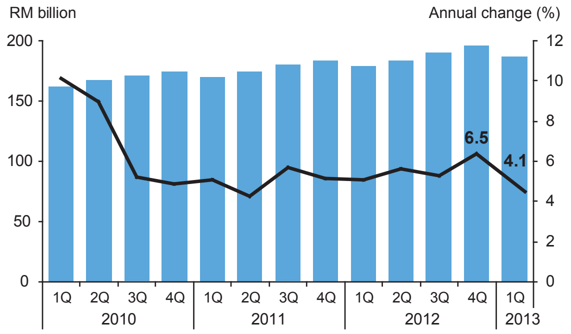
ECONOMIC AND FINANCIAL DEVELOPMENTS IN MALAYSIA IN THE FIRST QUARTER OF 2013

OVERVIEW

Strong domestic demand sustained growth amid weaker external demand in the first quarter

The global economy grew at a modest pace in the first quarter of 2013. The growth in the US remained slow, while the economic performance in most European economies remained weak amidst the ongoing policy challenges and domestic structural concerns. In Asia, economic activity continued to expand, although at a slower pace, as domestic demand continued to outweigh weakness in external demand. Amid this weaker external environment, the Malaysian economy expanded by 4.1% in the first quarter (4Q 2012: 6.5%), supported by stronger domestic demand that expanded by 8.2% during the quarter (4Q 2012: 7.8%). On the supply side, while the domestic-oriented industries continued to register sustained growth, activity in the major economic sectors was weighed down by the weak external conditions.

The economy expanded by 4.1% in the first quarter
(at constant 2005 prices)



Source: Department of Statistics, Malaysia

Domestic demand remained robust, increasing by 8.2% during the quarter (4Q 2012: 7.8%). Private consumption recorded a strong growth of 7.5% (4Q 2012: 6.2%), driven by sustained income growth and favourable labour market conditions. This was further supported by the implementation of the minimum wage policy. Growth in public consumption, however, moderated to 0.1% (4Q 2012: 1.2%), amidst lower spending on supplies and services.

Growth in gross fixed capital formation remained firm, rising by 13.2%, underpinned by capital spending by both the private and public sectors. Private investment grew by 10.9%, supported by continued capital spending in the domestic-oriented manufacturing and consumer-related services sub-sectors, in addition to the ongoing implementation of projects in the oil and gas sector. Public investment expanded by 17.3%, driven by higher capital spending by public enterprises in the oil and gas, utilities and telecommunication sectors, while Federal Government development expenditure was channelled mainly into the transportation, education, and trade and industry sectors.

On the supply side, growth in the manufacturing sector slowed, weighed down by the weak external conditions. Despite the weakness in trade-related activity, the services sector continued to expand, driven largely by sub-sectors catering to the domestic market. Growth in the agriculture sector was sustained on account of higher production of palm oil, while the mining sector declined due to lower production of crude oil. In the construction sector, growth remained firm, led mainly by the civil engineering sub-sector.

The headline inflation rate, as measured by the annual change in the Consumer Price Index (CPI), was slightly higher at 1.5% in the first quarter (4Q 2012: 1.3%). The increase was attributed mainly to higher inflation in the *food and non-alcoholic beverages* category.

In the external sector, the current account surplus narrowed in the first quarter to RM8.7 billion, equivalent to 3.9% of GNI, due to a lower goods surplus, as well as a larger services deficit and income outflows. The financial account turned around to record a net inflow of RM1 billion (4Q 2012: -RM10.3 billion), as inflows of direct and portfolio investment from non-residents outweighed outflows arising from direct and portfolio investment undertaken by residents. The overall balance of payments recorded a surplus of RM4 billion (4Q 2012: +RM5.9 billion).

The international reserves of Bank Negara Malaysia amounted to RM431.2 billion (equivalent to USD139.6 billion) as at 29 March 2013. This reserve level has taken into account the quarterly adjustment for foreign exchange revaluation changes. As at 30 April 2013, the reserves position amounted to RM433.3 billion (equivalent to USD140.3 billion), sufficient to finance 9.5 months of retained imports and is 4.3 times the short-term external debt.

Interest rates remained stable

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

Reflecting the unchanged OPR, the interbank rates of all maturities were relatively stable. In terms of retail interest rates, the average quoted fixed deposit (FD) rates of commercial banks were relatively unchanged during the quarter. The average base lending rate (BLR) of commercial banks remained at 6.53%, while the weighted average lending rate (ALR) on loans outstanding edged lower to 5.50% as at end-March (end-December 2012: 5.52%).

Total gross financing raised by the private sector through the banking system and the capital market amounted to RM244.7 billion (4Q 2012: RM262.2 billion). On a net basis, banking system loans and PDS outstanding expanded at an annual growth rate of 11% as at end-March (end-December 2012: 12.4%).

Net funds raised in the capital market moderated to RM16.7 billion in the first quarter (4Q 2012: RM37.7 billion), reflecting mainly the significantly higher redemption of debt securities (RM32.2 billion; 4Q 2012: RM13.1 billion). Overall gross financing from the capital market, however, remained firm for both the private and public sectors. In the private sector, RM22.6 billion of gross funds were raised through the issuance of private debt securities, while another RM1 billion was raised in the equity market. In the public sector, gross funds raised increased to RM25.3 billion (4Q 2012: RM21.6 billion).

The monetary aggregates continued to expand in the first quarter. Narrow money, or M1, increased by RM4.1 billion during the period. On an annual basis, M1 expanded by 12.7% as at end-March (end-December 2012: 11.9%). Broad money, or M3, increased by RM43.9 billion during the quarter, to record an annual growth rate of 9.1% as at end-March (end-December 2012: 9%). The expansion of M3 was mainly on account of the credit extension to the private sector, higher net claims on the Government and net trade inflows.

Movements of the ringgit and other regional currencies in the first quarter were driven mainly by the uncertainties over the timing of the withdrawal of quantitative easing measures in the US and developments in Europe. These in turn resulted in a withdrawal of funds from emerging market assets. The ringgit was also affected by domestic uncertainties during this period in the run-up to the General Elections. Overall, the ringgit depreciated by 1.0% against the US dollar, but appreciated against the Japanese yen (8.4%), pound sterling (5.2%) and euro (2.0%). The ringgit's performance against regional currencies was mixed. The ringgit appreciated against the Korean won (3.3%) and Singapore dollar (0.5%), but depreciated against the Indonesian rupiah, Chinese renminbi, Philippine peso and Thai baht by between 0.2% and 5.2%.

Between 1 April and 10 May 2013, the ringgit appreciated against the Japanese yen (10.9%), US dollar (3.4%), pound sterling (1.8%), and euro (1.7%). The ringgit strengthened against regional currencies by between 2.2% and 4.6%.

Financial stability continued to be preserved

Despite continued volatility in the global financial markets, financial stability remained intact throughout the quarter. Effective financial intermediation was supported by sound financial institutions, orderly financial market conditions and sustained confidence in the financial system.

The banking system continued to remain resilient, with strong capital buffers, sustained profitability and ample liquidity. While the new capital standards under Basel III have been phased in since January 2013, the banking system remained well-capitalised, with the Common Equity Tier 1 Capital Ratio, Tier 1 Capital Ratio and Total Capital Ratio at 12.2%, 13.1% and 14.5% respectively. Similarly, the insurance sector recorded a strong capital adequacy ratio of 221.6%, and a capital buffer in excess of RM22.7 billion.

Domestic demand to remain robust amid continued challenges in the external environment

Going forward, the global economy is expected to continue to expand, but downside risks to growth will remain. In the advanced economies, economic recovery continues to be vulnerable to policy uncertainties and the risk of contagion. The divergent policies across regions are also resulting in spillover effects on global financial conditions. Nevertheless, in Asia, growth will continue to be sustained by domestic demand, underpinned by income growth and healthy labour market conditions, and supported by continued policy flexibility.

For the Malaysian economy, domestic demand is expected to remain as the key driver of growth, driven by sustained private sector expansion and supported by the public sector. While global developments will continue to present downside risks, intra-regional trade is expected to reinforce the growth performance.

DEVELOPMENTS IN THE FIRST QUARTER OF 2013

INTERNATIONAL ECONOMIC ENVIRONMENT

Modest expansion in global economic activity

The global economy expanded at a modest pace in the first quarter of 2013, with the growth momentum remaining uneven between and within regions. In the advanced economies, growth in the US remained slow, while most European economies experienced weak or negative economic performance. In Asia, economic expansion continued albeit at a slower pace. Given the modest economic performance and low inflation, monetary authorities continued to maintain accommodative policies to support the recovery process.

Financial market conditions generally improved during the quarter, as favourable economic and policy developments resulted in lower market perception of tail risks. At the beginning of the first quarter, global equity markets improved, underpinned by the successful aversion of the fiscal cliff, temporary suspension of the statutory debt limit, and positive economic data releases in the US. The commitment by major central banks to maintain an accommodative policy stance further reinforced investor optimism. In particular, market expectations in Japan were lifted by the introduction of an "open-ended monetary easing" stance and the adoption of a 2% inflation target. However, market volatility increased in February and March, following the re-emergence of uncertainty in the euro area. Inconclusive election results in Italy and domestic political tensions in Spain led to concerns over the indebted nations' ability to implement economic reforms. In addition, the initial proposal to impose a deposit levy as a condition for the Cyprus bailout raised uncertainty over the progress towards achieving a European banking union. Despite these developments, global equity markets ended the quarter at higher levels.

The US economy continued to expand at a modest pace in the first quarter of 2013 (1.8%; 4Q 2012: 1.7%). On a seasonally adjusted annualised basis, growth increased by 2.5% (4Q 2012: 0.4%), supported by an increase in private consumption expenditure and private inventory investment. The recovery in private sector economic activity was led by gradual improvements in the housing and labour markets. Residential investment recorded an expansion of 13% (4Q 2012: 14.9%), supported by continued growth in residential construction and sales amid declining mortgage rates and relatively low inventories. Similarly, non-farm employment registered a gain of 618,000 jobs during the quarter (4Q 2012: 626,000 jobs). While the unemployment rate declined to 7.7% (4Q 2012: 7.8%), this was, however, attributable in part to a lower labour participation rate, underscoring the uneven recovery in the labour market. Government spending continued to be a drag on growth (-2.1%; 4Q 2012: -1.8%) following reduced defence spending, and was further compounded by the sequester cuts amounting to USD85 billion that took effect beginning March. Headline inflation was lower at 1.7% (4Q 2012: 1.9%), as relatively subdued growth in food and gasoline inflation offset higher shelter prices.

In the euro area, economic performance remained weak. Domestic demand was adversely affected by weak private sector sentiments amidst the austerity measures and ongoing sovereign debt crisis. In particular, economic activity in the crisis-affected economies continued to deteriorate, attributable to the anaemic labour market, weak earnings and tight financing conditions. Of significance, the unemployment rate rose to a record high of 12.1%, with Greece and Spain recording the highest unemployment rates of 27% and 26.7% respectively. Meanwhile, exports expanded marginally, supported by the modest growth in global demand. Inflation moderated slightly to 1.9% (4Q 2012: 2.3%), due to lower energy prices.

The UK economy expanded by 0.6% in the first quarter (4Q 2012: 0.2%). On a seasonally adjusted basis, quarterly growth turned around to register 0.3% (4Q 2012: -0.3%), driven mainly by the services sector. The expansion was broad-based across all services sub-sectors, contributing 0.5 percentage points to quarterly growth. Production also increased, due largely to the turnaround in mining and quarrying activities, as operations in the North Sea resumed following an extended period of maintenance. In addition, the production of energy supplies increased, due to the unusually cold weather. However, construction activity continued to contract during the quarter. The pace of inflation remained steady at 2.8% (4Q 2012: 2.7%).

In Japan, economic activity in the first quarter benefitted from a modest recovery in external demand and continued reconstruction efforts. Exports improved during the quarter (1.2%; 4Q 2012: -5.5%), mainly on account of higher shipments to the US. However, domestic demand activity remained weighed down by weakness in underlying economic fundamentals. Consumption activity moderated, as wage growth remained weak while retail sales continued to decline (-1.2%; 4Q 2012: 0%). Similarly, industrial production contracted (-7.9%; 4Q 2012: -5.9%), due to lower demand for general machinery, electronics and transport equipment. Nevertheless, consumer and business sentiments began to improve towards the end of the quarter, in anticipation of the policy stimulus measures to spur growth by the newly-elected government and the Bank of Japan (BoJ), which included the announcement of more aggressive monetary easing, an inflation target of 2%, and a fiscal stimulus package amounting to ¥10.3 trillion. Of significance, the consumer confidence index improved to a 5-year high of 44.8 in March. Headline inflation (excluding fresh food) remained weak at -0.3% (4Q 2012: -0.1%), as recreation prices declined.

