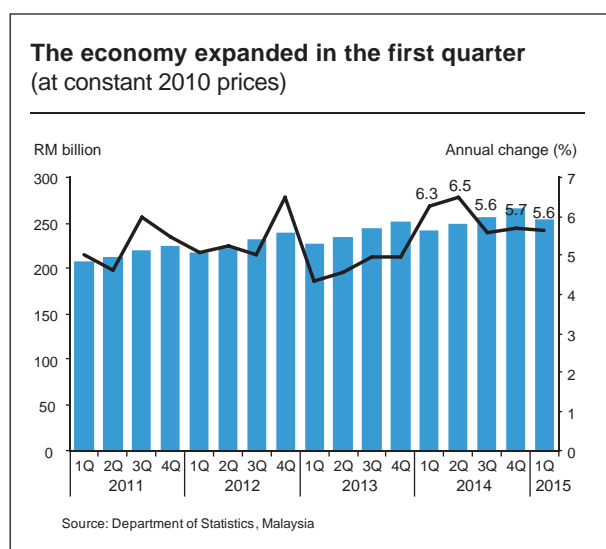


ECONOMIC AND FINANCIAL DEVELOPMENTS IN MALAYSIA IN THE FIRST QUARTER OF 2015

OVERVIEW

The Malaysian economy grew by 5.6% in the first quarter of 2015

The global economic activity expanded with divergent growth momentum across economies in the first quarter of 2015. While the US economy registered broader improvements, the economic recovery in the euro area and Japan progressed at a more gradual pace. In Asia, growth was sustained by the continued expansion in domestic demand.



The Malaysian economy registered a growth of 5.6% in the first quarter of 2015 (4Q 2014: 5.7%), underpinned mainly by the private sector demand. On the supply side, growth was supported by the major economic sectors. On a quarter-on-quarter seasonally-adjusted basis, the economy recorded a growth of 1.2% (4Q 2014: 1.8%).

Private sector activity remained the key driver of growth during the quarter. Private consumption expanded at a stronger pace of 8.8% (4Q 2014: 7.6%), supported by stable labour market conditions and higher wage growth. The strong private consumption growth was also contributed by the flood relief efforts early in the year, and the front-loading of household spending prior to the

implementation of GST. Private investment recorded a growth of 11.7% (4Q 2014: 11.1%), underpinned by capital expenditure in the manufacturing and services sectors. Growth in public consumption improved in the first quarter (4.1%; 4Q 2014: 2.5%), due to higher growth in supplies and services amid moderate growth in emoluments. Public investment turned around to register a positive growth of 0.5% (4Q 2014: -1.9%) following higher capital spending by the Federal Government.

On the supply side, growth in the first quarter was supported by the major economic sectors. The services sector was underpinned by growth in all sub-sectors, particularly consumption-related sub-sectors. Growth in the manufacturing sector was supported by stronger performance in the export-oriented industries, particularly the electronics and electrical (E&E) cluster. The construction sector was supported mainly by the non-residential and residential sub-sectors, while the mining sector continued to record stronger growth amid higher crude oil production. Meanwhile, the agriculture sector contracted as a result of lower palm oil production, arising from flood-related disruptions.

Inflation, as measured by the annual change in the Consumer Price Index (CPI), averaged significantly lower at 0.7% in the first quarter of 2015 (4Q 2014: 2.8%). The lower inflation was mainly attributable to the decline in prices in the transport category (-7.6%; 4Q 2014: 4.8%), following the downward revision of domestic fuel prices in January and February amid lower global oil prices.

The trade surplus amounted to RM21.3 billion in the first quarter of 2015 (4Q 2014: RM21.5 billion). Gross exports contracted by 2.5% (4Q 2014: +0.5%), reflecting mainly a decline in the growth of commodity exports and resource-based manufactured exports, amid lower commodity prices. Gross imports moderated to a marginal growth of 0.2% (4Q 2014: 4.6%).

The international reserves of BNM amounted to RM389.7 billion (equivalent to USD105.1 billion) as at 31 March 2015. This reserve level has taken into account the quarterly adjustment for foreign exchange revaluation changes. As at 30 April 2015, the reserves position amounted to RM392.4 billion (equivalent to USD105.8 billion), sufficient to finance 8.0 months of retained imports and is 1.1 times the short-term external debt.

Interest rates remained stable

The Monetary Policy Committee (MPC) decided to maintain the Overnight Policy Rate (OPR) at 3.25% at its meetings during the first quarter of 2015. At the prevailing level of the OPR, monetary conditions remained supportive of economic activity. Reflecting the unchanged OPR, the average overnight interbank rate was relatively stable during the quarter. Interbank rates of longer maturities continued to be elevated in January, but subsequently moderated as funding pressures eased following BNM's announcement on 30 January 2015 on the arrangements to facilitate transition to the full implementation of the Liquidity Coverage Ratio (LCR) by 2019. For the quarter as a whole, 3-month KLIBOR decreased from 3.86% to 3.73%. In terms of retail rates, both deposit and borrowing cost to the economy were broadly stable throughout the quarter. On 2 January 2015, the Base Rate (BR) replaced the base lending rate (BLR) as the main reference rate for new retail floating rate loans and financing facilities. Upon introduction, the average BR of banks stood at 3.90% where it remained as at 31 March 2015.

The monetary aggregates continued to expand in the first quarter. M3, or broad money, increased by RM35.9 billion on a quarter-on-quarter basis to record an annual growth rate of 7.9% as at end-March (end-December 2014: 7.0%). The increase in M3 during the quarter was driven mainly by the continued expansion in credit extended to the private sector by the banking system and lower net foreign assets. The expansion in broad money, however, moderated somewhat following lower net claims on the Government. In the banking system, liquidity conditions remained ample at both the institutional and system-wide levels.

The level of surplus liquidity placed with BNM was marginally lower during the quarter due to external sector outflows.

Total gross financing raised by the private sector through the banking system and the capital market amounted to RM282.5 billion (4Q 2014: RM309.8 billion). On a net basis, outstanding banking system loans and PDS expanded by 8.3% as at end-March (end-December 2014: 8.8%). Loan disbursement to businesses during the quarter remained healthy, with higher level of credit extended mainly to the finance, insurance and business services; mining and quarrying; and education, health and others sectors on an annual basis. In particular, financing for SMEs continued to be strong, with outstanding SME loans growing at 17.2% as at end-March (end-December 2014: 14.0%). Outstanding household loans growth remained stable at 9.8% as at end-March (end-December 2014: 9.9%). Net funds raised in the capital market moderated to RM21.0 billion in the first quarter (4Q 2014: RM26.4 billion).

The ringgit and other regional currencies continued to face volatility in the first quarter due to uncertainty in global monetary conditions, which led to portfolio investment outflows. Overall, the ringgit depreciated by 6.0% against the US dollar during the quarter. Against other major currencies, the ringgit appreciated against the euro (5.9%) and the Australian dollar (1.2%) but depreciated against the pound sterling (-1.0%), and the Japanese yen (-5.3%). Against regional currencies, the ringgit depreciated by between 1.0% and 7.0%.

Between 1 Apr and 13 May 2015, the ringgit appreciated against the US dollar by 3.1%. The ringgit also appreciated against the Japanese yen (2.8%), but depreciated against the euro (-0.9%), the Australian dollar (-1.5%) and the pound sterling (-2.8%). The ringgit appreciated against most regional currencies.

Domestic financial stability continued to be preserved

Financial system resilience remained intact amid continued volatile financial and commodity market conditions during the quarter. Financial intermediation activities were well-supported

by sound financial institutions, orderly financial market conditions and continued ample domestic liquidity. Domestic financial system stability is expected to be maintained and this will continue to support sustained growth of the domestic economy.

The strong capitalisation of the banking system was well-preserved with the common equity tier 1 (CET1) capital ratio, tier 1 capital ratio and total capital ratio remaining well above the minimum regulatory levels at 12.5%, 13.2% and 15.2% respectively. More than 80% of banks' total capital consists of high quality capital, that is, retained earnings, paid-up capital and reserves. The excess total capital buffer for banks was sustained in excess of RM90 billion. The capital adequacy ratio of the insurance sector similarly remained strong at 246.5% (4Q 2014: 252.1%) with an excess capital buffer of RM30.1 billion.

Domestic demand will remain the key driver of growth

Moving forward, global economic growth is projected to improve at a moderate pace, but with diverging growth momentum across major

economies. Although lower oil prices will have varying impact on economies, overall global growth is expected to benefit from this development. Downside risks to the growth outlook continue to persist, arising from the prolonged weakness in domestic demand and low inflation in a number of major economies, concern on the growth prospects of several net commodity-exporting emerging economies and the re-emergence of geopolitical tensions, which could heighten financial market volatility.

The Malaysian economy is expected to remain on a steady growth path. Domestic demand will remain the key driver of growth amid the lower oil prices. Investment activity is projected to remain resilient, with continued capital spending by both the private and public sectors. While private consumption is expected to moderate as households adjust to the introduction of the Goods and Services Tax (GST), the steady rise in income and stable labour market conditions would support household spending. The recovery in global growth while remaining moderate, will provide support to manufactured exports, although lower commodity prices will likely weigh down on overall exports.

DEVELOPMENTS IN THE FIRST QUARTER OF 2015

INTERNATIONAL ECONOMIC ENVIRONMENT

Moderate global economic expansion

The global economic activity expanded with divergent growth momentum across economies in the first quarter of 2015. While the US economy registered broader improvements, the economic recovery in the euro area and Japan progressed at a more gradual pace. In Asia, growth was sustained by the continued expansion of domestic demand.

Most major and regional equity markets ended the quarter higher. In the first half of the quarter, global equity markets initially declined as market sentiments were affected by the sharp decline in oil prices, the downward revision to the IMF and World Bank global growth forecasts, as well as uncertainty over the outcome of the Greek debt negotiations. Nevertheless, most equity markets trended higher from February onwards, which more than offset the initial decline. This was underpinned by policy actions in a few major economies, namely, the commencement of the European Central Bank's (ECB) expanded asset purchase programme and the announcement of monetary easing measures by the People's Bank of China (PBOC), which lifted market sentiments.

The US economy expanded at a faster annual pace of 3.0% in the first quarter (4Q 2014: 2.4%). On a seasonally adjusted annualised basis however, growth moderated to 0.2% (4Q 2014: 2.2%). Private consumption activity improved in the first quarter, benefitting from lower oil prices, stronger labour market conditions and improved household balance sheets. Nevertheless, growth in the first quarter was affected by temporary factors including harsh winter conditions and port congestion. Growth of fixed investment moderated as the slower expansion in non-residential capital expenditure more than offset the faster growth in residential investment. Headline inflation turned negative (-0.1%; 4Q 2014: 1.2%), amid lower oil prices.

Economic activity in the euro area registered a gradual improvement in the first quarter of 2015 (1.0%; 4Q 2014: 0.9%). Overall demand conditions were supported by lower oil prices, accommodative monetary policy and continued depreciation of the euro. Business and consumer sentiments also improved, with the manufacturing PMI increasing to 51.4 during the quarter (4Q 2014: 50.4). The economy, however, entered into deflation (-0.3%; 4Q 2014: 0.2%) due mainly to lower oil prices.

The UK economy continued to expand in the first quarter, albeit at a more moderate pace of 2.4% (4Q 2014: 3.0%). Growth was mainly driven by the services sector, particularly the transportation, storage and communication sub-sector. Inflation rate fell to 0.1% during the quarter (4Q 2014: 0.9%), amid lower food and transportation prices.

Economic activity in Japan remained weak. Retail sales registered a broad-based decline in the first quarter (-4.8%; 4Q 2014: 0.6%) amid lower household consumption. Business sentiments, however, were sustained as reflected by the Tankan survey index for large manufacturers which was unchanged during the quarter. On the external front, exports growth was sustained at 9.1% in the first quarter (4Q 2014: 9.1%) amid continued depreciation of the yen. Inflation (less fresh food) continued to moderate (2.1%; 4Q 2014: 2.7%) on account of lower cost of utilities, furniture, transportation and communication, and recreation. Core inflation (excluding food and energy) was sustained at 2.1% (4Q 2014: 2.1%).

Advanced Economies: Real GDP Growth

	2014			2015
	1Q	4Q	Year	1Q
Annual change (%)				
US	1.9	2.4	2.4	3.0 ^a
UK	2.7	3.0	2.8	2.4 ^p
Euro area	1.1	0.9	0.9	1.0 ^p

^a Advance estimate
^p Preliminary

Source: National authorities

Most central banks in the advanced economies continued to maintain an accommodative monetary policy stance, despite diverging trend in the monetary policy direction across economies. In the US, the Federal Reserve assessed that *“an increase in the federal funds rate target is likely to become appropriate later this year”*¹ amid the reduction in labour market slack. Following the decline in oil prices in January, the Fed lowered its inflation projection for 2015 to 0.6% - 0.8% in March 2015 (December 2014 forecast: 1.0% - 1.6%). In contrast, several central banks increased monetary accommodation amid lower inflation and rising growth concerns. In January 2015, the ECB began its asset purchase programme of EUR60 billion (approximately USD70.9 billion) per month between March 2015 until at least September 2016, to include the purchase of bonds issued by euro area governments, agencies and European institutions. Similarly, the Bank of Japan continued with its annual asset purchases of JPY80 trillion (approximately USD670 billion) amid continued disinflation concerns. Meanwhile, the Swiss National Bank (SNB) and the Bank of Canada reduced their key policy rates by 50 and 25 basis points, respectively to -0.75% and 0.75%, respectively. On 15 January, the SNB also discontinued the minimum exchange rate of CHF1.20 per euro amid more pronounced divergences between monetary policies in the US and euro area. In February and May, the Reserve Bank of Australia lowered its key interest rate by 25 basis points each to 2.0%, while Denmark's Nationalbank (Danish National Bank) cut its policy rate on four occasions by a cumulative 70 basis points to -0.75% in the first two months of the year. Sveriges Riksbank (Swedish National Bank), on the other hand, reduced its policy rate by a cumulative 25 basis points to -0.25% in February and March.

In PR China, economic growth moderated to 7.0% in the first quarter (4Q 2014: 7.3%). By industry, sustained growth in the tertiary sector (services) was offset by slower expansion in the primary (agriculture) and secondary industries (industry and construction). In March 2015, the Chinese government also announced a lower official growth target of *“around 7.0%”*² for

2015. To this end, policymakers continued to provide support to economic activity during the quarter through the acceleration of infrastructure projects, monetary stimulus measures and the easing of property market restrictions. Inflation moderated to 1.2% (4Q 2014: 1.5%) amid lower transportation and housing costs.

In Asia, growth continued to expand, albeit at a more moderate pace in most economies. The Chinese Taipei economy continued to expand in the first quarter (3.5%; 4Q 2014: 3.3%), supported by an improvement in private consumption and sustained export growth. Singapore registered sustained growth in the first quarter (2.1%; 4Q 2014: 2.1%), supported by continued expansion in the construction and services industries. In Korea, growth moderated slightly to 2.4% (4Q 2014: 2.7%) as the improvement in private consumption and investment was offset by weaker external demand. Economic activity grew at a slower pace of 4.7% (4Q 2014: 5.0%) in Indonesia as weaker growth in private consumption and government spending outweighed the improvements in investment and net exports.

Regional Countries: Real GDP Growth

	2014			2015
	1Q	4Q	Year	1Q
	Annual change (%)			
PR China	7.4	7.3	7.4	7.0
Indonesia	5.1	5.0	5.0	4.7
Singapore	4.6	2.1 [†]	2.9 [†]	2.1 ^a
Korea	3.9	2.7	3.3	2.4 ^a
Chinese Taipei	3.4	3.3 [†]	3.7 [†]	3.5 ^a

^a Advance estimate
[†] Revised

Source: National authorities

Headline inflation moderated in most Asian economies, with Thailand, Singapore and Chinese Taipei falling into deflation. The moderation primarily reflected the decline in oil prices and its pass-through to lower food, utilities and transportation costs. In contrast, inflation in Indonesia was sustained due to the increase in fuel pump prices after the implementation of subsidy reforms.

¹ “The New Normal Monetary Policy” speech by Janet Yellen at the Research Conference on 27 March 2015

² “Report on PR China’s Economic, Social Development Plan (2015)” The National People’s Congress of PR China official website

Most regional central banks increased the degree of monetary accommodation in the first quarter. Of significance, the Monetary Authority of Singapore reduced the slope of the S\$ nominal effective exchange rate policy band in January due to expectations of lower imported inflation following the significant fall in oil prices. Similarly, in response to persistent deflationary pressures and growth concerns, the Bank of Thailand and the Bank of Korea also reduced their respective policy rates from 2% respectively to 1.5% and 1.75%, respectively. Bank Indonesia also lowered its policy rate by 25 basis points to 7.5% as the central bank expected inflation to fall towards the lower end of its 3-5% 2015 year-end target. In India, the central bank lowered the repo rate in January and March by a total of 50 basis points to 7.5%, given expectations of lower inflation. In PR China, the PBOC eased monetary conditions to help lower the funding costs for financial institutions, reduce market interest rates and thereby the financing costs of the corporate sector. Between January to May 2015, PR China's one-year benchmark deposit and loan interest rates were lowered to 2.25% and 5.1%, respectively (Previous: 2.75% and 5.6%, respectively). In addition, the reserve requirement ratio for financial institutions was reduced by a total of 150 basis points in February and April to support lending to small and micro enterprises, the agriculture sector and rural areas.

