DEVELOPMENTS IN THE MALAYSIAN ECONOMY

The Malaysian economy registered higher growth in the fourth quarter

The Malaysian economy expanded at a faster pace in the fourth quarter of 2014 (5.8%; 3Q 2014: 5.6%). Growth was driven by stronger private sector expenditure (8.5%; 3Q 2014: 6.8%), and a turnaround in public sector spending (0.6%; 3Q 2014: -1.2%). Meanwhile, real exports of goods and services registered a more moderate growth of 1.5% (3Q 2014: 2.8%). This moderation, coupled with higher growth in imports, led to a negative contribution of net exports to overall growth. On a quarter-on-quarter seasonally-adjusted basis, growth momentum increased to 2.0% (3Q 2014: 0.9%).

Continued expansion in domestic demand

Domestic demand growth increased to 5.9% in the fourth quarter (3Q 2014: 4.9%), driven by the improvement in private sector expenditure and a turnaround in public sector spending.

Private sector activity grew by 8.5% (3Q 2014: 6.8%), on account of higher growth in both investment and consumption. **Private investment** expanded at a faster pace of 11.2% (3Q 2014: 6.8%), driven by capital spending in the manufacturing and services sectors, particularly in the transport and retail industries. **Private consumption** activity grew stronger by 7.8% (3Q 2014: 6.7%), supported by stable labour market conditions and continued wage growth.

Public sector expenditure registered a positive growth of 0.6% in the fourth quarter (3Q 2014: -1.2%) reflecting a slower decline in investment, amid the moderation in public consumption. **Public investment** registered a smaller decline of 2.1% (3Q 2014: -8.9%), following a slower pace of contraction in spending on fixed assets by the Federal Government. **Public consumption** expanded at a modest pace of 2.7% (3Q 2014: 5.3%), reflecting lower Government spending on both emoluments and supplies and services.

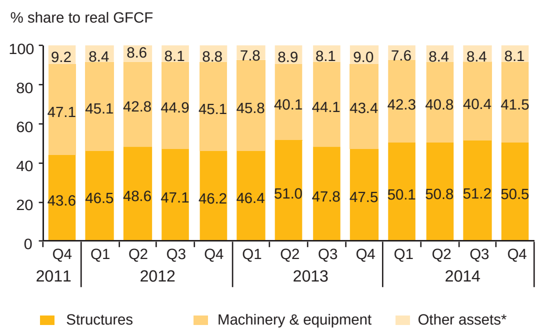
GDP by Expenditure Components
(at constant 2005 prices)

	2013		2014		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Aggregate Domestic Demand (excluding stocks)	6.7	7.4	4.9	5.9	6.0
Private Sector	9.1	8.6	6.8	8.5	8.0
Consumption	*7.4*	*7.2*	*6.7*	*7.8*	*7.1*
Investment	*16.6*	*13.1*	*6.8*	*11.2*	*11.0*
Public sector	2.1	4.4	-1.2	0.6	0.2
Consumption	*5.2*	*6.3*	*5.3*	*2.7*	*4.4*
Investment	*-1.4*	*2.2*	*-8.9*	*-2.1*	*-4.9*
Net Exports	-6.8	-12.6	11.4	-9.8	19.7
Exports of Goods and Services	*5.7*	*0.6*	*2.8*	*1.5*	*5.1*
Imports of Goods and Services	*7.1*	*2.0*	*2.2*	*2.6*	*3.9*
GDP	**5.1**	**4.7**	**5.6**	**5.8**	**6.0**
GDP (q-o-q growth, seasonally adjusted)	**1.9**	**-**	**0.9**	**2.0**	**-**

Source: Department of Statistics, Malaysia

In terms of total investment, **gross fixed capital formation** grew by 4.3% (3Q 2014: 1.1%) reflecting the improvement in private investment and smaller decline in public investment. By type of assets, investment growth continued to be driven by spending on structures of 10.8% (3Q 2014: 8.3%). Spending on machinery and equipment declined at a slower pace of 0.4% (3Q 2014: -7.5%).

GFCF by Type of Assets



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

Source: Department of Statistics, Malaysia

Growth supported by major economic sectors

On the supply side, growth in the fourth quarter was supported by major economic sectors. Growth in the services sector was underpinned by expansion across all sub-sectors. The construction sector remained strong, driven mainly by non-residential and residential sub-sectors, while the mining sector registered a stronger growth due to higher crude oil production. The manufacturing sector continued to expand, supported mainly by the export-oriented industries. However, the agriculture sector recorded a contraction due to lower palm oil production caused by the floods in the eastern states of Peninsular Malaysia.

