



MALAYSIA

February 2026

2026 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR MALAYSIA

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 2026 Article IV consultation with Malaysia, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its February 20, 2026, consideration of the staff report that concluded the Article IV consultation with Malaysia.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on February 20, 2026, following discussions that ended on December 19, 2025, 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 4, 2026.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Malaysia.

The documents listed below will be separately released.

- **Selected Issues**

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.

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Washington, D.C.



IMF Executive Board Concludes 2026 Article IV Consultation with Malaysia

FOR IMMEDIATE RELEASE

Washington, DC – February 27, 2026 On February 20, 2026, the Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation for Malaysia.¹

Malaysia's economy has shown notable resilience against global trade tensions and policy uncertainty. The economy continued to grow healthily, estimated at 4.9 percent in 2025, supported by strong domestic demand and a global tech-sector upcycle.² Inflation has been low and stable, with average headline inflation at 1.4 percent in 2025, amid declining food and fuel price inflation. The strong performance in part reflects sound and prudent macroeconomic policies. Fiscal consolidation has advanced under the Public Finance and Fiscal Responsibility Act, with the fiscal deficit estimated to be reduced from 4.1 percent of GDP in 2024 to 3.8 percent of GDP in 2025. Bank Negara Malaysia (BNM) reduced the Overnight Policy Rate to 2.75 percent in July 2025 and kept it unchanged since then. The authorities' 13th Malaysia Plan, released in July 2025, emphasizes the importance of fiscal discipline and stronger governance, and promotes social mobility, affordable housing, health and pension reform, and resilience against climate shocks.

Growth is expected to be resilient in the near term, supported by strong domestic demand, while slowing marginally to 4.6 percent in 2026 due to higher U.S. tariffs and a moderately contractionary fiscal policy stance. Inflation is projected to remain low and stable at 1.9 percent in 2026. Risks to growth are tilted to the downside, stemming mainly from external factors. Growth could be negatively affected by an escalation in protectionist trade measures, global financial market volatility, and a potential bust of the AI boom. However, upside risks can also materialize, including breakthroughs in global trade negotiations and faster implementation of structural reforms. Inflation risks are balanced.

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 Staff's estimate is based on information available as of January 22, 2026. Subsequent national accounts data released on February 13, 2026 show that Malaysia's GDP growth in 2025 was 5.2 percent.

Executive Board Assessment³

Executive Directors commended the notable resilience of Malaysia's economy against global uncertainty. Growth is expected to be supported by strong domestic demand, and inflation is projected to remain low and stable. Directors agreed that risks to growth are tilted to the downside, stemming mainly from external factors, although upside risks can also materialize.

Directors welcomed steady progress with fiscal consolidation under the Public Finance and Fiscal Responsibility Act. They generally encouraged the authorities to reduce the fiscal deficit further to 2.5 percent of GDP by 2028 to build fiscal buffers, anchored by high-quality and sustainable revenue and expenditure measures. Some Directors, however, assessed that the authorities' consolidation strategy is already well calibrated.

Directors agreed that the current monetary policy stance is appropriate and that monetary policy should stay data-dependent to continue to anchor inflation expectations and preserve growth. They welcomed continued efforts to deepen the foreign exchange market and build reserves. Directors also agreed on the importance of preserving exchange rate flexibility, which—alongside strengthening social safety nets and swiftly implementing structural reforms—would help reduce external imbalances.

Directors concurred that systemic financial sector risks remain contained. They noted that banks maintain ample capital and liquidity buffers, household balance sheets are healthy, and the housing market remains stable. Directors emphasized the importance of continued vigilance against pockets of vulnerabilities, such as highly leveraged households.

Directors encouraged the authorities to stand ready to respond agilely to possible external shocks. In the event of an adverse shock, they agreed that fiscal policy should cushion the negative impact on vulnerable households and affected firms, while any monetary policy response would have to depend on implications of the shock for inflation and output. While a flexible exchange rate would help mitigate the shock, a risk-off event could warrant the use of foreign exchange intervention to ease policy trade-offs. Directors agreed that if upside risks materialize, the authorities should use the opportunity to build macroeconomic buffers.

Directors agreed that swift implementation of structural reforms under the 13th Malaysia Plan is key for further domestic-driven and inclusive growth. They emphasized that labor market reforms aimed at increasing wages, reducing skill-related underemployment, and raising female labor force participation can help achieve the goals under the Plan. Deeper trade and financial integration within ASEAN can boost Malaysia's growth potential.

³ At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here:

<http://www.IMF.org/external/np/sec/misc/qualifiers.htm>.

Table 1. Malaysia: Selected Economic and Financial Indicators, 2021–31 1/

Nominal GDP (2024): US\$422.2 billion
 GDP per capita (2024, current prices): US\$12,397
 Unemployment rate (2024): 3.2 percent
 Main goods exports (share of total exports, 2024): Machinery and Transport Equipment (45.6 percent), Manufactured Goods and Miscellaneous Manufactured Articles (20.4 percent), and Mineral Fuels, Lubricants etc. (14.4 percent)

Population (2024): 34.1 million
 Poverty rate (2022, national poverty line): 6.2 percent
 Adult literacy rate (2022): 96.0 percent

	2021	2022	2023	2024	Proj. 2025	2026	2027	2028	2029	2030	2031
Real GDP (percent change)	3.3	9.0	3.5	5.1	4.9	4.6	4.3	4.3	4.3	4.3	4.3
Total domestic demand	3.8	9.7	5.0	4.9	4.7	5.0	4.4	4.2	4.4	4.3	4.3
Consumption	2.5	10.3	4.4	5.0	4.9	4.7	4.3	4.3	4.3	4.3	4.3
Private consumption	1.8	11.4	4.6	5.1	4.9	4.8	4.7	4.7	4.6	4.6	4.6
Public consumption	5.8	5.6	3.4	4.7	4.5	4.3	2.2	2.9	2.9	2.8	2.8
Private investment	2.8	7.3	4.5	12.3	7.0	6.0	5.5	5.5	5.0	4.5	4.5
Public gross fixed capital formation	-11.0	5.4	8.5	11.1	3.5	3.0	1.2	1.6	1.7	1.7	1.7
Net exports (contribution to growth, percentage points)	-0.3	-0.1	-1.2	0.4	0.4	-0.1	0.1	0.2	0.1	0.2	0.2
Output gap (in percent)	-0.7	2.5	1.1	0.9	0.5	0.2	0.0	0.0	0.0	0.0	0.0
Saving and investment (in percent of GDP)											
Gross domestic investment	22.1	23.6	22.8	22.0	21.2	21.4	21.4	21.3	21.4	21.4	21.3
Gross national saving	26.0	26.8	23.9	23.4	23.0	23.0	23.2	23.3	23.4	23.4	23.4
Fiscal sector (in percent of GDP) 2/											
Federal government overall balance	-6.4	-5.5	-5.0	-4.1	-3.8	-3.5	-3.2	-3.0	-3.0	-3.0	-3.0
Revenue	15.1	16.4	17.3	16.8	16.4	15.9	15.7	15.7	15.6	15.5	15.5
Expenditure and net lending	21.5	21.9	22.3	20.9	20.1	19.4	18.9	18.7	18.6	18.5	18.5
Federal government non-oil primary balance	-6.7	-7.8	-6.6	-4.7	-3.9	-2.8	-2.4	-2.1	-2.0	-1.9	-1.8
Consolidated public sector overall balance 3/	-8.3	-5.9	-5.5	-6.4	-7.4	-6.0	-5.7	-5.5	-5.5	-5.5	-5.4
General government debt 3/	69.2	65.5	69.7	69.8	70.0	69.5	68.6	67.7	66.9	66.2	65.5
Of which: federal government debt	63.3	60.1	64.3	64.6	64.8	64.3	63.5	62.6	61.7	61.0	60.4
Inflation and unemployment (in percent)											
CPI inflation, annual average	2.5	3.4	2.5	1.8	1.4	1.9	2.0	2.0	2.0	2.0	2.0
CPI inflation, end of period	3.2	3.8	1.5	1.7	1.6	2.0	2.0	2.0	2.0	2.0	2.0
CPI inflation (excluding food and energy), annual average	0.7	3.0	3.0	1.8	2.0	2.0	2.0	2.0	2.0	2.0	2.0
CPI inflation (excluding food and energy), end of period	1.1	4.1	1.9	1.6	2.3	2.0	2.0	2.0	2.0	2.0	2.0
Unemployment rate	4.6	3.9	3.4	3.2	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Macroeconomic variables (end of period)											
Broad money (percentage change) 4/	5.6	4.0	5.8	3.3	4.5	6.0	6.2	6.2	6.4	6.5	6.4
Credit to private sector (percentage change) 4/	3.8	3.0	5.2	5.1	5.3	5.8	5.9	5.7	5.6	5.7	5.6
Credit-to-GDP ratio (in percent) 5/ 6/	137.7	122.3	126.7	125.7	125.2	124.3	123.4	122.3	121.3	120.5	119.6
Credit-to-GDP gap (in percent) 6/ 7/	...	...	...	...	...	...	...	...	...	...	...
Overnight policy rate (in percent)	1.75	2.75	3.00	3.00	...	...	...	...	...	...	...
Three-month interbank rate (in percent)	2.0	3.6	3.6	3.5	...	...	...	...	...	...	...
Nonfinancial corporate sector debt (in percent of GDP)	109.0	97.5	101.2	...	...	...	...	...	...	...	...
Nonfinancial corporate sector debt issuance (in percent of GDP)	2.6	2.4	2.5	...	...	...	...	...	...	...	...
Household debt (in percent of GDP)	88.9	80.9	84.2	84.2	...	...	...	...	...	...	...
Household financial assets (in percent of GDP)	191.9	167.3	174.2	178.7	...	...	...	...	...	...	...
House prices (percentage change)	1.9	3.9	3.8	4.4	...	...	...	...	...	...	...
Exchange rates (period average)											
Malaysian ringgit/U.S. dollar	4.14	4.40	4.56	4.58	...	...	...	...	...	...	...
Real effective exchange rate (percentage change)	-1.3	-1.1	-2.8	1.1	...	...	...	...	...	...	...
Balance of payments (in billions of U.S. dollars) 5/											
Current account balance	14.5	13.0	4.4	6.1	8.5	8.2	9.6	11.8	12.5	13.2	14.2
(In percent of GDP)	3.9	3.2	1.1	1.4	1.8	1.6	1.8	2.0	2.0	2.0	2.0
Goods balance	42.9	42.6	28.7	25.0	28.2	28.4	29.6	31.9	32.0	32.6	33.1
Services balance	-15.8	-13.2	-9.6	-2.6	-1.6	-1.1	0.3	1.7	3.9	5.5	7.6
Income balance	-12.5	-16.3	-14.7	-16.4	-18.2	-19.1	-20.3	-21.8	-23.3	-24.9	-26.5
Capital and financial account balance	3.8	1.8	-1.6	-1.1	0.8	-2.8	-2.8	-3.8	-4.9	-5.1	-5.7
Of which: Direct investment	7.5	2.9	1.9	3.9	3.5	3.6	3.8	4.0	4.1	4.3	4.9
Errors and omissions	-7.3	-2.7	-7.3	-1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	11.0	12.1	-4.5	3.4	9.3	5.4	6.9	8.0	7.7	8.1	8.5
Gross official reserves (US\$ billions) 5/	116.9	114.7	113.5	116.2	125.5	130.9	137.7	145.7	153.4	161.5	170.0
(In months of following year's imports of goods and nonfactor services)	4.9	5.4	4.9	4.7	4.9	4.8	4.9	5.0	5.0	5.0	5.0
(In percent of short-term debt by original maturity)	120.8	104.9	96.3	90.2	85.6	84.8	84.5	85.0	85.3	85.3	85.4
(In percent of short-term debt by remaining maturity)	90.8	82.5	76.2	71.3	69.1	68.5	68.3	68.9	69.2	69.4	70.1
Total external debt (in billions of U.S. dollars) 5/	258.7	259.6	275.4	304.4	324.1	340.8	358.0	374.8	391.3	409.2	427.0
(In percent of GDP)	69.3	63.8	69.0	72.2	68.9	67.3	66.1	64.7	63.3	62.0	60.8
Of which: short-term (in percent of total, original maturity)	37.4	42.1	42.8	42.3	45.2	45.3	45.5	45.7	45.9	46.3	46.6
short-term (in percent of total, remaining maturity)	49.8	53.6	54.1	53.6	56.1	56.1	56.3	56.5	56.6	56.9	56.8
Debt service ratio 5/											
(In percent of exports of goods and services) 7/	11.7	10.8	13.1	14.0	13.9	12.2	12.1	12.0	11.9	11.8	11.6
(In percent of exports of goods and nonfactor services)	12.7	11.5	14.0	15.0	14.8	13.0	12.9	12.8	12.7	12.5	12.4
Memorandum items:											
Nominal GDP (in billions of ringgit)	1,549	1,795	1,824	1,932	2,043	2,178	2,322	2,476	2,637	2,806	2,985

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

1/ Data in this table are as of January 22, 2026, 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*.

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/ Includes receipts under the primary income account.



MALAYSIA

STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION

February 4, 2026

KEY ISSUES

Context. Malaysia's economy has shown notable resilience against global trade tensions and policy uncertainty, supported by strong domestic demand, a global tech-sector upcycle, and sound economic policies. Given the heightened global uncertainty, policy discussions centered on how Malaysia can sustain its resilience through enhancing macroeconomic buffers, navigating potential shocks, and advancing structural reforms to bolster domestic-driven and inclusive growth.

Economic Policy Recommendations.

- Fiscal consolidation has advanced under the Public Finance and Fiscal Responsibility Act. The authorities' commitment to reducing the fiscal deficit to 3.0 percent of GDP by 2028 is welcome. Further reducing the deficit to 2.5 percent of GDP by 2028, anchored by high-quality and sustainable revenue and expenditure measures, would help build additional fiscal buffers.
- The current monetary policy stance is appropriate. Going forward, monetary policy should stay data-dependent to continue to anchor inflation expectations and preserve growth. Continued exchange rate flexibility and efforts to deepen the FX market would enhance the economy's ability to respond to shocks.
- Systemic financial sector risks remain contained, supported by banks' ample capital and liquidity buffers, healthy household balance sheets, and a stable housing market. Continued vigilance is important against pockets of vulnerabilities, such as highly leveraged households.
- Swift implementation of structural reforms under the 13th Malaysia Plan (13MP) is a priority. Labor market reforms and deeper integration within ASEAN can help achieve the goals under the 13MP, boost growth potential in Malaysia, and support external rebalancing.

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

Discussions were held in Kuala Lumpur during December 8–19, 2025. 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 (all APD), and Purva Khera (Resident Representative). Mr. Idwan Hakim (Executive Director) and Mr. Sim Wee Haw (Senior Advisor to the Executive Director) joined the meetings. Aishwary Trivedi and Mariam Souleyman (all APD) assisted in the preparation of this report. Data used in this report for staff analyses are as of January 22, 2026, unless otherwise noted.

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CONTEXT

1. Malaysia's economy has shown notable resilience against global trade tensions and policy uncertainty. Despite external shocks such as the sweeping U.S. tariff increases, the Malaysian economy continued to grow healthily in 2025, supported by strong domestic consumption and investment, solid employment growth, and a global tech-sector upcycle that has led to increased electrical and electronic (E&E) exports and data center investment in Malaysia. The strong performance in part reflects sound and prudent macroeconomic policies.¹ The October 2025 Malaysia-U.S. trade deal has reduced uncertainty.

2. The 2026 Article IV consultation focuses on how Malaysia can sustain its resilience. Global uncertainty has become a "new normal," shaped by geopolitical shifts, trade fragmentation, and rapid technological change, testing Malaysia's resilience. Despite low and stable inflation, cost-of-living pressures remain a concern among the public, underscoring the need for well-calibrated policies and prioritization of reforms. Against this background, discussions centered on strategies to enhance buffers, navigate potential upside and downside shocks, and advance structural reforms to bolster inclusive growth.

RECENT DEVELOPMENTS

3. Growth has been strong (Figure 1). Real GDP is estimated to have grown by 4.9 percent in 2025, down from 5.1 percent in 2024 but above staff's estimate of medium-term potential (4.3 percent). Growth was primarily driven by domestic demand, supported by continued robust private consumption as well as private and public investment. The construction sector was lifted by data center projects, while the manufacturing sector benefited from the tech-sector upcycle amid high AI-driven electronics demand. The output gap is estimated to be positive at 0.5 percent of GDP in 2025.

4. Trade held up despite the volatile external environment (Figure 1). Goods exports grew 6.5 percent in 2025. Exports to the U.S. grew 17 percent, reflecting both front-loading due to uncertainty about future tariff rates and the tech-cycle upturn. Imports grew by 6.2 percent overall, driven by strong capital goods imports. The current account surplus increased, to 2.0 percent of GDP in 2025Q1-Q3 (2024: 1.4 percent), as higher travel receipts improved the services balance.

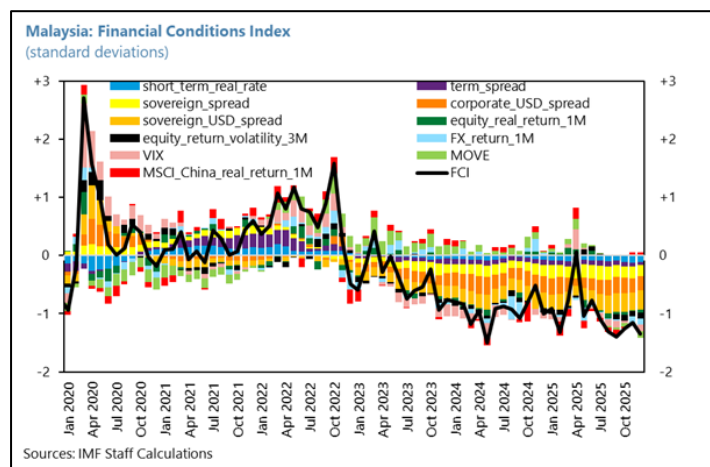
5. Inflation eased markedly in 2025 (Figure 2). Headline inflation fell, averaging 1.4 percent in 2025, amid declining food and fuel price inflation. Soft global food prices, the reduction of the subsidized RON95 fuel price from RM2.05/liter to RM1.99/liter in October, and the appreciation of the ringgit contributed to this development. Core inflation has, however, remained stable at around 2 percent during 2025, mostly reflecting modest inflation in the services sector. Other factors,

¹ See Annex IV for staff policy advice from the 2025 Article IV consultation and policy actions.

including the use of administered prices and subsidies as well as structurally low wages have contributed to lower inflation in Malaysia than in peers over the past years.

6. The labor market has improved further (Figure 2). The unemployment rate declined to 2.9 percent in November 2025, down from 3.2 percent in 2024, and is now below pre-pandemic levels. Total employment grew 3.1 percent year-on-year, supporting household incomes. Higher labor force participation has also helped to keep real wage growth moderate overall (2025Q3: 0.5 percent year-on-year), despite recent increases in the minimum wage and civil servant pay.

7. Financial conditions have eased (Figure 3). Lower sovereign and corporate spreads were the key contributors. In July 2025, Bank Negara Malaysia (BNM) reduced the overnight policy rate from 3 percent to 2.75 percent as a measure aimed at preserving Malaysia's steady growth path amid moderate inflation prospects. The ringgit appreciated by 9.2 percent against the U.S. dollar in 2025, reflecting weakness in the dollar. Malaysia saw nonresident portfolio inflows following the escalation of global trade tensions in April 2025, which have reversed partially since then.



8. Malaysia's external position in 2025 is preliminarily assessed to be stronger than warranted by fundamentals and desired policies (Annex V). The current account (CA) surplus is estimated at 1.8 percent of GDP in 2025. Malaysia's CA surplus has diminished over recent decades due to reduced goods and energy balances and lower public savings, reflecting a shift toward a more domestically driven economy with rising private consumption and investment (Box 1). Adjusting for cyclical factors, Malaysia's CA gap in 2025 is preliminarily assessed in the range of 1.7-2.7 percent of GDP, with a midpoint of 2.2 percent. This corresponds to an undervaluation of the real effective exchange rate (REER) in the range of 3.3-5.3 percent. The CA 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. Preserving exchange rate flexibility (¶21) would facilitate adjustment in the current account balance. Strengthening social safety nets (¶16) and swiftly implementing structural reforms under the 13th Malaysia Plan (¶33) would help reduce external imbalances through lower private sector net savings and stronger domestically-driven growth.

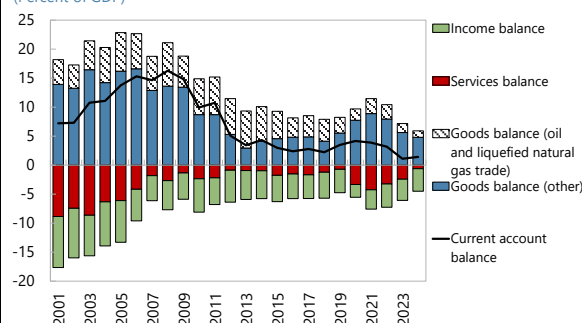
Box 1. Malaysia: Drivers of Current Account Balance

While Malaysia used to run large current account surpluses, especially in the 2000s and early 2010s, these have decreased substantially over time. The current account surplus declined from the peak of 16.3 percent of GDP in 2008 to 1.4 percent in 2024. The drivers of this compression have primarily been a reduction in both the merchandise trade balance and oil exports, both of which outweighed improvements in the income and services balances. Goods exports (and imports) fell from 96 (76) percent of GDP in 2000 to 59 (53) percent in 2024.

The decline in the current account surplus reflects Malaysia's transition to an increasingly domestically-driven economy. The private savings-investment balance has declined over time, with private consumption rising from about 40 to 60 percent of GDP between 2000 and 2024. Public savings have also shrunk due to a decline in operating surpluses by non-financial public enterprises. While gross domestic investment has remained broadly flat, its composition has shifted over time from public investment to private investment. Going forward, an expected improvement in the public savings-investment balance from continued fiscal consolidation is expected to be offset by stronger investment implied by a recent increase in investment approvals and the government's policies to boost public investment under the 13th Malaysia Plan.

Current Account Balance

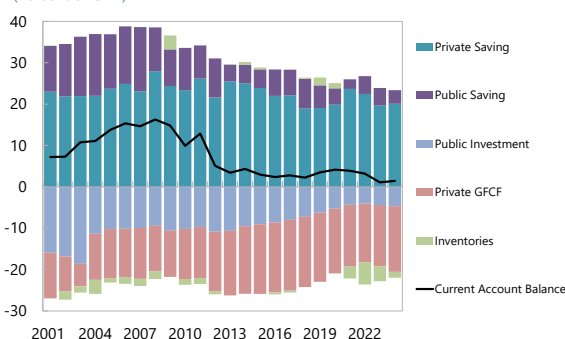
(Percent of GDP)



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

Saving-Investment

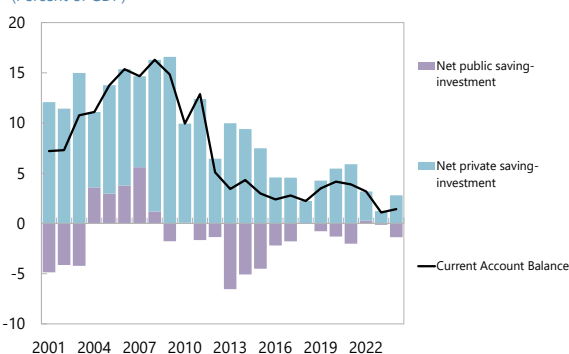
(Percent of GDP)



Sources: DoSM and IMF Staff Calculations

Saving-Investment

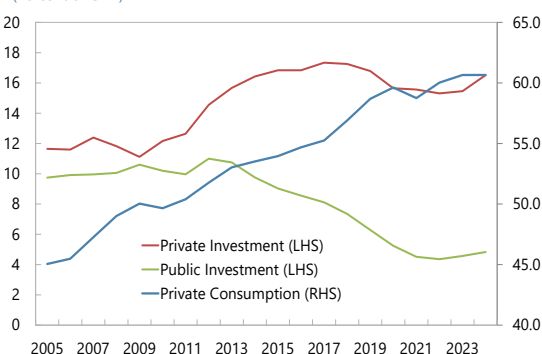
(Percent of GDP)



Sources: DoSM and IMF Staff Calculations

Consumption and Investment

(Percent of GDP)



Sources: DoSM and IMF Staff Calculations

OUTLOOK AND RISKS

9. Growth is expected to remain resilient in the near term. Private consumption and investment are projected to support growth driven by the strong labor market, reduced uncertainty, and a continued tech cycle upturn that promotes further data center investment in Malaysia. However, growth is projected to slow marginally, from 4.9 percent in 2025 to 4.6 percent in 2026, reflecting the impact of higher tariffs (Annex I) and a moderately contractionary fiscal policy stance (¶14). The positive output gap is projected to close by 2027 as growth returns to its medium-term potential of 4.3 percent.

10. Risks to growth are tilted to the downside and stem mainly from external factors (Annex VI).

- A global escalation of protectionist trade measures together with prolonged trade policy uncertainty would particularly affect Malaysia's highly open economy (Annex II). A more pronounced slowdown in China could further reduce external demand. Sectoral tariffs on semiconductors or high-tech export restrictions would weigh on activity in the E&E sector, which accounts for 55 percent of Malaysia's exports to the U.S. and employs about 3.5 percent of the labor force. The impact of the existing trade restrictions could turn out to be worse than currently anticipated.
- Other near-term downside risks include: (i) global financial market volatility, causing capital outflows from emerging market economies; (ii) an intensification of geopolitical tensions, potentially coupled with commodity price volatility; and (iii) a potential bust of the global AI boom, negatively affecting investment and demand for the region's E&E exports, including those from Malaysia. Additionally, potential intensification of cost of living concerns may increase challenges to the authorities' commitment to fiscal consolidation. Structural and medium-term downside risks include labor market disruptions from AI adoption and damage from extreme climate events such as floods.
- There are also upside risks. Breakthroughs in global trade negotiations can lead to lower tariffs and improved policy predictability, boosting Malaysia's trade and investment. Moreover, upside risks to growth in Malaysia's trading partners can materialize. Faster-than-envisaged AI adoption could boost external demand and permanently increase productivity. Persistently higher tourism activity following the *Visit Malaysia 2026* initiative could boost services exports. Faster implementation of growth-enhancing structural reforms, and increased trade from deeper regional trade integration present further upside risks.

