	0.4	0.4	0.4	0.4
(Annual percentage change)											
Memorandum items:											
Goods trade											
Exports, f.o.b., value growth (in U.S. dollars) 1/	-5.9	30.7	15.8	-17.7	14.9	7.5	6.0	5.4	5.3	5.3	5.7
Export volume growth	1.5	14.2	6.6	-6.8	4.6	3.5	3.5	3.2	3.6	3.4	3.4
Imports, f.o.b., value growth (in U.S. dollars) 1/	-8.5	30.7	19.3	-15.5	18.9	7.1	5.7	5.2	5.0	5.0	5.0
Import volume growth	-2.8	18.6	19.1	-5.2	9.5	5.5	4.2	3.9	4.1	3.9	3.9
Terms of trade	0.5	6.0	6.6	-0.1	0.8	2.4	1.0	0.8	0.8	0.8	1.2
Net international investment position 1/											
(In billions of U.S. dollars)	19.2	21.7	12.4	27.1	...	...	...	...	...	...	...
(In percent of GDP)	5.7	5.8	3.0	6.8	...	...	...	...	...	...	...

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.

Table 4. Malaysia: Summary of Federal Government Operations and Stock Positions, 2020–30

					Proj.						
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
I. Statement of Government Operations 1/				(In billions of ringgit)							
Revenue	225.1	233.8	294.4	315.0	322.1	339.7	344.8	357.2	371.7	387.6	404.7
Taxes	154.4	173.7	208.8	229.2	241.0	259.0	273.1	286.3	301.1	316.8	333.4
Direct taxes	112.5	130.1	153.5	171.3	177.1	188.8	198.6	207.9	218.3	229.3	241.1
Indirect taxes	41.9	43.6	55.3	57.8	64.0	70.2	74.5	78.5	82.9	87.5	92.4
Non-tax revenue	70.7	60.0	85.6	85.8	81.0	80.7	71.6	70.8	70.6	70.8	71.3
Investment income	46.1	35.0	58.2	55.8	49.3	48.2	37.9	35.9	34.2	32.8	31.7
Other revenue	24.6	25.0	27.4	30.0	31.7	32.5	33.7	34.9	36.4	37.9	39.6
Expenditure and net lending	312.7	332.5	393.8	406.4	406.3	419.3	431.0	448.5	467.1	488.9	512.2
Current expenditure, including COVID fund	259.1	267.2	321.2	310.2	319.8	336.9	342.9	353.6	367.6	382.8	398.7
Expense	224.0	230.9	291.9	310.2	319.8	336.9	342.9	353.6	367.6	382.8	398.7
Compensation of employees	83.0	85.9	87.8	91.9	99.8	105.9	108.9	112.0	115.1	118.4	121.7
Use of goods and services	29.3	24.9	34.7	35.9	39.2	40.7	42.4	44.0	45.7	47.4	49.2
Interest	34.5	38.1	41.3	46.3	50.8	54.7	58.4	61.8	65.4	69.3	73.4
Subsidies and social assistance	19.8	23.0	67.4	71.9	61.4	55.6	51.9	52.3	53.4	54.7	56.2
Grants and transfers	29.5	29.1	28.9	29.7	33.7	38.9	38.2	37.7	39.3	41.3	43.3
Social benefits and other expense	27.9	29.9	31.9	34.6	35.0	41.1	43.1	45.8	48.7	51.7	55.0
COVID fund 2/	35.1	36.3	29.3	0.0							
Wage subsidies	13.0	9.0	2.3								
Social transfers	16.2	15.9	7.9								
Other spending	6.0	11.4	19.1								
Net acquisition of nonfinancial assets (incl. COVID spending) 3/	53.6	65.3	72.6	96.1	86.6	82.4	88.1	94.9	99.5	106.1	113.5
Gross operating balance	1.1	2.8	2.4	4.7	2.3	2.8	1.9	3.6	4.1	4.8	6.0
Net lending/borrowing 1/	-87.6	-98.7	-99.5	-91.4	-84.3	-79.6	-86.2	-91.3	-95.4	-101.3	-107.5
				(In percent of GDP)							
Revenue	15.9	15.1	16.4	17.3	16.5	16.2	15.4	15.1	14.8	14.6	14.4
Taxes	10.9	11.2	11.6	12.6	12.3	12.3	12.2	12.1	12.0	11.9	11.8
Direct taxes	7.9	8.4	8.6	9.4	9.1	9.0	8.9	8.8	8.7	8.6	8.6
Indirect taxes	3.0	2.8	3.1	3.2	3.3	3.3	3.3	3.3	3.3	3.3	3.3
Non-tax revenue	5.0	3.9	4.8	4.7	4.2	3.8	3.2	3.0	2.8	2.7	2.5
Investment income	3.2	2.3	3.2	3.1	2.5	2.3	1.7	1.5	1.4	1.2	1.1
Other revenue	1.7	1.6	1.5	1.6	1.6	1.5	1.5	1.5	1.4	1.4	1.4
Expenditure and net lending	22.0	21.5	22.0	22.3	20.8	20.0	19.2	18.9	18.6	18.4	18.2
Current expenditure, including COVID fund	18.3	17.3	17.9	17.0	16.4	16.0	15.3	14.9	14.6	14.4	14.2
Expense	15.8	14.9	16.3	17.0	16.4	16.0	15.3	14.9	14.6	14.4	14.2
Compensation of employees	5.9	5.5	4.9	5.0	5.1	5.0	4.9	4.7	4.6	4.4	4.3
Use of goods and services	2.1	1.6	1.9	2.0	2.0	1.9	1.9	1.9	1.8	1.8	1.7
Interest	2.4	2.5	2.3	2.5	2.6	2.6	2.6	2.6	2.6	2.6	2.6
Subsidies and social assistance	1.4	1.5	3.8	3.9	3.1	2.7	2.3	2.2	2.1	2.1	2.0
Grants and transfers	2.1	1.9	1.6	1.6	1.7	1.9	1.7	1.6	1.6	1.6	1.5
Social benefits and other expense	2.0	1.9	1.8	1.9	1.8	2.0	1.9	1.9	1.9	1.9	2.0
COVID fund 2/	2.5	2.3	1.6	0.0							
Wage subsidies	0.9	0.6	0.1								
Social transfers	1.1	1.0	0.4								
Other spending	0.4	0.7	1.1								
Net acquisition of nonfinancial assets (incl. COVID spending) 3/	3.8	4.2	4.0	5.3	4.4	3.9	3.9	4.0	4.0	4.0	4.0
Gross operating balance	0.1	0.2	0.1	0.3	0.1	0.1	0.1	0.2	0.2	0.2	0.2
Net lending/borrowing	-6.2	-6.4	-5.5	-5.0	-4.3	-3.8	-3.8	-3.8	-3.8	-3.8	-3.8
II. Stock Positions				(In billions of ringgit)							
Federal government debt	879.6	979.8	1,079.6	1,172.5	1,256.8	1,336.4	1,422.6	1,514.0	1,609.3	1,710.7	1,818.2
(In percent of GDP)	62.0	63.3	60.2	64.3	64.4	63.7	63.5	63.8	64.1	64.3	64.5
Memorandum items:											
Structural balance (in billions of ringgit)	-32.1	-59.7	-79.5	-83.6	-86.7	-81.1	-86.0	-90.0	-93.8	-99.9	-106.1
Structural balance (percent of potential GDP)	-2.2	-3.8	-4.5	-4.6	-4.6	-3.9	-3.9	-3.8	-3.7	-3.8	-3.8
Structural primary balance (percent of potential GDP)	0.2	-1.4	-2.2	-2.1	-1.9	-1.3	-1.2	-1.2	-1.1	-1.2	-1.2
Primary balance (percent of GDP)	-3.7	-3.9	-3.2	-2.5	-1.7	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2
Nonoil and gas primary balance (percent of GDP)	-7.5	-6.7	-7.8	-6.6	-4.9	-4.1	-3.7	-3.4	-3.0	-2.8	-2.6
Oil and gas revenues (percent of GDP)	3.8	2.8	4.6	4.1	3.2	2.9	2.4	2.1	1.9	1.6	1.4
General government debt (percent of GDP) 4/	67.7	69.2	65.5	69.7	69.6	68.9	68.7	69.1	69.3	69.6	69.8
General government balance (percent of GDP) 4/	-4.9	-6.0	-4.6	-4.0	-3.9	-3.4	-3.5	-3.5	-3.5	-3.5	-3.5
Public sector balance (percent of GDP)	-7.3	-8.3	-6.0	-5.9	-8.4	-6.7	-6.8	-6.9	-6.8	-6.9	-6.9
Nominal GDP (in billions of ringgit)	1,418	1,549	1,794	1,823	1,952	2,099	2,241	2,373	2,512	2,660	2,817

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

1/ Cash basis.

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 2020-2022, it includes COVID-related capital projects. In 2023, there was a one-off 1MDB bond redemption payment of 13 billion ringgit (0.7 percent of GDP).

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

Table 5. Malaysia: Monetary Survey, 2020–24 1/

	2020	2021	2022	2023	Proj 2024
	(In billions of ringgit; end of period)				
Net foreign assets	312.1	353.9	301.5	299.0	291.8
Foreign assets	601.0	659.8	690.6	725.8	730.3
Foreign liabilities	289.0	305.9	389.1	426.8	438.4
Net domestic assets	1,646.8	1,713.7	2,001.3	2,163.2	2,330.3
Net domestic credit	2,249.9	2,352.0	2,471.3	2,631.8	2,810.5
Net credit to nonfinancial public sector	251.1	280.2	323.7	369.9	408.0
Net credit to central government	226.8	254.4	291.7	341.9	379.8
Net credit to state & local government	1.4	1.7	0.7	0.8	0.8
Net credit to nonfinancial corporations	22.9	24.2	31.2	27.2	27.3
Credit to private sector 2/	1,898.2	1,970.9	2,029.5	2,135.9	2,267.6
Net credit to other financial corporations	100.6	100.9	118.2	126.0	134.9
Capital accounts	515.6	540.5	367.8	391.0	411.0
Other items (net)	-87.5	-97.8	-102.3	-77.6	-69.1
Broad money 3/	1,944.7	2,052.8	2,134.8	2,259.3	2,419.2
Narrow money	556.1	626.0	654.2	691.5	740.4
Currency in circulation	118.4	136.7	146.6	149.1	154.0
Transferable deposits	437.7	489.3	507.6	542.3	586.4
Other deposits	1,356.0	1,398.5	1,444.7	1,529.5	1,749.8
Securities other than shares	32.6	28.3	36.0	38.3	-71.0
	(Contributions to 12-month growth in broad money, in percentage points)				
Net foreign assets	1.3	2.2	-2.6	-0.1	-0.3
Net domestic assets	3.6	3.4	14.0	7.6	7.4
Memorandum items:					
Broad money (12-month percent change)	4.9	5.6	4.0	5.8	7.1
Currency in circulation (12-month percent change)	17.7	15.5	7.2	1.7	3.3
Credit to private sector (12-month percent change)	4.0	3.8	3.0	5.2	6.2
Money multiplier (broad money/narrow money)	3.5	3.3	3.3	3.3	3.3

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 6. Malaysia: Banks' Financial Soundness Indicators, 2020–2024Q3

	2020	2021	2022	2023	2024Q3
	(In percent; end of period)				
Capital adequacy					
Regulatory capital to risk-weighted assets	18.9	19.2	19.0	19.0	18.2
Tier 1 capital to risk-weighted assets	15.7	16.0	15.8	15.9	15.0
Nonperforming loans net of provisions to capital	5.5	6.1	6.3	6.1	5.9
Common Equity Tier 1 capital to risk-weighted assets			15.2	15.4	14.5
Tier 1 capital to assets	9.0	8.8	7.6	7.7	7.3
Asset quality					
Nonperforming loans to total gross loans 1/	1.6	1.7	1.7	1.7	1.5
Loan concentration by economic activity			55.3	56.8	58.5
Provisions to nonperforming loans	38.7	36.8	38.8	36.8	38.3
Earnings and profitability					
Return on assets	1.1	1.2	1.5	1.4	1.5
Return on equity	7.5	8.4	10.0	9.8	10.5
Interest margin to gross income	58.1	61.4	61.1	58.0	56.0
Non-interest expenses to gross income	42.5	44.5	41.1	45.6	43.8
Liquidity					
Liquidity coverage ratio	148.2	153.4	151.5	161.0	146.6
Net stable funding ratio			118.3	118.2	115.1
Sensitivity to market risk					
Net open position in foreign exchange to capital	5.3	4.2	3.5	4.1	4.0

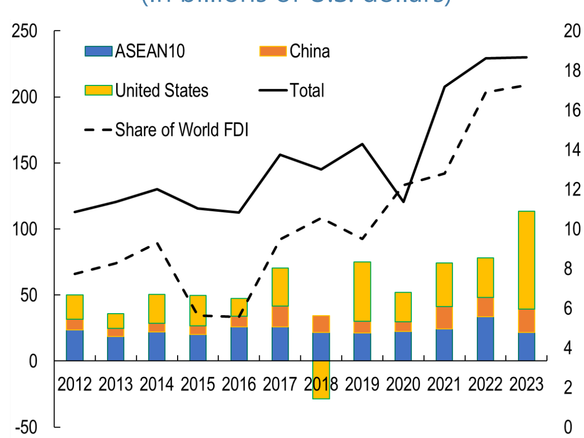
Sources: Bank Negara Malaysia; and IMF, *Financial Soundness Indicators* database.
1/ Loans are classified as nonperforming if payments are overdue for three months or more. Total loans include housing loans sold to Cagamas Berhad. Net nonperforming loans exclude interest-in-suspense and specific provisions.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

Annex I. Implications of Deepening Geoeconomic Fragmentation and China's Slowdown on the Malaysian Economy

This annex analyzes the impact of geoeconomic fragmentation and China's economic slowdown on ASEAN and Malaysia. Key findings are: (i) ASEAN has been increasingly integrated into global value chains and dependent on global trade; (ii) Malaysia appeared to have captured export opportunities presented by the China-U.S. trade tensions since 2018, by increasing exports of the goods targeted by the tariffs of China and the U.S.; (iii) however, deepening geoeconomic fragmentation would hurt ASEAN economies in the long run; (iv) while GDP growth in China is expected to slow over the medium term amid structural headwinds, the dependence of Malaysia's economy on China has increased, with 8 percent of Malaysia's value added embedded in Chinese final demand; and (v) a growth shock in China would have significant impact on growth in ASEAN and Malaysia. These findings reiterate the importance for acknowledging downside risks from a slowdown in China and deepening geoeconomic fragmentation in macroeconomic policy making.

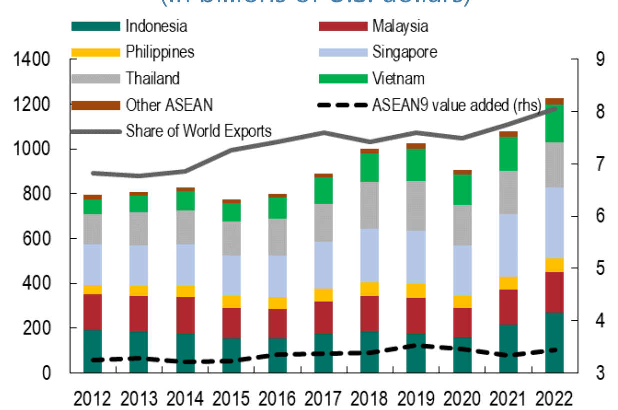
1. **Malaysia and ASEAN have benefited from rising integration with global supply chain.** ASEAN has increased its global share of inward FDI, and continued to attract FDI from both China and the U.S. (Figure 1). Along with stronger FDI inflows, ASEAN economies raised their share in world exports to 8 percent and in global value added to 3½ percent in 2022 (Figure 2). These occurred despite rising trade tensions between China and the U.S. since 2018. Malaysia's share in the global value added has been relatively stable, at about 0.5-0.6 percent over 2012-2022.

Figure 1. ASEAN: FDI Inflows
(In billions of U.S. dollars)



Sources: ASEAN Stats; UNCTAD statistics; and IMF staff calculations.

Figure 2. ASEAN: Global Value-Added
(In billions of U.S. dollars)



Sources: ADB MRIO; IMF DOTS database; and IMF staff calculations.

