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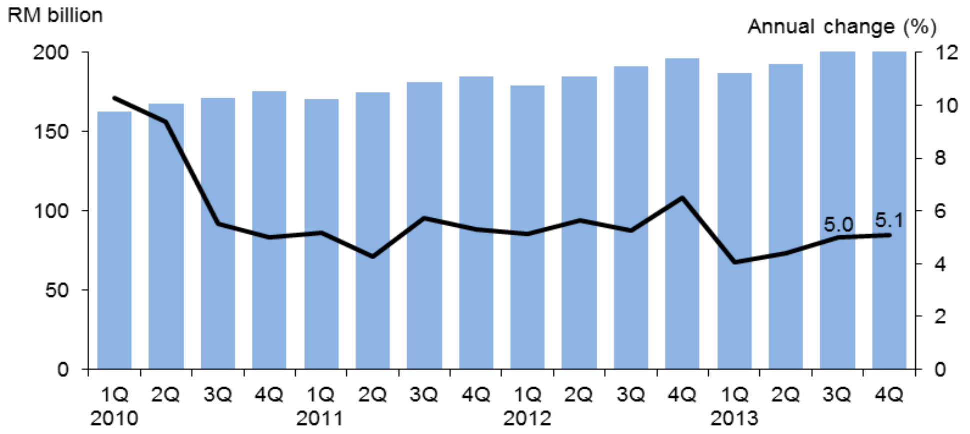
ECONOMIC AND FINANCIAL DEVELOPMENTS IN MALAYSIA IN THE FOURTH QUARTER OF 2013

Overview

The Malaysian economy expanded by 5.1% in the fourth quarter of 2013

Global economic activity improved in the fourth quarter amid the gradual recovery in the major economies. Despite lingering fiscal uncertainties, the US economy registered stronger growth as consumption and investment improved. In the euro area, modest improvements in exports supported growth, but structural and fiscal issues weighed down domestic demand. Growth across Asia continued as moderating domestic demand was offset by better export performance. Similarly, the Malaysian economy expanded by 5.1% in the fourth quarter of 2013 (3Q 2013: 5.0%), supported by private sector demand and improvement in exports. On the supply side, the major economic sectors grew further, supported by both domestic and trade activities. On a quarter-on-quarter seasonally adjusted basis, the economy recorded a growth of 2.1% (3Q 2013: 1.7%). For the year 2013, the Malaysian economy grew by 4.7%.

The economy expanded in the fourth quarter
(at constant 2005 prices)



Source: Department of Statistics, Malaysia

Private consumption growth remained high in the fourth quarter, although the pace of expansion moderated (7.3%; 3Q 2013: 8.2%). Household spending continued to be supported by stable employment conditions and sustained wage growth, especially in the domestic-oriented sectors. Growth in public consumption moderated to 5.1% (3Q 2013: 7.8%), reflecting lower Government spending on emoluments.

Gross fixed capital formation grew by 5.8% (3Q 2013: 8.6%), led by robust private sector capital spending amidst a contraction in public investment growth. Growth in private investment improved to 16.5% (3Q 2013: 15.2%), on account of higher capital spending in the services and manufacturing sectors. Public investment declined by 2.7% (3Q 2013: -1.3%), reflecting moderating capital spending by the public enterprises amid a smaller contraction in Federal Government development expenditure.

On the supply side, growth was supported by the major economic sectors. The services sector grew in tandem with the improvement in trade and manufacturing activities. The manufacturing sector expanded further, supported by higher growth in both export- and domestic-oriented industries. The construction sector growth remained firm, underpinned by the activity in the non-residential and residential sub-sectors. However, the commodities sector weakened, due to lower production of rubber, palm oil and crude oil.

The headline inflation rate, as measured by the annual change in the Consumer Price Index (CPI), increased to 3.0% in the fourth quarter (3Q 2013: 2.2%). This largely reflected the upward adjustment to prices of petroleum products and sugar, and the increase in excise duty on tobacco. Supply disruptions following adverse weather conditions also led to the higher food prices.

The trade surplus widened to RM27.4 billion in the fourth quarter (3Q 2013: RM18.6 billion). Both gross exports and imports grew at a faster pace largely reflecting the improvement in the global economy and the sustained expansion of domestic demand respectively. The financial account recorded a net outflow of RM9.7 billion in the fourth quarter (3Q 2013: net outflow of RM11.5 billion), as net inflows of direct investment were offset by outflows of other investments. The overall balance of payments registered a small deficit of RM2.9 billion in the fourth quarter (3Q 2013: surplus of RM11.8 billion).

The international reserves of Bank Negara Malaysia amounted to RM441.7 billion (equivalent to USD134.9 billion) as at 31 December 2013. This reserves level has taken into account the quarterly foreign exchange revaluation adjustments. As at 30 January 2014, the reserves position amounted to RM436.0 billion (equivalent to USD133.1 billion), sufficient to finance 9.4 months of retained imports and is 3.4 times the short-term external debt.

Interest rates remained stable

The Overnight Policy Rate (OPR) was maintained at 3.00% during the fourth quarter of 2013. At the prevailing level of the OPR, monetary conditions remain supportive of economic activity.