Monetary policy in the advanced economies remained very accommodative during the quarter. In the US, the Federal Open Market Committee (FOMC) maintained the federal funds rate at 0–0.25%, and continued its asset purchase program. In the euro area, the European Central Bank (ECB) lowered the interest rate on main refinancing operations by 25 basis points to 0.5% in May 2013. Amid persistently weak economic sentiments, the cut in interest rate is expected to support prospects for a recovery later in the year. The ECB also announced that its monetary policy stance will remain accommodative for "as long as needed". The Bank of England (BoE) maintained both its key policy rate at 0.5% and its asset purchase programme of £375 billion. The BoE and HM Treasury also expanded the Funding for Lending Scheme. The availability of the scheme was extended until end-2015, incentives for banks to lend to small- and medium-sized companies were increased, and, for the first time, non-bank providers of credit were included in the scheme. In Japan, the BoJ announced a comprehensive overhaul of its monetary policy framework, with the introduction of "Qualitative and Quantitative Monetary Easing". The new framework integrated and replaced the previous asset purchase programmes, with the aim to achieve the price stability target of 2% within 2 years. The main policy target is now the monetary base, with a target of ¥200 trillion by end-2013 and ¥270 trillion by end-2014 (end-2012: ¥138 trillion, 29% of GDP). These would be achieved by doubling the central bank's holding of Japanese government bonds, doubling the average maturities of the bonds purchased, and increasing private asset purchases. Meanwhile, the Reserve Bank of Australia (RBA) lowered its cash rate by 25 basis points to 2.75% in May 2013, due to indications of below trend GDP growth amid contained inflationary pressures since the second half of 2012.

Advanced Economies: Real GDP Growth

	2012			2013
	1Q	4Q	Year	1Q
	Annual change (%)			
US[1]	2.0	0.4	2.2	2.5[a]
UK	0.5	0.2	0.3	0.6[p]

[1] Annualised basis
[a] Advance estimate
[p] Preliminary

Source: National authorities

Regional Countries: Real GDP Growth

	2012			2013
	1Q	4Q	Year	1Q
	Annual change (%)			
PR China	8.1	7.9	7.8	7.7[p]
Indonesia	6.3	6.1	6.2	6.0
Hong Kong SAR	0.7	2.8	1.5	2.8
Korea	2.8	1.5	2.0	1.5[a]
Chinese Taipei	0.6	3.7	1.3	1.5[a]
Singapore	1.5	1.5	1.3	-0.6[a]

[p] Preliminary
[a] Advance estimate

Source: National authorities

Most economies in Asia continued to expand, albeit at a slower pace, in the first quarter. Domestic demand remained the key contributor to growth, underpinned by favourable labour market conditions, continued access to financing and rising income levels. In several regional economies, overall investment activity continued to be supported by government spending, in particular for infrastructure projects. Intra-regional trade also provided some support to growth, but this was offset in part by weak demand from the US and Europe. In Korea, Hong Kong SAR and Indonesia, growth was sustained (1.5%, 2.8% and 6%; 4Q 2012: 1.5%, 2.8% and 6.1% respectively), as the improvement in net exports offset weaker investment. Resilient consumption also supported economic activity in Indonesia and Hong Kong SAR. In PR China, economic expansion moderated to 7.7% (4Q 2012: 7.9%), following slower industrial activity. Growth in Chinese Taipei moderated to 1.5% (4Q 2012: 3.7%), amid subdued private consumption and lower export growth. In Singapore, growth contracted by 0.6% (4Q 2012: 1.5%), as the manufacturing sector declined at a faster pace, due mainly to the contraction in the biomedical manufacturing cluster.

Headline inflation rose at a slightly faster pace in several Asian economies, driven by a variety of factors. In PR China and Indonesia, food costs increased amid lower supply conditions. In the Philippines, the rise in inflation was attributable largely to increases in the prices of alcohol and tobacco due to higher taxes. Meanwhile, in Singapore, private transportation costs rose. Price increases in India, however, decelerated due mainly to lower costs of manufactured products.

As inflationary pressures generally remained moderate, most regional central banks kept their key policy rates unchanged during the quarter to provide support to economic activity. Nevertheless, the Bank of Korea and the Reserve Bank of India cut their benchmark interest rates by 25 basis points to 2.50% and 7.25% respectively in May 2013, following concerns over weak economic activity amid high downside risks from the global environment. The State Bank of Vietnam also reduced its discount, refinancing and overnight rates by 100 basis points to 5%, 7% and 8% respectively to increase lending to businesses and support the economy. In addition, Bangko Sentral ng Pilipinas, in April 2013, reduced the interest rates on the Special Deposit Account (SDA) facility by 50 basis points to 2% across all tenures, to further enhance the efficiency of its operations in absorbing liquidity through the SDA facility.

Moreover, amid continued concerns over property price inflation in several economies, the monetary authorities also undertook further macroprudential measures aimed at the property sector during the quarter. In Singapore, policy measures included additional stamp duties on the first purchase of residential property by permanent residents and the second purchase of residential property by Singaporeans, and lower loan-to-value ratios for the second mortgage and above. Similarly, in PR China, to curb speculative demand for properties, the government imposed higher down-payment requirements and mortgage rates, and strengthened the ban on the purchase of second homes in several cities.

In the first quarter, global crude oil prices[1] averaged higher at USD112.57 per barrel (4Q 2012: USD110.11). The rise in oil prices was driven by lower production in Saudi Arabia, higher demand for heating following the unusually cold weather in the US and parts of Europe, and stronger-than-expected demand from PR China as refineries increased production ahead of the Lunar New Year. While crude oil traded at a 9-month high of USD118.72 in mid-February, the upward trend in oil prices reversed during the second half of the quarter amid pessimism following heightened uncertainties in the euro area and rising inventories in the US.

Most major currencies ended the quarter lower against the US dollar. The euro began the quarter on an upward trend, as successful Portuguese and Spanish bond auctions supported market optimism that the crisis-affected nations are on a sustainable debt

[1] Refers to Brent one-month futures on the Intercontinental Exchange (ICE).

reduction path. However, the appreciating trend reversed in February, weighed down by weaker economic assessment of the euro area and political uncertainty in Italy. This was further exacerbated by concerns over financial stability in the monetary union following uncertainty in the terms of the Cyprus bailout. In the UK, the pound sterling depreciated by 6.5% against the US dollar, following the downgrade of the nation's credit rating and weaker economic data releases. Similarly, the Japanese yen weakened by 7.9% against the US dollar, driven by market anticipation of Japan's more aggressive policy stimulus. Most Asian currencies also depreciated against the US dollar, as modest economic data releases in several economies dampened optimism over the growth prospects in Asia. The decline was further affected by the onset of greater market volatility in the euro area. The Chinese renminbi, however, reversed its depreciating trend at the start of February to end the quarter stronger, amid the release of several favourable economic data. In contrast to the regional trend, the Thai baht appreciated, partly supported by the nation's more favourable growth prospects. Demand for the currency was further bolstered by the USD2.1 billion listing of a Thai infrastructure fund this year.

Going forward, the global economy is expected to continue its moderate expansion. Downside risks to growth, however, remain. While there has been progress made in the major advanced economies to address the fiscal and financial issues, the sustainability of the economic recovery remains vulnerable to continued policy uncertainties and the risk of contagion. The divergent policies across regions are also resulting in spillover effects on global financial conditions, as reflected by the large capital flows into the emerging economies. Nevertheless, in Asia, growth will continue to be sustained by domestic demand, underpinned by income growth and healthy labour market conditions, and supported by continued policy flexibility.

DEVELOPMENTS IN THE MALAYSIAN ECONOMY

Strong domestic demand sustained growth amid weaker external demand in the first quarter

The Malaysian economy expanded by 4.1% in the first quarter of 2013 (4Q 2012: 6.5%), supported by stronger domestic demand that expanded by 8.2% during the quarter (4Q 2012: 7.8%). Private consumption registered strong growth during the quarter, while the expansion in gross fixed capital formation continued to be firm, reflecting sustained capital spending by both the private and public sectors. Exports contracted marginally during the quarter, and with higher growth of imports, led to a larger negative contribution of net exports to growth. On the supply side, while the domestic-oriented industries continued to register sustained growth, activity in the major economic sectors was weighed down by the weak external conditions.

Domestic demand remained robust

Domestic demand registered a strong growth of 8.2% in the first quarter (4Q 2012: 7.8%). Growth was driven by higher private consumption, while gross fixed capital formation remained firm with a double-digit growth rate.

GDP by Expenditure Components
(at constant 2005 prices)

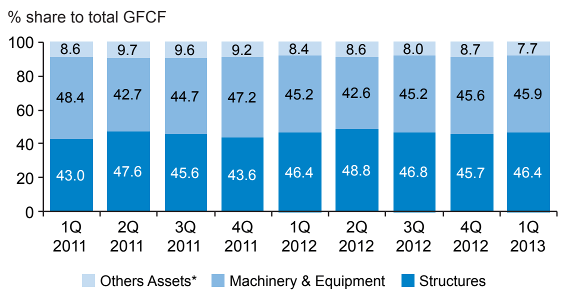
	Share 2012 (%)	2012 1Q	2012 4Q	2012 Year	2013 1Q
		Annual change (%)			
Aggregate Domestic Demand (excluding stocks)	90.6	9.7	7.8	10.6	8.2
Consumption	63.7	7.6	4.9	7.1	6.1
Private sector	*50.6*	*7.3*	*6.2*	*7.7*	*7.5*
Public sector	*13.2*	*9.2*	*1.2*	*5.1*	*0.1*
Gross Fixed Capital Formation	26.8	14.9	16.0	19.9	13.2
Private sector	*15.5*	*18.7*	*20.1*	*21.9*	*10.9*
Public sector	*11.3*	*8.9*	*12.9*	*17.1*	*17.3*
Net Exports	8.5	-25.9	-9.3	-31.7	-36.4
Exports of Goods and Services	*95.0*	*2.2*	*-1.6*	*-0.1*	*-0.6*
Imports of Goods and Services	*86.5*	*7.0*	*-0.6*	*4.7*	*3.6*
GDP	**100.0**	**5.1**	**6.5**	**5.6**	**4.1**

Source: Department of Statistics, Malaysia

Private consumption grew strongly in the first quarter (7.5%; 4Q 2012: 6.2%), driven by sustained income growth and favourable labour market conditions. Industry engagements also indicated that workers have benefitted from the implementation of the minimum wage policy in January 2013. The strong growth in private consumption was reflected in the higher growth of new passenger car sales and credit card spending. Growth of public consumption, however, moderated in the first quarter (0.1%; 4Q 2012: 1.2%), reflecting mainly lower Government spending on supplies and services.

Gross fixed capital formation continued to register a firm growth of 13.2% (4Q 2012: 16%), underpinned by capital spending in both the private and public sectors. Private sector investment grew by 10.9% (4Q 2012: 20.1%), supported by continued capital spending in the domestic-oriented manufacturing and consumer-related services sub-sectors, namely, telecommunication, real estate and aviation, in addition to the ongoing implementation of projects in the oil and gas sector. Public investment expanded by 17.3% (4Q 2012: 12.9%), driven by higher capital spending by public enterprises in the oil and gas, telecommunication and utilities sectors. Federal Government development expenditure was channelled mainly into the transportation, education, and trade and industry sectors. By type of assets, investment activity was broad-based, as reflected by the strong investment growth in both machinery and equipment (15.1%; 4Q 2012: 12%), and structures (13.1%; 4Q 2012: 21.5%).

GFCF by Type of Assets



* Others Assets include mineral exploration, research & development, etc.

Source: Department of Statistics, Malaysia

Major economic sectors affected by external weakness

On the supply side, growth in the manufacturing sector slowed, weighed down by the weak external conditions. Despite the weakness in trade-related activity, the services sector continued to expand, driven largely by sub-sectors catering to the domestic market. Growth in the agriculture sector was sustained on account of higher production of palm oil, while the mining sector declined due to lower production of crude oil. In the construction sector, growth remained firm, led mainly by the civil engineering sub-sector.