2. **The integration of ASEAN's integration to the global economy points to Malaysia's vulnerabilities to rising geoeconomic fragmentation and a growth slowdown in China.** Against this background, Section A will discuss how deeper geoeconomic fragmentation can affect the Malaysian economy, based on empirical analysis of the trade patterns following the escalation of

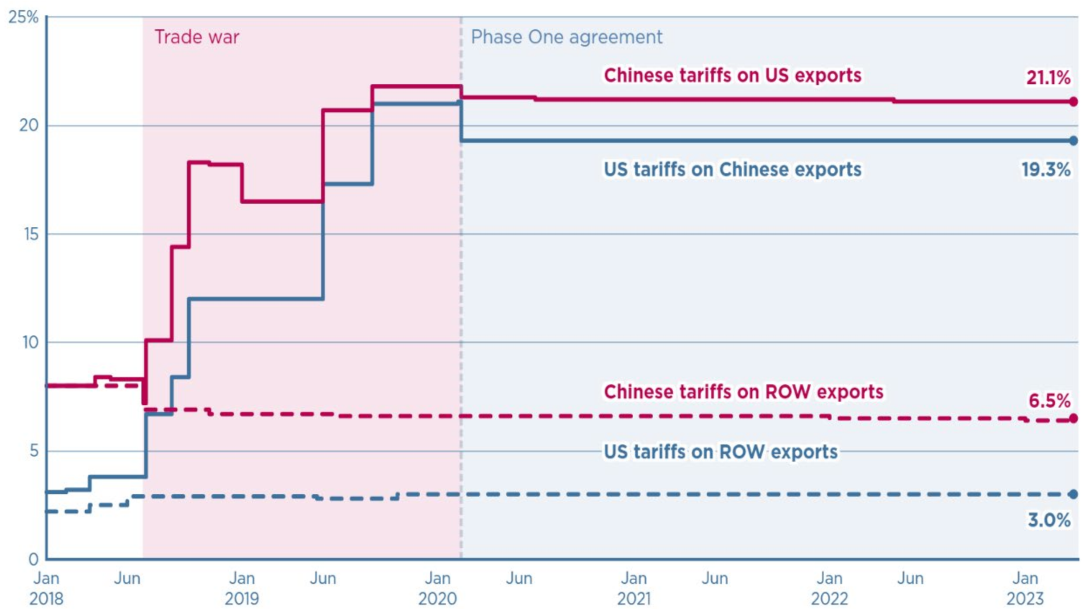
China-U.S. trade tensions in 2018-19 and economic model simulations on long-run implications of geoeconomic fragmentation. Section B will discuss the implications of the China's growth slowdown on the Malaysian economy, based on analysis of multi-country input-output tables and the empirical relationship between growth in China and that in ASEAN.

A. Impact of Geoeconomic Fragmentation on Malaysia and ASEAN

3. The China-U.S. trade tensions escalated during 2018-19, resulting in higher tariffs toward each other that persist until today. By January 2021, U.S. raised its average tariff on China to over 19 percent, from just 3 percent before the trade tensions (Figure 3). In retaliation, China increased its average tariff on U.S. exporters from 8 percent to more than 20 percent. In parallel, China reduced the average tariff applied to imports from the rest of the world, from 8 percent to about 6.5 percent by the end of 2020.

Figure 3. US-China Tariff Rates toward Each Other and Rest of World

(In percent)



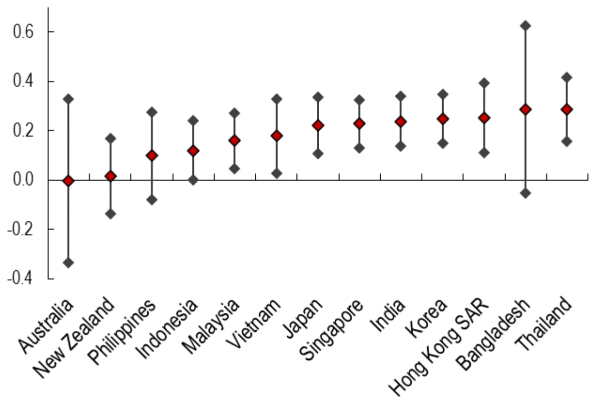
Sources: Bown (2023).

4. Malaysia captured export opportunities presented by the China-U.S. trade tensions. Staff's empirical analysis using the approach of Fajgelbaum, Kennedy, Khandelwal, and Taglioni (2024)[1] found that in ASEAN economies and some other Asian economies, exports of products targeted by Chinese or U.S. tariffs to the world grew faster than exports of untargeted products (Figure 4). For Malaysia, its exports to the world of products targeted by Chinese or U.S. tariffs are estimated to grow faster than exports of untargeted products by as much as about 16 percent

[1] See IMF (2024), "Box 2: Geoeconomic Fragmentation: How ASEAN Economies Have Been Adapting", for more details.

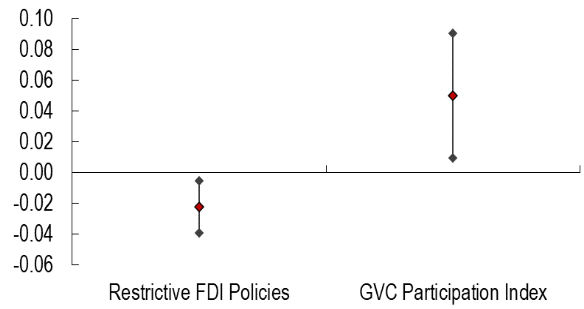
between 2016-17 and 2022-23. Analysis also finds that economies that are more integrated into global value chains and applies less FDI restrictions have been more successful in raising their exports of goods targeted by the tariffs of the U.S. and China (Figure 5). Moreover, ASEAN economies including Malaysia also increased exports in the targeted goods to economies other than U.S. and China (Figure 6). This suggests that ASEAN economies including Malaysia benefited not only from trade diversion due to the China-U.S. trade tensions but also from economies of scale by expanding the production of the targeted goods.

Figure 4. Estimated Relative Export Gains in Tariff-Targeted Products, 2022-23
(Log-change)



Sources: CEPII-BACI; Trade Data Monitor; Fajgelbaum, Kennedy, Khandelwal, and Taglioni (2024); and IMF staff calculations.

Figure 5. Correlates of Export Gains in Tariff-Targeted Products
(Estimated coefficient)



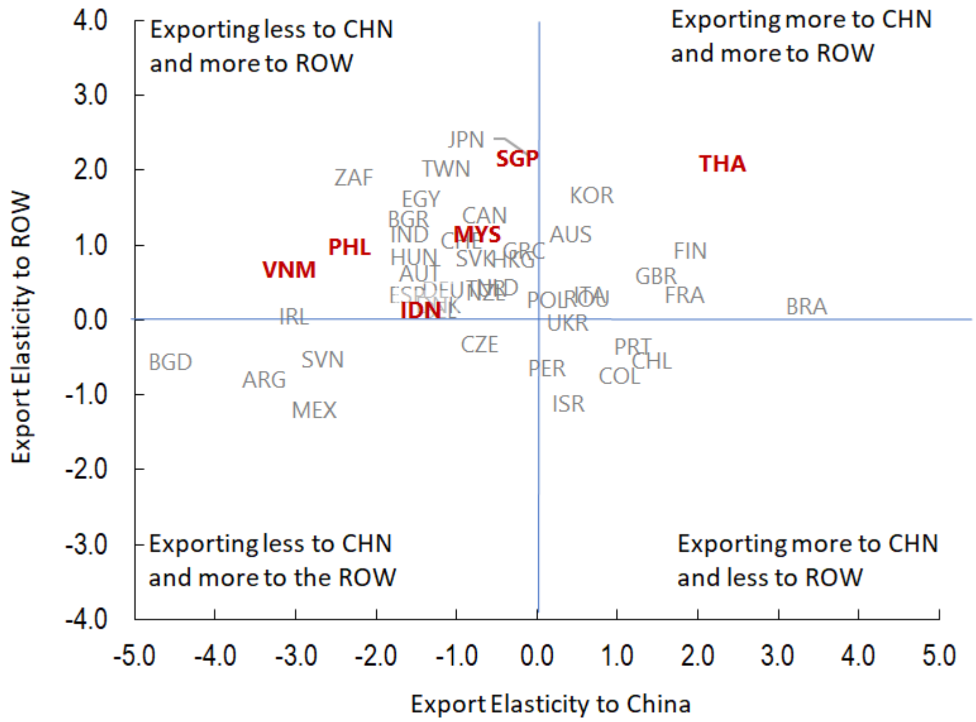
Sources: CEPII-BACI, Trade Monitor; EORA, Global Trade Alerts, IMF WEO Database; and IMF staff calculations.

Note: Figure 5 plots each economy's (log) change in predicted exports of products tariffed by China or the US during 2018–19 relative to other products to the world. The 90-percent confidence intervals (green dots) were constructed using 50 bootstrap samples as in Fajgelbaum, Kennedy, Khandelwal, and Taglioni (2024). A positive coefficient (red dots) indicates that an economy's exports to the world in tariff-targeted relative to untargeted products have increased because of the tariffs. FDI = foreign direct investment; GVC = global value chain; Hong Kong SAR = Hong Kong Special Administrative Region.

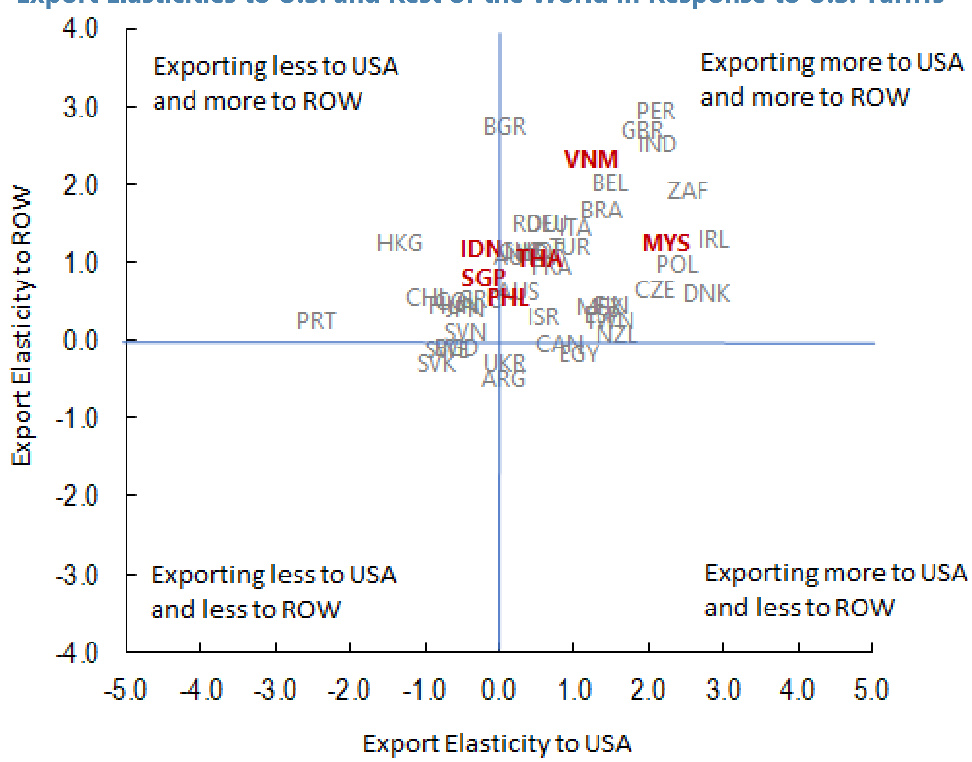
Figure 6. Export Elasticities to China, U.S., and Rest of the World

(In percent)

Export Elasticities to China and Rest of the World in Response to China's Tariffs



Export Elasticities to U.S. and Rest of the World in Response to U.S. Tariffs



Sources: CEPII-BACI; Fajgelbaum, Kennedy, Khandelwal, and Taglioni (2024); and IMF staff calculations.

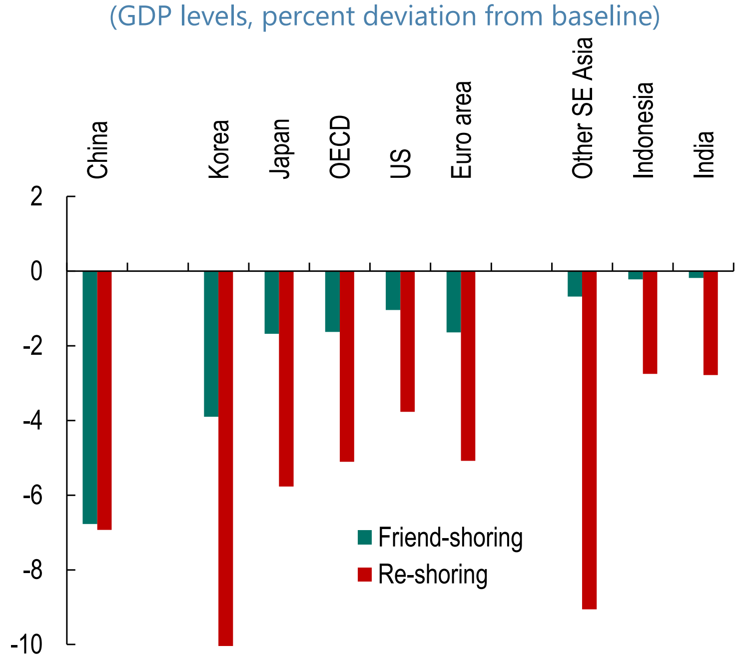
5. In the long run, however, continued geoeconomic fragmentation would hurt ASEAN economies, including Malaysia, given their strong trade linkages with the global economy. Using the IMF's Global Integrated Monetary and Fiscal Model (GIMF), a multi-region dynamic stochastic general equilibrium model, IMF (2023) quantifies macroeconomic implications of de-risking. The analysis finds that ASEAN economies would be heavily affected in the long run, especially under a re-shoring scenario (Figure 7).

- In a friend-shoring scenario where advanced economies and China impose nontariff trade barriers on each other to reduce mutual interdependence but do not restrict trade with other countries, ASEAN (excluding Indonesia) would see their GDP decline by 0.7 percent below the trend in the long run.

- In a re-shoring scenario where advanced economies and China reduce reliance on imports from all countries by increasing nontariff trade barriers on *all countries*, ASEAN (excluding Indonesia) would see their long-run GDP decline by 9.1 percent below the trend in the long run. The region's GDP loss is much larger compared with OECD economies (3.8 percent) and China (6.9 percent). This follows because ASEAN economies are highly open and have strong trade links with China and advanced economies. Demand for ASEAN exports is falling enough to induce a large GDP contraction in the region.

Figure 7. GDP Losses from Friend-Shoring and Resharing Scenarios

(GDP levels, percent deviation from baseline)



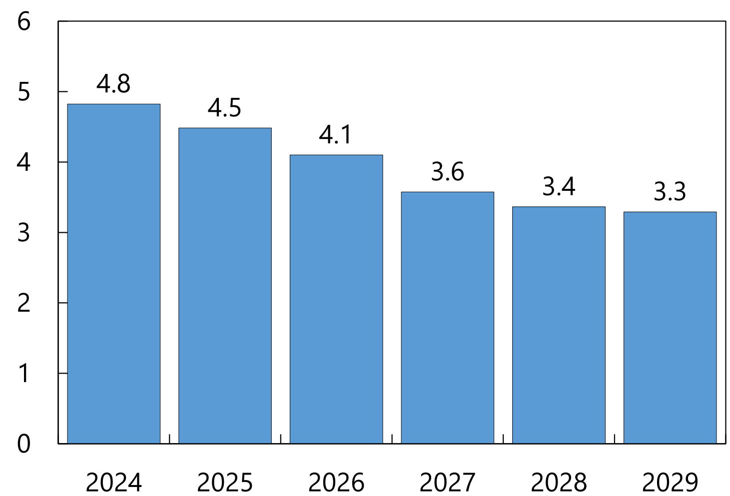
Sources: IMF (2023).

Note: European Union+ = European Union and Switzerland; other SE Asia = ASEAN excluding Indonesia. For details of the simulation, see Cardeiro, Kamali, Kothari, and Muir (2024).

B. Spillovers from China's Growth Slowdown to the Malaysian Economy[2]

6. GDP growth is expected to slow in China over the medium term amid longstanding headwinds. As its population ages and productivity growth remains low, growth in China is expected to slow to just over 3 percent in the medium term (Figure 8). This moderation in GDP growth is projected to be broad-based, with consumption and investment growth slowing.