The **services sector** registered a stronger growth of 6.4% in the fourth quarter (3Q 2014: 6.2%) supported by expansion across all sub-sectors. In tandem with continued growth in household spending, the wholesale and retail trade sub-sector grew by 9.3% (3Q 2014: 8.2%). In the communication sub-sector, growth remained robust (9.8%; 3Q 2014: 9.7%), amid continued strong demand for data communication services. Growth in the real estate and business services sub-sector was higher (8.2%; 3Q 2014: 7.2%), underpinned mainly by the business services segment. The transport and storage sub-sector also registered a higher growth of 5.8% (3Q 2014: 4.9%) supported by trade-related activity. The finance and insurance sub-sector expanded further by 2.0% (3Q 2014: 2.6%) reflecting continued demand for financing from both households and businesses.

GDP by Economic Activity (at constant 2005 prices)

	Share in 2014 (%)	2013		2014		
		4Q	Year	3Q	4Q	Year
		Annual change (%)				
Agriculture	6.9	0.2	2.1	4.0	-2.8	2.6
Mining	7.9	-1.2	0.7	1.4	9.6	3.1
Manufacturing	24.6	5.2	3.5	5.4	5.2	6.2
Construction	3.9	9.8	10.9	9.6	8.7	11.6
Services	55.3	6.4	5.9	6.2	6.4	6.3
Real GDP	**100.0[1]**	**5.1**	**4.7**	**5.6**	**5.8**	**6.0**
Real GDP (q-o-q seasonally adjusted)	**-**	**1.9**	**-**	**0.9**	**2.0**	**-**

[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 2005 prices)

	Share in 2014 (%)	2013		2014		
		4Q	Year	3Q	4Q	Year
		Annual change (%)				
Intermediate Services	**40.4**	**4.9**	**5.1**	**5.4**	**5.6**	**5.4**
Finance & insurance	15.9	0.5	1.8	2.6	2.0	2.0
Real estate & business services	10.4	8.3	7.5	7.2	8.2	7.8
Transport & storage	6.5	5.4	4.6	4.9	5.8	5.0
Communication	7.6	10.3	10.0	9.7	9.8	9.9
Final Services	**59.6**	**7.5**	**6.4**	**6.7**	**7.0**	**7.0**
Wholesale & retail trade	26.7	8.4	6.4	8.2	9.3	8.8
Accommodation & restaurant	4.5	5.8	5.7	5.7	7.2	6.2
Utilities	4.4	4.4	4.1	4.4	3.7	3.5
Government services	15.0	8.6	8.3	6.2	4.8	6.5
Other services	9.0	5.1	5.1	5.0	5.1	4.9
Total Services	**100.0[1]**	**6.4**	**5.9**	**6.2**	**6.4**	**6.3**

[1] Numbers do not add up due to rounding

Source: Department of Statistics, Malaysia

The **manufacturing sector** recorded a sustained growth of 5.2% in the fourth quarter (3Q 2014: 5.4%), supported by stronger performance in the export-oriented industries, particularly the electronics and electrical (E&E) cluster. This mitigated the slower production in the domestic-oriented industries, particularly transport equipment, amid moderating car sales.

Overall capacity utilisation rate in the manufacturing sector improved in the fourth quarter (80%; 3Q 2014: 78%), due mainly to higher capacity utilisation in the export-oriented industries (82%, 3Q 2014: 80%).

Selected Quarterly Indicators in the Services Sector

	2013			2014		
	3Q	4Q	Year	3Q	4Q	Year
	Index					
MIER Consumer Sentiment Index	102.0	82.4	104.3	98.0	83.0	94.3
MIER Retail Trade Index	107.9	81.7	98.9	130.0	92.9	99.7
MIER Tourism Market Index	138.8	140.3	126.8	115.2	107.6	108.8
	Annual change (%)					
Tourist arrivals	-4.9	1.2	2.7	8.6	3.9[1]	8.8[2]
Total passenger traffic at all airports	23.0	24.1	19.0	-2.0	-0.9[1]	5.5[2]
Total consumption credit outstanding	6.9	5.9	5.9	2.9	2.7	2.7
Total loans outstanding	9.5	10.6	10.6	9.0	9.3	9.3
Loans outstanding to the wholesale & retail trade, hotels & restaurants	12.2	11.3	11.3	7.3	7.5	7.5
Imports of consumption goods	9.7	9.6	8.8	-1.0	2.9	5.7
Total sales of motor vehicles	11.0	-0.9	4.5	-8.8	3.8	1.6
Container cargo handled (Port Klang and PTP)	3.0	2.7	1.5	9.2	12.8[1]	7.9[2]

