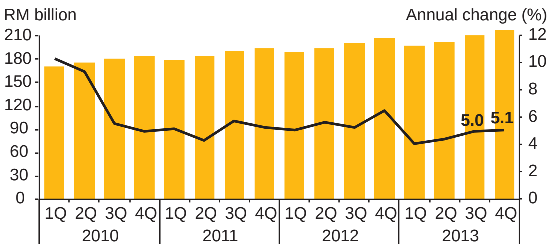
ECONOMIC AND FINANCIAL DEVELOPMENTS IN MALAYSIA IN THE FOURTH QUARTER OF 2013

OVERVIEW

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

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

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



Source: Department of Statistics, Malaysia

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

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

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

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

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

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

Interest rates remained stable

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

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

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

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

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

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

Financial stability continued to be preserved

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

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

Global recovery and resilient domestic demand will continue to support growth

Going forward, the global economy is expected to be on a path of moderate recovery. The sustained improvements in the advanced economies will be a positive impulse for international trade. However, ongoing uncertainties surrounding monetary and fiscal policy adjustments in the advanced economies remain a risk to growth.

Growth in the Asian economies is expected to be supported by improving external conditions amid moderating domestic demand.

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

DEVELOPMENTS IN THE FOURTH QUARTER OF 2013

INTERNATIONAL ECONOMIC ENVIRONMENT

Continued economic expansion

Global economic activity improved in the fourth quarter. In the advanced economies, recovery remained intact, albeit at a gradual pace. Some economies in Asia benefitted from the improvements in external demand. However, growth was weighed down by domestic factors, which offset the better export performance. Amid an environment of modest growth and low inflation, global monetary policy remained highly accommodative.

Movements in the global financial markets were defined primarily by policy uncertainties in the US. At the beginning of the quarter, equity markets fell following the US government shutdown. Nevertheless, the trend reversed when the government resumed operations on 17 October after the funding issues were resolved. Of significance, the S&P and Dow Jones reached record high levels following better US economic data releases and improved growth prospects as well as indications that the Fed would maintain its policy of low interest rates. With the improvements in the US, investors took the opportunity to reduce their holdings of assets in Asia which had previously experienced sharp price increases due to strong demand. Such volatility is part of the behaviour of financial markets in an environment of surplus global liquidity. In addition, there were country–specific factors that led to the outflows. Investor sentiments in Thailand and the Philippines were dampened by political unrest and the severe impact of Typhoon Haiyan, respectively. In Indonesia, continued concerns over the health of the economy led to a decline in the financial market conditions. In PR China, heightened money market rates fuelled concerns over market liquidity, amid lingering concerns over the pace of growth of the economy. Towards the end of the quarter, the Federal Reserve's (Fed) decision to begin scaling back quantitative easing (QE) resulted in further weakening in some Asian financial markets.

The US economy posted a stronger expansion in the final quarter of 2013 (2.7%, 3Q 2013: 2.0%). On a seasonally adjusted annualised basis, growth was slightly lower at 3.2% (3Q 2013: 4.1%). Growth was driven primarily by stronger consumption and private inventory accumulation. While the government shutdown and debt ceiling debate temporarily affected consumer and business sentiments in October, consumption and investment registered further improvements in the remaining months, suggesting underlying strength in the private sector. On the labour market front, net job creation improved to 586,000 (3Q 2013: 515,000) amid stronger hiring in the manufacturing and retail sectors. However, the housing market recovery momentum moderated during the quarter, as the rise in mortgage rates affected the pace of residential construction and home sales. Headline CPI moderated to 1.2% (3Q 2013: 1.6%) following persistent weakness in energy prices.

In the euro area, indicators generally pointed towards a continued recovery in economic activity, albeit at a gradual pace. The overall economic performance was supported by a modest improvement in exports. Nevertheless, structural and fiscal concerns continued to weigh down on domestic demand amid the ongoing balance sheet adjustments in the public and private sectors. Inflation moderated to 0.8% (3Q 2013: 1.3%) due to weak energy and food prices.

The UK economy grew by 2.8% (3Q 2013: 1.9%). On a seasonally adjusted basis, quarterly growth recorded an expansion of 0.7% (3Q 2013: 0.8%). The services sector was the key contributor to growth, attributable mainly to the expansion in the business services and finance sector. The inflation rate decreased to 2.1% (3Q 2013: 2.7%) following slower increases in the prices of food as well as recreational goods and services.

In Japan, economic activity benefitted from an improvement in domestic demand. Consumption increased, driven by higher household spending on durable goods and earnings. Investments rose as business sentiments continued to improve with the Tankan survey for large

Advanced Economies: Real GDP Growth

	2012		2013		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
US[1]	0.1	2.8	4.1	3.2[a]	1.9[a]
UK	0.2	0.2	1.9	2.8[p]	1.9[p]

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

Source: National authorities

manufacturing enterprises increasing to 16 (3Q 2013: 12). On the external demand front, exports recorded a positive growth of 17.4% (3Q 2013: 12.7%) due mainly to higher shipments to Asia, the US and Western Europe. Headline inflation (excluding fresh food) rose (1.1%; 3Q 2013: 0.7%) amid increases in the cost of education and recreation. Core inflation turned positive (0.5%; 3Q 2013: 0.0%).

The stance of monetary policy in the advanced economies remained highly accommodative but a shift in bias has emerged, reflecting the different pace of economic recovery. Following cumulative improvements in labour market conditions, the Fed announced that it would reduce its asset purchases by USD10 billion to USD75 billion in December 2013 and subsequently, in January 2014 to USD65 billion per month. In the December FOMC meeting minutes, many FOMC members indicated that further reductions in asset purchases would be undertaken in measured steps. However, the Fed stressed that the pace of asset purchase reduction was not a preset course. It remained contingent upon labour market conditions and inflation developments. While growth projections were broadly unchanged, projections for the unemployment rate improved to 6.3-6.6% in 2014 and 5.8-6.1% in 2015 (Previous: 6.4-6.8% and 5.9-6.2%, respectively). In addition, the Fed also enhanced the existing forward guidance, noting that it will maintain the current federal funds rate even after the unemployment rate has declined beyond the 6.5% threshold. In the euro area, the European Central Bank (ECB) lowered interest rates to 0.25% in November. The decision was premised upon latest indications pointing to a prolonged period of low inflation below the 2% target. The ECB also reaffirmed the forward guidance for monetary policy to remain accommodative for

Regional Countries: Real GDP Growth

	2012		2013		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
PR China	7.9	7.7	7.8	7.7	7.7
Philippines	7.1	6.8	6.9[r]	6.5	7.2
Indonesia	6.2[r]	6.3[r]	5.6	5.7	5.8
Singapore	1.5	1.3	5.9[r]	4.4[a]	3.7[a]
Korea	1.5	2.0	3.3	3.9[a]	2.8[a]
Chinese Taipei	3.9	1.5	1.7	2.9[a]	2.2[a]

[p] Preliminary
[a] Advance estimate
[r] Revised

Source: National authorities

as long as necessary. Meanwhile, the Bank of England and the Bank of Japan maintained their accommodative monetary policy stance.