Figure 8. China: IMF Staff Projection of Real GDP growth
(In percent)



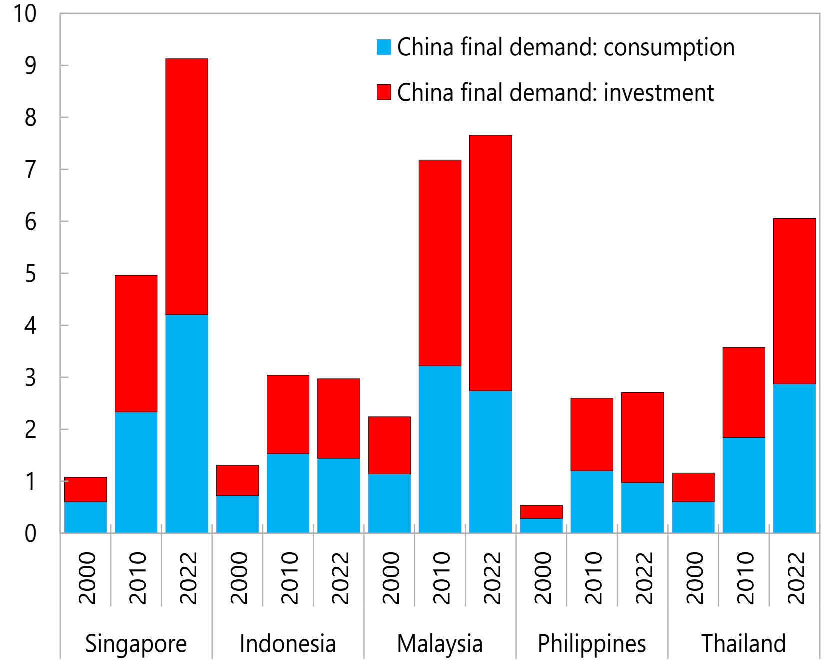
Sources: IMF, October 2024 World Economic Outlook Database.

7. The decline in trend growth in China will likely impact countries in the Asia-Pacific region. As documented in IMF (2023), China's footprint in the global economy has increased significantly over the past three decades. Moreover, China has been a crucial driver of trade integration in Asia—China's insertion into global value chains (GVCs) initially involved mainly assembly of foreign inputs in China but has more recently transformed, with China now being a key supplier of production inputs to many Asian countries. The greater trade integration in Asia has allowed China's unprecedented growth over the last three decades to help lift all countries in the region. As China's final demand moderates in the coming years, however, it may leave countries or sectors exposed to a decline in demand.

8. The Malaysian economy is highly integrated with the Chinese economy. Many countries in the ASEAN region have played an increasingly important role in serving Chinese final consumption and investment demand in the last two decades. The domestic value-added embedded in Chinese final demand increased substantially in ASEAN economies over the last decades (Figure 9). In 2022, about 8 percent of Malaysia's value-added was ultimately absorbed by China, suggesting there is some value-added at risk in the face of China's structural transformation.

[2] See Eklou, Khan, and MacDonald (2024) for more details on the methodologies used in this section.

Figure 9. ASEAN: Value Added Embedded in Chinese Final Demand
(In percent of total gross value added)



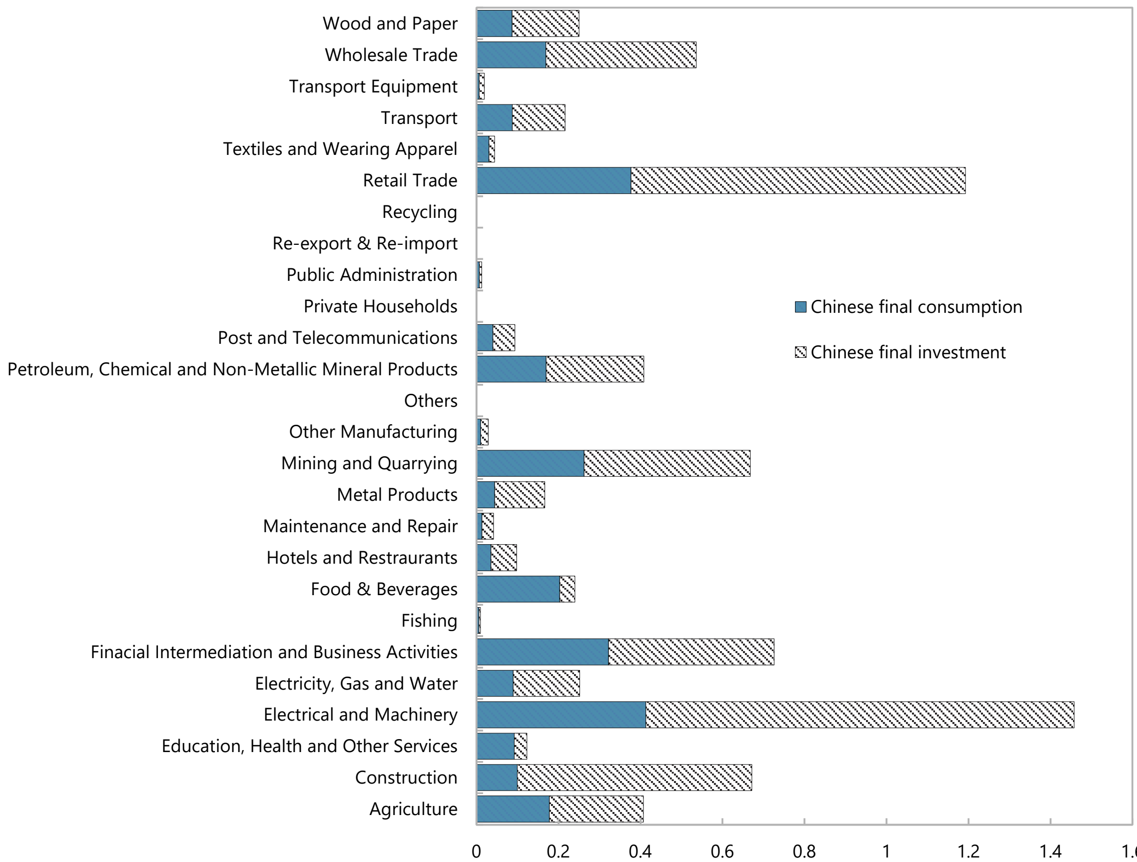
Sources: EORA Global Supply Chain Database; Aslam, Novta, and Rodrigues-Bastos (2017); and IMF staff estimates.

9. Malaysia's value added that is ultimately absorbed in China is widely across industries. Staff analysis using multi-country input-output tables[3] shows that a wide range of industries in Malaysia are exposed to final demand in China (Figure 10). The high-exposure industries are electrical, machinery, and retail trade, followed by construction, financial intermediation, mining, and wholesale trade. The exposure is generally larger for Chinese investment than for Chinese consumption. The analysis also found that the industry-by-industry exposure to Chinese demand varies across ASEAN economies, likely reflecting the fact that each economy is integrated differently with global value chain. For example, Singapore's exposure to Chinese final demand is concentrated in three sectors only (electrical and machinery manufacturing; financial intermediation and business services; and petroleum, chemical, and non-metallic mineral production). In contrast, Indonesia's exposure to Chinese final demand is more diversified than Singapore, with high exposure for agriculture and mining.

[3] For more details on the methodology, see Eklou, Khan, and MacDonald (2024).

Figure 10. Value Added Embedded in Chinese Final Demand

(In percent of Malaysia's gross value added)



Sources: EORA Global Supply Chain database; Aslam, Novta, and Rodrigues-Bastos (2017); and IMF staff estimates.

10. Empirical analysis finds that China's growth shock has significant impact on ASEAN GDP. Staff analyzes the spillovers from China's growth slowdown to ASEAN economies using aggregate cross-country data and the local projection framework.[4] The analysis finds that a decline in China's domestic growth would lead to a decline in output in the average ASEAN country. Specifically, following a 1 percentage point negative shock to China's growth, the average ASEAN country is estimated to see a decline in trend GDP of 0.1-0.2 percent per year in the short run, with a cumulative impact over a 5-year horizon of 0.6-1.0 percent (Figure 11). The spillover is estimated to be larger for Malaysia, Thailand, and Singapore, whose trade linkages with China are relatively stronger (Figure 12). For Malaysia, the cumulative 5-year impact of a 1 percentage decline in China's growth is estimated as high as 1.4 percent.

[4] For more details on the methodology, see Eklou, Khan, and MacDonald (2024).

Figure 11. Average Spillover of China's Growth on ASEAN Countries' Trend Growth
(In percent)

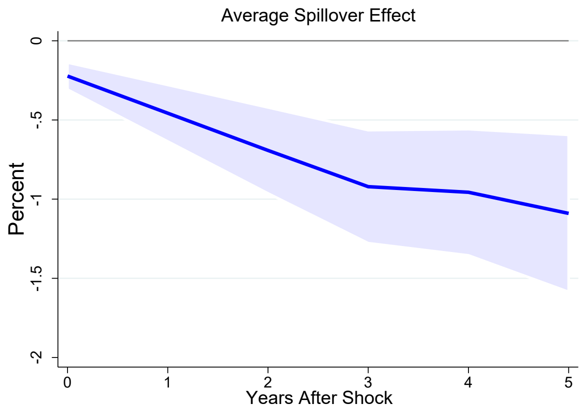
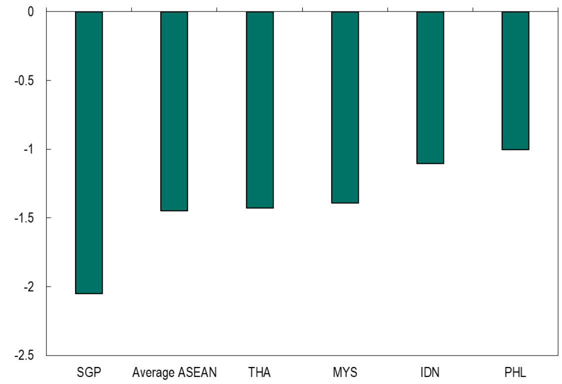


Figure 12. Dependence on Final Demand from China and Growth Spillovers
(In percent; implied 5-year cumulative impact)



Sources: Eora Global Supply Chain Database; and IMF staff calculations

References

Aslam, Aqib, Natalija Novta, and Fabiano Rodrigues-Bastos, 2017. "Calculating Trade in Value Added." IMF Working Paper 17/178, International Monetary Fund, Washington, D.C.

Bown, Chad, 2023. US-China Trade War Tariffs: An Up-to-Date Chart. https://www.piie.com/research/piie-charts/2019/us-china-trade-war-tariffs-date-chart.

Cardeiro, Diego A., Parisa Kamali, Siddharth Kothari and Dirk Muir, 2024. "The Price of De-Risking: Reshoring, Friend-Shoring, and Quality Downgrading." IMF Working Paper 24/122, International Monetary Fund, Washington, D.C.

Eklou, Kodjovi, Shujaat Khan, and Margaux MacDonald, 2024. Spillovers from China's Growth Slowdown to the Singapore Economy. IMF Selected Issues Paper (SIP/2024/041), International Monetary Fund, Washington, D.C.

Fajgelbaum, Pablo, Pinelopi Goldberg, Patrick Kennedy, Amit Khandelwal, and Daria Taglioni. 2024. "The US-China Trade War and Global Reallocations." American Economic Review: Insights, 6 (2): 295–312.

International Monetary Fund (IMF), 2023. "How Will Trend Growth in China Impact Affect the Rest of Asia," Chapter 2 in International Monetary Fund, Asia and Pacific Regional Economic Outlook: Transitioning to Balanced Growth Amid the Specter of Global De-Risking, October 2023, Washington, D.C.

International Monetary Fund (IMF), 2024. Asia and Pacific Regional Economic Outlook: Resilient Growth but Higher Risks, October 2024, Washington, D.C.

Annex II. The Public Finance and Fiscal Responsibility Act 2023

1. **In late 2023, the Malaysian authorities passed the landmark Public Finance and Fiscal Responsibility Act (FRA)**. The FRA established a comprehensive principles-based legislative framework designed to enhance the management of public finances in Malaysia. The FRA aims to promote fiscal responsibility, accountability, and transparency within public financial operations, helping ensure that public finances are sustainable and that they promote intergenerational equity to avoid saddling future generations with high debt burdens.

2. **To support improved fiscal governance, the FRA lays out guiding fiscal principles, quantitative medium-term objectives, and a framework to support meeting these objectives.** The Act formalizes the existing Fiscal Policy Committee, which is responsible for overseeing the formulation and implementation of fiscal policies and consists of key government officials including the Prime Minister, the Minister of Finance, and Bank Negara Malaysia's Governor. The FRA also calls for the formation of a medium-term fiscal framework (MTFF) that includes both medium-term revenue and medium-term expenditure principles and reports to guide government's fiscal planning and priorities over a period of three to five years. In support of this effort, the FRA outlines guidelines for efficient revenue generation, including the use of global best practices in managing and administering revenue collection and increasing the predictability of tax policy. The FRA notes that revenues must, at a bare minimum, be able to finance operating expenditures, while also ensuring that tax policy supports Malaysia's competitiveness relative to peer countries to attract ongoing investment. The Act also calls for aligning public expenditure with responsible borrowing policies, including by ensuring that spending is directed towards projects with the high multiplier effects on the economy and maintaining debt at sustainable levels. Beyond the broad principles outlined above, the FRA offers specific fiscal objectives, with quantified values, related to development expenditure, the fiscal balance, and debt levels relative to GDP to be achieved or maintained over the next three to five years (see table below).

Medium-Term Fiscal Objectives and Quantified Values

Fiscal Objectives	Quantified Values (%)	2024 Staff Projection (%)
Development expenditure incurred as a % of GDP	≥ 3	4.4
Fiscal balance as a % of GDP	≥ -3	-4.3
Debt level as a % of GDP	≤ 60	64.4
Financial guarantees as a % of GDP	≤ 25	20.9

3. **The FRA includes an 'escape clause' to allow for needed deviations from its stated objectives.** For short-term deviations in the event of sudden shocks, like recessions or natural disasters, the Ministry of Finance is expected to develop a temporary fiscal adjustment plan, which must delineate the reasons for the deviation from the MTFF's objectives and quantified values, a timeline and actions that will be taken to return to the objectives, and the plan must be approved by Cabinet.

4. The FRA also requires corrective actions in case the FRA objectives are not met. If the above objectives and quantified values are not achieved over the medium term, the Ministry must develop a fiscal adjustment plan to bring the fiscal path back in line with the objectives; in this case, the adjustment plan must be approved by the legislature.

5. There are several reporting requirements specified in the FRA. These include the annual economic and fiscal outlooks; an annual tax expenditure report; a mid-year expenditure performance report; and an annual assessment and reporting of fiscal risks to mitigate potential financial vulnerabilities, including those from government entities, guarantees, and public-private partnerships.

6. While the authorities have implemented several of the core elements of the FRA since its passing, there are still additional requirements that need to be implemented. Budget 2025 features economic and fiscal outlooks, a review of recent government spending and revenue outturns, forecasted 2025 spending and revenue, estimates of the effects of proposed Budget 2025 tax measures, and an assessment of fiscal risks—including an assessment of risks to debt sustainability. While the budget also includes an MTFF for 2025-27, its underlying revenue and expenditure measures could be better articulated. In addition, the ongoing development of the medium-term revenue and expenditure strategies are necessary complements for a more robust MTFF. Going forward, the authorities will also need to publish a more detailed fiscal risk statement and a tax expenditure statement.

7. Malaysia's fiscal framework is comparable to peer countries but still has room for further improvement. Comparing Malaysia's fiscal framework to that of other Asia-Pacific countries, the FRA brings Malaysia into alignment with the plurality of countries that have both fiscal rules and a MTFF (12 of 37 economies, including Indonesia, Thailand, and Japan), but best practice is to also have an independent oversight institution as in Korea and Australia.[1] The FRA also differs from most regional peers in that it contains binding rather than simply indicative targets. Drawing on international best practices, the FRA could be further strengthened along several dimensions: (i) requiring the annual budget to be consistent with the authorities' medium-term fiscal strategy; (ii) establishing an independent expert body with the mandate to review the government's fiscal forecasts, plans, and performance; (iii) increasing the operational transparency of the Fiscal Policy Committee to ensure its objectivity, which could also be buttressed by the use of independent macroeconomic forecasts to guide planning and objective-setting; (iv) drawing a stronger link between setting the fiscal anchors and Malaysia's fiscal risks and debt sustainability assessment; (v) considering longer-term horizons to bring in intergenerational equity, population aging, and climate transition issues; and (vi) ensuring consistent and robust implementation of the FRA's regulatory and reporting requirements, especially relating to fiscal risks (e.g., detailed financial statements for financial guarantees).

[1] See Upgrading Fiscal Frameworks in Asia-Pacific (2024) for more detail.

8. The FRA is expected to support Malaysia's macroeconomic stability. IMF analysis (2024) suggests that markets react more favorably to countries with MTFFs, like the one embedded in the FRA, and that countries with MTFFs tend to have higher Public Expenditure and Financial Accountability scores along several dimensions (e.g., revenue outturns, expenditure composition outturns, and fiscal strategy). Ultimately, Malaysia's FRA represents a crucial step towards sound financial management in Malaysia, promoting a transparent and accountable public finance system that is expected to enhance fiscal discipline and contribute to macroeconomic stability, benefiting both the economy and its citizens.