[1] Oct-Nov 2014
[2] Jan-Nov 2014

Source: MIER, Ministry of Tourism and Culture Malaysia, and other sources

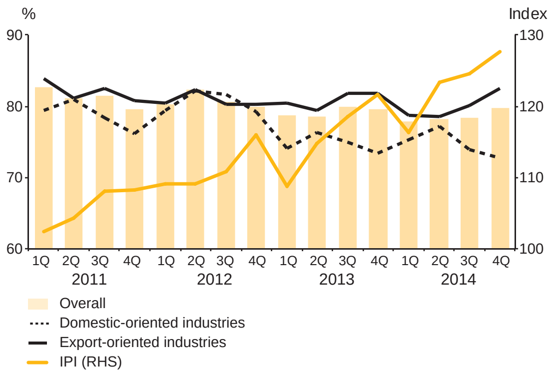
Performance of the Manufacturing Sector

	Share in 2014 (%)	2013		2014		
		4Q	Year	3Q	4Q	Year
		Annual Change (%)				
Value Added (at constant 2005 prices)	**100.0**	**5.2**	**3.5**	**5.4**	**5.2**	**6.2**
Export-oriented industries	61.4	4.7	2.3	4.8	6.8	5.9
Domestic-oriented industries	38.6	6.0	5.4	6.5	2.8	6.7
Overall Manufacturing Production[1]	**100.0**	**4.9**	**4.2**	**5.1**	**4.9**	**6.1**
Export-oriented industries	**74.8**	**3.8**	**3.3**	**4.4**	**5.4**	**5.4**
Electronics and electrical products cluster	**24.2**	**16.9**	**10.0**	**10.1**	**10.2**	**12.1**
Of which:						
Electronics	15.3	25.4	18.6	3.9	5.9	10.5
Electrical products	8.9	1.2	-5.1	24.3	20.1	15.4
Primary-related cluster	**50.7**	**-1.8**	**0.3**	**1.4**	**2.9**	**2.1**
Of which:						
Chemicals and chemical products	14.3	-1.1	-0.7	7.4	7.9	3.6
Petroleum products	21.0	-4.0	0.2	-5.4	1.8	0.6
Rubber products	2.5	6.8	8.2	-4.0	-0.8	-1.3
Off-estate processing	4.5	-1.5	1.7	4.3	-9.0	1.5
Domestic-oriented industries	**25.2**	**8.0**	**6.8**	**7.3**	**3.8**	**7.9**
Construction-related cluster	**11.3**	**3.5**	**4.9**	**5.7**	**3.5**	**4.2**
Of which:						
Construction-related products	8.2	2.2	1.3	7.0	5.2	5.0
Fabricated metal products	3.1	5.8	12.2	3.2	0.6	2.8
Consumer-related cluster	**13.8**	**11.6**	**8.5**	**8.6**	**4.0**	**10.9**
Of which:						
Transport equipment	5.5	23.4	13.8	11.4	1.1	14.4
Food, beverage & tobacco products	7.3	1.1	4.9	7.1	8.0	8.8

[1] Industrial Production Index (2010=100)

Source: Department of Statistics, Malaysia

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

The **construction** sector grew by 8.7% in the fourth quarter (3Q 2014: 9.6%), underpinned by the non-residential and residential sub-sectors. The growth in the non-residential sub-sector was stronger amid higher construction activity for industrial and commercial buildings while the residential sub-sector was supported by activity of residential properties in the mass-market and affordable housing segments. Growth in the civil engineering sub-sector was weaker following the near-completion of large infrastructure projects. In the special trade sub-sector, growth was sustained following continued activity for piling, earthworks, electrical and system installation as well as building completion and finishing works.

The **agriculture sector** declined by 2.8% (3Q 2014: 4.0%), amid sharply lower production of palm oil caused by the floods in the eastern states of Peninsular Malaysia. Meanwhile, the **mining sector** expanded by 9.6% (3Q 2014: 1.4%) due to stronger crude oil production.

Indicators for the Construction Sector

	2013		2014		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Value of construction work done	11.3	12.7	10.7	9.7	12.8
Residential	18.3	19.6	21.5	18.3	22.2
Non-residential	18.1	6.6	10.9	23.5	17.1
Civil engineering	1.9	14.5	2.2	-8.0	1.2
Special Trade[1]	9.4	4.7	7.4	7.7	16.7
Housing approvals	-31.2	-24.5	-3.6	-29.2[2]	-0.8[3]
Production[4] of construction-related materials	3.5	4.9	5.7	3.5	4.2
Hydraulic cement	6.2	4.2	7.8	9.7	6.6
Other articles of concrete, cement and plaster n.e.c	25.5	5.3	25.8	27.2	32.7
Other porcelain and ceramic products	3.1	-5.6	20.7	29.9	21.0
Prefabricated structural components for building or civil engineering of cement, concrete or artificial stone	6.5	1.7	2.6	-13.2	-3.8
Capital imports (excluding lumpy items)	-3.3	-1.1	-1.0	8.3	1.3
Loans for the construction sector					
Approval	0.6	-10.5	25.9	24.9	0.3
Disbursement	22.2	14.8	4.8	17.8	12.7