Growth in the manufacturing sector slowed to 0.3% in the first quarter (4Q 2012: 5.7%), weighed down largely by weak external demand. Growth in the export-oriented industries contracted (-0.6%; 4Q 2012: 5.3%), due to the weakness in global demand for electronics and electrical (E&E) products, and more moderate regional demand for refined petroleum products, chemicals and chemical products. Nevertheless, the domestic-oriented industries registered a growth of 2.4% (4Q 2012: 8.1%), supported by continued economic activity in both the consumer- and construction-related clusters.

The overall capacity utilisation rate in the manufacturing sector was marginally lower in the first quarter (79%; 4Q 2012: 80%). The export- and domestic-oriented industries operated at 80% and 74% of total capacity respectively (4Q 2012: 80% and 79% respectively).

GDP by Economic Activity (at constant 2005 prices)

	Share 2012 (%)	2012			2013
		1Q	4Q	Year	1Q
		Annual change (%)			
Agriculture	7.3	2.4	5.6	1.0	6.0
Mining	8.4	0.3	4.2	1.4	-1.9
Manufacturing	24.9	4.4	5.7	4.8	0.3
Construction	3.5	15.4	17.6	18.1	14.7
Services	54.6	5.7	6.4	6.4	5.9
Real GDP	**100.0[1]**	**5.1**	**6.5**	**5.6**	**4.1**

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

Source: Department of Statistics, Malaysia

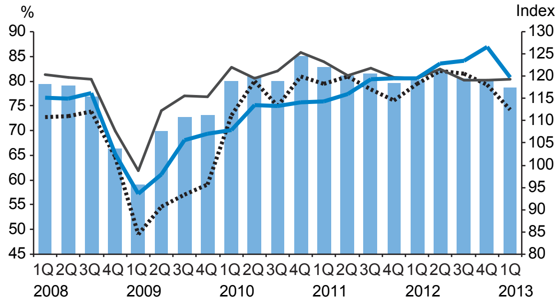
Performance of the Manufacturing Sector

	Share 2012 (%)	2012			2013
		1Q	4Q	Year	1Q
		Annual Change (%)			
Value Added (RM million at Constant 2005 prices)		**4.4**	**5.7**	**4.8**	**0.3**
Overall Manufacturing Production[1]	**100.0**	**4.6**	**6.0**	**5.0**	**0.1**
Export-oriented industries	**80.2**	**3.0**	**5.3**	**3.9**	**-0.6**
Electronics and electrical products cluster	**32.3**	**0.0**	**3.9**	**2.2**	**0.9**
Of which:					
Electronics	21.4	-3.6	12.7	4.2	8.4
Electrical products	10.9	4.6	-5.8	-0.2	-7.7
Primary-related cluster	**47.9**	**4.5**	**6.0**	**4.9**	**-1.4**
Of which:					
Chemicals and chemical products	17.4	9.1	7.8	8.4	3.1
Petroleum products	15.8	3.8	4.2	4.3	-11.3
Rubber products	2.5	3.4	3.2	3.0	11.6
Off-estate processing	3.7	2.2	11.1	0.0	11.9
Domestic-oriented industries	**19.8**	**10.0**	**8.1**	**8.3**	**2.4**
Construction-related cluster	**8.3**	**8.3**	**10.5**	**8.5**	**2.9**
Of which:					
Construction-related products	5.5	0.9	-1.6	0.9	-3.0
Fabricated metal products	2.8	17.4	25.2	18.0	9.2
Consumer-related cluster	**11.5**	**11.4**	**6.2**	**8.1**	**2.1**
Of which:					
Transport equipment	4.3	9.9	19.1	13.9	8.3
Food, beverage & tobacco products	7.2	11.5	0.7	5.8	-1.0

[1] Industrial Production Index (2005=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 services sector registered a growth of 5.9% in the first quarter (4Q 2012: 6.4%), driven mainly by sub-sectors catering to the domestic market. Growth in the wholesale and retail sub-sector improved to 5.9% (4Q 2012: 2.4%). The retail segment was supported by strong household spending, while growth in the wholesale segment was attributed to the wholesale of petroleum products for domestic consumption. In the communication sub-sector, growth remained robust (9%; 4Q 2012: 8.6%), driven by continued demand for data communication services. The finance and insurance sub-sector continued to expand (6.2%; 4Q 2012: 10.8%), as growth in bank lending and net interest income remained favourable. Slower capital market activity, however, affected fee income during the quarter. Meanwhile, growth in the transport and storage sub-sector was lower (3.8%; 4Q 2012: 4.4%), due to slower external trade activity.

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

	Share 2012 (%)	2012 1Q	2012 4Q	2012 Year	2013 1Q
		Annual change (%)			
Intermediate Services	**41.0**	**5.1**	**8.3**	**7.4**	**6.3**
Finance & insurance	17.2	2.0	10.8	7.8	6.2
Real estate & business services	10.1	7.0	6.6	7.2	6.3
Transport & storage	6.7	5.9	4.4	4.9	3.8
Communication	7.0	9.4	8.6	9.2	9.0
Final Services	**59.0**	**6.1**	**5.1**	**5.8**	**5.7**
Wholesale & retail trade	26.1	6.5	2.4	4.8	5.9
Accommodation & restaurant	4.5	6.2	4.8	5.4	6.2
Utilities	4.6	5.0	4.1	4.3	3.9
Government services	14.7	7.0	11.3	9.5	6.0
Other services	9.2	4.1	4.1	3.9	5.2
Total Services	**100.0[1]**	**5.7**	**6.4**	**6.4**	**5.9**

[1] Numbers do not add up due to rounding

Source: Department of Statistics, Malaysia

Selected Quarterly Indicators in the Services Sector

	2012 1Q	2012 4Q	2012 Year	2013 1Q
	Index			
MIER Consumer Sentiments Index	114.3	118.7	116.6	122.9
MIER Retail Trade Index	85.3	94.8	107.4	101.0
MIER Tourism Market Index	125.2	129.8	125.6	115.5
	Annual change (%)			
Tourist arrivals	0.4	2.9	1.3	n.a.
Total passenger traffic at all airports	6.4	8.6	4.9	9.1
Total consumption credit outstanding	7.8	7.1	7.1	7.7
Total loans outstanding	12.2	10.4	10.4	10.6
Loans outstanding to the wholesale & retail trade, hotels & restaurants	11.3	12.1	12.1	14.2
Imports of consumption goods	20.4	5.7	11.6	-0.6
Total sales of motor vehicles	-12.6	13.1	4.6	13.8
Container cargo handled (Port Klang and PTP)	7.4	0.4	3.4	-0.4

Source: Various sources

Value-added growth of the agriculture sector continued to be sustained (6%; 4Q 2012: 5.6%), driven largely by higher output of crude palm oil and supported by higher production of fishing. Meanwhile, the mining sector contracted by 1.9% (4Q 2012: 4.2%), weighed down by the lower output of crude oil.

Performance of the Agriculture Sector

	Share 2012 (%)	2012			2013
		1Q	4Q	Year	1Q
		Annual change (%)			
Value Added (at constant 2005 prices)	**100.0**	**2.4**	**5.6**	**1.0**	**6.0**
Industrial Crops	**55.7**	**1.5**	**4.9**	**-2.5**	**5.4**
Of which:					
Oil palm	36.5	3.5	11.6	-0.3	14.6
Rubber	8.2	-9.3	0.9	-6.3	-2.2
Food Crops	**44.3**	**3.5**	**6.7**	**5.7**	**6.7**
Of which:					
Fishing	14.4	-4.0	5.8	1.8	6.9
Livestock	11.7	10.6	11.6	9.0	6.7

Source: Department of Statistics, Malaysia

Performance of the Mining Sector

	Share 2012 (%)	2012			2013
		1Q	4Q	Year	1Q
		Annual change (%)			
Value Added (at constant 2005 prices)	**100.0**	**0.3**	**4.2**	**1.4**	**-1.9**
Production					
Of which:					
Crude oil and condensates	-	1.4	5.8	3.0	-3.5
Natural gas	-	-0.2	4.6	1.5	0.3

Source: PETRONAS
Department of Statistics, Malaysia

Indicators for the Construction Sector

	2012			2013
	1Q	4Q	Year	1Q
	Annual change (%)			
Housing approvals	75.6	12.3	47.4	-19.0
New housing sales and advertising permits	12.5	-1.1	11.9	-14.8
Production[1] of construction-related materials	8.3	10.5	8.5	2.9
Structural metal products	49.2	40.9	32.8	14.7
Iron and steel	-11.7	-3.6	-5.8	6.6
Structural non-refractory clay and ceramic products	3.3	3.4	5.3	-6.4
Ready-mix concrete	18.2	18.4	19.7	23.1
Loans for the construction sector				
Approval	38.2	-59.6	-18.2	-28.9
Disbursement	15.7	4.2	20.5	23.5

[1] Industrial Production Index (2005=100)

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

In the construction sector, growth remained firm (14.7%; 4Q 2012: 17.6%), led mainly by robust expansion of the civil engineering sub-sector. Infrastructure and oil and gas projects, such as the MRT, Tanjung Bin and Janamanjung power plants, and Kebabangan Gas Field, continued to drive growth in the sub-sector. The residential sub-sector provided further support to growth, driven by the construction of residential properties in the Klang Valley and Penang.

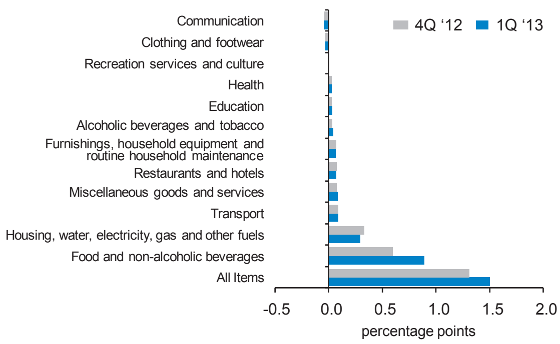
Slightly higher inflation in the first quarter

The headline inflation rate, as measured by the annual change in the Consumer Price Index (CPI), was slightly higher at 1.5% in the first quarter (4Q 2012: 1.3%). The increase was attributed mainly to higher inflation in the *food and non-alcoholic beverages* category.

Inflation in the *food and non-alcoholic beverages* category rose to 2.9% (4Q 2012: 2%), due mainly to higher prices in the *fresh meat* sub-category (5.7%; 4Q 2012: -1.6%) arising from the higher cost of poultry feed. Prices of *fresh vegetables* were also higher by 4.6% (4Q 2012: 1.9%), due partly to more expensive imported onions.

Meanwhile, inflation in the *transport* category was unchanged at 0.6%. Although the price of RON97 petrol was revised upwards in March, the average price during the quarter was lower compared to the corresponding period in 2012 (RM 2.77 per litre; 1Q 2012: RM 2.80 per litre). The impact from the lower average petrol price was partly offset by higher inflation in the *repair and maintenance of personal transport* sub-category (3.7%; 4Q 2012: 2.8%).

Contribution to Consumer Price Inflation



Source: Bank Negara Malaysia

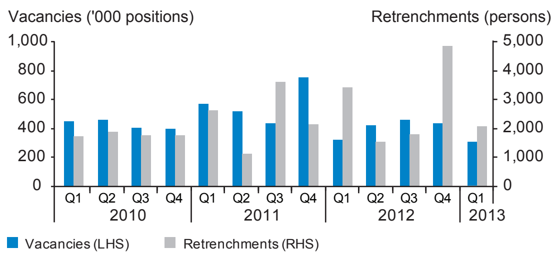
The Producer Price Index (PPI) recorded a smaller decline of 3.4% on an annual basis in the first quarter (4Q 2012: -3.7%). The prices of commodity-related components declined by 9.5% (4Q 2012: -10.3%), while prices of non-commodity-related components increased by 0.2% during the quarter (4Q 2012: +0.2%). By origin, prices of both local components and imported components declined by 4.6% and 0.5% respectively (4Q 2012: -5.2% and 0% respectively).