Notwithstanding the improvement in external demand, domestic economic activity in several Asian economies moderated in the fourth quarter due to country-specific factors. In PR China, growth was slightly lower at 7.7% (3Q 2013: 7.8%), attributable mainly to slower investment and net exports amid tighter credit conditions. Growth in the Philippines moderated to 6.5% (3Q 2013: 6.9%) as economic activity was adversely affected by Typhoon Haiyan in November. Singapore's economy also grew at a slower pace of 4.4% (3Q 2013: 5.9%) due to a broad-based moderation in economic activity. In Indonesia, economic activity grew by 5.7% (3Q 2013: 5.6%) on account of improved exports, which more-than-offset the moderation in domestic demand which was affected by high inflation and tighter monetary policy. The economies of Korea and Chinese Taipei expanded at a faster pace of 3.9% and 2.9%, respectively (3Q 2013: 3.3% and 1.7%, respectively), underpinned by better domestic demand and exports.

Headline inflation rose in several Asian economies (PR China, Singapore, Chinese Taipei and the Philippines) due mainly to the higher cost of food. In the Philippines, inflation was driven by the increases in the cost of food and utilities in the aftermath of Typhoon Haiyan. Prices rose marginally in Thailand as the higher cost of food was to some extent offset by the moderation in transport, housing and energy prices. Meanwhile, in Indonesia, inflation remained high but moderated slightly, on account of slower growth in the prices of food, clothing and education.

Most regional central banks maintained an accommodative monetary policy stance to support growth. In November, the Bank of Thailand (BOT) lowered its key policy rate by 25 basis points (bps) to 2.25% to mitigate downside risks to growth arising from the benign inflation outlook and moderating household credit growth. In contrast, Bank Indonesia hiked its benchmark rate by 25 bps to 7.50% to narrow the current account deficit. In January 2014, the Reserve Bank of India (RBI) raised its policy repo rate by 25 bps to 8.0% as core inflation remained elevated. The cash reserve ratio (CRR) was maintained at 4.0%.

Prices of crude oil moderated to an average of USD109 per barrel (3Q 2013: USD110 per barrel). Oil prices trended lower in the beginning of the quarter due to a number of factors. Prices declined following reduced geopolitical uncertainties in Syria. The sharp rise in US oil inventories thereafter exacerbated the decline in prices to a 3-month low at USD103 per barrel in early-November. This was followed later by optimism over the partial removal of Iranian sanctions, which led to an expectation of higher oil supply. Nevertheless, the trend was subsequently reversed following concerns over disruptions in the supply of oil in Libya, as well as higher demand for heating following the harsh winter in North America. By year-end, oil prices closed at USD111 per barrel.

With the exception of the Japanese yen, most major currencies ended the quarter higher against the US dollar. At the beginning of the quarter, improved investor sentiments following the temporary resolution of the US fiscal issues supported the appreciation of most major currencies against the US dollar. The euro and sterling also benefitted from better-than-expected economic data releases. However, the euro depreciated against the US dollar in the middle of the quarter due mainly to the downgrade in France's sovereign rating and the ECB's reduction of its policy rate. The downward trend reversed in the second half of the quarter, underpinned by an improved outlook for the euro area's economy and the ECB's statement that interest rates will remain low. Meanwhile, the Japanese yen generally depreciated against the US dollar throughout the quarter on account of lower demand for the yen as a safe haven currency. In Asia, most currencies also ended the quarter lower against the US dollar, attributable mainly to the uncertainty surrounding the Fed's QE scale-back. The declines in the ASEAN currencies were exacerbated by country-specific factors, namely concerns over the current account position in Indonesia, political unrest in Thailand and adverse economic impact of Typhoon Haiyan in the Philippines. Nevertheless, the Korean won outperformed the regional currencies and ended the quarter higher against the US dollar, underpinned by investors' confidence of the country's economic outlook and large current account surplus.

Moving forward, the global economy is expected to continue to experience a moderate recovery. Sustained improvements in the advanced economies will benefit international trade. However, uncertainties surrounding monetary and fiscal policy adjustments in the advanced economies are likely to persist. Growth of the Asian economies is expected to be supported by improving external conditions amid moderating domestic demand.

DEVELOPMENTS IN THE MALAYSIAN ECONOMY

Growth momentum was sustained

The Malaysian economy registered a growth of 5.1% in the fourth quarter of 2013 (3Q 2013: 5.0%). Growth was supported by private sector demand and improvement in exports. Public sector spending, however, moderated. On a quarter-on-quarter seasonally adjusted basis, the economy grew by 2.1% (3Q 2013: 1.7%).

Domestic demand expanded at a more moderate pace

Domestic demand remained the anchor for growth, expanding by 6.4% (3Q 2013: 8.3%). Private sector activity grew further, as reflected by robust private investment growth and continued expansion in private consumption. Public sector spending, however, moderated due to slower public consumption and declining investment growth.

Gross fixed capital formation grew by 5.8% (3Q 2013: 8.6%), led by robust private sector capital spending amidst a contraction in public investment growth. Growth in private investment improved to 16.5% (3Q 2013: 15.2%), mainly on account of higher capital spending in the services and manufacturing sectors. Public investment declined by 2.7% (3Q 2013: -1.3%). Capital spending by the public enterprises moderated amid a smaller contraction in Federal Government development expenditure. By type of assets, investment activity was driven mainly by spending on structures (9.7%; 3Q 2013: 11.0%), which partially mitigated the moderation in machinery and equipment spending (1.1%; 3Q 2013: 5.8%).

