DEVELOPMENTS IN THE MALAYSIAN ECONOMY

Continued expansion in third quarter

The Malaysian economy expanded by 5.6% in the third quarter of 2014 (2Q 2014: 6.5%). Overall, growth was supported by private domestic demand, amid continued contraction in public expenditure. As real exports of goods and services recorded a positive growth amid a slower pace of expansion in real imports of goods and services, net exports continued to contribute positively to growth during the quarter. On a quarter-on-quarter seasonally-adjusted basis, the economy grew by 0.9% (2Q 2014: 1.9%).

Domestic demand supported by sustained private sector activity

Domestic demand grew by 4.8% in the third quarter (2Q 2014: 5.8%), with private sector activity being the key driver of growth. Public sector spending declined further during the quarter as the contraction in public investment more than offset the improvement in public consumption.

Private sector activity grew by 6.7% (2Q 2014: 8.1%), driven by stronger growth in **private consumption** of 6.7% (2Q 2014: 6.5%). Household spending remained supported by stable employment conditions and continued wage growth. **Private investment** expanded at a slower pace of 6.8% (2Q 2014: 12.1%), attributed to a decline in spending on machinery and equipment, particularly in the transportation segment. Going forward, investment activity will be supported by continued flow of ongoing and new projects by the private and public sectors.

GDP by Expenditure Components
(at constant 2005 prices)

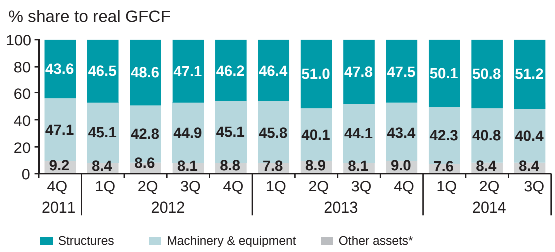
	2013		2014		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
Aggregate Domestic Demand (excluding stocks)	8.4	6.7	7.5	5.8	4.8
Private Sector	9.8	9.1	8.8	8.1	6.7
Consumption	*8.0*	*7.4*	*7.1*	*6.5*	*6.7*
Investment	*15.6*	*16.6*	*14.1*	*12.1*	*6.8*
Public sector	4.1	2.1	3.3	-1.6	-1.2
Consumption	*7.8*	*5.2*	*12.3*	*-0.5*	*5.3*
Investment	*-0.1*	*-1.4*	*-6.4*	*-3.3*	*-8.9*
Net Exports	9.9	-6.8	14.9	91.0	11.4
Exports of Goods and Services	*4.6*	*5.7*	*7.9*	*8.8*	*2.8*
Imports of Goods and Services	*4.2*	*7.1*	*7.1*	*3.9*	*2.2*
GDP	**5.0**	**5.1**	**6.2**	**6.5**	**5.6**
GDP (q-o-q growth, seasonally adjusted)	**1.7**	**1.9**	**0.9**	**1.9**	**0.9**

Source: Department of Statistics, Malaysia

Public sector expenditure registered a negative growth of 1.2% (2Q 2014: -1.6%). **Public consumption** turned around to register a positive growth of 5.3% (2Q 2014: -0.5%), reflecting higher Government spending on supplies and services. **Public investment**, however, declined further by 8.9% (2Q 2014: -3.3%), attributed mainly to the near completion of a few projects by public enterprises and the continued contraction in the Federal Government development expenditure.

In terms of total investment, **gross fixed capital formation** expanded at a more moderate pace of 1.1% (2Q 2014: 7.2%). By type of assets, spending on structures remained firm (8.3%; 2Q 2014: 6.7%), while spending on machinery and equipment declined by 7.5% (2Q 2014: 9.1%). In the first three quarters of 2014, structures, and machinery and equipment investment accounted for 51% and 41% of total gross fixed capital formation, respectively.

GFCF by Type of Assets



*Other assets include mineral exploration, research & development, etc
Source: Department of Statistics, Malaysia

Positive growth across all sectors

On the supply side, positive growth was experienced across all economic sectors in the third quarter. The services sector recorded sustained growth, supported by the continued expansion in both the consumption- and production-related services. In the manufacturing sector, after an exceptionally strong performance in the second quarter, the sector expanded at a more moderate pace amid slower domestic-oriented activity.