Annex III. Enhancing Social Assistance and Public Service Delivery through Pangkalan Data Utama (PADU)[1]

1. **Social safety nets (SSNs) support poor and vulnerable households with cash and in-kind transfers, and digital technologies can expedite their expansion.** SSN coverage and targeting vary significantly among countries, with low-income nations facing the largest gaps. To rapidly expand SSNs, governments must focus on three key actions: identifying beneficiaries, verifying eligibility, and making payments. These actions can be facilitated by the adoption of digital technologies.

2. **PADU (Pangkalan Data Utama) is Malaysia's centralized national database system, launched in January 2024 to transform the delivery of social assistance and public services through enhanced targeting.** The system integrates comprehensive, individual based, demographic data encompassing address, education, household members, employment, wages, expenditures, and government assistance (Liew and Leng, 2024). The data are collected from multiple government databases, supplemented by individual registration. According to the Ministry of Economy, during the first phase of registration during January-March 2024, PADU already succeeded in covering 30.1 million individuals (about 90 percent of Malaysia's total population), with supplemental data updates provided by 10.5 million individuals (47 percent of citizens and permanent residents aged 18 and above). The second phase of registration planned for 2025 will further enhance the PADU database.

3. **Going forward, PADU can help improve the effectiveness of social assistance programs and mitigate the impact of fiscal reforms on the poor and vulnerable.** For instance, PADU could enable more accurate identification of eligible recipients for various programs, including Sumbangan Tunai Rahmah (STR), a financial aid program providing cash assistance to alleviate financial burden on low-income families, especially due to inflation and post-pandemic challenges, and Sumbangan Asas Rahmah (SARA), a cash assistance program for low-income and vulnerable households to help with basic living expenses. PADU can also potentially help to implement the planned retargeting of RON95 gasoline subsidies in mid-2025 by accurately identifying the top 15 percent income-earners. For facilitating targeted cash transfers, PADU can follow the approach adopted by STR, i.e., partnering with major Malaysian e-wallet providers to ensure efficient and direct distribution of cash transfers.

4. **PADU is expected to improve inclusivity, support evidence-based policymaking, and facilitate rapid response to natural disasters.** According to Leng and Liew (2024), PADU aims to enhance inclusivity by delivering fiscal support to eligible individuals, including informal workers, across both urban and rural areas. The database is also expected to support evidence-based policymaking through pilot programs; for example, targeting could be improved by differentiating between chronic and temporary aid recipients. Furthermore, PADU can potentially strengthen crisis response by enabling rapid identification of affected populations during natural disasters and

[1] Prepared by Ritu Basu.

facilitating direct aid transfers during health emergencies, though these capabilities are still being developed.

5. The development of PADU faces challenges, primarily related to data integration and security, and the government is taking steps to address them. The challenges include integrating data from existing government agency databases and individual updates. The integration requires data mapping, standardization, and harmonization. Additionally, collaboration between various agencies is needed to develop a unified framework for data sharing, including common guidelines. Ensuring compliance with legal and ethical standards is also crucial. Progress is being made through data validation, data integrity checks, and audit trail logging. Enhancements in cybersecurity measures are ongoing, including multi-factor authentication and end-to-end encryption.

6. A recent IMF case study on SSN responses to COVID-19 (Nicolò and Hanedar, 2023) highlights the role of digital innovation as a key to success. These case studies show that (1) digital technologies can help overcome lack of government capacity to implement SSNs, and (2) countries with stronger digital infrastructure or investments in SSNs before COVID-19 were able to complement existing policies to expand SSN coverage and to provide stronger responses than countries without preexisting SSN frameworks. The case studies for Brazil, India, and Turkey, summarized below, confirm that the ongoing development of PADU is broadly aligned with good practice in developing a comprehensive and digitalized registry database. The case studies also point to the importance of direct payment systems that reach marginalized groups and limits the exclusionary impacts of digital divides.

- **Brazil's response to COVID-19 effectively utilized existing databases while introducing new measures to expand coverage.** The government leveraged existing digital infrastructure and mobilized new technologies to increase coverage of beneficiaries of the emergency cash transfer program, notably through application campaigns and by offering free digital savings accounts to those without bank accounts. The identification process initially relied on the 17 administrative databases from the National Social Information Registry (CNIS), encompassing labor data, like salaries and social security. Eligibility verification processes became more robust as the program advanced, incorporating additional administrative records and utilizing over 40 major government databases. The emergency cash transfer program, Auxilio Emergencial (AEG), first drew on existing SSN beneficiaries and expanded to new beneficiaries, leveraging both existing social registry information and, for individuals not included in the CNIS, registration through a website and smartphone app created by CAIXA, a state-owned bank. For payment facilitation, a key innovation was CAIXA's introduction of a simplified, free all-digital savings account for AEG beneficiaries, accessible via a dedicated app. Beneficiaries only needed their tax identifier and application code to open an account. Following initial responses, policies were developed to combine digital strategies with in-person services for registration, verification of self-declared information, and eligibility checks. These in-person services facilitated the expansion, updating, and auditing of information gathered online.

- **The Indian government launched the Direct Benefit Transfer (DBT) strategy to enhance the efficiency of its SSNs.** India's key SSN programs include various social programs, including cash and in-kind subsidies. The DBT's objective is to consolidate delivery of existing SSN schemes by leveraging the synergies of three national programs: first, the Pradhan Mantri Jan Dhan Yojna (PMJAY), a national mission for financial inclusion, which provides access to universal banking through zero-balance bank accounts; second, Aadhaar, a digital identification number, also linked to bank accounts, which enables beneficiary identification via biometrics; and third, low-cost mobile data connects over 1.17 billion phones, facilitating information exchange and ready access to bank accounts, particularly in rural areas. The DBT reduces leakages and fraud by linking Aadhaar IDs to beneficiaries and directly remitting cash transfers to bank accounts. In 2018, the mandatory linking of Adhaar with bank accounts was revoked by India's Supreme Court due to numerous Aadhar data leaks, and the associated risk of bank frauds. However, beneficiaries seeking welfare transfers and DBT must voluntarily maintain the link. Addressing other system limitations was crucial to further prevent the exclusion of genuine beneficiaries. For example, initial Aadhaar experiences revealed that fingerprint recognition problems and limited internet connectivity led to exclusion. Establishing reliable digital networks, including power and mobile connectivity, was essential. When biometric verification failed, reliable digital networks and alternative verification methods like one-time passwords or QR codes were needed. Investing in digital access, literacy, and skills was vital to avoid excluding vulnerable groups. Actively monitoring beneficiary experiences was key to ensuring that poor and vulnerable groups are not marginalized by digital divides.

- **Turkey's investments in digital infrastructure enabled a swift COVID-19 response.** Turkey harnessed its existing 28 government databases to temporarily increase the number of eligible recipients covered from 4 million existing beneficiaries to 12 million households. No additional data had to be collected because the government expanded its existing integrated social registry, the Integrated Social Assistance System (ISAS), which covered more than 50 social protection programs. An electronic integrated system was developed that consolidated beneficiary information across social programs along with payment delivery. Through ISAS, the government standardized, integrated, and converted its previously paper-based SSN procedures to an electronic system. The 28 government databases—including land, auto, income tax, and social insurance registries—were cross-checked and used to determine eligibility for COVID-19 emergency cash transfers. Other information databases that were used included (1) the unique ID system; (2) the national address system, which links the ID number to the home address; (3) Social Assistance and Solidarity Foundations (SASFs); and (4) the Treasury Single Account (TSA), which facilitates electronic fund transfers from the Central Bank to the banking system, and in turn to recipients. The Government's Economic Stabilization Support Program provided one-time payment to 4 million SSN beneficiaries, later expanding to additional households affected by COVID-19, with payments delivered via various channels, including digital methods to reduce in-person interactions. Challenges such as gender gaps in financial access persisted, with only 54 percent of women having financial accounts compared to 83 percent of men, calling for financial inclusion efforts.

References

Bird, Nicolò and Emine Hanedar. 2023. "Expanding and Improving Social Safety Nets Through Digitalization: Conceptual Framework and Review of Country Experiences." IMF NOTE/2023/007.

Government of Malaysia. 2024. Economic Outlook 2025. Ministry of Finance

Leng, Ong Wooi and Doris Liew. 2024. "An Inquisition into Malaysia's PADU Subsidy Targeting, and Beyond." Penang Institute Issues, February.

27 Advisory. 2024. "An Analysis of the PADU System in Malaysia."

Annex IV. Impact of AI on Malaysia's Labor Market[1]

This annex analyzes the exposure of workers in Malaysia to the increasing use of artificial intelligence (AI) technologies in the workplace. The analysis, based on employment data extrapolated from the labor force survey in 2000, suggests that as of 2018: (i) 20 percent of the labor force stands to benefit from the appropriate use of AI to complement their tasks, potentially boosting their productivity; (ii)about 27 percent of the workforce may face greater vulnerability to AI's disruptive effects due to lower levels of AI complementarity; and (iii) female workers are more exposed to the effects of AI. Targeted training policies can harness AI's potential. Additionally, focused upskilling can mitigate the disruptive impact of AI on vulnerable workers.

A. Introduction

1. AI technologies are expected to change the way we work, which will have implications for labor markets around the world. As AI proliferates in the workspace, it brings with it the potential for increased productivity and efficiency, but it also raises concerns about the displacement of workers whose tasks can be automated with limited human intervention. This dual-edged nature of AI's integration into the workforce necessitates a careful examination of its impact on labor markets, balancing the benefits of enhanced productivity against the risks associated with job losses and the need for workforce adaptation. Therefore, tailoring policy responses to harness the benefits of AI while mitigating the adverse effects that could lead to increased income and wealth inequality is crucial to ensuring equitable outcomes across all segments of society.

2. This study utilizes estimates of AI exposure and complementarity to study the impact of AI on Malaysia's labor market. Following Felten et al. (2021), we make use of a micro approach that links AI's applications to the workplace abilities required in different occupations to estimate each occupation's exposure to AI (Section B), which reflects the potential for AI to be integrated into that occupation. To allow for a distinction to be made between occupations for which AI has the potential to complement or to reduce the demand for labor, we also use estimates of potential AI complementarity for various occupations from Pizzinelli et al. (2023). Detailed labor force data is used to estimate occupation-level exposure to AI in Malaysia and to examine how the exposure differs by gender (Section C). Policies that harness the benefits of AI, while mitigating its adverse effects, are also discussed (Section D).

B. Measuring Occupational Exposure to AI

3. A micro approach that links applications of AI to workplace abilities can be used to study the occupational exposure to, or potential for integration of, AI. AI exposure for a particular occupation measures the extent to which AI has a potential to be integrated in the occupation. This study relies on estimates of occupational exposure to AI produced by Felten et al. (2021) that links 10 common applications of AI (for example, abstract strategy games, image

[1] Prepared by Shujaat Khan.

recognition, speech recognition)[2] to a range of workplace abilities and occupations. A total of 52 workplace abilities (covering cognitive, physical, psychomotor, and sensory abilities) are considered. O*NET, a database developed by the US Department of Labor, uses these abilities to define every occupation (up to 8-digit level based on the Standard Occupational Classification (SOC) system) based on the workplace activities of each occupation. Using survey responses from gig workers on Amazon's Mechanical Turk (mTurk) platform, Felten et al. (2021) link each AI application to various workplace abilities based on whether the respondents believe that the application is related to or could be used for each workplace ability. If we define x_{ij} as the relatedness score of AI application $i \in \{1, \dots, 10\}$ and occupational abilities $j \in \{1, \dots, 52\}$, then the ability-level AI exposure is given by $A_j = \sum_{i=1}^{10} x_{ij}$. This ability-level AI exposure, combined with weights for the prevalence and importance of the abilities in each occupation, which are also available in O*NET's description of occupations, is used to calculate the exposure of each occupation to AI. This is referred to as AI occupational exposure (AIOE).

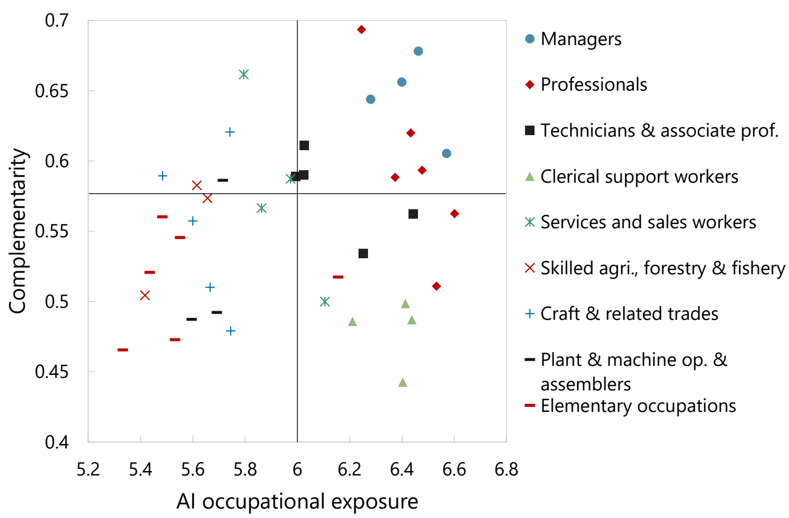
4. **In addition to understanding exposure to AI, it is also important to evaluate whether AI might augment worker capabilities or diminish labor demand.** AI complementarity for a particular occupation measures the extent to which AI can complement human labor in the occupation. We use estimates of AI complementarity from Pizzinelli et al. (2023), which utilizes data related to work contexts and skills of occupations from the O*NET database. Work contexts encompass both the social and physical dimensions of performing tasks within specific occupations. Factors such as the significance of decision-making and the severe implications of mistakes are job characteristics that could prompt the insistence on human oversight for final judgments or interventions. Pizzinelli et al. (2023) use case-by-case assessments to argue that certain contexts might deter societies from allowing unsupervised autonomous use of AI. Skills, on the other hand, are defined by the level of education, on-the-job training, and professional experience needed to perform a job. The consideration of skills stems from the notion that jobs demanding more extensive professional development are better positioned to incorporate AI knowledge into their training, thereby preparing workers with skills that complement AI.

5. **Taken together, occupational exposure to and complementarity with AI offer deeper insights on the potential impact of AI on different jobs.** Occupations are classified as high or low in AI exposure/complementarity based on whether their scores are above or below the median for all occupations. AIOE estimates show varied impacts across jobs (Figure 1). While high-exposure, high-complementarity roles may see productivity gains, those with high-exposure, low-complementarity face displacement risks. AI complementarity is less crucial for low-exposure roles, so the focus is on highly exposed occupations. High-skilled jobs like managers and professionals have higher AI exposure, whereas low-skilled jobs, such as elementary roles and machine operators, have lower exposure. Semi-skilled positions, such as clerical support, are highly exposed, while service and sales roles vary in AI exposure.

[2] The 10 AI applications considered by Felten et al. (2021) are: abstract strategy games; real-time video games; image recognition; visual question answering; image generation; reading comprehension; language modeling; translation; speech recognition; and instrumental track recognition.

6. **There is significant variation of AI complementarity both across and within occupational categories.** For instance, professionals tend to have a high exposure to AI; however, some jobs within this category exhibit high complementarity (for example, health professionals) and others exhibit low complementarity (for example, information and communication technology professionals). Nonetheless, some high-exposure occupations are consistently in high-complementarity (managers) or low-complementarity (clerical support workers) categories. Managerial workers, with higher skills and experience, benefit more from AI complementarity, whereas clerical roles, such as clerks, experience less complementarity. For occupations with low AI exposure, such as elementary roles, machine operators, and skilled agriculture workers, complementarity variation has less impact.

Figure 1. AI Exposure and Complementarity at 2-Digit Occupational Level



Sources: Felten et al. (2021), Pizzinelli et al. (2023), and IMF staff calculations.

C. AI Exposure in Malaysia's Labor Market

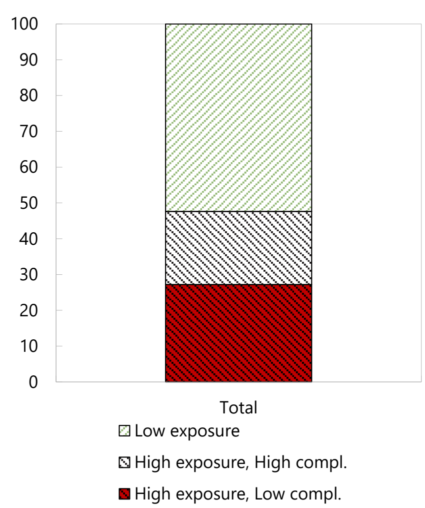
7. **Extrapolated data are used to assess AI exposure in Malaysia's labor market due to data limitations.** Detailed employment data by occupations at the 2-digit level are only available publicly for the year 2000 at the International Labour Organization database (ILOSTAT). Nonetheless, employment data by occupation at the 1-digit level are available for 2018 through the Department of Statistics Malaysia website.[3] Accordingly, employment data by 2-digit level occupations for the year of 2000 are extrapolated to 2018 using employment data by 1-digit level occupations. This extrapolation assumes that within a given 1-digit level occupation, the shares of occupations at the 2-digit level remain fixed between 2000 and 2018. This implies that any transitions within the broader occupation categories will not be captured by the extrapolation.