11. Headline inflation is projected to remain stable and gradually return to its long-term average of 2 percent. As the impact of the drivers of low headline inflation in 2025 fades, average headline inflation is projected to increase from 1.4 percent in 2025 to 1.9 percent in 2026. The risks to inflation are balanced. Increased trade and geopolitical tensions could cause supply chain disruptions and raise import prices. An increase in global commodity prices or a depreciation of the ringgit due to a global risk-off shock could also increase inflation. The materialization of upside growth risks in Malaysia could lead to inflationary pressure. On the other hand, a further drop in

global commodity prices, a decrease in China's export prices, and the opening up of a negative output gap following negative growth shocks, would all put downward pressure on inflation.

Authorities' Views

12. The authorities expected the Malaysian economy to continue its resilience. They project growth to come in toward the upper end of the official forecast range of 4.0-4.5 percent for 2026. The authorities highlighted that downside risks to the outlook are primarily external, reflecting strong domestic demand and well-calibrated domestic policies. Meanwhile, a better global growth outlook and worldwide AI adoption present important upside potential for Malaysia. The authorities expect inflation to continue to be well-behaved and stay in the range of 1.3-2.0 percent in 2026 with balanced risks.

POLICY DISCUSSIONS

A. Near-term Policies to Ensure Continued Resilience

Fiscal Policy

13. The fiscal deficit is projected to narrow by 0.3 percent of GDP to 3.8 percent of GDP in 2025, in line with the authorities' budget target. A welcome expansion in the scope of the Sales Tax and Service Tax (SST) in July 2025 and lower spending on fuel subsidies—benefitting from the full-year impact of prior reforms and lower-than-expected oil prices—are projected to offset a

Percent of GDP	2024	2025	Change:	2026	Change:
Revenues	16.8	16.4	-0.4	15.9	-0.5
Tax	12.4	12.4	0.0	12.5	0.1
o/w Direct	8.9	8.7	-0.2	8.7	0.0
o/w Indirect	3.5	3.7	0.2	3.8	0.1
Non-Tax	4.4	4.0	-0.4	3.3	-0.6
Memo: Oil & Gas Revenues	3.2	2.8	-0.4	2.0	-0.8
Expenditures	20.9	20.1	-0.8	19.4	-0.8
Subsidies and Social Assistance	3.5	2.8	-0.7	2.3	-0.5
o/w Fuel Subsidies	1.7	1.0	-0.7	0.7	-0.3
Wage Bill	5.0	5.1	0.1	5.0	0.0
Pensions	1.9	2.0	0.1	2.0	0.0
Interest	2.6	2.7	0.0	2.7	0.0
Other (Grants, Transfers, Goods & Services)	3.6	3.7	0.1	3.5	-0.1
Development	4.3	3.9	-0.4	3.9	0.0
Deficit	-4.1	-3.8	0.3	-3.5	0.3
Primary Deficit	-1.5	-1.1	0.4	-0.8	0.3
Fiscal Impulse	-0.4	-0.5		-0.3	

continued decline in petroleum-related revenues. The moderately tight fiscal stance is appropriate in light of a positive output gap. The September 2025 reform of the petrol (RON95) subsidy aimed at producing fiscal savings by curbing leakages to non-citizens, but maintained the subsidy for high income groups, making it less ambitious than initially planned. However, the reform introduced an at-pump digital mechanism that can be used for further phased targeting (¶16, Annex IV). The authorities also introduced a cash voucher of RM100 (around \$24) to all citizens in August 2025, with an estimated total cost of 0.1 percent of GDP.

14. Staff welcomes the authorities' commitment to reducing the fiscal deficit further to 3.5 percent of GDP in 2026 and to 3.0 percent of GDP by 2028.

- The 2026 Budget envisages a 0.3 percent of GDP reduction in the deficit from 2025, with a 0.5 percent of GDP drop in revenues offset by a 0.8 percent of GDP decline in spending. This amounts to a moderately tight fiscal stance in the near term. There are no major new revenue measures and lower oil prices are expected to reduce petroleum-related revenues. For expenditures, lower oil prices and the full-year effect of the RON95 and other subsidy reforms are expected to yield savings of 0.5 percent of GDP.
- The 2023 Public Finance and Fiscal Responsibility Act (FRA) sets medium-term targets on the fiscal deficit and federal government debt at 3.0 percent of GDP and 60 percent of GDP, respectively. The authorities' medium-term fiscal framework envisages continued consolidation towards a deficit of 3.0 percent of GDP by 2028. In light of the steady progress with fiscal consolidation, staff's baseline projection envisages that the fiscal deficit will reach the target in 2028 and stay constant thereafter.¹

15. However, staff assesses that Malaysia needs further efforts to meet the authorities' medium-term debt target and to build fiscal buffers. Malaysia's estimated 2025 debt-to-GDP ratio of 64.8 percent remains well above its pre-pandemic level of 52 percent. Under staff's baseline, the debt ratio gradually declines to 61 percent in 2030, exceeding the medium-term debt target under the FRA. Paired with the authorities' sizable financial guarantees, Malaysia faces a moderate risk of sovereign stress and its fiscal space is at risk, limiting its ability to react to shocks should they materialize (Annex VII).

16. Staff recommends reducing the overall deficit to 2.5 percent of GDP by 2028 with high-quality and sustainable revenue and expenditure measures (Box 2). The recommended path would reduce the debt ratio to 59.5 percent of GDP by end-2030, in line with the FRA target. A menu of fiscal measures is presented in Text Table 2.

- There is scope to further target RON95 fuel subsidies, given that a large share of subsidies accrues to high-income households. The authorities should set a clear timeline to gradually and transparently remove the remaining RON95 subsidies, starting with higher income individuals, while securing stakeholder buy-in and communicating the benefits of subsidy reform together with compensating measures—building on electricity and diesel reform successes.² There is also scope to further strengthen social safety nets.³ Staff recommends swift actions to implement the Pangkalan Data Utama (PADU), a centralized socioeconomic digital national registry in

¹ In the 2025 Article IV staff report (IMF Country Report No. 25/57), staff's baseline had projected the fiscal deficits as constant at 3.8 percent of GDP from 2026 onwards. The revision in the staff's baseline reflects the authorities' commitment to fiscal targets under the FRA and their successful multi-year deficit consolidation through quality reforms. Under staff's baseline, the fiscal deficit is projected to decline over 2026-28 primarily through a decline in spending as percent of GDP, which is feasible by limiting spending growth below nominal GDP growth.

² See IMF Country Report No. 23/185 and Chapter 2 of the April 2025 *Fiscal Monitor* for more detail on best practices for energy subsidy reform.

³ The World Bank's report, *A Fresh Take on Reducing Inequality and Enhancing Mobility in Malaysia*, finds that about one third of social assistance spending accrued to households with income above the 40th percentile, based on 2022 household survey data.

Malaysia,⁴ which can be used to introduce transitional means-testing for the RON95 subsidies and to improve the coverage and targeting of cash transfers. Universal cash transfers should be avoided.

- Tax reform options include: the reintroduction of a Goods and Services Tax (GST) or, as a second-best option, further expansion of the SST; strengthening of the personal income tax framework; and a rationalization of corporate tax incentives. Ongoing improvements in tax administration should be stepped up, including by building on the recent success with e-invoicing. In the absence of such measures, productive spending such as capital spending would need to be reduced as percent of GDP. Revenue mobilization is also key to enable stronger social safety nets and higher development spending under the 13th Malaysia Plan (1133).

17. Staff welcomes ongoing efforts to strengthen fiscal governance and implement reporting requirements under the FRA. The July 2024 amendment of the Audit Act and August 2025 Government Procurement Act can strengthen fiscal transparency and spending efficiency. Staff welcomes ongoing efforts to prepare a medium-term expenditure framework, a tax expenditure statement, and a fiscal risk statement, as required under the FRA. The authorities have also identified governance as a critical reform area. The IMF can continue to support these efforts through capacity development.

Text Table 2. Possible Fiscal Measures (Percent of GDP)	
Further progress on fuel subsidy rationalization	0.1-0.5
Offsetting social assistance measures coupled with fuel subsidy rationalization	-
Improved targeting of non-fuel subsidies and social assistance	0.1-0.5
Reintroduction of the GST or, as a second-best option, base-broadening reform of the SST	0.5-1.0
Strengthening of personal income tax	0.5-1.0
Rationalization of corporate tax incentives, coupled with planned implementation of the Global Minimum Tax	+
Improved tax administration and public financial management	+

Authorities' Views

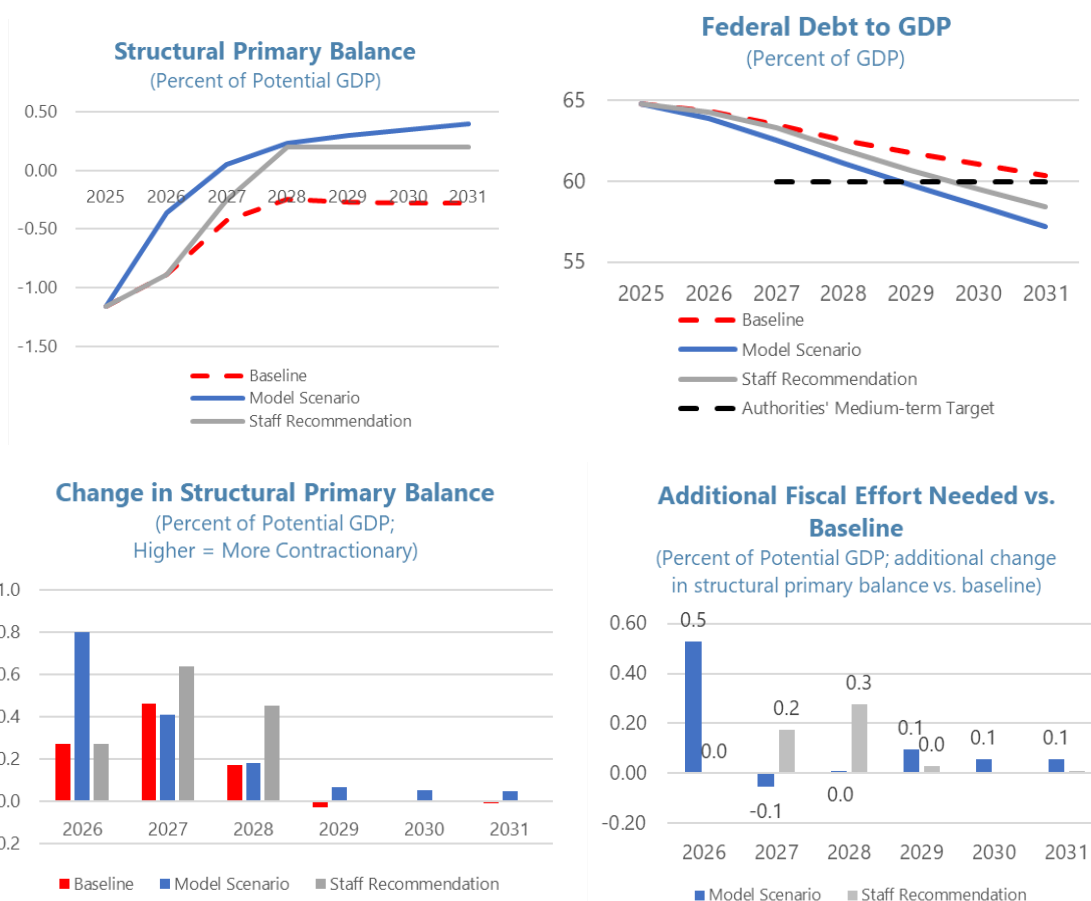
18. The authorities reaffirmed their commitment to meet the fiscal targets under the FRA. In the absence of major tax measures or sharp cuts in real expenditure, the near-term fiscal stance will remain neutral and supportive of macroeconomic stability. They expect the FRA debt target to be met under their planned fiscal consolidation path, supported by Malaysia's medium-term growth outlook which will be stronger than projected by IMF staff.

19. Fiscal measures should be carefully designed and implemented to balance socio-economic concerns. In this context, the authorities emphasized that the September 2025 gasoline

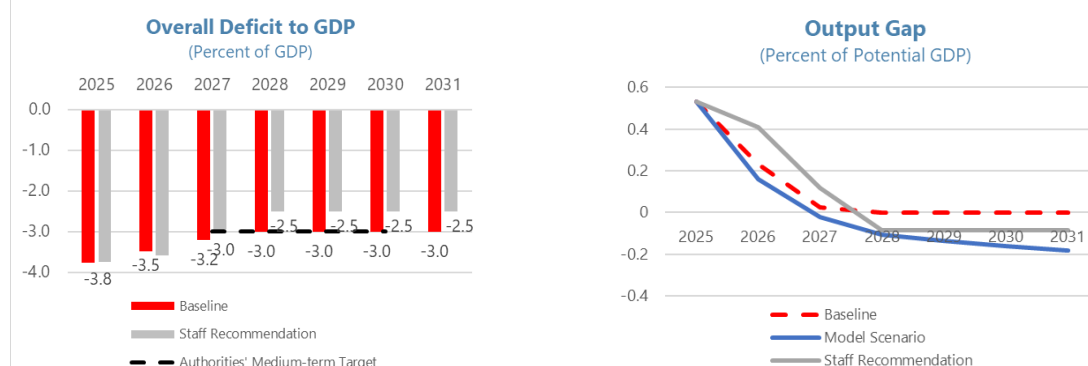
⁴ See IMF Country Report No. 25/57 for detail on PADU.

subsidy reform was a significant step. Although all citizens remain eligible for the subsidized gasoline price, the reform introduced an at-pump digital system to curb leakages and smuggling and raise public awareness of the cost of the fuel subsidy. While PADU can be used to improve targeting of subsidies and cash transfers, non-cash support such as subsidized education and affordable healthcare will be key for enhancing the progressivity of government expenditure. Near-term revenue efforts will focus on tax administration improvements, building on the rollout of e-invoicing. While the authorities do not plan to reintroduce the GST, they will continue to review the structure of personal income tax to ensure progressivity and a broad tax base.

Box 2. Malaysia: Fiscal Policy: Baseline and Proposed Staff Advice



Box 2. Malaysia: Fiscal Policy: Baseline and Proposed Staff Advice (Concluded)



Sources: Ministry of Finance and IMF staff calculations.

Note: The model-based adjustment scenario is based on an optimal fiscal stance model that features tradeoffs between near-term economic stabilization and debt sustainability with increasing borrowing costs at higher levels of debt (See Appendix VII in the 2022 Article IV CR 22/126). The alternative scenarios assume a fiscal multiplier of 0.5, 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 as the same share of GDP as in the 2026 baseline.

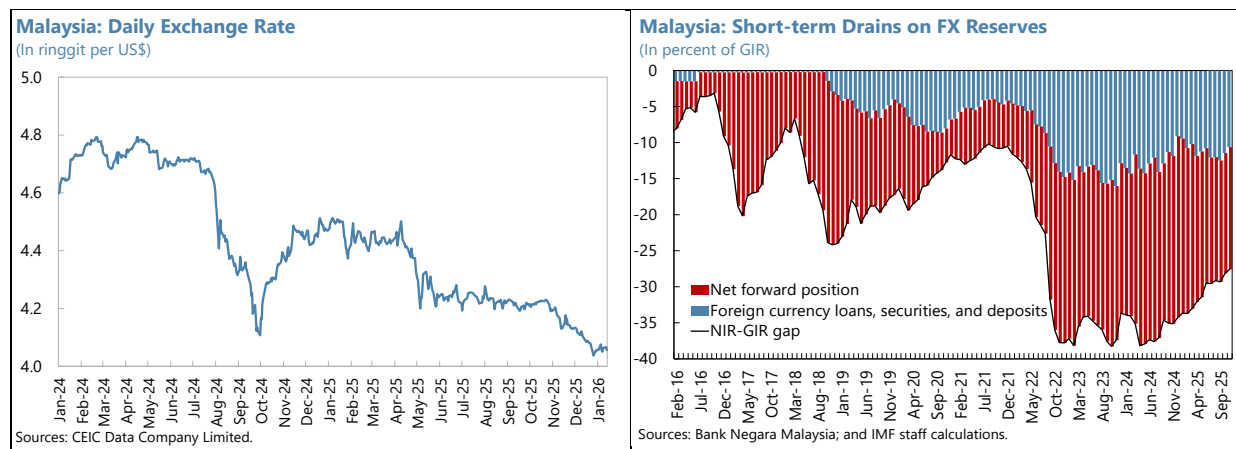
Monetary and Exchange Rate Policies

20. Staff assesses Malaysia's current monetary policy stance as broadly appropriate. The current policy rate (2.75 percent) is closely in line with the staff's estimated neutral rate of 2.7–3.0 percent. Inflation risks remain balanced amid low inflation, a narrowing output gap, and stable inflation expectations. Against this background, staff assesses the present monetary policy stance as broadly consistent with BNM's objective of maintaining price stability that is conducive to sustainable growth. Going forward, monetary policy should stay data-dependent to continue to anchor inflation expectations and preserve growth amid heightened global uncertainty.

21. Exchange rate flexibility remains appropriate. BNM has expressed commitment to exchange rate flexibility and continues with efforts to deepen the FX market⁵ and build reserves. Gross international reserves (GIR) increased by US\$9.3 billion in 2025 to US\$125.5 billion at end-2025 (107 percent of the ARA metric). On the composition of reserves, staff welcomes the narrowing of the gap between gross and net international reserves (NIR). Between January and November 2025, the gap declined by about US\$5.6 billion, driven by the unwinding of short FX swap positions from US\$29.2 billion to US\$21.0 billion, and offset by an increase in FX loans, securities, and deposits by about US\$2.6 billion. Risks from the GIR-NIR gap remain contained because FX swaps are sourced from domestic commercial banks. Nonetheless, to further strengthen resilience amid the heightened uncertainties, staff recommends continuing opportunistic reserve accumulation during risk-on episodes to maintain adequate reserve coverage alongside gradually unwinding the short FX

⁵ In July 2025, BNM launched the Qualified Resident Investor program which enables qualified resident corporates to reverse the conversion of FX proceeds into local currency without prior approval.

swap positions. Over the medium term, exchange rate flexibility will also help reduce external imbalances.



Authorities' Views

22. BNM concurred with staff's assessment that the current monetary policy stance is appropriate. Monetary policy should stay data-dependent to anchor inflation expectations and support growth. BNM remains committed to exchange rate flexibility, and efforts to deepen the FX market will continue. While gross reserves continue to be adequate, opportunistic reserve accumulation during risk-on episodes will help to strengthen resilience amid ongoing global uncertainty. The authorities concurred that maintaining exchange rate flexibility, strengthening social safety nets, and reforms to promote inclusive growth under the 13th Malaysia Plan will help reduce external imbalances over the medium term.

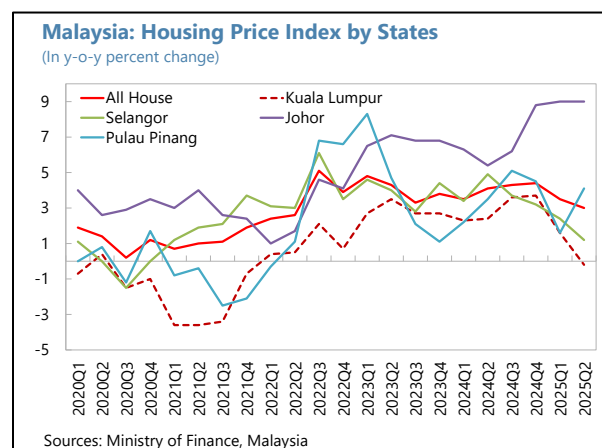
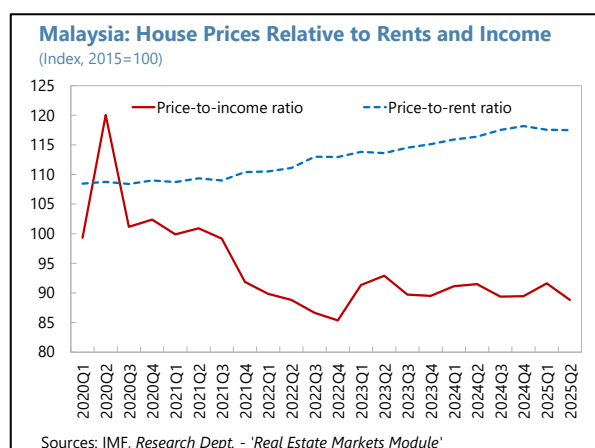
Financial Sector Policies

23. Systemic financial sector risks remain contained, amid banks' ample capital and liquidity buffers, healthy household balance sheets, and a stable housing market (Figures 5 and 6).

- Banks' capital adequacy ratio and liquidity coverage ratio stood at 18.2 percent and 160.5 percent in 2025H1, respectively, well above regulatory requirements. Bank profitability remains strong, with higher fee-based revenues and healthy trading income offsetting a decline in the net interest margin. The non-performing loan ratio declined to 1.4 percent in November 2025.
- The current private credit growth (5.9 percent year-on-year in September 2025) is broadly commensurate with GDP growth, with the credit gap estimated to be slightly negative in April 2025. Households' debt is relatively high (84.8 percent of GDP in 2025Q2), but their financial assets remain 2.1 times as large as their debt. The ratio of corporate debt to equity has followed

a declining trend since 2018, with the median interest coverage ratio at around 620 percent in 2025Q2.⁶

- The housing market has shown a sign of cooling in 2025, with the stock of unsold properties rising and house price increases slowing. Nonetheless, the median loan-to-value ratio for housing loans remained relatively healthy at 70.2 percent in June 2025. Commercial real estate loans to the office space and shopping complex segment account for only 2.6 percent of total bank lending. To address any risk build-up in the property market, staff supports the authorities' readiness to expand and deploy BNM's macroprudential toolkit in a timely manner.



24. However, continued vigilance is warranted for existing pockets of vulnerabilities and risks emerging from elevated global uncertainty.

- BNM should continue to monitor highly leveraged households. Strong overall household balance sheets may mask underlying vulnerabilities such as uneven financial strain in certain groups and mismatched assets and liabilities.
- Non-bank financial institutions (NBFIs), including pension funds, insurance companies, and investment funds, hold half of financial system assets. They are closely linked to banks, including through common asset holdings (e.g., government bonds), NBFIs' deposits at banks, and banks' loans to NBFIs. Potential contagion risks should continue to be mitigated by coordinated regulatory and supervisory oversight.
- Going forward, trade tensions may negatively affect Malaysia's economy, in particular the manufacturing sector. As a mitigating factor, banks' direct loan exposure to the manufacturing sector is limited (the sector accounts for about 6 percent of total bank lending). Staff analysis indicates that even if all estimated past due loans⁷ in the manufacturing and services sectors

⁶ The ratio of earnings before interest and taxes (EBIT) to interest payments.

⁷ Assumed to represent 50 percent of stage two loans, which are defined as loans with increased credit risk. The analysis is based on bank-by-bank data for the top two D-SIBs and extrapolated to the rest of the banking system.

were to default, the resulting loan losses would be limited to about 0.9 percent of GDP, with the capital adequacy ratio only slightly decreasing to approximately 17 percent. Nonetheless, if escalating trade tensions and global uncertainty adversely affect corporate profitability and the labor market, losses may increase. Additionally, 11.9 percent of corporate loans carry increased credit risk (classified as stage 2 loans) as of June 2025, compared to 6.6 percent for the overall banking system. This underscores the importance of ongoing vigilance in monitoring credit quality and ensuring proper loan classifications. BNM should remain vigilant on stage 2 loans and ensure prudent provisioning that is linked to loan classifications.

- Additionally, banks' capacity for external funding may be negatively affected in case of a sharp risk-off event in the global financial market. Mitigating factors for Malaysian banks include limited reliance on non-resident funding, with onshore banks' external debt at 7.9 percent of total assets in June 2025; a large share of long-term and intragroup debt; holding of ample high-quality liquid FX assets; and a limited FX net open position.

25. Staff welcomes the authorities' efforts to assess financial sector resilience against adverse shocks. BNM's solvency and liquidity stress tests show that banks remain resilient to extreme macroeconomic and financial shocks, including scenarios based on the Asian Financial Crisis and COVID-19. A recent IMF CD mission found BNM's stress testing framework covers credit, market, and liquidity risks well, with scope to improve liquidity stress testing for NBFIs and credit risk stress testing for SMEs. Staff encourages BNM to further upgrade macro-surveillance stress testing, in line with the emerging risks highlighted in ¶24. The authorities should also continue to enhance the AML/CFT framework, building on their progress with tracing corporate ownership structures and curbing illicit financial activities. In this regard, staff welcomes the recent recognition by the FATF of Malaysia's strengthened AML/CFT legal framework and supervisory approaches.

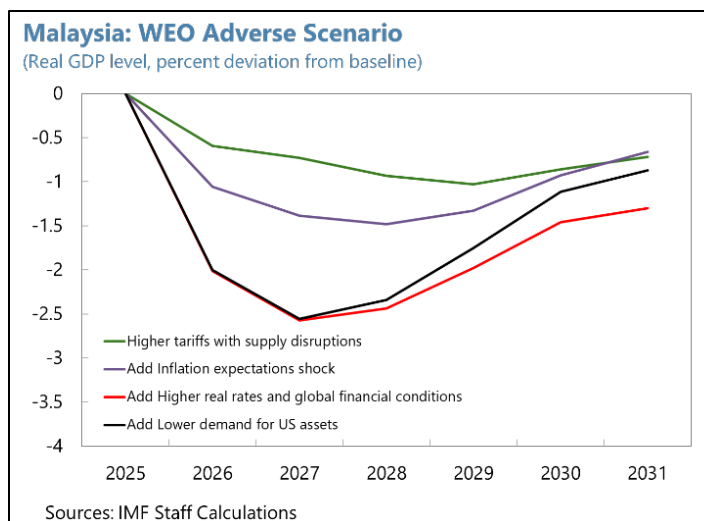
Authorities' Views

26. The authorities concurred 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. While banks' loan exposure to tariff-affected manufacturing firms remains low and banks' external funding risks are contained, close monitoring is warranted given ongoing global uncertainty. BNM agreed with the need for vigilance against highly leveraged households and the banks-NBFIs linkage. With financial sector risks from property markets well contained, the current macroprudential measures require no adjustment. Nonetheless, BNM stands ready to enhance its macroprudential toolkit preemptively in a timely manner if needed.