GDP by Economic Activity (at constant 2005 prices)

	Share 2013 (%)	2013		2014		
		3Q	4Q	1Q	2Q	3Q
		Annual change (%)				
Agriculture	7.1	2.0	0.2	2.3	7.1	4.0
Mining	8.1	1.4	-1.2	-0.8	2.1	1.4
Manufacturing	24.5	4.3	5.2	6.8	7.3	5.3
Construction	3.8	10.2	9.8	18.9	9.9	9.6
Services	55.2	6.0	6.4	6.6	6.2	6.1
Real GDP	**100.0[1]**	**5.0**	**5.1**	**6.2**	**6.5**	**5.6**
Real GDP (q-o-q seasonally adjusted)	**-**	**1.7**	**1.9**	**0.9**	**1.9**	**0.9**

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

Source: Department of Statistics, Malaysia

Similarly, growth in the agriculture sector recorded a slower growth following weaker output of palm oil and rubber, while the mining sector moderated as well. Activity in the construction sector, however, grew at a sustained pace, driven by the residential and non-residential sub-sectors.

Growth in the **services sector** was sustained at 6.1% in the third quarter (2Q 2014: 6.2%). The wholesale and retail trade sub-sector grew by 8.2% (2Q 2014: 9.2%), in tandem with the continued expansion in household spending. In the communication sub-sector, growth remained robust (9.6%; 2Q 2014: 9.8%), driven by continued strong demand for data communication services. Growth in the real estate and business services sub-sector remained high (7.1%; 2Q 2014: 7.4%), underpinned mainly by the business services segment. The transport and storage sub-sector expanded by 4.9% (2Q 2014: 4.6%) supported by strong highway, airport and port activity. The finance and insurance sub-sector registered a higher growth of 2.6% (2Q 2014: 0.7%) mainly reflecting the higher growth in net interest income.

Performance of the Services Sector (value added at constant 2005 prices)

	Share 2013 (%)	2013		2014		
		3Q	4Q	1Q	2Q	3Q
		Annual change (%)				
Intermediate Services	**40.8**	**5.0**	**4.9**	**5.8**	**4.7**	**5.4**
Finance & insurance	16.6	0.9	0.5	2.4	0.7	2.6
Real estate & business services	10.3	8.1	8.3	8.6	7.4	7.1
Transport & storage	6.6	5.1	5.4	4.8	4.6	4.9
Communication	7.4	10.8	10.3	10.2	9.8	9.6
Final Services	**59.2**	**6.6**	**7.5**	**7.2**	**7.2**	**6.7**
Wholesale & retail trade	26.1	6.1	8.4	8.6	9.2	8.2
Accommodation & restaurant	4.5	5.8	5.8	6.1	5.6	5.1
Utilities	4.5	3.9	4.4	3.2	2.7	4.4
Government services	15.0	9.6	8.6	8.1	7.3	6.2
Other services	9.1	5.0	5.1	4.8	4.5	4.9
Total Services	**100.0[1]**	**6.0**	**6.4**	**6.6**	**6.2**	**6.1**

[1] Numbers do not add up due to rounding

Source: Department of Statistics, Malaysia

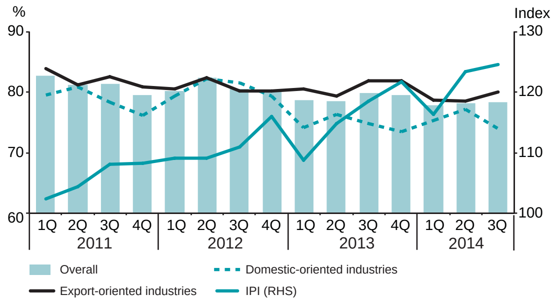
Selected Quarterly Indicators in the Services Sector

	2013		2014		
	3Q	4Q	1Q	2Q	3Q
	Index				
MIER Consumer Sentiment Index	102.0	82.4	96.8	100.1	98.0
MIER Retail Trade Index	107.9	81.7	86.3	89.6	130.0
MIER Tourism Market Index	138.8	140.3	115.8	96.7	115.2
	Annual change (%)				
Tourist arrivals	-4.9	1.2	10.0	11.1	6.1
Total passenger traffic at all airports	23.0	24.1	18.9	5.9	-2.0
Total consumption credit outstanding	6.9	5.9	4.8	4.4	2.9
Total loans outstanding	9.5	10.6	10.2	9.3	9.0
Loans outstanding to the wholesale & retail trade, hotels & restaurants	12.2	11.3	6.4	6.4	7.3
Imports of consumption goods	9.7	9.6	15.6	7.1	-1.0
Total sales of motor vehicles	11.0	-0.9	1.4	11.2	-8.8
Container cargo handled (Port Klang and PTP)	3.0	2.7	3.7	7.2	9.2

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

Growth in the **manufacturing sector** moderated to 5.3% in the third quarter (2Q 2014: 7.3%) amid slower growth in the domestic-oriented industries, particularly in the consumer-related industries. However, sustained performance in the export-oriented industries (4.6%, 2Q 2014: 5.0%), particularly the electronics and electrical (E&E) cluster, supported growth.