[1] Works such as site preparation, electrical installation and painting
[2] October 2014
[3] Jan-Oct 2014
[4] Industrial Production Index (2010=100)

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

Performance of the Agriculture Sector

	Share in 2014 (%)	2013		2014		
		4Q	Year	3Q	4Q	Year
		Annual change (%)				
Value Added (at constant 2005 prices)	**100**	**0.2**	**2.1**	**4.0**	**-2.8**	**2.6**
Industrial Crops	**52.2**	**-2.5**	**-0.1**	**1.7**	**-8.4**	**0.2**
Of which:						
Oil palm	36.6	-1.2	2.6	5.2	-8.9	2.4
Rubber	5.5	-14.4	-10.1	-24.1	-25.5	-19.2
Food Crops	**47.8**	**4.8**	**6.5**	**7.5**	**5.3**	**6.0**
Of which:						
Fishing	14.6	-3.3	1.6	3.0	2.6	2.1
Livestock	13.0	10.6	9.4	7.7	8.9	7.7

Source: Department of Statistics, Malaysia

Performance of the Mining Sector

	2013		2014		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Value Added (at constant 2005 prices)	**-1.2**	**0.7**	**1.4**	**9.6**	**3.1**
Production					
Of which:					
Crude oil and Condensates	-5.5	-2.8	3.2	15.9	4.3
Natural gas	3.4	4.4	-0.8	3.1	1.6

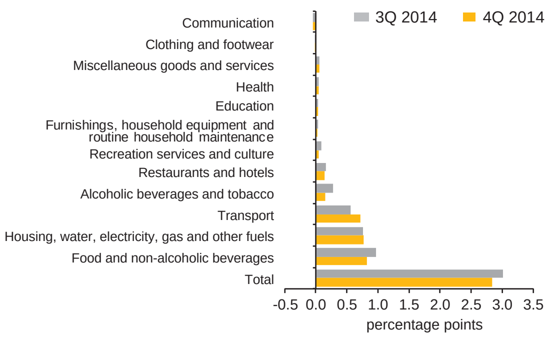
Source: Department of Statistics, Malaysia

Inflation continued to decline in the fourth quarter

The inflation rate, as measured by the annual change in the Consumer Price Index (CPI), averaged lower at 2.8% in the fourth quarter (3Q 2014: 3.0%). This decline was mainly attributed to the lower inflation in the *food and non-alcoholic beverages* category (2.7%, 3Q 2014: 3.2%), reflecting the decline in the prices of fresh meat and fresh seafood during the quarter. Inflation in the *alcoholic beverages and tobacco* category was also lower at 7.1% (3Q 2014: 12.7%) as the impact from the cigarette price adjustment in October 2013 lapsed before its price was increased again in November 2014. For the year as a whole, inflation averaged 3.2% (2013: 2.1%).

The Producer Price Index (PPI) declined by 2.1% on an annual basis in the fourth quarter (3Q 2014: 0.9%) driven mainly by the lower prices in the *inedible crude materials* and *mineral, fuels and lubricants* categories following the moderation in global oil prices. Correspondingly, prices of commodity-related components declined by 8.0% (3Q 2014: 0.9%). Prices of non-commodity related components increased at a relatively stable rate of 1.2% during the quarter (3Q 2014: 1.0%).

Contribution to Consumer Price Inflation



Source: Bank Negara Malaysia

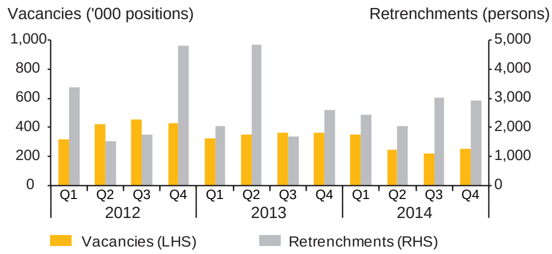
Stable labour market conditions

Labour market conditions remained stable during the fourth quarter[1] as reflected by the low unemployment rate of 2.8% (3Q 2014: 2.7%) and sustained employment levels of 13.7 million persons (3Q 2014: 13.6 million).

Retrenchments reported to the Ministry of Human Resources moderated slightly to 2,915 persons (3Q 2014: 3,028 persons), mostly in the services and manufacturing sectors. Job vacancies posted in the JobsMalaysia Portal increased to 250,976 positions (3Q 2014: 223,128 positions). Aggregate real wages in the manufacturing sector grew by 0.3% (3Q 2014: 2.7%) due to slower wage growth in both the export- and domestic-oriented industries.

