DEVELOPMENTS IN THE MALAYSIAN ECONOMY

Growth momentum strengthened

The Malaysian economy recorded a stronger growth of 5.0% in the third quarter of 2013 with domestic demand continuing to drive growth. Growth in private sector spending was higher, supported by both private consumption and investment. After four consecutive quarters of contraction, exports turned around to record a positive growth during the quarter. This resulted in a positive contribution of net exports to growth, despite higher import growth in the third quarter. On a quarter-on-quarter seasonally adjusted basis, the economy recorded a growth of 1.7% (2Q 2013: 1.4%).

Continued expansion in domestic demand

Domestic demand expanded by 8.3% (2Q 2013: 7.4%) due to continued growth in household and business spending, and public sector expenditure.

Private consumption expanded by 8.2% in the third quarter. Household spending was supported by favourable employment conditions and higher wage growth, especially in the domestic-oriented sectors. Growth in public consumption moderated in the third quarter (7.8%; 2Q 2013: 11.8%), reflecting more moderate Government spending on supplies and services.

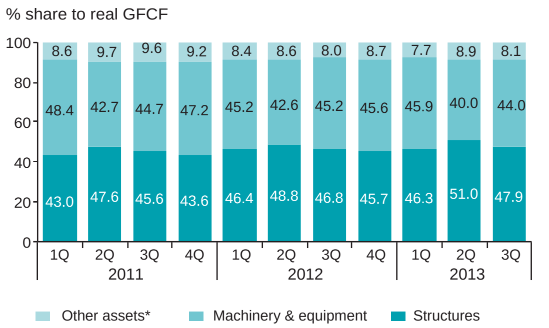
Gross fixed capital formation registered higher growth of 8.6% (2Q 2013: 6.0%), underpinned by capital spending in the private sector. Private sector investment grew by 15.2% (2Q 2013: 12.7%), supported by capital spending in the services and manufacturing sectors as well as the on-going implementation of projects in the oil and gas sector. By type of assets, investment activity was driven mainly by spending on structures (11.0%; 2Q 2013: 10.9%). Public investment, however, registered a marginal decline (-1.3%; 2Q 2013: -6.4%), as capital spending by public enterprises in the transportation, oil and gas and utilities sectors were offset by the decline in Federal Government development expenditure.

GDP by Expenditure Components
(at constant 2005 prices)

	2012		2013		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
Aggregate Domestic Demand (excluding stocks)	11.4	7.8	8.2	7.4	8.3
Consumption	7.4	4.9	6.2	8.1	8.1
Private sector	*8.6*	*6.2*	*7.5*	*7.2*	*8.2*
Public sector	*2.4*	*1.2*	*0.6*	*11.8*	*7.8*
Gross Fixed Capital Formation	22.3	16.0	13.1	6.0	8.6
Private sector	*22.4*	*20.1*	*10.8*	*12.7*	*15.2*
Public sector	*22.2*	*12.9*	*17.3*	*-6.4*	*-1.3*
Net Exports	-47.6	-9.3	-36.4	-41.6	1.6
Exports of Goods and Services	*-2.5*	*-1.6*	*-0.6*	*-5.2*	*1.7*
Imports of Goods and Services	*4.5*	*-0.6*	*3.6*	*-2.0*	*1.8*
GDP	**5.3**	**6.5**	**4.1**	**4.4**	**5.0**
GDP (q-o-q growth, seasonally adjusted)	**1.0**	**2.2**	**-0.3**	**1.4**	**1.7**

Source: Department of Statistics, Malaysia

GFCF by Type of Assets



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

Source: Department of Statistics, Malaysia

GDP by Economic Activity
(at constant 2005 prices)

	Share 2012 (%)	2012		2013		
		3Q	4Q	1Q	2Q	3Q
		Annual change (%)				
Agriculture	7.3	0.6	5.6	6.0	0.4	2.1
Mining	8.4	-1.2	4.2	-1.9	4.1	1.7
Manufacturing	24.9	3.3	5.7	0.3	3.5	4.2
Construction	3.5	17.9	17.6	14.2	9.9	10.1
Services	54.6	7.0	6.4	6.1	5.0	5.9
Real GDP	**100.0[1]**	**5.3**	**6.5**	**4.1**	**4.4**	**5.0**
Real GDP (q-o-q seasonally adjusted)	**-**	**1.0**	**2.2**	**-0.3**	**1.4**	**1.7**