Brent crude oil prices declined by approximately 29% to average USD55 per barrel in the first quarter (4Q 2014: USD77 per barrel). The decline was driven by high global supply of oil, and to a lesser extent, slower demand in a few major economies. Amid rising oil inventory in major consuming countries, prices declined to a

low of USD47 per barrel on 12 January, levels last seen during the Global Financial Crisis. Prices subsequently stabilised towards the end of the quarter to around USD55 per barrel following the decline in US oil rig operations, which pointed to a reduction in US shale oil output in the medium-term.

Most major and regional currencies ended the quarter lower against the US dollar. The broad-based depreciation against the US dollar was attributed mainly to the continued improvements in US economic activity, which supported market expectations for monetary policy normalisation to begin in the second half of 2015. The euro and Japanese yen also depreciated following the implementation of additional monetary stimulus by their respective central banks. In contrast, the Thai baht ended the quarter higher against the US dollar due to lower political uncertainty and the improvement in the country's external position. The Taiwanese dollar also strengthened amid investor optimism that the fall in oil prices will support the economy's growth prospects.

Moving forward, the global economy is projected to be on a moderate growth path, but with diverging growth momentum across major economies. While lower oil prices will have varying impact on economies, overall global growth is expected to benefit from this development. Nevertheless, downside risks to the growth outlook continue to persist, arising from the prolonged weakness in domestic demand and the low inflation in a number of major economies, concerns on the growth prospects of several net commodity-exporting emerging economies and the re-emergence of geopolitical tensions, which could result in heightened financial market volatility.

DEVELOPMENTS IN THE MALAYSIAN ECONOMY

The Malaysian economy grew by 5.6% in the first quarter

The Malaysian economy registered a growth of 5.6% in the first quarter of 2015 (4Q 2014: 5.7%). Private sector expenditure remained the key driver of growth (9.6%; 4Q 2014: 8.3%). This contributed towards a strong domestic demand performance, which offset the negative contribution from net exports during the quarter. On a quarter-on-quarter seasonally-adjusted basis, the economy recorded a growth of 1.2% (4Q 2014: 1.8%).

Continued expansion in domestic demand

Domestic demand expanded by 7.9% in the first quarter of 2015 (4Q 2014: 5.7%), driven mainly by private sector expenditure.

Private sector activity grew by 9.6% (4Q 2014: 8.3%), following continued growth in consumption and investment activities.

Private consumption expanded at a stronger pace of 8.8% (4Q 2014: 7.6%), supported by stable labour market conditions and higher wage growth. Furthermore, household spending was supported by flood relief efforts, in particular, during the early parts of the quarter. The front-loading of consumer purchases prior to the implementation of GST, particularly on transport, food and beverages, as well as communication, also contributed to the strong expansion in private consumption. **Private investment** expanded by 11.7% (4Q 2014: 11.1%), driven by capital spending in the export-oriented manufacturing sector and in the telecommunication and transport-related services industries.

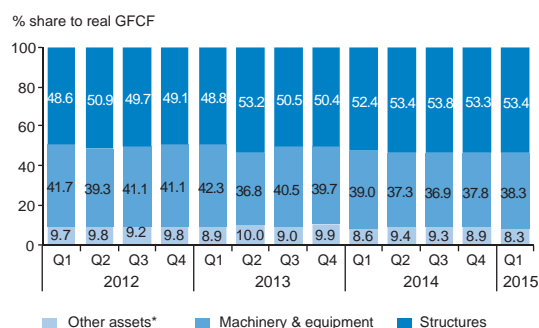
Public sector expenditure expanded by 2.5% in the first quarter (4Q 2014: 0.6%) driven mainly by higher growth in public consumption and a turnaround in public investment. **Public consumption** grew by 4.1% (4Q 2014: 2.5%), reflecting higher Federal Government spending on supplies and services amid moderate growth in emoluments. Following a rebound in spending on fixed assets by the Federal

GDP by Expenditure Components
(at constant 2010 prices)

	Share 2014 (%)	2014			2015
		1Q	4Q	Year	1Q
		Annual change (%)			
Aggregate Domestic Demand (excluding stocks)	91.5	7.6	5.7	5.9	7.9
Private Sector	68.5	8.9	8.3	7.9	9.6
Consumption	51.8	7.0	7.6	7.0	8.8
Investment	16.6	14.9	11.1	11.0	11.7
Public Sector	23.0	3.6	0.6	0.4	2.5
Consumption	13.6	12.2	2.5	4.4	4.1
Investment	9.5	-6.3	-1.9	-4.7	0.5
Net Exports	9.3	8.2	-4.0	12.8	-10.2
Exports of Goods and Services	76.1	7.9	1.9	5.1	-0.6
Imports of Goods and Services	66.8	7.8	2.6	4.2	1.0
GDP	100.0	6.3	5.7	6.0	5.6
GDP (q-o-q growth, seasonally adjusted)	-	1.4	1.8	-	1.2

Source: Department of Statistics, Malaysia

GFCF by Type of Assets



* Other assets include mineral exploration, research & development, etc

Source: Department of Statistics, Malaysia

Government, **public investment** turned around and grew by 0.5% (4Q 2014: -1.9%).

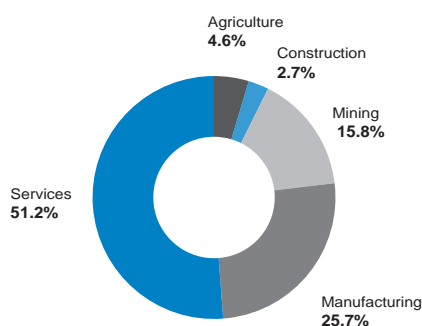
In terms of total investment, **gross fixed capital formation** expanded by 7.9% (4Q 2014: 4.3%), supported mainly by capital spending in the private sector. By type of assets, investments on structures expanded by 9.9% (4Q 2014: 10.4%), while machinery and equipment investment turned around to record a positive growth of 5.8% (4Q 2014: -0.8%).

The Broad-based Composition of Private Investment in Malaysia

Malaysia's private investment has been broad-based across the economy

Since 2010, private investment in Malaysia has registered a robust double-digit average growth rate. Investment activity in the services and manufacturing sectors were the main drivers of the strong performance, accounting for more than 75% of private investment (Figure 1). The mining sector also contributed significantly to investment growth, particularly in 2012, due to the simultaneous commencement of several major oil and gas projects under the Economic Transformation Programme (ETP) (Figure 2).

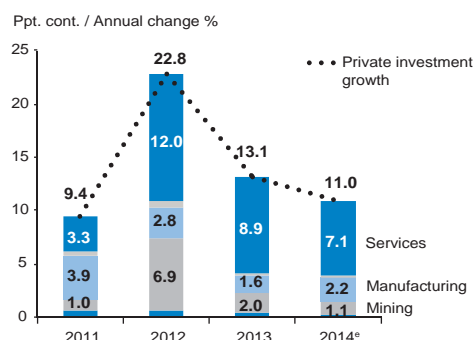
Figure 1:
Share of Private Investment by Sector (2014^e)



* Estimate

Source: Bank Negara Malaysia estimates

Figure 2:
Contribution to Private Investment Growth (2011-2014^e)



* Estimate

Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

Note: Figures are based on 2005 base year. The new figures based on the base year of 2010 will be released in the second half of 2015

Table 1: Recent private investment activity in Malaysia (2010-2014)

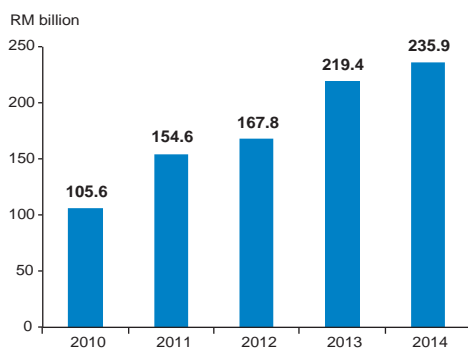
Sector	Main investment activity
Services	Tourism and retail: Theme parks, hotels and shopping malls Transport and storage: Logistics facilities, oil storage facilities Healthcare: New hospitals, upgrading of medical equipment Telecommunications: Roll-out of high-speed 3G / HSPDA / 4G LTE infrastructure
Manufacturing	Petrochemicals: Oil refineries and chemical plants Electronics and electrical: Solar, semiconductors, medical devices Automotive: Energy-efficient vehicle plants Aeronautical: Aircraft design, aircraft components
Mining	Deepwater exploration, enhanced oil recovery (EOR) and marginal oil fields
Construction	Investment in construction machinery and equipment for the building of structures
Agriculture	Replanting and new planting of palm oil and rubber, upgrading of machinery and equipment

Going forward, investment will remain resilient amidst lower oil prices, driven by the manufacturing and services sectors

Investment activity, particularly in the manufacturing and services sectors, is expected to remain robust as reflected by the record-high level of investment approvals reported by the Malaysian Investment Development Authority (MIDA) (Figure 3). Investment in the manufacturing sector will be supported by capital spending in the export-oriented industries and in new growth areas such as renewable energy (e.g. solar and energy-efficient vehicles), semiconductors and medical devices. In the services sector, spending will be channelled into higher value-added activities, such as IT services (e.g. cloud computing), education and medical tourism.

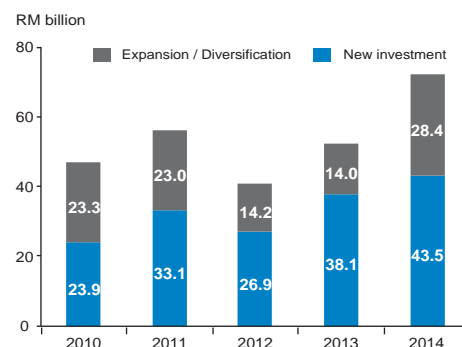
Investment by new and existing businesses in Malaysia (Figure 4) and the continued implementation of long-gestation projects (Table 2) will also support investment growth in 2015-2016.

**Figure 3:
MIDA Total Investment Approvals**



Source: Malaysian Investment Development Authority (MIDA)

**Figure 4:
MIDA Manufacturing Investment Approvals by Purpose**



Source: Malaysian Investment Development Authority (MIDA)

Table 2: Selected Long-gestation Projects

Projects	Description	Timeline
Bukit Bintang City Centre	Mixed residential and commercial development	2015-2024
Infineon Technologies	Competence Centre for Megatrend Technologies in Kulim and expansion of a Development Centre in Melaka	2014-2024
Seagate	New plant for hard drives and storage solutions	2014-2019
Dialog-Vopak Phase 2	Oil and gas storage and terminal	2014-2018
Genting refurbishment	New theme park and hotel refurbishment	2013-2016

Source: Newsflows

Additionally, the incentives announced by the Government in April 2015 to promote investment in automation and principal hub activity are also expected to lift capital spending and to attract more firms to set up their global or regional bases in Malaysia.

Continued expansion in major economic sectors

On the supply side, growth in the first quarter was supported by the major economic sectors. The services sector was underpinned by growth in all sub-sectors, particularly consumption-related sub-sectors. Growth in the manufacturing sector was supported by stronger performance in the export-oriented industries, particularly the electronics and electrical (E&E) cluster. The construction sector was supported mainly by the non-residential and residential sub-sectors, while the mining sector continued to record stronger growth amid higher crude oil production. Meanwhile, the agriculture sector contracted as a result of lower palm oil production.

The **services sector** grew by 6.4% in the first quarter (4Q 2014: 6.6%) benefitting from the higher growth in domestic demand. The wholesale and retail trade sub-sector recorded

a stronger growth of 9.8% (4Q 2014: 9.4%), in line with higher household spending ahead of the implementation of GST. Growth in the information and communication sub-sector remained robust (9.6%; 4Q 2014: 9.7%), driven mainly by strong demand for data communication services, amid higher usage of

GDP by Economic Activity (at constant 2010 prices)

	Share 2014 (%)	2014			2015
		1Q	4Q	Year	1Q
		Annual change (%)			
Agriculture	9.2	2.6	-3.7	2.1	-4.7
Mining	9.0	-0.1	9.5	3.3	9.6
Manufacturing	23.0	7.0	5.4	6.2	5.6
Construction	4.3	19.3	8.8	11.8	9.7
Services	53.5	6.7	6.6	6.5	6.4
Real GDP	100.0¹	6.3	5.7	6.0	5.6
Real GDP (q-o-q seasonally adjusted)	-	1.4	1.8	-	1.2

¹ Numbers do not add up due to rounding and exclusion of import duties component

Source: Department of Statistics, Malaysia

Performance of the Services Sector (value added at constant 2010 prices)

	Share 2014 (%)	2014			2015
		1Q	4Q	Year	1Q
		Annual change (%)			
Intermediate Services	38.4	6.1	6.1	5.9	5.7
Finance & insurance	13.7	2.7	2.4	2.3	1.9
Real estate & business services	7.9	8.2	8.3	8.0	7.6
Transport & storage	6.5	4.8	6.0	5.2	5.7
Information & communication	10.2	10.1	9.7	9.7	9.6
Final Services	61.6	7.2	6.9	7.0	6.8
Wholesale & retail trade	26.9	8.5	9.4	8.9	9.8
Food & beverages and accommodation	5.1	6.3	7.5	6.5	7.3
Utilities	4.8	3.2	3.9	3.8	3.7
Government services	16.5	7.6	4.7	6.1	3.9
Other services	8.2	5.3	4.7	4.8	4.6
Total Services	100.0¹	6.7	6.6	6.5	6.4

¹ Numbers do not add up due to rounding

Source: Department of Statistics, Malaysia

Selected Quarterly Indicators in the Services Sector

	2014			2015
	1Q	4Q	Year	1Q
	Index			
MIER Consumer Sentiments Index	96.8	83.0	94.5	72.6
MIER Retail Trade Index	86.3	92.9	99.7	85.4
MIER Tourism Market Index	115.8	107.6	108.8	100.7
	Annual change (%)			
Total consumption credit outstanding	4.8	2.7	2.7	3.5
Total loans outstanding	10.2	9.3	9.3	9.2
Loans outstanding to the wholesale & retail trade, hotels & restaurants	6.4	7.5	7.5	9.4
Imports of consumption goods	15.6	2.9	5.7	4.4
Total sales of motor vehicles	1.4	3.8	1.6	5.3
Container cargo handled (Port Klang and PTP)	3.7	12.8	8.3	13.1

Source: Various sources

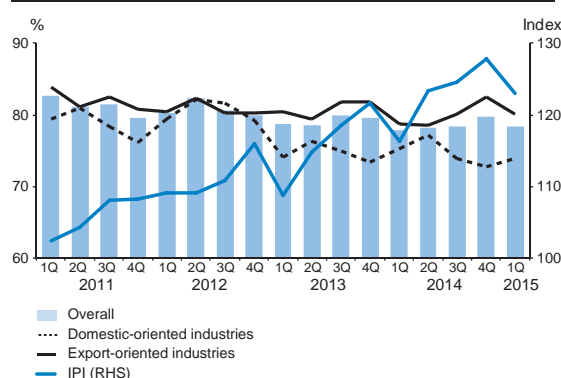
mobile devices, particularly smartphones. The real estate and business services sub-sector expanded by 7.6% (4Q 2014: 8.3%), supported mainly by the business services segment. The transport and storage sub-sector registered a more moderate growth of 5.7% (4Q 2014: 6.0%) in line with the slower trade-related activity. The finance and insurance sub-sector expanded by 1.9% (4Q 2014: 2.4%), supported by continued demand for financial services products.

The **manufacturing sector** recorded a higher growth of 5.6% in the first quarter (4Q 2014: 5.4%), supported by the stronger performance in the export-oriented industries, particularly the strong production in the electronics and electrical (E&E) cluster. This more than offsets the slight moderation in the domestic-oriented industries.

Overall capacity utilisation rate in the manufacturing sector moderated to 78.4% in the first quarter (4Q 2014: 79.8%) amid

lower capacity utilisation in the export-oriented industries (80%, 4Q 2014: 83%). However, the domestic-oriented industries recorded a higher capacity utilisation rate at 74% (4Q 2014: 73%).