Favourable labour market conditions

Employment conditions improved in the first quarter, with total employment averaging 12.88 million persons during the first two months of the quarter. This represented a net job gain of 342,800 persons compared to the fourth quarter of 2012, and the unemployment rate remained low at 3.2% in January-February (4Q 2012: 3.1%). Similarly, total retrenchment reported to the Ministry of Human Resources decreased significantly to 2,058 persons (4Q 2012: 4,823 persons), following lower layoffs in the manufacturing sector.

Nevertheless, labour demand softened during the quarter, as reflected in the lower number of job vacancies posted in the JobsMalaysia Portal (322,146 positions; 4Q 2012: 429,928 positions). Meanwhile, growth in aggregate real wages in the manufacturing sector was sustained at 6.6% (4Q 2012: 6.9%).

Labour Market Conditions



Note: Vacancies data from 2012 onwards is not comparable to previous years due to a reclassification exercise

Source: Ministry of Human Resources

Moderation in external sector

The current account surplus narrowed in the first quarter to RM8.7 billion, equivalent to 3.9% of GNI, due to a lower goods surplus, as well as a larger services deficit and income outflows.

Balance of Payments[1]

	2012			2013
	1Q	4Q	Year	1Q
	RM billion			
Current Account	**16.9**	**22.9**	**57.3**	**8.7**
(% of GNI)	*7.7*	*9.6*	*6.3*	*3.9*
Goods	36.0	34.3	125.6	24.7
Services	-5.1	-2.2	-14.0	-3.4
Primary income	-8.7	-5.6	-36.0	-8.8
Secondary income	-5.4	-3.5	-18.2	-3.8
Financial Account	**-10.3**	**-10.3**	**-23.0**	**1.0**
Direct investment	-9.5	-18.4	-21.7	-2.2
Assets	-21.5	-16.5	-51.9	-11.5
Liabilities	12.0	-1.9	30.2	9.4
Portfolio investment	25.1	10.4	58.4	3.9
Assets	-7.6	-4.1	-21.5	-5.3
Liabilities	*32.7*	*14.5*	*79.8*	*9.2*
Financial derivatives	*-0.02*	*0.1*	*1.0*	*0.2*
Other investment	-25.9	-2.3	-60.6	-0.9
- Official sector	-0.8	-0.6	-1.7	-0.7
- Private sector	-25.1	-1.7	-58.9	-0.2
Net Errors & omissions[2]	-13.7	-7.0	-30.6	-5.6
Overall Balance	**-7.2**	**5.9**	**3.9**	**4.0**

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 foreign exchange revaluation on gains/losses made on international reserves

Source: Department of Statistics, Malaysia

Trade Account

	Share 2012 (%)	2012			2013
		1Q	4Q	Year	1Q
		Annual change (%)			
Gross Exports	**100.0**	**3.9**	**-2.3**	**0.6**	**-2.4**
Manufactured	67.0	1.2	-2.4	-0.1	-3.2
E&E	*32.9*	*-1.7*	*-4.4*	*-2.5*	*-4.9*
Non-E&E	*34.1*	*4.1*	*-0.5*	*2.3*	*-1.6*
Petroleum & agri-related	*12.9*	*5.0*	*-1.7*	*1.4*	*-3.6*
Equipment & metals	*12.6*	*6.1*	*1.8*	*6.6*	*-0.9*
Misc. manufacturing goods	*8.6*	*0.1*	*-2.2*	*-2.1*	*0.3*
Commodities	32.1	9.1	-3.1	1.5	-1.1
Agriculture	*11.4*	*-7.8*	*-16.8*	*-14.8*	*-17.0*
Minerals	*20.7*	*20.9*	*6.2*	*13.6*	*7.4*
Gross Imports	**100.0**	**6.8**	**0.9**	**5.9**	**6.2**
Capital goods	15.9	18.3	14.5	20.5	12.9
Intermediate goods	61.4	-1.4	-8.8	-3.4	-1.9
Consumption goods	7.5	20.4	5.7	11.6	-0.6
Re-exports and dual-use goods	15.2	35.9	32.3	38.4	39.5
Trade balance (RM billion)	**–**	**29.8**	**26.6**	**94.8**	**16.6**

Source: MATRADE and Department of Statistics, Malaysia

The trade surplus narrowed to RM16.6 billion in the first quarter (4Q 2012: RM26.6 billion), following a contraction in gross exports while gross imports registered a stronger expansion.

Gross exports remained weak in the first quarter (-2.4%; 4Q 2012: -2.3%), weighed down by a larger contraction in manufactured exports. The continued decline in the export of E&E products was due mainly to weak global demand, particularly for computers and parts, and electrical products. Non-E&E exports also declined following lower demand, in particular for petroleum- and agriculture-related products. However, commodity exports recorded a smaller contraction, supported by regional demand for commodities.

Gross imports expanded at a faster pace of 6.2% (4Q 2012: 0.9%), driven mainly by higher import of goods for re-export and sustained expansion in capital imports. The strong growth in import for re-export activity was attributable mainly to the increase in the import of petroleum products. This was driven by the rise in oil trading activity following the expansion of oil storage terminals in Johor. Capital imports continued to register a double-digit growth, supported by strong investment activity. In contrast, consumption imports declined slightly, attributable to a moderation in the import of processed food and beverages, and consumer goods. Intermediate imports remained weak, in line with the continued decline in manufactured exports.

The services account deficit was larger at RM3.4 billion in the first quarter (4Q 2012: -RM2.2 billion). The higher deficit was attributable mainly to lower net receipts from travel and other business services, with travel receipts weighed down by the lower number of foreign tourist arrivals in Malaysia relative to the previous quarter. The deficit in the primary income account widened to RM8.8 billion, arising from higher investment income accrued to foreign direct investors in Malaysia and lower investment income accrued to Malaysian companies investing abroad. The lower income of Malaysian companies investing abroad was attributable mainly to companies in the *oil and gas* and *services* sectors.

The financial account turned around to record a net inflow of RM1 billion in the first quarter (4Q 2012: -RM10.3 billion), as the inflows of direct investment and portfolio funds from non-residents outweighed outflows arising from direct and portfolio investment undertaken by residents.

Net increase in direct investment liabilities (which include foreign direct investment flows) was RM9.4 billion (4Q 2012: -RM1.9 billion), largely reflecting higher earnings retained by MNCs operating in Malaysia for reinvestment amid sustained inflows of foreign equity capital and intercompany loans. Inflows of foreign direct investment were broad-based during the quarter, undertaken mainly by companies in the *manufacturing, oil and gas*, and *services* sectors, particularly within the *finance and insurance* sub-sectors.

Net increase in direct investment assets (which include direct investment abroad flows), however, was lower at RM11.5 billion (4Q 2012: -RM16.5 billion), due mainly to lower extension of loans by Malaysian companies to their subsidiaries abroad. The acquisitions of direct investment assets were undertaken largely by companies in the services sector, particularly in the *entertainment* and *finance and insurance* sub-sectors. Investment abroad by companies in the *oil and gas* sector continued to remain sizeable, albeit substantially lower, compared to the previous quarter.

Malaysia: Direction of Exports

	2012			2013	2012			2013
	1Q	4Q	Year	1Q	1Q	4Q	Year	1Q
	Annual change (%)				Share of total exports (%)			
United States	5.5	4.1	5.4	-2.9	8.3	8.6	8.7	8.3
European Union (EU)	-10.4	-15.7	-13.7	-6.6	9.1	8.8	8.9	8.8
Japan	14.5	-14.1	1.9	-8.3	12.8	11.0	11.8	12.1
Selected ASEAN countries[1]	9.3	8.0	9.5	9.9	25.8	26.9	26.4	29.0
North East Asia	-3.1	-4.3	-3.7	-5.0	22.9	23.7	23.6	22.3
PR China	-3.4	-4.9	-3.1	-1.7	11.9	12.6	12.6	12.0
Hong Kong SAR	-8.1	-4.2	-3.8	-9.0	4.0	4.1	4.3	3.8
Chinese Taipei	-6.0	-8.8	-6.1	-15.7	3.0	3.1	3.1	2.6
Korea	5.8	2.1	-3.6	-2.9	4.0	3.8	3.6	4.0
West Asia[2]	-4.8	-8.8	-3.1	-1.2	3.4	3.3	3.4	3.4
India	-5.1	12.9	4.2	-3.2	3.6	4.6	4.2	3.5
Total exports	3.9	-2.3	0.6	-2.4	100.0	100.0	100.0	100.0

[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

Portfolio investment recorded a smaller net inflow of RM3.9 billion during the quarter (4Q 2012: +RM10.4 billion). There continued to be net inflows of foreign portfolio funds into both the equity and bond markets, which was, however, partially offset by higher acquisition of foreign portfolio assets by residents.

Other investment recorded a net outflow of RM0.9 billion (4Q 2012: -RM2.3 billion), reflecting continued outflows of trade credits extended by Malaysian exporters to their foreign counterparts amid placements of deposits by non-residents in the banking system. The official sector continued to register a small net outflow due to the repayment of external loans.

Net inflows in the financial account, coupled with the surplus in the current account, resulted in the overall balance of payments recording a surplus of RM4 billion in the first quarter (4Q 2012: +RM5.9 billion). Errors and omissions, which partly reflected the foreign exchange revaluation loss on international reserves, amounted to -RM5.6 billion during the quarter.

External debt

Malaysia's total external debt increased to RM264.8 billion or USD84.9 billion as at end-March 2013 (end-December 2012: RM252.2 billion or USD81.6 billion), equivalent to 27% of GNI.

Medium- and long-term external debt increased to RM163.5 billion, as a net drawdown of external borrowings by the private sector offset the net repayment by the public sector. As at end-March 2013, the short-term external debt was also higher at RM101.3 billion, due mainly to the net drawdown of interbank borrowing.

External Debt Outstanding

	2012		2013
	end-Mar	end-Dec	end-Mar[p]
	RM billion		
Medium- and long-term debt	148.3	159.8	163.5
Public sector	84.2	82.9	81.8
Private sector	64.1	76.9	81.7
Short-term debt[1]	101.1	92.5	101.3
Total external debt	**249.4**	**252.2**	**264.8**
USD billion equivalent	80.5	81.6	84.9
External debt/GNI (%)	27.6	27.9	27.0
Reserves/Short-term external debt (times)	4.1	4.6	4.3[2]

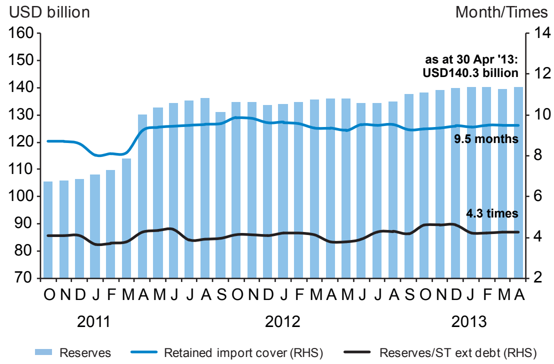
[1] Excludes currency and deposits held by non-residents with resident banking institutions
[2] Based on international reserves as at 30 April 2013
[p] Preliminary

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

International reserves remained high

The international reserves of Bank Negara Malaysia amounted to RM431.2 billion (equivalent to USD139.6 billion) as at 29 March 2013. This reserve level has taken into account the quarterly adjustment for foreign exchange revaluation changes. As at 30 April 2013, the reserves position amounted to RM433.3 billion (equivalent to USD140.3 billion), sufficient to finance 9.5 months of retained imports and is 4.3 times the short-term external debt.

Net International Reserves (as at end period)



Source: Bank Negara Malaysia

Government spending continued to support domestic economy

Federal Government spending remained supportive of growth in the first quarter, with total expenditure rising by 9.3%. In particular, operating expenditure increased on account of higher emoluments arising from the half-month civil servant bonus payment in January, and grants and transfers to statutory bodies. Development expenditure also rose, reflecting the higher disbursements for the transportation sector, and projects under the National Key Economic Areas (NKEA) within the agriculture and rural development sectors. Meanwhile, revenue declined by 8.6%, due mainly to the base effect following the one-off investment income received in the first quarter of 2012. Overall, the Federal Government recorded a fiscal deficit of 6.4% of GDP during the quarter. As at end-March 2013, total outstanding debt of the Federal Government amounted to RM508.9 billion or 50.8% of the estimated 2013 GDP.