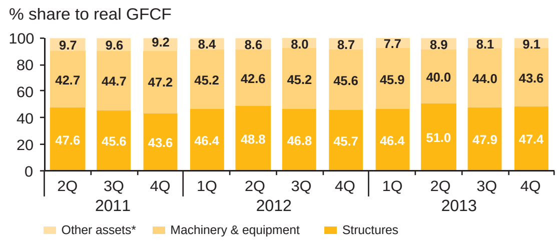
GDP by Expenditure Components
(at constant 2005 prices)

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

Source: Department of Statistics, Malaysia

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

GFCF by Type of Assets



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

Source: Department of Statistics, Malaysia

Major economic sectors remained resilient

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

GDP by Economic Activity
(at constant 2005 prices)

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

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

Source: Department of Statistics, Malaysia

Growth in the **services sector** improved to 6.4% (3Q 2013: 5.9%), supported by the improving performance of trade and manufacturing activities. Growth in the wholesale and retail sub-sector (8.4%; 3Q 2013: 6.1%) was supported by the wholesale segment in line with stronger trade activity. The strong performance in trade activity was also reflected in the better performance of the transportation and storage sub-sector (5.4%; 3Q 2013: 5.1%), especially in land and air segments. In the communication sub-sector, growth remained robust (10.3%; 3Q 2013: 10.8%), amidst the continued strength in demand for data communication services. Growth in finance and insurance remained weak at 0.6% (3Q 2013: 1.0%), as the improvement in net interest income for the banking sector was partly offset by the weak performance in the insurance segment.

Growth in the **manufacturing sector** expanded by 5.1% (3Q 2013: 4.2%), supported by growth in both export- and domestic-oriented industries. Export-oriented industries expanded by 4.5% (3Q 2013: 4.2%) driven by demand for electronics and electrical products. Domestic-oriented industries grew at 5.6% (3Q 2013: 4.4%), mainly supported by the continued strength in demand for transport equipment.

Overall capacity utilisation rate in the manufacturing sector was sustained at 80% (3Q 2013: 80%). Export- and domestic-oriented industries were operating at 82% and 74% of total capacity, respectively (3Q 2013: 82% and 75%, respectively).

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

	Share 2012 (%)	2012		2013		
		4Q	Year	3Q	4Q	Year
		Annual change (%)				
Intermediate Services	**41.0**	**8.3**	**7.4**	**5.0**	**4.9**	**5.1**
Finance & insurance	17.2	10.8	7.8	1.0	0.6	1.8
Real estate & business services	10.1	6.6	7.2	8.2	8.3	7.4
Transport & storage	6.7	4.4	4.9	5.1	5.4	4.6
Communication	7.0	8.6	9.2	10.8	10.3	10.0
Final Services	**59.0**	**5.1**	**5.8**	**6.6**	**7.5**	**6.4**
Wholesale & retail trade	26.1	2.4	4.8	6.1	8.4	6.4
Accommodation & restaurant	4.5	4.8	5.4	5.8	5.9	5.7
Utilities	4.6	4.1	4.3	4.0	4.4	4.1
Government services	14.7	11.3	9.5	9.5	8.5	8.2
Other services	9.2	4.1	3.9	5.0	5.1	5.1
Total Services	**100.0[1]**	**6.4**	**6.4**	**5.9**	**6.4**	**5.9**

[1] Numbers do not add up due to rounding

Source: Department of Statistics, Malaysia

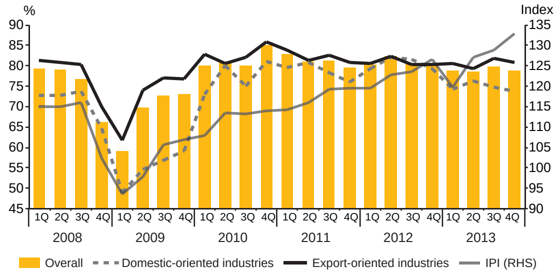
Selected Quarterly Indicators in the Services Sector

	2012			2013		
	3Q	4Q	Year	3Q	4Q	Year
	Index					
MIER Consumer Sentiments Index	118.3	118.7	116.6	102.0	82.4	104.3
MIER Retail Trade Index	130.2	94.8	107.4	107.9	81.7	98.9
MIER Tourism Market Index	129.9	129.8	125.6	138.8	140.3	126.8
	Annual change (%)					
Tourist arrivals	-2.2	2.9	1.3	-4.9	n.a.	3.3[1]
Total passenger traffic at all airports	2.9	8.6	4.9	23.0	24.1	19.0
Total consumption credit outstanding	7.6	7.1	7.1	7.3	6.2	6.2
Total loans outstanding	11.9	10.4	10.4	9.5	10.6	10.6
Loans outstanding to the wholesale & retail trade, hotels & restaurants	11.8	12.1	12.1	11.9	11.1	11.1
Imports of consumption goods	9.7	5.6	10.7	9.7	9.3	8.7
Total sales of motor vehicles	2.7	12.9	7.2	11.0	-0.9	4.5
Container cargo handled (Port Klang and PTP)	1.7	0.4	3.4	3.0	2.7	1.5

[1] Jan-Sep 2013

Source: Various sources

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

Growth in the **construction sector** was sustained during the quarter (9.7%; 3Q 2013: 10.1%), underpinned by robust expansion in the non-residential and residential sub-sectors. The non-residential sub-sector was supported by a pick-up in commercial and industrial projects while construction activity in high-end properties supported growth in the residential sub-sector. The civil engineering sub-sector continued to expand, albeit at a slower pace, following the completion of major infrastructure projects such as the Second Penang Bridge, Sabah-Sarawak Gas Pipeline, and Sabah Oil and Gas Terminal.