B. Adjusting the Policy Mix Contingent on Macroeconomic Shocks

27. An escalation in global trade tensions and tighter global financial conditions could exert a negative impact on the Malaysian economy. Staff utilized the IMF’s Global Integrated Monetary and Fiscal model, as presented in Box 1.2 of the October 2025 World Economic Outlook (WEO), to simulate the impact on Malaysia’s output of four layers of global adverse shocks, such as higher tariffs and supply-chain disruptions (see chart). The growth shock to the Malaysian economy as modeled above represents a 0.6 standard deviation shock to growth in 2026 based on historical data and is less severe than the shocks Malaysia experienced during the Global Financial Crisis or the COVID pandemic. Under this scenario, the loss of output relative to the baseline would peak at 2.6 percent of GDP in 2027.

28. In the event of such an adverse shock, fiscal policy should cushion the negative impact on vulnerable households and affected firms. Social spending should be reoriented towards vulnerable households through a temporary increase in means-tested cash transfers (e.g., via STR and SARA)—within the overall spending envelope consistent with fiscal consolidation. The authorities could also consider targeted and time-bound support for affected but viable firms, including SMEs, through wage and upskilling subsidies as well as tax and loan deferral schemes. Further support for trade facilitation could help firms diversify their export markets and products. In the event of a severe adverse shock affecting the broader economy, the FRA’s escape clause could be activated to provide more (but still targeted) fiscal support with corrective plans to meet the FRA’s targets over time.



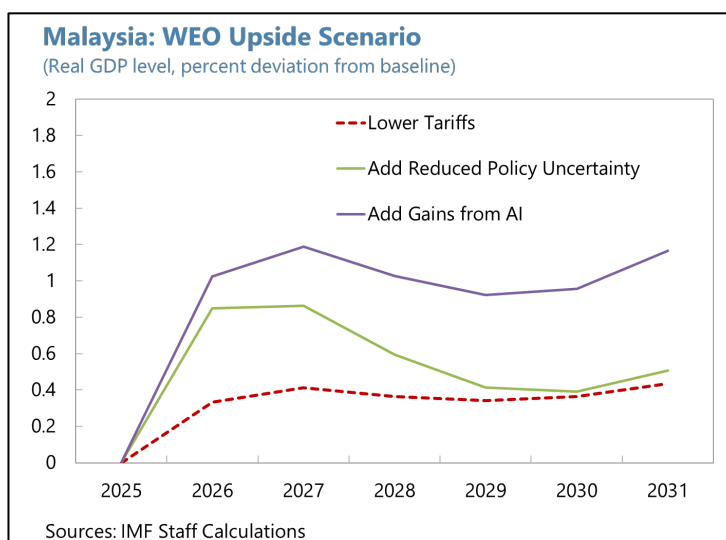
29. BNM should stand ready to adjust monetary policy, depending on the nature of the shock.

To assess monetary and exchange rate policies under shock scenarios, staff updated a macroeconomic model based on the quantitative integrated policy framework (QIPF) for Malaysia, which explicitly incorporates the country’s shallow FX market, especially during risk-off episodes (Annex III). In a shock scenario that mimics the downside scenario described in ¶27, weaker exports, employment, and household income would dampen domestic demand, bringing down inflation after the shock; in such a scenario, monetary policy easing would be warranted to support the economy. On the other hand, an adverse growth shock scenario can be stagflationary, if a disruption in the global supply chain and an increase in input costs lead to higher inflation; in such a scenario, the policy trade-offs are likely to be challenging—despite weaker growth, the monetary policy stance may need to stay on hold or even be tightened to anchor inflation expectations, as more of the burden of supporting the economy would fall on fiscal policy.

30. While a flexible exchange rate would help mitigate the impact of downside external shocks, a risk-off event could warrant the use of FXI to ease policy trade-offs. The exchange rate should respond to external shocks as a first line of defense. However, under a risk-off scenario, adverse market sentiment against Malaysia could trigger large capital outflows. In an emerging market economy with a shallow FX market, the uncovered interest parity premium could sharply increase during risk-off episodes, leading to rapid currency depreciation and higher inflation. The QIPF model simulation for Malaysia demonstrates that, in such a situation, FXI can help limit the interest rate hike necessary to contain the inflation spike and limit the ringgit depreciation, thereby cushioning the negative impact on output and consumption (Annex III). BNM stress tests (f25) suggest that the financial sector could sustain such an adverse scenario.

31. If upside risks materialize, Malaysia should use the opportunity to build macroeconomic buffers. Staff quantified the impact on Malaysia's output of the global upside

shocks analyzed in the October 2025 WEO, including permanent removal of tariffs imposed since January 2025. Under this scenario, growth in Malaysia could rise to around 5.6 percent in 2026. Revenue overperformance from the higher-than-anticipated growth should be saved to increase fiscal space. Capital inflows arising from stronger confidence in Malaysia's prospects would provide an opportunity to build reserves while allowing the currency to



appreciate. Monetary policy should be mindful that upside growth shocks can be inflationary or deflationary. For example, a stronger than expected demand response to the upside shock could be inflationary. On the other hand, in an illustrative upside scenario under the QIPF model where global technological advancement such as AI would permanently increase productivity and potential output in Malaysia, inflation could decline (Annex III).

Authorities' Views

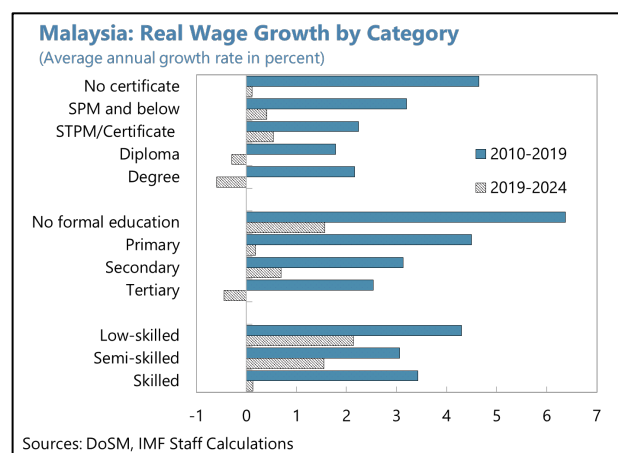
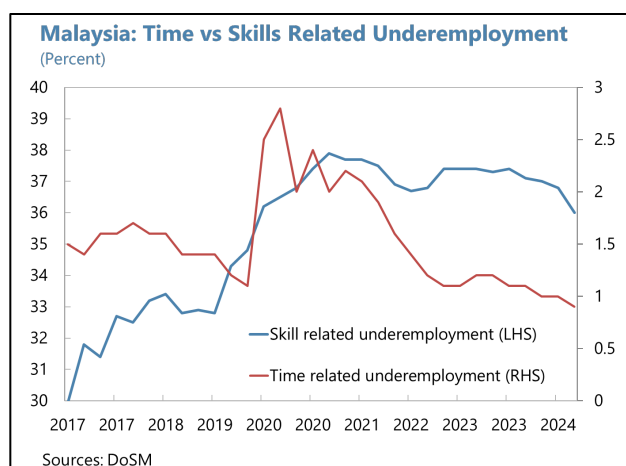
32. The authorities broadly agreed with staff's advice on contingent policy responses. The recommended fiscal response in the event of an adverse shock would be feasible—for example, the 2026 budget incorporated various support measures for firms that could be affected by global trade tensions. The FRA's temporary deviation, as stipulated in clause 26, would be only applicable in the case of exceptional economic shocks. In the case of stagflation, the inflation and output trade-off would likely be less acute in Malaysia given its history of low and stable inflation. The authorities agreed that a positive growth shock would provide an opportunity to further strengthen macroeconomic buffers.

C. Structural Reforms Toward Stronger Medium-Term Growth

33. Structural reform plans under the 13th Malaysia Plan (13MP) are appropriately focused and should be diligently implemented. The 13MP outlines the government's strategic priorities for 2026-30, consistent with its Ekonomi MADANI framework. It envisages a total investment of RM611 billion (30 percent of 2024 GDP), with RM430 billion from government development expenditure, RM120 billion from government-linked companies (GLCs) and government-linked investment companies (GLICs), and RM61 billion via public-private partnerships. The 13MP builds on existing plans such as the National Industrial Master Plan and the National Energy Transition Roadmap, emphasizes the importance of fiscal discipline and stronger governance, and promotes social mobility, affordable housing, health and pension reform, and resilience against climate shocks, with transparent monitoring. Swift implementation of the 13MP would enhance domestically driven and inclusive growth, which would also help rebuild economic buffers and reduce external imbalances.

34. Labor market reforms can help promote inclusive growth and achieve the ambitious development goals under the 13MP.

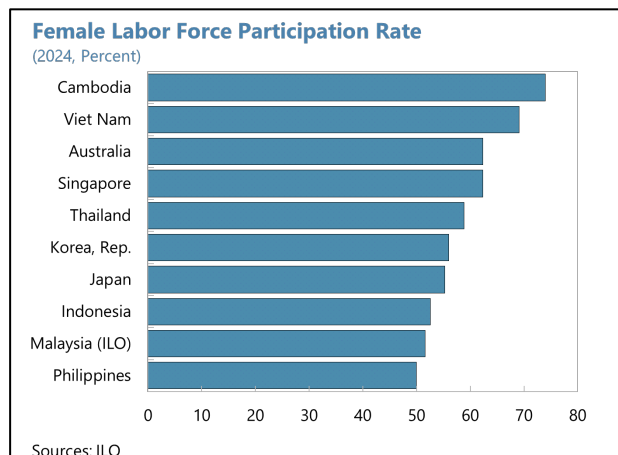
- Skills-related underemployment has increased in recent years. Wages of degree holders are below pre-pandemic levels in real terms. It will be critical to close the skills gap between workers' qualifications and employers' needs. This is particularly important in light of the upcoming AI transition, with an estimated 47 percent of jobs in Malaysia being rated as having high exposure to AI.⁸
- Wages are low and have not moved in tandem with productivity growth⁹, exacerbating cost-of-living issues. Closer alignment of wage-setting mechanisms with performance, benchmarking initiatives such as the living wage policy, and continued periodic minimum-wage reviews would help reduce informality and low-pay incidence.



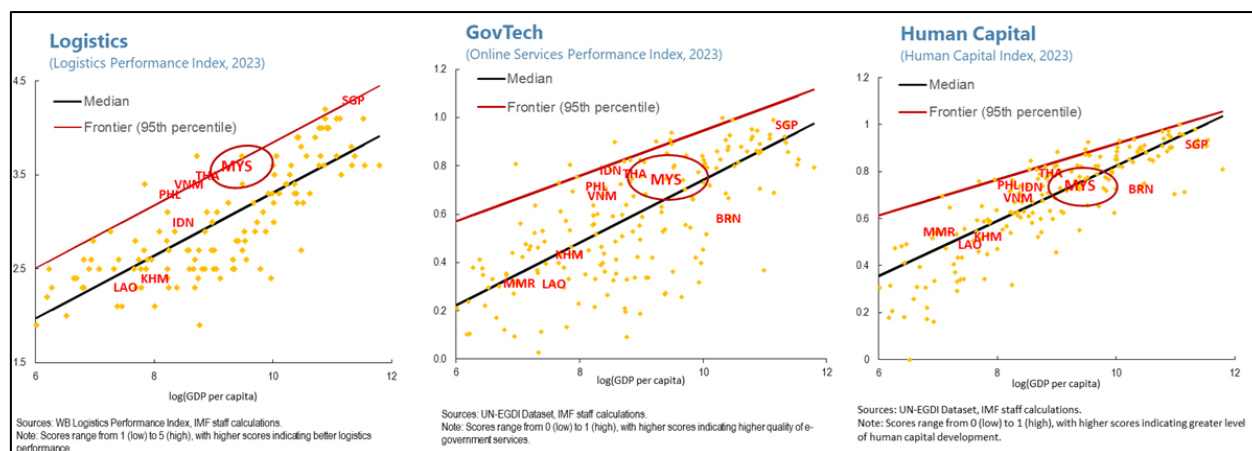
⁸ See IMF Country Report No. 24/73, Annex IV.

⁹ See IMF Country Report No. 24/73, Annex VIII.

- Female labor force participation remains below the levels seen in some peers and advanced economies despite women achieving better education outcomes on average. Continuing to expand the availability, quality, and affordability of child and elderly care can improve female labor force participation.



35. Deeper intra-ASEAN integration would also boost Malaysia's growth and improve resilience to shocks. Intra-ASEAN trade is currently relatively low and largely in intermediate goods, highlighting room to expand final goods trade. Staff analysis shows that reducing non-tariff barriers could boost ASEAN GDP by 4.3 percent in the long run.¹⁰ Moreover, ASEAN countries, including Malaysia, could reduce non-tariff barriers and improve digital government and human capital, which are associated with higher trade even if implemented unilaterally. While Malaysia scores well on logistics performance, there is some room for improvement relative to the frontier in GovTech and human capital indices. Enhancing digital cross-border payments in local currency could accelerate regional financial integration and foster more trade through better connectivity and lower FX risks.¹¹ Ongoing efforts, such as bilateral cross-border QR payments, could be further strengthened by harmonizing regulations within ASEAN.



¹⁰ See October 2025 Regional Economic Outlook for Asia and Pacific.

¹¹ See the forthcoming IMF selected issues paper for Thailand titled "ASEAN's Digital Payment Revolution: A New Frontier for Regional Integration" by Xu and Purwantu.

Authorities' Views

36. The authorities highlighted the comprehensive set of policy initiatives under the 13th Malaysia Plan aimed at transforming the Malaysian economy. The Plan contains a suite of initiatives that focus on fostering complex industries and moving up the value chain to generate more high-skilled jobs. Continued regular minimum wage reviews, the planned roll-out of the Progressive Wage Policy, and a potential living wage initiative will support wage growth. Female labor force participation is expected to improve further as childcare options are expanded and a sustainable long-term care ecosystem is established under the 13MP. Deeper global and intra-ASEAN integration is a stated policy goal of the government, with tangible initiatives being implemented to help firms diversify their export destinations.

STAFF APPRAISAL

37. Malaysia's economy has shown notable resilience against global uncertainty. Growth is expected to be supported by strong domestic demand, while slowing marginally to 4.6 percent in 2026 due to higher U.S. tariffs and a moderately contractionary fiscal policy stance. Inflation is projected to remain low and stable at 1.9 percent in 2026.

38. Risks to growth are tilted to the downside, stemming mainly from external factors. Growth could be negatively affected by an escalation of protectionist trade measures, global financial market volatility, and a potential bust of the AI boom. However, upside risks can also materialize, including breakthroughs in global trade negotiations and faster implementation of structural reforms. Inflation risks are balanced.

39. Steady progress with fiscal consolidation under the FRA is welcome. Staff recommends reducing the overall deficit further to 2.5 percent of GDP by 2028 to build fiscal buffers, anchored by high-quality and sustainable measures. Remaining fuel subsidies should be gradually reduced starting with higher income individuals. Social safety nets should be further strengthened. Tax reform options include reintroducing the GST, strengthening the personal income tax, and rationalizing tax incentives. Ongoing improvements in tax administration should be stepped up.

40. The current monetary policy stance is appropriate. Going forward, monetary policy should stay data-dependent to continue to anchor inflation expectations and preserve growth. Exchange rate flexibility remains appropriate. Staff welcomes continued efforts to deepen the FX market and build reserves.

41. Malaysia's external position in 2025 is preliminarily assessed to be stronger than the level implied by medium-term fundamentals and desirable policies. Preserving exchange rate flexibility, strengthening social safety nets, and swiftly implementing structural reforms under the 13MP would help reduce external imbalances.

42. Systemic financial sector risks remain contained. Banks maintain ample capital and liquidity buffers, household balance sheets are healthy, and the housing market remains stable.

Continued vigilance is important against pockets of vulnerabilities, such as highly leveraged households, banks' exposure to firms affected by the U.S. tariffs, and the banks-NBFIs linkage. Banks' external funding risks remain contained, though continued monitoring is warranted given elevated global financial market risks.

43. To sustain Malaysia's resilience, policies should respond agilely to shocks. In the event of an adverse shock, fiscal policy should cushion the negative impact on vulnerable households and affected firms. Monetary policy response depends on implications of the shock on inflation and output. While a flexible exchange rate would help mitigate the shock, a risk-off event could warrant the use of FXI to ease policy trade-offs. If upside risks materialize, the authorities should use the opportunity to build macroeconomic buffers.

44. Swift implementation of structural reforms under the 13MP is key for further domestic-driven and inclusive growth. Labor market reforms aimed at increasing wages, reducing skill-related underemployment, and raising female labor force participation can help achieve the goals under the 13MP. Deeper trade and financial integration within ASEAN can boost growth potential in Malaysia.

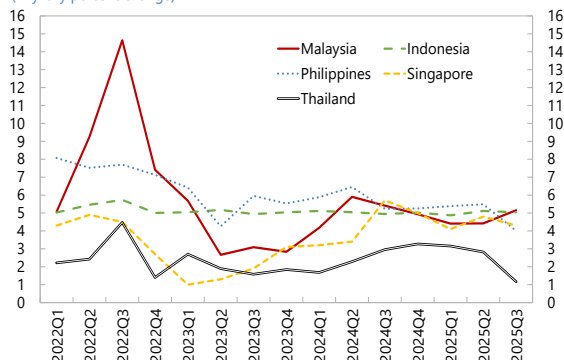
45. It is recommended that the Article IV consultation with Malaysia be held on the standard 12-month cycle.

Figure 1. Malaysia: Growth and Exports

Malaysia's growth has been resilient in 2025...

Real GDP Growth

(In y-o-y percent change)

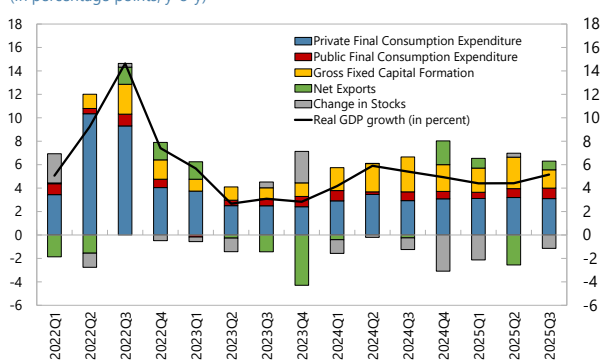


Sources: CEIC Data Company Limited.

...due to robust private consumption and investment.

Contributions to Real GDP Growth

(In percentage points, y-o-y)

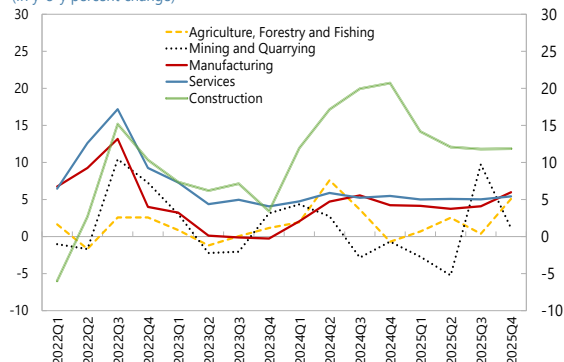


Sources: MYS Dept. of Statistics; Haver Analytics; and IMF staff calculations.

Investment in data centers has led to strong construction activity...

Real GDP by Industry

(In y-o-y percent change)

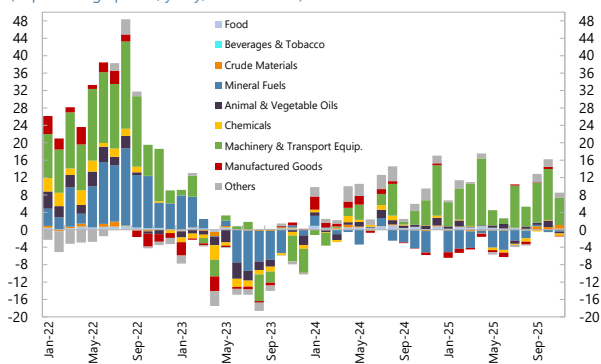


Sources: MYS Dept. of Statistics; Haver Analytics; and IMF staff calculations.

...while manufacturing and related exports have benefited from the strength of the AI-driven tech cycle...

Contribution to Merchandise Export Growth

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

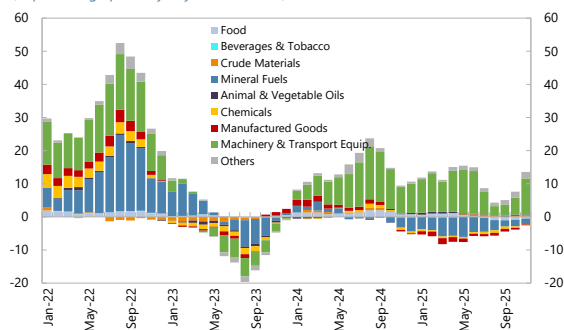


Sources: MYS Dept. of Statistics; Haver Analytics; and IMF staff calculations.

...underpinning imports of capital goods.

Contribution to Merchandise Import Growth

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

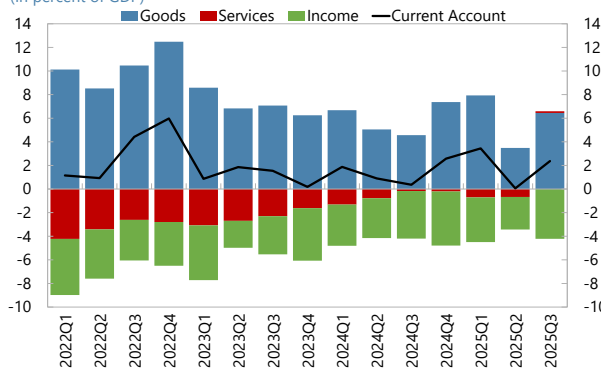


Sources: MYS Dept. of Statistics; Haver Analytics; and IMF staff calculations.

Tariff-induced frontloading contributed to higher CA surpluses in 2024Q4 and 2025Q1 before narrowing in Q2.

Current Account Balance

(In percent of GDP)



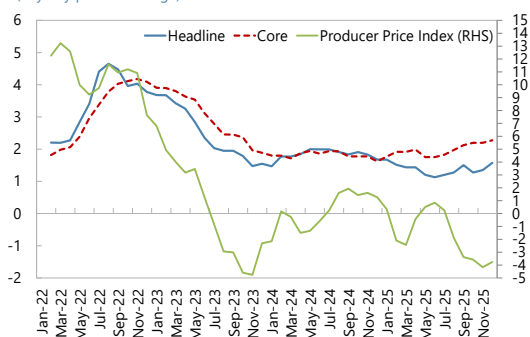
Sources: MYS Dept. of Statistics; CEIC Data Company Ltd; and IMF staff calculations.

Figure 2. Malaysia: Inflation and Labor Market

Both producer and consumer price inflation has fallen, with headline below core inflation...

Inflation Developments and Producer Price Index

(In y-o-y percent change)

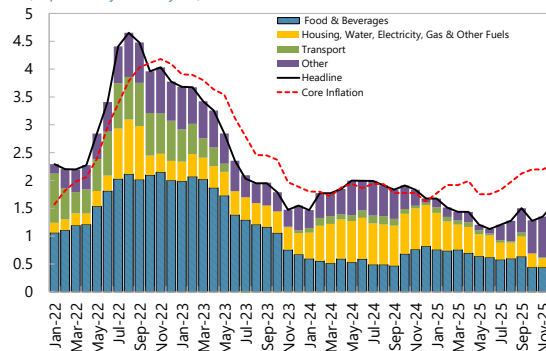


Sources: CEIC; MYS Dept. of Statistics; IMF staff calculations

...mainly due to lower food and fuel price inflation.

CPI Breakdown

(In percent, year-on-year)

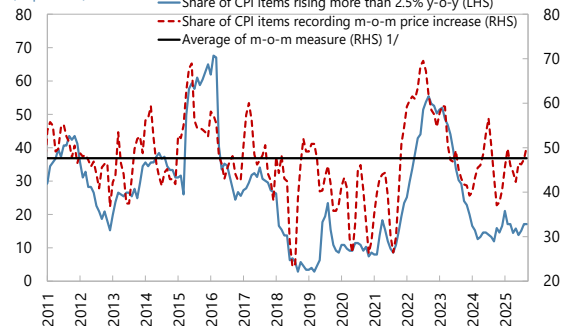


Sources: Haver Analytics; and IMF Staff Calculations.

Price increases are not currently pervasive.

Inflation Broadness Indices

(In percent)



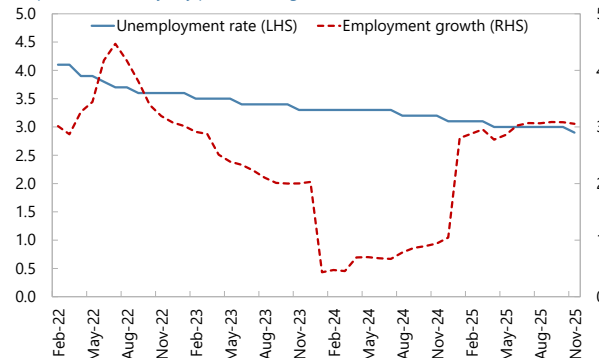
Sources: CEIC Data Company Ltd; and IMF staff calculations.

Notes: 1/ Shows the average share of CPI items recording m-o-m price increases, i.e. the average value of the red-dotted line

The unemployment rate is back to pre-pandemic levels.

Labor Market Developments

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

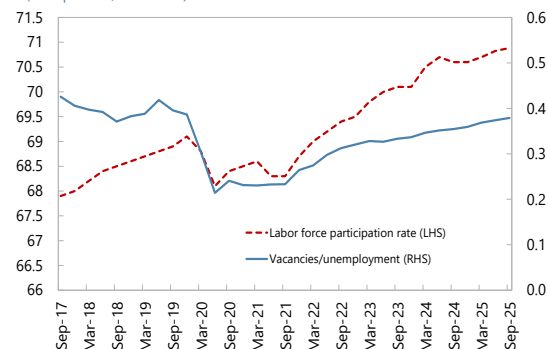


Sources: CEIC Data Company Limited.

Labor force participation has increased substantially...

Labor Market Tightness

(LHS: percent; RHS: ratio)

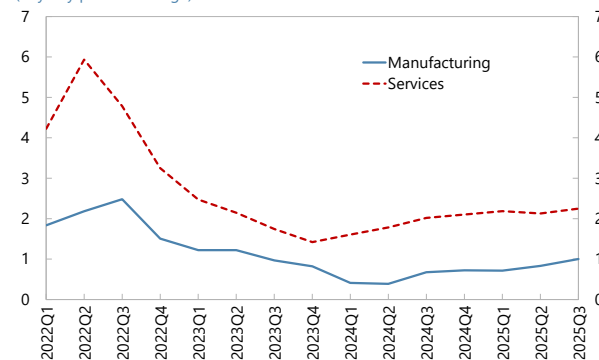


Sources: MYS Dept. of Statistics; and IMF staff calculations.