[3] https://www.ilmia.gov.my/index.php/en/dashboard-datamart/kilm/indicators/item/employment-by-occupation.

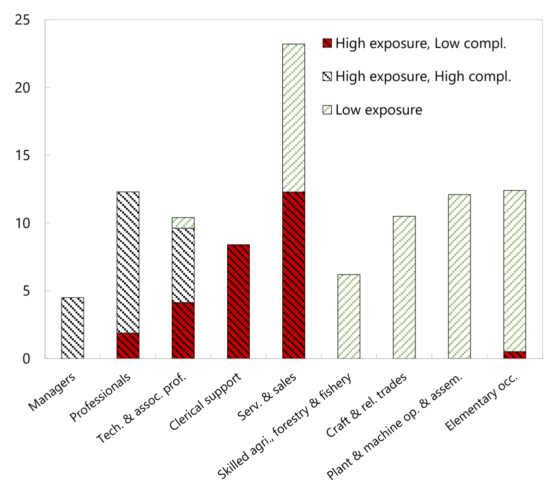
8. The estimates suggest that Malaysia's labor market is highly exposed to AI, driven largely by the share of high- and semi-skilled workers in its workforce. Estimates, based on the extrapolated data, show that about 48 percent of Malaysia's employed workers are highly exposed to AI (Figure 2). This exposure surpasses the average high exposure rates of 40 percent for emerging market economies (EMs) and 26 percent for low-income countries (LICs), as estimated by Cazzaniga et al. (2024), but is less than the AI exposure rate of 60 percent estimated for advanced economies. Malaysia's AI exposure largely stems from a sizeable share of workforce being employed in high-to-semi-skilled jobs with high exposure (47 percent).

Figure 2. AI Exposure

A. Aggregate AI Occupational Exposure
(Percent of employed)



B. AI Exposure by Major Occupations
(Percent of employed)



Sources: International Labour Organization (ILOSTAT); Department of Statistics Malaysia (DOSM); and IMF staff calculations.

9. A significant portion of workers in AI-exposed occupations are employed in roles with low AI complementarity. Of those workers who are highly exposed to AI, more workers (27 percent of employed) are in occupation with low AI complementarity relative to those employed in high AI complementarity roles (20 percent of employed).[4] The former mainly comprises business and administration, and information and communications technology professionals and associated professionals, clerical support workers, and a fraction of services and sales workers, who are at a

[4] The share of high exposure and low complementary workers may be underestimated. This is because the extrapolation assumes that the sub-shares of sub-occupations (2-digit level) within their parent occupation category (1-digit level) are fixed between 2000 and 2018; however, analyzing the detailed employment data for a peer country (Thailand) indicates that, over a similar period, within-occupations shifts led to an increase in the sub-share of business and administration professionals within the broader professionals category and an increase in the sub-share of business and administration associate professionals within the broader associate professionals category—both of which have high exposure and low complementary.

higher risk of substitution due to AI's abilities to mimic or automate the tasks required in those jobs. In contrast, managers, science and engineering, health, and legal professionals and associate professionals, and teaching professionals stand to gain in productivity, provided they have access to the required infrastructure and possess the necessary skills to interact with AI technologies effectively.

10. Our results suggest that female workers in Malaysia have a relatively higher exposure to AI. Estimates suggest that a larger fraction of female workers are exposed to AI, particularly in occupations which have low complementarity with AI (Figure 3). About 40 percent of female workers are employed in occupations that have a high exposure and low complementarity with AI, compared to 20 percent of male workers falling in the same category.[5] These differences largely stem from a larger share of female workers employed in clerical support roles (16 percent, relative to men's 4 percent employment share) and a larger share of women employed as sales workers (18 percent, relative to men's 9 percent employment share), all of which have a high exposure to and low complementarity with AI (Figure 4). Nonetheless, a higher share of women is also employed in high exposure, high complementarity occupations (23 percent, relative to men's 19 percent employment share). This is largely driven by the greater share of women employed as teaching professionals (11 percent, relative to men's 6 percent) who stand to benefit from increased productivity due to AI augmentation. These differences have the potential for widening gender gaps with a widespread adoption of AI technologies in work.

Figure 3. AI Exposure by Gender

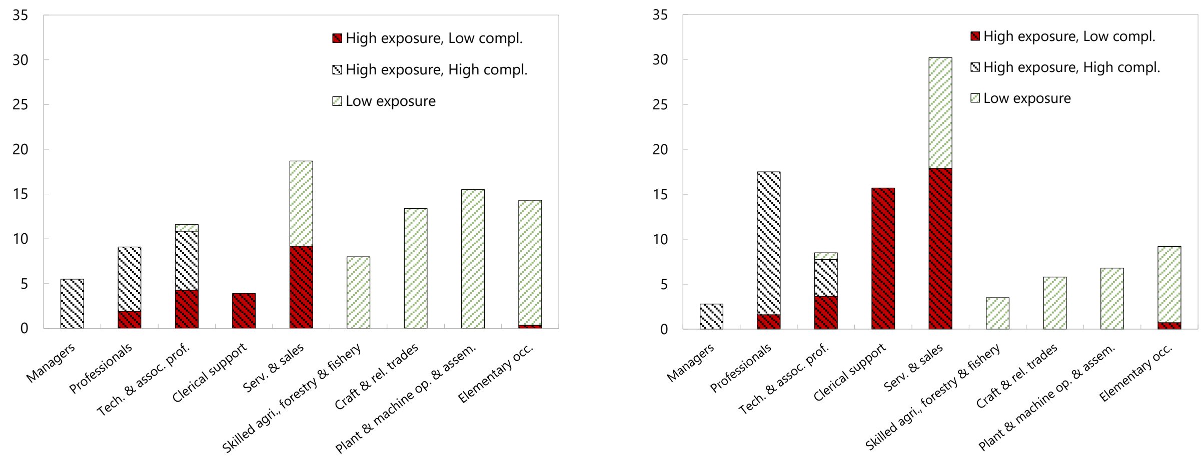
Sources: International Labour Organization (ILOSTAT); Department of Statistics Malaysia (DOSM); and IMF staff calculations.

[5] As noted in footnote 4, the share of high exposure low complementarity female workers may be underestimated.

Figure 4. Detailed AI Exposure by Gender

A. AI Exposure for Men
(Percent of employed)

B. AI Exposure for Women
(Percent of employed)



Sources: International Labour Organization (ILOSTAT); Department of Statistics Malaysia (DOSM); and IMF staff calculations.

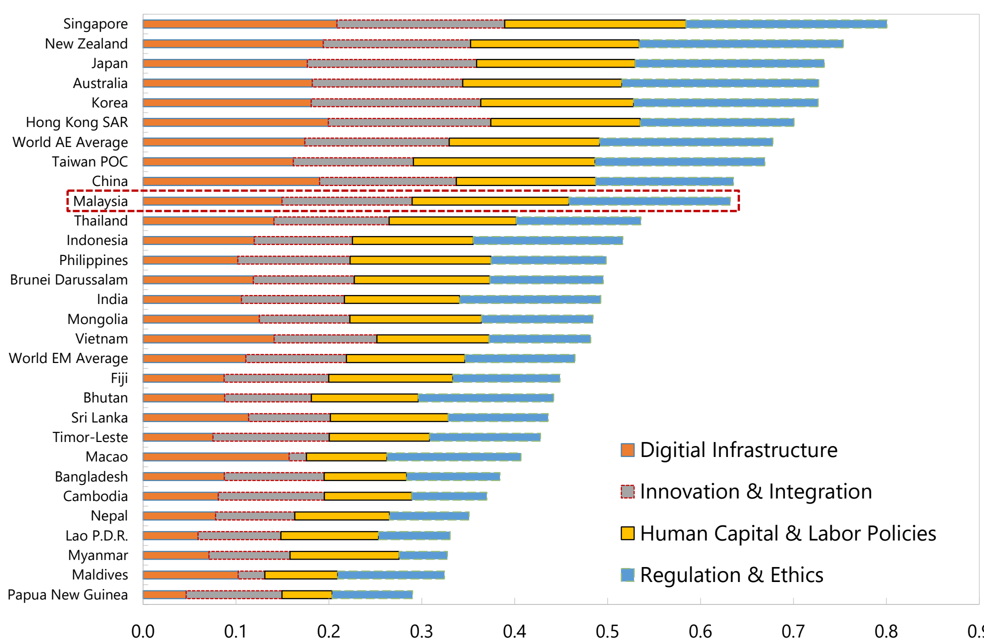
D. Policies

11. AI technologies offer the potential to boost productivity across sectors, but realizing these benefits requires the implementation of appropriate policies. As industries adapt to the rapid advancements in AI, policies focused on education and workforce training can equip individuals with the necessary skills to thrive in an AI-enhanced economy. Such re-skilling and upskilling programs are important even for workers in occupations that have high complementarity with AI, because high complementarity does not automatically imply that workers in those occupations will see productivity increases or are immune to AI-induced displacement. For these workers to truly benefit from AI, relevant training and skills development are essential. The analysis above highlights that a significant share of Malaysia’s workforce, particularly managers, science and engineering professionals and associate professionals, health and legal experts, and educators, could see productivity gains from AI, provided they receive the right training. The government and the private sector can collaborate to identify emerging skills gaps and develop targeted training programs. By fostering a culture of continuous learning and innovation Malaysia can ensure its workforce remains competitive and adaptable in the face of technological change.

12. Policies can also mitigate the disruptive impact of AI. Our analysis indicates that many in Malaysia's workforce are in jobs with low AI complementarity, increasing their risk of being replaced by AI. This risk would be particularly acute for those in clerical support and sales roles, making upskilling and reskilling programs critical for facilitating their transition to new employment opportunities. Support measures for workers displaced by AI can mitigate the potential disruptive impact of AI on such workers. Furthermore, incorporating AI literacy and digital skills training into the education system can proactively prepare future generations for the evolving job market, ensuring long-term resilience against the challenges posed by AI.

13. Malaysia is prepared well relative to its peers for AI adoption. The IMF's AI Preparedness Index (AIPI) evaluates AI readiness in 174 countries using a comprehensive set of macro-structural indicators, including digital infrastructure, human capital and labor market policies, innovation and economic integration, and regulation and ethics.[6] Malaysia fares well across all indicators, relative to its EM peers, underscoring its strong readiness for AI integration. Continued investments in robust digital infrastructure will help ensure seamless connectivity with advanced AI technologies. Moreover, further improvements in human capital will help the labor force leverage potential productivity gains from AI.

Figure 5. AI Preparedness Index



Sources: Cazzaniga et al. (2024)

[6] See https://www.imf.org/external/datamapper/datasets/AIPI.T

References

Cazzaniga, Mauro, Florence Jaumotte, Longji Li, Giovanni Melina, Augustus J Panton, Carlo Pizzinelli, Emma J Rockall, and Marina Mendes Tavares. 2024. "Gen-AI: Artificial Intelligence and the Future of Work" *IMF Staff Discussion Notes No. 2024/001,* International Monetary Fund, Washington, DC.

Felten, Edward, Manav Raj, and Robert Seamans. 2021. "Occupational, industry, and geographic exposure to artificial intelligence: A novel dataset and its potential uses" *Strategic Management Journal*.

Pizzinelli, Carlo, Augustus J Panton, Marina Mendes Tavares, Mauro Cazzaniga, and Longji Li. 2023. "Labor Market Exposure to AI: Cross-country Differences and Distributional Implications" *IMF Working Paper No. 2023/216*, International Monetary Fund, Washington, DC.

Annex V. Staff Policy Advice from the 2024 Article IV Consultation

Staff Advice	Policy Actions
Fiscal Policy	
The fiscal consolidation strategy should be credibly underpinned by high-quality and durable measures. More clarity on the timeline of fuel price liberalization and on the details of the mechanism for targeted transfers to lower-income households are still needed. Domestic revenue mobilization remains an urgent priority to create space for the ambitious development spending needs under the multiple national strategy plans, and reinstating the GST can help Malaysia reach its tax potential.	In early 2024, the authorities reduced access to electricity rebates to residential consumers with low usage and revised water tariffs upwards. In mid-2024, the authorities allowed diesel prices to float in Peninsular Malaysia and simultaneously introduced Budi MADANI, a social assistance program meant to shield vulnerable groups and sectors from the partial removal of the subsidy (diesel vehicle owners, small farmers, and logistics and essential service providers). In addition, the authorities expanded coverage and increased allowances for their two flagship direct cash assistance programs (SARA and STR) for low-income households. As part of Budget 2025, the authorities announced plans to remove the RON95 fuel subsidy in mid-2025 for 15 percent of consumers, which include wealthy individuals, foreign businesses, and foreign nationals. Other notable 2024 plans include an expansion of Sales Tax and Service Tax (SST) to include commercial services and non-essential goods. The authorities have not announced any actions to reinstate the GST.
Monetary, Exchange Rate, and Financial Policies	
Monetary policy should maintain a tightening bias to manage upside risks to inflation. This will ensure inflation expectations remain well anchored while also preserving space for monetary policy to respond to downside risks. Premature interest rate cuts should be avoided. Exchange rate flexibility and reserve adequacy should be preserved.	After raising the OPR by a cumulative 125 basis points between May 2022 and May 2023, BNM has kept it unchanged at 3.0 percent. The ringgit has exhibited flexibility, as demonstrated by fluctuations in the exchange rate during 2024. Gross reserve coverage remains adequate, exceeding 100 percent of the ARA metric; however, the gap between NIR and GIR, which opened in 2022, persists.
Financial sector policies should seek to enhance monitoring of risks build-up due to high interest rates, and weakening of	Malaysia's financial sector has demonstrated resilience amid the high interest rate environment. BNM has closely monitored risks

Staff Advice	Policy Actions
growth momentum, with particular attention to highly leveraged entities and smaller firms. BNM should continue to update its stress test design to better capture emerging and rapidly evolving global risks.	stemming from vulnerable entities, with non-performing loans remaining low. Additionally, BNM has mandated that banks conduct regular stress tests to address emerging risks such as climate and cybersecurity risks.
Structural Policies	
Forging ahead with the implementation of the ambitious structural reform agenda is needed to support growth. The government's policy frameworks are well-crafted and appropriately focused on improving labor market outcomes and increasing incomes, addressing climate change, promoting digitalization, enhancing governance, and reducing corruption vulnerabilities. A clear action plan is needed to ensure a sustainable pension system for an ageing population.	The government continues to implement growth-enhancing reforms under the MADANI economic framework (see the main text for more details). More time and analysis are needed to gauge their impact on potential growth. The authorities announced an account restructuring of a major public pension scheme (EPF), effective in May 2024, to increase the share of employees' contributions to their retirement account, while introducing an additional account that can be withdrawn to meet short-term financing needs. More time is needed to evaluate the effectiveness of these measures for improving pension adequacy.

Annex VI. External Sector Assessment[1]

<table>
<tr><td colspan="8">Overall Assessment: Malaysia's external position in 2024 is preliminarily assessed to be stronger than the level implied by medium-term fundamentals and desirable policies. After falling in 2023 amid a challenging external environment, the current account surplus is expected to widen in 2024 as the upturn in the global semiconductor cycle drives a recovery in external demand. Over the medium-term, the current account surplus is projected to widen slightly as the services balance benefits from a continuing recovery in tourism.

Potential Policy Responses: In the near-term, exchange rate flexibility should be preserved to facilitate external adjustments that are driven by fundamentals. Over the medium term, policies should be implemented to strengthen social safety nets and public healthcare, including through a reorientation of fiscal spending. Structural policies should be implemented to encourage private investment and improve productivity growth. Industrial policy should remain narrowly targeted to specific objectives where market solutions cannot deliver due to the presence of externalities or other market imperfections and should avoid discriminatory measures that distort trade and investment flows.</td></tr>
<tr><td>Foreign Asset and Liability Position and Trajectory</td><td colspan="7">Background. Malaysia's NIIP has averaged about 2.5 percent of GDP over the last decade, increasing to 6.8 percent at end-2023, supported by strong current account surpluses during the pandemic that helped increase reserve assets. The NIIP declined to -2.0 percent of GDP in 2024Q3 due to an increase in portfolio investment liabilities and a decrease in direct investment assets. Total external debt decreased to 66 percent of GDP at end-September 2024, compared to 68 percent at end-2023, and remains manageable. One-third of external debt is ringgit-denominated, hence, not exposed to valuation risks. Short-term external debt, which accounts for 40.9 percent of external debt, is also manageable, as most of it is either in the form of intragroup borrowing (among banks and corporations, and largely stable) or trade credits (backed by export earning).