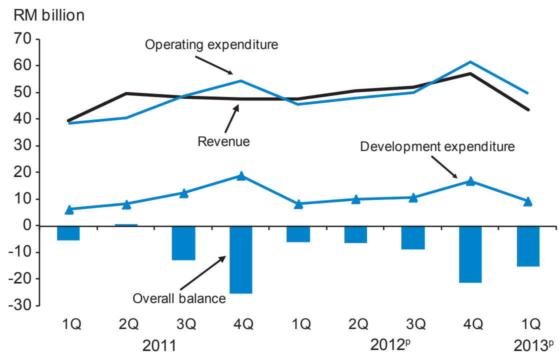
Federal Government Finance[p]

	2012			2013
	1Q	4Q	Year	1Q
	RM billion			
Revenue	47.9	57.2	207.9	43.8
% annual growth	*20.4*	*20.0*	*12.1*	*-8.6*
Operating expenditure	45.6	61.6	205.5	49.9
% annual growth	*18.0*	*13.1*	*12.6*	*9.4*
Current account	**2.3**	**-4.5**	**2.4**	**-6.1**
% of GDP	***1.0***	***-1.8***	***0.3***	***-2.6***
Net development expenditure	8.1	16.6	44.3	8.8
% annual growth	*28.5*	*-10.2*	*-2.2*	*8.3*
Overall balance	**-5.8**	**-21.1**	**-42.0**	**-14.9**
% of GDP	***-2.6***	***-8.7***	***-4.5***	***-6.4***
Memo item:				
Total net expenditure	53.7	78.3	249.9	58.7
% annual growth	*19.4*	*7.2*	*9.6*	*9.3*
Total Federal Government debt (as at end-period)	470.8	501.6	501.6	508.9
% of GDP	*50.0*	*53.3*	*53.3*	*50.8*
Domestic debt	453.9	484.8	484.8	492.8
% of GDP	*48.2*	*51.5*	*51.5*	*49.2*
External debt	16.9	16.8	16.8	16.1
% of GDP	*1.8*	*1.8*	*1.8*	*1.6*

[p] Preliminary

Source: Ministry of Finance

Federal Government Finance



[p] Preliminary

Source: Ministry of Finance

MONETARY AND FINANCIAL DEVELOPMENTS

Interest rates remained stable

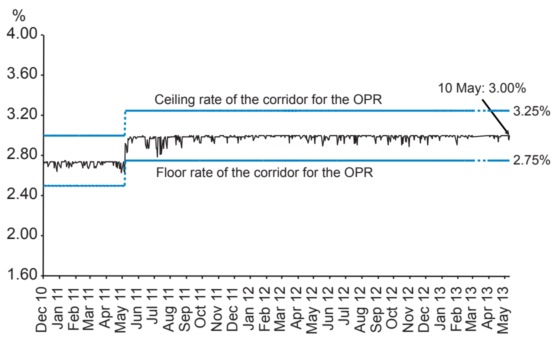
The Overnight Policy Rate (OPR) was maintained at 3.00% during the first quarter of 2013. At the prevailing level of the OPR, monetary conditions remain supportive of economic activity.

Reflecting the unchanged OPR, the average overnight interbank rate was stable during the quarter, moving within a range of 2.91% to 3.00% between 1 January and 31 March 2013. Interbank rates of other short-term maturities were also relatively stable. Rates on interest rate swaps and the 3-month Kuala Lumpur Interbank Offered Rate (KLIBOR) futures remained stable during the period, reflecting market expectations for the OPR to remain unchanged.

Retail deposit rates were stable during the quarter. The average quoted fixed deposit (FD) rates of commercial banks were relatively unchanged. As at end-March 2013, the average quoted FD rates of commercial banks for the tenures 1 to 12 months ranged between 2.91% to 3.15% respectively.

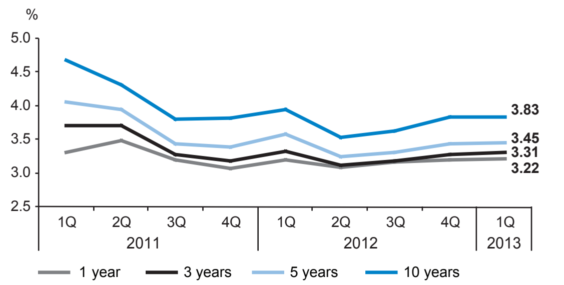
Borrowing costs to the economy were also broadly stable throughout the period. The average base lending rate (BLR) of commercial banks remained unchanged at 6.53%, while the weighted average lending rate (ALR) on loans outstanding edged lower to 5.50% as at end-March (end-December 2012: 5.52%). This reflected 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 lower rates. Borrowing costs for businesses and households continued to be supportive of economic activity, as lending rates remained below the levels prior to the global financial crisis.

Daily Weighted Average Overnight Interbank Rate



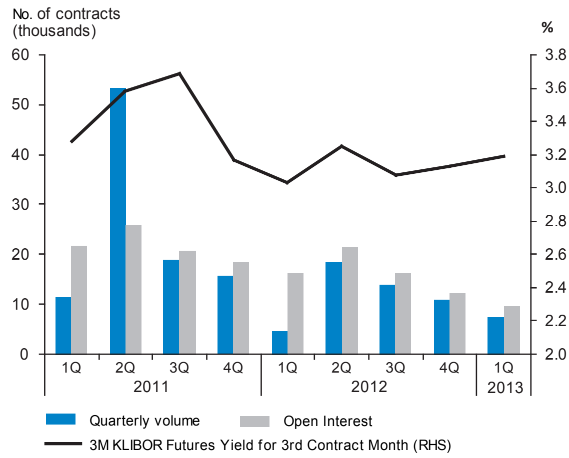
Source: Bank Negara Malaysia

Interest Rate Swap: Rates



Source: Bloomberg

3 Month KLIBOR Futures



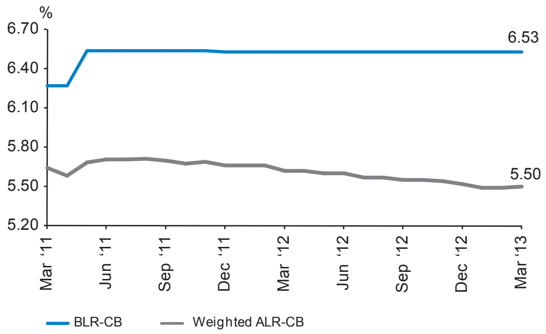
Source: Bursa Malaysia

Interest Rates

	2012		2013
	1Q	4Q	1Q
	At end-period (%)		
Overnight Policy Rate (OPR)	3.00	3.00	3.00
Interbank rates			
Overnight	3.00	3.00	3.00
1-month	3.06	3.06	3.10
Base lending rate (BLR)			
Commercial banks	6.53	6.53	6.53
Weighted average lending rate			
Commercial banks	5.62	5.52	5.50
Fixed deposit rates			
Commercial banks			
1-month	2.95	2.92	2.91
12-month	3.21	3.15	3.15

Source: Bank Negara Malaysia

Lending Rates of Commercial Banks (At end-period)



Source: Bank Negara Malaysia

Continued expansion in M3

The monetary aggregates continued to expand in the first quarter. Narrow money, or M1, increased by RM4.1 billion during the period. On an annual basis, M1 expanded by 12.7% as at end-March (end-December 2012: 11.9%). Broad money, or M3, increased by RM43.9 billion to record an annual growth rate of 9.1% as at end-March (end-December 2012: 9%).

The expansion of M3 during the quarter was underpinned by both domestic and external factors. On the domestic side, the expansion was mainly on account of the credit extension to the private sector and higher net claims on the Government. On the external side, M3 expanded following net trade inflows. This was reflected in the increase in *net foreign assets*.

In the banking system, ample liquidity conditions prevailed at both the institutional and system-wide levels. The level of surplus liquidity placed with BNM was relatively stable during the quarter.

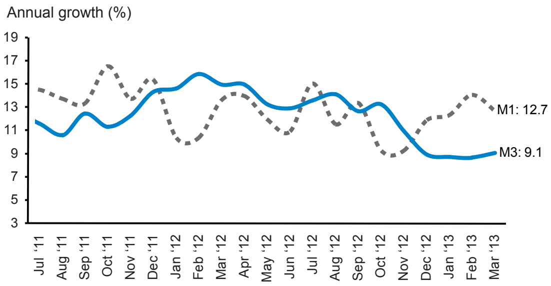
Determinants of Broad Money, M3

	Change during the period			
	2012			2013
	1Q	4Q	Year	1Q
	RM billion			
M3	**39.1**	**15.1**	**116.0**	**43.9**
Net claims on Govt	2.1	-5.0	3.2	8.6
Claims on private sector	23.1	25.3	129.2	23.9
Loans	*18.4*	*19.2*	*108.6*	*21.5*
Securities	*4.7*	*6.0*	*20.6*	*2.4*
Net foreign assets[1]	17.2	-3.9	20.6	10.7
BNM	*0.4*	*6.0*	*17.7*	*6.3*
Banking System	*16.8*	*-9.9*	*2.9*	*4.4*
Other influences	-3.2	-1.3	-37.0	0.7

[1] Pre-revaluation

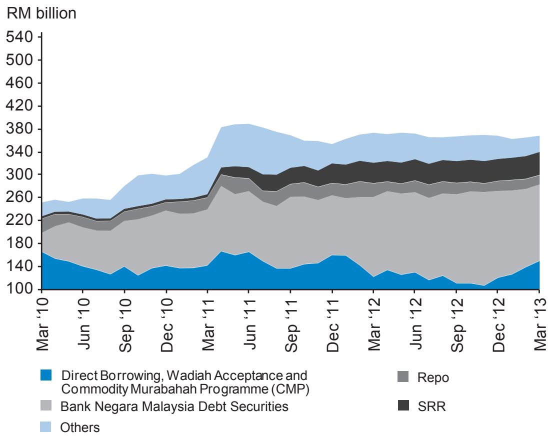
Source: Bank Negara Malaysia

Monetary Aggregates



Source: Bank Negara Malaysia

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

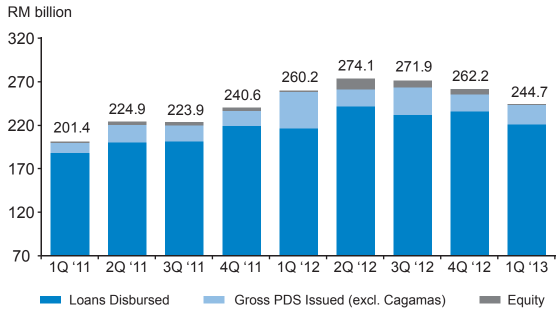


Source: Bank Negara Malaysia

Private sector financing activity remained healthy

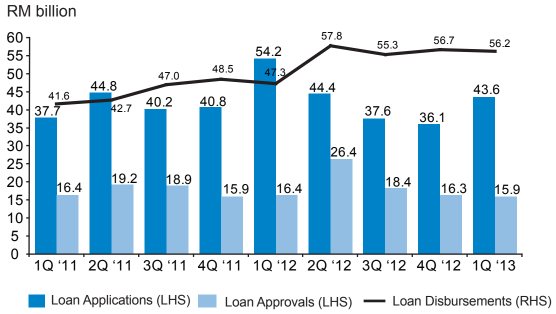
Financing conditions remained supportive of economic activity in the first quarter. Total gross financing raised by the private sector through the banking system and the capital market amounted to RM244.7 billion (4Q 2012: RM262.2 billion). On a net basis, banking system loans and PDS outstanding expanded at an annual growth rate of 11% as at end-March (end-December 2012: 12.4%).

Gross Private Sector Financing through Banking System and Capital Market



Source: Bank Negara Malaysia

Bank Lending to SMEs



Source: Bank Negara Malaysia

In the business sector, while loans outstanding from the banking system recorded a higher increase during the quarter, loan disbursements moderated slightly from the previous high levels in 2012. The high levels in 2012 reflected the extension of several sizeable one-off loans to large corporations. Loans disbursed to SMEs continued to remain strong. Demand for new financing by businesses increased with higher loan applications, mainly from the *real estate; finance, insurance and business services; wholesale and retail; restaurants and hotels;* and *manufacturing sectors*. On an annual basis, business loans outstanding expanded at a growth rate of 11.7% as at end-March (end-December 12: 10.9%).