Capacity Utilisation Rate in the Manufacturing Sector*



* Beginning 2012, the capacity utilisation rate in the manufacturing sector has been rebased from value-add in year 2006 to value-add in year 2009

Source: Bank Negara Malaysia & Department of Statistics, Malaysia

Performance of the Manufacturing Sector

	Share in 2014 (%)	2014			2015
		1Q	4Q	Year	1Q
		Annual Change (%)			
Overall value Added (at constant 2010 prices)	100.0	7.0	5.4	6.2	5.6
Export-oriented industries	63.6	7.4	6.8	5.9	7.0
Domestic-oriented industries	36.4	6.3	3.1	6.9	2.8
Overall Manufacturing Production¹	100.0	6.9	5.0	6.1	5.6
Export-oriented industries	74.9	6.6	5.4	5.4	6.3
Electronics and electrical products cluster	24.2	14.6	10.2	12.1	11.3
Of which:					
Electronics	15.3	19.1	6.0	10.6	-0.2
Electrical products	8.9	5.4	19.7	15.4	36.9
Primary-related cluster	50.7	3.0	2.9	2.1	3.8
Of which:					
Chemicals and chemical products	14.3	1.1	7.9	3.6	9.9
Petroleum products	21.1	6.5	1.8	0.6	2.1
Rubber products	2.5	1.3	-0.8	-1.3	-1.3
Off-estate processing	4.5	0.8	-9.0	1.5	-12.2
Domestic-oriented industries	25.1	7.8	3.9	7.9	3.8
Construction-related cluster	11.3	3.2	3.6	4.3	6.9
Of which:					
Construction-related products	8.2	1.2	5.3	5.1	8.1
Fabricated metal products	3.1	6.9	0.6	2.8	4.7
Consumer-related cluster	13.8	11.8	4.2	10.9	1.4
Of which:					
Transport equipment	5.5	19.0	1.1	14.4	9.2
Food, beverage & tobacco products	7.3	5.7	8.3	8.9	-4.6

¹ Industrial Production Index (2010=100)

Source: Department of Statistics, Malaysia

Rebasing of the Malaysian GDP from Base Year 2005 to 2010 Prices

With effect from 1Q 2015, Malaysia's Gross Domestic Product (GDP) in constant terms is rebased to 2010 prices from 2005 prices. This rebasing exercise by the Department of Statistics, Malaysia (DOSM) also reflects the enhancement of data sources and coverage, as well as the incorporation of the latest international guidelines for statistical compilations¹. These improvements will enhance the quality and comparability of Malaysia's GDP statistics, and ensure that they better represent the current structure of the Malaysian economy.

Purpose of Rebasing Exercise

The practice of rebasing GDP is a standard exercise by statistical agencies worldwide. Other countries, including the euro area, South Korea, Singapore, PR China and Indonesia are also using 2010 as their current base year. In general, there are three key motivations to the improvements and rebasing of the GDP:

a) To reflect the recent economic developments

The rebasing of GDP is necessary to ensure that the national accounts statistics reflect the most recent underlying economic structure and relative prices in the economy. By using constant base year prices, changes in GDP in constant terms (real GDP) would reflect only changes in the volume of economic activity. However, relative prices of goods and services do change over time due to the changing demand conditions. This would result in greater allocation of resources and production towards certain economic sectors relative to other sectors. Consequently, the relative weights of the old base year prices would become less representative of the current structure of the economy. This necessitates a change in the base year such that the reference prices become more representative of the more recent economic developments.

b) To incorporate methodological improvements and industrial reclassification

In order to enhance the quality and comparability of Malaysia's GDP statistics, the rebasing exercise incorporates conceptual and methodological improvements as well as the latest industrial reclassification to the statistical compilation.

- i. There are two main conceptual and methodological changes that were carried out. First, a refined methodology will be implemented for goods for processing (GFP) (see factbox on 'Goods for Processing in Malaysia's Balance of Payments Statistics'). Secondly, the depreciation of public assets will now be based on the Perpetual Inventory Method as recommended by System of National Accounts.
- ii. In terms of industrial reclassification, selected subsectors in the manufacturing, services and mining sectors were reclassified in accordance with the latest Malaysia Standard Industrial Classifications (MSIC 2008).

c) To reconcile data from various censuses, surveys and sources

With the aim of enhancing the quality, reliability and coverage of Malaysia's national account statistics, the rebasing exercise reconciles the latest data from the various censuses, surveys and data sources. DOSM utilised detailed censuses and surveys undertaken since 2010 (including the Economic Census 2011, Supply & Use Tables 2010, Household Expenditure Survey 2009/10 and 2014, Census of Distributive Trade 2014 and other indices such as Consumer Price Index, Producer Price Index and Industrial Production Index based at 2010 prices). Moreover, more comprehensive information and data on industries were obtained from other public agencies such as the Malaysian Palm Oil Board and the Ministry of Agriculture.

¹ System of National Accounts 2008 (SNA 2008) and Balance of Payments and International Investment Position Manual, IMF, Sixth Edition (BPM6).

² GFP are items for processing by an entity which does not own the goods, and hence, does not involve a change of ownership.

Implications on GDP Figures

Following the reconciliation of new information from more recent surveys and improvement in methodologies, Malaysia's nominal GDP in 2010 increased from RM797 billion to RM821 billion (+3.0%). This increase in nominal GDP after rebasing is modest and comparable to revisions made by other countries (Table 1). Meanwhile, the nominal GDP increased from RM1,070 billion to RM1,107 billion (+3.4%) in 2014.

Table 1: Nominal GDP of selected countries (during the year of rebase)

Country	Nominal GDP Before Rebasing	Nominal GDP After Rebasing	Revision (%)
South Korea (bil won, 2010)	1,173,275 (2005=100)	1,265,308 (2010=100)	7.8
Netherlands (mil euro, 2010)	586,789 (2005=100)	631,512 (2010=100)	7.6
Philippines (bil PHP, 2000)	3,355 (1985=100)	3,581 (2000=100)	6.7
Malaysia (mil RM, 2010)	797,327 (2005=100)	821,434 (2010=100)	3.0
Singapore (bil \$S, 2010)	318 (2005=100)	322 (2010=100)	1.3
PR China (100 mil yuan, 2010)	401,202 (2005=100)	401,513 (2010=100)	0.1
India (rupee crores, 2011/12)	9,009,722 (2004-05=100)	8,832,012 (2011-12=100)	-2.0

Source: Department of Statistics, Malaysia

On the supply side, economic activity is still driven by the services and manufacturing sectors, which account for approximately three quarters of the GDP. The share of commodities sectors (agriculture and mining) increased, reflecting the higher commodity prices relative to non-commodity prices in 2010 compared with 2005 (Table 2). On the whole, growth rates of all sectors were broadly unchanged.

Table 2: Real GDP by Economic Activity

	2014 share of GDP (%) ¹		2014 growth of GDP (%)	
	2005 prices	2010 prices	2005 prices	2010 prices
Services	55.3	53.5	6.3	6.5
Manufacturing	24.6	23.0	6.2	6.2
Agriculture	6.9	9.2	2.6	2.1
Mining & Quarrying	7.9	9.0	3.1	3.3
Construction	3.9	4.3	11.6	11.8
Overall GDP	100.0	100.0	6.0	6.0

¹ Numbers may not add up due to rounding and exclusion of import duties component

Source: Department of Statistics, Malaysia

On the demand side, the shares of major components were broadly unchanged. Domestic demand, in particular private sector expenditure, remains the key driver of growth in the Malaysian economy (Table 3). Additionally, the increase in the share of net exports is due to higher commodity prices relative to non-commodity prices in 2010 compared to 2005³. Meanwhile, the growth rates of major components were relatively unchanged, except for net exports as a result of the new base year prices and treatment for goods for processing (GFP).

Table 3: Real GDP by Expenditure

	2014 share of GDP (%) ²		2014 growth of GDP (%)	
	2005 prices	2010 prices	2005 prices	2010 prices
Aggregate domestic demand	93.1	91.5	6.0	5.9
Private sector	70.0	68.5	8.0	7.9
Consumption	52.5	51.8	7.1	7.0
Investment	17.5	16.6	11.0	11.0
Public sector	23.0	23.0	0.2	0.4
Consumption	13.2	13.6	4.4	4.4
Investment	9.8	9.5	-4.9	-4.7
Net exports of goods & services	8.0	9.3	19.7	12.8
Exports of goods & services	88.8	76.1	5.1	5.1
Imports of goods & services	80.8	66.8	3.9	4.2
Overall GDP	100.0	100.0	6.0	6.0

² Numbers may not add up due to rounding and exclusion of the changes in inventories and valuables component

Source: Department of Statistics, Malaysia

Conclusion

The estimation of Malaysia's GDP has been improved and benchmarked to the base year 2010 to reflect the latest changes in economic structure and relative prices in the economy. This exercise reflects three key enhancements:

- (i) The use of 2010 prices in the estimation of GDP at constant prices in order to better reflect current relative prices in the economy;
- (ii) Methodological enhancements and industrial reclassification to statistical compilation; and
- (iii) Wider coverage of and further enhancements to various data sources, censuses and surveys.

Following the rebase, the upward revision for Malaysia's nominal GDP is modest and is broadly in line with the experience of other countries that have recently undertaken the rebasing exercise. The revision has minimal impact on Malaysia's overall growth figures, suggesting that underlying growth momentum of the economy remains unchanged.

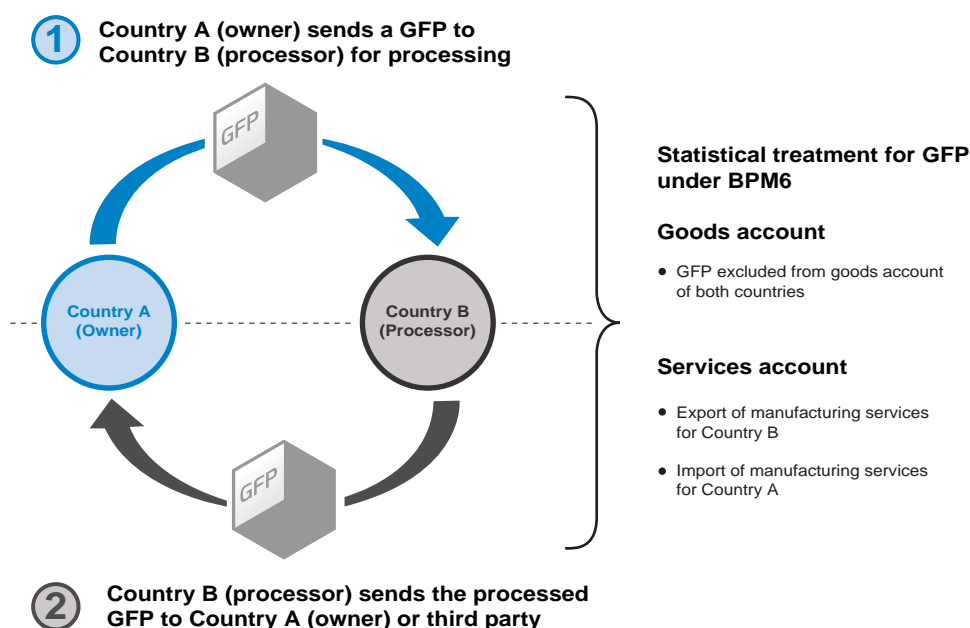
³ Both exports and imports of goods and services recorded a lower share due to the new treatment for goods for processing (GFP)

Goods for Processing in Malaysia's Balance of Payments Statistics

Goods for processing (GFP) are goods that are sent abroad by an owner to a processor for processing and subsequently returned to the owner or exported to third party, without a change of ownership. Throughout the process, the processing entity does not own either the imported inputs or the processed goods. The processing entity merely receives a processing fee from the owner of the goods for providing the processing services. Based on the survey conducted by DOSM, Malaysia is predominantly a GFP processor country.

In the past, GFP were treated as export and import transactions between a resident and non-resident in the goods account, regardless of the ownership status. With the rise of global production networks, this statistical treatment on GFP has inflated international trade statistics. In response to these concerns, both 2008 System of National Accounts (2008 SNA) and 6th edition of Balance of Payments and International Investment Position Manual (BPM6)⁴ have recommended the exclusion of GFP from the goods accounts, with only the processing fees included in the services account (Figure 1).

Figure 1:
Illustration of GFP and conceptual treatment of GFP in BOP statistics



⁴ For more information on Malaysia's migration to BPM6, please refer to "Malaysia's Balance of Payments (BOP) – Compilation of BOP Statistics in Accordance with the 6th Edition of Balance of Payments and International Investment Position Manual (BPM6) of the International Monetary Fund", published in BNM Quarterly Bulletin, First Quarter 2013.

In principle, the revised treatment would not have any impact on GDP and BOP statistics, as it involves merely a reclassification of goods transactions to services transactions. In reality, however, the complexity of international trade transactions mean that the effect of these shifts do not entirely offset, as the service charges include other costs, such as holding gains/losses and overheads, which are not attributed to the processing entity.

In the case of Malaysia, the amount of GFP removed from the goods accounts was higher than the services charges included in the services accounts in the BOP. The net result is a lower net goods and services balance in GDP. Consequently, the current account balance was also lower (Table 1).

Table 1: Current Account Balance in Malaysia, 2014

RM billion	Before incorporating GFP	After incorporating GFP	Difference
Goods balance	125.1	113.4	-11.7
Services balance	-20.5	-11.2	9.4
Goods and services	104.5	102.2	-2.3*
Primary income	-37.4	-37.3	0.1
Secondary income	-17.6	-17.6	-
Current account balance	49.5	47.3	-2.2*

* Difference in current account balance and goods and services balance differ, as there were also statistical revisions to primary income account data, which affected the overall current account balance

Source: Department of Statistics, Malaysia

References

International Monetary Fund 2011. "Balance of Payments and International Investment Position Manual (Sixth Edition)"

The **construction sector** grew by 9.7% in the first quarter (4Q 2014: 8.8%), underpinned by the expansion in non-residential and residential sub-sectors. The expansion of the non-residential sub-sector was driven by construction activity for industrial and commercial buildings. Growth in the residential sub-sector remained supported by the construction of properties in both the mass- and high-end markets. The special trade sub-sector continued to expand, reflecting activity for piling, earthworks, electrical and system installation as well as building completion and finishing works. Growth in the civil engineering sub-sector improved, supported by large infrastructure projects in the utility and transportation segments.

The **agriculture sector** contracted further by 4.7% (4Q 2014: -3.7%), amid continued lower production of palm oil caused by the floods

in the eastern states of Peninsular Malaysia. Meanwhile, the **mining sector** expanded further by 9.6% (4Q 2014: 9.5%) due to stronger crude oil production (690,000 barrels per day), the highest since 3Q 2008. This was driven by rising output from the new Gumusut Kakap oilfield offshore Sabah.

Performance of the Mining Sector

	Share 2014 (%)	2014			2015
		1Q	4Q	Year	1Q
		Annual change (%)			
Value Added (at constant 2010 prices)	9.0	-0.1	9.5	3.3	9.6
Production					
Of which:					
Crude oil and condensates	-	-3.6	16.2	4.3	20.4
Natural gas	-	2.2	3.1	1.6	-1.2
Other mining and support services	-	10.8	9.3	9.0	11.3

Source: Department of Statistics, Malaysia

Lower headline inflation in the first quarter

Inflation, as measured by the annual change in the Consumer Price Index (CPI), averaged significantly lower at 0.7% in the first quarter of 2015 (4Q 2014: 2.8%). The lower inflation was mainly attributed to the decline in prices in the *transport* category (1Q 2015: -7.6%, 4Q 2014: 4.8%), following the downward revision of domestic fuel prices in January and February amid lower global oil prices. Inflation in the *housing, water, electricity, gas and other fuels* category also moderated during the quarter (1Q 2015: 2.1%; 4Q 2014: 3.4%) due to the lapse in the impact of the increase in electricity tariff in January 2014, and the downward revision in electricity tariff in March 2015.

The Producer Price Index (PPI) also declined by 5.4% on an annual basis in the first quarter (4Q 2014: -2.3%) driven mainly by the lower prices of *mineral, fuels and lubricants* and *inedible crude materials* categories following the decline in global oil prices. Correspondingly, prices of commodity-related components declined by 16.7% (4Q 2014: -8.8%). Meanwhile, prices of non-commodity-related components increased at a relatively stable rate of 1.1% during the quarter (4Q 2014: 1.4%).