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

Overall capacity utilisation rate in the manufacturing sector was sustained at 78% (2Q 2014: 78%), driven by increased capacity utilisation in the export-oriented industries (80%, 2Q 2014: 79%). However, this was offset by the moderation in capacity utilisation in the domestic-oriented industries (74%, 2Q 2014: 77%).

Growth in the **construction sector** remained sustained during the quarter (9.6%; 2Q 2014: 9.9%), driven mainly by the residential and non-residential sub-sectors. The residential sub-sector continued to record firm growth, supported by the construction of high-end properties in the Klang Valley, Penang and Johor, while on-going construction of offices and retail projects and storage facilities contributed to growth in the non-residential sub-sector. Meanwhile, the civil engineering sub-sector continued to provide support to the sector owing to new and existing infrastructure projects.

Performance of the Manufacturing Sector

	Share 2013 (%)	2013		2014		
		3Q	4Q	1Q	2Q	3Q
		Annual Change (%)				
Value Added (at constant 2005 prices)	**100.0**	**4.3**	**5.2**	**6.8**	**7.3**	**5.3**
Export-oriented industries	61.5	4.1	4.7	6.9	5.0	4.6
Domestic-oriented industries	38.5	4.6	6.0	6.7	10.9	6.6
Overall Manufacturing Production[1]	**100.0**	**6.9**	**4.9**	**6.9**	**7.4**	**5.1**
Export-oriented industries	**74.8**	**6.6**	**3.8**	**6.6**	**5.4**	**4.3**
Electronics and electrical products cluster	**24.2**	**11.8**	**16.9**	**14.6**	**13.9**	**10.0**
Of which:						
Electronics	15.3	20.8	25.4	19.1	15.1	3.7
Electrical products	8.9	-4.7	1.2	5.4	11.2	24.6
Primary-related cluster	**50.7**	**4.1**	**-1.8**	**3.0**	**1.2**	**1.3**
Of which:						
Chemicals and chemical products	14.3	1.7	-1.1	1.2	-2.1	7.2
Petroleum products	21.0	9.5	-4.0	6.5	-0.5	-5.4
Rubber products	2.5	7.8	6.8	1.3	-1.6	-4.2
Off-estate processing	4.5	-0.1	-1.5	0.9	12.2	4.3
Domestic-oriented industries	**25.2**	**7.7**	**8.0**	**7.8**	**13.0**	**7.5**
Construction-related cluster	**11.3**	**5.1**	**3.5**	**3.2**	**4.6**	**5.7**
Of which:						
Construction-related products	8.2	2.5	2.2	1.2	6.6	7.1
Fabricated metal products	3.1	10.2	5.8	6.9	0.9	3.2
Consumer-related cluster	**13.8**	**10.0**	**11.6**	**11.8**	**20.5**	**8.9**
Of which:						
Transport equipment	5.5	9.1	23.4	19.1	29.8	11.6
Food, beverage & tobacco products	7.3	11.2	1.1	5.7	14.9	7.2

[1] Industrial Production Index (2010=100)

Source: Department of Statistics, Malaysia

Indicators for the Construction Sector

	2013		2014		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
Value of construction work done	12.0	11.3	21.1	10.8	10.7
Residential	23.6	18.3	33.1	18.1	21.5
Non-residential	9.9	18.1	19.9	14.5	10.9
Civil engineering	6.5	1.9	10.5	1.8	2.2
Special Trade[1]	8.2	9.4	49.3	9.8	7.4
Housing approvals	-1.0	-31.2	-47.6	-10.5	-6.8
Production[2] of construction-related materials	5.1	3.5	3.2	4.6	5.7
Hydraulic cement	2.7	6.2	1.3	7.3	7.8
Other articles of concrete, cement and plaster n.e.c	-0.7	25.5	36.9	43.5	25.8
Other porcelain and ceramic products	-12.0	3.1	15.2	17.5	20.7
Prefabricated structural components for building or civil engineering of cement, concrete or artificial stone	-1.8	6.5	2.6	-6.4	2.6
Capital imports (excluding lumpy items)	-1.9	-3.3	-3.3	0.9	-1.0
Loans for the construction sector					
Approval	-1.4	0.6	-32.8	-16.7	25.9
Disbursement	-4.3	22.2	23.3	4.4	4.8