...helping to keep wage growth moderate.

Growth in Average Monthly Salary & Wages

(In y-o-y percent change)



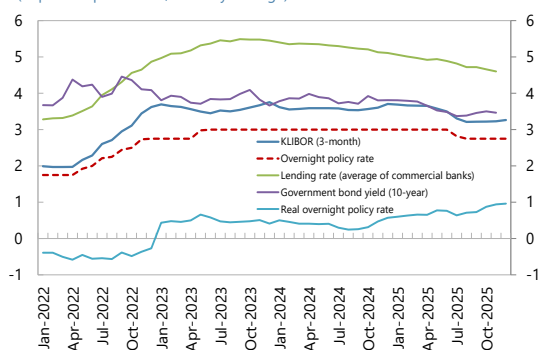
Sources: MYS Dept. of Statistics; Haver Analytics; and IMF staff calculations.

Figure 3. Malaysia: Monetary Developments

BNM lowered the policy rate by 25 bps in July 2025 after keeping it unchanged since May 2023.

Interest Rates

(In percent per annum, monthly average)

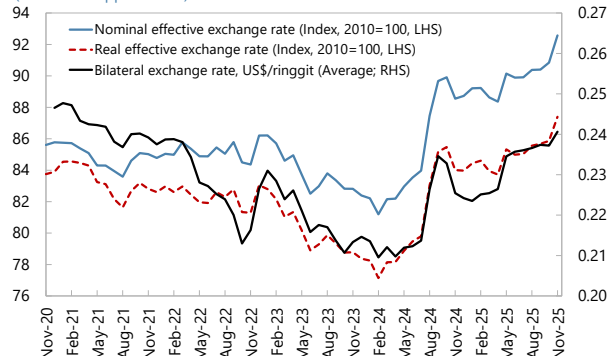


Sources: Bank Negara Malaysia; Haver Analytics

The ringgit appreciated in 2025, reflecting U.S. dollar weakness.

Exchange Rates

(Increase = appreciation)

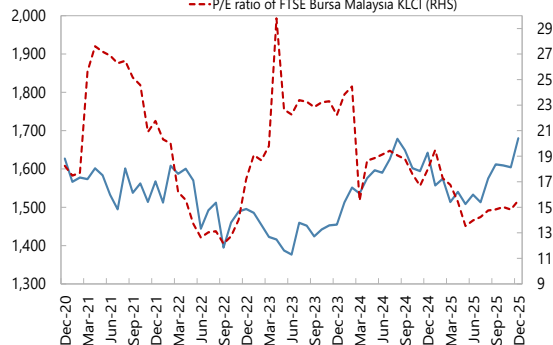


Sources: IMF, International Financial Statistics.

The stock market recorded a gain in 2025.

Stock Market Performance

(Index [LHS]; ratio [RHS]) — FTSE Bursa Malaysia KLCI (Jan 1, 1977 = 100)
— P/E ratio of FTSE Bursa Malaysia KLCI (RHS)

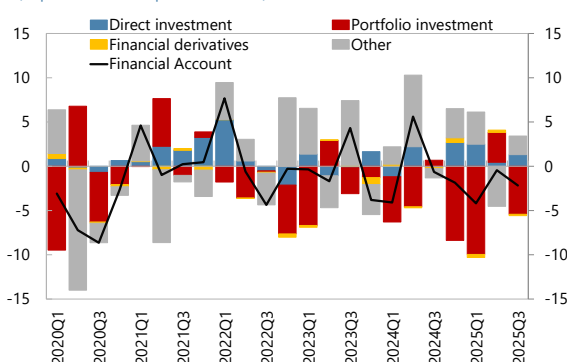


Sources: Bursa Malaysia; and CEIC Data Company Ltd.

Portfolio outflows recorded in 2024Q4-2025Q1 reversed in 2025Q2.

Financial Account Balance, Net

(In percent of GDP, positive=inflow)

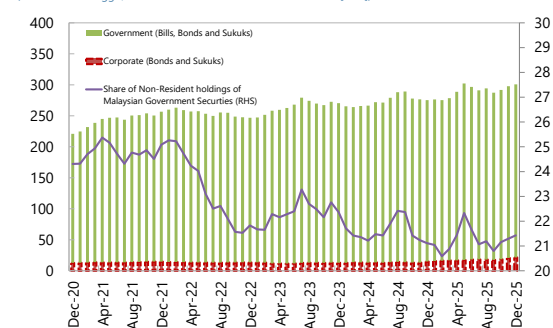


Sources: MYS Dept. of Statistics; CEIC Data Company Ltd.; IMF Staff Calculations

The share of non-resident holdings of government bills and bonds has been stable.

Non-Resident holdings of Local-Currency debt securities

(In billions of Ringgit; In Percent of Total Government Securities [RHS])

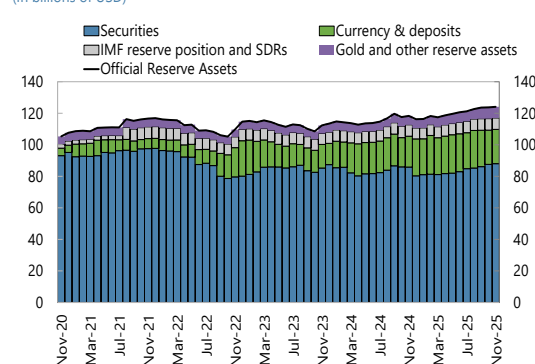


Sources: Bank Negara Malaysia; CEIC; Haver Analytics; IMF staff calculations

Gross reserves continued to grow in 2025.

Gross International Reserves

(In billions of USD)



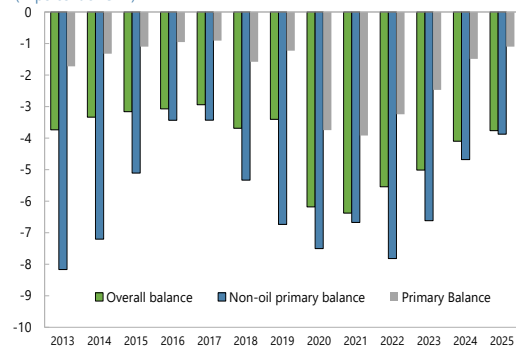
Sources: Bank Negara Malaysia; CEIC Data Company Ltd; and IMF staff calculations.

Figure 4. Malaysia: Fiscal Policy Developments

Following a large widening during the pandemic, the fiscal deficit continues to narrow.

Federal Government: Overall and Non-Oil Balance

(In percent of GDP)

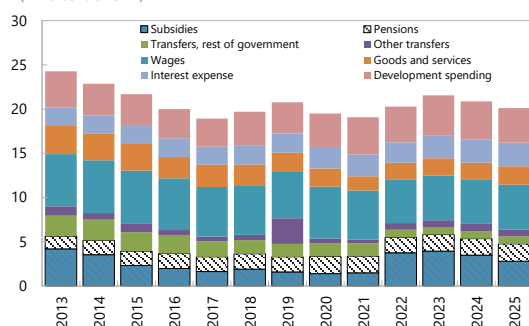


Sources: Malaysian Authorities; and IMF staff calculations.

Current expenditures declined slightly in 2025, largely due to lower spending on subsidies.

Federal Government Current Expenditure

(In Percent of GDP)

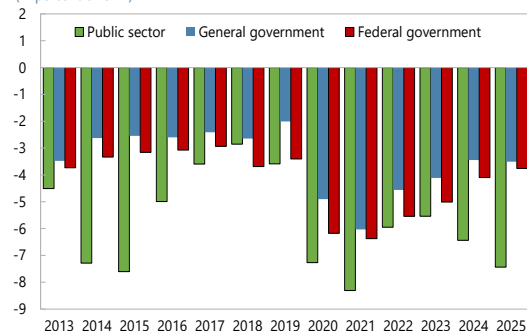


Sources: Malaysian Authorities; IMF staff calculations

The public sector's fiscal deficit, which includes non-financial public enterprises, increased in 2025.

Fiscal Balance

(In percent of GDP)

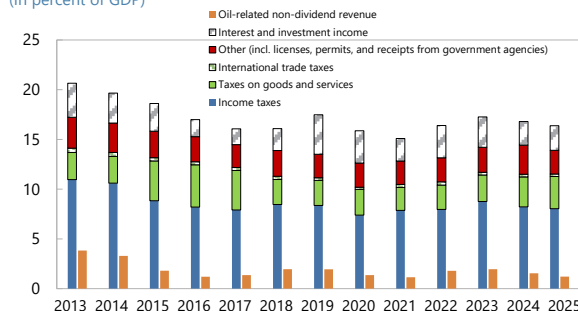


Sources: Malaysian Authorities; and IMF staff calculations.

Total revenues to GDP declined in 2025 due to lower oil-related revenues and despite stronger indirect tax collection.

Federal Government Revenue

(In percent of GDP)



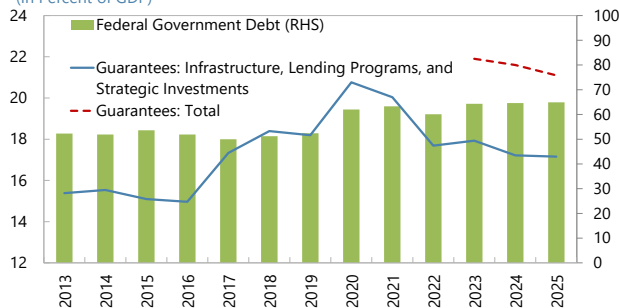
Notes: Income taxes = taxes on net income and profits (incl. individual, corporate, and Petroleum Income Tax Act), Taxes on goods and services = sales tax and service tax (GST/SST) and select excise taxes, International trade taxes = import and export duties, Interest and investment income includes petronas dividends, Other includes other direct taxes (e.g., property gains, stamp duties), other indirect taxes (e.g., levy), licenses and permits, rental fees, fines, penalties, and non-revenue receipts.

Sources: Malaysian Authorities; and IMF staff calculations.

Government guarantees have stabilized around 17 percent of GDP in recent years while the debt ratio has ticked up.

Federal Government Debt and Loan Guarantees

(In Percent of GDP)



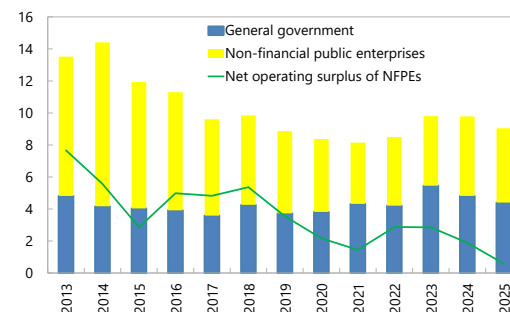
Notes: Total guarantees includes all liabilities under Act 96 and Act 61. 2025 guarantee estimates are as of end-september 2025.

Sources: Malaysian Authorities, Bank Negara Malaysia, CEIC, IMF Calculations

Development spending declined in 2025.

Development Spending and Net Operating Surplus of NPFES

(In Percent of GDP)



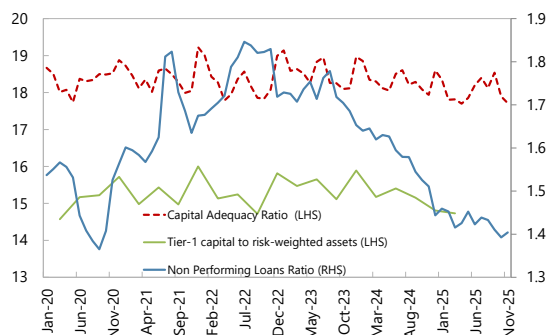
Sources: Malaysian Authorities; IMF Staff Calculations

Figure 5. Malaysia: Financial Sector Developments

The banking sector remains well capitalized, with a low non-performing loans ratio...

Capital Adequacy Ratios

(In Percent)

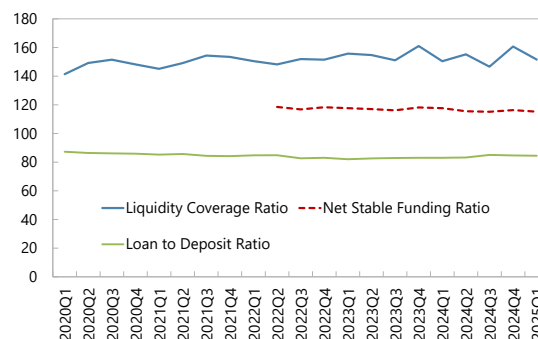


Sources: Bank Negara Malaysia; CEIC Data Company Ltd.

...and highly liquid, with a stable loan to deposit ratio.

Liquidity Ratios

(In Percent)

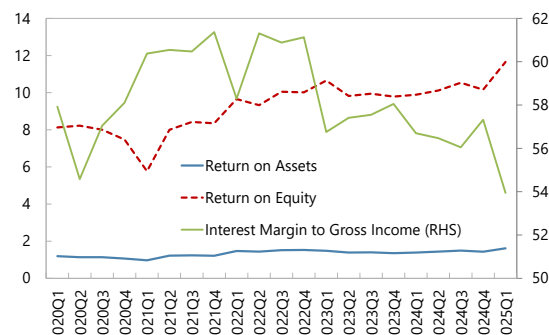


Sources: CEIC Data Company Ltd; IMF, Financial Sound Indicators

Net interest margins peaked in 2022, then normalized, while trading gains and fees boosted profitability.

Profitability

(In Percent)

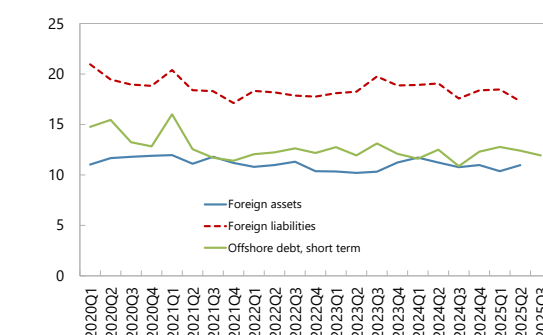


Sources: Bank Negara Malaysia; IMF Financial Soundness Indicator Database

Banks' net external asset position remains stable.

Banking Sector: Foreign Assets and Liabilities as share of GDP

(In Percent of GDP)

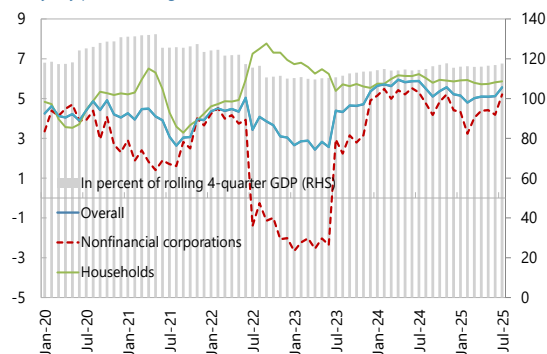


Sources: Bank Negara Malaysia; IMF staff calculations

Banking sector credit growth has kept pace with GDP growth.

Banking Sector Credit to the Private Sector

(In y-o-y percent change [LHS]; In Percent [RHS])



Sources: IMF, Integrated Monetary Database; MYS Dept. of Statistics; CEIC; IMF staff calculations

The corporate balance sheet remains strong.

Corporate Debt-to-Equity Ratio

(In Percent)

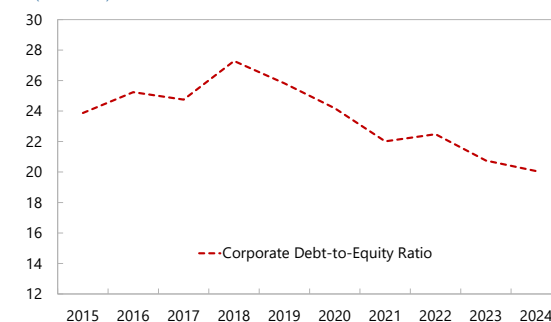
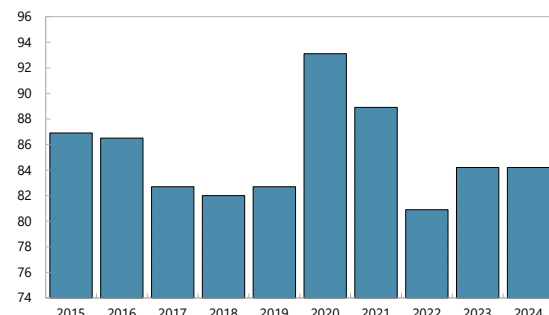
Note: Values presented are median values for nonfinancial sector.
Sources: IMF, Corporate Vulnerability Indicators

Figure 6. Malaysia: Household Sector

Household debt remained stable as percent of GDP.

Household Debt

(In percent of GDP)

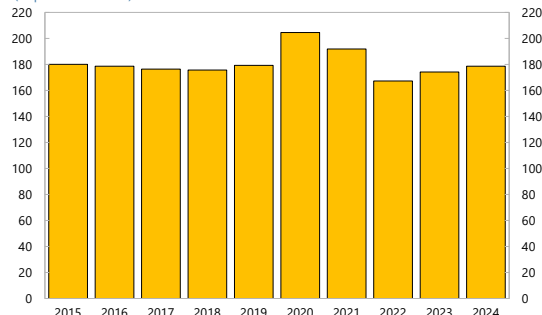


Sources: CEIC Data Company Limited; and Bank Negara Malaysia.

Households own large financial assets that exceed their debt.

Household Financial Assets

(In percent of GDP)

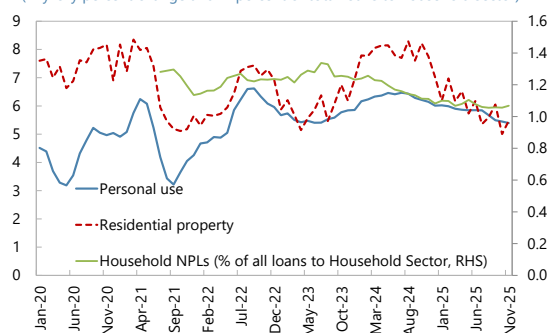


Sources: Bank Negara Malaysia; MYS Dept. of Statistics; Haver Analytics; & IMF staff calculations.

Housing loan growth has slowed down, and impairment of household loans remained low.

Household Loan Growth and Household Sector NPLs

(In y-o-y percent change and in percent of total loans to household sector)

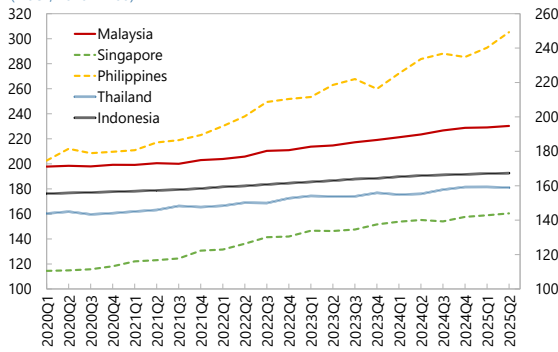


Sources: Bank Negara Malaysia; Haver Analytics; CEIC Data Company Ltd; and IMF calculations

Residential property prices in Malaysia were stable in 2025.

House Price Index

(Index, 2010 = 100)

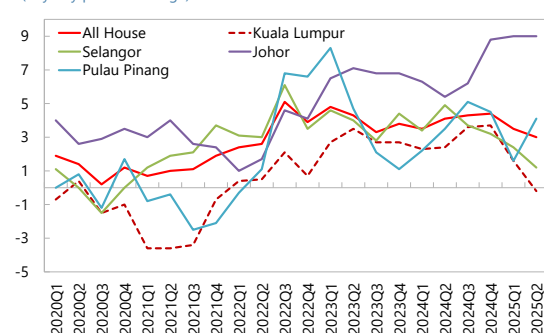


Sources: Bank for International Settlements; and CEIC Data Company Limited.

House prices have shown signs of cooling in 2025 ...

Housing Price Index by States

(In y-o-y percent change)

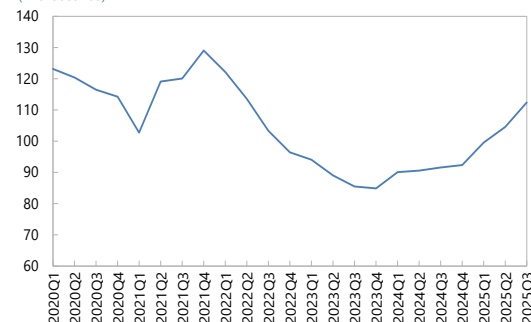


Sources: Ministry of Finance, Malaysia

...while the stock of unsold residential properties perrose in 2024-25.

Unsold Residential Properties

(In thousands)



Notes: Unsold residential properties excludes two categories: Soho and Services apartments.
Sources: CEIC Data Company Ltd.; MYS Ministry of Finance; and IMF staff calculations.

Table 1. Malaysia: Selected Economic and Financial Indicators, 2021–31 1/

Nominal GDP (2024): US\$422.2 billion

GDP per capita (2024, current prices): US\$12,397

Unemployment rate (2024): 3.2 percent

Population (2024): 34.1 million

Poverty rate (2022, national poverty line): 6.2 percent

Adult literacy rate (2022): 96.0 percent

Main goods exports (share of total exports, 2024): Machinery and Transport Equipment (45.6 percent), Manufactured Goods and Miscellaneous Manufactured Articles (20.4 percent), and Mineral Fuels, Lubricants etc. (14.4 percent).

	2021	2022	2023	2024	Proj.						
					2025	2026	2027	2028	2029	2030	2031
Real GDP (percent change)	3.3	9.0	3.5	5.1	4.9	4.6	4.3	4.3	4.3	4.3	4.3
Total domestic demand	3.8	9.7	5.0	4.9	4.7	5.0	4.4	4.2	4.4	4.3	4.3
Private consumption	1.8	11.4	4.6	5.1	4.9	4.8	4.7	4.7	4.6	4.6	4.6
Public consumption	5.8	5.6	3.4	4.7	4.5	4.3	2.2	2.9	2.9	2.8	2.8
Private investment	2.8	7.3	4.5	12.3	7.0	6.0	5.5	5.5	5.0	4.5	4.5
Public gross fixed capital formation	-11.0	5.4	8.5	11.1	3.5	3.0	1.2	1.6	1.7	1.7	1.7
Net exports (contribution to growth, percentage points)	-0.3	-0.1	-1.2	0.4	0.4	-0.1	0.1	0.2	0.1	0.2	0.2
Output gap (in percent)	-0.7	2.5	1.1	0.9	0.5	0.2	0.0	0.0	0.0	0.0	0.0
Saving and investment (in percent of GDP)											
Gross domestic investment	22.1	23.6	22.8	22.0	21.2	21.4	21.4	21.3	21.4	21.4	21.3
Gross national saving	26.0	26.8	23.9	23.4	23.0	23.0	23.2	23.3	23.4	23.4	23.4
Fiscal sector (in percent of GDP) 2/											
Federal government overall balance	-6.4	-5.5	-5.0	-4.1	-3.8	-3.5	-3.2	-3.0	-3.0	-3.0	-3.0
Revenue	15.1	16.4	17.3	16.8	16.4	15.9	15.7	15.7	15.6	15.5	15.5
Expenditure and net lending	21.5	21.9	22.3	20.9	20.1	19.4	18.9	18.7	18.6	18.5	18.5
Federal government non-oil primary balance	-6.7	-7.8	-6.6	-4.7	-3.9	-2.8	-2.4	-2.1	-2.0	-1.9	-1.8
Consolidated public sector overall balance 3/	-8.3	-5.9	-5.5	-6.4	-7.4	-6.0	-5.7	-5.5	-5.5	-5.4	-5.4
General government debt 3/	69.2	65.5	69.7	69.8	70.0	69.5	68.6	67.7	66.9	66.2	65.5
Of which: federal government debt	63.3	60.1	64.3	64.6	64.8	64.3	63.5	62.6	61.7	61.0	60.4
Inflation and unemployment (in percent)											
CPI inflation, annual average	2.5	3.4	2.5	1.8	1.4	1.9	2.0	2.0	2.0	2.0	2.0
CPI inflation, end of period	3.2	3.8	1.5	1.7	1.6	2.0	2.0	2.0	2.0	2.0	2.0
CPI inflation (excluding food and energy), annual average	0.7	3.0	3.0	1.8	2.0	2.0	2.0	2.0	2.0	2.0	2.0
CPI inflation (excluding food and energy), end of period	1.1	4.1	1.9	1.6	2.3	2.0	2.0	2.0	2.0	2.0	2.0
Unemployment rate	4.6	3.9	3.4	3.2	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Macrofinancial variables (end of period)											
Broad money (percentage change) 4/	5.6	4.0	5.8	3.3	4.5	6.0	6.2	6.2	6.4	6.5	6.4
Credit to private sector (percentage change) 4/	3.8	3.0	5.2	5.1	5.3	5.8	5.9	5.7	5.6	5.7	5.6
Credit-to-GDP ratio (in percent) 5/ 6/	137.7	122.3	126.7	125.7	125.2	124.3	123.4	122.3	121.3	120.5	119.6
Overnight policy rate (in percent)	1.75	2.75	3.00	3.00	...	...	...	...	...	...	...
Three-month interbank rate (in percent)	2.0	3.6	3.6	3.5	...	...	...	...	...	...	...
Nonfinancial corporate sector debt (in percent of GDP)	109.0	97.5	101.2	...	...	...	...	...	...	...	...
Nonfinancial corporate sector debt issuance (in percent of GDP)	2.6	2.4	2.5	...	...	...	...	...	...	...	...
Household debt (in percent of GDP)	88.9	80.9	84.2	84.2	...	...	...	...	...	...	...
Household financial assets (in percent of GDP)	191.9	167.3	174.2	178.7	...	...	...	...	...	...	...
House prices (percentage change)	1.9	3.9	3.8	4.4	...	...	...	...	...	...	...
Exchange rates (period average)											
Malaysian ringgit/U.S. dollar	4.14	4.40	4.56	4.58	...	...	...	...	...	...	...
Real effective exchange rate (percentage change)	-1.3	-1.1	-2.8	1.1	...	...	...	...	...	...	...
Balance of payments (in billions of U.S. dollars) 5/											
Current account balance	14.5	13.0	4.4	6.1	8.5	8.2	9.6	11.8	12.5	13.2	14.2
(In percent of GDP)	3.9	3.2	1.1	1.4	1.8	1.6	1.8	2.0	2.0	2.0	2.0
Goods balance	42.9	42.6	28.7	25.0	28.2	28.4	29.6	31.9	32.0	32.6	33.1
Services balance	-15.8	-13.2	-9.6	-2.6	-1.6	-1.1	0.3	1.7	3.9	5.5	7.6
Income balance	-12.5	-16.3	-14.7	-16.4	-18.2	-19.1	-20.3	-21.8	-23.3	-24.9	-26.5
Capital and financial account balance	3.8	1.8	-1.6	-1.1	0.8	-2.8	-2.8	-3.8	-4.9	-5.1	-5.7
Of which: Direct investment	7.5	2.9	1.9	3.9	3.5	3.6	3.8	4.0	4.1	4.3	4.9
Errors and omissions	-7.3	-2.7	-7.3	-1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	11.0	12.1	-4.5	3.4	9.3	5.4	6.9	8.0	7.7	8.1	8.5
Gross official reserves (US\$ billions) 5/	116.9	114.7	113.5	116.2	125.5	130.9	137.7	145.7	153.4	161.5	170.0
(In months of following year's imports of goods and nonfactor services)	4.9	5.4	4.9	4.7	4.9	4.8	4.9	5.0	5.0	5.0	5.0
(In percent of short-term debt by original maturity)	120.8	104.9	96.3	90.2	85.6	84.8	84.5	85.0	85.3	85.3	85.4
(In percent of short-term debt by remaining maturity)	90.8	82.5	76.2	71.3	69.1	68.5	68.3	68.9	69.2	69.4	70.1
Total external debt (in billions of U.S. dollars) 5/	258.7	259.6	275.4	304.4	324.1	340.8	358.0	374.8	391.3	409.2	427.0
(In percent of GDP)	69.3	63.8	69.0	72.2	68.9	67.3	66.1	64.7	63.3	62.0	60.8
Of which: short-term (in percent of total, original maturity)	37.4	42.1	42.8	42.3	45.2	45.3	45.5	45.7	45.9	46.3	46.6
short-term (in percent of total, remaining maturity)	49.8	53.6	54.1	53.6	56.1	56.1	56.3	56.5	56.6	56.9	56.8
Debt service ratio 5/											
(In percent of exports of goods and services) 7/	11.7	10.8	13.1	14.0	13.9	12.2	12.1	12.0	11.9	11.8	11.6
(In percent of exports of goods and nonfactor services)	12.7	11.5	14.0	15.0	14.8	13.0	12.9	12.8	12.7	12.5	12.4
Memorandum items:											
Nominal GDP (in billions of ringgit)	1,549	1,795	1,824	1,932	2,043	2,178	2,322	2,476	2,637	2,806	2,985

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

1/ Data in this table are as of January 22, 2026, unless otherwise noted.