Assessment. Malaysia's NIIP is expected to increase over the medium term, supported by the projected CA surpluses. Malaysia's balance sheet strength, along with exchange rate flexibility and increased domestic investor participation, would help support resilience to a variety of shocks, including outflows associated with external liabilities.</td></tr>
<tr><td>2024 (% GDP)</td><td>NIIP: -2.0</td><td>Gross Assets: 122.3</td><td>Debt Assets: 25.2</td><td colspan="2">Gross Liab.: 124.3</td><td colspan="2">Debt Liab.: 38.6</td></tr>
<tr><td>Current Account</td><td colspan="7">Background. Malaysia's CA surplus averaged 3.2 percent over the last five years, supported by robust external goods demand. CA surplus declined to 1.5 percent of GDP in 2023, the lowest in over two decades. This decline was driven by a moderation in external demand, because of a slowdown in major trading partners and a decline in demand for electrical and electronic products amid a global technology downcycle. The declining trend in the CA surplus over the past five years is also reflective of the narrowing savings-investment gap, mainly driven by an increase in private investment and decline in public savings. The CA surplus is expected to grow over the medium term, as tourism recovers and improves the services balance.

Assessment. The EBA CA model estimates a cyclically adjusted CA balance of 2.3 percent of GDP and a norm of -0.3 percent, implying a model-assed CA gap of 2.6 percent. Staff assesses a CA gap in the range of 2.1–3.1 percent, with a midpoint estimate of 2.6 percent. Relative policy gaps partly explain the CA gap, with weaker social safety nets, proxied by health care expenditure, and looser fiscal policies adopted by the rest of the world relative to Malaysia contributing positively (0.6 and 0.7 percent respectively) to the excess surplus, and stronger credit growth and a change in BOP reserve assets contributing negatively (-0.1 and -0.2 percent respectively).</td></tr>
<tr><td>2024 (% GDP)</td><td>CA: 2.0</td><td>Cycl. Adj. CA: 2.3</td><td>EBA Norm: -0.3</td><td>EBA Gap: 2.6</td><td>COVID-19 Adj.: 0.0</td><td>Other Adj.: 0.0</td><td>Staff Gap: 2.6</td></tr>
<tr><td>Real Exchange Rate</td><td colspan="7">Background. The ringgit appreciated in 2024 after facing depreciation pressures in 2023. As of November 2024, the real effective exchange rate (REER) was 7 percent higher than at the start of 2024, pushing it above its value at the start of 2023. While the recent appreciation has pushed both the REER and NEER above its pre-pandemic (end-2019) level, the REER remains about 5 percent below the NEER, reflecting lower inflation in Malaysia compared to its trading partners over that period.

Assessment. Using a semi-elasticity of 0.51, the staff assesses CA gap implies a REER undervaluation of 5.1 percent in 2024. The REER index and level models estimate Malaysia's REER to be undervalued by 28.3 percent and 30.9 percent, respectively. This implies that, over the medium term, Malaysia's REER needs to appreciate to narrow the CA gap. Staff assesses the REER to be undervalued in the range of 4.1–6.1 percent, with a midpoint estimate of 5.1 percent.</td></tr>
<tr><td>Capital and Financial Accounts: Flows and Policy Measures</td><td colspan="7">Background. 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.

Assessment. Exchange rate flexibility and macroeconomic policy adjustments should continue to play the central role in response to capital flow volatility. CFM measures should be gradually phased out, with due regard for market conditions.</td></tr>
<tr><td>FX Intervention and Reserves Level</td><td colspan="7">Background. Gross international reserves increased to US$116.2 billion at end-2024 from US$113.5 billion at end-2023.

Assessment. Based on the IMF's composite reserve adequacy metric (ARA), reserves at end-2024 are projected to be about 109 percent of the ARA metric, slightly lower than the 113.5 percent at the end of 2023 but above the adequacy threshold of 100 percent. This decline is driven by higher increases in export revenues, broad money, and short-term external debt relative to the increase in gross international reserves. The reserve coverage is projected to equal about 4.4 months of prospective imports, or about 79 percent of short-term debt. Staff assesses that BNM engaged in largely two-sided FX interventions over the year. There is a role for FXI interventions to address disorderly market conditions (DMC). Integrated Policy Framework analysis suggests that, in the context of Malaysia's shallow FX market, the use of FX interventions may be warranted to smooth large changes in hedging and financing premia if they generate risks to macroeconomic and financial stability. FXI is not a substitute for needed policy adjustment, however, and should not be used to lean against exchange rate pressures that are driven by fundamentals.</td></tr>
</table>

[1] Prepared by Tristan Hennig (APD). The assessment is preliminary, pending a complete analysis in the 2025 External Sector Report.

Annex VII. Risk Assessment Matrix[1]

Risks	Likelihood	Impact of Risk	Policy Response
External Conjunctural Risks			
Global growth slowdown. Growth slowdown in major economies, including due to supply disruptions, tight monetary policy, rising corporate bankruptcies, or a deeper-than-envisaged real estate sector contraction, with adverse spillovers through trade and financial channels, triggering sudden stops in some EMDEs.	**Medium**	**Medium:** Given its strong trade linkages with the rest of the world and being well-integrated into global value chains, Malaysia would be negatively impacted by negative growth shocks in particular in China.	The exchange rate should act as a first line of defense and a shock absorber. Pursue fiscal consolidation while strengthening targeted fiscal support to affected households, workers, and businesses. Monetary policy should remain data dependent and focused on preserving price stability.
Commodity price volatility. Supply and demand fluctuations (e.g., due to conflicts, export restrictions, OPEC+ decisions, and green transition) cause recurrent commodity price volatility, external and fiscal pressures and food insecurity in EMDEs, cross-border spillovers, and social and economic instability.	**High**	**Medium:** Being a commodity exporter, Malaysia is exposed to volatility in commodity prices. A sharp decline in commodity prices could put pressure on fiscal policy due to its reliance on petroleum-related revenues. A sharp increase in commodity prices would increase inflationary pressures.	Government should rebuild fiscal buffers and implement fiscal reforms, such as broad-based taxes, to reduce reliance on petroleum-related revenue. BNM should stand ready to tighten monetary policy should upside inflation risks materialize.
Monetary policy miscalibration. Amid high uncertainty and data surprises, major central banks' stances turn out to be too loose, hindering disinflation, or too tight for longer than warranted, which stifles growth and triggers increased capital-flow and exchange-rate volatility in EMDEs.	**Medium**	**Medium:** A sudden tightening of global financial conditions and rise in risk premia could result in capital outflows and a depreciation of the ringgit.	The exchange rate should act as a first line of defense and a shock absorber. Pursue fiscal consolidation while strengthening targeted fiscal support to affected households, workers, and businesses. Monetary policy should remain data dependent and focused on preserving price stability.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path the scenario most likely to materialize in the view of IM 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 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.

Risks	Likelihood	Impact of Risk	Policy Response
Intensification of regional conflicts. Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.	High	Medium: Supply chains would be disrupted, negatively impacting Malaysia's trade, and risk of domestic food insecurity could be elevated due to supply disruptions. A slowdown in key export markets would impact Malaysia's external demand.	The exchange rate should act as a first line of defense and a shock absorber. Pursue fiscal consolidation while strengthening targeted fiscal support to affected households, workers, and businesses. Monetary policy should remain data dependent and focused on preserving price stability.
External Structural Risks			
Deepening geo-economic fragmentation. Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary system, and lower growth.	High	High: Over the medium- to long-term, deepening geoeconomic fragmentation constitutes a major downside risk for Malaysia, given its strong trade linkages with the rest of the world.	Accelerate the implementation of structural reforms to transform Malaysia into a well-diversified economy. Should domestic demand weaken substantially, use temporary and targeted support.
Cyberthreats. Cyberattacks on physical or digital infrastructure (including digital currency and crypto assets), technical failures, or misuse of AI technologies trigger financial and economic instability.	High	Medium: With the growing digitalization of financial services and reliance on third-party service providers, Malaysia's financial system faces elevated cyber risks.	To enhance resilience against cyber risk resilience, conduct mandatory and regular IT stress testing, along with the strengthening of operational risk management standards.
Climate change. Extreme climate events driven by rising temperatures cause loss of life, damage to infrastructure, food insecurity, supply disruptions, lower growth, and financial instability. A disorderly transition to net-zero emissions and regulatory uncertainty lead to stranded assets and low investment.	Medium	Medium: Natural disasters, especially severe flooding, could destroy infrastructure and necessitate relief and recovery spending, which could reduce fiscal space. Cost of transition to net zero emissions is high in Malaysia, given its energy reliance on carbon.	Strengthen climate adaptation capacity, including early warning systems and disaster response measures. Provide targeted fiscal support to vulnerable groups. Accelerate the implementation of the National Energy Transition Strategy toward net-zero emissions by 2050.

Risks	Likelihood	Impact of Risk	Policy Response
Domestic Risks			
Growth Acceleration: entailing a continued positive output gap, a tighter labor market, faster-than-envisaged implementation of large public and private investment projects, and acceleration in credit growth.	**Medium**	**Medium:** Heightened domestic demand drives stronger growth but carries the risk of overheating the economy and intensifying inflationary pressures.	Tighten the fiscal, monetary, and macroprudential policy stance.
Fiscal risks from contingent liabilities. Realization of contingent liability risks, with the government stepping in to fulfill obligations of recipients of government guarantees, would have adverse consequences for fiscal policy, raising the sovereign's financing cost and requiring even stronger fiscal adjustment to restore fiscal sustainability.	**Medium**	**Medium/High:** Realization of contingent liabilities would raise sovereign financing costs and public debt, exacerbating 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 through high-quality, durable revenue and expenditure measures. 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.
De-anchoring of inflation expectation. Generalized wage pressures may emerge from the increases in minimum wage and civil service pay. While the secondary inflationary effect of the gasoline price adjustment is expected to be small, there is a distinct possibility that the pickup in headline inflation may raise inflation expectation.	**Medium**	**Medium:** This would disrupt ongoing disinflation, damaging confidence.	Tighten monetary policy stance and ensure clear communication of policy decisions.
Artificial Intelligence (AI). While AI has the potential to improve productivity, it may also result in disruptions in the labor market.	**Medium**	**Medium:** A widespread adoption of AI technologies could lead to displacement of individuals working in occupations that have a high exposure to and low complementarity with AI.	Provide training programs to re-skill and upskill workers. Improve social safety nets to assist workers affected by AI in transitioning to new jobs.

Annex VIII. Sovereign Risk and Debt Sustainability Analysis

Malaysia remains at a moderate overall risk of sovereign stress. Under current policies, federal government debt remains high at around 64 percent of GDP over 2026-29, with Malaysia's strong projected growth and ongoing expenditure reform efforts (e.g., diesel subsidy retargeting) being offset by weak revenues compared to peer countries. Medium-term liquidity risks, as analyzed by the GFN Finance and Contingent Liability Modules, are moderate. Large contingent liabilities increase fiscal risks and long-term fiscal risks include exposures to climate shocks and rising pension costs due to an aging population. Malaysia should continue to explore ways to implement high-quality revenue and expenditure reforms (e.g., a value-added tax and lower subsidy and pension spending), as well as robustly implementing its public financial management reforms (e.g., reporting and regulatory requirements that are part of the Public Finance and Fiscal Responsibility Act) to put debt on a firm downward path and mitigate risks from the potential materialization of contingent liabilities.

1. **Baseline macro-fiscal assumptions.** The macroeconomic and policy assumptions follow the team's baseline projections. Real growth reached 3.6 percent in 2023 and is projected to have risen to 5.0 percent in 2024. The fiscal deficit is projected to have decreased to 4.3 percent in 2024, meeting the 2024 Budget deficit target. Under current policies, the deficit is projected at 3.8 percent in 2025, the 2025 Budget target—and to average -3.8 percent of GDP over 2026-30, larger than the authorities' medium-term deficit target of 3 percent of GDP.

2. **Debt limit and medium-term target.** The issuances and management of Malaysia's federal government debt are governed under several legislations according to the types of instruments. First, a domestic debt ceiling is defined for three types of instruments: Malaysia Government Securities (MGS), Malaysia Government Investment Issues (MGII), and Malaysia Islamic Treasury Bills (MITBs) taken together. The debt limit for MGS+MGII+MITBs is currently 65 percent of GDP, having been raised during the pandemic to allow for increased borrowing to finance COVID-related spending and for planned scaling-up of public investment. The domestic debt limit is expected to be permanent. Second, the debt limit for the Malaysia Treasury Bills (MTBs) and offshore borrowing stands at MYR10 billion and MYR35 billion, respectively. The effective debt ceiling for federal government debt then takes into account all the limits above. The FRA also includes a medium-term debt target of 60 percent of GDP, which should be achieved by 2028. Baseline debt forecasts are projected to remain below the statutory limits but above the FRA's medium-term target.

3. **Realism.** Realism analysis does not point to major biases: median forecast errors for the primary deficit and public debt projections are neither optimistic nor pessimistic, particularly with respect to the one-to-three-year horizon. The baseline does not incorporate additional medium-term fiscal consolidation effort, beyond the measures adopted this budget year.

4. **Risks and mitigating factors.** Malaysia's public debt to GDP ratio remains above prepandemic levels, with debt servicing costs (the ratio of interest expense to total revenues) above the 15 percent threshold under the authorities' administrative rule in 2024. This reduces Malaysia's fiscal space, leaving the economy exposed to potential future shocks. However, debt has remained

below the authorities' effective statutory debt limit. Other existing vulnerabilities include sizable external financing requirements and large contingent liabilities,[1] which could exacerbate risks. However, a relatively high share of long maturity and local currency debt as well as the liquid domestic debt market and the existence of large domestic institutional investors are mitigating factors. Additionally, the Public Finance and Fiscal Responsibility Act of 2023 (FRA) (see Annex II) includes provisions meant to increase transparency and mitigate risk from contingent liabilities, namely by imposing a 25 percent of GDP limit on financial guarantees. At end-June 2024, financial guarantees stood at 20.9 percent of GDP, down from 21.9 percent of GDP at end-2023. The FRA also requires the creation of framework to guide future guarantee decisions and calls for detailed information on financial guarantees to be included in the annual fiscal risk report. Long-term debt risks are moderate. They are related to anticipated increases in pension costs, large amortization needs given Malaysia's long debt maturity implying an increase in GFN outside the perimeter of the projected period, and to climate adaptation and mitigation given Malaysia's climate goals and exposure risks.

[1] Malaysia's public external debt stood at 8.1 percent of GDP in 2023, largely attributed to offshoring borrowing by public corporations. Malaysia's contingent liabilities include government loan guarantees (GG) granted to non-financial government-related entities to execute mainly infrastructure and other strategic projects. As of end-June 2024, GG amounted to 17.0 percent of GDP, down from 18.0 at end-2023. Other contingent liabilities include undertakings and supports to aid corporate restructuring and provide temporary financial assistance and guarantee schemes for home ownership and small and medium-sized enterprises (e.g., to promote green financing); these amounted to 3.9 percent of GDP at end-June 2024, broadly in line with end-2023 levels.

Figure 1. Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	…	Moderate	The overall risk of sovereign stress is moderate, reflecting moderate levels of vulnerability in the medium-, and long-term horizons.
Near term 1/			
Medium term	Moderate	Moderate	Medium-term risks are assessed as moderate on the basis of authorities' medium-term consolidation plans, although high-quality revenue and expenditure reforms are needed to drive debt back towards its prepandemic levels and to create space for responding to potential shocks, including the materialization of contingent liabilities.
Fanchart	Moderate	…	
GFN	Moderate	…	
Stress test	Cont. Liabty.	…	
Long term	…	Moderate	Long-term risks related to pension demographics, large amortization needs, and climate adapation and mitigation appear moderate.
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	
Debt stabilization in the baseline			No

DSA Summary Assessment

Commentary: Malaysia remains at a moderate overall risk of sovereign stress. Under current policies, federal government debt remains high at around 64 percent of GDP over 2026-29, with Malaysia's strong projected growth and ongoing expenditure reform efforts (e.g., diesel subsidy retargeting) being offset by weak revenues compared to peer countries. Medium-term liquidity risks, as analyzed by the GFN Finance and Contingent Liability Module, are moderate. Large contingent liabilities increase fiscal risks and long-term risks include exposures to climate shocks and rising pension costs due to an aging population. Malaysia should continue to explore ways to implement high-quality revenue and expenditure reforms (e.g., a value-added tax and lower subsidy and pension spending), as well as robustly implementing its public financial management reforms (e.g., reporting and regulatory requirements that are part of the Public Finance and Fiscal Responsibility Act) to put debt on a firm downward path and mitigate risks from the potential materialization of contingent liabilities.