Indicators for the Construction Sector

	2014			2015
	1Q	4Q	Year	1Q
Annual change (%)				
Value of construction work done	21.1	9.7	12.8	15.1
Residential	33.1	18.3	22.2	19.5
Non-residential	19.9	23.5	17.1	24.3
Civil engineering	10.5	-8.0	1.2	4.2
Special Trade ¹	49.3	7.7	16.7	4.2
Housing approvals	-8.9	8.0	4.2	2.2 ³
Production ² of construction-related materials	3.2	3.6	4.3	6.9
Hydraulic cement	1.3	9.9	6.6	20.2
Other articles of concrete, cement and plaster n.e.c	36.9	27.3	32.8	20.9
Other porcelain and ceramic products	15.2	29.6	20.9	31.2
Prefabricated structural components for building or civil engineering of cement, concrete or artificial stone	2.6	-13.3	-3.8	-13.3
Capital imports (excluding lumpy items)	-3.3	8.1	1.2	11.0
Loans for the construction sector				
Approval	-32.8	24.9	0.3	21.4
Disbursement	23.3	17.8	12.7	3.2

¹ Includes special trade works such as site preparation, electrical installation and painting

² Industrial Production Index (2010=100)

³ Jan 2015

Source: Department of Statistics, Malaysia, Ministry of Urban Wellbeing, Housing and Local Government, and Bank Negara Malaysia

Performance of the Agriculture Sector

	Share 2014 (%)	2014			2015
		1Q	4Q	Year	1Q
		Annual change (%)			
Value Added (at constant 2010 prices)	9.2	2.6	-3.7	2.1	-4.7
Industrial Crops	5.8	0.6	-8.4	0.1	-11.0
Of which:					
Oil palm	4.4	2.9	-8.0	2.4	-11.7
Rubber	0.6	-11.1	-25.5	-19.2	5.0
Food Crops	3.4	7.4	6.5	1.5	4.0
Of which:					
Fishing	0.8	3.7	2.2	2.1	4.4
Livestock	1.0	8.5	8.8	7.9	4.3

Source: Department of Statistics, Malaysia

Consumer Price Index

Category	Weights (%) (2010=100)	4Q 2014	1Q 2015
		Annual change, %	
Total	100.0	2.8	0.7
Food and non-alcoholic beverages	30.3	2.7	2.5
Housing, water, electricity, gas and other fuels	22.6	3.4	2.1
Transport	14.9	4.8	-7.6
Others	32.2	1.5	1.6

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Stable labour market conditions

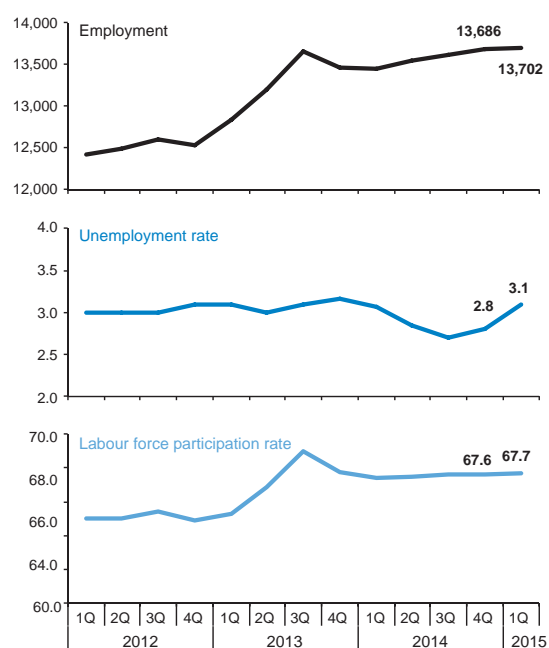
Labour market conditions remained stable during the first quarter, in line with continued expansion across major economic sectors. Labour market participation remained high at 67.7% (4Q 2014: 67.6%), and unemployment remained low, with the unemployment rate at 3.1% (4Q 2014: 2.8%). Retrenchments reported by the Ministry of Human Resources moderated to 2,789 persons (4Q 2014: 2,915 persons). During the quarter, employment was supported by job creation in the manufacturing, construction, and services sectors.

Wage growth improved during the quarter. This was reflected in the growth of aggregate real wages in the manufacturing sector (5.3%; 4Q 2014: 0.4%), which was mainly supported by expansion in wages in the export-oriented industries.

External position remained strong in the first quarter

The current account surplus increased to RM10.0 billion in the first quarter, equivalent to 3.7% of GNI (4Q 2014: RM5.7 billion or 2.1% of GNI). The higher surplus is due to a surplus in the goods account, amid lower deficits in the services and income accounts.

Labour Market Indicators



Balance of Payments¹

	2014			2015
	1Q	4Q	Year	1Q
	RM billion			
Current Account	19.5	5.7	47.3	10.0
(% of GNI)	7.5	2.1	4.4	3.7
Goods	31.2	29.4	113.4	27.5
Services	-0.5	-5.5	-11.2	-3.8
Primary income	-6.6	-13.2	-37.3	-8.5
Secondary income	-4.6	-5.0	-17.6	-5.3
Financial Account	-38.2	-26.6	-81.6	-29.7
Direct investment	-14.4	-2.5	-18.5	-1.2
Assets	-20.6	-9.9	-53.1	-9.8
Liabilities	6.1	7.5	34.6	8.6
Portfolio investment	-14.2	-20.3	-38.5	-7.9
Assets	-7.6	0.3	-28.1	-7.4
Liabilities	-6.6	-20.6	-10.4	-0.5
Financial derivatives	-1.5	0.2	-1.0	0.0
Other investment	-8.1	-4.0	-23.6	-20.6
Errors & omissions ²	1.4	9.1	-2.5	4.0
Overall Balance	-17.3	-11.5	-36.5	-15.7

Assets: (-) denotes outflows due to the acquisition of assets abroad by residents
Liabilities: (+) denotes inflows due to the incurrence of foreign liabilities

¹ In accordance with the Sixth Edition of The Balance of Payments and International Investment Position Manual (BPM6) by the International Monetary Fund (IMF)

² Includes unrealised foreign exchange revaluation gains/losses on international reserves

Source: Department of Statistics, Malaysia

³ Based on preliminary data

Trade Account

	Share 2014 (%)	2014			2015
		1Q	4Q	Year	1Q
		Annual change (%)			
Gross Exports	100.0	10.7	0.5	6.4	-2.5
Manufactured	76.7	12.5	1.8	7.1	0.1
E&E	33.4	12.5	5.5	8.1	6.9
Non-E&E	43.2	12.5	-0.9	6.4	-4.7
Resource based	23.6	9.2	-4.5	4.9	-12.3
Non-resource based	19.6	16.9	3.6	8.2	4.7
Commodities	22.7	5.7	-3.9	4.2	-10.4
Minerals	13.7	8.0	-0.5	6.8	-6.9
Agriculture	9.0	2.2	-8.8	0.6	-16.0
Gross Imports	100.0	5.5	4.6	5.3	0.2
Intermediate goods	59.8	4.4	12.5	7.6	3.0
Capital goods	14.1	-6.4	0.1	-2.1	8.5
Consumption goods	7.4	15.6	2.9	5.7	4.4
Re-exports and dual-use goods	18.8	15.7	-12.7	3.8	-15.0
Trade balance (RM billion)	-	26.3	21.5	83.1	21.3

Source: MATRADE and Department of Statistics, Malaysia

The trade surplus amounted to RM21.3 billion in the first quarter of 2015 (4Q 2014: RM21.5 billion). Gross exports contracted by 2.5% (4Q 2014: +0.5%), reflecting mainly a decline in the growth of commodity exports and resource-based manufactured exports, amid lower commodity prices. Gross imports moderated to a marginal growth of 0.2% (4Q 2014: +4.6%), amid a slower expansion of intermediate imports and a contraction in import for re-exports.

Manufactured export growth moderated due mainly to further contraction in non-E&E exports. The decline in non-E&E exports was mostly due to a contraction in exports of resource based products, particularly

petroleum products. Meanwhile, growth of E&E exports was supported by the continued demand for semiconductors, and growth of exports of non-resource based products was supported by the continued demand for machinery and appliances as well as optical and scientific equipment.

The contraction in commodity exports was attributable to lower prices and demand for crude palm oil and rubber. While lower prices of crude oil and LNG also weighed on commodity export during the quarter, the impact was partly offset by higher export volume of these commodities. In terms of destination, export to the US continued to record a double-digit growth, amid improvements in the US economy. By destination, exports to the region declined, reflecting mainly lower exports to PR China, Korea, Chinese Taipei and the ASEAN economies during the quarter.

Growth of gross imports moderated in the first quarter of 2015, reflecting a slower expansion of intermediate imports, as well as a contraction in imports for re-exports. Intermediate imports grew marginally, amid slower manufacturing activity. Meanwhile, re-export activity remained weak amid lower commodity prices during the quarter. Nevertheless, capital imports recorded a higher growth, supported by continued expansion in private investment. Higher import growth of consumption goods was due mainly to broad-based improvement in major consumption imports, particularly food and beverages.

Malaysia: Direction of Exports

	Share 2014 (%)	2014			2015
		1Q	4Q	Year	1Q
		Annual change (%)			
United States	8.4	4.2	16.9	11.0	14.9
European Union (EU)	9.5	18.5	7.9	11.5	1.7
Japan	10.8	8.5	1.9	4.4	-2.5
Selected ASEAN countries¹	27.4	2.9	5.1	5.8	-2.3
North East Asia	23.8	20.1	-8.7	3.4	-7.1
People's Republic of China	12.1	15.3	-15.7	-4.8	-12.6
Hong Kong SAR	4.8	35.0	-3.9	18.5	7.2
Korea	3.7	15.5	2.5	7.1	-8.9
Chinese Taipei	3.2	28.0	4.8	14.3	-3.8
West Asia²	3.0	-0.7	-2.8	-5.7	-8.0
India	4.2	9.1	16.0	23.9	12.1
Total exports	100.0	10.7	0.5	6.4	-2.5

¹Singapore, Thailand, Indonesia, Philippines, Brunei Darussalam and Vietnam

²United Arab Emirates, Saudi Arabia, Oman, Iraq, Qatar, Kuwait, Jordan, Lebanon, Bahrain, Syria, Palestine, Yemen and Iran

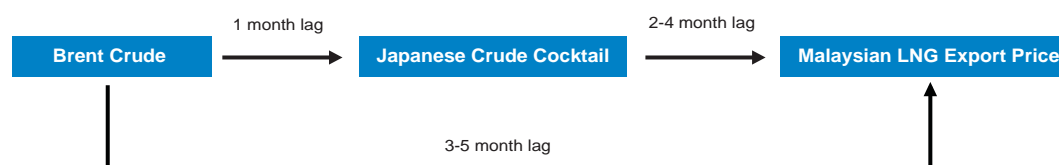
Source: Department of Statistics, Malaysia

The Pricing of Malaysia's LNG Exports

Oil prices (Brent) have declined significantly from a peak of USD115 per barrel in mid-June 2014 to a low of USD57 per barrel by March 2015. Such a steep fall in oil prices have had a negative impact on the prices of other commodities, including LNG, which comprised 8.4% of Malaysia's total exports in 2014. In the past, the prices of Malaysia's LNG exports have broadly trailed oil prices with a lag of 3 to 5 months. The latest figure though, shows a decline in Malaysia's LNG prices by only 5.5%, compared to the 49% fall in oil prices since June 2014. This short article provides some explanation to this trend.

Historically, Malaysia's LNG export prices have been linked to oil prices, albeit with a lag (Figure 1). Malaysia's LNG exports are typically priced using the Japanese Crude Cocktail (JCC)¹ as a benchmark. As the JCC moves in line with other global crude benchmarks, such as Brent crude, it is a useful proxy for Malaysia's LNG pricing. The terms of the contracts are reviewed periodically every 3 to 5 years, based on a *formula-based pricing mechanism*², in line with the price trends in the LNG market.

Figure 1:
Historically, Malaysian LNG exports are priced using the JCC prices as a benchmark



Source: Staff Estimates

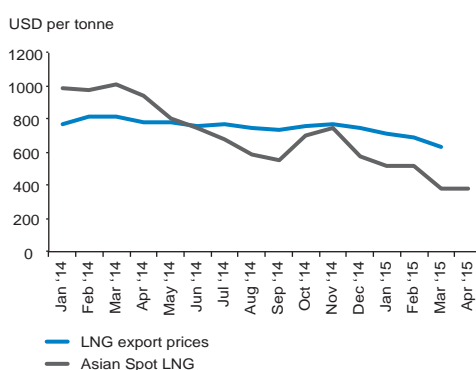
Since LNG prices are indexed to oil prices, LNG prices are expected to decline in line with the decline in oil prices. However, there are factors that may prevent Malaysia's LNG contract prices from experiencing a decline of similar magnitude:

- i) The stability of Malaysia's LNG contract prices as opposed to the volatile spot market prices (Figure 2).
- ii) The elevated demand from Japan post 2011, which led to a weaker pass through between oil and LNG prices (Figure 3). Prior to the Fukushima incident, there was a consistent price lag between oil and LNG prices of 3 months (The 3-month rolling correlation was high at 0.87). Following the Fukushima incident, the pricing lag began to vary with a variable lag of between 3 to 5 months. Of late, the correlation between LNG prices and Brent crude oil prices has weakened to just 0.4 to 0.6 (using a 3 to 5 month rolling correlation).

¹ The JCC is the average price of twenty different types of Japan's crude oil imports.

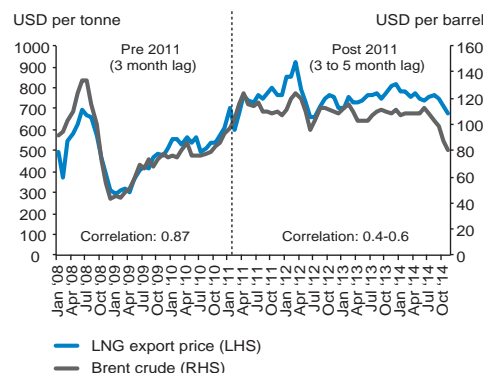
² This pricing mechanism is more applicable to LNG cargoes sold on a contractual basis. Prices are usually the result of direct and confidential negotiations between the buyer and seller, using oil prices as a benchmark. The price of Asian LNG (including Malaysian) contracts can be estimated using a linear formula: LNG price = Slope*Oil price + Constant (Source: ANZ Research).

Figure 2:
Malaysian LNG export prices is less volatile compared to Asian Spot LNG



Source: MATRADE and Platts

Figure 3:
Malaysian LNG prices remained elevated since 2011



Source: MATRADE and Bloomberg

The Fukushima incident led to the shutdown of all 48 operational nuclear plants in Japan, resulting in a surge in Japan's LNG imports to supply the country's electricity needs. Malaysia is one of the major exporters of LNG to Japan, being the nearest LNG exporter to the country.

Continued uncertainties surrounding Japan's nuclear plant restarts is expected to provide support to Malaysia's LNG prices. Over the long term, the timing and feasibility of the nuclear plant restarts hinges on the Japanese government's ability to overcome both regulatory hurdles and negative public sentiments over the usage of nuclear power.

In the near term, Malaysia's LNG prices are therefore expected to be supported by continued demand from Japan. From June 2014 to March 2015, although Brent crude prices declined³ by 49%, Malaysia's LNG prices declined by only 5.5% over the same period⁴.

Conclusion

Historically, while a close relationship existed between LNG and crude oil prices, this relationship has weakened post-Fukushima disaster, due to elevated demand from Japan. As a result, the decline of LNG prices has been less severe than expected. In addition, the contractual nature of Malaysia's LNG exports ensures price stability opposed to the more volatile LNG spot prices.

³ Brent crude prices averaged USD112 per barrel in June 2014, and declined to USD 57 per barrel by March 2015.

⁴ Malaysian LNG export prices averaged RM2,448 per tonne in June 2014, and declined to RM2,314 per tonne by March 2015.

The **services** account recorded a smaller deficit of RM3.8 billion in the first quarter (4Q 2014: -RM5.5 billion). The smaller deficit was attributable mainly to the lower deficit in the construction services account, reflecting smaller payments for engaging foreign technical services for ongoing infrastructure projects. Meanwhile, the deficits in the transportation and insurance services account were also lower, amid more moderate trade activity. During the quarter, the surplus in the travel account was sustained at RM7.2 billion, compared to the previous quarter.

The **primary income** deficit narrowed to RM8.5 billion during the quarter (4Q 2014: -RM13.2 billion), reflecting mainly a lower net payment for investment income. During the quarter, investment income accrued to Malaysian companies investing abroad was higher, particularly in the mining sector, while income from the services sector was broadly sustained. Income accrued to foreign direct investors was lower in particular companies in the manufacturing and finance and insurance sectors. Meanwhile, the higher net payment in the secondary income account (-RM5.3 billion; 4Q 2014: -RM5.0 billion) was due mainly to higher outward remittances.

The **financial account** registered a higher net outflow of RM29.7 billion in the first quarter (4Q 2014: -RM26.6 billion), mainly accounted for by larger other investment outflows.

Direct investment registered a lower net outflow of RM1.2 billion (4Q 2014: -RM2.5 billion). **Outward direct investment** recorded sustained outflows of RM9.8 billion (4Q 2014: -RM9.9 billion). Of these, **direct investment abroad (DIA)** recorded outflows of RM11.1 billion (4Q 2014: -RM12.2 billion), supported mainly by the continued investments overseas by Malaysian companies in the oil and gas industry as well as a sizable acquisition of plantation assets in the agricultural sector. Investments into the services sector abroad, in particular the finance and insurance and transportation and storage sub-sectors, also remained sizeable.

Inward direct investment registered higher inflows of RM8.6 billion (4Q 2014: +RM7.5 billion). Of these, **foreign direct investment (FDI)** recorded an inflow of RM9.9 billion (4Q 2014: +RM9.8 billion), due to higher investments into the oil and gas industry amid further reinvestments into the manufacturing sector, as well as finance and insurance and real estate services sub-sectors.

Portfolio investment recorded a smaller net outflow of RM7.9 billion (4Q 2014: -RM20.3 billion). During the quarter, non-residents continued to liquidate their holdings of equity securities and Bank Negara Monetary Notes upon maturity. However, the extent of the outflows was mostly mitigated by inflows arising from non-resident purchases of offshore debt securities issued by a public enterprise in the oil and gas sector and Malaysian Government Securities. Portfolio investment by residents turned around to register an outflow as domestic institutional investors reacquired foreign debt and equity securities.