[1] Based on preliminary data

Labour Market Conditions



Source: Ministry of Human Resources

Balance of Payments[1]

	2013		2014		
	4Q	Year	3Q	4Q	Year
	RM billion				
Current Account	**14.8**	**39.9**	**7.6**	**6.1**	**49.5**
(% of GNI)	*5.8*	*4.2*	*2.9*	*2.3*	*4.8*
Goods	33.3	108.2	28.7	32.7	125.1
Services	-4.1	-16.7	-6.4	-7.9	-20.5
Primary income	-10.0	-34.1	-9.4	-13.8	-37.4
Secondary income	-4.4	-17.5	-5.3	-5.0	-17.6
Financial Account	**-9.7**	**-15.8**	**-2.8**	**-24.4**	**-76.5**
Direct investment	4.0	-5.5	2.1	-0.2	-17.1
Assets	*-6.5*	*-41.2*	*-6.2*	*-8.1*	*-51.3*
Liabilities	*10.4*	*35.7*	*8.3*	*7.9*	*34.2*
Portfolio investment	-0.8	-3.0	-11.0	-20.4	-37.9
Assets	*-5.4*	*-32.1*	*-10.3*	*0.2*	*-28.3*
Liabilities	*4.6*	*29.1*	*-0.7*	*-20.6*	*-9.6*
Financial derivatives	0.4	-0.3	0.1	0.2	-1.0
Other investment	-13.3	-7.1	6.1	-4.1	-20.6
Errors & omissions[2]	-7.8	-9.4	-11.5	6.7	-9.6
Overall Balance	**-2.7**	**14.6**	**-6.7**	**-11.4**	**-36.3**

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 Balance of Payments and International Investment Position Manual (BPM6) by the International Monetary Fund (IMF)
[2] Includes unrealised foreign exchange revaluation on gain/losses on international reserves

Source: Department of Statistics, Malaysia

External position remained resilient in the fourth quarter

The current account surplus stood at RM6.1 billion in the fourth quarter, equivalent to 2.3% of GNI (3Q 2014: RM7.6 billion or 2.9% of GNI). While the goods balance recorded a higher surplus, higher deficits in the services and primary income account contributed to the narrower current account surplus. For the year 2014, the current account registered a higher balance of RM49.5 billion or 4.8% of GNI (2013: RM39.9 billion or 4.2%).

Trade Account

	Share 2014 (%)	2013		2014		
		4Q	Year	3Q	4Q	Year
		Annual change (%)				
Gross Exports	**100.0**	**10.4**	**2.5**	**1.5**	**0.5**	**6.4**
Manufactured	*76.7*	*12.9*	*5.1*	*1.9*	*1.8*	*7.1*
E&E	*33.4*	*13.2*	*2.5*	*2.7*	*5.5*	*8.1*
Non-E&E	*43.2*	*12.7*	*7.1*	*1.3*	*-0.9*	*6.4*
Resource based	*23.6*	*14.2*	*8.6*	*2.1*	*-4.4*	*4.9*
Non-resource based	*19.6*	*10.9*	*5.3*	*0.3*	*3.7*	*8.2*
Commodities	22.7	4.7	-4.6	0.4	-3.9	4.2
Minerals	*13.7*	*16.1*	*3.7*	*-2.5*	*-0.5*	*6.8*
Agriculture	*9.0*	*-8.3*	*-14.4*	*4.4*	*-8.8*	*0.6*
Gross Imports	**100.0**	**11.4**	**6.9**	**2.6**	**4.6**	**5.3**
Intermediate goods	59.8	10.4	4.3	11.0	12.5	7.6
Capital goods	14.1	-0.4	2.2	-9.9	0.2	-2.1
Consumption goods	7.4	9.6	8.8	-1.0	2.9	5.7
Re-exports and dual-use goods	18.8	26.1	19.7	-10.6	-12.7	3.8
Trade balance (RM billion)	**-**	**28.3**	**71.3**	**16.8**	**21.5**	**83.1**

Note: Refined petroleum products has been reclassified as manufactured goods from mining goods, effective May 2014.

Source: MATRADE and Department of Statistics, Malaysia

In the fourth quarter, the trade surplus was higher at RM21.5 billion (3Q 2014: RM16.8 billion). Gross exports moderated to 0.5% (3Q 2014: 1.5%), due mainly to a decline in commodity exports amid a more moderate expansion of manufactured exports. Gross imports grew at a faster pace of 4.6% in the fourth quarter (3Q 2014: 2.6%) following an improvement in intermediate import growth and a positive turnaround in capital and consumption imports.