2/ Cash basis.

3/ Consolidated public sector includes general government and nonfinancial public enterprises (NFPs). 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*.

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/ 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	69.9
Broad money (end of period, year-on-year percent change) 3/	4.9	5.6	4.0	5.8	3.3
Private sector credit (end of period, year-on-year percent change) 3/	4.0	3.8	3.0	5.2	5.1
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	-17.5	7.0
Goods imports, f.o.b. (percent change, 12-month basis, in U.S. dollars terms) 6/	-8.5	30.7	19.3	-14.8	9.8
Current account balance (12-month basis, in billions of U.S. dollars) 6/	14.1	14.5	13.0	4.4	6.1
Current account balance (12-month basis, in percent of GDP)	4.2	3.9	3.2	1.1	1.4
Capital and financial account balance (12-month basis, in billions of U.S. dollars) 6/	-18.5	3.8	1.8	-1.6	-2.9
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	4.9	4.8
As percent of broad money 3/ 6/	22.2	23.8	23.7	23.1	22.3
As percent of monetary base 3/ 6/	270.7	298.2	314.9	382.4	372.8
Total short-term external debt by: 6/ 7/					
Original maturity (in billions of U.S. dollars)	91.5	96.8	109.3	117.8	128.8
Remaining maturity (in billions of U.S. dollars)	120.6	128.8	139.0	149.0	163.0
Original maturity to reserves (in percent)	85.0	82.7	95.4	103.8	110.8
Original maturity to total external debt (in percent)	38.3	37.4	42.1	42.8	42.4
Remaining maturity to reserves (in percent)	112.1	110.0	121.3	131.3	140.3
Remaining maturity to total external debt (in percent)	50.5	49.8	53.6	54.1	53.7
Total external debt (in billions of U.S. dollars) 6/ 7/	238.8	258.7	259.6	275.4	303.5
Of which: public sector (medium- and long-term (MLT))	85.6	94.7	84.3	86.8	96.3
Total external debt to exports of goods and services (in percent) 6/ 8/	108.4	90.0	77.6	93.8	94.5
External amortization of MLT debt to exports of goods and services (in percent) 6/ 8/	12.2	10.1	9.6	10.1	9.7
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, 2021–31 1/

	Proj.											
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	
	(In billions of U.S. dollars)											
Current account balance	14.5	13.0	4.4	6.1	8.5	8.2	9.6	11.8	12.5	13.2	14.2	
Goods balance	42.9	42.6	28.7	25.0	28.2	28.4	29.6	31.9	32.0	32.6	33.1	
Exports, f.o.b.	242.8	281.1	231.9	248.2	268.4	278.6	291.4	305.1	318.7	334.4	350.8	
Imports, f.o.b.	199.9	238.6	203.2	223.1	240.2	250.2	261.7	273.2	286.7	301.8	317.7	
Services balance	-15.8	-13.2	-9.6	-2.6	-1.6	-1.1	0.3	1.7	3.9	5.5	7.6	
Receipts	21.3	32.1	42.8	53.1	56.6	59.1	62.5	66.1	70.5	74.4	78.9	
Payments	37.1	45.4	52.4	55.6	58.1	60.2	62.2	64.4	66.6	68.9	71.4	
Primary income	-10.2	-12.9	-12.2	-14.4	-15.9	-16.7	-17.7	-19.1	-20.4	-21.8	-23.2	
Secondary income	-2.3	-3.4	-2.5	-2.0	-2.2	-2.4	-2.6	-2.8	-2.9	-3.1	-3.3	
Capital and financial account balance	3.8	1.8	-1.6	-1.1	0.8	-2.8	-2.8	-3.8	-4.9	-5.1	-5.7	
Capital account	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Financial account	3.9	1.9	-1.6	-1.1	0.8	-2.8	-2.8	-3.8	-4.9	-5.1	-5.7	
Direct investment	7.5	2.9	1.9	3.9	3.5	3.6	3.8	4.0	4.1	4.3	4.9	
Portfolio investment	4.5	-11.4	-8.0	-18.4	-4.4	-5.6	-6.2	-6.4	-6.9	-7.8	-8.0	
Other investment	-8.1	10.5	4.6	13.4	1.6	-0.8	-0.3	-1.4	-2.1	-1.7	-2.6	
Errors and omissions	-7.3	-2.7	-7.3	-1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Overall balance	11.0	12.1	-4.5	3.4	9.3	5.4	6.9	8.0	7.7	8.1	8.5	
Gross official reserves	116.9	114.7	113.5	116.2	125.5	130.9	137.7	145.7	153.4	161.5	170.0	
In months of following year's imports of goods and nonfactor services	4.9	5.4	4.9	4.7	4.9	4.8	4.9	5.0	5.0	5.0	5.0	
In percent of short-term debt 2/	90.8	82.5	76.2	71.3	69.1	68.5	68.3	68.9	69.2	69.4	70.1	
	(In percent of GDP)											
Current account balance	3.9	3.2	1.1	1.4	1.8	1.6	1.8	2.0	2.0	2.0	2.0	
(Excluding crude oil and liquefied natural gas)	1.3	0.7	-0.4	0.3	0.3	0.0	0.2	0.4	0.4	0.4	0.4	
Goods balance	11.5	10.4	7.2	5.9	6.0	5.6	5.5	5.5	5.2	4.9	4.7	
Exports, f.o.b.	64.9	68.9	58.0	58.8	57.0	55.0	53.7	52.6	51.5	50.6	49.8	
Imports, f.o.b.	53.5	58.5	50.8	52.8	51.0	49.4	48.3	47.1	46.3	45.7	45.1	
Services balance	-4.2	-3.2	-2.4	-0.6	-0.3	-0.2	0.1	0.3	0.6	0.8	1.1	
Primary income	-2.7	-3.2	-3.1	-3.4	-3.4	-3.3	-3.3	-3.3	-3.3	-3.3	-3.3	
Secondary income	-0.6	-0.8	-0.6	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	
Capital and financial account balance	1.0	0.5	-0.4	-0.3	0.2	-0.6	-0.5	-0.7	-0.8	-0.8	-0.8	
Direct investment	2.0	0.7	0.5	0.9	0.7	0.7	0.7	0.7	0.7	0.7	0.7	
	(Annual percentage change)											
Memorandum items:												
Goods trade												
Exports, f.o.b., value growth (in U.S. dollars) 1/	30.7	15.8	-17.5	7.0	8.2	3.8	4.6	4.7	4.4	4.9	4.9	
Export volume growth	14.2	6.6	-6.8	1.8	5.1	2.6	3.9	3.6	3.2	3.3	3.3	
Imports, f.o.b., value growth (in U.S. dollars) 1/	30.7	19.3	-14.8	9.8	7.6	4.2	4.6	4.4	4.9	5.3	5.3	
Import volume growth	18.6	19.1	-5.2	13.1	7.6	4.3	4.6	4.0	4.2	4.3	4.3	
Terms of trade	6.0	6.6	-0.1	3.9	3.0	1.3	0.6	0.7	0.6	0.6	0.7	
Net international investment position 1/												
(In billions of U.S. dollars)	21.7	12.4	21.7	-2.5	...	...	...	...	...	...	...	
(In percent of GDP)	5.8	3.0	5.4	-0.6	...	...	...	...	...	...	...	

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, 2020–31

	2020	2021	2022	2023	2024	Proj.						
						2025	2026	2027	2028	2029	2030	2031
I. Statement of Government Operations 1/												
(In billions of ringgit)												
Revenue	225.1	233.8	294.4	315.0	324.6	334.1	345.2	365.5	389.4	412.1	435.9	461.3
Taxes	154.4	173.7	208.8	229.2	240.2	253.4	272.5	289.4	307.1	326.0	345.9	367.1
Direct taxes	112.5	130.1	153.5	171.3	171.7	177.1	189.4	201.1	213.3	226.3	239.9	254.4
Indirect taxes	41.9	43.6	55.3	57.8	68.5	76.3	83.0	88.3	93.8	99.7	106.0	112.7
Non-tax revenue	70.7	60.0	85.6	85.8	84.4	80.7	72.7	76.1	82.3	86.1	90.0	94.2
Investment income	46.1	35.0	58.2	55.8	45.8	50.4	36.7	35.7	36.7	37.8	38.9	40.1
Other revenue	24.6	25.0	27.4	30.0	38.6	30.3	36.1	40.4	45.6	48.3	51.1	54.1
Expenditure and net lending	312.7	332.5	393.8	406.4	403.8	410.8	421.4	439.8	463.7	491.3	520.2	550.9
Current expenditure, including COVID fund	259.1	267.2	321.2	310.2	320.3	331.0	337.2	356.1	374.4	393.8	414.0	435.3
Expense	224.0	230.9	291.9	310.2	320.3	331.0	337.2	356.1	374.4	393.8	414.0	435.3
Compensation of employees	83.0	85.9	87.8	91.9	95.9	103.5	109.4	113.3	117.3	121.5	125.8	130.3
Use of goods and services	29.3	24.9	34.7	35.9	37.7	42.5	40.3	44.0	45.8	47.7	49.7	51.7
Interest	34.5	38.1	41.3	46.3	50.5	54.3	58.3	62.2	66.3	70.6	75.1	79.9
Subsidies and social assistance	19.8	23.0	67.4	71.9	67.4	57.1	49.0	52.0	55.3	58.9	62.5	66.3
Grants and transfers	29.5	29.1	28.9	29.7	32.5	33.0	36.9	38.9	40.9	43.1	45.3	47.6
Social benefits and other expense	27.9	29.9	31.9	34.6	36.4	40.6	43.3	45.7	48.8	52.1	55.6	59.4
COVID fund 2/	35.1	36.3	29.3	0.0								
Net acquisition of nonfinancial assets (incl. COVID spending) 3/	53.6	65.3	72.6	96.1	83.5	79.9	84.2	83.7	89.2	97.4	106.2	115.6
Gross operating balance	1.1	2.8	2.4	4.7	4.3	3.1	8.0	9.4	14.9	18.3	21.9	26.0
Net lending/borrowing 1/	-87.6	-98.7	-99.5	-91.4	-79.2	-76.7	-76.2	-74.3	-74.3	-79.1	-84.3	-89.6
(In percent of GDP)												
Revenue	15.9	15.1	16.4	17.3	16.8	16.4	15.9	15.7	15.7	15.6	15.5	15.5
Taxes	10.9	11.2	11.6	12.6	12.4	12.4	12.5	12.5	12.4	12.4	12.3	12.3
Direct taxes	7.9	8.4	8.6	9.4	8.9	8.7	8.7	8.7	8.6	8.6	8.6	8.5
Indirect taxes	3.0	2.8	3.1	3.2	3.5	3.7	3.8	3.8	3.8	3.8	3.8	3.8
Non-tax revenue	5.0	3.9	4.8	4.7	4.4	4.0	3.3	3.3	3.3	3.3	3.2	3.2
Investment income	3.2	2.3	3.2	3.1	2.4	2.5	1.7	1.5	1.5	1.4	1.4	1.3
Other revenue	1.7	1.6	1.5	1.6	2.0	1.5	1.7	1.7	1.8	1.8	1.8	1.8
Expenditure and net lending	22.0	21.5	21.9	22.3	20.9	20.1	19.4	18.9	18.7	18.6	18.5	18.5
Current expenditure, including COVID fund	18.3	17.3	17.9	17.0	16.6	16.2	15.5	15.3	15.1	14.9	14.8	14.6
Expense	15.8	14.9	16.3	17.0	16.6	16.2	15.5	15.3	15.1	14.9	14.8	14.6
Compensation of employees	5.9	5.5	4.9	5.0	5.0	5.1	5.0	4.9	4.7	4.6	4.5	4.4
Use of goods and services	2.1	1.6	1.9	2.0	1.9	2.1	1.9	1.9	1.9	1.8	1.8	1.7
Interest	2.4	2.5	2.3	2.5	2.6	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Subsidies and social assistance	1.4	1.5	3.8	3.9	3.5	2.8	2.3	2.2	2.2	2.2	2.2	2.2
Grants and transfers	2.1	1.9	1.6	1.6	1.7	1.6	1.7	1.7	1.7	1.6	1.6	1.6
Social benefits and other expense	2.0	1.9	1.8	1.9	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0
COVID fund 2/	2.5	2.3	1.6	0.0								
Net acquisition of nonfinancial assets (incl. COVID spending) 3/	3.8	4.2	4.0	5.3	4.3	3.9	3.9	3.6	3.6	3.7	3.8	3.9
Gross operating balance	0.1	0.2	0.1	0.3	0.2	0.2	0.4	0.4	0.6	0.7	0.8	0.9
Net lending/borrowing	-6.2	-6.4	-5.5	-5.0	-4.1	-3.8	-3.5	-3.2	-3.0	-3.0	-3.0	-3.0
II. Stock Positions												
(In billions of ringgit)												
Federal government debt	879.6	979.8	1,079.6	1,172.5	1,247.6	1,324.3	1,400.5	1,474.9	1,549.1	1,628.3	1,712.5	1,802.1
(In percent of GDP)	62.0	63.3	60.1	64.3	64.6	64.8	64.3	63.5	62.6	61.7	61.0	60.4
<i>Memorandum items:</i>												
Structural balance (in billions of ringgit)	-32.8	-60.7	-80.0	-84.0	-82.0	-77.8	-77.6	-72.0	-72.4	-77.7	-82.9	-88.1
Structural balance (percent of potential GDP)	-2.2	-3.9	-4.6	-4.7	-4.4	-3.8	-3.4	-3.1	-2.9	-2.9	-3.0	-3.0
Structural primary balance (percent of potential GDP)	0.1	-1.4	-2.2	-2.1	-1.6	-1.2	-0.9	-0.4	-0.2	-0.3	-0.3	-0.3
Primary balance (percent of GDP)	-3.7	-3.9	-3.2	-2.5	-1.5	-1.1	-0.8	-0.5	-0.3	-0.3	-0.3	-0.3
Nonoil and gas primary balance (percent of GDP)	-7.7	-6.7	-7.8	-6.7	-4.7	-3.9	-2.8	-2.4	-2.1	-2.0	-1.9	-1.8
Oil and gas revenues (percent of GDP)	4.0	2.8	4.6	4.2	3.2	2.8	2.0	1.9	1.7	1.6	1.6	1.5
General government debt (percent of GDP) 4/	67.7	69.2	65.5	69.7	69.8	70.0	69.5	68.6	67.7	66.9	66.2	65.5
General government balance (percent of GDP) 4/	-4.9	-6.0	-4.6	-4.1	-3.4	-3.5	-3.3	-3.0	-2.8	-2.8	-2.8	-2.8
Public sector balance (percent of GDP)	-7.3	-8.3	-5.9	-5.5	-6.4	-7.4	-6.0	-5.7	-5.5	-5.5	-5.5	-5.4
Nominal GDP (in billions of ringgit)	1,418	1,549	1,795	1,824	1,932	2,043	2,178	2,322	2,476	2,637	2,806	2,985

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, 2021–25 1/

	2021	2022	2023	2024	Proj. 2025
(In billions of ringgit; end of period)					
Net foreign assets	353.9	301.5	299.0	259.0	267.9
Foreign assets	659.8	690.6	725.8	734.2	758.9
Foreign liabilities	305.9	389.1	426.8	475.2	491.0
Net domestic assets	1,713.7	2,001.3	2,163.2	2,092.8	2,189.5
Net domestic credit	2,352.0	2,471.3	2,631.8	2,757.7	2,891.9
Net credit to nonfinancial public sector	280.2	323.7	369.9	382.6	389.7
Net credit to central government	254.4	291.7	341.9	356.3	363.2
Net credit to state & local government	1.7	0.7	0.8	0.7	0.8
Net credit to nonfinancial corporations	24.2	31.2	27.2	25.6	25.6
Credit to private sector 2/	1,970.9	2,029.5	2,135.9	2,245.1	2,364.7
Net credit to other financial corporations	100.9	118.2	126.0	130.0	137.5
Capital accounts	540.5	367.8	391.0	597.2	617.2
Other items (net)	-97.8	-102.3	-77.6	-67.7	-85.2
Broad money 3/	2,052.8	2,134.8	2,259.3	2,333.3	2,439.0
Narrow money	626.0	654.2	691.5	718.7	751.3
Currency in circulation	136.7	146.6	149.1	154.7	164.0
Transferable deposits	489.3	507.6	542.3	564.0	587.2
Other deposits	1,398.5	1,444.7	1,529.5	1,573.3	1,654.9
Securities other than shares	28.3	36.0	38.3	41.3	32.8
(Contributions to 12-month growth in broad money, in percentage points)					
Net foreign assets	2.2	-2.6	-0.1	-1.8	0.4
Net domestic assets	3.4	14.0	7.6	-3.1	4.1
<i>Memorandum items:</i>					
Broad money (12-month percent change)	5.6	4.0	5.8	3.3	4.5
Currency in circulation (12-month percent change)	15.5	7.2	1.7	3.7	6.1
Credit to private sector (12-month percent change)	3.8	3.0	5.2	5.1	5.3
Money multiplier (broad money/narrow money)	3.3	3.3	3.3	3.2	3.2
Sources: Data provided by the Malaysian authorities; and IMF, <i>Integrated Monetary Database</i> 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, 2020–2025Q2

	2020	2021	2022	2023	2024	2025Q1	2025Q2
(In percent; end of period)							
Capital adequacy							
Regulatory capital to risk-weighted assets	18.9	19.2	19.0	19.0	18.6	17.7	18.2
Tier 1 capital to risk-weighted assets	15.7	16.0	15.8	15.9	15.6	14.7	15.2
Nonperforming loans net of provisions to capital	5.5	6.1	6.3	6.1	5.8	5.6	
Common Equity Tier 1 capital to risk-weighted assets			15.2	15.4	15.1	14.2	14.7
Tier 1 capital to assets	9.0	8.8	7.6	7.7	7.2	7.2	
Asset quality							
Nonperforming loans to total gross loans 1/	1.6	1.7	1.7	1.7	1.4	1.4	
Loan concentration by economic activity			55.3	56.8	61.1	60.6	
Provisions to nonperforming loans	38.7	36.8	38.8	36.8	36.4	37.0	
Earnings and profitability							
Return on assets	1.1	1.2	1.5	1.4	1.4	1.6	
Return on equity	7.5	8.4	10.0	9.8	10.2	11.7	
Interest margin to gross income	58.1	61.4	61.1	58.0	57.3	53.9	
Non-interest expenses to gross income	42.5	44.5	41.1	45.6	45.3	41.8	
Liquidity							
Liquidity coverage ratio	148.2	153.4	151.5	161.0	160.7	151.6	160.5
Net stable funding ratio			118.3	118.2	116.3	115.2	
Sensitivity to market risk							
Net open position in foreign exchange to capital	5.3	4.2	3.5	4.1	4.1	4.2	4.3

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.

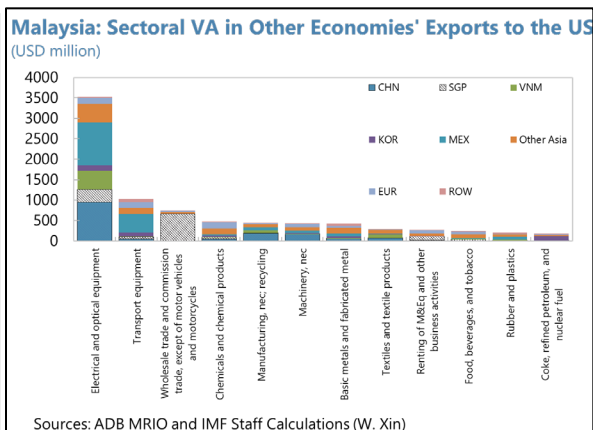
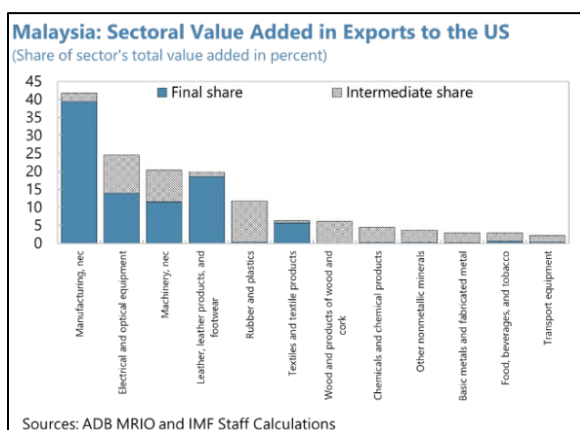
Annex I. Tariff Impacts

Malaysia is facing increased tariffs on its exports to the U.S. The effective tariff rate will rise from 0.7 percent at end-2024 to 10.4 percent once the October 2025 Agreement on Reciprocal Trade (ART) is implemented. The ART includes a 19 percent headline tariff rate subject to exemptions (see below) as well as the removal of non-tariff barriers for U.S. industrial and agricultural exports, alongside cooperation on standards, digital trade, and critical minerals. It enters into force 60 days after the U.S. and Malaysia exchange written notifications that they've completed their respective domestic legal procedures.

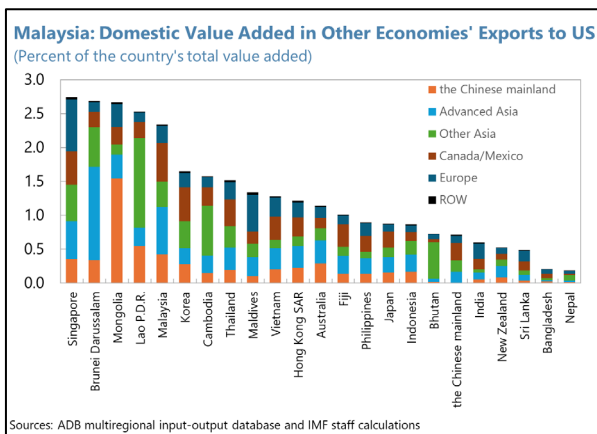
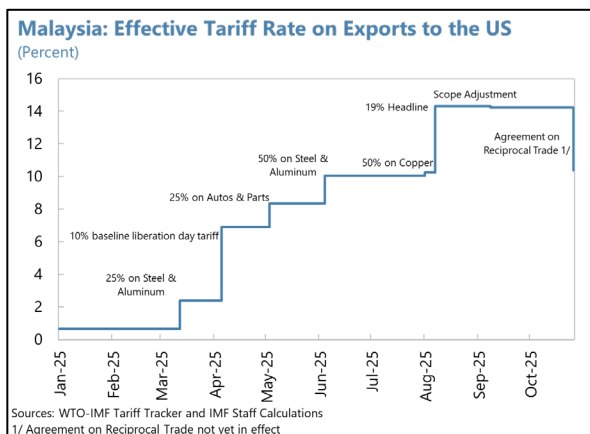
The macroeconomic impacts could occur through three channels:

- **Direct impact.** The most U.S.-export oriented sectors are manufacturing, electrical equipment, machinery, leather, textiles, rubber, and wood. The tariff rates they face under the ART are highly uneven across product categories: 55 percent of exports, including semiconductors and related electronic products, remain exempt, while 26 percent face tariffs between 19 and 25 percent, and 17 percent, including aluminum and car parts, are subject to tariffs of 25 percent or higher.
- **Indirect impact.** Malaysia's indirect exposure is also significant, as its economy is highly integrated into global value chains—about 2.4 percent of its total value added is embedded in other economies' exports to the U.S. The concentration of exposure is highest in electrical and optical equipment, transport equipment (mostly through Mexico), manufacturing and machinery (mainly via the Chinese mainland), and chemicals and metals (through Asia and Europe).
- **Second-round effects.** Further, there could also be second-round effects from a global slowdown in growth and trade as well as reallocation effects. Beyond exemptions, increased trade with other trading partners acts as mitigators.