Other investments recorded significantly larger outflow of RM20.6 billion (4Q 2014: -RM4.0 billion). This is due mainly to a turnaround in the banking sector to record a large net outflow, amid smaller net outflows in the non-bank sector. The large outflows in the banking sector mainly reflected the higher placement of interbank deposits by Malaysian banks in financial institutions abroad which is part of their centralised treasury operations. Malaysian banks also repaid maturing interbank borrowings during the quarter. Meanwhile, the repayment of trade credits to Malaysian exporters resulted in smaller outflows in the non-bank sector.

Following these developments, the overall balance of payments registered a deficit of RM15.7 billion in the first quarter (4Q 2014: -RM11.5 billion). Errors and Omissions (E&O) amounted to +RM4.0 billion, partly reflecting foreign exchange revaluation changes on international reserves.

Manageable external debt

Malaysia's external debt⁴ stood at RM768.1 billion, equivalent to USD205.1 billion or 65.9% of GDP as at end-March 2015 (end-December 2014: RM747.5 billion or USD211.8 billion, equivalent to 67.5% of GDP). In terms of the external debt profile, more than half of it was in the form of medium- to long-term maturity (54.9%). By currency, about 40% of the total external debt is denominated in ringgit, mainly in the form of non-resident holdings of ringgit-denominated debt securities and deposits. During the quarter, the rise in external debt was due mainly to the valuation effect from the depreciation of the ringgit.

Offshore borrowing increased by 7.6% to RM399.3 billion as at end-March 2015 (end-December 2014: RM371.1 billion). This reflects the valuation effect following the strengthening of most regional and major currencies against ringgit during the quarter. In USD terms, offshore borrowing only increased marginally by USD1.5 billion or by 1.4% to USD106.6 billion (end-December 2014: USD105.2 billion). Excluding foreign exchange revaluation changes, offshore borrowing increased at a more moderate pace of 2.6%, reflecting largely the net drawdown of offshore borrowing by public enterprises, namely the issuance of bonds and notes as well as a sukuk by a company in the oil and gas sector. This net drawdown was partially offset by net repayment of offshore borrowing by bank and non-bank private sector as well as the Federal Government. In general, the offshore borrowing is used mainly to finance the expansion of productive capacity and for better management of financial resources within corporate groups. These borrowings are largely hedged, either naturally through foreign currency earnings, or through the use of financial instruments.

Non-resident deposits increased by 4.2% to RM91.3 billion, equivalent to USD24.4 billion as at end-March 2015 (end-December 2014: RM87.7 billion; USD24.8 billion), mainly due to the valuation effect of foreign-currency denominated deposits. Excluding valuation effects, non-resident deposits increased

by 1.8%. Non-resident holdings of ringgit-denominated debt securities, however, declined to RM210.5 billion (end-December 2014: RM223.3 billion). The decline was largely attributed to the liquidation of Bank Negara Monetary Notes (BNMNs) by non-resident, which are instruments used by the Bank in its monetary policy operations to absorb excess liquidity from the banking system. This was partially offset by the increase in non-resident holdings of the Malaysian Government Securities and Treasury Bills.

The share of short-term external debt declined to 45.1% of the total external debt (end-December 2014: 48.6%) due mainly to the lower non-resident holdings of BNMNs. The short-term external debt remained manageable with reserves coverage of 1.1 times. About two-third of the short-term external debt is held by the banking sector and reflect largely their centralised foreign currency liquidity management with offshore subsidiaries and branches.

Outstanding External Debt

	2014		2015
	end-Mar	end-Dec	end-Mar
	RM billion		
Offshore borrowing ¹	328.2	371.1	399.3
USD billion equivalent	99.6	105.2	106.6
Medium- and long-term	199.5	211.4	242.3
Public sector	97.9	93.1	117.3
Private sector	101.6	118.3	125.0
Short-term	128.7	159.7	157.0
NR holdings of dom. debt securities	231.4	223.3	210.5
Medium- and long-term	156.3	162.4	168.6
Short-term	75.1	60.9	41.9
NR deposits	77.6	87.7	91.3
Others ²	65.4	65.5	67.0
Medium- and long-term	10.7	10.5	10.9
Short-term	54.7	55.0	56.1
Total external debt	702.6	747.5	768.1
USD billion equivalent	213.3	211.8	205.1
External Debt (Previous definition)			
Total debt/GDP (%)	29.7	33.5	34.3
Short-term debt ³ /Total debt (%)	39.2	43.0	39.3
Reserves/Short-term debt ³ (times)	3.3	2.5	2.5 ⁵
External Debt (Redefined)			
Total debt/GDP (%)	63.5	67.5	65.9
Short-term debt ⁴ /Total debt (%)	47.8	48.6	45.1
Reserves/Short-term debt ⁴ (times)	1.3	1.1	1.1 ⁵

¹ Equivalent to the external debt as previously defined, comprised mainly foreign currency loans raised, and bonds and notes issued offshore.

² Comprise trade credits, IMF allocation of SDRs and miscellaneous.

³ Equivalent to short-term offshore borrowing.

⁴ Short-term offshore borrowing, NR holdings of short-term domestic debt securities, NR deposits and other short-term debt.

⁵ Based on international reserves as at 30 April 2015.

Note: NR refers to non-resident

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

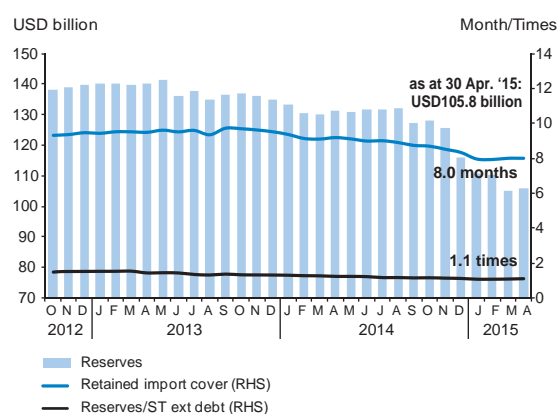
⁴ This refers to the external debt as redefined, effective from the first quarter of 2014. Apart from the offshore borrowing covered under the previous definition, the redefined external debt also includes non-resident holdings of ringgit debt securities, non resident deposits with the banking system and other debt liabilities to non-residents. For more information, please refer to the box article entitled 'The Redefinition of External Debt' in the Quarterly Bulletin on Economic and Financial Developments in the Malaysian Economy in the First Quarter of 2014.

International reserves remained ample

The international reserves of BNM amounted to RM389.7 billion (equivalent to USD105.1 billion) as at 31 March 2015. This reserve level has taken into account the quarterly adjustment for foreign exchange revaluation changes.

As at 30 April 2015, the reserves position amounted to RM392.4 billion (equivalent to USD105.8 billion), sufficient to finance 8.0 months of retained imports and is 1.1 times the short-term external debt.

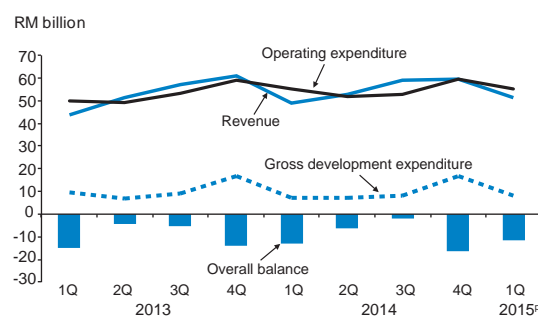
Net International Reserves (as at end period)



Lower Government deficit as the growth of operating expenditure moderated

In the first quarter of 2015, Federal Government recorded a fiscal deficit of -4.2% of GDP (4Q 2014: -5.7% of GDP). This was due to the moderation in the growth of Government expenditure to 1.8%, which was accounted mostly by the lower spending on subsidy. Consequently, the operating expenditure grew only by 0.4% (4Q 2014: 1.6%). Development expenditure expanded by 13.2%, disbursed mainly for education and public amenities. Government revenue increased at a sustained pace of 4.8% (4Q 2014: -2.3%). As at end-March 2015, total outstanding debt of the Federal Government amounted to RM596.8 billion or 51.2% of the estimated 2015 GDP.

Federal Government Finance



^P Preliminary

Source: Ministry of Finance, Malaysia

Federal Government Finance^P

	2014			2015
	1Q	4Q	Year	1Q
RM billion				
Revenue	49.2	59.6	220.6	51.5
% annual growth	12.4	-2.3	3.4	4.8
Operating expenditure	55.2	59.7	219.6	55.4
% annual growth	10.6	1.6	3.9	0.4
Current account	-6.0	-0.1	1.0	-3.9
% of GDP	-2.3	0.0	0.1	-1.4
Net development expenditure	7.0	16.4	38.4	7.9
% annual growth	-20.9	2.1	-5.5	13.2
Overall balance	-13.0	-16.5	-37.4	-11.8
% of GDP	-4.9	-5.7	-3.4	-4.2
Memo item:				
Total net expenditure	62.2	76.1	258.0	63.3
% annual growth	5.9	1.7	2.4	1.8
Total Federal Government debt (as at end-period)	560.6	582.8	582.8	596.8
% of GDP	50.7	52.7	52.7	51.2
Domestic debt	398.4	414.7	414.7	418.9
% of GDP	36.0	37.5	37.5	35.9
External debt	162.1	168.2	168.2	177.9
% of GDP	14.7	15.2	15.2	15.3
Non-resident holdings of RM-denominated Federal Government debt	145.7	151.4	151.4	160.2
% of GDP	13.2	13.7	13.7	13.7
Offshore borrowing	16.5	16.8	16.8	17.6
% of GDP	1.5	1.5	1.5	1.5

^P Preliminary

Note: Beginning first quarter of 2015, GDP has been rebased from base year 2005 to base year 2010

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

MONETARY AND FINANCIAL DEVELOPMENTS

Interest rates remained stable

The Monetary Policy Committee (MPC) decided to maintain the Overnight Policy Rate (OPR) at 3.25% during the first quarter of 2015. At the prevailing level of the OPR, monetary conditions remained supportive of economic activity.

Reflecting the unchanged OPR, the average overnight interbank rate was relatively stable during the quarter, moving within a range of 3.14% to 3.25% between 1 January and 31 March 2015. Interbank rates of other short-term maturities (less than 1 month) were also relatively stable. Interbank rates of longer maturities continued to be elevated in January, reflecting the increase in funding cost of banks due to higher competition for stable funding amid slower growth in deposits due to net external outflows. However, following BNM's announcement on 30 January 2015 on the arrangements to facilitate transition to the full implementation of the Liquidity Coverage Ratio (LCR) by 2019, a moderation of the Kuala Lumpur Interbank Offered Rates (KLIBOR) was observed. These arrangements include broadening the scope of recognition of high-quality liquid assets (HQLA) and further clarification on the treatment of banks' expected cash outflows, which have helped to ease funding pressures. For the quarter as a whole, 3-month KLIBOR decreased from 3.86% to 3.73%. Rates on interest rate swaps and the 3-month KLIBOR futures were lower in the first quarter, as earlier expectations for an interest rate increase continued to ease.

Retail deposit rates were stable during the quarter. The average quoted fixed deposit (FD) rates of commercial banks were relatively unchanged. The average fixed deposit (FD) rates of commercial banks for the tenures 1 to 12 months ranged from 3.08% to 3.30%, respectively.

Borrowing costs to the economy were broadly stable throughout the quarter. On 2 January 2015, the Base Rate (BR) replaced the base lending rate (BLR) as the main reference rate for new retail floating rate loans and financing facilities. Upon introduction, the average BR of banks stood at 3.90% where it remained as at 31 March 2015. The transition to BR was neutral on retail lending rates, with most major banks

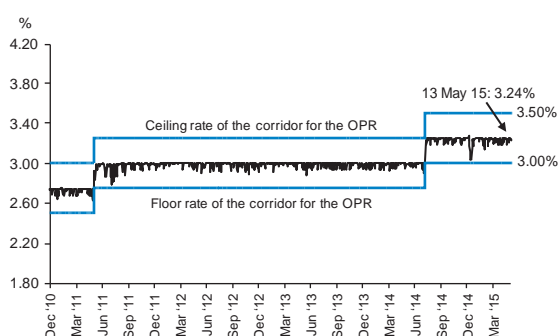
maintaining the same effective lending rates under the BLR and the BR. This was reflected by the stable average lending rate of commercial banks at 5.48% at the end of the first quarter.

Interest Rates

	2014		2015
	1Q	4Q	1Q
At end-period (%)			
Overnight Policy Rate (OPR)	3.00	3.25	3.25
Interbank rates			
Overnight	3.00	3.23	3.24
1-month	3.06	3.38	3.28
Base lending rate (BLR)			
Commercial banks	6.53	6.79	6.79
Base rate (BR)			
Commercial banks	-	-	3.90
Weighted average lending rate			
Commercial banks	5.39	5.51	5.48
Fixed deposit rates			
Commercial banks			
1-month	2.91	3.08	3.08
12-month	3.15	3.31	3.30

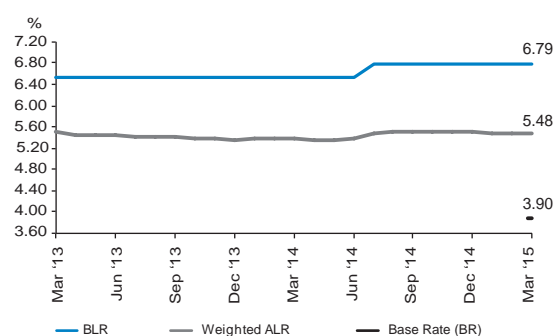
Source: Bank Negara Malaysia

Daily Weighted Average Overnight Interbank Rate



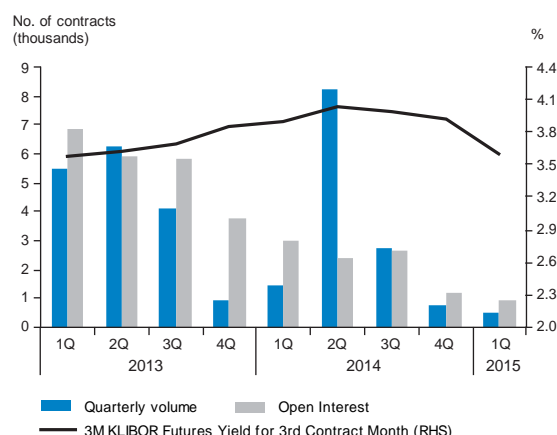
Source: Bank Negara Malaysia

Lending Rates of Commercial Banks (At end-period)

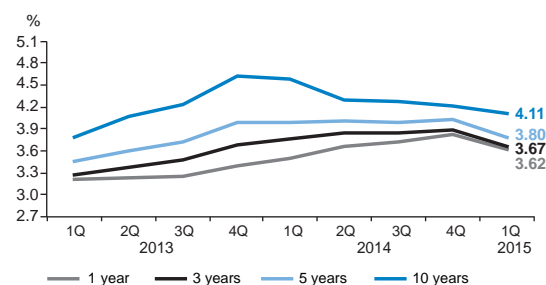


Source: Bank Negara Malaysia

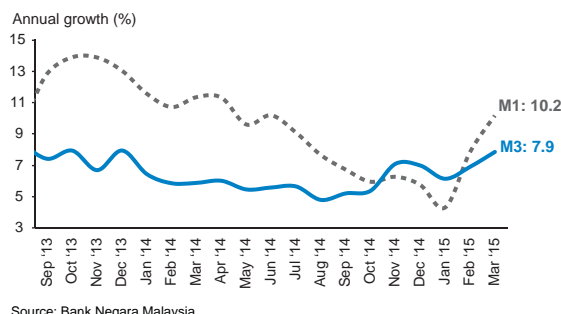
3 Month KLIBOR Futures



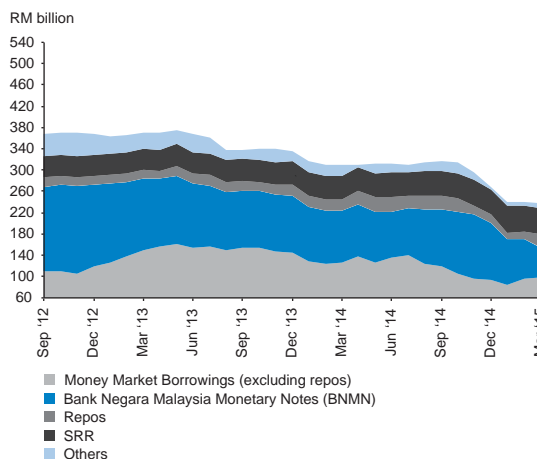
Interest Rate Swap: Rates



Monetary Aggregates



Outstanding Liquidity Placed with Bank Negara Malaysia (At end-period, RM billion)



M3 continued to expand

The monetary aggregates continued to expand in the first quarter. M1, or narrow money, increased by RM13.9 billion during the quarter. On an annual basis, M1 expanded by 10.2% as at end-March (end-December 2014: 5.7%). M3, or broad money, increased by RM35.9 billion on a quarter-on-quarter basis to record an annual growth rate of 7.9% as at end-March (end-December 2014: 7.0%).