Indicators for the Construction Sector

	2012		2013		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Value of construction work done	25.7	25.5	12.0	11.3	12.7
Residential	25.0	30.0	23.6	18.3	19.6
Non-residential	7.9	9.6	9.9	18.1	6.6
Civil engineering[1]	41.0	39.7	6.7	2.8	13.3
Housing approvals	12.3	47.4	-1.0	n.a.	-22.5[2]
Production[3] of construction-related materials	10.5	8.5	0.8	1.0	3.0
Structural metal products	40.9	32.8	4.9	-9.5	14.5
Iron and steel	-3.6	-5.8	11.0	5.0	5.0
Structural non-refractory clay and ceramic products	3.4	5.3	-9.3	-10.2	-8.5
Ready-mix concrete	18.4	19.7	10.6	6.8	14.2
Loans for the construction sector					
Approval	-59.6	-18.2	-1.4	0.6	-10.5
Disbursement	4.2	20.5	-3.8	17.7	14.4

[1]Includes special trade works such as site preparation, electrical installation and painting
[2]Jan-Sep 2013
[3]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 Manufacturing Sector

	Share 2012 (%)	2012		2013		
		4Q	Year	3Q	4Q	Year
		Annual Change (%)				
Value Added (RM million at constant 2005 prices)		**5.7**	**4.8**	**4.2**	**5.1**	**3.4**
Overall Manufacturing Production[1]	**100.0**	**6.0**	**5.0**	**4.3**	**4.8**	**3.2**
Export-oriented industries	**80.2**	**5.3**	**3.9**	**4.2**	**4.5**	**2.5**
Electronics and electrical products cluster	**32.3**	**3.9**	**2.2**	**4.0**	**9.7**	**4.0**
Of which:						
Electronics	21.4	12.7	4.2	10.1	13.8	10.2
Electrical products	10.9	-5.8	-0.2	-4.0	4.4	-3.7
Primary-related cluster	**47.9**	**6.0**	**4.9**	**4.3**	**1.9**	**1.8**
Of which:						
Chemicals and chemical products	17.4	7.8	8.4	9.1	4.6	5.6
Petroleum products	15.8	4.2	4.3	0.6	-3.2	-3.7
Rubber products	2.5	3.2	3.0	13.1	15.0	11.7
Off-estate processing	3.7	11.1	0.0	-0.8	-1.9	1.7
Domestic-oriented industries	**19.8**	**8.1**	**8.3**	**4.4**	**5.6**	**5.4**
Construction-related cluster	**8.3**	**10.5**	**8.5**	**0.8**	**1.0**	**3.0**
Of which:						
Construction-related products	5.5	-1.6	0.9	-3.5	2.0	-3.4
Fabricated metal products	2.8	25.2	18.0	5.1	0.0	9.9
Consumer-related cluster	**11.5**	**6.2**	**8.1**	**7.5**	**9.6**	**7.4**
Of which:						
Transport equipment	4.3	19.1	13.9	12.1	18.7	15.8
Food, beverage & tobacco products	7.2	0.7	5.8	2.5	1.1	1.0

[1] Industrial Production Index (2005=100)

Source: Department of Statistics, Malaysia

Value-added of the **agriculture sector** recorded a marginal growth of 0.2% (3Q 13: 2.1%) due mainly to the decline in rubber as weaker prices caused production to moderate. In addition, the production of palm oil and fisheries also declined due to weather-related factors. Meanwhile, the **mining sector** contracted by 1.5% (3Q 2013: 1.7%) due to decline in crude oil production amid significant maintenance works. Production of natural gas was sustained.

Performance of the Agriculture Sector

	Share 2012 (%)	2012		2013		
		4Q	Year	3Q	4Q	Year
		Annual change (%)				
Value Added (at constant 2005 prices)	**100.0**	**5.6**	**1.0**	**2.1**	**0.2**	**2.1**
Industrial Crops	**55.7**	**4.9**	**-2.5**	**-1.9**	**-2.9**	**-1.4**
Of which:						
Oil palm	36.5	11.6	-0.3	-0.5	-1.6	2.6
Rubber	8.2	0.9	-6.3	-2.2	-12.3	-10.5
Food Crops	**44.3**	**6.7**	**5.7**	**7.0**	**4.6**	**6.4**
Of which:						
Fishing	14.4	5.8	1.8	2.0	-3.8	1.6
Livestock	11.7	11.6	9.0	11.8	10.4	9.3

Source: Department of Statistics, Malaysia

Performance of the Mining Sector

	Share 2012 (%)	2012		2013		
		4Q	Year	3Q	4Q	Year
		Annual change (%)				
Value Added (at constant 2005 prices)	**100**	**4.2**	**1.4**	**1.7**	**-1.5**	**0.5**
Production						
Of which:						
Crude oil and condensates	-	5.8	2.8	-1.0	-8.2	-2.6
Natural gas	-	4.6	1.5	6.9	3.2	4.4

Source: PETRONAS
Department of Statistics, Malaysia

Inflation was higher in the fourth quarter

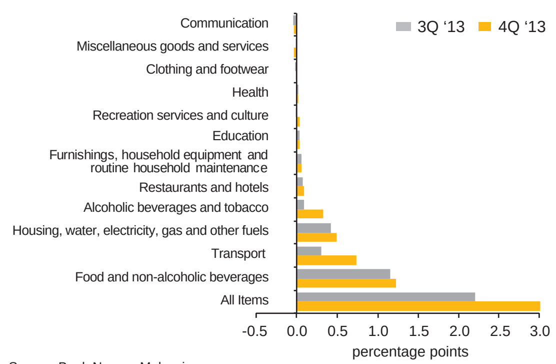
The headline inflation rate, as measured by the annual change in the Consumer Price Index (CPI), increased to 3.0% in the fourth quarter (3Q 13: 2.2%). This largely reflected the upward adjustment to prices of petroleum products and sugar, and the increase in excise duty on tobacco. Supply disruptions following adverse weather conditions also led to the higher food prices.

These factors in turn led to higher inflation in the transport (5.0%; 3Q 13: 2.0%); *alcoholic beverages and tobacco* (14.8%; 3Q 13: 4.3%); and *food and non-alcoholic beverages* (4.0%; 3Q 13: 3.8%) categories. For the *food and non-alcoholic beverages* category, price increases were registered namely in the *fish and seafood* and *sugar, jam, honey, chocolate and confectionary* sub-categories.

The higher inflation, however, was partially offset by lower prices in the *communication* (-0.6%; 3Q 13: -0.7%); miscellaneous goods and services (-0.5%; 3Q 13: -0.1%); and the *clothing and footwear* (-0.3%, 3Q 13: -0.6%) categories.

The Producer Price Index (PPI) turned around to increase to 2.2% on an annual basis in the fourth quarter (3Q 13: -2.3%), the first increase since the first half of 2012. In terms of composition, prices of commodities related components grew by 6.3% (3Q 13: -6.0%) while prices of non-commodities related components rose slightly by 0.1% (3Q 13: -0.3%). Prices of local components rose by 3.4% (3Q 13: -2.9) while imported components continued to decline at a slower pace by 0.5% (3Q 13: -1.1%).