[1] Works such as site preparation, electrical installation and painting
[2] 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 2013 (%)	2013		2014		
		3Q	4Q	1Q	2Q	3Q
		Annual change (%)				
Value Added (at constant 2005 prices)	**100**	**2.1**	**0.2**	**2.3**	**7.1**	**4.0**
Industrial Crops	**53.8**	**-1.9**	**-2.9**	**-1.0**	**9.3**	**1.1**
Of which:						
Oil palm	36.6	-0.6	-1.2	1.6	14.9	5.2
Rubber	7.0	-0.1	-14.4	-12.1	-15.0	-24.1
Food Crops	**46.2**	**7.0**	**4.6**	**6.1**	**4.3**	**7.3**
Of which:						
Fishing	14.4	1.6	-3.3	2.1	0.4	3.0
Livestock	11.7	11.7	10.6	7.9	6.1	7.7

Source: Department of Statistics, Malaysia

Performance of the Mining Sector

	Share 2013 (%)	2013		2014		
		3Q	4Q	1Q	2Q	3Q
		Annual change (%)				
Value Added (at constant 2005 prices)	**100.0**	**1.4**	**-1.2**	**-0.8**	**2.1**	**1.4**
Production						
Of which:						
Crude oil	-	-0.4	-8.3	-3.5	4.0	5.7
Condensates	-	-0.9	0.1	-0.9	-5.5	-10.0
Natural gas	-	4.3	2.0	1.2	1.6	-1.1

Source: Department of Statistics, Malaysia

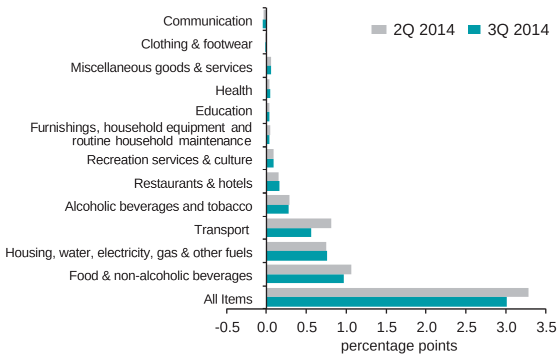
The **agriculture sector** recorded a slower growth of 4.0% (2Q 2014: 7.1%), mainly due to slower growth in industrial crops amid lower prices, particularly palm oil and rubber. Meanwhile, the **mining sector** grew at a more moderate pace (1.4%; 2Q 2014: 2.1%), caused by lower output of natural gas and condensates.

Inflation continued to decline in the third quarter

The inflation rate, as measured by the annual change in the Consumer Price Index (CPI), averaged lower at 3.0% in the third quarter (2Q 2014: 3.3%). The decline was mainly attributed to the lower inflation in the *transport* category (3.7%, 2Q 2014: 5.4%), reflecting the lapse in the impact of the price adjustment made in September 2013 for RON95 petrol and diesel. Inflation in the *food and non-alcoholic beverages* category also declined to 3.2% (2Q 2014: 3.5%). This was partly due to the lower cost of production in the poultry industry following the decline in the global price of corn.

The Producer Price Index (PPI) recorded a slower growth of 0.9% on an annual basis in the third quarter (2Q 2014: 3.2%). This mainly reflected the decline in prices in the *mineral, fuels and lubricants* category following the moderation in global oil prices. Correspondingly, prices of commodity-related components increased at a slower pace of 0.9% (2Q 2014: 7.2%). Prices of non-commodity related components increased at a relatively stable rate of 1.0% during the quarter (2Q 2014: 1.2%). Prices of local and imported components grew by 1.0% and 0.8% respectively (2Q 2014: 4.2% and 1.0% respectively).

Contribution to Consumer Price Inflation



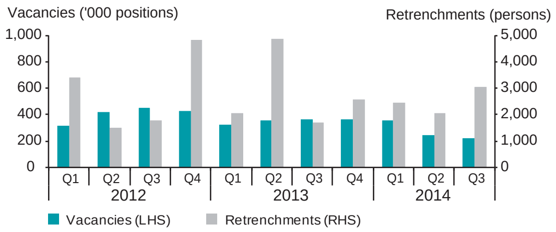
Source: Bank Negara Malaysia

Stable labour market conditions

Labour market conditions remained stable during the third quarter[1] as reflected by the low unemployment rate of 2.7% (2Q 2014: 2.8%). Employment was sustained at 13.6 million persons (2Q 2014: 13.5 million).