Financing to the household sector expanded by RM16.2 billion during the quarter (4Q 2012: RM18.2 billion). On an annual basis, household loans outstanding grew by 12.1% as at end-March (end-December 2012: 11.6%), due to increased lending for the *purchase of passenger cars, securities* and *residential properties*. Household demand for loans was sustained with higher loan applications, mainly for the *purchase of residential properties* and *securities*.

Financing of the Private Sector through Banking System and Capital Market

	During the period (RM billion)				Annual growth (%)			
	2012			2013	2012			2013
	1Q	4Q	Year	1Q	1Q	4Q	Year	1Q
Gross total financing	**260.2**	**262.2**	**1,068.3**	**244.7**	**29.2**	**9.0**	**19.9**	**-5.9**
Loans disbursed*	217.0	236.2	927.8	221.7	15.0	7.6	14.4	2.2
Gross PDS (excl. Cagamas)	41.9	19.8	113.1	22.1	260.6	16.2	69.0	-47.4
Equity	1.3	6.1	27.4	1.0	19.8	59.6	117.1	-24.9
Net total financing (A)+(B)	**45.8**	**31.1**	**164.5**	**32.5**	**13.3**	**12.4**	**12.4**	**11.0**
Banking system	25.0	26.0	128.4	24.7	12.5	12.0	12.0	11.7
Loans outstanding (A)	*19.7*	*19.8*	*104.5*	*23.4*	*12.2*	*10.4*	*10.4*	*10.6*
Holding of PDS	*5.3*	*6.2*	*23.9*	*1.4*	*17.3*	*36.6*	*36.6*	*28.2*
PDS outstanding (B)	26.1	11.4	60.1	9.1	16.5	18.7	18.7	12.4
Memorandum item								
Gross PDS (incl. Cagamas)	44.8	23.1	121.1	22.6	266.5	33.1	74.1	-49.5

*Banking systems loans include loans sold to Cagamas

Source: Bank Negara Malaysia

Loan Indicators

	During the period (RM billion)				Annual growth (%)			
	2012			2013	2012			2013
	1Q	4Q	Year	1Q	1Q	4Q	Year	1Q
Total								
Loan applications	195.4	170.6	766.2	185.7	16.0	-11.3	2.8	-5.0
Loan approvals	89.8	95.1	390.2	87.2	2.4	-8.6	-2.5	-2.9
Loan disbursements	217.0	236.2	927.8	221.7	15.0	7.6	14.4	2.2
Loan repayments	205.6	227.1	867.1	210.7	22.3	15.8	19.4	2.5
Change in loans outstanding*	19.7	19.8	104.5	23.4	12.2	10.4	10.4	10.6
Of which:								
Business enterprises**								
Loan applications	105.3	70.3	372.1	84.6	32.3	-26.5	4.0	-19.6
Loan approvals	45.3	41.8	186.3	34.5	16.5	-20.4	-3.6	-23.9
Loan disbursements	153.0	164.9	657.6	150.4	25.3	9.4	21.0	-1.7
Loan repayments	146.1	164.3	624.8	146.0	33.0	18.6	26.2	0.0
Change in loans outstanding*	3.6	5.0	41.2	6.8	10.8	10.9	10.9	11.7
SMEs**								
Loan applications	54.2	36.1	172.3	43.6	43.7	-11.4	5.5	-19.5
Loan approvals	16.4	16.3	77.5	15.9	-0.4	2.3	10.0	-2.8
Loan disbursements	47.3	56.7	217.2	56.2	13.7	17.2	20.8	18.8
Loan repayments	46.0	54.7	199.0	52.6	23.4	25.0	24.7	14.3
Change in loans outstanding*	4.8	2.5	23.8	5.6	19.9	15.5	15.5	15.6
Large corporations								
Loan applications	51.1	34.2	199.8	41.0	22.1	-37.7	2.8	-19.8
Loan approvals	28.9	25.5	108.9	18.6	28.9	-30.3	-11.4	-35.8
Loan disbursements	105.7	108.2	440.4	94.1	31.4	5.7	21.1	-10.9
Loan repayments	100.1	109.6	425.8	93.5	38.0	15.7	26.8	-6.6
Change in loans outstanding*	-1.2	2.5	17.5	1.2	5.1	7.8	7.8	8.9
Households								
Loan applications	90.2	100.3	394.0	101.1	1.4	3.7	1.7	12.1
Loan approvals	44.5	53.3	203.8	52.7	-8.8	3.4	-1.5	18.5
Loan disbursements	64.0	71.4	270.2	71.3	-3.9	3.6	0.9	11.5
Loan repayments	59.5	62.9	242.2	64.7	2.1	8.9	4.9	8.6
Change in loans outstanding*	11.9	18.2	63.9	16.2	11.9	11.6	11.6	12.1

* The annual growth is for end-period.
** Include loans to individual businesses.

Source: Bank Negara Malaysia

Lower net financing from the capital market

Net funds raised in the capital market moderated to RM16.7 billion in the first quarter (4Q 2012: RM37.7 billion), reflecting mainly the significantly higher redemption of debt securities (RM32.2 billion; 4Q 2012: RM13.1 billion). Overall gross financing from the capital market, however, remained firm for both the private and public sectors.

In the private sector, RM22.6 billion of gross funds were raised through the issuance of private debt securities, while another RM1 billion was raised through the equity market. Funds were used mainly for refinancing, working capital, general corporate purposes, and operating expenses.

In the public sector, gross funds raised increased to RM25.3 billion (4Q 2012: RM21.6 billion). Funds were raised through the new issuance of a 3.5-year, 5-year and 10-year Malaysian Government Securities (MGS), a 15.5-year Government Investment Issue (GII), and the re-opening of a 3-year and 7-year GII. Funds were also raised through the issuance of a RM1.7 billion Government Housing Sukuk.

Net Funds Raised in the Capital Market

	2012			2013
	1Q	4Q	Year	1Q
	RM billion			
By Public Sector	**13.7**	**17.6**	**46.7**	**8.0**
Government securities, *net*	15.6	15.7	48.7	6.3
Malaysian Government Securities	*12.8*	*11.6*	*54.7*	*13.5*
Government Investment Issues	*12.0*	*8.0*	*42.2*	*10.1*
Less: Redemptions	*9.2*	*4.0*	*48.3*	*17.2*
Khazanah Bonds, *net*	-	-	-	-
Savings Bonds, *net*	(1.9)	-	(6.5)	-
Government Housing Sukuk, *net*	-	1.9	4.5	1.7
By Private Sector	29.8	**20.1**	**90.7**	**8.7**
Shares	1.3	6.1	27.4	1.0
Debt securities, *net*	28.5	14.0	63.3	7.7
Private Debt Securities	*44.8*	*23.1*	*121.1*	*22.6*
Less: Redemptions	*16.3*	*9.1*	*57.8*	*14.9*
Total	**43.5**	**37.7**	**137.4**	**16.7**

Note: Numbers may not add up to total due to rounding

Source: Bank Negara Malaysia and Bursa Malaysia

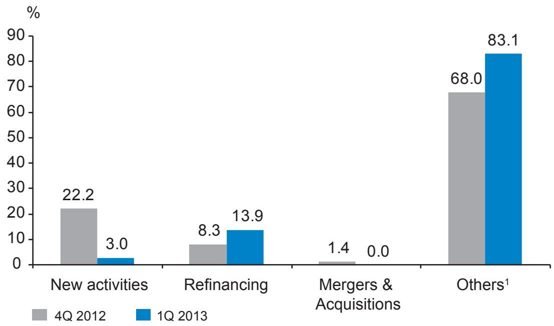
Loans by Sector

	Loans disbursed					Loans outstanding
	During the period				Share of total	Share of total
	1Q 12	4Q 12	2012	1Q 13		
	(RM billion)				(%)	
Business enterprises	**153.0**	**164.9**	**657.6**	**150.4**	**67.8**	**44.1**
Large corporations	*105.7*	*108.2*	*440.4*	*94.1*	*42.5*	*27.9*
*SMEs**	*47.3*	*56.7*	*217.2*	*56.2*	*25.4*	*16.1*
Selected sectors						
Agriculture, hunting, forestry and fishing	5.7	8.1	28.8	8.7	3.9	2.7
Mining and quarrying	1.4	1.9	7.9	2.1	0.9	0.6
Manufacturing	46.1	51.0	203.7	48.1	21.7	8.4
Construction	11.9	14.6	54.4	14.7	6.6	4.1
Real estate	7.9	9.5	40.8	8.4	3.8	5.6
Electricity, gas and water supply	1.7	3.1	9.0	1.9	0.9	0.8
Wholesale, retail, restaurants and hotels	43.9	46.1	178.0	43.5	19.6	7.5
Transport, storage and communication	4.6	3.7	17.7	3.1	1.4	2.5
Finance, insurance and business services	21.5	18.3	85.0	14.5	6.6	6.7
Households	**64.0**	**71.4**	**270.2**	**71.3**	**32.2**	**55.9**
Purchase of residential properties	16.0	16.9	64.1	16.8	7.6	26.2
Consumption credit	37.1	43.3	163.1	41.9	18.9	19.1
Of which:						
Credit cards	*21.4*	*24.2*	*90.2*	*23.2*	10.5	2.8
Purchase of passenger cars	*8.6*	*10.6*	*40.2*	*10.9*	*4.9*	*11.4*
Others	10.8	11.1	43.0	12.6	*5.7*	*10.7*
Total	**217.0**	**236.2**	**927.8**	**221.7**	**100.0**	**100.0**

*Include loans to individual businesses.

Source: Bank Negara Malaysia

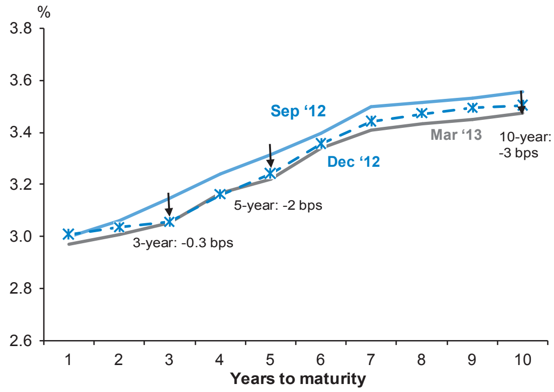
Private Debt Securities Issued by Purpose (% of total)



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

Source: Bank Negara Malaysia

Trend in MGS Yields



Source: Bank Negara Malaysia

Bond yields were largely stable

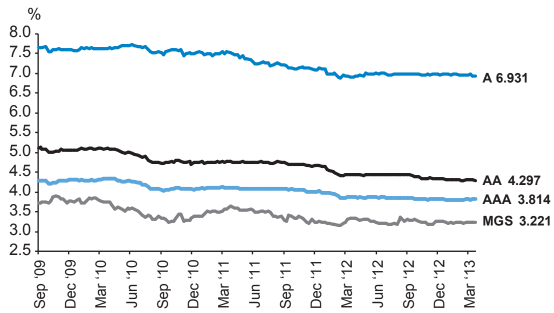
MGS yields were broadly stable in the first quarter, following market expectations for an unchanged overnight policy rate. Yields on the 3-year, 5-year and 10-year MGS recorded a marginal decline of 0.3, 2 and 3 basis points respectively.

Generally, corporate bond yields also recorded a marginal decline in the first quarter, in line with MGS yields. The 5-year AAA-rated yield recorded a marginal increase of 1 basis point, while the 5-year AA and A-rated yield declined by 0.6 and 5.3 basis points respectively.

Higher secondary trading in the bond market

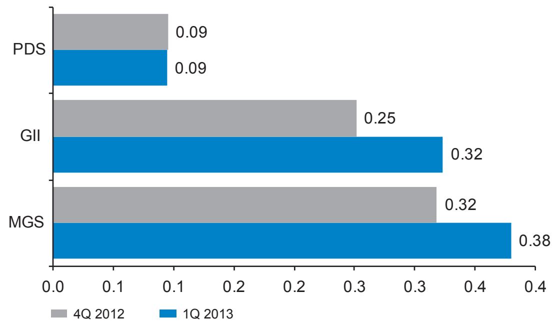
Total trading in the secondary market increased to RM198 billion during the quarter (4Q 2012: RM166 billion). The increase in secondary market trading was broad-based, with the MGS and GII segments registering higher liquidity ratios of 0.38 and 0.32 respectively.