Contribution to Consumer Price Inflation



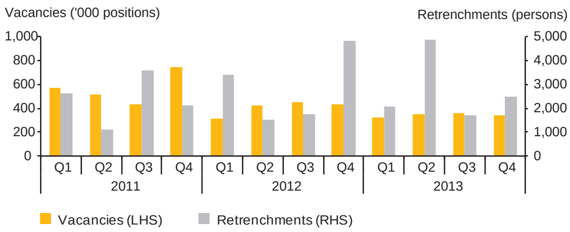
Source: Bank Negara Malaysia

Labour market conditions remained stable

Employment conditions remained stable, with total employment averaging 13.7 million persons during the first two months of the quarter, representing a net job gain of 39.3 thousand persons from the previous quarter. However, the labour force expanded by 81.1 thousand during the period which caused the unemployment rate to increase to 3.4 % in October-November (3Q 2013: 3.1%).

Total retrenchments reported to the Ministry of Human Resources increased to 2,584 persons (3Q 2013: 1,699 persons), mainly in the manufacturing sector. However, labour demand remained favourable, as reflected in the higher number of job vacancies posted in the JobsMalaysia Portal (366,203 positions; 3Q 2013: 361,080 positions). Aggregate real wages in the manufacturing sector grew by 6.4% (3Q 2013: 8.2%), supported by sustained wage growth in the domestic-oriented industries.

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 the fourth quarter

The current account surplus increased to RM16.2 billion in the fourth quarter, equivalent to 6.4% of GNI (3Q 2013: RM9.8 billion or 4.1% of GNI), due to a larger surplus in the goods account and a lower services deficit.

The trade surplus widened to RM27.4 billion in the fourth quarter (3Q 2013: RM18.6 billion). Both gross exports and imports grew at a stronger pace of 10.2% and 11.7% (3Q 2013: 7.6% and 7.5% respectively) largely reflecting the improvement in the global economy and sustained expansion of domestic demand, respectively.

Balance of Payments[1]

	2012		2013		
	4Q	Year	3Q	4Q	Year
	RM billion				
Current Account	**22.9**	**57.3**	**9.8**	**16.2**	**37.3**
(% of GNI)	*9.6*	*6.3*	*4.1*	*6.4*	*3.9*
Goods	34.3	125.6	25.8	33.6	102.7
Services	-2.2	-14.0	-4.3	-3.7	-15.0
Primary income	-5.6	-36.0	-8.1	-9.9	-35.2
Secondary income	-3.5	-18.2	-3.5	-3.7	-15.2
Financial Account	**-10.3**	**-23.0**	**-11.5**	**-9.7**	**-15.0**
Direct investment	-18.4	-21.7	2.0	4.0	-4.1
Assets	*-16.5*	*-51.9*	*-7.3*	*-6.4*	*-40.6*
Liabilities	*-1.9*	*30.2*	*9.3*	*10.5*	*36.5*
Portfolio investment	10.4	58.4	-9.7	-0.7	-2.8
Assets	*-4.1*	*-21.5*	*-10.3*	*-5.3*	*-31.9*
Liabilities	*14.5*	*79.8*	*0.6*	*4.6*	*29.1*
Financial derivatives	0.1	1.0	0.6	0.6	-0.1
Other investment	-2.3	-60.6	-4.4	-13.6	-8.1
Errors & omissions[2]	-7.0	-30.6	13.4	-9.3	-7.7
Overall Balance	**5.9**	**3.9**	**11.8**	**-2.9**	**14.5**

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 unrealised foreign exchange revaluation gains/losses on international reserves

Source: Department of Statistics, Malaysia

Trade Account

	Share 2013 (%)	2012		2013		
		4Q	Year	3Q	4Q	Year
		Annual change (%)				
Gross Exports	**100.0**	**-2.2**	**0.7**	**7.6**	**10.2**	**2.4**
Manufactured	67.1	-2.5	-0.2	6.5	10.0	2.7
E&E	*32.9*	*-4.4*	*-2.6*	*5.3*	*13.1*	*2.4*
Non-E&E	*34.2*	*-0.6*	*2.2*	*7.7*	*7.0*	*3.0*
Petroleum & agri-related	*12.4*	*-1.7*	*1.3*	*1.1*	*0.5*	*-1.4*
Equipment & metals	*13.0*	*1.9*	*6.6*	*13.6*	*11.4*	*5.5*
Misc. manufacturing goods	*8.9*	*-2.4*	*-2.3*	*8.8*	*10.1*	*6.1*
Commodities	32.2	-2.4	1.9	11.2	12.0	2.4
Minerals	*22.6*	*7.4*	*14.1*	*23.8*	*22.8*	*11.6*
Agriculture	*9.6*	*-16.8*	*-14.7*	*-10.7*	*-8.3*	*-14.4*
Gross Imports	**100.0**	**0.9**	**5.8**	**7.5**	**11.7**	**7.0**
Intermediate goods	58.4	-9.6	-3.4	4.0	10.5	4.3
Capital goods	15.2	14.3	19.6	3.4	1.5	2.8
Consumption goods	7.3	5.6	10.7	9.7	9.3	8.7
Re-exports and dual-use goods	19.0	31.3	33.4	21.8	25.9	19.8
Trade balance (RM billion)	–	**26.9**	**96.0**	**18.6**	**27.4**	**70.6**

Source: MATRADE and Department of Statistics, Malaysia

The improvement in gross exports was supported by a broad-based expansion across all product segments. The stronger performance of manufactured exports was driven mainly by faster growth in exports of electronics and electrical (E&E) products, in particular semiconductors. Meanwhile, the growth in commodity exports was supported by higher LNG prices and increased export volume of refined petroleum products. In terms of destination, exports to the US and Japan improved while exports to EU were sustained. Within the region, the trend was more mixed. Exports to ASEAN were lower, in line with slower domestic activity in these economies. In contrast, exports to North East Asia expanded at a stronger pace, supported by sustained domestic activity and increased demand for intermediate inputs for their export industries.