Adding up all three channels, the total negative impact on Malaysia is estimated at about 0.2 percent of the country's value added.



This estimate is obtained from a partial equilibrium model using sectoral elasticities from the literature.



Annex II. The Effects of Trade Policy Uncertainty

Global trade policy uncertainty (TPU) has recently reached historic highs. In the accompanying Selected Issues Paper, *Unpacking the Effects of Trade Policy Uncertainty on ASEAN Economies*, staff creates new granular measures of TPU for Malaysia that distinguish between trade policy uncertainty stemming from tariffs and trade restrictions (“protectionist TPU”) and uncertainty stemming from trade agreements and frameworks (“agreement TPU”), adopting a “news-chatter” approach similar to Baker, Bloom, and Davis (2016).¹ The new measures also distinguish between uncertainty stemming from trade restrictions or agreements that affect Malaysia (“own TPU”) and uncertainty stemming from trade restrictions or agreements that affect other economies (“third-party TPU”). The new TPU measures are also developed for Indonesia, Philippines, Singapore, Thailand, and Vietnam.

Examples of Malaysia’s Trade Policy Uncertainty Measures Across Type and Geography

TPU Type	Description	Example Shocks
Own Protectionist TPU	Own country TPU related to tariffs and trade restrictions like import quotas or licenses	US 2025 tariff threats and actions
Third-Party Protectionist TPU	Protectionist TPU measures of key trade partners, weighted by export shares	US-China 2018 tariff actions
Own Agreement TPU	Own country TPU related to trade agreements and frameworks like WTO negotiations or trade bloc talks	US-Malaysia 2007 free trade agreement talks
Third-Party Agreement TPU	Agreement TPU measures of key trade partners, weighted by export shares	US-China 2019 Phase 1 deal negotiations

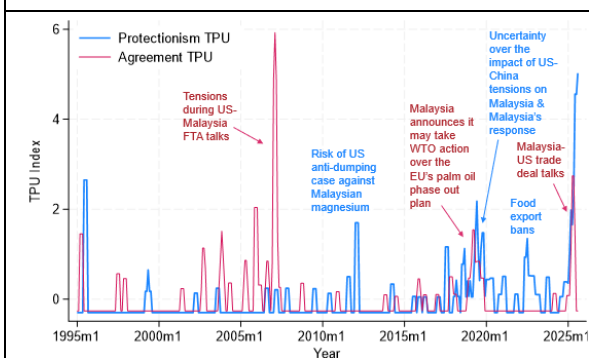
Sources: IMF staff calculations.

Staff’s empirical analysis using the new TPU measures finds the following:

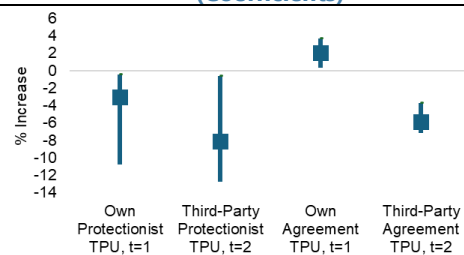
- Own protectionist TPU shocks, where shocks are defined as periods where TPU is one standard deviation above the mean (see table for examples), reduce output per capita temporarily, relative to the pre-shock level and compared to a counterfactual with no shock. Spillover effects from third-party TPU shocks generate even larger declines in output per capita. For third-party TPU shocks, trade balances improve, offering suggestive evidence of trade reallocation. However, this is offset by negative effects on investment and private consumption.
- In contrast, own agreement TPU shocks are associated with a temporary increase in output per capita. This may reflect anticipatory investment effects for potential expanded economic activity once the tension is resolved; however, that potential does not appear to materialize in stronger trade balances, and the initial boost to investment and its effect on output wane over time.

¹ See Baker, S. R., Bloom, N., and Davis, S. J. (2016). Measuring economic policy uncertainty. *The Quarterly Journal of Economics*, 131(4), 1593-1636.

Annex II. Figure 1. Malaysia: Trade Policy Uncertainty (TPU), by Type



Annex II. Figure 2. ASEAN-5 and Vietnam: Impact of TPU on Real Output Per Capita, by Type (Coefficients)



Note: IMF staff calculations. The coefficients are from local projections, with 90 percent confidence intervals based on wild bootstrapped standard errors. Shocks are dummies that take a value of 1 if TPU is 1 standard deviation above the mean. Third-Party TPU is interacted with an economy's average trade openness; results shown are for the overall average effects.

Sources: IMF staff calculations.

Annex III. Assessing Policy Responses to Navigate Risks Using Quantitative Model for Integrated Policy Framework for Malaysia¹

This annex explores the impact of contingent policies under alternative scenarios using IMF's Quantitative Model for the Integrated Policy Framework (QIPF).

1. **Context.** Traditional macroeconomic frameworks propose that flexible exchange rates can help absorb external shocks; however, real-world frictions may hinder such cushioning. Under the IMF's Integrated Policy Framework (IPF), relying solely on a floating exchange rate and policy rate adjustments may not achieve satisfactory macroeconomic stabilization when key IPF frictions—shallow FX markets, persistent currency mismatches, and unstable inflation expectations—are present. While exchange rate adjustment remains the primary defense against external shocks for countries with flexible exchange rates, foreign exchange interventions (FXIs) among other policy tools, may be justified for large shocks amid clear frictions. Delechat and others (2024) summarize key lessons and challenges in applying the IPF for emerging market economies in Southeast Asia.
2. **The QIPF model aims to operationalize the IPF, which provides guidance for integrated use of different policy tools.** Under the IPF, combining FXIs with short-term monetary policy rate adjustments can help better manage inflation while stabilizing output during a risk-off event. Such events involve risk premium shocks triggered by sudden shifts in investor sentiment, leading to sharp capital outflows and significant exchange rate depreciation. This approach is pertinent for Malaysia, where FX markets can become shallow in risk-off episodes and sensitive to changes in risk sentiment.
3. **QIPF model.** The QIPF model is a full-fledged New Keynesian open economy model based on Adrian and others (2021). It is a two-country model, comprising a small economy which faces frictions in international financial markets, and a large foreign economy without such a friction (the former proxies Malaysia and the latter is represented by the U.S.). Model simulations are based on quarterly data, with its baseline calibrated to mimic the Malaysian economy and staff's baseline projection. Under the model's baseline, output and inflation will stabilize in the medium term, with the uncovered interest rate parity (UIP) premium and domestic credit spread assumed to stay stable and anchored. Malaysia's central bank is assumed to set the short-term policy rate according to an estimated Taylor rule. The analysis evaluates policy responses across five scenarios: three adverse scenarios assess the effects of global downside shocks on Malaysia—with and without FX risk-off episodes—while two upside scenarios gauge the impact of sustained productivity gains from AI adoption and/or comprehensive structural reforms. Each scenario facilitates assessment of the integrated use of different policy tools in line with the IPF.

¹ Prepared by Ritu Basu (APD) in collaboration with Jesper Linde and Marcin Kolasa (all MCM).

4. Scenario 1: Adverse scenario without risk-off shocks. This scenario assumes a combination of global shocks consistent with the October 2025 WEO (Box 1.2, Scenario A), which adversely affects the Malaysian economy. These shocks comprise four layers: (i) higher U.S. tariffs and temporary supply chain disruptions; (ii) higher inflation expectations; (iii) higher sovereign yields and tighter global financial conditions; and (iv) lower global demand for U.S. assets. The outcome, which is depicted by the blue line in Annex Figure 1, can be summarized as follows.

- Malaysia's output drops vis-à-vis the baseline, due to a contraction in external demand. Domestic consumption² declines relative to the baseline, and employment falls.
- The negative demand shocks more than offsets inflationary pressure emerging in the large foreign economy from global supply chain disruptions, leading to a modest decline in inflation in Malaysia.
- Against this backdrop, the central bank responds by easing monetary policy over a prolonged period, guided by the estimated Taylor rule, to stimulate activity and help bring inflation back to the steady state over the medium term.
- Exports remain under pressure due to weaker external demand, while output and consumption gradually recover.
- The real exchange rate depreciates modestly due to higher foreign inflation, despite nominal appreciation amid steady UIP premium and reduced demand for foreign assets.

5. Scenario 2: Adverse scenario with risk-off shocks, but without FXI. In addition to scenario 1, a sentiment-driven, non-fundamental risk-off shock is assumed to trigger capital outflows and sharp increases in the UIP premium in a shallow FX market, as observed in the past in Malaysia and in other EM economies during risk-off episodes. The outcome is depicted by the red line in Annex Figure 1. Due to the risk-off shocks, the decline in domestic consumption, employment, and output is sharper and more prolonged than in scenario 1. This is driven in part by a monetary policy rate hike to counter the sustained inflation impulse, which arises from a sudden real and nominal exchange rate depreciation following a spike in the UIP premium.

6. Scenario 3: Adverse scenario with risk-off shocks and with FXI. In the context of the shocks in scenario 2, the central bank intervenes to calm the sharp FX market disruptions with cumulative FX sales over a short period of time. The outcome is depicted by the yellow line in Annex Figure 1. Under this scenario, declines in domestic consumption, employment, and output are less pronounced than under scenario 2. This is because, amid milder inflationary pressures, the central bank does not need to raise the short-term policy rate as much as in scenario 2. FXI helps contain FX market disruption (overshooting), resulting in milder exchange rate depreciation, a reduced UIP premium, and lower inflationary pressures.

² In this model private demand and absorption is synonymous to private consumption, as the model does not include private investments.

7. Summarizing downside scenario analyses. In a risk-off event, combining FXI with calibrated policy rate adjustments allows the central bank to better balance the trade-off between inflation and output, anchor inflation expectations, and facilitate a faster recovery of private consumption supported by lower interest rate, notwithstanding associated reduction in FX reserves.

8. Scenario 4: Upside scenario. In this scenario, sustained productivity gains occur from ongoing technology adoption—such as permanent AI use or deep structural reforms—in the U.S. and Malaysia. The simulation assumes that productivity gains benefit households and firms across sectors, leading to higher future wealth and creating notable income effects as forward-looking households internalize future wealth gains, resulting in higher consumption than in the baseline. The outcome, which is depicted by the blue line in Annex Figure 2, can be summarized as follows.

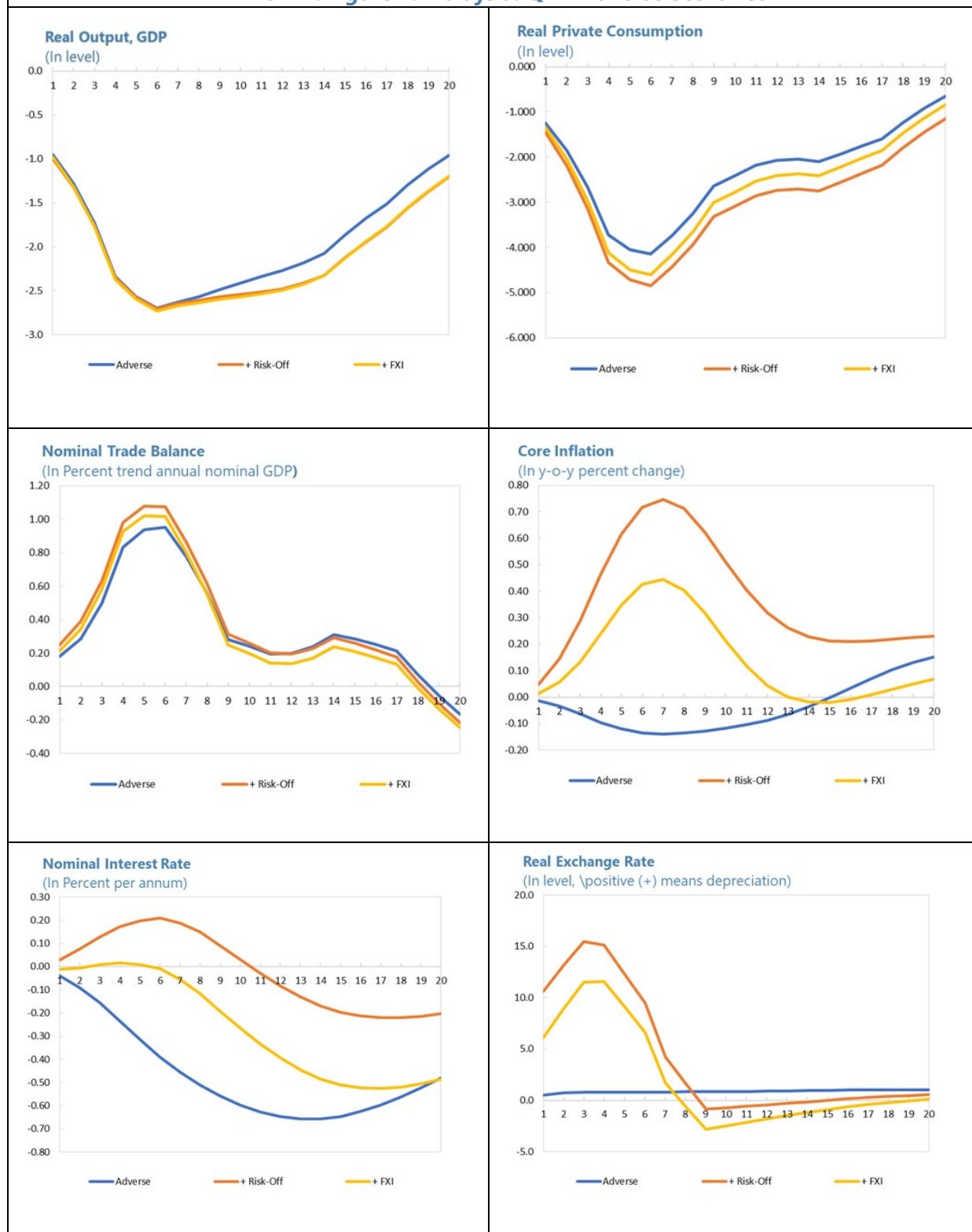
- Accelerated productivity growth in the U.S. and Malaysia lowers inflation in Malaysia, as reduced production costs outweigh demand-driven inflationary pressures from higher income and consumption.
- Financial markets stay stable, with lower UIP premiums, and an appreciating real exchange rate. The policy rate is moderately tightened to keep output and consumption growth in control and gradually help bring them back to their balanced growth path over the medium term.

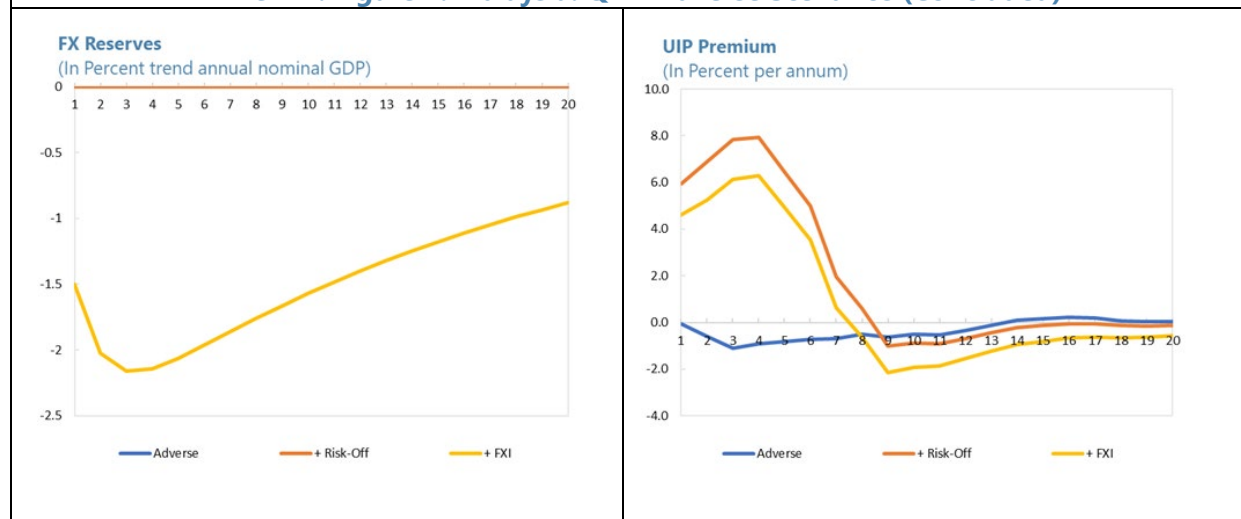
9. Scenario 5: Upside scenario with opportunistic reserve accumulation. In the context of the shocks in scenario 4, the central bank is assumed to capitalize on risk-on conditions—marked by lower UIP premiums and increased capital inflows—by gradually accumulating reserves. The outcome is depicted by the yellow line in Annex Figure 2. The FX purchase by the central bank leads to a more modest real exchange rate appreciation compared with scenario 4, resulting in moderately higher inflation and a higher interest rate. Consumption remains broadly the same as in scenario 4.

10. Summarizing upside scenario analyses. The permanent productivity growth from a supply shock driven by positive AI adoption or structural reforms is best managed by adjusting policy rates. The positive shock can provide an opportunity for the central bank to build reserves gradually.

11. Caveats. The simulation results can be sensitive to model specifications and parameters. An adverse growth shock—such as global supply chain disruptions and rising input costs—can cause stagflation by driving up inflation, while an upside scenario may also raise inflation if productivity gains from AI adoption take time to reduce production costs. Additionally, because the model does not include physical capital, it cannot capture the type of inequality where capital owners gain while workers lose out—for example, it rules out the possibility that AI adoption leads to worker layoffs and benefits only firm/capital owners benefit from higher productivity. Scenarios 4 and 5 assume productivity gains will boost average real wages, including those switching jobs to join the more productive AI-linked firms. Hence, the simulation does not capture any significant income disparities that may develop between AI-related and non-AI related sectors if households and firms across all industries do not share in the resulting productivity and wage benefits of AI adoption.

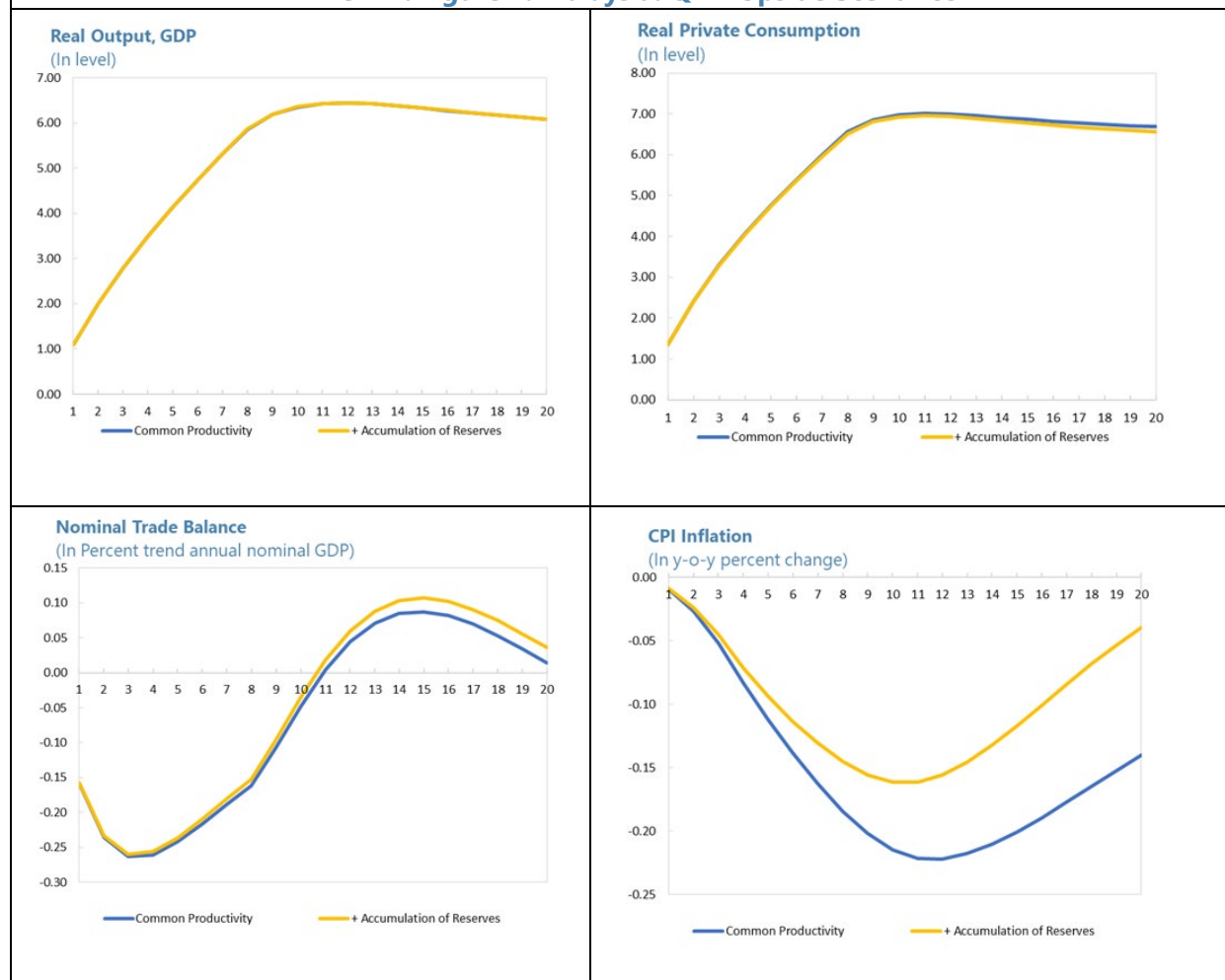
Annex III. Figure 1. Malaysia: QIPF Adverse Scenarios



Annex III. Figure 1. Malaysia: QIPF Adverse Scenarios (Concluded)

Sources: IMF Staff estimates.

Notes: Charts show percent deviations from baseline (y-axis) by quarter, starting at 2025Q4 when the shock occurs (x-axis).

Annex III. Figure 2. Malaysia: QIPF Upside Scenarios

Annex III. Figure 2. Malaysia: QIPF Upside Scenarios (Concluded)



Sources: IMF Staff estimates.

Notes: Charts show percent deviations from baseline (y-axis) by quarter, starting at 2025Q4 when the shock occurs (x-axis).

References

Adrian, Tobias, Christopher J. Erceg, Marcin Kolasa, Jesper Lindé, and Pawel Zabczyk. 2021. "A Quantitative Microfounded Model for the Integrated Policy Framework." IMF Working Paper 21/292, International Monetary Fund, Washington, DC.

Deléchat, Corinne, Umang Rawat, and Ara Stepanyan. 2024. "Navigating external shocks in Southeast Asia's emerging market : key lessons and challenges in applying the IMF's integrated policy framework." Asia and Pacific Departmental Paper, DP/2024/007, International Monetary Fund, Washington, DC.

Annex IV. Staff Policy Advice from the 2025 Article IV Consultation

Staff Advice	Policy Actions
Fiscal Policy	
Fiscal consolidation should continue to rebuild buffers and achieve the medium-term targets set under the FRA. Staff recommends achieving a small structural primary surplus 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 2026 Budget envisages to reduce the federal government deficit from 3.8 percent of GDP in 2025 to 3.5 percent of GDP in 2026. In September 2025, the authorities introduced fuel subsidy reform for petrol (RON95). All Malaysian citizens with valid licenses are eligible for 300 liters of subsidized fuel per month at a price of RM1.99 per liter (versus the prior price of RM2.05). Some commercial users have also been granted access to the subsidized price. Non-citizens pay a market rate (at RM2.52 per liter as of January 15, 2026). The reform did not introduce means-testing for the RON95 subsidies, but aimed to limit subsidy leakages to non-citizens and via cross-border smuggling. The reform introduced an at-pump digital mechanism that may help curb leakages and cross-border smuggling, raise market price awareness, collect fuel usage data, and, if desired, enable more targeting. In July 2025, the authorities expanded the scope of the Sales Tax and Service Tax (SST) to include commercial services (e.g., logistics, construction, private health and education, fee-based financial services) and non-essential goods (e.g., luxury goods like paintings and antiques). The authorities have not announced plans or actions to reinstate the GST. The authorities are preparing for several FRA components, including the fiscal risk statement and medium-term expenditure framework, with capacity development support from the IMF.
Monetary, Exchange Rate, and Financial Policies	
Going forward, monetary policy should remain data dependent. BNM should stand ready to tighten monetary policy if upside	After keeping the overnight policy rate at 3.0 percent since May 2023, BNM lowered the rate to 2.75 percent in July 2025, as a measure aimed at

Staff Advice	Policy Actions
inflation risks materialize. Maintaining exchange rate flexibility is essential. Staff recommends opportunistic reserve accumulation during risk-on episodes to maintain adequate reserve coverage while gradually unwinding the short FX swap positions.	preserving Malaysia's steady growth path amid moderate inflation prospects. Gross reserves increased to US\$125.5 billion (107 percent of the ARA metric) at end-2025. The short FX swap positions were reduced from US\$29.2 billion at end-December 2024 to US\$21.0 billion at end-November 2025.
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.	BNM has been closely monitoring risks stemming from vulnerable entities. Additionally, BNM has mandated that banks carry out regular stress tests to address emerging risks, such as tariff- and trade-related macroeconomic uncertainties and cybersecurity threats. BNM remains prepared to expand and deploy its macroprudential toolkit preemptively in a timely manner if necessary.
Structural Policies	
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.	The authorities approved the 13th Malaysia Plan (13MP), a national development plan for 2026-2030 with a focus on increasing incomes, reducing inequality, and strengthening governance. The 13MP envisages a total investment envelope of RM611bn (30 percent of 2024 GDP). The reform of the RON95 subsidy in September 2025 did not extensively utilize the PADU digital registry for the purpose of targeting the subsidy, but instead relies mainly on the national ID system.