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

Source: Department of Statistics, Malaysia

Major economic sectors expanded amid continued strength in domestic demand and improving trade

On the supply side, growth in most economic sectors improved in the third quarter. The services and manufacturing sectors expanded further, supported by domestic demand and the improvement in trade activity. Growth of the agriculture sector was higher, supported mainly by production of food crops, while the moderation in growth of the mining sector reflected the lower production of natural gas and crude oil. In the construction sector, growth was sustained, driven mainly by the residential sub-sector. Growth was further supported by the non-residential and civil engineering sub-sectors.

The **services sector** expanded by 5.9% in the third quarter (2Q 2013: 5.0%), supported by domestic demand and an improvement in trade and manufacturing activities. Growth in the wholesale and retail trade sub-sector was higher at 5.9% (2Q 2013: 5.0%), driven mainly by the retail segment from higher household spending. Meanwhile, the wholesale segment improved, in tandem with higher trade activity. These factors also supported the higher growth in transportation and storage sub-sector (5.1%; 2Q 2013: 4.2%). The communication sub-sector expanded further to 10.8% (2Q 2013: 9.8%), driven by continued demand for data communication services. The finance and insurance sub-sector turned around to register a positive growth of 0.8% (2Q 2013: -0.1%), following an improvement in fee based income, and continued growth in net interest income arising from favourable bank lending activity.

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

	Share 2012 (%)	2012		2013		
		3Q	4Q	1Q	2Q	3Q
		Annual change (%)				
Intermediate Services	**41.0**	**8.9**	**8.3**	**6.3**	**4.1**	**5.0**
Finance & insurance	17.2	11.7	10.8	6.2	-0.1	0.8
Real estate & business services	10.1	7.5	6.6	6.3	6.9	8.3
Transport & storage	6.7	3.7	4.4	3.8	4.2	5.1
Communication	7.0	9.2	8.6	9.0	9.8	10.8
Final Services	**59.0**	**5.7**	**5.1**	**5.9**	**5.6**	**6.5**
Wholesale & retail trade	26.1	4.5	2.4	5.9	5.0	5.9
Accommodation & restaurant	4.5	4.1	4.8	6.2	4.9	5.5
Utilities	4.6	3.8	4.1	3.9	4.1	4.0
Government services	14.7	10.9	11.3	7.0	7.7	9.5
Other services	9.2	3.4	4.1	5.2	5.3	5.1
Total Services	**100.0[1]**	**7.0**	**6.4**	**6.1**	**5.0**	**5.9**

[1] Numbers do not add up due to rounding

Source: Department of Statistics, Malaysia

Selected Quarterly Indicators in the Services Sector

	2012		2013		
	3Q	4Q	1Q	2Q	3Q
	Index				
MIER Consumer Sentiments Index	118.3	118.7	122.9	109.7	102.0
MIER Retail Trade Index	130.2	94.8	101.0	104.9	107.9
MIER Tourism Market Index	129.9	129.8	115.5	112.6	138.8
	Annual change (%)				
Tourist arrivals	-2.2	2.9	15.9	0.6	n.a.
Total passenger traffic at all airports	2.9	8.6	9.1	18.9	22.7
Total consumption credit outstanding	7.6	7.1	7.7	7.0	7.3
Total loans outstanding	11.9	10.4	10.6	9.1	9.5
Loans outstanding to the wholesale & retail trade, hotels & restaurants	11.8	12.1	14.2	14.6	11.9
Imports of consumption goods	9.7	5.6	3.0	12.4	9.7
Total sales of motor vehicles	2.7	12.9	13.9	-4.3	11.0
Container cargo handled (Port Klang and PTP)	1.7	0.4	-0.4	0.5	3.0