The higher growth of gross imports was due mainly to a faster pace of expansion in imports for re-exports and intermediate imports as external demand continued to improve. The significant growth in import for re-exports reflected the continued expansion of storage activities in southern Johor, catering mainly to refined petroleum and metals. Intermediate imports grew at a stronger pace in tandem with the higher manufactured exports during the quarter. However, capital imports recorded a moderation due largely to the high base effect from the fourth quarter of 2012. Imports of consumption goods were supported by imports of consumer goods as well as primary food and beverages.

The services account recorded a smaller deficit of RM3.7 billion in the fourth quarter (3Q 2013: -RM4.3 billion). The lower deficit was mainly attributable to an increase in net travel receipts, reflecting a higher number of tourist arrivals during the quarter. Meanwhile, net transportation payments were sustained amid an improvement in trade activity.

The deficit in the primary income balance widened to RM9.9 billion (3Q 2013: -RM8.1 billion), as investment income accruing to foreign direct investors in Malaysia increased, in line with the improvement in external demand. This more than offset the higher investment income accruing to Malaysian companies investing abroad, which was mainly companies in the oil and gas and services sectors.

The financial account continued to record a net outflow of RM9.7 billion in the fourth quarter (3Q 2013: net outflow of RM11.5 billion), as net inflows of direct investment were offset by other investment outflows.

Inward direct investment (or direct investment liability flows) was the highest recorded since 2Q 2012, registering an inflow of RM10.5 billion during the quarter (3Q 2013: inflow of RM9.3 billion) due to sustained inflows of equity capital and higher retained earnings. Foreign direct investment was recorded mainly in the real estate sector in the Iskandar region, while inflows into the manufacturing as well as oil and gas sector remained significant.

Malaysia: Direction of Exports

	Share 2013 (%)	2012		2013		
		4Q	Year	3Q	4Q	Year
		Annual change (%)				
United States	**8.1**	**4.1**	**5.4**	**-7.7**	**-2.5**	**-4.5**
European Union (EU)	**9.1**	**-15.9**	**-13.8**	**16.2**	**14.7**	**5.0**
Japan	**11.1**	**-13.3**	**2.5**	**-2.4**	**4.9**	**-4.4**
Selected ASEAN countries[1]	**27.6**	**8.1**	**9.5**	**11.2**	**7.4**	**7.3**
North East Asia	**24.4**	**-3.9**	**-3.6**	**14.4**	**23.5**	**5.6**
People's Republic of China	*13.5*	*-4.8*	*-3.0*	*17.6*	*30.8*	*9.2*
Hong Kong SAR	*4.3*	*-4.3*	*-3.8*	*4.3*	*30.1*	*3.9*
Korea	*3.6*	*3.5*	*-3.4*	*9.9*	*15.5*	*3.0*
Chinese Taipei	*2.9*	*-8.0*	*-6.0*	*20.9*	*-4.6*	*-3.7*
West Asia[2]	**3.4**	**-8.8**	**-3.1**	**-2.0**	**-1.2**	**0.3**
India	**3.6**	**12.9**	**4.2**	**-15.8**	**-17.7**	**-12.2**
Total exports	**100.0**	**-2.2**	**0.7**	**7.6**	**10.2**	**2.4**

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

Source: Department of Statistics, Malaysia

Outward direct investment (or direct investment asset flows) recorded smaller outflows amounting to RM6.4 billion (3Q 2013: outflows of RM7.3 billion). These outflows were largely in the form of equity capital and extensions of intercompany loans. Direct investments abroad were recorded mainly in the mining and services sectors.

Portfolio investment recorded a significantly smaller net outflow of RM0.7 billion during the quarter (3Q 2013: net outflow of RM9.7 billion). There were larger inflows of portfolio investments by non-residents during the quarter. However, this was offset by portfolio investment abroad by resident institutional investors.

Other investment recorded significant net outflows of RM13.6 billion (3Q 2013: net outflow of RM4.4 billion), as higher trade credits extended by Malaysian exporters more than offset the inflows recorded by the banking sector. The banking sector inflows reflected mainly placements of deposits by foreign financial institutions in the domestic banking system.

Following these developments, the overall balance of payments registered a small deficit of RM2.9 billion in the fourth quarter (3Q 2013: surplus of RM11.8 billion). Errors and omissions (E&O) amounted to –RM9.3 billion (2.8% of total trade). The E&O partly reflects foreign exchange revaluation gains on international reserves, as the ringgit depreciated against some major and regional currencies during the quarter.

External debt

Total external debt increased to RM318.1 billion or USD95.8 billion as at end-December 2013 (end-September: RM306.6 billion or USD93.2 billion), equivalent to 33.5% of GNI.

Medium- and long-term external debt increased to RM190.0 billion, reflecting mainly the net drawdown of external borrowings by the private sector. As at end-December 2013, the **short-term external debt** was also higher at RM128.1 billion due mainly to the net drawdown of interbank borrowings. 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-Dec	end-Sep	end-Dec^p
	RM billion		
Medium- and long-term debt	159.8	186.3	190.0
Public sector	82.9	92.8	93.1
Private sector	76.9	93.5	96.9
Short-term debt[1]	93.0	120.3	128.1
Total external debt	**252.8**	**306.6**	**318.1**
USD billion equivalent	81.7	93.2	95.8
External debt/GNI (%)	27.9	32.3	33.5
Reserves/Short-term external debt (times)	4.6	3.7	3.4[2]

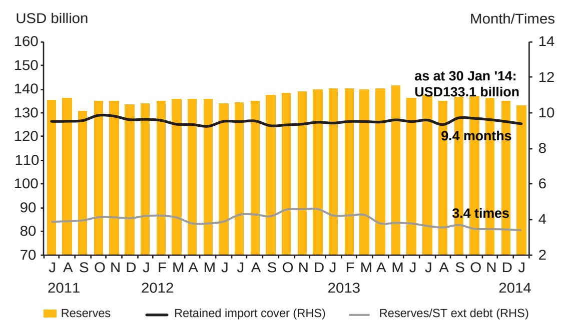
[1] Excludes currency and deposits held by non-residents with resident banking institutions
[2] Based on international reserves as at 30 January 2014
[p] Preliminary

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

International reserves remained high

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

Net International Reserves (as at end period)



Source: Bank Negara Malaysia

Lower fiscal deficit of 3.9% of GDP in 2013 driven by lower expenditure

During the fourth quarter, the Federal Government's operating expenditure declined by 4.6% on an annual basis due to lower emoluments and subsidies. Revenue grew by 6.8% driven by higher company tax and investment income. Development expenditure was disbursed mainly to the transportation, commerce and industry, and education sectors. For the year as a whole, the Federal Government recorded a lower fiscal deficit of 3.9% of GDP (2012: 4.5% of GDP). Total outstanding debt of the Federal Government stood at RM539.9 billion or 54.8% of GDP as at end-December 2013.

