

IMF Staff Completes 2018 Article IV Visit to Malaysia
International Monetary Fund
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End-of-Mission press releases include statements of IMF staff teams that convey preliminary findings after a visit to a country. The views expressed in this statement are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board. Based on the preliminary findings of this mission, staff will prepare a report that, subject to management approval, will be presented to the IMF's Executive Board for discussion and decision.

- Real GDP growth has surprised on the upside and is projected at 5.5–6.0 percent for 2017, driven by domestic demand and robust exports, while inflation has increased on the back of higher oil prices and is projected at close to 4 percent.
- Fiscal policy should follow a gradual consolidation path prioritizing adjustment through higher revenues, making room for increased pro-growth social spending. The current accommodative monetary policy stance is appropriate, including the forward bias towards reduced accommodation.
- The authorities' comprehensive structural reform agenda, laid out in the 11th Malaysia plan, focuses on supporting higher productivity and improving labor market outcomes, which would help boost medium-term growth and improve living standards. Priority should be given to policies to encourage female labor market participation and reduce skill mismatches.

An International Monetary Fund (IMF) team, led by Nada Choueiri, visited Kuala Lumpur and Putrajaya from November 28-December 8 2017, to conduct discussions for the 2018 Article IV Consultation with Malaysia. The team exchanged views with senior officials of the Government of Malaysia and Bank Negara Malaysia (BNM), and met with representatives from the private sector and think tanks.

At the conclusion of the visit, Ms. Choueiri issued the following statement:

“The Malaysian economy has shown resilience in recent years and continues to perform well. Real GDP growth has surprised on the upside, growing at 5.9 percent year-over-year in the first three quarters of 2017. For the year as a whole, growth is projected at 5.5 – 6.0 percent, still driven by domestic demand and robust exports. However, core inflation and credit growth are contained. Headline consumer price inflation has gone up on higher oil prices, and is projected at close to 4 percent for 2017. On the external side, the current account balance surplus has increased, helped by strong exports.

“Real GDP growth is projected at 5.0–5.5 percent in 2018. While the cyclical upturn will begin to normalize, momentum in activity is expected to remain strong in the first half of the year, supported by domestic demand and continued strength in global trade. Headline inflation is expected to decline to the 3.0–3.5 percent range on lower impact from global oil prices.

“Risks to the near-term outlook are balanced. Strong global demand for electronics, which has benefited Malaysia’s exports, could last longer than anticipated, while downside risks include policy uncertainty in advanced economies and tighter global financial conditions. Going forward, striking the right balance in policies will be key.

“The government’s planned pace of fiscal consolidation for 2017–18 is appropriate, and will help build buffers and maintain financial market confidence. In the medium term, fiscal policy should follow a gradual consolidation path, and the composition of adjustment could be improved to make it more revenue based and to make room for the structural reforms and increased social spending for inclusive growth. Medium term fiscal targets should be better communicated.

“The current accommodative monetary policy stance with a bias towards reduced accommodation is appropriate, given above-potential growth but still stable core inflation. The authorities should stand ready to raise the policy rate should leading indicators suggest the emergence of overheating pressures. Continued reliance on exchange rate flexibility and macroeconomic policy adjustments should be the first line of defense against capital flow shocks.

“The authorities’ emphasis on consultation with market participants in developing onshore financial markets is welcome. Continuous communication on initiatives to deepen these markets over time would help further build confidence.

“The financial sector is resilient. Bank profitability and liquidity are sound, and corporate access to credit remains healthy. While housing price growth has moderated, pockets of risks exist in exposures to household mortgages and the property development sector. However, their impact on macro-financial stability appears contained.

“The authorities’ comprehensive structural reform agenda, laid out in the 11th Malaysia plan, focuses on supporting higher productivity and improving labor market outcomes, which would help boost medium-term growth and improve living standards. Priority should be given to policies to: encourage female labor force participation; improve the quality of education and skills; improve vocational and technical training to reduce labor market skill mismatches; encourage R&D; and update public infrastructure.

“The team would like to thank the officials of the Government of Malaysia and Bank Negara Malaysia, as well as representatives from think tanks and the private sector for the useful discussions. We would also like to thank the authorities for their generous

hospitality during our stay. We look forward to maintaining a close and productive relationship with Malaysia. The mission will prepare a staff report and present it to the Executive Board of the IMF, currently expected in February 2018.”

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