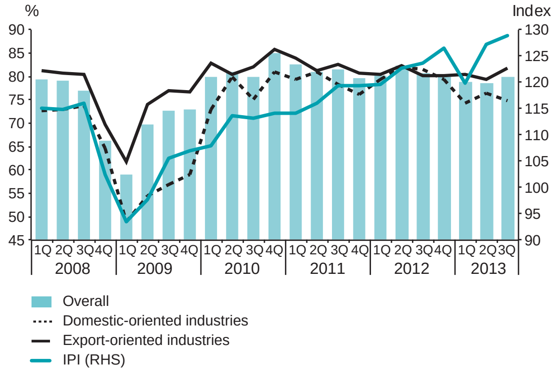
Source: Various sources

The **manufacturing sector** expanded further in the third quarter (4.2%; 2Q 2013: 3.5%), supported by an improvement in the export-oriented industries and sustained growth in the domestic-oriented industries. Growth in the export-oriented industries was higher during the quarter (4.2%; 2Q 2013: 1.8%) as demand for chemicals and chemical products, refined petroleum and electrical and electronic products continued to provide support to the sector. Domestic-oriented industries grew by 4.4% (2Q 2013: 9.1%), sustained by continued demand for transport equipment, food, beverage and tobacco products.

The overall capacity utilisation rate in the manufacturing sector was marginally higher in the third quarter (80%; 2Q 2013: 79%). Export- and domestic-oriented industries were operating at 82% and 75% of total capacity respectively (2Q 2013: 79% and 76% respectively).

The **construction sector** registered a stable growth during the quarter (10.1%; 2Q 2013: 9.9%). Growth was driven by expansion in the residential sub-sector, underpinned by construction activity for high-rise and high-end properties in the Klang Valley, Penang and Johor. Growth improved further in the non-residential sub-sector amidst a pick-up in retail and industrial projects. The civil engineering sub-sector continued to expand, albeit at a slower rate following the near completion of a few large infrastructure and oil and gas-related projects. This includes the Second Penang Bridge, Ipoh-Padang Besar double track, Pahang-Selangor raw water transfer project and the Sabah Oil and Gas Terminal.

Capacity Utilisation Rate in the Manufacturing Sector*



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

Source: Bank Negara Malaysia & Department of Statistics, Malaysia

Performance of the Manufacturing Sector

	Share 2012 (%)	2012 3Q	2012 4Q	2013 1Q	2013 2Q	2013 3Q
		Annual Change (%)				
Value Added (RM million at constant 2005 prices)		**3.3**	**5.7**	**0.3**	**3.5**	**4.2**
Overall Manufacturing Production[1]	**100.0**	**3.5**	**6.0**	**0.2**	**3.6**	**4.3**
Export-oriented industries	**80.2**	**2.5**	**5.3**	**-0.5**	**1.8**	**4.2**
Electronics and electrical products cluster	**32.3**	**1.9**	**3.9**	**1.1**	**1.3**	**4.0**
Of which:						
Electronics	21.4	5.1	12.7	8.1	8.6	10.1
Electrical products	10.9	-1.9	-5.8	-7.0	-7.9	-4.0
Primary-related cluster	**47.9**	**2.7**	**6.0**	**-1.3**	**2.1**	**4.4**
Of which:						
Chemicals and chemical products	17.4	5.9	7.8	3.5	5.0	9.1
Petroleum products	15.8	-0.2	4.2	-11.4	0.1	0.6
Rubber products	2.5	1.5	3.2	12.1	6.7	13.1
Off-estate processing	3.7	-2.5	11.1	11.9	0.2	-0.7
Domestic-oriented industries	**19.8**	**6.9**	**8.1**	**2.4**	**9.1**	**4.4**
Construction-related cluster	**8.3**	**10.5**	**10.5**	**2.7**	**7.9**	**0.8**
Of which:						
Construction-related products	5.5	1.6	-1.6	-3.7	-8.2	-3.5
Fabricated metal products	2.8	21.6	25.2	9.6	27.2	5.2
Consumer-related cluster	**11.5**	**3.9**	**6.2**	**2.1**	**10.2**	**7.5**
Of which:						
Transport equipment	4.3	11.9	19.1	8.5	23.9	12.0
Food, beverage & tobacco products	7.2	2.1	0.7	-1.0	1.2	2.5