The increase in M3 during the quarter was driven mainly by the continued expansion in credit extended to the private sector by the banking system. The expansion in broad money, however, was moderated somewhat by lower net claims on the Government and lower net foreign assets.

In the banking system, liquidity conditions remained ample at both the institutional and system-wide levels. The level of surplus liquidity placed with BNM was marginally lower during the quarter due to external sector outflows.

Determinants of Broad Money, M3

	Change during the period			
	2014			2015
	1Q	4Q	Year	1Q
RM billion				
M3	21.7	49.9	101.5	35.9
Net claims on Government	7.0	18.2	34.3	-4.6
Claims on private sector	24.3	40.8	118.0	28.3
Loans	24.6	38.4	111.4	25.2
Securities	-0.3	2.4	6.6	3.1
Net foreign assets ¹	3.8	-28.1	-19.3	-1.9
BNM	-18.0	-28.5	-44.1	-25.0
Banking System	21.8	0.4	24.8	23.1
Other influences	-13.5	19.0	-31.5	14.2

¹ Pre-revaluation

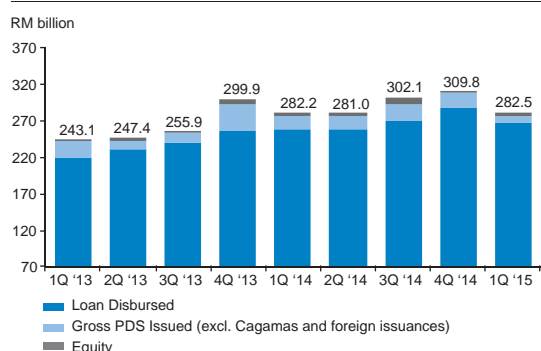
Note: Numbers may not add up due to rounding

Source: Bank Negara Malaysia

Private sector financing activity was sustained in the first quarter

In the first quarter, total gross financing raised by the private sector through the banking system and the capital market amounted to RM282.5 billion (4Q 2014: RM309.8 billion). On a net basis, outstanding banking system loans and PDS expanded by 8.3% as at end-March (end-December 2014: 8.8%).

Gross Private Sector Financing through the Banking System and Capital Market



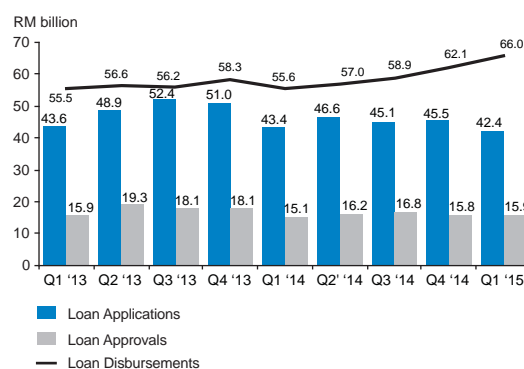
Source: Bank Negara Malaysia

Net lending to businesses by the banking system expanded by RM9.8 billion during the quarter (4Q 2014: RM17.7 billion). On an annual basis, outstanding business loans grew at a slower pace of 8.9% as at end-March (end-December 2014: 9.4%). Notwithstanding that, loan disbursement to businesses during the

quarter remained steady, with higher level of credit extended mainly to the *finance, insurance and business services; mining and quarrying; and education, health and others* sectors. In particular, financing for SMEs continued to be strong, with outstanding SME loans growing at 17.2% as at end-March (end-December 2014: 14.0%). In addition, the level of loans disbursed to SMEs remained high, with loans disbursed being RM3.9 billion more than the previous quarter.

Net financing to the household sector expanded by RM16.3 billion during the quarter (4Q 2014: RM17.9 billion). On an annual basis, outstanding household loans growth remained stable at 9.8% as at end-March (end-December 2014: 9.9%).

Bank Lending to SMEs



Source: Bank Negara Malaysia

Financing of the Private Sector through the Banking System and Capital Market

	During the period (RM billion)			Annual growth (%)				
	2014			2015	2014			2015
	1Q	4Q	Year	1Q	1Q	4Q	Year	1Q
Gross total financing	282.2	309.8	1,175.2	282.5	16.1	3.3	12.3	0.1
Loans disbursed	258.4	287.7	1,073.9	267.3	17.4	12.2	13.2	3.5
Gross PDS ¹	19.6	21.2	82.1	10.5	-11.1	-41.2	0.0	-46.5
Equity	4.2	1.0	19.2	4.7	320.7	-87.1	19.6	11.3
Net total financing (A)+(B)	32.3	52.4	144.2	26.0	9.6	8.8	8.8	8.3
Banking system	22.1	44.3	121.3	23.7	9.7	9.2	9.2	9.2
Loans outstanding (A)*	21.0	41.6	114.1	22.2	10.2	9.3	9.3	9.2
Holding of PDS	1.1	2.7	7.3	1.5	3.4	7.9	7.9	8.2
PDS outstanding (B)	11.3	10.8	30.1	3.8	7.7	7.3	7.3	5.4
Memorandum item								
Gross PDS ²	20.5	21.6	85.5	10.9	-9.1	-40.1	2.0	-46.8

* Banking systems loans include loans sold to Cagamas

¹ Excluding Cagamas and foreign issuances

² Including Cagamas and foreign issuances

Note: Numbers may not add up due to rounding

Source: Bank Negara Malaysia

Loan Indicators

	During the period (RM billion)				Annual growth (%)			
	2014			2015	2014			2015
	1Q	4Q	Year	1Q	1Q	4Q	Year	1Q
Total								
Loan applications	185.7	210.1	822.1	178.5	-0.8	-0.2	0.2	-3.9
Loan approvals	91.2	106.4	401.4	94.0	4.3	8.6	2.3	3.1
Loan disbursements	258.4	287.7	1,073.9	267.3	17.4	12.2	13.2	3.5
Loan repayments	245.9	258.5	996.5	255.5	18.4	12.8	15.6	3.9
Change in loans outstanding*	21.0	41.6	114.1	22.2	10.2	9.3	9.3	9.2
Of which:								
Business enterprises^{1,2}								
Loan applications	86.3	100.4	386.2	78.4	1.9	12.7	7.6	-9.1
Loan approvals	34.8	46.1	160.0	39.9	0.9	24.5	3.4	14.5
Loan disbursements	184.0	209.9	770.3	189.0	23.3	17.6	18.6	2.7
Loan repayments	179.5	192.3	735.5	187.8	24.4	16.7	21.1	4.6
Change in loans outstanding*	11.0	17.7	42.3	9.8	8.7	9.4	9.4	8.9
SMEs¹								
Loan applications	43.4	45.5	180.7	42.4	-0.5	-10.8	-7.8	-2.4
Loan approvals	15.1	15.8	63.8	15.9	-5.3	-12.8	-10.6	5.6
Loan disbursements	55.6	62.1	233.7	66.0	0.2	6.5	3.1	18.9
Loan repayments	52.7	57.5	222.5	60.3	2.1	7.7	5.9	14.4
Change in loans outstanding*	7.1	10.0	27.8	14.6	13.0	14.0	14.0	17.2
Large corporations²								
Loan applications	42.8	54.9	205.5	36.1	4.5	44.1	26.1	-15.8
Loan approvals	19.8	30.4	96.2	24.0	6.3	60.2	15.3	21.3
Loan disbursements	128.4	147.8	536.6	122.9	37.0	23.0	26.9	-4.3
Loan repayments	126.8	134.8	513.0	127.5	36.9	20.9	29.1	0.5
Change in loans outstanding*	3.9	7.6	14.5	-4.8	5.5	5.7	5.7	2.3
Households								
Loan applications	99.4	109.7	435.9	100.1	-3.1	-9.6	-5.6	0.7
Loan approvals	56.3	60.3	241.4	54.1	6.5	-1.1	1.6	-3.9
Loan disbursements	74.4	77.8	303.6	78.3	5.1	-0.3	1.6	5.3
Loan repayments	66.3	66.2	261.0	67.7	4.7	2.9	2.4	2.1
Change in loans outstanding*	15.9	17.9	68.9	16.3	11.6	9.9	9.9	9.8

* The annual growth is for end-period.

¹ Include loans to individual businesses.

² Include domestic financial institutions, government, domestic other entities and foreign entities, except for loan outstanding which refers to businesses only.

Note: Numbers do not add up due to rounding

Source: Bank Negara Malaysia

Loans by Sector

	Loans disbursed					Loans out-standing
	During the period (RM billion)				Share of total	Share of total
					(%)	
	1Q 14	4Q 14	2014	1Q 15		
Business enterprises^{1*}	184.0	209.9	770.3	189.0	70.7	42.9
<i>Large corporations¹</i>	128.4	147.8	536.6	122.9	46.0	25.2
<i>SMEs*</i>	55.6	62.1	233.7	66.0	24.7	17.7
<i>Selected sectors¹</i>						
Agriculture, hunting, forestry and fishing	8.7	8.4	31.3	8.8	3.3	2.4
Mining and quarrying	3.5	2.9	12.2	7.0	2.6	0.8
Manufacturing	54.4	54.7	213.4	50.4	18.9	7.3
Construction	16.8	19.2	65.5	17.4	6.5	4.3
Real estate	12.9	14.3	51.6	13.3	5.0	6.5
Electricity, gas and water supply	2.6	2.1	14.0	1.8	0.7	0.8
Wholesale and retail trade, restaurants and hotels	53.7	59.8	221.1	47.0	17.6	7.3
Transport, storage and communication	5.7	7.2	27.0	6.1	2.3	2.5
Finance, insurance and business services	18.9	29.0	96.2	24.9	9.3	6.8
Households	74.4	77.8	303.6	78.3	29.3	57.1
Purchase of residential properties	19.7	21.7	81.4	21.0	7.9	27.8
Consumption credit	40.3	43.9	167.7	44.3	16.6	17.5
Of which:						
<i>Credit cards</i>	24.2	26.3	99.3	26.3	9.8	2.6
<i>Purchase of passenger cars</i>	9.0	9.8	37.8	10.8	4.0	10.5
Others	14.4	12.1	54.6	13.0	4.9	11.9
Total	258.4	287.7	1,073.9	267.3	100.0	100.0

* Include loans to individual businesses.

¹ Include domestic financial institutions, government, domestic other entities and foreign entities.

Note: Numbers do not add up due to rounding

Source: Bank Negara Malaysia

Lower net funds raised in the capital market

Net funds raised in the capital market moderated to RM21.0 billion in the first quarter (4Q 2014: RM26.4 billion). The decline was due mainly to lower net issuances of government and private debt securities.

In the public sector, net funds raised moderated to RM13.2 billion (4Q 2014: RM15.3 billion) given the higher redemptions of government securities amounting to RM13.8 billion (4Q 2014: RM7.5 billion). Funds were raised through new issuances of a 7-year and 10-year Malaysian Government Security (MGS) and 5-year, 7-year and 15-year Government Investment Issue (GII), as well as the re-opening of a 3-year and 15-year MGS. Additionally, funds were raised via a RM4.0 billion issuance of the Government Housing Sukuk.

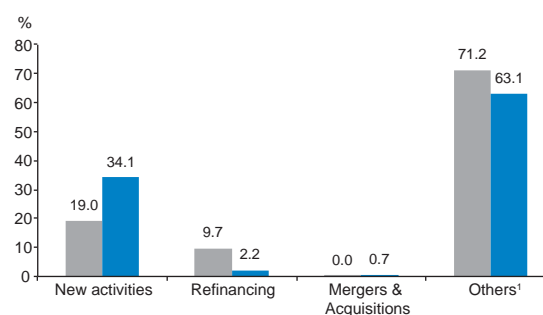
In the private sector, net funds raised were also lower at RM7.8 billion (4Q 2014: RM11.2 billion), due mainly to lower net issuances of private debt securities (PDS). Funds raised in the PDS market were mainly driven by issuances in the *finance, insurance, real estate and business services* sector, which were used to finance new activities. Meanwhile, equity issuances during the quarter were higher amounting to RM4.7 billion (4Q 2014: RM1.0 billion).

Net Funds Raised in the Capital Market

	2014			2015
	1Q	4Q	Year	1Q
RM billion				
By Public Sector	24.0	15.3	49.9	13.2
Government securities, Gross	27.5	22.8	96.8	27.0
Malaysian Government Securities	14.5	12.7	51.4	13.5
Government Investment Issues	9.0	6.6	33.9	9.5
Sukuk Pinjaman Perumahan Kerajaan	4.0	3.4	11.5	4.0
Less: Redemptions	3.5	7.5	46.9	13.8
Malaysian Government Securities	-	2.0	26.4	11.8
Government Investment Issues	3.5	5.5	20.5	2.0
Sukuk Pinjaman Perumahan Kerajaan	-	-	-	-
By Private Sector	15.4	11.2	50.2	7.8
Shares	4.2	1.0	19.2	4.7
Private Debt Securities, Net	11.2	10.2	31.0	3.1
Private Debt Securities, Gross	20.5	21.6	85.5	10.9
Less: Redemptions	9.4	11.4	54.5	7.8
Total	39.4	26.4	100.1	21.0

Note: Numbers may not add up to total due to rounding
Source: Bank Negara Malaysia and Bursa Malaysia

Private Debt Securities Issued by Purpose (% of total)



¹ Includes issuance by non-residents & Cagamas and for the purpose of working capital and general business activities

Source: Bank Negara Malaysia

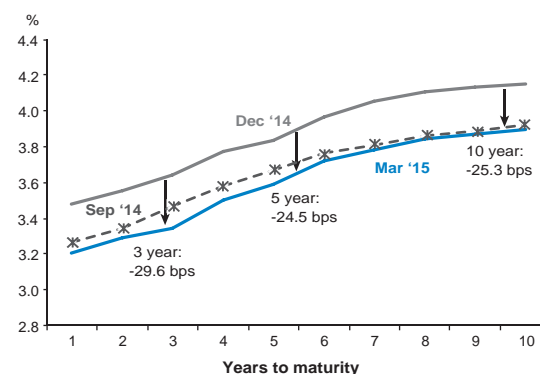
Bond yields declined in the first quarter

MGS yields were on a declining trend in the first quarter amid the resumption of non-resident inflows amounting to RM6.1 billion into the MGS market during the quarter. For the quarter as a whole, yields on the 3-year, 5-year and 10-year MGS declined by 30, 25, 25 basis points respectively. In the PDS market, corporate yields remained relatively stable on account of sustained demand by domestic investors.

Secondary trading in the bond market increased

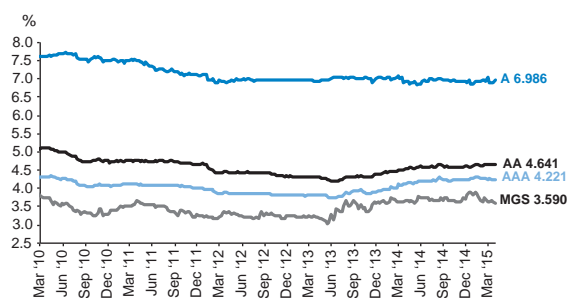
Total trading in the secondary market increased to RM238.4 billion during the quarter (4Q 2014: RM181.2 billion), reflecting increased and steady trading activities by financial institutions and non-resident investors. The increase in turnover was mainly concentrated in the trading of MGS and GII which registered higher liquidity ratio of 0.42 and 0.38 respectively. The liquidity ratio in the PDS segment remained relatively unchanged at 0.06.

Trend in MGS Yields



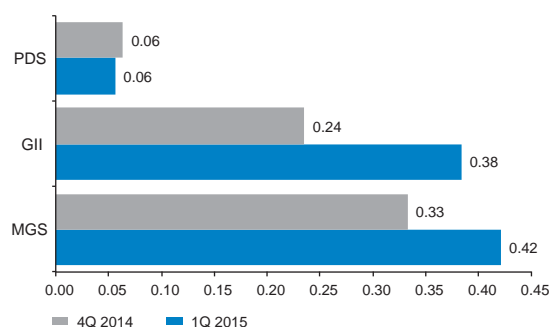
Source: Bank Negara Malaysia

5 year MGS and 5 year Corporate Bond Yield



Source: Bank Negara Malaysia

Liquidity Ratio: Value of Bond Traded / Outstanding

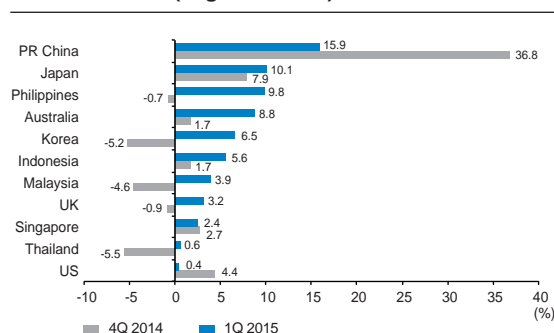


Source: Bank Negara Malaysia

FBM KLCI increased during the quarter, in tandem with regional markets

In the first quarter, the FBM (FTSE Bursa Malaysia) KLCI increased by 3.9% to close at 1,830.8 points (end-Dec 2014: 1,761.3 points). The increase was driven mainly by higher demand by domestic investors, supported by the announcement of strong corporate earnings for 4Q 2014. In line with the trends in global and regional markets, the index was further lifted by renewed interest from foreign investors amid the announcement of additional monetary stimulus by the European Central Bank.