5-year MGS and 5-year Corporate Bond Yield



Source: Bank Negara Malaysia

Liquidity Ratio: Value of Bond Traded / Outstanding



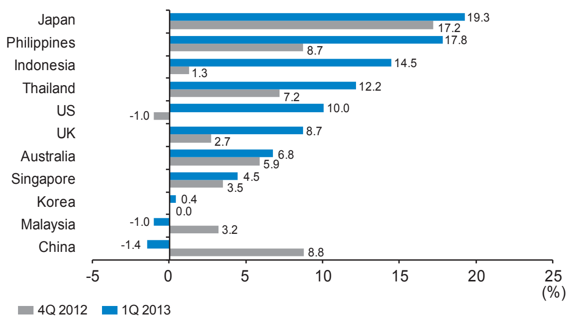
Source: Bank Negara Malaysia

Lower FBM KLCI due to profit-taking

The FBM (FTSE Bursa Malaysia) KLCI fell by 17.3 points, to end at 1,671.6 points, in the first quarter (end-December 2012: 1689.0 points). The index declined in January, due mainly to profit-taking by investors after the index reached an all-time high of 1694.2 points on 7 January. In February and March, the index traded within a narrow range at lower volumes, amid cautious investor sentiments over the timing of the domestic General Election and increased risk aversion by global investors due to the banking crisis in Cyprus. Equity prices, however, rebounded towards end-March, driven mainly by improved domestic sentiments following the better-than-expected fourth quarter economic growth data for Malaysia. Favourable economic data releases in the US and announcements of measures taken to resolve the banking crisis in Cyprus also sustained investor interest. Overall, market capitalisation remained unchanged at RM1.47 trillion as at end-March 2013, while the daily average turnover increased slightly to 1.07 billion units (4Q 2012: 1.05 billion units).

On 10 May 2013, the KLCI ended higher at 1,772.4 points (since end-March 2013: 6.03%), with market capitalisation of RM1.58 trillion (since end-March 2013: 7.22%).

Performance of Selected Global and Regional Markets in 2013 (% growth QoQ)



Source: Bloomberg and Bank Negara Malaysia calculations

Ringgit exhibited mixed performance against regional and major currencies

Movements of the ringgit and other regional currencies in the first quarter were driven mainly by the uncertainties over the timing of the withdrawal of quantitative easing measures in the US and developments in Europe. These in turn resulted in a withdrawal of funds from emerging market assets. The ringgit was also affected by domestic uncertainties during this

Bursa Malaysia: Selected Market Indicators

	2012			2013
	As at end			
	Mar	Dec	Year	Mar
Price Indices				
Composite	1,596.3	1,689.0	1,689.0	1,671.6
FBMEMAS[1]	10,939.6	11,438.1	11,438.1	11,420.5
ACE Market[2]	4,583.8	4,214.2	4,214.2	4,008.3
Market capitalisation (RM billion)	1,355.4	1,465.7	1,465.7	1,472.5
No. of companies listed	939	921	921	915
	During the quarter			
	1Q	4Q	Year	1Q
Average daily turnover				
Volume (million units)	2,019.9	1,053.6	1,361.3	1,070.6
Value (RM million)	1,977.8	1,509.0	1,667.5	1,716.1

[1] FBMEMAS stands for FTSE Bursa Malaysia EMAS Index
[2] From 3 August 2009, Mesdaq market was replaced with ACE Market

Source: Bursa Malaysia

Bursa Malaysia: Market Turnover

	2012						2013	
	1Q		4Q		Year		1Q	
	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion
Turnover	119.2	116.4	65.3	93.6	333.5	408.3	62.1	99.5
Of which:								
Main Board	75.6	109.5	50.8	91.3	224.2	390.6	48.9	97.9
Of which								
Consumer Products	9.4	7.8	4.6	5.0	22.6	24.7	3.1	5.3
Industrial Products	13.3	16.7	10.6	8.5	44.6	44.3	8.7	7.0
Construction	2.8	4.9	2.1	3.1	8.3	14.3	2.4	3.9
Trading/Services	29.4	39.9	20.8	42.1	88.3	161.7	16.6	42.3
Finance	4.0	19.8	2.6	17.6	13.5	75.1	3.5	21.9
Properties	7.8	6.5	3.7	3.6	19.5	18.7	5.1	5.7
Plantations	1.7	5.8	1.1	4.7	5.9	25.4	1.2	4.8
Infrastructure	2.0	3.4	1.1	3.9	5.4	13.6	1.2	4.1
ACE Market[1]	27.7	4.3	10.0	1.8	76.1	12.6	10.5	1.3

[1] From 3 August 2009, Mesdaq market was replaced with ACE Market

Source: Bursa Malaysia

period in the run-up to the General Elections. Overall, the ringgit depreciated by 1.0% against the US dollar, but appreciated against the Japanese yen (8.4%), pound sterling (5.2%) and euro (2.0%). The ringgit's performance against regional currencies was mixed. The ringgit appreciated against the Korean won (3.3%) and Singapore dollar (0.5%), but depreciated against the Indonesian rupiah, Chinese renminbi, Philippine peso and Thai baht by between 0.2% and 5.2%.

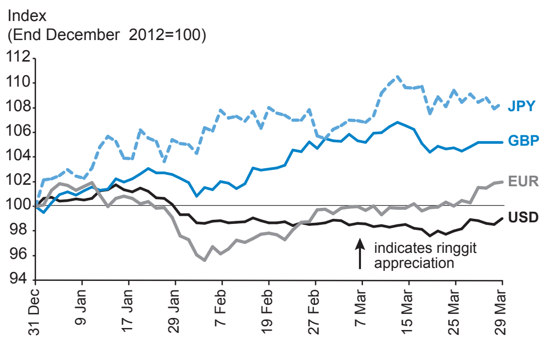
Between 1 April and 10 May 2013, the ringgit appreciated against the Japanese yen (10.9%), US dollar (3.4%), pound sterling (1.8%), and euro (1.7%). The ringgit strengthened against regional currencies by between 2.2% and 4.6%.

Foreign exchange derivatives activity remained subdued

Derivatives activity in the foreign exchange market declined by 5.7% compared to the previous quarter, similar to the lower activity in the foreign exchange spot market. The decrease was due to the Chinese New Year festive season in February and cautious investor sentiments following uncertainties in the European financial markets.

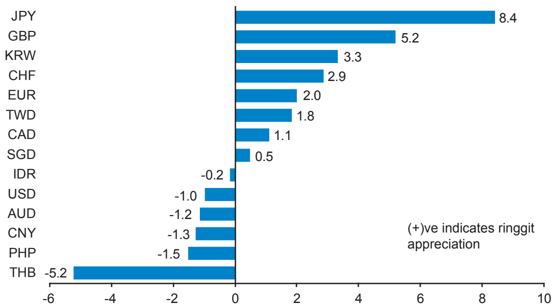
Meanwhile, the cost of borrowing US dollars through the cross-currency swap market remained stable. The 5-year USD/MYR cross-currency swaps traded within the range of 122 to 125 basis points during the quarter. This, however, moderated to around 80 basis points in April, due to the increase in inflows following the announced expansionary monetary measures by the BoJ.

Ringgit Performance against Major Currencies



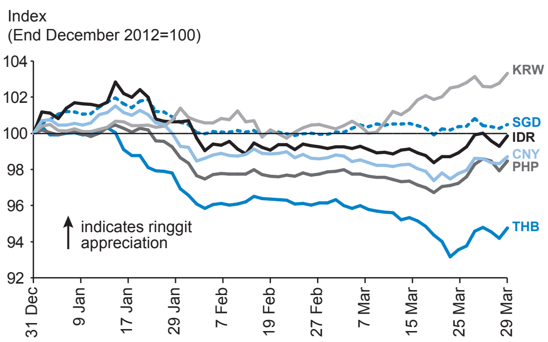
Source: Bank Negara Malaysia

Summary of Ringgit Performance against Selected Currencies Percent Change (1 January - 29 March 2013)



Source: Bank Negara Malaysia

Ringgit Performance against Regional Currencies



Source: Bank Negara Malaysia

Performance of Ringgit against Selected Currencies

RM per foreign currency	As at end				% change since*		
	21 Jul 05	1Q 12	4Q 12	1Q 13	21 Jul 05	1Q 12	4Q 12
US dollar	3.8000	3.0680	3.0583	3.0885	23.0	-0.7	-1.0
Euro	4.6212	4.0955	4.0412	3.9618	16.6	3.4	2.0
Pound sterling	6.6270	4.9008	4.9420	4.6971	41.1	4.3	5.2
100 Japanese yen	3.3745	3.7396	3.5576	3.2811	2.8	14.0	8.4
Singapore dollar	2.2570	2.4405	2.5030	2.4911	-9.4	-2.0	0.5
100 Thai baht	9.0681	9.9433	9.9910	10.545	-14.0	-5.7	-5.2
100 Philippine peso	6.8131	7.1407	7.4446	7.5606	-9.9	-5.6	-1.5
100 Indonesian rupiah	0.0386	0.0334	0.0317	0.0318	21.6	5.1	-0.2
100 Korean won	0.3665	0.2702	0.2865	0.2773	32.2	-2.6	3.3
Chinese renminbi	0.4591	0.4870	0.4909	0.4973	-7.7	-2.1	-1.3

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

Source: Bank Negara Malaysia

MANAGING RISKS TO FINANCIAL STABILITY

Financial stability continued to be preserved

Domestic financial stability remained intact in the first quarter despite continued uncertainties in the global financial markets, especially in the euro area. Financial intermediation remained effective, supported by institutional soundness, orderly financial market conditions and sustained confidence in the financial system.

Credit risk in the banking system was stable throughout the quarter, reflecting the sustained debt servicing capacity of borrowers, following continued expansion in domestic economic activity. As at end-March, the ratio of net impaired loans of banks remained stable at 1.3% (4Q 2012: 1.4%), while loans-in-arrears of between 1 and 3 months were lower at 3.4% of total loans (4Q 2012: 3.5%). Similarly, credit risk exposures of the insurance industry, primarily through holdings of private debt securities and reinsurance placements, were stable at 3.3% of insurers' total capital base.

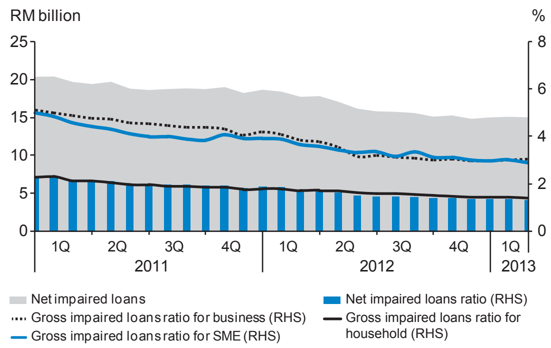
Household financial assets grew by 2.8% during the quarter (4Q 2012: 2.2%), which was higher than the expansion in household debt of 2.5% (4Q 2012: 3.1%). The accumulation of debts by the household sector continued to be primarily for the financing of residential properties. Delinquencies were largely intact, with impaired loans and loans-in-arrears of between 1 and 3 months for household borrowings from banking institutions remaining stable at 1.4% and 2.2% of household loans respectively (4Q 2012: 1.5% and 2.4% respectively), indicating households' continued ability to service debt.

Banking system financing to businesses continued to expand during the quarter (1.7%; 4Q 2012: 1.2%). Financial buffers accumulated by businesses continued to provide support against the potential impact from the weaker external environment.

Business sector cash and cash equivalent holdings grew by 0.6% (3Q 2012: 0.2%). Financial institutions' credit risk to the overall business sector remained manageable as debt servicing capacity of businesses remained intact (interest coverage ratio: 5.6 times; 3Q 2012: 5.8 times), supported by sustained profitability and operational efficiency amidst low and stable leverage positions. The level of impaired loans is sustained at 3% of total business loans at the end of the quarter (4Q 2012: 3%), while the ratio of loans-in-arrears of between 1 and 3 months remained low at 1.4% (4Q 2012: 1.2%).

In the near term, no major change is expected in the direction of credit risk in the banking system. Household and business finances would continue to be supported by an expansion in domestic economic activity, with stable employment conditions resulting in sustained debt servicing capacity. Financial institutions generally continued to observe robust underwriting and sound risk management practices. The capacity of businesses to withstand the weaker external environment is expected to remain strong, with the risk of delinquency, as measured by the expected default frequency, improving slightly to 0.49% at the end of the quarter (4Q 2012: 0.50%).