[1] Industrial Production Index (2005=100)

Source: Department of Statistics, Malaysia

Indicators for the Construction Sector

	2012		2013		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
Value of construction work done	27.2	25.6	16.3	11.6	12.0
Residential	21.1	25.0	10.8	25.6	23.6
Non-residential	16.1	7.9	-1.4	0.5	9.9
Civil engineering[1]	43.8	41.0	40.6	12.5	6.7
Housing approvals	3.2	12.3	-19.4	-37.8	-1.0
Production[2] of construction-related materials	10.5	10.5	2.7	7.9	0.8
Structural metal products	40.4	40.9	16.1	60.6	4.9
Iron and steel	-5.9	-3.6	6.6	-1.7	11.0
Structural non-refractory clay and ceramic products	6.0	3.4	-6.3	-8.2	-9.3
Ready-mix concrete	18.2	18.4	23.1	17.8	10.6
Loans for the construction sector					
Approval	5.3	-59.6	-28.9	-5.8	-1.4
Disbursement	48.8	4.2	23.5	25.8	-4.0

[1] Includes special trade works such as site preparation, electrical installation and painting
[2] Industrial Production Index (2005=100)

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

Performance of the Agriculture Sector

	Share 2012 (%)	2012		2013		
		3Q	4Q	1Q	2Q	3Q
		Annual change (%)				
Value Added (at constant 2005 prices)	**100.0**	**0.6**	**5.6**	**6.0**	**0.4**	**2.1**
Industrial Crops	**55.7**	**-3.9**	**4.9**	**5.4**	**-5.5**	**-1.9**
Of which:						
Oil palm	36.5	1.6	11.6	14.6	1.2	-0.5
Rubber	8.2	-14.9	0.9	-2.2	-26.2	-2.2
Food Crops	**44.3**	**6.6**	**6.7**	**6.7**	**7.3**	**7.0**
Of which:						
Fishing	14.4	4.9	5.8	6.9	1.3	2.0
Livestock	11.7	6.7	11.6	6.7	8.1	11.8

Source: Department of Statistics, Malaysia

Performance of the Mining Sector

	Share 2012 (%)	2012		2013		
		3Q	4Q	1Q	2Q	3Q
		Annual change (%)				
Value Added (at constant 2005 prices)	**100**	**-1.2**	**4.2**	**-1.9**	**4.1**	**1.7**
Production						
Of which:						
Crude oil and condensates	-	-0.6	5.8	-3.5	2.0	-1.0
Natural gas	-	-1.7	4.6	0.3	8.1	6.9

Source: PETRONAS
Department of Statistics, Malaysia

The **agriculture sector** grew by 2.1% in the third quarter (2Q 2013: 0.4%), supported mainly by growth in food crops. Production of industrial crops contracted, due primarily to the contraction in palm oil and rubber output. Growth in the **mining sector** moderated to 1.7% (2Q 2013: 4.1%), reflecting lower production of natural gas, while output of crude oil recorded a slight contraction due to maintenance works.

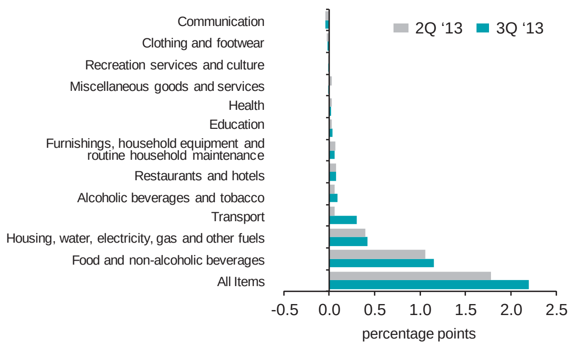
Inflation was higher in the third quarter

The headline inflation rate, as measured by the annual change in the Consumer Price Index (CPI), was higher at 2.2% in the third quarter (2Q 2013: 1.8%). The increase was mainly attributed to higher inflation in the *transport* and *food and non-alcoholic beverages* categories.