Performance of Selected Global and Regional Equity Markets in 2015 (% growth QoQ)



Source: Bloomberg and Bank Negara Malaysia calculations

Overall, market capitalisation increased to RM1.74 trillion as at end-March 2015 (end-December 2014: RM1.65 trillion) while the daily average turnover increased to 2.11 billion units (4Q 2014: 1.94 billion units) during the quarter.

On 13 May 2015, the FBM KLCI ended lower at 1,803.0 points (since end-Mar 2015: -1.5%), with market capitalisation of RM1.72 trillion (since end-Mar 2015: -0.8%).

Bursa Malaysia: Selected Market Indicators

	2014			2015
	As at end			
	Mar	Dec	Year	Mar
Price Indices				
Composite	1,849.2	1,761.3	1,761.3	1,830.8
FBMEMAS ¹	12,797.6	12,066.3	12,066.3	12,563.4
ACE Market ²	6,661.3	5,653.4	5,653.4	7,120.2
Market capitalisation (RM billion)	1,719.1	1,651.2	1,651.2	1,737.5
No. of companies listed	907	906	906	903
During the period				
	1Q	4Q	Year	1Q
Average daily turnover				
Volume (million units)	2,046.4	1,944.4	2,157.1	2,107.4
Value (RM million)	2,158.8	1,999.9	2,161.8	2,177.4

¹FBMEMAS stands for FTSE Bursa Malaysia EMAS Index

²From 3 August 2009, MESDAQ market was replaced with ACE Market

Source: Bursa Malaysia

Bursa Malaysia: Market Turnover

	2014						2015	
	1Q		4Q		Year		1Q	
	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion
Turnover	120.7	127.4	122.5	126.0	530.7	531.8	124.3	128.5
Of which:								
Main Board	91.3	119.7	85.5	117.3	397.1	501.2	75.8	117.7
Of which								
Consumer Products	8.4	7.1	5.3	5.2	29.6	26.3	7.4	6.4
Industrial Products	18.9	13.1	13.3	11.2	72.0	52.2	12.8	11.1
Construction	4.0	5.9	3.4	5.7	19.0	26.3	3.7	5.9
Trading/Services	33.9	51.9	42.0	56.7	172.0	219.0	32.7	55.4
Finance	3.4	18.8	3.1	18.7	13.9	84.9	3.5	21.3
Properties	10.5	7.8	6.1	6.3	41.0	34.6	5.4	4.8
Plantations	1.7	5.4	1.2	3.6	6.3	19.8	1.0	3.5
Infrastructure	1.5	4.7	1.3	4.4	5.4	17.2	1.0	4.4
ACE Market ¹	26.8	7.0	30.3	7.3	115.6	27.1	41.2	8.7

¹From 3 August 2009, MESDAQ market was replaced with ACE Market

Source: Bursa Malaysia

Ringgit depreciated against most major and regional currencies

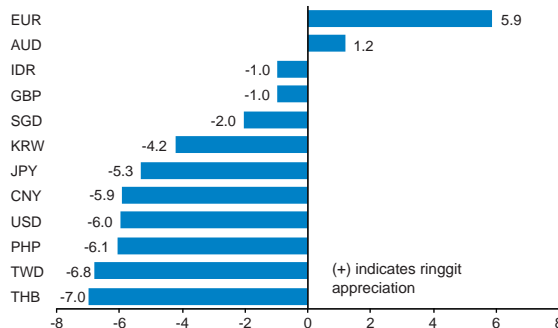
The ringgit and other regional currencies continued to face volatility in the first quarter due to uncertainty in global monetary conditions, which led to portfolio investment outflows. Concerns on global economic outlook, following downward revisions of 2015 global growth projections by international financial institutions also affected sentiment. The ringgit was also affected by concerns over the impact of lower global crude oil prices on the Malaysian economy. Depreciation pressure on the ringgit was also mainly due to the unwinding of BNM bills by international investors.

Overall, the ringgit depreciated by 6.0% against the US dollar during the quarter. Against other major currencies, the ringgit appreciated against the euro (5.9%) and the Australian dollar (1.2%) but depreciated against the pound sterling (-1.0%), and the Japanese yen (-5.3%). Against regional currencies, the ringgit depreciated by between 1.0% and 7.0%.

Between 1 Apr and 13 May 2015, the ringgit appreciated against the US dollar by 3.1%. The ringgit also appreciated against the Japanese yen (2.8%), but depreciated against the euro (-0.9%), the Australian dollar (-1.5%) and the pound sterling (-2.8%). The ringgit appreciated against most regional currencies.

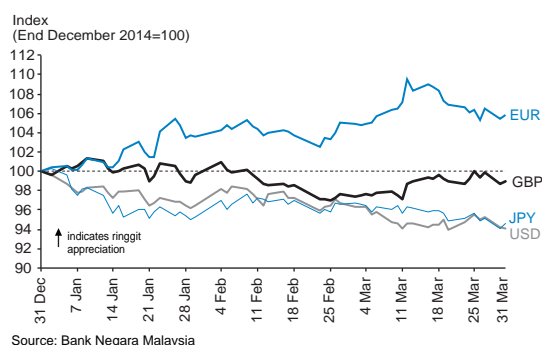
Summary of Ringgit Performance against Selected Currencies

Percent Change (1 January - 31 March 2015)

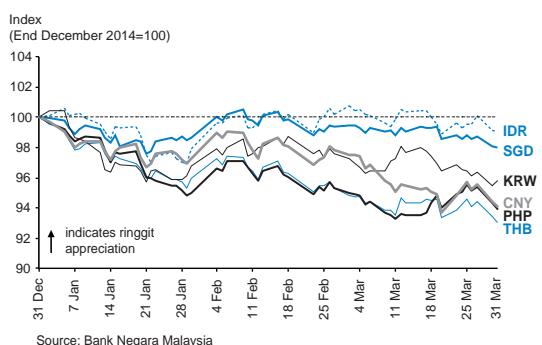


Source: Bank Negara Malaysia

Ringgit Performance against Major Currencies



Ringgit Performance against Regional Currencies



Activity in the foreign exchange derivatives market remained subdued while corporate hedging activities increased

In the first quarter of 2015, foreign exchange derivatives activity decreased by 5.6% compared to the previous quarter mainly contributed by the decline in interbank swap market activities. The implied cost of raising ringgit in the foreign exchange market reduced as the 5-year USD/RM cross-currency swap trended higher from 73 bps in December 2014 to 83 bps in March 2015.

This is partly due to the decline in ringgit funding requirement for banks through the swap market as most banks have complied with the Basel III minimum Liquidity Coverage Ratio requirements by end-March 2015.

Despite the fall in overall derivatives volume, resident corporates' hedging activities were more vibrant in 1Q 2015. Importers increased their foreign exchange hedging activities via forwards, options, and swaps, driven by anticipation of rising volatilities in regional currencies including ringgit.

Performance of Ringgit against Selected Currencies

RM per foreign currency	As at end				% change since*		
	21 Jul 05	1Q 14	4Q 14	1Q 15	21 Jul 05	1Q 14	4Q 14
US dollar	3.8000	3.2685	3.4950	3.7165	2.2	12.1	-6.0
Euro	4.6212	4.4934	4.2513	4.0153	15.1	11.9	5.9
Pound sterling	6.6270	5.4354	5.4396	5.4935	20.6	-1.1	-1.0
Australian dollar	2.8823	3.0173	2.8664	2.8329	1.7	6.5	1.2
100 Japanese yen	3.3745	3.1770	2.9255	3.0903	9.2	2.8	-5.3
Singapore dollar	2.2570	2.5927	2.6449	2.6997	-16.4	-4.0	-2.0
100 Thai baht	9.0681	10.077	10.627	11.423	-20.6	-11.8	-7.0
100 Philippine peso	6.8131	7.2795	7.8066	8.3111	-18.0	-12.4	-6.1
100 Indonesian rupiah	0.0386	0.0288	0.0281	0.0284	36.1	1.3	-1.0
100 Korean won	0.3665	0.3065	0.3201	0.3342	9.7	-8.3	-4.2
100 New Taiwan dollar	11.890	10.727	11.068	11.874	0.1	-9.7	-6.8
Chinese renminbi	0.4591	0.5251	0.5637	0.5993	-23.4	-12.4	-5.9

* (+) indicates appreciation of ringgit against respective currency and (-) indicates depreciation.

Source: Bank Negara Malaysia

MANAGING RISKS TO FINANCIAL STABILITY

Domestic financial stability continues to be preserved

Financial system resilience remained intact amid continued volatile financial and commodity market conditions during the quarter. Financial intermediation activities were well-supported by sound financial institutions, orderly financial market conditions and continued ample domestic liquidity. Domestic financial system stability is expected to be maintained and this will continue to support sustained growth of the domestic economy.

Credit risk exposures remained manageable underpinned by sustained debt servicing capacity of borrowers

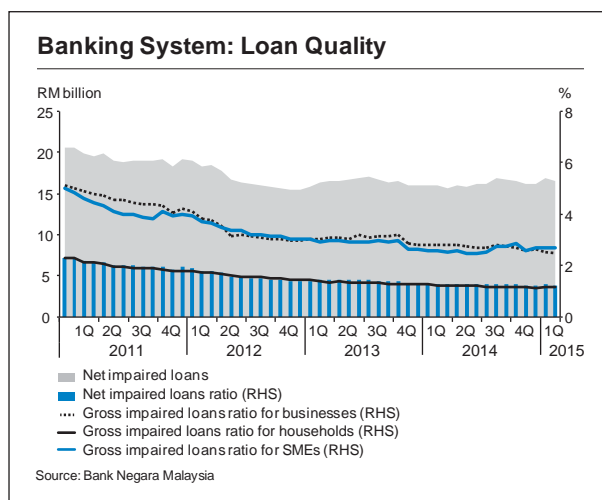
Credit risk exposures of banks remained broadly stable during the quarter, supported by sustained debt servicing capacity of most borrowers. Loan-in-arrears of between one and three months decreased slightly to 2.4% (4Q 2014: 2.5%) of total loans. Net loan impairment were unchanged at 1.2% as a percentage of net loans. In the insurance industry, credit exposures, largely via holdings of private debt securities, remained stable at 3.9% of total capital base (4Q 2014: 3.9%).

Credit risk exposures to the household sector continued to be well-contained. Expansion in household borrowings slowed further to 2.0% for the quarter (4Q 2014: 2.3%) driven by the flat quarterly growth of personal financing (1Q 2015: 0.1%; 4Q 2014: 1.2%) and modest quarterly expansion of 2.8% (4Q 2014: 3.0%) of house financing. The improved performance of the KLCI is the main driver of the expansion in aggregate household financial assets (1Q 2015: +2.7%, 4Q 2014: +1.3%). As at end-1Q 2015, household financial assets remained above two times of debt. Impaired loans and loan-in-arrears ratios for the banking system continued to be at low levels of 1.1% and 1.5% of total household borrowings respectively. This is further supported by continued prudence in underwriting standards of banks where about 80% of new loans were to borrowers with an aggregate debt service ratio (DSR) of below 60%.

Potential credit losses from banks' exposures to the business sector remained contained on account of sustained financial strength of most

businesses. The leverage position of businesses, as measured by the median debt-to-equity ratio, improved to 41.5% (3Q 2014: 42.7%) at the end of 2014. In terms of debt level, growth in total business sector borrowings was slower at 1.2% at end-1Q 2015 (4Q 2014: +2.9%). External debt expanded by 2.5% in 4Q 2014 after a negative growth of 4% in the preceding quarter. On an annual basis, the growth in external debt as at end-2014 was only marginal at 0.05% (2013: 22.6%). This rebound in the fourth quarter was attributed mainly to intra-group funding and bond issuances for the overseas operations with matching currencies. Thus far, developments in commodity prices and ringgit exchange rates have had minimal overall impact on the business sector. The median interest coverage ratio (ICR), which indicates debt servicing capacity, stood firm at 6.3 times in 4Q 2014, while the ratio of current asset-to-current liability held steady at 1.8 times. Lower input costs (from lower commodity prices) and higher ringgit equivalent earnings on exports outweighed the adverse effects of higher import payments for the affected sectors. Despite the lower ICR recorded by the oil and gas, and crude and palm oil producers, the debt servicing capacity of businesses in these sectors remained above two times. The risk of overall potential delinquency, using the expected default frequency as a proxy, remained unchanged at 0.19%.

In the property market, average house prices recorded a slower overall growth for four successive quarters. The annual growth of Malaysian House Price Index (MHPI) moderated further to 7.9% in the third quarter of 2014 (2Q 2014: 8.4%), reflecting the slower growth in residential property transactions (3Q 2014: 4.3%, 2Q 2014: 5.3%), particularly in the secondary market, across all price range. Growth in house prices is expected to remain stable going forward supported by sustained demand in the primary market amid strong marketing activities by developers. New launches are also seeing a shift towards properties priced below RM1 million. Credit-induced speculative purchases of residential properties remained well contained. The growth in the number of borrowers with three or more outstanding housing loans stood at 3.3% (4Q 2014: 3%) and accounted for 3% of individuals with outstanding housing loans.



Exposures to market risk was well-contained

Domestic financial markets remained resilient despite heightened volatility during the quarter. Portfolio investments recorded a lower net outflow position of RM7.9 billion (4Q 2014: net outflow of RM20.3 billion) for the quarter. The outflow was attributable mainly to domestic institutional investors' portfolio investment abroad. The average volatility of the FBM KLCI rose to 11.7% (4Q 2014: 7.7%) while the average volatility of the 10-year MGS yield doubled to 13% (4Q 2014: 6.7%). The FBM KLCI ended the quarter higher at 1,830.8 points (4Q 2014: 1,761.3 points) in line with other regional equity markets on investor expectations of a possible delayed increase in US interest rates. Yields for the 10-year MGS eased to 3.9% (4Q 2014: 4.1%), reflecting sustained interest by non-residents in the MGS market. The price-to-earnings ratio of the FBM KLCI remained broadly stable at 16.9 times (4Q 2014: 16.3 times), underpinned by strong economic fundamentals of the country. Trading liquidity, both in terms of price and volume, remained intact. The bid-ask spreads for MGS and FBM KLCI were unchanged at 0.1% and 0.4% of the mid-price respectively. The turnover ratio for MGS and FBM KLCI was higher at 14.5% and 2.0% respectively (4Q 2014: 10.8% and 1.8% respectively) reflecting active trading activities by domestic institutional investors and financial institutions.

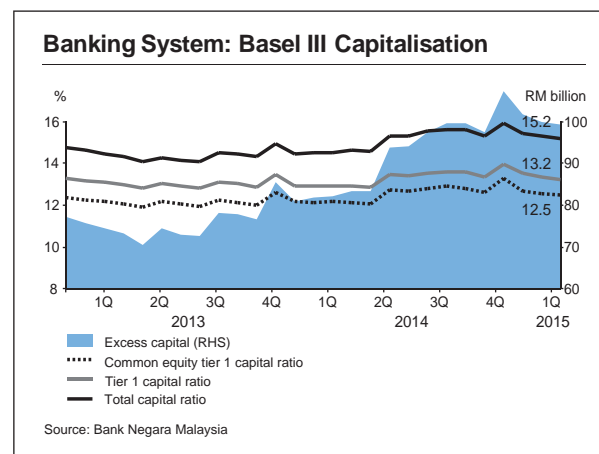
Market risk exposures of financial institutions remained within manageable levels, supported by continuous active risk management and hedging strategies by the institutions. Bank exposures

to interest rate risk in the trading book remained limited at 1.4% of total capital. Exposures to equity risk were almost unchanged at 1.2% (4Q 2014: 1.3%) of total capital. The foreign exchange net open position of banks edged higher to 5.9% (4Q 2014: 4.7%) of total capital during the quarter mainly driven by higher foreign currency deposit placements by Malaysian banks. Similarly, market risk exposures of the insurance industry remained manageable to account for 12.9% of total capital (4Q 2014: 12.2%) amidst higher investments in equities as a result of portfolio rebalancing. Equity risk continues to form the bulk of insurers' market risk exposures at 7.7% of total capital.

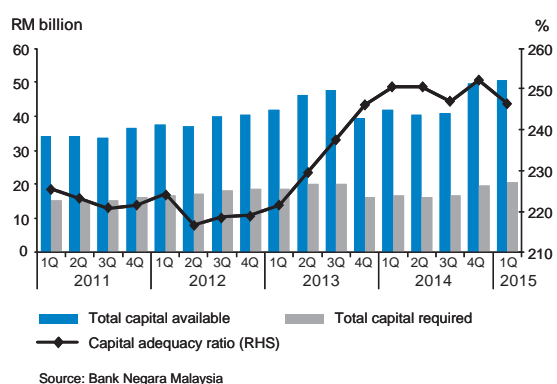
Financial institutions continued to remain sound and resilient

The strong capitalisation of the banking system was well-preserved with the common equity tier 1 (CET1) capital ratio, tier 1 capital ratio and total capital ratio remaining well above the minimum regulatory levels at 12.5%, 13.2% and 15.2% respectively. More than 80% of banks' total capital consists of high quality capital - retained earnings, paid-up capital and reserves. The excess total capital buffer for banks was sustained in excess of RM90 billion. The capital adequacy ratio of the insurance sector similarly remained strong at 246.5% (4Q 2014: 252.1%) with an excess capital buffer of RM30.1 billion.