Manufactured export growth slowed, due in part to a higher base from the fourth quarter of last year. E&E exports expanded at a faster pace, supported by continued demand for semiconductors. The decline in non-E&E exports was due to a contraction in exports of resource-based products, in particular petroleum products. Nevertheless, exports of non-resource based products improved, supported by the continued expansion in exports of iron and steel products as well as machinery and appliances. The contraction in commodity exports was attributable mainly to lower demand and prices for crude palm oil and rubber. Lower prices of LNG and crude oil also weighed on commodity export growth during the quarter, but the impact was partly offset by higher demand for these commodities. In terms of destination, exports to the US grew strongly following continued growth in business investment. Within the region, the continued decline in exports to China was partly offset by higher exports to the ASEAN economies during the quarter.

Gross imports grew at a faster pace in the fourth quarter supported by an improvement in imports across all categories, with the exception of imports for re-export. Intermediate imports expanded at a stronger pace amid a continued expansion in manufacturing activity. Capital imports rebounded during the quarter, supported by an improvement in private investment. Imports of consumption goods turned around to register positive growth, driven mainly by stronger imports of non-durable consumer products and processed food and beverages. Nevertheless, re-export activity was subdued amid lower commodity prices during the quarter.

Malaysia: Direction of Exports

	Share 2014 (%)	2013		2014		
		4Q	Year	3Q	4Q	Year
		Annual change (%)				
United States	**8.4**	**-2.5**	**-4.5**	**9.0**	**16.9**	**11.0**
European Union (EU)	**9.5**	**14.7**	**5.0**	**5.5**	**7.9**	**11.5**
Japan	**10.8**	**6.0**	**-5.0**	**-4.4**	**1.9**	**4.4**
Selected ASEAN countries[1]	**27.4**	**7.4**	**7.2**	**2.1**	**5.1**	**5.8**
North East Asia	**23.8**	**24.0**	**6.1**	**-6.0**	**-8.7**	**3.4**
People's Republic of China	*12.1*	*30.9*	*9.3*	*-15.0*	*-15.7*	*-4.8*
Hong Kong SAR	*4.8*	*30.1*	*3.9*	*11.9*	*-3.9*	*18.5*
Korea	*3.7*	*17.0*	*3.3*	*0.6*	*2.5*	*7.1*
Chinese Taipei	*3.2*	*-3.0*	*-0.4*	*1.3*	*4.8*	*14.3*
West Asia[2]	**3.0**	**-1.2**	**0.3**	**-9.5**	**-2.7**	**-5.6**
India	**4.2**	**-17.7**	**-12.2**	**51.7**	**16.0**	**23.9**
Total exports	**100.0**	**10.4**	**2.5**	**1.5**	**0.5**	**6.4**

[1] Singapore, Thailand, Indonesia, Philippines, Brunei Darussalam and Vietnam
[2] United Arab Emirates, Saudi Arabia, Oman, Iraq, Qatar, Kuwait, Jordan, Lebanon, Bahrain, Syria, Palestine, Yemen and Iran

Source: Department of Statistics, Malaysia

The deficit in the **services** account widened to RM7.9 billion in the fourth quarter (3Q 2014: -RM6.4 billion), driven primarily by higher payments for construction services, in particular for engaging foreign technical services for infrastructure projects. The net travel receipt was marginally lower compared to third quarter of 2014, as spending by outbound tourists continued to increase while spending by inbound tourists was sustained. Meanwhile, net payment for transport services was sustained, in line with the continued trade activity during the quarter.

The **primary income** deficit widened to RM13.8 billion in the fourth quarter (3Q 2014: -RM9.4 billion), reflecting mainly a lower investment income from Malaysian companies investing abroad, particularly in the agriculture and mining sectors. Investment income of foreign direct investors was, on the other hand, broadly sustained during the quarter, mainly supported by income accrued to foreign investors in the manufacturing and services sectors, in particular the finance and insurance sub-sector. Meanwhile, the lower deficit in the secondary income account (4Q 2014: -RM5.0 billion; 3Q 2014: -RM5.3 billion) was due to higher receipts amid a smaller outward remittances.

The **financial account** registered a higher net outflow of RM24.4 billion in the fourth quarter (3Q 2014: -RM2.8 billion), mainly accounted for by higher net portfolio investment outflows.

Direct investment recorded a small net outflow of RM0.2 billion (3Q 2014: +RM2.1 billion), as a larger outflow of direct investment assets offset a smaller inflow of direct investment liabilities.

On the assets side, **outward direct investment** increased, recording outflows of RM8.1 billion (3Q 2014: -RM6.2 billion). Of these, **Direct Investment Abroad (DIA)** recorded outflows of RM10.4 billion (3Q 2014: -RM5.6 billion). The increase in DIA was driven by higher investments by Malaysian companies in the oil and gas sector as well as in the services sector, in particular the financial and insurance services and information and communication sub-sectors.