Inflation in the *transport* category rose to 2.0% during the quarter (2Q 2013: 0.4%), due to the upward adjustments to prices of petroleum products in September 2013. Inflation in the *food and non-alcoholic beverages* category also rose to 3.8% (2Q 2013: 3.5%) due to stronger demand during Ramadhan.

The Producer Price Index (PPI) declined at a slower pace of 2.3% on an annual basis in the third quarter (2Q 2013: -4.1%). In terms of composition, prices of commodity related components declined at a slower rate of 6.0% (2Q 2013: -10.8%). Meanwhile, prices of non-commodity related components continued to decline further by 0.3% (2Q 2013: -0.2%). Prices of both local and imported components also declined at a slower pace by 2.9% and 1.1% respectively (2Q 2013: -5.2% and -1.6% respectively).

Contribution to Consumer Price Inflation



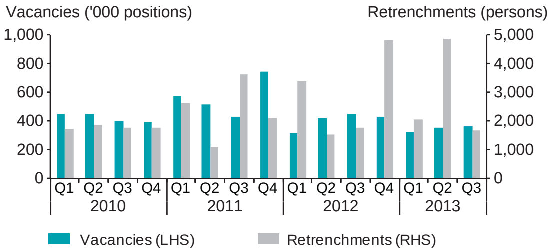
Source: Bank Negara Malaysia

Favourable labour market conditions in the third quarter

Employment conditions improved during the quarter, with total employment averaging 13.6 million persons during the first two months of the quarter, representing a net job gain of 381 thousand persons compared to the previous quarter. The unemployment rate remained low at 3.1% in July-August (2Q 2013: 3.0%). Labour demand was sustained in the third quarter, as reflected in the higher number of job vacancies posted in the JobsMalaysia Portal (361,080 positions; 2Q 2013: 353,261 positions).

Total retrenchments reported to the Ministry of Human Resources decreased significantly to 1,699 persons (2Q 2013: 4,854 persons), due to the marked improvement in the manufacturing sector. Meanwhile, aggregate real wages in the manufacturing sector increased by 8.1% (2Q 2013: 5.6%), attributed to higher wage growth in the export-oriented industries, while wage growth in the domestic-oriented industries was sustained.

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

External position improved in 3Q

The current account surplus increased to RM9.8 billion in the third quarter, equivalent to 4.1% of GNI (2Q 2013: RM2.6 billion or 1.1% of GNI), due mainly to a higher surplus in the goods account.

The trade surplus increased to RM18.6 billion in the third quarter (2Q 2013: RM 8.2 billion), following an improvement in gross exports, amid a continued expansion in gross imports.

After four consecutive quarters of contraction, gross exports turned around to register a positive growth in the third quarter (7.6%; 2Q 2013: -5.4%), supported by an improvement in external demand and more favourable commodity prices. Exports to the region were higher, mainly in refined petroleum products, E&E, manufactures of metals and chemicals and chemical products. However, exports to the US and Japan remained weak.

Balance of Payments[1]

	2012		2013		
	3Q	4Q	1Q	2Q	3Q
	RM billion				
Current Account	**9.6**	**22.9**	**8.7**	**2.6**	**9.8**
(% of GNI)	*4.2*	*9.6*	*3.9*	*1.1*	*4.1*
Goods	25.6	34.3	24.7	18.7	25.8
Services	-2.3	-2.2	-3.4	-3.7	-4.3
Primary income	-8.9	-5.6	-8.8	-8.4	-8.1
Secondary income	-4.7	-3.5	-3.8	-4.1	-3.5
Financial Account	**-9.0**	**-10.3**	**1.0**	**5.2**	**-11.5**
Direct investment	1.5	-18.4	-2.2	-7.9	2.0
Assets	*-7.2*	*-16.5*	*-11.5*	*-15.4*	*-7.3*
Liabilities	*8.7*	*-1.9*	*9.4*	*7.4*	*9.3*
Portfolio investment	27.8	10.4	3.9	3.7	-9.7
Assets	*-6.0*	*-4.1*	*-5.3*	*-11.0*	*-10.3*
Liabilities	*33.8*	*14.5*	*9.2*	*14.7*	*0.6*
Financial derivatives	-0.1	0.1	0.2	-1.4	0.6
Other investment	-38.3	-2.3	-0.9	10.8	-4.4
Errors & omissions[2]	-8.1	-7.0	-5.6	-6.2	13.4
Overall Balance	**-7.5**	**5.9**	**4.0**	**1.5**	**11.8**