The banking system registered pre-tax profit totalling RM7.1 billion (4Q 2014: RM7.8 billion) in the first quarter. This was due mainly to lower contribution of revenue from dividend income segment. Returns on assets and equity were at 1.2% and 12.4% respectively (4Q 2014: 1.5% and 15.2% respectively). The operating profit for

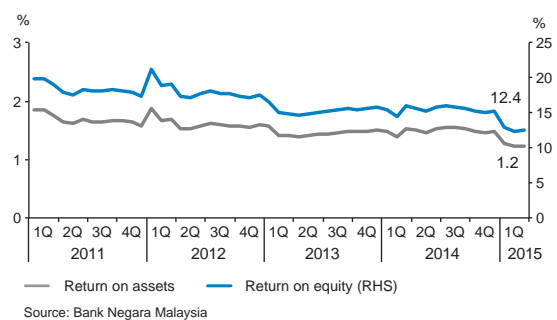


Insurance Sector: Capitalisation



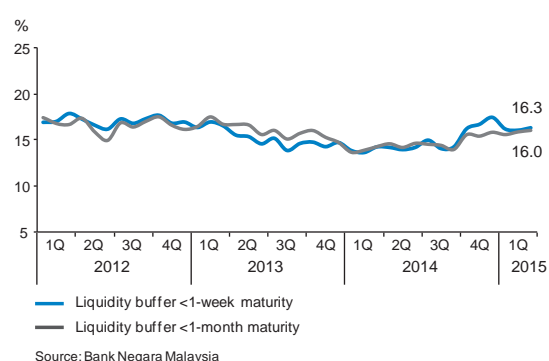
the general insurance and takaful businesses increased to RM806.1 million (4Q 2014: RM763.4 million) due to stronger underwriting profits recorded during the quarter. Excess income over outgo of the life insurers and takaful operators improved to RM5.4 billion (4Q 2014: RM2.1 billion) due to net capital gains of RM2.1 billion (4Q 2014: net capital loss of RM0.9 billion) mainly from investment in equities.

Banking System: Profitability



Competition for deposits eased slightly following the Bank's clarification of the Liquidity Coverage Ratio rules, although it remains at an elevated level. Liquidity in the banking system remained ample with liquidity buffers for maturities over the 1-week and 1-month horizons standing well above the minimum regulatory levels under the existing liquidity framework at 16.3% and 16% of total deposits respectively (4Q 2014: 17.4% and 15.8% respectively). In addition, the net interbank placements and reverse repo by banking institutions with Bank Negara Malaysia, which can be unwound to meet liquidity needs, remained above RM100 billion. In terms of US dollar liquidity, banks recorded a higher surplus position of RM20 billion in the less than 1-week maturity bucket (4Q 2014: surplus of RM15 billion) following a lower amount of net outflows from maturing FX derivative contracts payable. For the less than 1-month maturity bucket, banks recorded a surplus of RM2.4 billion compared to a surplus of RM5.5 billion at end-2014.

Banking System: Liquidity Buffer to Total Deposit Ratio



Insurance and Takaful Sectors: Indicators

	2014			2015
	1Q	4Q	Year	1Q
	RM million			
Life insurance & family takaful				
Excess of income over outgo	3,211	2,127	13,767	5,354
General insurance & general takaful				
Operating profit	824	763	3,179	806
Claims ratio (%)	55.0	57.5	57.5	49.3
	Annual Change (%)			
	1Q	4Q	Year	1Q
	Annual Change (%)			
Life insurance & family takaful				
Excess of income over outgo	-15.2	-36.4	4.4	66.7
General insurance & general takaful				
Operating profit	11.4	-26.7	-1.4	-2.2
Claims ratio (percentage points)	-3.4	0.4	0.4	-5.7

Source: Bank Negara Malaysia

**Islamic Economy Award 2014
Dubai, 14 January 2015**

Speech by

Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz
Governor, Bank Negara Malaysia

It is my very great honour to receive the Lifetime Achievement Award for the global development of Islamic finance conferred under the patronage of His Highness Sheikh Mohammed bin Rashid Al Maktoum. I am most humbled to receive this award. It has been my privilege to contribute to the international efforts to create the foundations for a sustainable and resilient Islamic financial system in the global financial system. This recent decade has been highly challenging for the world of finance, yet the experience of confronting the challenges has been tremendously fulfilling. The overall progress and advancement of Islamic finance has continued to be accompanied by growth, dynamism and stability.

Islamic finance brings immense benefits to the overall economy. It is a form of financial intermediation that is well anchored to the real economy. With its internationalisation, that began at the turn of the millennium, it now serves to enhance and strengthen the interlinkages between economies, facilitating international trade and cross border investment activities. This trend has marked the beginning of intensified collective efforts to enhance the Islamic financial infrastructure to create a robust and resilient global Islamic financial system.

The focus has gradually shifted from strengthening intermediaries in the domestic Islamic financial industry to fortifying the regulatory, supervisory, Shariah and liquidity framework necessary for such a robust financial system. This has involved greater international cooperation and collaboration in this new environment. A further development has been the evolution of the domestic Islamic financial markets into international markets. This has manifested itself in the form of foreign participation in raising funds and in

investment activities in these markets, thus generating increased cross border financial flows. This has drawn participation from both emerging and the developed world in Islamic and non-Islamic countries. Going forward, the Islamic financial system is envisaged to have an increasing important role in connecting the world economies – through the strengthening of financial linkages, it will in turn facilitate increased international trade and investment activities.

This internationalisation of Islamic finance will require the intensification of international collective efforts to establish the international Islamic financial architecture, and the development of mechanisms for more effective cross-border liquidity management. Central to achieving this next thrust of development is to develop a high caliber and competent talent base to cultivate financial innovation. Therein lies the investment needed in human capital development to support the industry.

While Malaysia's own experience and aspirations is to evolve into an international Islamic financial centre, we also continue to promote a more inclusive financial system to support a more balanced growth. On the international front, the aim is to enhance our international connectivity and thus establish greater economic linkages with other economies. In Dubai, the efforts by the authorities to create the Islamic economy initiative to further enhance the inter-linkages with other Islamic financial centres is also a step towards strengthening the international economic connectivity especially between our regions. The efforts will not only enhance Islamic finance as an effective financial intermediary but also as a binding force for the other segments of the Islamic economy, including with other parts of the world.

Our collective efforts in developing Islamic finance will provide an important platform to unlock the potential opportunities that lie therein to benefit every segment of the society and the business community that now extends beyond our domestic borders. In this highly dynamic and rapidly changing world environment, efforts will

need to be unrelenting on developing further the enabling infrastructure, the foundations for stability and enhancing the internal capability. And with the greater international linkages, the greater will be the importance of working collectively for the common goals we aspire and for which the benefits will be mutually reinforcing.

CALENDAR OF EVENTS

January – April 2015

14 January 2015

Governor Dr. Zeti received the Lifetime Achievement Award for the global development of Islamic finance at the Second Islamic Economy Award Ceremony in Dubai. In her speech, she highlighted the intensified collaborative efforts to enhance the Islamic financial infrastructure to create a robust and resilient global Islamic financial system and the investment needed in human capital development to support the industry. She also pointed out Malaysia's own experience and aspirations in evolving into an international Islamic financial centre and continuing efforts to promote a more inclusive financial system to support a more balanced growth.

23 January 2015

The Bank established a Special Relief Facility of RM500 million to alleviate the problems faced by businesses affected by the recent floods. The businesses can obtain financing at a concessionary rate from any commercial bank, Islamic bank, and other selected participating financial institutions. It is available to Malaysian SMEs affected in the districts defined as flood disaster areas with a maximum amount of financing of RM500,000 per group of companies. Its effective financing rate chargeable is up to 2.25% per annum and tenure of the financing is up to five years with a grace period of six months.

27 January 2015

The ASEAN Working Committee on Payment and Settlement Systems (WCPSS) adopted the Principles of Product Transparency and Disclosure (Principles) to improve the level of transparency on charges and service levels offered by financial institutions in the ASEAN region for cross-border trade settlement. The Principles are designed to ensure that customers have clear, timely, easily accessible and comparable key information to make an informed decision in performing cross-border trade settlement. The WCPSS also aims to improve the payment and settlement infrastructure for ASEAN member countries that will stand ready to support the financial integration within the Asean Economic Community.

28 January 2015

The Bank kept the Overnight Policy Rate (OPR) at 3.25% at its first Monetary Policy Committee (MPC) meeting for the year. At the current OPR level, the monetary policy stance remains accommodative given the developments in monetary and financial conditions.

At its subsequent meeting on 5 March, the MPC maintained the OPR. The MPC's assessment was that while divergent growth was seen among advanced economies, domestic demand continues to support Asian growth. For Malaysia, the economy is expected to remain on a steady growth path with domestic demand as a key driver of growth. In the external sector, the performance of manufactured exports is expected to improve. The MPC added that underlying inflation is expected to remain contained amid stable domestic demand conditions.

The MPC will continue to assess external and domestic developments and their implications on the risks to inflation and on the Malaysian economy as well as monitor risks of destabilising financial imbalances to ensure sustainable growth prospects.

12 February 2015

The Bank called a press conference to announce the release of 4Q 2014 GDP results. Governor Dr. Zeti highlighted that the Malaysian economy registered a higher growth of 5.8% in 4Q 2014 driven mainly by stronger private sector spending. On the supply side, growth was sustained by the major economic sectors, led by trade and domestic activities. For the year 2014, the Malaysian economy grew by a strong 6.0%. During the Q&A session, Governor Dr. Zeti also clarified several misperceptions on the Malaysian economy, including the role of oil and gas activities in the economy.

26 February 2015

The Bank and the United Kingdom Foreign and Commonwealth Office co-hosted the second Global Islamic Finance and Investment Group meeting at Sasana Kijang. The meeting was co-chaired by Governor Dr. Zeti and the Rt. Hon. Hugo Swire, Minister of State at the United Kingdom Foreign and Commonwealth Office. The attendance of members and invitees from various countries brought upon interesting dialogues on opportunities and potential solutions to address challenges in global Islamic finance. The key outcomes of the meeting were to improve communications to foster better understanding on Islamic finance globally and to enhance efforts to link the flow of Islamic finance funds into infrastructure needs and to support economic development globally.

11 March 2015

The Bank appointed Datuk Dr. Noor Azlan Ghazali and Dr. Yeah Kim Leng as external members of Bank Negara Malaysia's MPC for a two-year term effective 1 April 2015. The Central Bank of Malaysia Act 2009 provides for the appointment of external members to the MPC. The appointment of Datuk Dr. Noor Azlan Ghazali and Dr. Yeah Kim Leng will enhance the collective expertise and experience relevant to the responsibilities and functions of the MPC. With their appointments, the MPC will have ten members in total.

On the same day, the Bank released its Annual Report and the Financial Stability and Payment Systems Report for 2014.

At the press conference, Governor Dr. Zeti remarked that the global economy expanded at a moderate pace in 2014. Global financial markets also faced heightened volatility in the later part of 2014, following uncertainty on monetary policy normalisation in the US and sharp declines in commodity prices.

Governor Dr. Zeti also announced that the Malaysian economy recorded a stronger growth of 6.0% in 2014 driven primarily by the continued strength of private domestic demand supported by improvement in external sector. For 2015, the Malaysian economy is expected to register steady growth of 4.5% - 5.5%, supported by sustained domestic demand and a resilient export sector. Touching on inflation for 2015, Governor said it is expected to be contained despite GST implementation, largely on impact of lower oil prices. Inflation is projected to be between 2-3%.

Governor Dr. Zeti also pointed out that domestic financial stability continued to be preserved in 2014. The country's deep financial markets and strong domestic institutional investors have supported orderly market conditions despite higher funds outflows. Further, risks arising from household indebtedness and rising property prices have moderated due to the various measures with new household borrowings of higher quality. She also said that Islamic finance industry continued its growth momentum in 2014.

Governor Dr. Zeti also drew attention to other key developments in the Malaysian financial sector such as the establishment of the Financial Services Talent Council and the Financial Services Professional Board; the establishment of the Asia School of Business - a collaboration between the Bank and Massachusetts Institute of Technology's Sloan School of Management; appointment of a renminbi clearing bank; the passage of the Netting of Financial Agreements Act 2015; and transforming the existing Financial Mediation Bureau into a full-fledged financial ombudsman scheme.

17 March 2015

The Bank announced the appointment of new members of the Small Debt Resolution Committee effective 1 March 2015 with Datuk Wan Azhar Wan Ahmad appointed as the Chairman. The Committee undertakes independent assessments on the viability of the SMEs' businesses and proposes rehabilitation solutions through restructuring or rescheduling of existing financing facilities, or providing new financing, where appropriate. Since its inception in 2003, the Small Debt Resolution Scheme has received a total of 1,316 applications with 916 applications approved for restructuring or rescheduling. Of this amount, about 50 per cent of the SMEs assisted were able to improve their businesses cash flow conditions, turn around their businesses and continue to remain viable.

27 March 2015

The Bank and Hong Kong Monetary Authority (HKMA) co-organised the Second Malaysia-Hong Kong Private Sector Dialogue on Offshore Renminbi (RMB) Business in Johor Bahru. Its aim was to foster closer collaboration between Malaysia and Hong Kong on the development of RMB business and was attended by senior representatives of banks from Malaysia and Hong Kong and representatives from corporates and businesses. Among others, the Dialogue reviewed the recent progress in internationalisation of RMB and the continuing efforts in making the RMB capital account convertible.

29 March 2015

The Bank's second auction of Malaysian banknotes with special serial numbers was held at Sasana Kijang. It received responses from 113 registered bidders, consisting of private collectors and traders both locals and from abroad. All lots were successfully auctioned off with total proceeds of more than RM660,000 for a total face value of RM7,264. The auction proceeds will be channelled to support the Corporate Social Responsibility programs of the Bank, including the provision of free gadgets to assist the visually impaired and small retailers in identifying and authenticating banknotes. They will also be used for outreach programs to educate the public on techniques to authenticate banknotes and coins as well as the proper handling of polymer banknotes.

Acronyms and Abbreviations

ABIF	ASEAN Banking Integration Framework
ADB	Asian Development Bank
AFI	Alliance for Financial Inclusion
ALR	average lending rate
APN	Asian Payment Network
BI	Bank Indonesia
BIS	Bank for International Settlements
BLR	base lending rate
BNM	Bank Negara Malaysia
BNMN	Bank Negara Monetary Notes
BoE	Bank of England
BoJ	Bank of Japan
BR	Base Rate
CET1	common equity tier 1
CMP	Commodity Murabahah Programme
CoFC	consumption of fixed capital
CPI	Consumer Price Index
DIA	direct investment abroad
DOSM	Department of Statistics, Malaysia
DSR	debt service ratio
E&E	electronics and electrical
E&O	Errors and Omissions
ECB	European Central Bank
EOR	enhanced oil recovery
ETP	Economic Transformation Programme
EU	European Union
FBM KLCI	FTSE Bursa Malaysia Kuala Lumpur Composite Index
FD	fixed deposit
FDI	foreign direct investment
Fed	Federal Reserve
FOMC	Federal Open Market Committee
FSB	Financial Stability Board
FX	foreign exchange
GDP	Gross Domestic Product
GFCF	gross fixed capital formation
GFP	goods for processing
GIFF	Global Islamic Financial Forum
GII	Government Investment Issues
GNI	Gross National Income
GST	Goods and Services Tax

HoA	Heads of Agreement
HQLA	high-quality liquid asset
HSDPA	High-Speed Downlink Packet Access
ICR	interest coverage ratio
IDB	Islamic Development Bank
IILM	International Islamic Liquidity Management
IMF	International Monetary Fund
IT	information technology
JCC	Japanese Crude Cocktail
KLCI	Kuala Lumpur Composite Index
KLIBOR	Kuala Lumpur Interbank Offered Rate
LCR	Liquidity Coverage Ratio
LNG	liquefied natural gas
MGS	Malaysian Government Securities
MHPI	Malaysia House Price Index
MIDA	Malaysian Investment Development Authority
MIER	Malaysian Institute of Economic Research
MoU	Memorandum of Understanding
MPC	Monetary Policy Committee
MSIC	Malaysia Standard Industrial Classifications
NBFI	non-bank financial institutions
OPEC	Organisation of the Petroleum Exporting Countries
OPR	Overnight Policy Rate
PBOC	People's Bank of China
PDS	private debt securities
PMI	Purchasing Managers' Index
PPI	Producer Price Index
PTP	Port of Tanjung Pelepas
QAB	Qualified ASEAN Banks
QE	quantitative easing
RBI	Reserve Bank of India
RM	Ringgit Malaysia
SDA	Special Deposit Account
SME	small and medium enterprise
SNA	System of National Accounts
SNB	Swiss National Bank
SRR	Statutory Reserve Requirement