Annex V. External Sector Assessment¹

Overall Assessment: Malaysia's external position in 2025 is preliminarily assessed to be stronger than the level implied by medium-term fundamentals and desirable policies. After increasing in 2024 amid an improved external environment, the current account surplus is expected to increase further in 2025. The merchandise goods balance is projected to continue its decline over the medium term, driven by strong growth in private consumption and investment. The services balance is projected to benefit from higher tourism over the near term and from data center exports over the medium term, while the income balance is projected to remain broadly flat, leaving the overall current account surplus stable over the medium term.							
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.							
Foreign Asset and Liability Position and Trajectory	Background. Malaysia's NIIP fluctuated around an average of 2.4 percent of GDP over the past decade. The NIIP dropped below zero in 2024H2 for the first time since 2019, following increased conversion of FX proceeds by GLCs and GLICs, before returning to 3.9 in 2025Q3. Total external debt decreased to 69.4 percent of GDP at end-September 2025, compared to 69.9 percent at end-2024, and remains manageable. One-third of external debt is ringgit-denominated, hence, not exposed to valuation risks. Short-term external debt, which accounts for 43.1 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 earnings).						
	Assessment. Malaysia's NIIP is expected to remain steady over the medium term. 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.						
2025Q3 (% GDP)	NIIP: 3.9	Gross Assets: 129.9	Debt Assets: 25.9	Gross Liab.: 126.0	Debt Liab.: 40.4		
Current Account	Background. Malaysia's CA surplus has been on a long-term declining trend as the economy transitions to a more domestically driven economy. The declining trend reflects a narrowing savings-investment gap, driven by an increase in private consumption and investment and a decline in public savings. After falling to 1.1 percent of GDP in 2023, the surplus increased slightly to 1.4 percent in 2024, primarily due to a strong rebound in service exports, including tourism. Strong exports growth amid a global technology upcycle was outweighed by a concurrent increase in intermediate and capital goods imports. The CA surplus is projected to remain stable over the medium term, as an improving services balance is offset by further declines in the merchandise trade balance.						
	Assessment. The EBA CA model estimates a cyclically adjusted CA balance of 2.0 percent of GDP and a norm of -0.2 percent, implying a model-assed CA gap of 2.2 percent. Staff assesses a CA gap in the range of 1.7–2.7 percent, with a midpoint estimate of 2.2 percent. Relative policy gaps partly explain the CA gap, with weaker social safety nets, proxied by health care expenditure, looser fiscal policies adopted by the rest of the world relative to Malaysia, and changes in BOP reserve assets contributing positively (0.4, 0.6, and 0.7 percent respectively) to the excess surplus, and stronger credit growth contributing negatively (-0.2 percent).						
2025 (% GDP)	CA: 1.8	Cycl. Adj. CA: 2.0	EBA Norm: -0.2	EBA Gap: 2.2	COVID-19 Adj.: 0.0	Other Adj.: 0.0	Staff Gap: 2.2
Real Exchange Rate	Background. The ringgit continued its appreciation against the US dollar in 2025, gaining about 9 percent after gaining 2.6 percent in 2024. Movements in the nominal and real effective exchange rate (NEER and REER) were more muted, however, with the ringgit appreciating by about 4 percent year-on-year in both nominal and real terms over January–November 2025. Both the REER and NEER are above their pre-pandemic (end-2019) level, with the REER 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 4.3 percent in 2025. The REER index and level models estimate Malaysia's REER to be undervalued by 25.0 percent and 27.5 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 3.3–5.3 percent, with a midpoint estimate of 4.3 percent.						
Capital and Financial Accounts: Flows and Policy Measures	Background. Malaysia has experienced periods of significant capital flow volatility, largely driven by portfolio flows in and out of the local-currency debt and equity 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.						
FX Intervention and Reserves Level	Background. Gross international reserves increased to US\$125.5 billion at end-2025 from US\$116.2 billion at end-2024.						
	Assessment. Based on the IMF's composite reserve adequacy metric (ARA), reserves at end-2025 are projected to be about 107 percent of the ARA metric, unchanged from end-2024 and above the adequacy threshold of 100 percent. This reflects increases in export revenues, broad money, and short-term external debt commensurate with the increase in gross international reserves. The reserve coverage is projected to equal about 4.9 months of prospective imports, or about 69 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.						

¹ Prepared by Tristan Hennig (APD). The assessment is preliminary, pending a complete analysis in the 2026 External Sector Report.

Annex VI. Risk Assessment Matrix¹

Risks	Likelihood	Impact of Risk	Policy Response
External Conjunctural Risks			
Geopolitical Tensions. Intensification of conflicts, coupled with the weakening of multilateralism, may trigger commodity price volatility, increase migration pressures, reignite inflation, and weigh on growth by undermining confidence, investment, tourism, trade, and supply chains.	High	Medium: Supply chains would be disrupted, negatively impacting Malaysia's trade. 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. Targeted fiscal support to affected households, workers, and businesses can proceed within an overall consolidation of fiscal policy. Monetary policy should remain data dependent and focused on preserving price stability.
Escalating Trade Measures and Prolonged Uncertainty. Rising trade barriers and prolonged policy uncertainty could reduce trade, investment, and growth. Inflationary pressures may re-emerge—especially in countries imposing tariffs. These effects can be amplified by strategic complementarities or bottlenecks in global value chains or inventory overhang.	High	High: A general escalation of protectionist trade measures together with prolonged trade policy uncertainty 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.
Commodity price volatility. Shifts in supply and demand—driven by geopolitical tensions and conflicts, OPEC+ actions, or the green transition—may fuel commodity price swings, intensifying external and fiscal pressures, social unrest, and macroeconomic 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 and would put pressure on fiscal spending on subsidies.	Government should continue to strengthen 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.
Financial Market Volatility and Correction. Stretched asset valuations, easy financial conditions, and subdued	High	Medium: A sudden tightening of global financial conditions and	The exchange rate should act as a first line of defense and a shock absorber. Pursue fiscal

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 IMF staff. The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline. "Low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability of 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
volatility in key markets could be significantly affected by a sudden and disruptive shift in investor sentiment or policy stance, triggering market corrections, exchange rate turbulence, spikes in sovereign bond yields, and capital flow volatility. Elevated leverage among Non-Bank Financial Intermediaries further amplifies these risks, as forced deleveraging during periods of stress could exacerbate asset price swings and propagate shocks. Rapid growth of unregulated crypto markets could add to these vulnerabilities by increasing the risk of redemption runs and market dislocations.		rise in risk premia could result in capital outflows and a depreciation of the ringgit. Financial market volatility and a sharp correction in asset valuations, particularly of AI-related companies, could negatively affect investment and demand for E&E exports.	consolidation while strengthening targeted fiscal support to affected households, workers, and businesses. Monetary policy should remain data dependent and focused on preserving price stability. 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.
External Structural Risks			
Cyberthreats. Cyberattacks on physical or digital infrastructure, technical failures, or misuse of AI technologies could 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, conduct mandatory and regular IT stress testing, along with the strengthening of operational risk management standards.
Climate change. Extreme climate events and rising temperatures could cause loss of life, damage to infrastructure, food insecurity, supply disruptions, and heighten economic and financial instability.	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 Roadmap toward net-zero emissions by 2050.
Domestic Risks			
Growth Acceleration: A permanent increase in productivity, for instance due to faster-than-envisaged adoption of AI, entailing a continued positive output gap, a tighter labor market, faster-than-envisaged implementation of large public	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 to guard against inflation risks materializing.

Risks	Likelihood	Impact of Risk	Policy Response
and private investment projects, and acceleration in credit growth.			
Fiscal risks. Delays in fiscal consolidation or the 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.
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.
Rising Social Discontent. High living costs may fuel social discontent, hinder necessary reforms, and weaken capacity to address domestic and external shocks.	Medium:	Medium: In Malaysia, potential intensification of cost-of-living concerns may increase challenges to the authorities' commitment to fiscal consolidation.	Accelerate the implementation of structural reforms to ensure growth is inclusive.

Annex VII. Sovereign Risk and Debt Sustainability Analysis

Malaysia remains at a moderate overall risk of sovereign stress. Under the baseline, federal government debt decreases to 61 percent of GDP by 2030, helped by Malaysia's strong projected growth and ongoing fiscal consolidation. Medium-term risks are moderate based on the debt fanchart and gross financing needs modules, together with the contingent liability shock scenario pointing to the risk of large spikes in gross financing needs and debt. Long-term fiscal risks include large amortizations, 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., reintroduction of the GST 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 more 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 GDP growth reached 5.1 percent in 2024 and is projected to have moderated to 4.9 percent in 2025. The fiscal deficit is projected to have decreased to 3.8 percent in 2025, meeting the 2025 Budget deficit target. Under the baseline, the deficit is projected to fall to 3.5 percent of GDP in 2026 and to 3.0 percent of GDP by 2028.
- 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. 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.
- 4. Risks and mitigating factors.** Malaysia's public debt to GDP ratio remains above pre-pandemic levels, and debt servicing costs have increased and remain above the 15 percent threshold of the ratio of interest expense to total revenues under the authorities' administrative rule in 2024 and 2025. Other existing vulnerabilities include large contingent liabilities, which could exacerbate risks. At end-June 2025, financial guarantees stood at 21.1 percent of GDP, down from

21.6 percent of GDP at end-2024.¹ These factors reduce Malaysia's fiscal space and leave the economy exposed to potential future shocks. Offshore borrowing by public corporations is estimated at 6.7 percent of GDP.²

5. Long-term debt risks are moderate. They are related to anticipated increases in pension costs, large amortization needs, and to climate mitigation given Malaysia's climate goals and exposure risks.

6. However, there are a number of mitigating factors. 98 percent of central government debt is denominated in local currency. In addition, Malaysia has a relatively high share of long maturity debt, a liquid domestic debt market, and large domestic institutional investors are present. With respect to fiscal frameworks, the Public Finance and Fiscal Responsibility Act of 2023 (FRA) includes provisions meant to increase transparency and mitigate risk from contingent liabilities, namely by imposing a 25 percent of GDP limit on financial guarantees. The FRA also requires the creation of a framework to guide future guarantee decisions and calls for detailed information on financial guarantees to be included in the annual fiscal risk report. Finally, the July 2024 amendment of the Audit Act and new audit tools (e.g., e-SelfAudit)—with expanded auditor general oversight to GLCs and GLICs—and the August 2025 Government Procurement Bill can strengthen competition, transparency, and spending efficiency.

¹ 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 2025, GG amounted to 16.7 percent of GDP, down from 17.2 percent at end-2024. 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; these amounted to 4.4 percent of GDP at end-June 2025, in line with end-2024 levels.

² As of end-June 2025.

Annex VII. Figure 1. Malaysia: Risk of Sovereign Stress

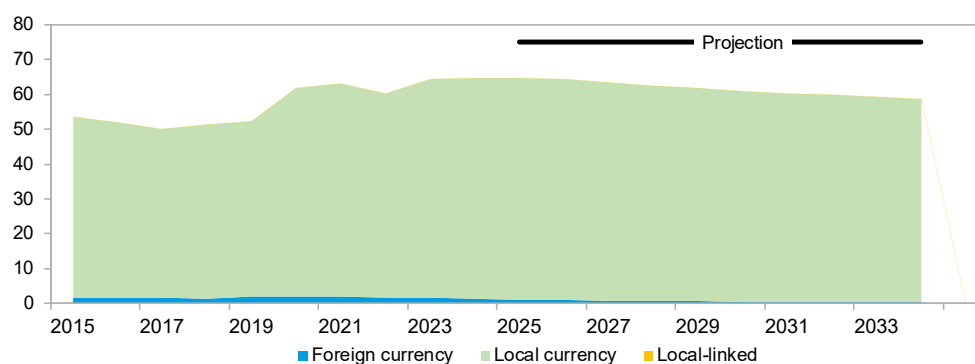
Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Moderate	The overall risk of sovereign stress is moderate, reflecting moderate levels of vulnerability in the medium-, and long-term horizons.
Near term 1/			
Medium term	Low	Moderate	Medium-term risks are assessed as moderate on the basis of authorities' medium-term consolidation plans, although additional high-quality revenue and expenditure reforms are needed to bring down debt to the authorities' medium-term fiscal target of 60 percent of GDP 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 adaptation and mitigation appear moderate.
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	
Debt stabilization in the baseline			Yes
DSA summary assessment			
Commentary: Malaysia remains at a moderate overall risk of sovereign stress. Under current policies, debt is projected to gradually decrease over the medium and long term, helped by Malaysia's strong projected growth and ongoing fiscal consolidation. Medium-term risks are moderate based on the debt fanchart and gross financing needs modules, together with the contingent liability shock scenario pointing to the risk of large spikes in gross financing needs and debt should such liabilities materialize. Long-term risks include large amortizations, 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., reintroduction of the GST 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 more rapid 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.			

Annex VII. Figure 2. Malaysia: Debt Coverage and Disclosures

Annex VII. Figure 2. Malaysia: Debt Coverage and Disclosures										Comments									
1. Debt coverage in the DSA: 1/										CG	GG	NFPS	CPS	Other	Not applicable				
1a. If central government, are non-central government entities insignificant?										0									
2. Subsectors included in the chosen coverage in (1) above:																			
Subsectors captured in the baseline										Inclusion									
CPS	NFPS	GG: expected	CG	1	Budgetary central government	Yes													
				2	Extra budgetary funds (EBFs)	No													
				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/					
4. Accounting principles:										Basis of recording		Valuation of debt stock							
										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																			
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.																			

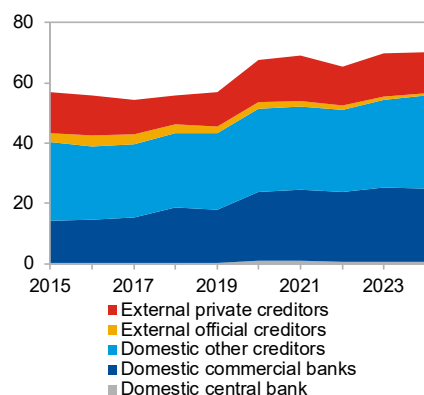
Annex VII. Figure 3. Malaysia: Public Debt Structure Indicators

Debt by Currency (percent of GDP)



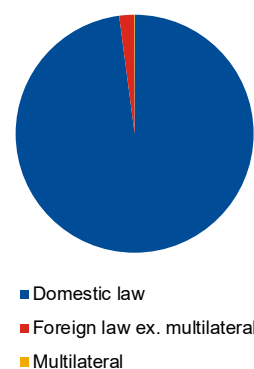
Note: The perimeter shown is central government.

Public Debt by Holder (percent of GDP)



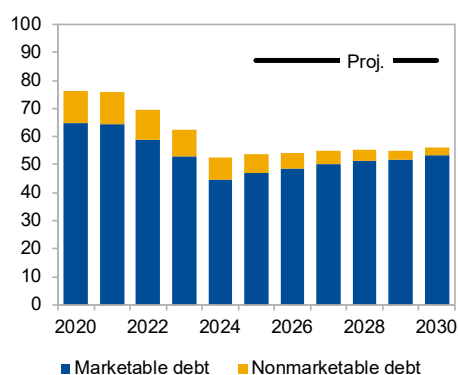
Note: The perimeter shown is central government.

Public Debt by Governing Law, 2024 (percent)



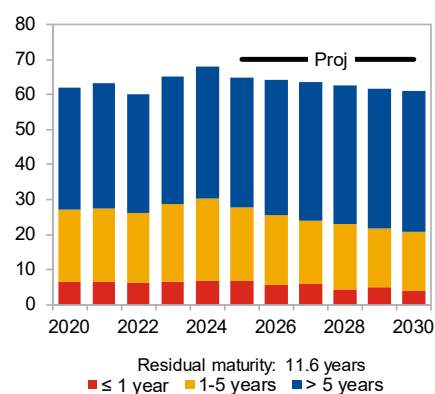
Note: The perimeter shown is central government.

Debt by Instruments (percent of GDP)



Note: The perimeter shown is central government.

Public Debt by Maturity (percent of GDP)



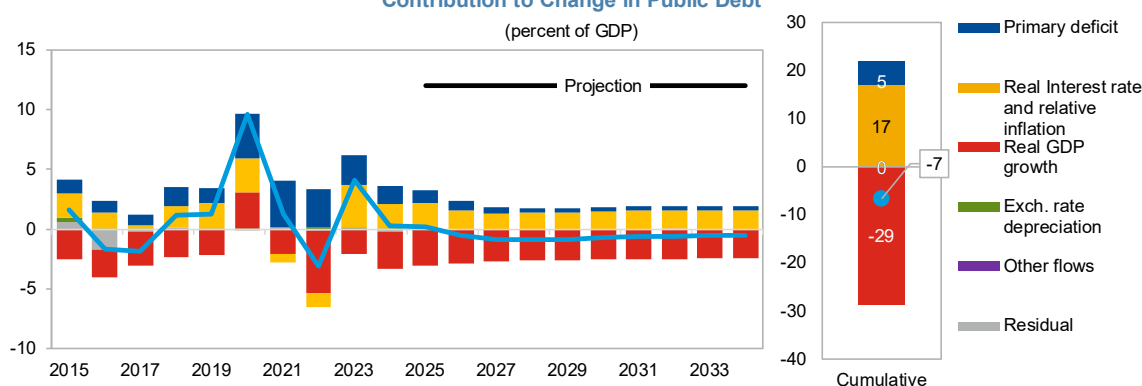
Note: The perimeter shown is central government.

Commentary: Domestic creditors held about 77 percent of public debt in 2024. 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.

Annex VII. Figure 4. Malaysia: Baseline Scenario

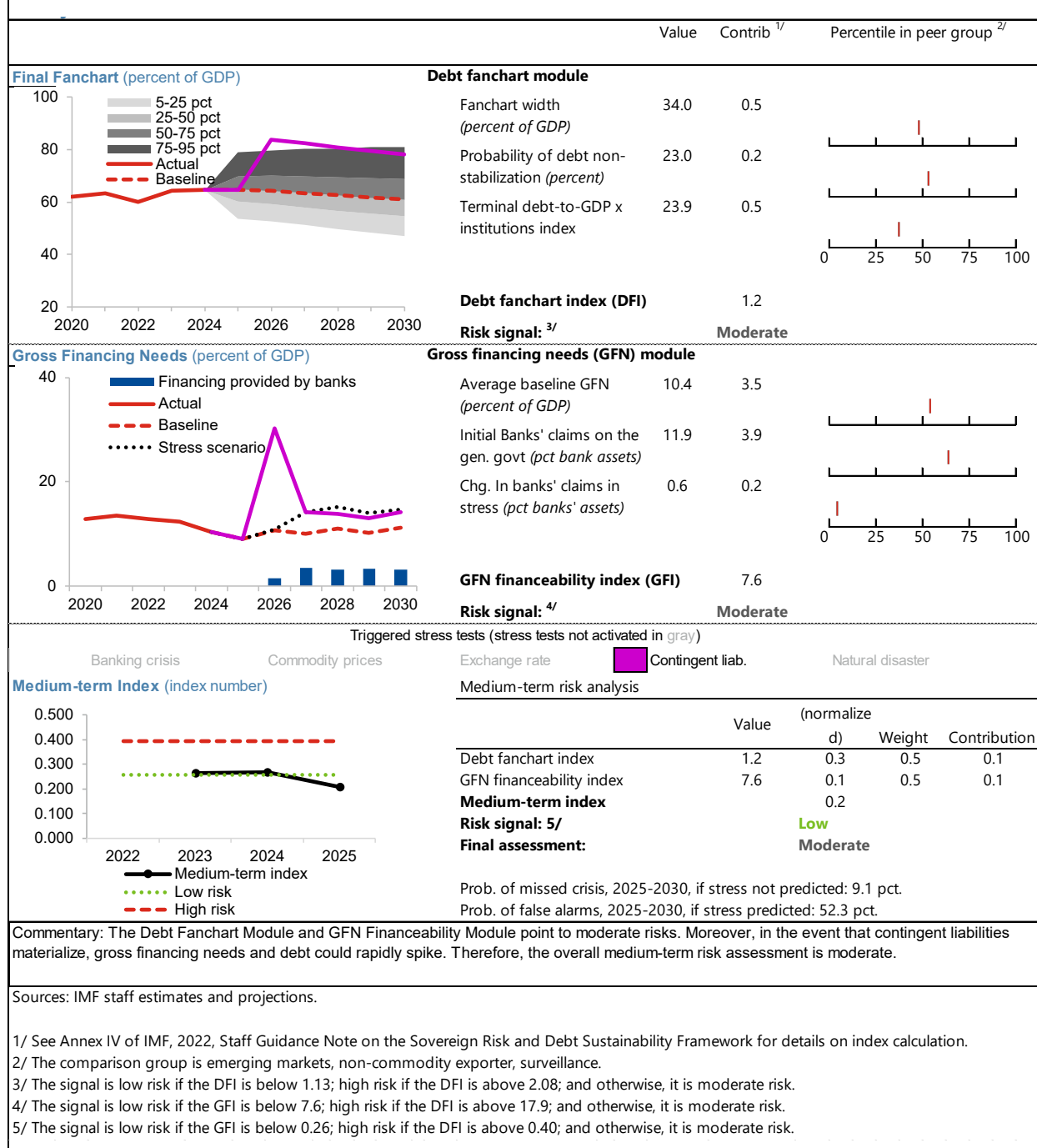
(Percent of GDP, unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public debt	64.6	64.8	64.3	63.5	62.6	61.7	61.0	60.4	59.8	59.3	58.8
Change in public debt	0.3	0.2	-0.5	-0.8	-0.9	-0.9	-0.7	-0.6	-0.6	-0.5	-0.5
Contribution of identified flows	0.5	0.2	-0.5	-0.8	-0.9	-0.9	-0.7	-0.6	-0.6	-0.5	-0.5
Primary deficit	1.5	1.1	0.8	0.5	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Noninterest revenues	16.8	16.4	15.9	15.7	15.7	15.6	15.5	15.5	15.4	15.3	15.2
Noninterest expenditures	18.3	17.4	16.7	16.3	16.0	15.9	15.9	15.8	15.7	15.6	15.6
Automatic debt dynamics	-1.0	-0.9	-1.3	-1.4	-1.2	-1.2	-1.1	-0.9	-1.0	-0.9	-0.8
Real interest rate and relative inflation	2.1	2.2	1.5	1.3	1.4	1.4	1.5	1.6	1.5	1.6	1.6
Real interest rate	2.1	2.2	1.5	1.3	1.4	1.4	1.5	1.6	1.5	1.6	1.6
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-3.1	-3.0	-2.8	-2.7	-2.6	-2.6	-2.5	-2.5	-2.5	-2.5	-2.4
Real exchange rate	0.0	...	...	...	...	...	...	...	...	...	...
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	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	10.3	9.0	10.7	10.1	11.1	10.1	11.2	11.1	10.6	11.4	11.0
of which: debt service	8.9	8.0	9.9	9.5	10.7	9.8	10.9	10.7	10.3	11.0	10.7
Local currency	8.8	7.7	9.8	9.5	10.7	9.6	10.9	10.7	10.3	11.0	10.7
Foreign currency	0.1	0.3	0.1	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Memo:											
Real GDP growth (percent)	5.1	4.9	4.6	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3
Inflation (GDP deflator; percent)	0.8	0.8	1.9	2.3	2.2	2.1	2.0	2.0	1.9	1.9	1.9
Nominal GDP growth (percent)	5.9	5.7	6.6	6.7	6.6	6.5	6.4	6.4	6.3	6.3	6.3
Effective interest rate (percent)	4.3	4.4	4.4	4.4	4.6	4.5	4.6	4.8	4.6	4.8	4.8

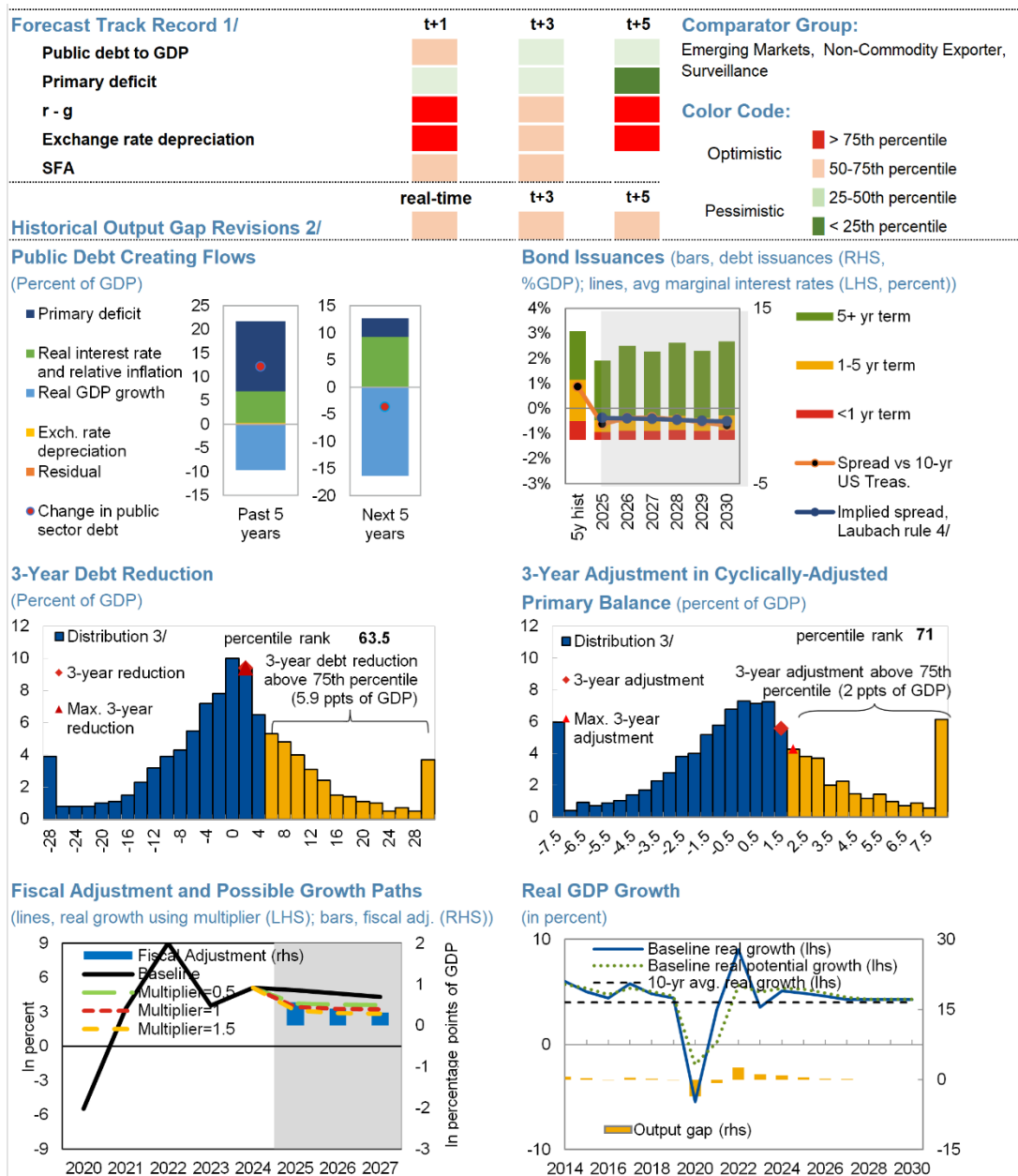
Contribution to Change in Public Debt
(percent of GDP)

Commentary: Public debt ticks down gradually over the forecast horizon, with strong growth offsetting higher interest payments.