Retrenchments reported to the Ministry of Human Resources increased to 3,028 persons (2Q 2014: 2,051 persons), mostly in the services and manufacturing sectors. Job vacancies posted in the JobsMalaysia Portal moderated to 223,128 positions (2Q 2014: 246,884 positions). Aggregate real wages in the manufacturing sector grew at 2.6% (2Q 2014: 4.5%), supported by continued wage growth in the export- and domestic-oriented industries.

Labour Market Conditions



Source: Ministry of Human Resources

External position remained resilient in the third quarter

The current account surplus narrowed to RM7.6 billion in the third quarter, equivalent to 2.9% of GNI in 3Q 2014 (2Q 2014: RM16.0 billion or 6.3% of GNI). The current account surplus was lower on account of a smaller surplus in the goods account, and higher deficits in the services and income accounts.

In the third quarter, the trade surplus narrowed to RM16.8 billion (2Q 2014: RM18.5 billion). Gross exports grew at a slower pace of 1.5% (2Q 2014: 14.4%), arising from a higher base in the third quarter of 2013. Gross imports also moderated, registering a growth of 2.6% in the third quarter (2Q 2014: 8.5%).

The moderation in gross export growth was broad-based. Manufactured exports slowed from the double-digit pace of expansion observed in the first half of 2014, due to a higher base from the third quarter of last year. E&E exports grew at a more modest pace, attributed mainly to a slower but continued expansion in demand for semiconductors during the quarter. The moderation in non-E&E export growth was due mainly to a decline in exports of petroleum products and manufactures of metal. Commodity exports declined, due mainly to lower prices of crude petroleum, palm oil and LNG. Lower demand for LNG and rubber also weighed on commodity export growth during the quarter. In terms of destination, exports to the US grew at a slower pace in line with a moderation in economic activity in the US. Exports to the regional economies also slowed during the quarter.

Balance of Payments[1]

	2013		2014		
	3Q	4Q	1Q	2Q	3Q
	RM billion				
Current Account	**10.0**	**14.8**	**19.8**	**16.0**	**7.6**
(% of GNI)	*4.1*	*5.8*	*7.9*	*6.3*	*2.9*
Goods	27.2	33.3	33.6	30.1	28.7
Services	-4.8	-4.1	-2.7	-3.6	-6.4
Primary income	-8.0	-10.0	-6.4	-7.7	-9.4
Secondary income	-4.4	-4.4	-4.6	-2.8	-5.3
Financial Account	**-11.7**	**-9.7**	**-37.6**	**-11.8**	**-2.8**
Direct investment	1.6	4.0	-14.6	-4.4	2.1
Assets	*-7.6*	*-6.5*	*-20.4*	*-16.6*	*-6.2*
Liabilities	*9.2*	*10.4*	*5.8*	*12.2*	*8.3*
Portfolio investment	-9.5	-0.8	-13.4	6.9	-11.0
Assets	*-10.1*	*-5.4*	*-7.6*	*-10.6*	*-10.3*
Liabilities	*0.6*	*4.6*	*-5.8*	*17.6*	*-0.7*
Financial derivatives	0.6	0.4	-1.5	0.2	0.1
Other investment	-4.4	-13.3	-8.1	-14.5	6.1
Errors & omissions[2]	13.4	-7.8	0.4	-5.2	-11.5
Overall Balance	**11.8**	**-2.7**	**-17.3**	**-1.0**	**-6.7**

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 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

Trade Account

	Share 2013 (%)	2013		2014		
		3Q	4Q	1Q	2Q	3Q
		Annual change (%)				
Gross Exports	**100.0**	**7.5**	**10.4**	**10.8**	**14.4**	**1.5**
Manufactured	*76.1*	*8.8*	*12.9*	*12.5*	*13.8*	*1.9*
E&E	*32.9*	*5.5*	*13.2*	*12.5*	*13.0*	*2.7*
Non-E&E	*43.2*	*11.6*	*12.7*	*12.5*	*14.4*	*1.3*
Resource based	*24.0*	*11.3*	*14.2*	*9.1*	*15.1*	*2.2*
Non-resource based	*19.3*	*11.9*	*10.9*	*17.0*	*13.7*	*0.3*
Commodities	23.2	4.5	4.7	6.1	16.7	0.4
Minerals	*13.6*	*18.6*	*16.1*	*8.8*	*25.2*	*-2.5*
Agriculture	*9.6*	*-10.8*	*-8.3*	*2.1*	*5.6*	*4.4*
Gross Imports	**100.0**	**7.5**	**11.4**	**5.5**	**8.5**	**2.6**
Intermediate goods	58.5	4.1	10.4	4.4	2.6	11.0
Capital goods	15.1	3.2	-0.4	-6.6	8.4	-9.9
Consumption goods	7.3	9.7	9.8	15.6	7.1	-1.0
Re-exports and dual-use goods	19.0	21.8	26.1	15.7	31.5	-10.6
Trade balance (RM billion)	**-**	**18.5**	**28.3**	**26.3**	**18.5**	**16.8**