Retail deposit rates were stable during the quarter. The average quoted fixed deposit (FD) rates of commercial banks were relatively unchanged. The average base lending rate (BLR) of commercial banks remained unchanged at 6.53%. The weighted average lending rate (ALR) on loans outstanding continued its gradual moderating trend (end-December 2013: 5.36%; end-September 2013: 5.40%), reflecting the maturity of loans that were contracted during the period of higher borrowing costs prior to the OPR reductions in 2008 and 2009, and the addition of new loans at relatively lower rates.

The monetary aggregates continued to experience positive growth during the fourth quarter. M1, or narrow money, increased by RM17.9 billion. On an annual basis, M1 expanded by 13.0% as at end-December (end-September 2013: 12.9%). M3, or broad money, increased by RM25.4 billion on a quarter-on-quarter basis to record an annual growth rate of 8.1% as at end-December (end-September 2013: 7.4%). The expansion of M3 during the quarter was mainly driven by higher credit extended to the private sector by the banking system. M3 was also lifted by a modest increase in the net foreign assets of the banking system.

Total gross financing raised by the private sector through the banking system and the capital market increased to RM302.8 billion in the fourth quarter (3Q 2013: RM260.6 billion). Outstanding banking system loans and PDS expanded at an annual growth rate of 9.9% as at end-December (end-September 2013: 8.8%). Meanwhile, net funds raised in the capital market increased to RM33.7 billion in the fourth quarter (3Q 13: RM17.8 billion).

Movements of the ringgit and other regional currencies in the fourth quarter were driven mainly by external developments. The anticipation and eventual announcement of a scale-back of monetary injections by the Fed resulted in outflows of funds from regional financial markets. Overall, the ringgit depreciated by 0.7% against the US dollar during the quarter. The ringgit also depreciated against the pound sterling (-2.6%) and euro (-2.8%), but appreciated against the Japanese yen (6.3%). The ringgit exhibited a mixed performance against regional currencies.

Between 1 January and 10 February, the ringgit depreciated against the US dollar by 1.5%. The ringgit also depreciated against the Japanese yen (-3.8%), pound sterling (-1.1%) and euro (-0.2%), and several regional currencies.

Financial stability continued to be preserved

The domestic financial system remained resilient throughout the fourth quarter, despite continued volatility in global and domestic financial markets, and a challenging operating environment. The assessment of risks to financial stability revealed that financial intermediation continued to be well-supported by sound financial institutions, orderly financial market conditions and sustained confidence in the financial system.

The banking system continued to be well-capitalised. The common equity tier 1 (CET1) capital ratio, tier 1 capital ratio and total capital ratio were well above the minimum regulatory levels, at 12%, 12.8 % and 14.3% respectively. The capital buffer of the banks in excess of the minimum total capital requirement stood at more than RM77 billion. Similarly, the capital adequacy ratio of the insurance sector remained strong at 245.9% (3Q 2013: 236.7%), with an excess capital buffer of RM23.5 billion.

Global recovery and resilient domestic demand will continue to support growth

Going forward, the global economy is expected to be on a path of moderate recovery. The sustained improvements in the advanced economies will be a positive impulse for international trade. However, ongoing uncertainties surrounding monetary and fiscal policy adjustments in the advanced economies remain a risk to growth. Growth in the Asian economies is expected to be supported by improving external conditions amid moderating domestic demand.

For the Malaysian economy, domestic demand will remain supportive of growth. While domestic demand is expected to moderate following the ongoing fiscal consolidation, the external sector is expected to benefit from the improving global conditions. The growth momentum is therefore expected to remain on a steady trajectory.

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GDP by Economic Activity (at constant 2005 prices)

	Share 2012 (%)	2012		2013		
		4Q	Year	3Q	4Q	Year
		Annual change (%)				
Agriculture	7.3	5.6	1.0	2.1	0.2	2.1
Mining	8.4	4.2	1.4	1.7	-1.5	0.5
Manufacturing	24.9	5.7	4.8	4.2	5.1	3.4
Construction	3.5	17.6	18.1	10.1	9.7	10.9
Services	54.6	6.4	6.4	5.9	6.4	5.9
Real GDP	**100.0[1]**	**6.5**	**5.6**	**5.0**	**5.1**	**4.7**
Real GDP (q-o-q seasonally adjusted)	**n.a.**	**2.2**	**n.a.**	**1.7**	**2.1**	**n.a.**

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

Source: Department of Statistics, Malaysia

GDP by Expenditure Components (at constant 2005 prices)

	2012		2013		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Aggregate Domestic Demand (excluding stocks)	7.8	10.6	8.3	6.4	7.6
Consumption	4.9	7.1	8.1	6.7	7.3
Private sector	*6.2*	*7.7*	*8.2*	*7.3*	*7.6*
Public sector	*1.2*	*5.1*	*7.8*	*5.1*	*6.3*
Gross Fixed Capital Formation	16.0	19.9	8.6	5.8	8.2
Private sector	*20.1*	*21.9*	*15.2*	*16.5*	*13.6*
Public sector	*12.9*	*17.1*	*-1.3*	*-2.7*	*0.7*
Net Exports	-9.3	-31.7	1.6	-11.2	-22.9
Exports of Goods and Services	*-1.6*	*-0.1*	*1.7*	*2.9*	*-0.3*
Imports of Goods and Services	*-0.6*	*4.7*	*1.8*	*4.4*	*1.9*
GDP	**6.5**	**5.6**	**5.0**	**5.1**	**4.7**
GDP (q-o-q growth, seasonally adjusted)	**2.2**	**n.a.**	**1.7**	**2.1**	**n.a.**

Source: Department of Statistics, Malaysia