Annex VII. Figure 5. Malaysia: Medium-Term Risk Assessment



Annex VII. Figure 6. Malaysia: Realism of Baseline Assumptions



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. 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 observations 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.

Annex VII. Figure 7. Malaysia: Long Term Risk Assessments

Large amortizations

Pensions

Climate change: Adaptation

Natural Resources

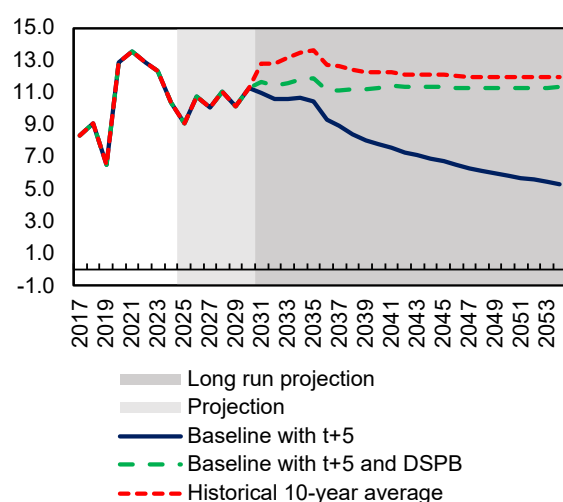
Health

Climate change: Mitigation

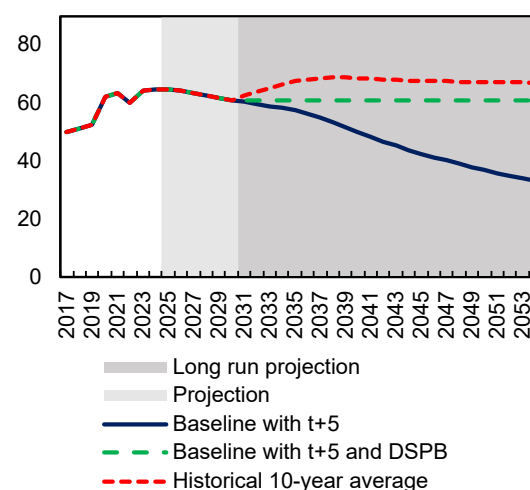
Malaysia: Long-term Risk Assessment: Large Amortization

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		

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 under the alternative scenarios outside the perimeter of the projection period, but the overall risk is moderate given that, after the medium-term ramp up in GFN, GFN-to-GDP, debt to GDP, and amortization to GDP decline under the baseline over the long term.

Annex VII. Figure 8. Malaysia: Demographics: Pensions

Permanent adjustment needed in the pension system to keep pension assets positive for:

30 years

50 years

Until 2100

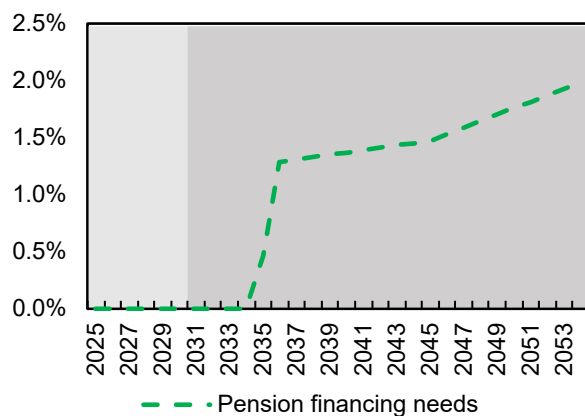
(pp of GDP per year)

1.0%

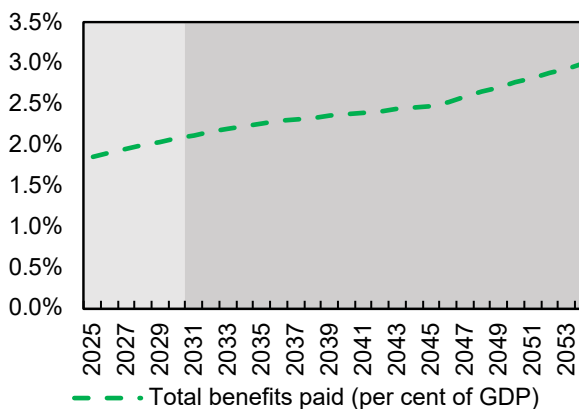
1.4%

1.7%

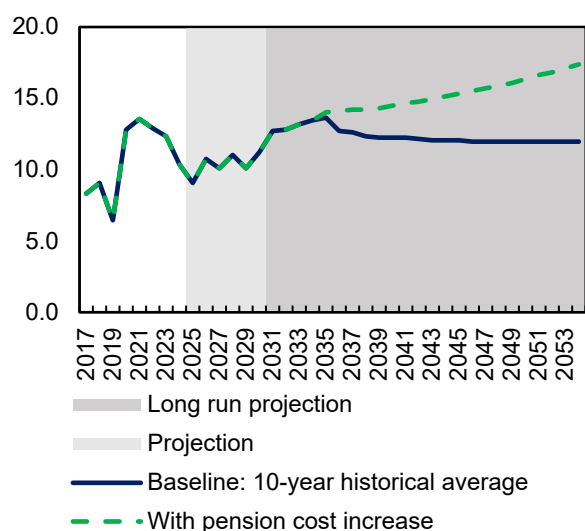
Pension Financing Needs



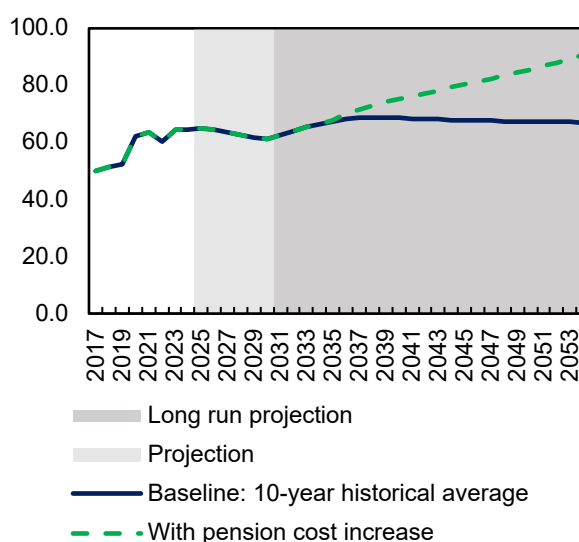
Total Benefits Paid



GFN-to-GDP Ratio



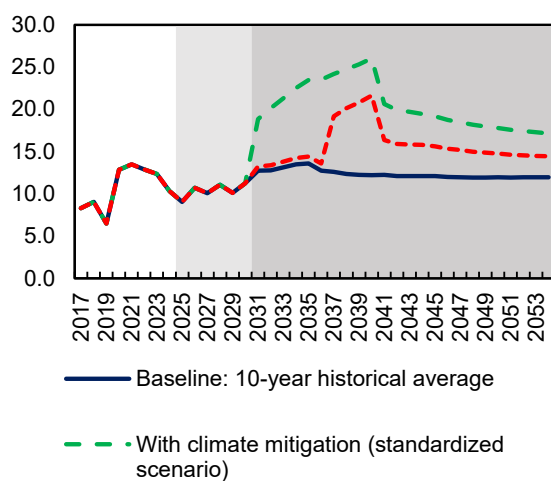
Total Public Debt-to-GDP Ratio



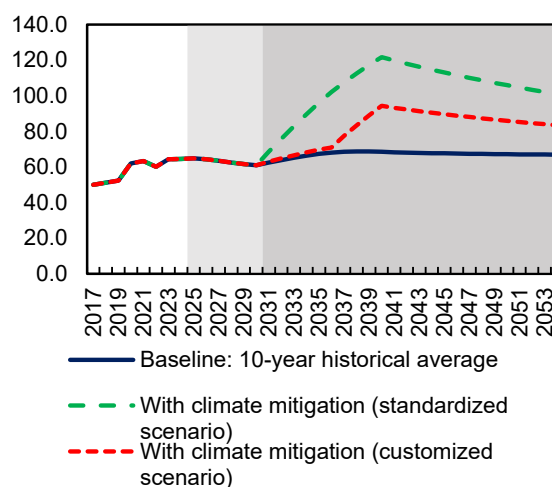
Given Malaysia's aging population, financing needs from civil pension underfinancing are expected to rise in the long term, starting from 2035 when civil pension assets may be depleted, with debt increasing to cover pension financing needs.

Annex VII. Figure 9. Malaysia: 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 VIII. Data Issues

Annex VIII. Figure 1. Malaysia: 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 <i>IMF Review of the Framework for Data Adequacy Assessment for Surveillance</i>, 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 (GFS), there is scope to expand coverage to statutory bodies and nonfinancial public enterprises (NFPEs). Relatedly, there is also scope to improve government debt statistics by examining the classification of guaranteed liabilities of statutory bodies and nonfinancial public enterprises (NFPEs). On External Sector Statistics (ESS), while the authorities have improved the reporting of detailed items for balance of payments and International Investment Position (IIP), further narrowing of net errors and omissions, as their size (0.7 percent of GDP in 2022, 1.8 percent of GDP in 2023, and 0.4 percent of GDP in 2024) may impact the holistic assessment of trade and financial flows. On Monetary and Financial Statistics (MFS), given the growing importance of non-bank financial institutions (NBFIs), there is scope for improving coverage for NBFIs, beyond insurance corporations. There is also scope for improving the granularity of the Financial Soundness Indicators (FSIs) by reporting all four liquidity core indicators per the FSI Guide, beyond the currently reported liquidity coverage ratio and net stable funding ratio. Changes since the last Article IV consultation. BNM began submitting the MFS data for insurance corporations in August 2025.							
Corrective actions and capacity development priorities. CD support is ongoing for improving the coverage of GFS and government debt statistics. 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. Further efforts are underway to improve the coverage of MFS and FSI. BNM began submitting the MFS data for insurance corporations and are engaging with other NBFIs.							
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.							

Annex VIII. Figure 2. Malaysia: 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/>).

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

As of January 16, 2026								
	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	23-Jan-26	1/29/2025	D	D	D	...	...	1
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	Dec-25	12/31/2025	M	M	M	30	1W	30
Reserve/Base Money	Dec-25	11/28/2025	M	M	M	30	2W	14
Broad Money	Nov-25	11/28/2025	M	M	M	30	1M	30
Central Bank Balance Sheet	Nov-25	11/28/2025	M	M	M	30	2W	14
Consolidated Balance Sheet of the Banking System	Nov-25	11/28/2025	M	M	M	30	1M	30
Interest Rates ²	Dec-25	11/28/2025	M	M	D	...	...	1
Consumer Price Index	Dec-25	1/22/2025	M	M	M	30	1M	30
Revenue, Expenditure, Balance and Composition of Financing ³ —General Government ⁴	2025 est	12/12/2025	A	A	A	365	2Q	270
Revenue, Expenditure, Balance and Composition of Financing ³ —Central Government	2025: Q3	11/28/2025	Q	Q	M	30	1M	14
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	2025: Q3	11/28/2025	Q	Q	Q	90	1Q	90
External Current Account Balance	2025: Q3	11/15/2024	Q	Q	Q	90	1Q	70
Exports and Imports of Goods and Services	2025: Q3	11/15/2024	Q	Q	M	30	8W	42
GDP/GNP	2025: Q3	9/28/2025	Q	Q	Q	90	1Q	49
Gross External Debt	2025: Q3	9/28/2025	Q	Q	Q	90	1Q	90
International Investment Position	2025: Q3	9/28/2025	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 "...".								



MALAYSIA

STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION— INFORMATIONAL ANNEX

February 4, 2026

Prepared By

Asia and Pacific Department

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FUND RELATIONS	2
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FUND RELATIONS

(As of December 31, 2025)

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)	2,693.79	74.13
Reserve tranche position	940.04	25.87
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	4,359.13	90.27

Exchange Arrangement:

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

Malaysia maintains bilateral payments arrangements with 3 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 2026 Article IV consultation took place during December 8–19, 2025.

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 in July 2023 further discussed options for developing an MTRS and also covered tax expenditures assessment and reporting. A mission on developing a medium-term expenditure framework took place in November 2025. A joint FAD-LEG workshop on fiscal risks from state-owned enterprises took place in November 2025.

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, with a follow-up mission in September 2025.

Monetary and Capital Markets Department (MCM): Capacity development (CD) 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. CD on Monetary Policy Modelling in the context of the operationalization of Integrated Policy Framework (IPF tools) has been ongoing since December 2021. A CD mission on the review of BNM's stress testing framework

took place in September 2025. A workshop on public debt management and bond market development took place in October 2025.

Statistics Department (STA): CD assistance on Government Financial Statistics (GFS) and Public Sector Debt Statistics (PSDS) have been conducted since 2017, and the latest CD mission took place in November 2025.

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

Malaysia became a full member of the FATF in 2016 following the 2015 comprehensive assessment (Mutual Evaluation Report) of its AML/CFT framework by the Asia Pacific Group on Money Laundering (APG), and based on its commitments to continue improving its AML/CFT regime. The country's most recent Mutual Evaluation Report by the FATF and APG, based on an updated methodology, was published in December 2025, following an on-site visit in February 2025. The assessment found that Malaysia has significantly strengthened its AML/CFT regime since 2015, in particular its legal framework and supervisory approaches. The assessment includes a roadmap of key recommended actions, including improving asset recovery efforts and converting money laundering investigations into prosecutions and convictions.

Resident Representative/Advisor: None.

**Statement by Mr. Idwan Suhardi Bin Hakim, Executive Director for Malaysia,
Mr. Kaweevudh Sumawong, Alternate Executive Director, and Mr. Wee Haw Sim,
Senior Advisor to Executive Director**

February 20, 2026

On behalf of the Malaysian authorities, we would like to express our appreciation to the mission team, led by Mr. Masahiro Nozaki, for the constructive 2026 Article IV consultation and the comprehensive staff report. Our authorities value the candid and productive engagements and policy discussions with the Fund. They are encouraged by staff's positive assessment of Malaysia's economic resilience, broadly agree with the overall thrust of staff's appraisal, and will carefully consider the policy recommendations.

Recent Economic Developments and Outlook

The Malaysian economy has demonstrated continued resilience amid a challenging external environment, marked by rising trade fragmentation and heightened geopolitical tensions. Economic performance in 2025 was solid and stronger-than-expected as real GDP grew by 5.2 percent, driven by strong domestic demand and the global technology upcycle. Private consumption was supported by favorable labor market conditions, with the unemployment rate declining to 2.9 percent, below the pre-pandemic level. Despite elevated uncertainty and tariff-related headwinds, investment remained robust, reflecting realization of FDI commitments in key industries such as electrical and electronics (E&E) and information and communication technology (ICT), including data centers, and sustained public infrastructure spending as well as ongoing implementation of multiyear projects. On the external front, trade remained robust. Export performance was supported by strong demand for E&E products, driven by the tech-cycle upturn and front-loading in response to tariff-related uncertainty. Imports grew by 6.2 percent, driven mainly by imports of capital goods. The surplus in goods trade declined further, but services trade turned around to record a surplus, supported by higher tourism receipts. While these led to the current account surplus recovering modestly to 1.6 percent in 2025, it has declined substantially over time, from 17.1 percent of GDP in 2008 to 1.4 percent in 2024. Fundamentally, this sharp fall reflects the decline in Malaysia's private savings-investment balance over the years. It also reflects Malaysia's transition towards a more domestically-driven economy, as evidenced by the increase in private consumption as a percentage of GDP in the last two decades.

Headline inflation eased significantly in 2025, averaging 1.4 percent, reflecting lower global commodity and food prices, contained domestic wage pressures, and the appreciation of the ringgit. Furthermore, the overall impact of the implemented domestic policy measures, including on petrol and utilities, was contained and did not translate to higher prices. Core inflation remained stable at 2.0 percent.

Looking ahead, the authorities expect the Malaysian economy to remain robust, supported

by strong domestic demand and well-calibrated domestic policies. Malaysia will continue to push for policy strategies to create high quality jobs and raise wages for the domestic workforce, gradually reduce blanket subsidies in favor of more targeted assistance, and drive higher value private investment activities. For 2026, growth is projected to be at the upper end of the official forecast range of 4.0-4.5 percent. Growth will be anchored by private consumption and robust investment in high impact strategic sectors. Services and manufacturing will remain key drivers of growth, complemented by sustained performance in construction and agriculture sectors. Robust tourism activities in conjunction with Visit Malaysia Year 2026 will provide further growth support. Relative to 2025, the modest growth reflects persistent global trade uncertainties and the full-year impact of higher tariffs. Overall risks to growth are assessed as broadly balanced. While downside risks to the outlook stem mainly from external factors, better global growth outlook and greater worldwide AI adoption present important upsides for Malaysia. Meanwhile, inflation is expected to remain well-contained within the range of 1.3-2.0 percent in 2026, with balanced risks.

Fiscal Policy

The authorities remain firmly committed to fiscal discipline, guided by the medium-term targets set out under the 2023 Public Finance and Fiscal Responsibility Act (FRA). The fiscal deficit has narrowed gradually and consistently since the pandemic – from 6.4 percent of GDP in 2021 to 4.1 percent in 2024 – reflecting the authorities’ commitment to prudent expenditure management and revenue mobilization efforts. The 13th Malaysia Plan (13MP) released in July 2025 has reaffirmed the medium-term deficit target of 3.0 percent of GDP and a reduction of public debt to 60 percent of GDP, as outlined in the FRA.

In the immediate term, the fiscal deficit has narrowed to 3.7 percent of GDP in 2025, outperforming the budgeted target. The authorities have also committed to further reducing the deficit gradually to 3.5 percent of GDP in 2026 and 3.0 percent of GDP by 2028. The projected consolidation path reflects a careful balance between sustaining fiscal consolidation and avoiding unduly withdrawal of fiscal support amid elevated economic uncertainty.

The projection reflects higher tax revenue as a result of the full impact from the expansion in the scope of the Sales Tax and Service Tax (SST) in July 2025 and improved tax compliance following the rollout of e-invoice¹. The e-invoice initiative has seen the number of registered income taxpayers rising by more than 10 percent since the introduction. While the authorities do not plan to reintroduce the GST for now given cost of living pressures and Government’s focused efforts to raise wages, they will continue to review the structure of personal income tax to ensure progressivity and a broader tax base.

¹ Malaysia’s e-invoicing system is being rolled out in phases. Implementation began in August 2024 for large companies with annual turnover over RM100 million and expanded in 2025 to cover mid-sized firms. By January 2026, the system will apply to most businesses, with only micro enterprises with turnover below RM 1 million exempted.

In September 2025, as part of a series of phased rationalization of blanket subsidies that included food items such as chicken and eggs, electricity, water, and diesel, the authorities advanced fuel subsidy rationalization through the introduction of BUDI95, a more targeted subsidy scheme for the RON95 petrol². The reform introduced an at-pump digital mechanism that now allows only Malaysian residents with a national ID to purchase RON95 petrol at the subsidized price. While the authorities acknowledge staff's call for a more ambitious re-targeting, they firmly consider the effective initial rollout of the BUDI95 scheme – with limited public pushbacks – as a step in the right direction. By transitioning from a universal subsidy to a targeted framework, the authorities had to carefully balance socio-economic concerns such as the lingering cost of living pressures, and taking the first step towards addressing a long-standing economic distortion. More importantly, while all citizens remain eligible for the subsidy on RON95, the reform introduced a digital system that not only curbs leakages and smuggling, but raises public awareness of the fiscal cost of the fuel subsidy³ and can be used for further phased targeting in the future.

Beyond these measures, **the authorities will continue with ongoing efforts to strengthen fiscal governance**, including the implementation of FRA reporting requirements. They share staff's views that the July 2024 amendment of the Audit Act and August 2025 Government Procurement Act (GPA) will strengthen fiscal transparency and spending efficiency. Efforts will also continue on the preparation of a medium-term expenditure framework, a tax expenditure statement, and a fiscal risk statement, as outlined in the FRA. The authorities would like to convey their appreciation to the Fund for the continued support through technical assistance.

Monetary and Financial Sector Policy

Bank Negara Malaysia (BNM) agrees with staff's assessment that the current monetary policy stance is appropriate. The Monetary Policy Committee will continue to be data-driven and remain vigilant to impact of evolving developments on the outlook for inflation and growth. BNM remains committed to exchange rate flexibility, and efforts to deepen the foreign exchange (FX) market will continue. BNM shares staff's views that opportunistic reserve accumulation during risk-on episodes will help to strengthen resilience amid ongoing global uncertainty. This ongoing effort is reflected in the recent increase in the gross international reserves and the narrowing of the gap between gross and net international reserves. Between January and December 2025, the gap declined by about USD 6.5 billion, driven by the unwinding of short FX swap positions from USD 29.2 billion to USD 21.2 billion.

The authorities concur with staff's assessment that systemic risks within Malaysia's financial

² Non-citizens can no longer purchase the RON95 at the subsidized price and must pay market prices, while foreign-registered vehicles can only purchase the higher-priced RON97 fuel. This re-targeting aims to reduce subsidy leakage to foreigners and non-eligible groups.

³ The system dispenses payment receipts that clearly state the market and subsidized price and the amount of subsidy provided by the Government.

sector remain contained. Financial conditions have been supportive of economic activities, with no signs of overall credit excesses. Banks continue to maintain robust capital and liquidity buffers well above regulatory minimums. BNM's solvency and liquidity stress tests show that banks remain resilient to severe macroeconomic and financial shocks, including scenarios based on the Asian Financial Crisis and COVID-19. While banks' loan exposure to tariff-affected manufacturing firms and banks' external funding risks remain limited, BNM will continue to closely monitor the risks given ongoing global uncertainty.

BNM assesses household indebtedness risk as manageable, but remains vigilant. Despite the relatively high household debt-to-GDP ratio, balance sheets remain sound with a financial asset to liability ratio at around 2.1 times. In addition, the current debt-service ratio (DSR) of around 33 percent, down from 36 percent in 2019, suggests debt-servicing risks are contained. The authorities have also recently finalized the Consumer Credit Bill to further strengthen oversight by bringing previously unregulated non-bank lenders, including buy-now-pay-later (BNPL) providers, under supervision. With financial sector risks from property markets well contained, the authorities assess that the current macroprudential measures remain adequate. Any additional pre-emptive macroprudential tools will continue to be based on assessments of economic and financial developments and the potential risks to financial stability.

Malaysia has also made significant progress in strengthening its anti-money laundering and counter-terrorist financing (AML/CFT) framework. FATF recently upgraded Malaysia's AML/CFT compliance to Regular Follow-Up status, and this reflects increased international confidence in the country's ability to prevent and combat financial crime, underpinned by sustained legal and institutional reforms as well as stronger coordination between public authorities and the private sector.

Structural Reform

The authorities remain firmly committed to advancing structural reforms to raise Malaysia's medium-term growth potential, anchored in the new 13MP (2026-2030). The 13MP outlines strategies, initiatives, and reforms to strengthen Malaysia's competitiveness, social equity and environmental sustainability, aligned with the MADANI Economy framework⁴ for sustainable and inclusive growth. The plan is structured around three broad objectives – raising the ceiling (advancing economic complexity), strengthening good governance (public service reform), and raising the floor (enhancing social mobility and improving residents' well-being) – while addressing four megatrends: geopolitical shifts, technological change, demographic transitions, and climate challenges. The 13MP is expected to strengthen economic resilience through securing quality investment in high value, high growth and strategic sectors; accelerating technology and

⁴ Launched by Prime Minister Anwar Ibrahim in July 2023, the MADANI Economy framework aims to restructure Malaysia into a leading Asian economy while ensuring equitable wealth distribution. It focuses on enhancing competitiveness, sustainability, and quality of life over a 10-year period.

AI adoption; education, healthcare, and housing reform; up- and re-skilling of the workforce; as well as embracing sustainable practices.

The authorities acknowledge the three challenges highlighted by staff – skills-related underemployment, relatively low wages, and female labor force participation – all of which will be addressed under the 13MP. The plan aims to reduce skill-related underemployment from 36.1 percent in 2024 to 30 percent by 2030, supported not only by supply-side strategies but also by demand-side initiatives to foster more complex industries and higher value chain activities. Regular minimum wage reviews and the planned roll-out of the Progressive Wage Policy will also support wage growth. Female labor force participation is expected to increase through expanded childcare provision and enhanced incentives for employers. The expansion of the Academy in Industry (ADi) program⁵ to senior citizens, women, and persons with disabilities will further support efforts on inclusive workforce participation. Emphasis will also be placed on strengthening Malaysia's economic integration through participation in and commitment to Free Trade Agreements (FTAs).

Ultimately, **the authorities see the 13MP as laying a solid foundation for Malaysia's aspirational transition to high-income status by 2030.** It sets a target for per capita income to reach the required level by 2030, in line with the timeline outlined in a joint report by the World Bank and the Ministry of Economy, which anticipates Malaysia achieving high-income nation status between 2028 and 2030.

Governance reform remains another key priority, with notable progress on legal reforms to update existing laws and pass new laws to promote good governance. These include the recent enactment of the Government Procurement Act (GPA) and the Government Service Efficiency Commitment Act 2025 (ILTIZAM). The GPA institutionalizes transparency and accountability in public procurement and serves as a safeguard against leakages, cost-overruns, and misuse of public funds, while helping to reduce inefficiencies in government spending. The ILTIZAM Act provides a framework to improve regulatory processes, raise public service standards and enhance performance accountability.

Conclusion

Malaysia's economy continues to be resilient, reflecting sound economic policies, the steadfast commitment in maintaining robust macroeconomic fundamentals and in advancing structural reforms to promote a sustainable and inclusive economy. The authorities appreciate the constructive ongoing engagements, policy dialogues and technical assistance, and look forward to continuing and deepening this collaborative partnership with the IMF.

⁵ The Academy in Industry (ADi) program, under the Ministry of Human Resources, is a work-based training initiative providing up to RM2,500 in incentives, full sponsorship, and industry-recognized certifications for apprentices, with 86.3 percent of graduates securing employment. It combines 70-80 percent on-the-job training with 20-30 percent theory.