Banking System: Loan quality



Source: Bank Negara Malaysia

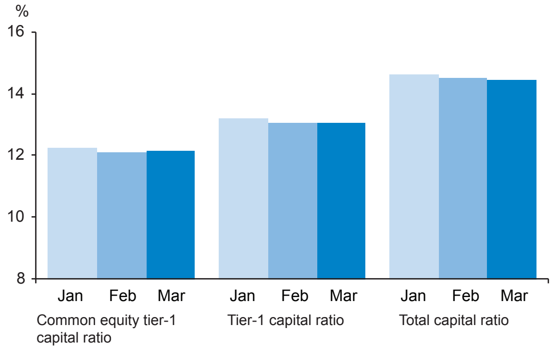
Exposures of financial institutions to market risk remained relatively unchanged. Volatility in short-term capital flows continued to be smoothly intermediated by the financial system without disruptive effects on the domestic financial markets. Volatility in the public bond market eased, with the average volatility of 10-year MGS yields declining to 4.7% (4Q 2012: 8.6%). Trading activity, as measured by the turnover ratio, increased to 12.9% (4Q 2012: 10.3%). The bid-ask spreads of MGS remained tight, averaging at 6.9% of the average mid-price (4Q 2012 average: 7.8%). Volatility in the equity market rose during the quarter on renewed concerns in Europe and domestic political uncertainties to 7.6% (4Q 2012: 6.6%). However, interest rate and equity risk exposures of banks remained relatively unchanged at 4.9% and 0.5% of capital base respectively (4Q 2012: 4.9% and 0.6% respectively). Similarly, the insurers' exposures to interest rate and equity risks were well-contained at 3.5% and 6.4% of total capital base respectively (4Q 2012: 3.7% and 6.6% respectively). Moreover, basis risk moderated as the spreads between Interest Rate Swap (IRS) and MGS stabilised from the beginning of the year, driven by declining IRS rates after recording a rising trend since the second half of 2012.

Potential risks emanating from direct exposures of financial institutions to Europe and from deleveraging by European financial institutions remained limited. Direct credit exposures of the banking sector to Europe continued to account for less than 10% of banks' capital base. Locally incorporated European banks continued to report healthy profits and showed no evidence of scaling down operations in Malaysia.

Financial sector continued to remain sound and resilient

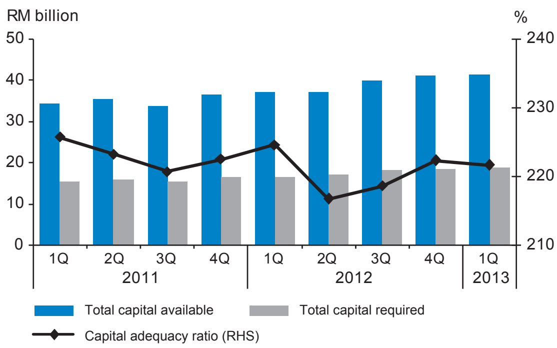
The banking system remains resilient to adverse developments in the economy and financial system, with deep capital buffers in excess of RM74 billion at the end of the first quarter of 2013. In line with globally determined timelines, the new capital standards under Basel III are being phased in beginning January 2013. Despite the strengthened capital requirements, banks continued to be well-capitalised, with the banking system recording Common Equity Tier 1 (CET1) Capital Ratio, Tier 1 Capital Ratio and Total Capital Ratio well above the minimum regulatory levels, at 12.2%, 13.1% and 14.5% respectively. More than 84% of total capital consists of high quality common equity tier 1 capital, comprising paid-up capital, retained earnings and reserves. Similarly, the insurance sector also maintained a sound capital adequacy ratio of 221.6% (4Q 2012: 222.8%), with an excess capital buffer of RM22.7 billion.

Banking System: Basel III Capitalisation



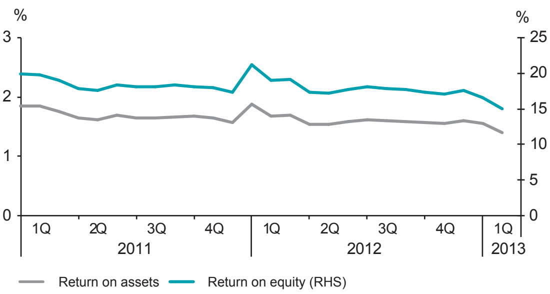
Source: Bank Negara Malaysia

Insurance Sector: Capitalisation



Source: Bank Negara Malaysia

Banking System: Profitability



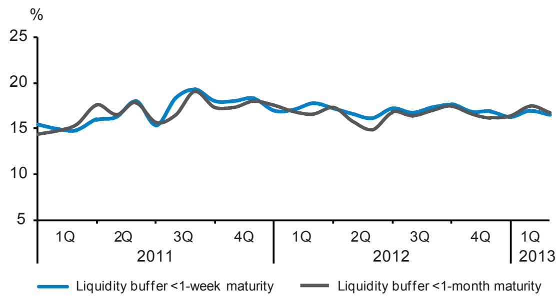
Source: Bank Negara Malaysia

Pre-tax profit of the banking system for the quarter declined slightly to RM6.9 billion (4Q 2012: RM7.7 billion), due to lower income from fee-based and investment-related activities, and higher loan loss provisions and overhead costs. Returns on assets and equity remained stable at 1.4% and 15.3% respectively (4Q 2012: 1.6% and 17.5% respectively).

In the insurance and takaful industry, excess of income over outgo registered by life insurers and family takaful operators was lower, due primarily to lower net premiums income, particularly in the investment-backed and participating products (RM3.8 billion; 4Q 2012: RM4.5 billion). Lower net gains also contributed to lower profit, but were offset by higher profit from the sale of assets. General insurers and takaful operators registered an operating profit of RM721 million (4Q 2012: RM854 million), amid lower underwriting profit.

The resilience of the banking system is also supported by ample liquidity in the system. Liquidity buffers to meet short-term liquidity needs over a 1-week and 1-month horizon remained comfortable at 16.5% and 16.8% of total deposits respectively (4Q 2012: 17% and 16.2% respectively). Net placements by banks with BNM, which can be utilised to meet additional liquidity needs, stood at a further RM142 billion. The US dollar mismatch position in the less than 1-month maturity bucket improved to record a larger surplus of RM4.5 billion (4Q 2012: RM3.1 billion surplus). This contrasted with the marginal shortfall of RM0.8 billion that was recorded in the less than 1-week maturity bucket (4Q 2012: RM4.3 billion surplus). This shortfall position, however, was predominantly driven by interbank placements and foreign currency contracts, which are used mainly for treasury activities and for hedging against underlying contracts with businesses.

Banking System: Liquidity Buffer to Total Deposit Ratio



Source: Bank Negara Malaysia

Insurance and Takaful Sectors: Indicators

	2012			2013	
	1Q	4Q	Year	1Q	
	RM million				Annual change (%)
Life insurance & family takaful					
Excess of income over outgo	3,912.9	4,451.1	17,724.4	3.786.6	-3.2
General insurance & general takaful					
Operating profit	652.6	854.0	2,898.1	721.1	10.5
Claims ratio (%)	60.6	57.4		52.8	-7.8 (ppt)

Source: Bank Negara Malaysia

CALENDAR OF EVENTS
January – March 2013

31 January 201

At its first meeting for 2011, the Bank's Monetary Policy Committee (MPC) decided to maintain the Overnight Policy Rate (OPR) at 3.00%. According to the MPC, the global economic activity is showing signs of improvement, albeit at an uneven pace. Growth in the major advanced economies remains constrained by ongoing fiscal consolidation and weak labour market conditions.

On the Malaysian economy, the MPC added that a broad set of indicators suggests robust expansion in the fourth quarter of 2012. Growth was driven by sustained domestic consumption and investment activity with some improvements in the external sector. Looking ahead, domestic demand is expected to continue to expand, underpinned by firm private sector activity. In 2013, inflation is expected to be higher but to remain modest. The MPC considers the current stance of monetary policy to be supportive of the economy while inflation remains contained.

At its subsequent meeting on 7 March, the MPC kept the OPR at the same level, citing the current stance of monetary policy to be appropriate given the outlook for inflation and growth.

20 February 2013

The Bank announced that despite the challenging global economic environment, the Malaysian economy registered higher growth of 6.4% in 4Q 2012 (3Q 12: 5.3%). This was mainly on account of the continued strength in domestic demand with total investment being the main driver of growth. On the supply side, growth in most economic sectors improved, led by the manufacturing and services sectors. For the year as a whole, the Malaysian economy expanded by 5.6%.

1 Mar 2013

The Bank provided an update on measures undertaken by members of a High Level Multi-Agency Special Task Force (Task Force) to reduce illicit financial flows. The Task Force comprises Attorney General's Chambers of Malaysia, Royal Malaysian Customs Department, Royal Malaysia Police, Malaysian Anti-Corruption Commission, Inland Revenue Board of Malaysia, Immigration Department of Malaysia and Bank Negara Malaysia. Among the measures are the following:

- actions by the Royal Malaysian Customs Department against entities and individuals who have evaded customs duties
- actions by the Inland Revenue Board of Malaysia on entities and individuals who have evaded taxes. Both these efforts have resulted in a significant rise in tax and duties collections.
- the new Money Services Business Act 2011 under the purview of Bank Negara Malaysia to support the development of a more dynamic and competitive money services business industry (comprising the money changing, remittance and wholesale currency businesses). The relicensing exercise of all money services businesses has enhanced the capacity of the money services business industry to be more professional and prevent the players from becoming a conduit for illegal fund transfer activities.

20 March 2013

The Bank released its Annual Report and the Financial Stability and Payment Systems Report for 2012. At the press conference, Governor Dr. Zeti announced that the Malaysian economy recorded a strong growth of 5.6%, better than market expectations. The better performance was driven by higher growth in domestic demand, which outweighed the negative impact from the weak external environment. Domestic demand recorded the highest rate of expansion over the recent decade, underpinned by higher consumption and investment spending. On the supply side, all economic sectors continued to expand in 2012 with the construction sector registering its highest pace of growth since 1995. Headline inflation slowed to 1.6% in 2012 (2011: 3.2%). On the outlook, Governor Dr Zeti said the Malaysian economy is expected to remain on a steady growth path, with an expansion of 5-6% in 2013, anchored by the continued resilience of domestic demand and supported by the gradual improvement in the external sector.

On the financial system, Governor Dr Zeti highlighted that domestic financial stability was preserved and overall confidence in the financial system remained strong throughout 2012, ensuring that financial intermediation continued to function efficiently to support the growth of the Malaysian economy. The assessment of Malaysia under the Financial Sector Assessment Program conducted by the IMF and World Bank in 2012 reaffirmed the resiliency of the domestic financial sector to macroeconomic and financial stresses. She added that the enactment of the Financial Services Act 2013 and Islamic Financial Services Act 2013 marked another significant milestone in modernising Malaysia's financial sector laws to reinforce the Bank's mandate to safeguard financial stability. Meanwhile, the domestic implementation of the Basel III global regulatory reform package progressed with the publication of final rules that will significantly raise the level and quality of banks' regulatory capital.

The Bank announced liberalisation of Foreign Exchange Administration rules to enhance competitiveness of the Malaysian economy and further develop the domestic financial market. These included the following:

- to further spur the domestic foreign exchange market through greater demand for foreign currency products and services, residents are free to invest in onshore foreign currency-denominated assets offered by residents
- to further promote the development of the Islamic financial markets through greater flow of cross-border Islamic financial activities and greater use of Islamic financial intermediaries, resident takaful operators are permitted to undertake investments abroad of any amount on behalf of their resident clients

The Bank announced a new pricing strategy for payment services to address the current price distortion between electronic payments and paper-based payment instruments. To incentivise businesses and consumers to switch to e- payment methods, the fee for Interbank GIRO or IBG transactions will be reduced to 10 sen effective 2 May 2013, while charges on cheques will be increased to 65 sen, effective 1 April 2014.

The Bank also announced the reappointment of Dato' Muhammad Ibrahim as Deputy Governor for another three year tenure from 16 June 2013 to 15 June 2016 and the appointment of Dr. Sukudhew (Sukhdave) Singh as Deputy Governor for a 3-year term effective 16 April 2013.