On the liabilities side, **inward direct investment** registered smaller inflows of RM7.9 billion (3Q 2014: +RM8.3 billion). Of these, **Foreign Direct Investment (FDI)** registered a larger inflow of RM10.2 billion (3Q 2014: +RM7.7 billion), channelled primarily into the manufacturing sector, while investments into the oil and gas industry and the financial services sub-sector remained substantial.

Portfolio investment recorded a higher net outflow of RM20.4 billion in the fourth quarter (3Q 2014: -RM11 billion). This was mainly attributable to higher portfolio investment outflows by non-residents, particularly the liquidation of debt instruments amid a marginal outflow in equities. Meanwhile, residents' portfolio investment abroad registered a small inflow mainly on account of redemption of debt securities, while domestic institutional investors acquired lower foreign equity securities.

Other investments turned around to register a net outflow of RM4.1 billion (3Q 2014: +RM6.1 billion), as higher outflows from the non-bank sector offset the lower inflows into the banking sector. These outflows in the non-bank sector mainly reflected the larger extensions of trade credit by Malaysian exporters amid repayment of previously extended trade credits to importers. The decrease in inflows into the banking sector reflected lower placements of interbank deposits by non-resident financial institutions.

Following these developments, the **overall balance of payments** registered a deficit of RM11.4 billion in the fourth quarter (3Q 2014: -RM6.7 billion). Errors and Omissions (E&O) amounted to +RM6.7 billion, partly reflecting foreign exchange revaluation gains on international reserves, as the ringgit depreciated against selected major and regional currencies during the quarter.

Manageable external debt

Malaysia's external debt[2] stood at RM744.7 billion, equivalent to USD211 billion or 69.6% of GDP as at end-December 2014 (end-September: RM740.7 billion or USD223.9 billion, equivalent to 69.2% of GDP). In terms of the external debt profile, slightly more than half of it was in the form of medium- to long-term maturity. By currency, approximately half of the total external debt comprised non-resident holdings of ringgit-denominated debt securities and deposits. During the quarter, the rise in external debt was attributed mostly to the valuation effect from the depreciation of the ringgit.

Offshore borrowing increased to RM367.1 billion as at end-December 2014 (end-September: RM347.6 billion) due mainly to the valuation effect following the strengthening of selected regional and major currencies against ringgit during the quarter. Excluding foreign exchange revaluation changes, offshore borrowing increased at a more moderate pace, reflecting largely the net drawdown of offshore borrowing by private sector companies. A significant proportion of this borrowing is from non-resident related entities for better management of financial resources within the corporate groups and is mainly used to finance expansion of productive capacity. This net drawdown by the private sector was, however, partially offset by a small net repayment in the public sector, particularly by the public enterprises.

The non-resident deposits increased to RM87.7 billion as at end-December 2014 (end-September: RM80.5 billion). Non-resident holdings of ringgit-denominated debt securities, however, declined to RM223.3 billion (end-September: RM247 billion) amid heightened financial market volatility. The decline was largely attributed to the liquidation by non-residents of BNM bills and notes, which are instruments used by the Bank in its monetary policy operations to absorb excess liquidity from the banking system. The non-resident holdings of long-term ringgit-denominated debt securities, in particular the Malaysian Government Securities, remained relatively stable.

Overall, slightly more than half of the total external debt has a medium- to long-term maturity profile. The short-term external debt remained manageable with reserves coverage of 1.1 times.

Outstanding External Debt

	2013	2014	
	end-Dec	end-Sept	end-Dec
	RM billion		
Offshore borrowing[1]	324.1	347.6	367.1
Medium- and long-term	*196.0*	*199.0*	*210.9*
Public sector	98.9	89.1	93.1
Private sector	97.1	109.9	117.8
Short-term	*128.1*	*148.6*	*156.2*
NR holdings of dom. debt securities	229.7	247.0	223.3
Medium- and long-term	*151.1*	*167.6*	*162.4*
Short-term	*78.6*	*79.4*	*60.9*
NR deposits	77.3	80.5	87.7
Others[2]	65.5	65.6	66.7
Medium- and long-term	*10.7*	*10.2*	*10.6*
Short-term	*54.8*	*55.4*	*56.0*
Total external debt	**696.6**	**740.7**	**744.7**
USD billion equivalent	*209.8*	*223.9*	*211.0*
External Debt (Previous definition)			
Total debt/GDP (%)	32.8	32.5	34.3
Short-term debt[3]/Total debt (%)	39.5	42.8	42.6
Reserves/Short-term debt[3] (times)	3.4	2.8	2.5[5]
External Debt (Redefined)			
Total debt/GDP (%)	70.6	69.2	69.6
Short-term debt[4]/Total debt (%)	48.6	49.1	48.4
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 bond 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 January 2015.
Note: NR refers to non-residents