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

Source: MATRADE and Department of Statistics, Malaysia

[1] Based on preliminary data

Gross import growth moderated in the third quarter due to a decline in imports across all categories, except intermediate imports. Capital imports contracted due mainly to a decline in imports of transport equipment. Imports of consumption goods registered negative growth, reflecting the high base from the third quarter of last year, in particular non-durable consumer products. Amid lower commodity prices during the quarter, re-export activity also moderated. Meanwhile, intermediate imports expanded at a stronger pace amid a continued expansion in manufacturing activity.

The deficit in the **services** account widened to RM6.4 billion (2Q 2014: -RM3.6 billion), driven primarily by lower net travel receipts as a result of lower number of tourists to Malaysia, amid higher outbound travel for education and pilgrimage purposes. The transport account remained in deficit, in line with the sustained trade activity and higher outbound tourism during the quarter.

The **primary income** deficit widened to RM9.4 billion (2Q 2014: -RM7.7 billion), reflecting a higher investment income accrued to foreign direct investors, particularly in the services, manufacturing and mining sectors. Investment income accrued to Malaysian companies investing abroad was broadly sustained, mainly supported by income accrued to the mining sector and the services sector, in particular the finance and insurance sub-sector. Meanwhile, the bigger deficit in the **secondary income** account (3Q 2014: -RM5.3 billion; 2Q 2014: -RM2.8 billion) was due mainly to larger outward remittances.

The **financial account** registered a lower net outflow of RM2.8 billion in the third quarter 2014 (2Q 2014: -RM11.8 billion), mainly accounted by a turnaround in both direct investment and other investment accounts.

Direct investment turned to register a small net inflow of RM2.1 billion (2Q 2014: -RM4.4 billion), due mainly to smaller asset outflows.

On the assets side, **outward direct investment** moderated, recording outflows of RM6.2 billion (2Q 2014: -RM16.6 billion). Of these, **Direct Investment Abroad (DIA)** recorded outflows of RM5.6 billion (2Q 2014: -RM14.6 billion), due to lower extensions of equity capital and intercompany loans, and lower earnings retained abroad for reinvestment. These investments were undertaken mainly in the services sector, particularly the financial services and information and communications services sub-sectors. Malaysian companies also invested in the mining and agriculture sectors during the quarter.

On the liabilities side, **inward direct investment** registered smaller inflows of RM8.3 billion (2Q 2014: +RM12.2 billion). Of these, **Foreign Direct Investment (FDI)** amounted to RM7.7 billion (2Q 2014: +RM10.2 billion), supported by sustained inflows of equity capital amid lower retained earnings. FDI was channelled primarily into

Malaysia: Direction of Exports

	Share 2013 (%)	2013		2014		
		3Q	4Q	1Q	2Q	3Q
		Annual change (%)				
United States	**8.1**	**-7.7**	**-2.5**	**4.2**	**13.4**	**9.0**
European Union (EU)	**9.1**	**16.2**	**14.7**	**18.5**	**15.9**	**5.5**
Japan	**11.0**	**-3.3**	**6.0**	**8.5**	**12.5**	**-4.4**
Selected ASEAN countries[1]	**27.6**	**11.2**	**7.4**	**2.9**	**13.7**	**2.1**
North East Asia	**24.5**	**14.4**	**24.0**	**20.1**	**14.7**	**-6.0**
People's Republic of China	*13.5*	*17.6*	*30.9*	*15.3*	*3.3*	*-15.0*
Hong Kong SAR	*4.3*	*4.3*	*30.1*	*35.0*	*41.5*	*11.9*
Korea	*3.6*	*9.2*	*17.0*	*15.5*	*10.6*	*0.6*
Chinese Taipei	*3.0*	*21.5*	*-3.0*	*28.0*	*28.7*	*1.3*
West Asia[2]	**3.4**	**-2.0**	**-1.2**	**-0.7**	**-9.1**	**-9.4**
India	**3.6**	**-15.8**	**-17.7**	**9.1**	**18.7**	**51.7**
Total exports	**100.0**	**7.5**	**10.4**	**10.7**	**14.4**	**1.5**

[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 mining sector, while the services sector received substantial inflows as well, particularly the financial services, and distributive trade services sub-sectors.