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		
		3Q	4Q	1Q	2Q	3Q
		Annual change (%)				
Gross Exports	**100.0**	**-1.9**	**-2.2**	**-2.6**	**-5.4**	**7.6**
Manufactured	66.9	-1.3	-2.4	-3.2	-2.5	6.5
E&E	*32.9*	*-1.7*	*-4.4*	*-4.9*	*-4.0*	*5.3*
Non-E&E	*34.0*	*-0.9*	*-0.6*	*-1.5*	*-1.1*	*7.7*
Petroleum & agri-related	*12.9*	*-5.1*	*-1.7*	*-3.5*	*-3.7*	*1.2*
Equipment & metals	*12.6*	*6.2*	*1.8*	*-0.7*	*-2.3*	*13.6*
Misc. manufacturing goods	*8.5*	*-3.7*	*-2.3*	*0.4*	*4.8*	*8.7*
Commodities	32.2	-4.0	-2.4	-1.8	-11.5	11.2
Minerals	*20.8*	*9.8*	*7.4*	*6.2*	*-5.9*	*23.8*
Agriculture	*11.4*	*-21.2*	*-16.8*	*-17.0*	*-21.2*	*-10.7*
Gross Imports	**100.0**	**6.9**	**0.9**	**6.4**	**2.5**	**7.5**
Intermediate goods	60.0	-3.8	-9.6	0.0	3.0	4.0
Capital goods	15.8	21.6	14.3	13.8	-6.2	3.6
Consumption goods	7.2	9.7	5.6	3.0	12.4	9.7
Re-exports and dual-use goods	17.0	44.1	31.3	26.6	5.0	21.8
Trade balance (RM billion)	**–**	**17.1**	**26.9**	**16.3**	**8.2**	**18.6**

Source: MATRADE and Department of Statistics, Malaysia

Gross imports expanded at a faster pace of 7.5% (2Q 2013: 2.5%), driven by higher growth in imports of products for re-export and a continued expansion in other import categories. The significant growth in imports for re-export activity reflected the continued expansion of storage facilities in southern Johor, which cater mainly to refined petroleum and copper. Intermediate imports and capital imports grew at a faster pace, in tandem with the higher manufactured exports and investments during the quarter. However, growth in consumption imports moderated, weighed down by imports of food and beverages and semi-durable consumer goods.

The services account recorded a larger deficit of RM4.3 billion in the third quarter (2Q 2013: -RM3.7 billion), due mainly to higher payments for transportation, in tandem with increased trade activity during the quarter. In addition, travel receipts were lower, reflecting lower spending by tourists in Malaysia relative to the previous quarter.

The deficit in the primary income balance decreased slightly to RM8.1 billion (2Q 2013: -RM8.4 billion), following higher investment income from Malaysian companies investing abroad, attributable mainly to companies in the oil and gas and services sectors.

The financial account recorded a net outflow of RM11.5 billion in the third quarter (2Q 2013: inflow of RM5.2 billion), as net inflows of direct investment were offset by outflows from portfolio and other investments.

Inward direct investment (or change in direct investment liabilities) was higher, registering an inflow of RM9.3 billion (2Q 2013: RM7.4 billion) due to higher retained earnings during the quarter, as MNCs registered higher profits and repatriated lower dividends to shareholders abroad. The direct investment was undertaken mainly by companies in the manufacturing and oil and gas sectors.

Outward direct investment (or change in direct investment assets) was smaller at RM7.3 billion (2Q 2013: RM15.4 billion outward direct investment). This was due to lower extensions of equity capital amid higher retained earnings abroad. The investments were undertaken primarily by Malaysian companies in the mining and services sectors.

