Malaysia: Table of Common Indicators Required for Surveillance

(As of June 11, 2009)

	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange rates	06/11/09	06/11/2009	D	D	D
International reserve assets and reserve liabilities of the monetary authorities[1]	05/09	06/09	Bi-W	Bi-W	Bi-W
Reserve/base money	05/09	06/09	Bi-W	Bi-W	Bi-W
Broad money	04/09	06/09	M	M	M
Central bank balance sheet	05/09	06/09	Bi-W	Bi-W	Bi-W
Consolidated balance sheet of the banking system	04/09	06/09	M	M	M
Interest rates[2]	06/11/09	06/11/09	D	D	M
Consumer price index	04/09	05/09	M	M	M
Revenue, expenditure, balance and composition of financing[3]—general government[4]	2007	09/08	A	A	A
Revenue, expenditure, balance and composition of financing[3]—federal government	03/09	06/09	Q	Q	Q
Stocks of central government and central government-guaranteed debt[5]	03/09	05/09	Q	Q	Q
External current account balance	12/08	03/09	Q	Q	Q
Exports and imports of goods and services	04/09	06/09	M	M	M
GDP/GNP	03/09	05/09	Q	Q	Q
Gross external debt	12/08	03/09	Q	Q	Q

[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 is only available on an annual basis.
[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] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A).

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IMF Executive Board Concludes 2009 Article IV Consultation with Malaysia

On July 16, 2009, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Malaysia.[1]

Background

Malaysia has been hit hard by the global downturn. The economy is set to contract for the first time in ten years. GDP growth and inflation have slowed sharply since mid-2008. However, the reduction in employment has been relatively small so far, and as a result, consumer confidence has generally held up.

Malaysia's financial sector has faced the crisis from a position of strength and so far has coped well. Nevertheless, global turbulence has spilled into the domestic financial markets. Equity prices fell sharply in late 2008 and early 2009, but rebounded more recently, reflecting renewed optimism about near-term prospects and an upturn in commodity prices. Credit growth has decelerated, but remained at a reasonable 10½ percent y/y in April 2009, well above nominal GDP growth.

Despite capital reversals and the unwinding of the commodity boom, Malaysia's external position remains strong. The current account surplus reached 17 percent of GDP in 2008, as the collapse of exports in late 2008 was accompanied by an equally strong import compression. The ringgit has appreciated slightly vis-à-vis the U.S. dollar since April, after experiencing depreciation pressures last fall and early this year as capital outflows intensified.

[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. 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.

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Budget consolidation was reversed in 2008. The central government deficit rose to almost 5 percent of GDP and is set to reach nearly 8 percent of GDP in 2009. Two stimulus packages have been announced in late 2008 and early 2009, totaling about 10 percent of GDP, to be implemented over two years. The packages include an array of expenditure and revenue measures, as well as loan guarantees.

Monetary policy has been loosened decisively. Bank Negara Malaysia has slashed its policy rate by 150 basis points to 2 percent, and reserve requirements have also been cut to reduce the cost of financial intermediation. On the whole, dollar liquidity has remained adequate, and the monetary transmission mechanism has not been undermined by the global market turbulence.

External developments will probably shape Malaysia's recovery path. The export-led recession is expected to last through end-2009, with quarterly growth returning in early 2010. Risks to growth relate to the duration of the global recession, the evolution of commodity prices, and adverse macro-financial interactions.

Executive Board Assessment

Executive Directors commended the Malaysian authorities for sound macroeconomic management in difficult circumstances, and observed that Malaysia is well positioned to weather the severe impact of the global downturn. A strong external position, robust balance sheets of household and corporate sectors, and sound financial system should lessen the blow from adverse external shocks.

Directors agreed that the countercyclical fiscal response has been appropriately large, and should mitigate the impact of output contraction on households and businesses. They saw some limited room for additional stimulus if the downturn proves longer or deeper than expected. At the same time, noting the high prospective budget deficits and a rising debt to GDP ratio, they strongly encouraged the authorities to cast any future fiscal decisions in a medium-term framework. Directors highlighted that the necessary steps to reduce medium term fiscal risks include broadening the non oil tax base, moving ahead with subsidy reform, and putting fiscal policy on a credible consolidation path.

Directors considered monetary policy settings to be broadly appropriate. They suggested that monetary policy should continue to provide the first line of defense against any deterioration of growth prospects, especially in light of the limited fiscal space. Nevertheless, directors felt that, unless the outlook for growth or inflation deteriorates significantly, monetary policy should stay the course until a recovery is firmly underway.

Directors emphasized that, although the financial sector appears sound and benefited from the growth of Islamic finance, volatile global markets put a premium on crisis preparedness and proactive supervision. Directors welcomed the authorities' focus on further preventive steps, including upgrading the stress-testing framework; ensuring effective risk management; and strengthening supervisory cooperation and oversight of institutions with cross border activities. Directors underscored that a key medium-term challenge will be strengthening domestic demand as a source of growth. They encouraged the authorities to continue to focus on promoting private investment and deepening reforms in labor and product markets. Directors welcomed the recent decision to push ahead with further liberalization in selected sectors, but stressed that more remains to be done to enhance the business climate and remove long standing structural impediments to investment.

Most Directors generally considered that Malaysia's current exchange rate policy is broadly appropriate. They also noted the staff's assessment that the ringgit appears to be weaker than its equilibrium level in real effective terms. However, many Directors were unconvinced by the exchange rate assessment, and underlined the uncertainty about fundamentals and transitory factors related to Malaysia's commodity exports and the global crisis. They concurred with the authorities' view that the exchange rate policy is consistent with a return to a gradual trend appreciation of the currency once the crisis subsides. Some Directors supported the staff's position that, once the recovery is firmly established, a faster pace of real appreciation would facilitate a rebalancing of sources of growth toward domestic demand.

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