Portfolio investment recorded a net outflow of RM11.0 billion in the third quarter (2Q 2014: +RM6.9 billion). This was attributable to residents' portfolio investment abroad, due mainly to sustained domestic institutional investors' acquisition of foreign portfolio assets. Meanwhile, non-resident portfolio investment turned around to register a marginal net outflow. During the quarter, there were continued non-resident purchases of domestic debt and equity securities. This was, however, offset by outflows arising largely from maturing offshore debt securities.

Other investments turned around to register a net inflow of RM6.1 billion (2Q 2014: -RM14.5 billion), as inflows from the banking sector outweighed outflows from the non-bank sector. These inflows were mainly due to continued placements of interbank deposits by non-resident financial institutions.

Following these developments, the **overall balance of payments** registered a deficit of RM6.7 billion in the third quarter (2Q 2014: -RM1.0 billion). Errors and Omissions (E&O) amounted to -RM11.5 billion, partly reflecting foreign exchange revaluation losses on international reserves, as the ringgit appreciated against selected major and regional currencies during the quarter.

Manageable external debt

Malaysia's external debt[2] stood at RM740.7 billion, equivalent to USD223.9 billion or 68.7% of GDP as at end-September 2014 (end-June: RM729.5 billion or USD224.8 billion, equivalent to 67.7% of GDP). The higher external debt was attributed to the increase in non-resident holdings of ringgit-denominated debt securities as well as higher offshore borrowing.

Offshore borrowing increased to RM347.6 billion as at end-September 2014 (end-June: RM337.4 billion) due mainly to the increase in short-term interbank borrowing. The medium- and long-term offshore borrowing was lower on account of net repayment of external debt by the public sector following, in particular, the maturity of several bonds and sukuk of public enterprises, which offset net borrowing by private sector companies.

The non-resident holdings of ringgit-denominated debt securities issued by the Federal Government, Bank Negara Malaysia and corporations increased to RM247 billion as at end-September 2014 (end-June: RM243.8 billion), with the increase mainly in the short-term debt securities due to higher yields, amid sustained holdings of long-term debt securities. The high non-resident participation in Malaysia's debt securities market is a reflection of the deeper, more open and more vibrant domestic financial markets.

Overall, slightly more than half of the total external debt has a long-term maturity profile. The short-term external debt remained manageable with reserves coverage of 1.2 times.

Outstanding External Debt

	2013	2014	
	end-Sept	end-June	end-Sept
		RM billion	
Offshore borrowing[1]	312.4	337.4	347.6
Medium- and long-term	*192.2*	*204.8*	*199.0*
Public sector	98.6	98.7	89.1
Private sector	93.6	106.2	109.9
Short-term	*120.2*	*132.6*	*148.6*
NR holdings of dom. debt securities	226.5	243.8	247.0
Medium- and long-term	*143.6*	*167.3*	*167.6*
Short-term	*82.9*	*76.6*	*79.5*
NR deposits	70.1	84.4	80.5
Others[2]	65.5	63.9	65.6
Medium- and long-term	*10.8*	*9.8*	*10.2*
Short-term	*54.8*	*54.0*	*55.4*
Total external debt	**674.6**	**729.5**	**740.7**
USD billion equivalent	*205.1*	*224.8*	*223.9*
External Debt (Previous definition)			
Total debt/GDP (%)	31.6	31.3	32.2
Short-term debt[3]/Total debt (%)	38.4	39.3	42.8
Reserves/Short-term debt[3] (times)	3.7	3.2	2.8[5]
External Debt (Redefined)			
Total debt/GDP (%)	68.3	67.7	68.7
Short-term debt[4]/Total debt (%)	48.6	47.6	49.1
Reserves/Short-term debt[4] (times)	1.4	1.2	1.2[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 31 October 2014.
Note: NR refers to non-residents