Portfolio investments recorded a net outflow of RM9.7 billion during the quarter (2Q 2013: inflow of RM3.7 billion). This was attributable to continued portfolio investment abroad by resident institutional investors amidst small inflows of non-resident portfolio investment. In the beginning of the quarter, there were sizeable outflows of foreign portfolio funds in tandem with uncertainties in global financial markets arising from the possibility of a scaling down of the Federal Reserve Bank's asset purchase programme. However, towards the end of the quarter, Malaysia experienced a resumption of inflows following diminished expectations of an imminent Fed tapering. Inflows of portfolio funds also occurred due to the offshore issuance of foreign currency denominated bonds by a public enterprise (PE).

Malaysia: Direction of Exports

	Share 2012 (%)	2012		2013		
		3Q	4Q	1Q	2Q	3Q
		Annual change (%)				
United States	**8.7**	**8.3**	**4.1**	**-2.9**	**-4.7**	**-7.7**
European Union (EU)	**8.8**	**-19.2**	**-15.9**	**-6.4**	**-3.4**	**16.2**
Japan	**11.9**	**1.7**	**-13.7**	**-9.5**	**-9.5**	**-2.4**
Selected ASEAN countries[1]	**26.4**	**10.5**	**8.0**	**9.9**	**0.8**	**11.2**
North East Asia	**23.6**	**-8.4**	**-4.1**	**-5.3**	**10.1**	**14.4**
People's Republic of China	*12.6*	*-11.6*	*-4.8*	*-1.7*	*-9.6*	*17.6*
Hong Kong SAR	*4.3*	*0.2*	*-4.2*	*-9.0*	*-9.4*	*4.3*
Korea	*3.6*	*-9.2*	*2.9*	*-4.0*	*-9.2*	*9.9*
Chinese Taipei	*3.1*	*-5.5*	*-8.4*	*-16.7*	*-14.5*	*20.9*
West Asia[2]	**3.4**	**2.5**	**-8.8**	**-1.3**	**5.4**	**-2.0**
India	**4.2**	**0.7**	**12.9**	**-3.0**	**-10.2**	**-15.8**
Total exports	**100.0**	**-1.9**	**-2.2**	**-2.6**	**-5.4**	**7.6**

[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

Other investment recorded a net outflow of RM4.4 billion (2Q 2013: inflow of RM10.8 billion), as higher trade credits extended by Malaysian exporters more than offset the unwinding of assets abroad by the domestic banking sector.

The overall balance of payments registered a surplus of RM11.8 billion in the third quarter (2Q 2013: RM1.5 billion). Errors and omissions (E&O) amounted to +RM13.4 billion (4.1% of total trade). This partly reflects foreign exchange revaluation gains on international reserves, as the ringgit depreciated against major currencies during the quarter.

External debt

Total external debt increased to RM306.6 billion or USD93.2 billion as at end-September 2013 (end-June: RM284.7 billion or USD88.6 billion), equivalent to 32.1% of GNI.

Medium- and long-term external debt increased to RM186.3 billion, mainly reflecting net drawdown of external borrowings by NFPEs and the private sector. As at end-September 2013, the **short-term external debt** was also higher at RM120.3 billion due mainly to net drawdown of interbank borrowing. The higher total external debt during the quarter was also due to the weakening of the ringgit against regional and major currencies.

External Debt Outstanding

	2012	2013	
	end-Sep	end-June	end-Sep[p]
	RM billion		
Medium- and long-term debt	159.1	170.3	186.3
Public sector	84.8	82.2	92.8
Private sector	74.3	88.0	93.5
Short-term debt[1]	100.5	114.4	120.3
Total external debt	**259.6**	**284.7**	**306.6**
USD billion equivalent	83.9	88.6	93.2
External debt/GNI (%)	28.7	29.8	32.1
Reserves/Short-term external debt (times)	4.2	3.8	3.7[2]