Sources: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Figure 2. Debt Coverage and Disclosures

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					0	
2. Subsectors included in the chosen coverage in (1) above:						

Sector		Subsectors captured in the baseline	Inclusion	Comments
CPS / NFPS / GG: expected / CG	1	Budgetary central government	Yes	
	2	Extra budgetary funds (EBFs)	No	Not applicable
	3	Social security funds (SSFs)	Yes	
	4	State governments	No	
	5	Local governments	No	
	6	Public nonfinancial corporations	No	
	7	Central bank	No	
	8	Other public financial corporations	No	

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/

	Basis of recording		Valuation of debt stock		
4. Accounting principles:	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/

5. Debt consolidation across sectors:	Consolidated	Non-consolidated

Color code: chosen coverage | Missing from recommended coverage | Not applicable

Reporting on intra-government debt holdings

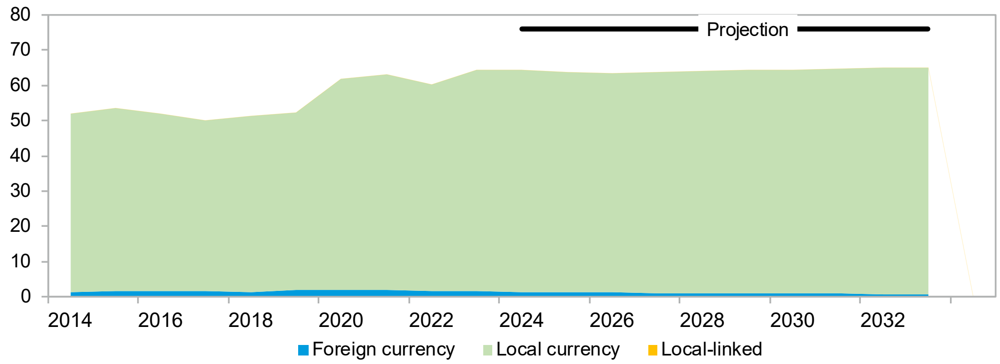
Sector		Issuer \ Holder	Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS / NFPS / GG: expected / CG	1	Budget. central govt									0
	2	Extra-budget. funds									0
	3	Social security funds									0
	4	State govt.									0
	5	Local govt.									0
	6	Nonfin pub. corp.									0
	7	Central bank									0
	8	Oth. pub. fin. corp									0
		Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: Debt coverage is federal or central government, 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. Malaysia's contingent liabilities include government loan guarantees (GG) granted to non-financial government-related entities to execute mainly infrastructure and other strategic projects.

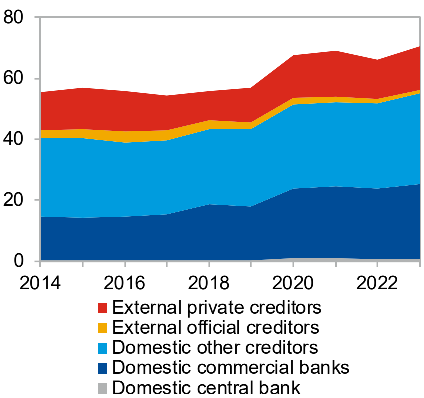
Figure 3. Public Debt Structure Indicators

Debt by Currency (percent of GDP)



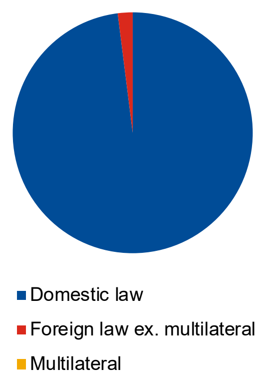
Note: The perimeter shown is central government.

Public Debt by Holder (percent of GDP)



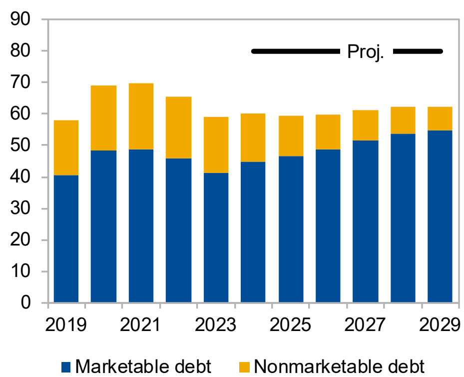
Note: The perimeter shown is central government.

Public Debt by Governing Law, 2023 (percent)



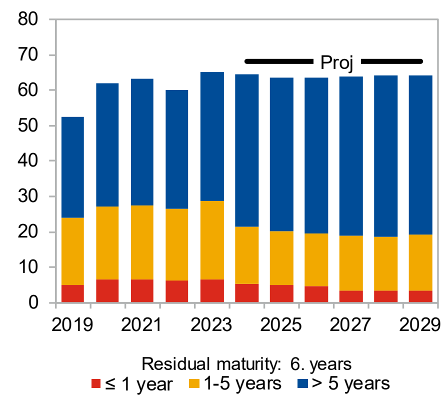
Note: The perimeter shown is central government.

Debt by Instruments (percent of GDP)



Note: The perimeter shown is central government.

Public Debt by Maturity (percent of GDP)



Note: The perimeter shown is central government.

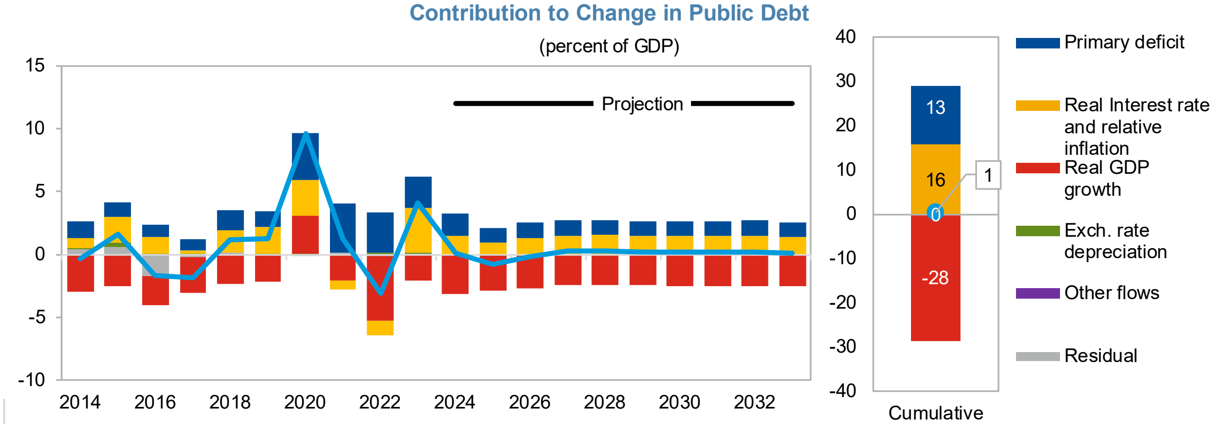
Commentary: Domestic creditors held about 76 percent of public debt in 2023. 98 percent of central government debt is denominated in local currency. The main domestic creditors are the Employees Provident Fund and commercial banks. All public debt, with the exception of Sukuk bonds, is governed by domestic law. A large proportion of debt is issued at longer maturities, as part of the government's debt management objective to reduce rollover risks by lengthening the issuance tenure to establish a well-spread maturity profile.

Figure 4. Baseline Scenario

(Percent of GDP, unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public debt	64.3	64.4	63.7	63.5	63.8	64.1	64.3	64.5	64.7	64.9	65.0
Change in public debt	4.1	0.1	-0.8	-0.2	0.3	0.3	0.2	0.2	0.2	0.2	0.1
Contribution of identified flows	4.1	0.2	-0.8	-0.2	0.3	0.3	0.2	0.2	0.2	0.2	0.1
Primary deficit	2.5	1.7	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Noninterest revenues	17.3	16.5	16.2	15.4	15.1	14.8	14.6	14.4	14.1	14.0	13.8
Noninterest expenditures	19.7	18.2	17.4	16.6	16.3	16.0	15.8	15.6	15.4	15.2	15.0
Automatic debt dynamics	1.6	-1.6	-2.0	-1.4	-0.9	-0.9	-1.0	-1.0	-1.1	-1.0	-1.1
Real interest rate and relative inflation	3.6	1.5	0.9	1.3	1.5	1.6	1.5	1.5	1.4	1.5	1.4
Real interest rate	3.7	1.5	0.9	1.3	1.5	1.6	1.5	1.5	1.4	1.5	1.4
Relative inflation	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-2.1	-3.1	-2.9	-2.7	-2.4	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5
Real exchange rate	0.1	…	…	…	…	…	…	…	…	…	…
Other identified flows	0.0	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	0.0
(minus) Interest Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contribution of residual	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	10.9	9.2	8.8	8.7	8.3	7.8	8.0	8.4	8.4	8.5	8.7
of which: debt service	8.5	7.5	7.6	7.5	7.0	6.6	6.8	7.2	7.1	7.3	7.5
Local currency	8.2	7.4	7.5	7.4	7.0	6.5	6.7	7.2	7.1	7.3	7.5
Foreign currency	0.2	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo:											
Real GDP growth (percent)	3.6	5.0	4.7	4.4	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Inflation (GDP deflator; percent)	-1.9	2.0	2.7	2.2	1.8	1.8	1.8	1.9	1.9	1.9	1.9
Nominal GDP growth (percent)	1.6	7.1	7.6	6.7	5.9	5.9	5.9	6.0	6.0	6.0	6.0
Effective interest rate (percent)	4.3	4.5	4.2	4.4	4.3	4.4	4.3	4.3	4.2	4.4	4.2

Contribution to Change in Public Debt

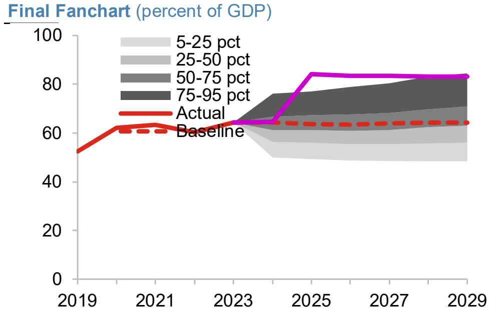


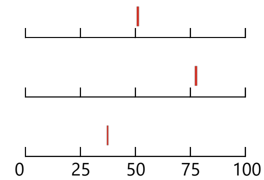
Commentary: Public debt will tick up slightly over the forecast horizon, with strong growth offsetting persistent primary defcits.

Figure 5. Medium-Term Risk Assessment

	Value	Contrib [1/]	Percentile in peer group [2/]
Debt fanchart module			
Fanchart width *(percent of GDP)*	35.9	0.5	
Probability of debt non-stabilizaiton *(percent)*	77.6	0.7	
Terminal debt-to-GDP x institutions index	23.9	0.5	
Debt fanchart index (DFI)		1.7	
Risk signal: [3/]		Moderate	

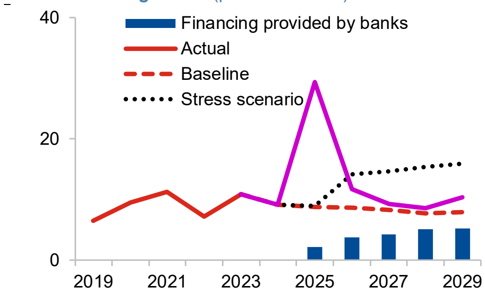
Final Fanchart (percent of GDP)

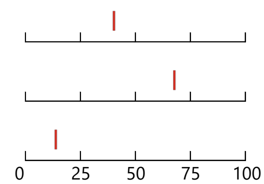




	Value	Contrib [1/]	Percentile in peer group [2/]
Gross financing needs (GFN) module			
Average baseline GFN *(percent of GDP)*	8.5	2.9	
Initial Banks' claims on the gen. govt *(pct bank assets)*	12.9	4.2	
Chg. In banks' claims in stress *(pct banks' assets)*	3.6	1.2	
GFN financeability index (GFI)		8.3	
Risk signal: [4/]		Moderate	

Gross Financing Needs (percent of GDP)

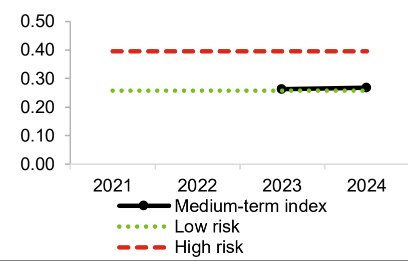




Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-term Index (index number)



Medium-term risk analysis

	Value	(normalized)	Weight	Contribution
Debt fanchart index	1.7	0.4	0.5	0.2
GFN finaceability index	8.3	0.2	0.5	0.1
Medium-term index		0.3		
Risk signal: 5/		Moderate		
Final assessment:		Moderate		

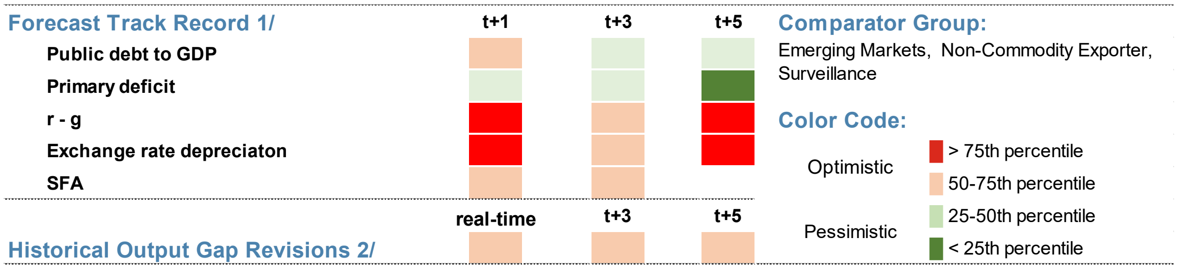
Prob. of missed crisis, 2024-2029, if stress not predicted: 18.2 pct.
Prob. of false alarms, 2024-2029, if stress predicted: 38.6 pct.

Commentary: The two medium-term tools, the Debt Fanchart Module and the GFN Financeability Module, suggest moderate levels of risk.

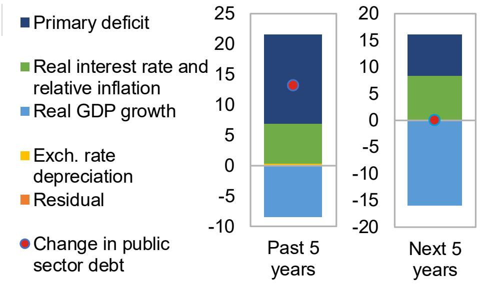
Sources: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
2/ The comparison group is emerging markets, non-commodity exporter, surveillance.
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

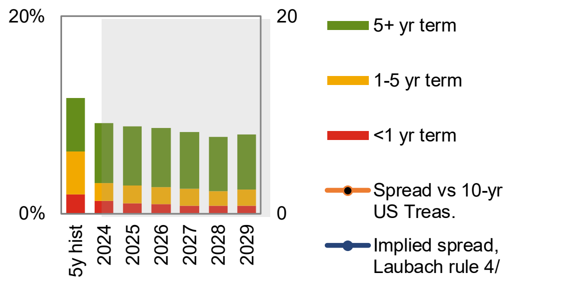
Figure 6. Realism of Baseline Assumptions



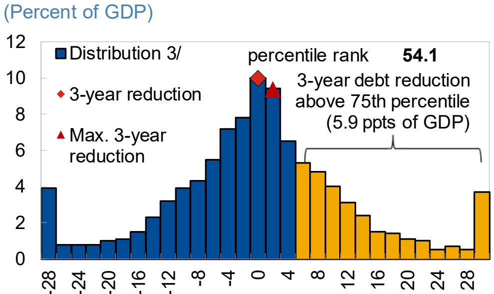
Public Debt Creating Flows
(Percent of GDP)



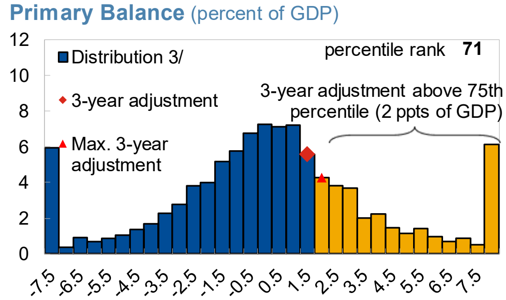
Bond Issuances (bars, debt issuances (RHS, %GDP); lines, avg marginal interest rates (LHS, percent))



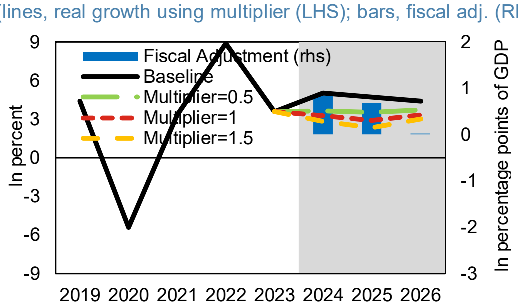
3-Year Debt Reduction
(Percent of GDP)



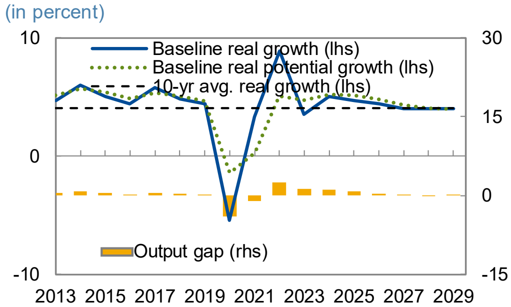
3-Year Adjustment in Cyclically-Adjusted Primary Balance (percent of GDP)



Fiscal Adjustment and Possible Growth Paths
(lines, real growth using multiplier (LHS); bars, fiscal adj. (RHS))



Real GDP Growth
(in percent)



Commentary: Realism analysis does not point to major biases: median forecast errors for the primary deficit and public debt projections are neither optimistic nor pessimistic, particularly with respect to the one to three year horizon. The baseline does not incorporate additional medium-term fiscal consolidation effort, beyond the measures expected to be adopted this budget year. Fiscal adjustment can have a moderate impact on growth with higher multipliers.