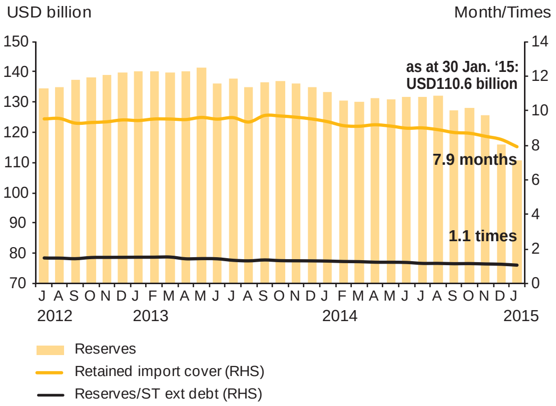
Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

[2] 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 RM405.5 billion (equivalent to USD116.0 billion) as at 31 December 2014. This reserves level has taken into account the quarterly adjustment for foreign exchange revaluation changes. As at 30 January 2015, the reserves position amounted to RM386.5 billion (equivalent to USD110.6 billion), sufficient to finance 7.9 months of retained imports and is 1.1 times the short-term external debt.

Net International Reserves (as at end period)



Source: Bank Negara Malaysia

Lower fiscal deficit of 3.5% of GDP in 2014

Federal Government spending remained supportive of growth in the fourth quarter, with total net expenditure amounting to RM76.1 billion. In particular, operating expenditure increased due to higher grants and transfer to statutory bodies, and supplies and services. Development expenditure was disbursed mainly to the rural and community development and other economic services sectors. Despite the decline in oil prices, revenue was sustained at RM59.6 billion supported by higher collection from income tax. For the year as a whole, Federal Government achieved the fiscal deficit target of 3.5% of GDP (2013: 3.9% of GDP). As at end-December 2014, total outstanding debt of the Federal Government stood at RM582.8 billion or 54.5% of GDP.

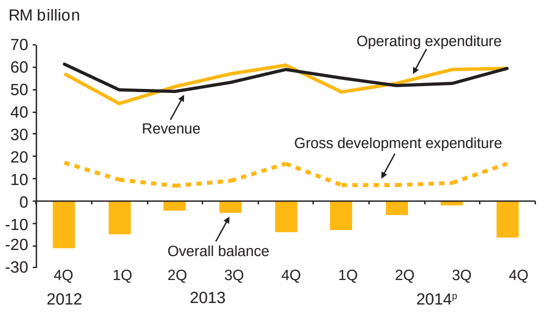
Federal Government Finance

	2013		2014p		
	4Q	Year	3Q	4Q	Year
	RM billion				
Revenue	61.1	213.4	59.1	59.6	220.6
% annual growth	*6.8*	*2.6*	*3.8*	*-2.3*	*3.4*
Operating expenditure	58.8	211.3	52.9	59.7	219.6
% annual growth	*-4.6*	*2.8*	*-0.9*	*1.6*	*3.9*
Current account	**2.3**	**2.1**	**6.2**	**-0.1**	**1.0**
% of GDP	***0.9***	***0.2***	***2.3***	***0.0***	***0.1***
Net development expenditure	16.0	40.7	8.1	16.4	38.4
% annual growth	*-3.4*	*-8.2*	*-10.3*	*2.1*	*-5.5*
Overall balance	**-13.8**	**-38.6**	**-1.9**	**-16.5**	**-37.4**
% of GDP	***-5.2***	***-3.9***	***-0.7***	***-5.9***	***-3.5***
Memo item:					
Total net expenditure	74.8	252.0	61.0	76.1	258.0
% annual growth	*-4.4*	*0.8*	*-2.2*	*1.7*	*2.4*
Total Federal Government debt					
(as at end-period)	539.9	539.9	569.3	582.8	582.8
% of GDP	*54.7*	*54.7*	*53.2*	*54.5*	*54.5*
Domestic debt	381.4	381.4	397.2	414.7	414.7
% of GDP	*38.7*	*38.7*	*37.1*	*38.8*	*38.8*
External debt[1]	158.4	158.4	172.1	168.2	168.2
% of GDP	*16.1*	*16.1*	*16.1*	*15.7*	*15.7*
Non-resident holdings					
of RM-denominated					
Federal Government debt[2]	*141.7*	*141.7*	*156.0*	*151.4*	*151.4*
% of GDP	*14.4*	*14.4*	*14.6*	*14.1*	*14.1*
Offshore borrowing	*16.8*	*16.8*	*16.1*	*16.8*	*16.8*
% of GDP	*1.7*	*1.7*	*1.5*	*1.6*	*1.6*

p Preliminary
1 Refers to the redefined external debt
2 Refers to non-resident holdings of ringgit-denominated Government debt (MGS, GII, T-bills and SPK), which was classified as domestic debt under the previous definition

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

Federal Government Finance



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Source: Ministry of Finance, Malaysia