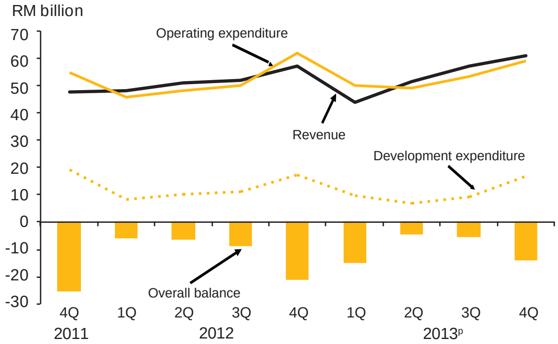
Federal Government Finance

	2012		2013[p]		
	4Q	Year	3Q	4Q	Year
	RM billion				
Revenue	57.2	207.9	57.0	61.1	213.4
% annual growth	*20.0*	*12.1*	*9.4*	*6.8*	*2.6*
Operating expenditure	61.6	205.5	53.4	58.8	211.3
% annual growth	*13.1*	*12.6*	*6.7*	*-4.6*	*2.8*
Current account	**-4.5**	**2.4**	**3.6**	**2.3**	**2.1**
% of GDP	***-1.8***	***0.3***	***1.4***	***0.9***	***0.2***
Net development expenditure	16.6	44.3	9.0	16.0	40.7
% annual growth	*-10.2*	*-2.2*	*-16.5*	*-3.4*	*-8.2*
Overall balance	**-21.1**	**-42.0**	**-5.4**	**-13.8**	**-38.6**
% of GDP	***-8.7***	***-4.5***	***-2.2***	***-5.2***	***-3.9***
Memo item:					
Total net expenditure	78.3	249.9	62.4	74.8	252.0
% annual growth	*7.2*	*9.6*	*2.6*	*-4.4*	*0.8*
Total Federal Government debt					
(as at end-period)	501.6	501.6	529.2	539.9	539.9
% of GDP	*53.3*	*53.3*	*53.8*	*54.8*	*54.8*
Domestic debt	484.8	484.8	512.3	523.1	523.1
% of GDP	*51.5*	*51.5*	*52.0*	*53.1*	*53.1*
External debt	16.8	16.8	16.9	16.8	16.8
% of GDP	*1.8*	*1.8*	*1.7*	*1.7*	*1.7*

[p] Preliminary

Source: Ministry of Finance, Malaysia

Federal Government Finance



[p] Preliminary

Source: Ministry of Finance, Malaysia

MONETARY AND FINANCIAL DEVELOPMENTS

Interest rates remained stable

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

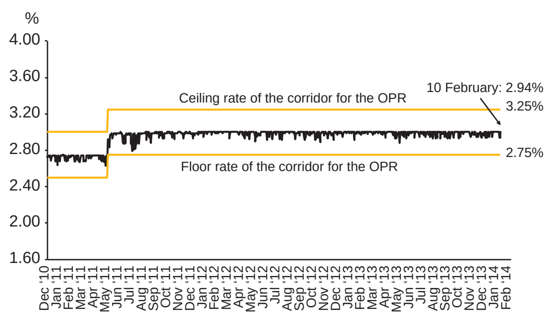
The average overnight interbank rate was stable during the quarter, moving within a range of 2.93% to 3.00% between 1 October and 31 December 2013. Interbank rates of other short-term maturities were also relatively stable.

Rates on interest rate swaps increased during the quarter due to renewed expectations and the eventual announcement by the US Federal Reserve to reduce the pace of asset purchases, which in turn, resulted in a rise in global financial market yields. On the domestic front, the 3-month KLIBOR futures rates traded higher, reflecting a rise in expectations for an OPR increase towards the second half of 2014.

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

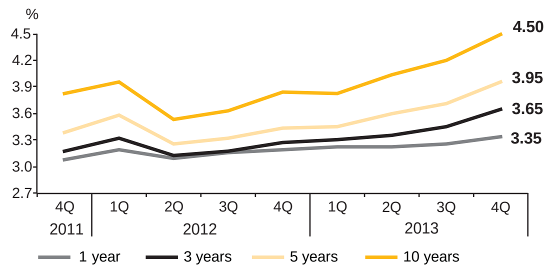
Borrowing costs remained broadly stable throughout the period. The average base lending rate (BLR) of commercial banks remained unchanged at 6.53%. The weighted average lending rate (ALR) on loans outstanding continued its gradual moderating trend (end-December 2013: 5.36%; end-September 2013: 5.40%), reflecting the maturity of loans that were contracted during the period of higher borrowing costs prior to the OPR reductions in 2008 and 2009, as well as the addition of new loans at relatively lower rates. Borrowing costs for businesses and households remained supportive of economic activity as evident from the pace of increase in financing to both households and businesses.