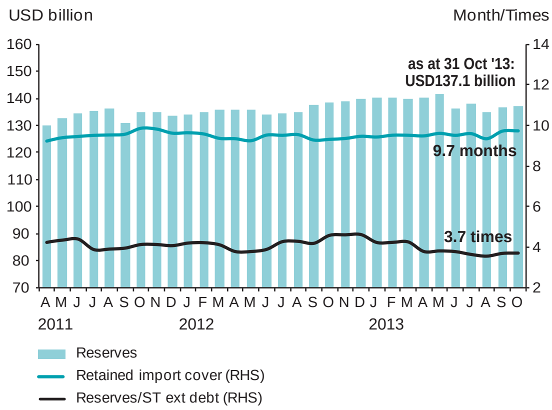
[1] Excludes currency and deposits held by non-residents with resident banking institutions
[2] Based on international reserves as at 31 October 2013
[p] Preliminary

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

International reserves remained high

The international reserves of Bank Negara Malaysia amounted to RM444.6 billion (equivalent to USD136.5 billion) as at 30 September 2013. This reserve level has taken into account the quarterly adjustment for foreign exchange revaluation changes. As at 31 October 2013, the reserves position amounted to RM446.2 billion (equivalent to USD137.1 billion), sufficient to finance 9.7 months of retained imports and is 3.7 times the short-term external debt.

Net International Reserves (as at end period)



Source: Bank Negara Malaysia

Government revenue continues to support expenditure

Federal Government revenue was higher by 9.4% on an annual basis at RM57 billion in the third quarter, driven mainly by income tax collection from individuals. The higher revenue supported the operating expenditure, which was mainly disbursed for emoluments, supplies and services, and subsidies. Development expenditure was lower compared to the same period in the previous year, with the bulk of the expenditure being directed to the transportation and education sectors. During the quarter, the Federal Government recorded a fiscal deficit of RM5.4 billion or -2.2% of GDP (2Q 2013: -1.9% of GDP). As at end-September 2013, total outstanding debt of the Federal Government amounted to RM529.2 billion or 53.6% of the estimated 2013 GDP.

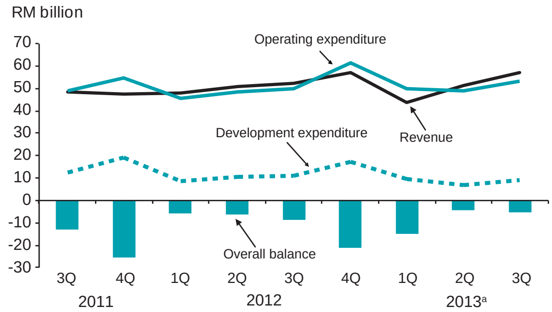
Federal Government Finance

	2012		2013[p]		
	3Q	4Q	1Q	2Q	3Q
	RM billion				
Revenue	52.1	57.2	43.8	51.6	57.0
% annual growth	*7.8*	*20.0*	*-8.6*	*1.7*	*9.4*
Operating expenditure	50.1	61.6	49.9	49.2	53.4
% annual growth	*2.5*	*13.1*	*9.4*	*2.0*	*6.7*
Current account	**2.0**	**-4.5**	**-6.1**	**2.4**	**3.6**
% of GDP	***0.9***	***-1.8***	***-2.6***	***1.0***	***1.4***
Net development expenditure	10.8	16.6	8.8	6.8	9.0
% annual growth	*-12.0*	*-10.2*	*8.3*	*-22.4*	*-16.5*
Overall balance	**-8.8**	**-21.1**	**-14.9**	**-4.4**	**-5.4**
% of GDP	***-3.7***	***-8.7***	***-6.4***	***-1.9***	***-2.2***
Memo item:					
Total net expenditure	60.9	78.3	58.7	56.0	62.4
% annual growth	*-0.4*	*7.2*	*9.3*	*-1.8*	*2.6*
Total Federal Government debt					
(as at end-period)	484.6	501.6	508.9	519.3	529.2
% of GDP	*51.5*	*53.3*	*51.5*	*52.6*	*53.6*
Domestic debt	467.4	484.8	492.8	502.9	512.3
% of GDP	*49.7*	*51.5*	*49.9*	*50.9*	*51.9*
External debt	17.3	16.8	16.1	16.5	16.9
% of GDP	*1.8*	*1.8*	*1.6*	*1.7*	*1.7*

[p] Preliminary

Source: Ministry of Finance, Malaysia

Federal Government Finance



[p] Preliminary

Source: Ministry of Finance, Malaysia