Sources: IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Figure 7. Long Term Risk Assessments

Malaysia: Triggered Modules

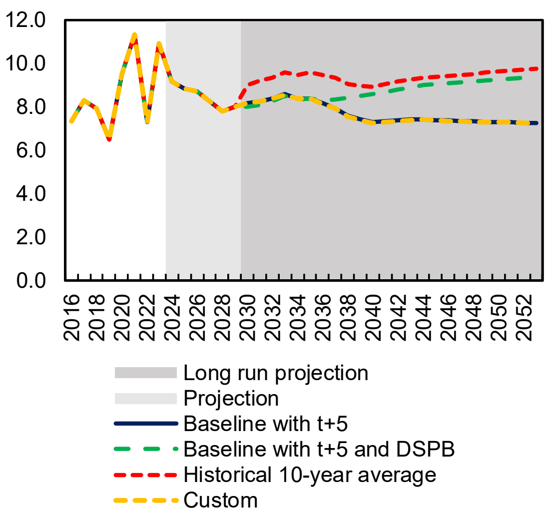
Large amortizations	**Pensions**	Climate change: Adaptation	Natural Resources
	Health	**Climate change: Mitigation**	

Malaysia: Long-term Risk Assessment: Large Amortization incl. Custom Scenario

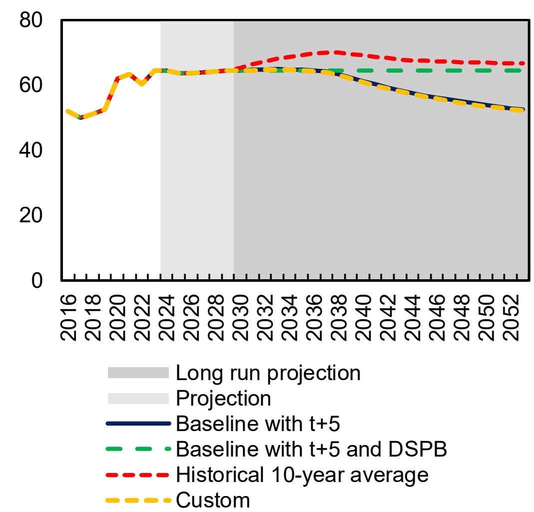
Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Historical average assumptions	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Overall Risk Indication		

Variable	2029	2033 to 2037 average	Custom Scenario
Real GDP growth	4.0%	4.0%	4.0%
Primary Balance-to-GDP ratio	-1.2%	-1.1%	-1.2%
Real depreciation	-1.8%	-1.3%	-1.3%
Inflation (GDP deflator)	1.8%	1.9%	1.9%

GFN-to-GDP ratio



Total public debt-to-GDP ratio

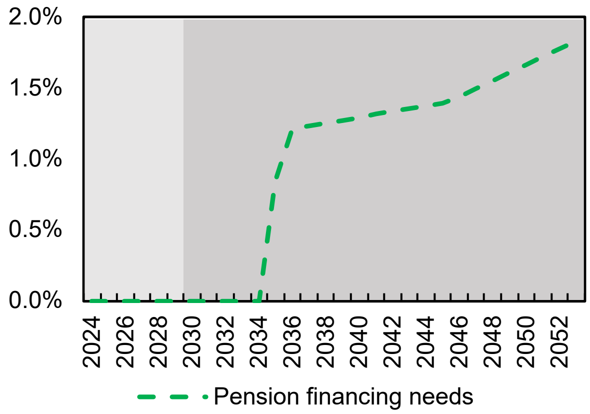


Commentary: Large amortization needs are driven by Malaysia's long debt maturity implying an increase in GFN outside the perimeter of the projected period, but the overall risk is low.

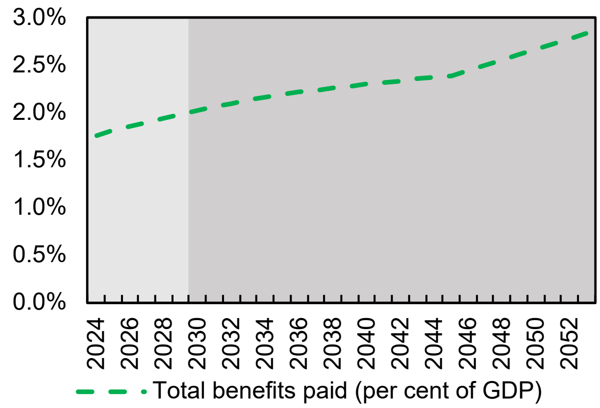
Figure 8. Demographics: Pensions

Permanent adjustment needed in the pension system to keep pension assets positive for:	30 years	50 years	Until 2100
(pp of GDP per year)	0.8%	1.3%	1.6%

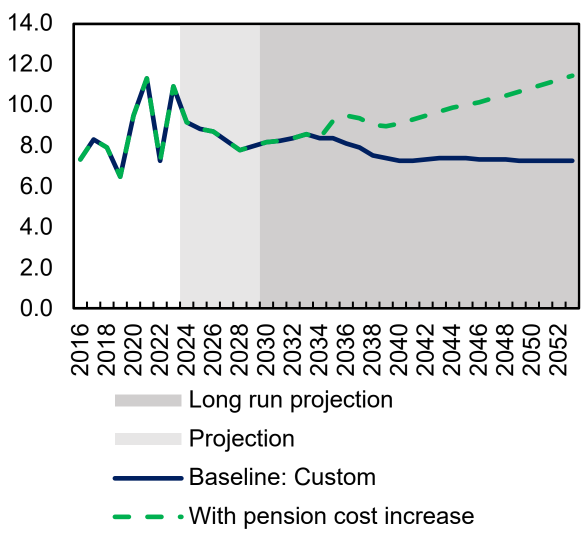
Pension Financing Needs



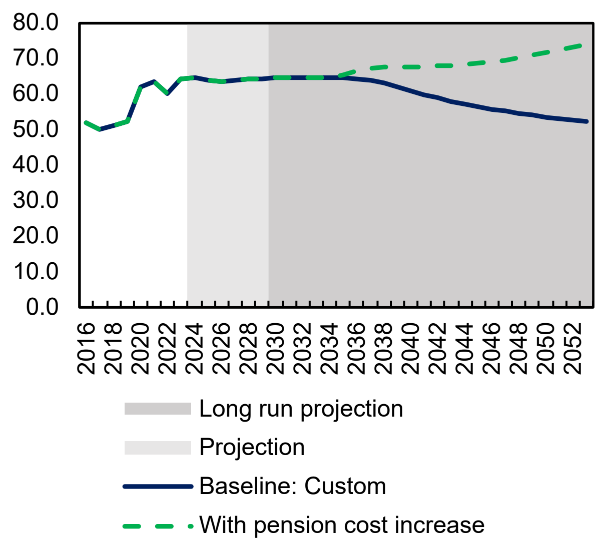
Total Benefits Paid



GFN-to-GDP Ratio



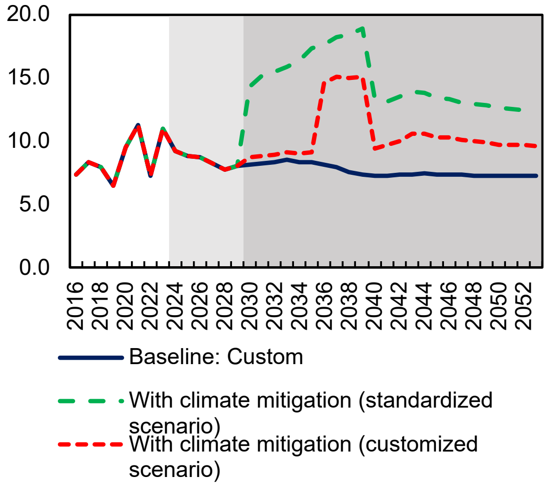
Total Public Debt-to-GDP Ratio



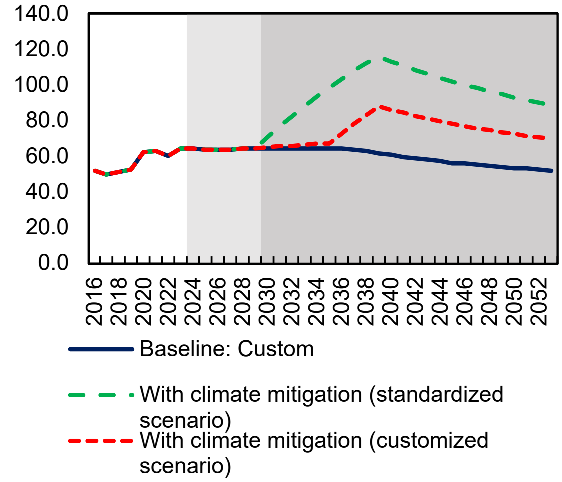
Given Malaysia's aging population, financing needs from civil pension underfinancing are expected to rise in the long term, starting from 2035 when civil pension assets may be depleted, with debt increasing to cover pension financing needs.

Figure 9. Climate Change: Mitigation

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



Climate mitigation costs are expected to increase gross financing needs and debt using a customized scenario of such costs being only partly accounted for in the medium-term framework.

Annex IX. Data Issues

Figure 1. Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/							
A							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	A	A	A	A	B	A	A
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	A	A	B	A	B		
Granularity 3/	A		A	A	B		
			A		B		
Consistency			A	B		A	
Frequency and Timeliness	A	A	A	A	A		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund is adequate for surveillance.
B	The data provided to the Fund has some shortcomings but is broadly adequate for surveillance.
C	The data provided to the Fund has some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund has serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. On Government Finance Statistics, there is scope to expand coverage to statutory bodies and nonfinancial public enterprises (NFPEs). On External Sector Statistics, while the authorities have improved the reporting of detailed items for balance of payments and IIP, there is scope for further narrowing net errors and omissions, as their size (-2.0 and -1.7 percent of GDP in 2021 and 2023 respectively) may impact the holistic assessment of trade and financial flows. On Monetary and Financial Statistics, there is scope for improving coverage for non-bank financial institutions, given the growing importance of insurance corporations, pension funds, and other financial intermediaries in Malaysia. There is also scope for improving the granularity of the Financial Soundness indicators by reporting all the core liquidity indicators.

Changes since the last Article IV consultation. Staff did not observe any notable data-related developments.

Corrective actions and capacity development priorities. CD support is ongoing for improving the coverage of GFS. Collaboration between agencies compiling the BOP statistics has been established to identify gap in the quarterly compilation, leading to resolution efforts such as reconciliation of the current and financial accounts. Efforts are underway to improve the coverage of MFS and FSI to include NBFIs and core liquidity indicators. BNM plans to begin reporting on insurance corporations and development financial institutions in the near term.

Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. Staff do not use data and/or estimates different from official statistics.

Other data gaps. Staff do not see any other data gaps for surveillance.

Figure 2. Data Standards Initiatives

Malaysia subscribes to the Special Data Dissemination Standard (SDDS) since August 1996 and publishes the data on its National Summary Data Page. The latest SDDS Annual Observance Report is available on the Dissemination Standards Bulletin Board (https://dsbb.imf.org/).

Table 1. Malaysia: Table of Common Indicators Required for Surveillance

As of January 29, 2025

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Malaysia[8]	Expected Timeliness[6,7]	Malaysia[8]
Exchange Rates	29-Jan-25	1/29/2025	D	D	D	...	...	1
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Nov-24	12/31/2024	M	M	M	30	1W	30
Reserve/Base Money	Dec-24	1/13/2024	M	M	M	30	2W	14
Broad Money	Nov-24	1/20/2025	M	M	M	30	1M	30
Central Bank Balance Sheet	Nov-24	12/31/2024	M	M	M	30	2W	14
Consolidated Balance Sheet of the Banking System	Nov-24	12/31/2024	M	M	M	30	1M	30
Interest Rates[2]	Dec-24	12/31/2024	M	M	D	...	...	1
Consumer Price Index	Dec-24	1/22/2025	M	M	M	30	1M	30
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	2024 est	11/17/2024	A	A	A	365	2Q	270
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	2024:Q3	11/29/2024	Q	Q	M	30	1M	14
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2024: Q3	11/15/2024	Q	Q	Q	90	1Q	90
External Current Account Balance	2024: Q3	11/15/2024	Q	Q	Q	90	1Q	70
Exports and Imports of Goods and Services	2024: Q3	11/15/2024	Q	Q	M	30	8W	42
GDP/GNP	2024: Q3	11/15/2024	Q	Q	Q	90	1Q	49
Gross External Debt	2024: Q3	11/15/2024	Q	Q	Q	90	1Q	90
International Investment Position	2024: Q3	11/15/2024	Q	Q	Q	90	1Q	49

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.
[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.
[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

INTERNATIONAL MONETARY FUND

MALAYSIA

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

February 6, 2025

Prepared By Asia and Pacific Department

CONTENTS

FUND RELATIONS

(As of December 31, 2024)

Membership Status: Joined March 7, 1958; Article VIII

General Resources Account

	SDR Millions	Percent of Quota
Quota	3,633.80	100.00
Fund holdings of currency (exchange rate)	2,701.78	74.35
Reserve tranche position	932.05	25.65
Lending to the Fund New Arrangement to Borrow	N/A	

SDR Department

	SDR Millions	Percent of Allocation
Net cumulative allocation	4,828.98	100.00
Holdings	4,346.48	90.01

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 policy (FEP) 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 2021, the BNM announced further liberalization of the FEP policy aimed to improve business efficiency and provide flexibility for corporates in particular export-oriented industries to better manage their foreign exchange risk exposure.

The Malaysian authorities view remaining FEP 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 multiple currency practices and 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 2025 Article IV consultation took place during December 3–13, 2024.

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 seminar on treasury management took place in February 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. A medium-term revenue strategy (MTRS) Workshop was held in January 2020. A mission on developing the fiscal responsibility law took place in February 2020. A follow-up mission further discussed options for developing an MTRS in July 2023. The mission also covered tax expenditures assessment and reporting.

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. A workshop on the governance of state-owned enterprises took place in October 2024.

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 were 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 were concluded in March 2021. A workshop on cyber resilience—cyber risk regulation and supervision for non-specialist financial sector supervisors—took place in April 2024. A workshop on Principles for Financial market infrastructures (PFMI) was held in June 2024. Technical Assistance on

Monetary Policy Modelling in the context of the operationalization of Integrated Policy Framework (IPF tools) has been ongoing since December 2021, with the most recent mission in July 2024.

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. Follow-up GFS technical assistance took place during February 28–June 30, 2022 and May 29-June 2, 2023. Additional technical assistance on both GFS and PSDS took place in December 2023, May 2024, and December 2024.

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) and the Financial Action Task Force (FATF), the global standard setter for AML/CFT, under the new methodology of the FATF. 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 authorities are currently preparing for their ongoing assessment under the FATF fifth round of mutual evaluations in anticipation of the on-site visit by the assessment team in February 2025.

Resident Representative/Advisor: None.