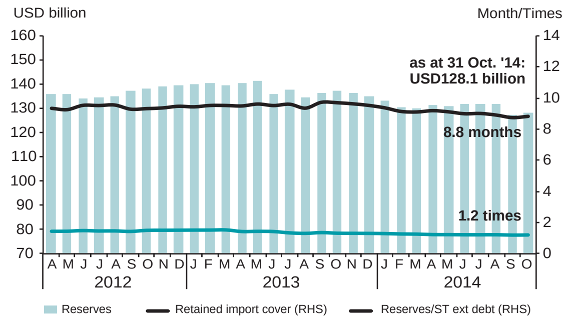
Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

[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 RM416.9 billion (equivalent to USD127.3 billion) as at 30 September 2014. This reserves level has taken into account the quarterly adjustment for foreign exchange revaluation changes. As at 31 October 2014, the reserves position amounted to RM419.7 billion (equivalent to USD128.1 billion), sufficient to finance 8.8 months of retained imports and is 1.2 times the short-term external debt.

Net International Reserves (as at end period)



Source: Bank Negara Malaysia

Higher revenue and lower expenditure contributed to a lower fiscal deficit

The Government fiscal deficit declined to -0.7% during the quarter. This was supported by a higher revenue collection and a decline in operating expenditure. Federal Government revenue increased by 3.8% on an annual basis, driven by higher collection from corporate and indirect taxes, reflecting sustained economic activity. Federal Government operating expenditure declined by 0.9% on an annual basis due to lower expenditures on fuel subsidies and grants and transfers to statutory bodies. As at end-September 2014, total outstanding debt of the Federal Government amounted to RM569.3 billion or 52.8% of estimated 2014 GDP. In October, the Government tabled the 2015 Budget outlining a lower fiscal deficit target of 3% of GDP for 2015, reflecting its firm commitment to the fiscal consolidation path.

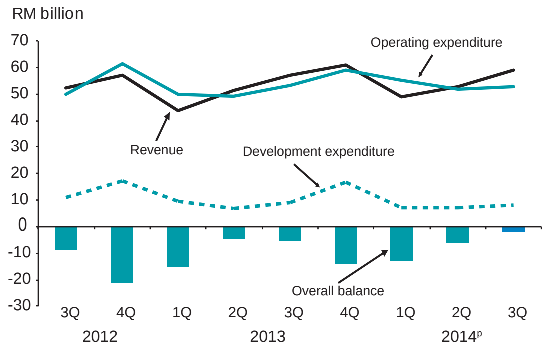
Federal Government Finance

	2013		2014p		
	3Q	4Q	1Q	2Q	3Q
	RM billion				
Revenue	57.0	61.1	49.2	52.7	59.1
% annual growth	*9.4*	*6.8*	*12.4*	*2.1*	*3.8*
Operating expenditure	53.4	58.8	55.2	51.7	52.9
% annual growth	*6.7*	*-4.6*	*10.6*	*5.2*	*-0.9*
Current account	**3.6**	**2.3**	**-6.0**	**0.9**	**6.2**
% of GDP	***1.4***	***0.9***	***-2.3***	***0.4***	***2.3***
Net development expenditure	9.0	16.0	7.0	7.0	8.1
% annual growth	*-16.5*	*-3.4*	*-20.9*	*2.7*	*-10.3*
Overall balance	**-5.4**	**-13.8**	**-13.0**	**-6.1**	**-1.9**
% of GDP	***-2.2***	***-5.2***	***-5.0***	***-2.3***	***-0.7***
Memo item:					
Total net expenditure	62.4	74.8	62.2	58.7	61.0
% annual growth	*2.6*	*-4.4*	*5.9*	*4.9*	*-2.2*
Total Federal Government debt (as at end-period)	529.2	539.9	560.6	568.9	569.3
% of GDP	*53.6*	*54.7*	*52.0*	*52.8*	*52.8*
Domestic debt	379.9	381.4	398.4	397.0	397.2
% of GDP	*38.5*	*38.7*	*37.0*	*36.8*	*36.8*
External debt[1]	149.3	158.4	162.1	171.9	172.1
% of GDP	*15.1*	*16.1*	*15.0*	*15.9*	*16.0*
Non-resident holdings of RM-denominated Federal Government debt[2]	*132.4*	*141.7*	*145.7*	*155.6*	*156.0*
% of GDP	*13.4*	*14.4*	*13.5*	*14.4*	*14.5*
Offshore borrowing	*16.9*	*16.8*	*16.5*	*16.2*	*16.1*
% of GDP	*1.7*	*1.7*	*1.5*	*1.5*	*1.5*

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