Daily Weighted Average Overnight Interbank Rate



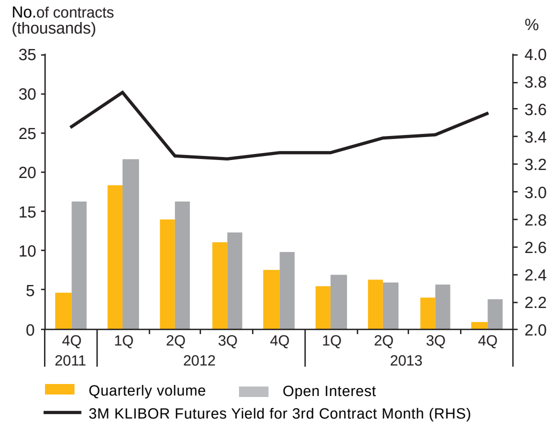
Source: Bank Negara Malaysia

Interest Rate Swap: Rates



Source: Bloomberg

3 Month KLIBOR Futures



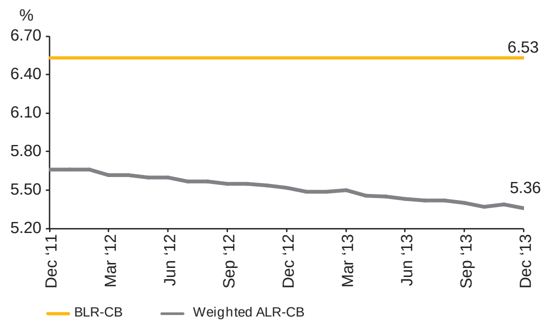
Source: Bursa Malaysia

Interest Rates

	2012	2013	
	4Q	3Q	4Q
	At end-period (%)		
Overnight Policy Rate (OPR)	3.00	3.00	3.00
Interbank rates			
Overnight	3.00	2.93	2.99
1-month	3.06	3.07	3.20
Base lending rate (BLR)			
Commercial banks	6.53	6.53	6.53
Weighted average lending rate			
Commercial banks	5.52	5.40	5.36
Fixed deposit rates			
Commercial banks			
1-month	2.92	2.91	2.91
12-month	3.15	3.15	3.15

Source: Bank Negara Malaysia

Lending Rates of Commercial Banks (At end-period)



Source: Bank Negara Malaysia

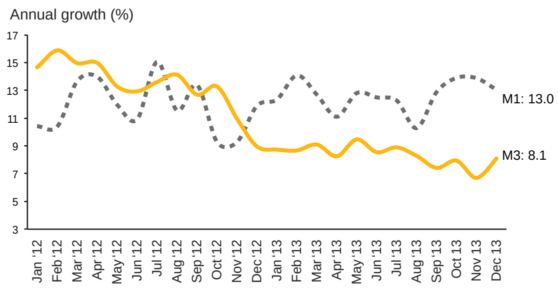
M3 continued to expand

The monetary aggregates continued to experience positive growth during the fourth quarter. M1, or narrow money, increased by RM17.9 billion. On an annual basis, M1 expanded by 13.0% as at end-December (end-September 2013: 12.9%). M3, or broad money, increased by RM25.4 billion on a quarter-on-quarter basis to record an annual growth rate of 8.1% as at end-December (end-September 2013: 7.4%).

The expansion of M3 during the quarter was driven by higher credit extended to the private sector by the banking system. M3 was also lifted by a modest increase in the net foreign assets of the banking system.

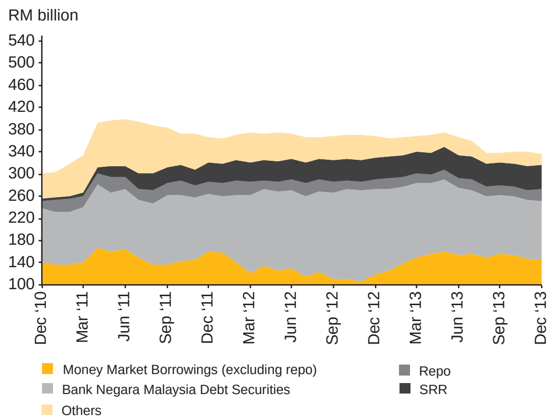
In the banking system, ample liquidity conditions prevailed at both the institutional and system-wide levels. The level of surplus liquidity placed with BNM was relatively stable during the quarter.

Monetary Aggregates



Source: Bank Negara Malaysia

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



Source: Bank Negara Malaysia

Determinants of Broad Money, M3

	Change during the period				
	2012		2013		
	4Q	Year	3Q	4Q	Year
	RM billion				
M3	**15.1**	**111.2**	**16.4**	**25.4**	**109.5**
Net claims on Govt	-5.0	-3.3	15.7	-5.0	21.4
Claims on private sector	25.3	128.4	23.7	41.7	119.6
Loans	*19.2*	*105.5*	*23.9*	*33.3*	*109.6*
Securities	*6.0*	*22.9*	*-0.2*	*8.4*	*10.1*
Net foreign assets[1]	-3.9	27.1	-8.8	2.2	-5.7
BNM	*6.0*	*11.8*	*-4.6*	*-4.2*	*-4.6*
Banking System	*-9.9*	*15.3*	*-4.2*	*6.4*	*-1.1*
Other influences	-1.3	-41.0	-14.1	-13.6	-25.8

[1] Pre-revaluation

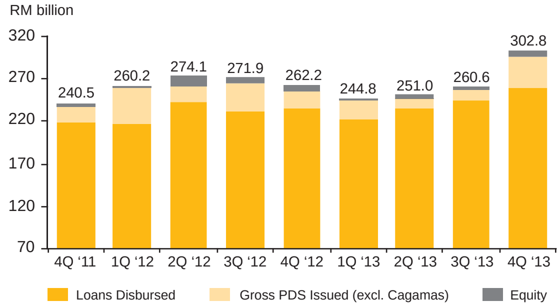
Note: Numbers may not add up due to rounding

Source: Bank Negara Malaysia

Private sector financing activity strengthened in the fourth quarter

In the fourth quarter, total gross financing raised by the private sector through the banking system and the capital market increased to RM302.8 billion (3Q 2013: RM260.6 billion). On a net basis, outstanding banking system loans and PDS expanded at an annual growth rate of 9.9% as at end-December (end-September 2013: 8.8%).

Gross Private Sector Financing through the Banking System and Capital Market

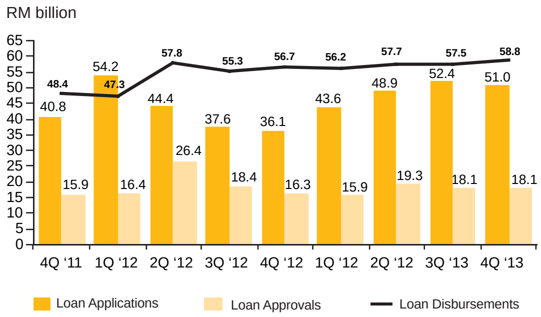


Source: Bank Negara Malaysia

Net lending to businesses by the banking system expanded by RM11.2 billion during the quarter (3Q 2013: RM3.5 billion) with higher loan disbursements mainly to the *wholesale and retail, restaurants and hotels; manufacturing; construction;* and *transport, storage and communication* sectors. On an annual basis, outstanding business loans grew by 8.5% during the quarter (end-September 13: 7.1%). Demand for new financing by large businesses moderated slightly while loan applications by SMEs remained robust.

Net financing to the household sector expanded by RM20.9 billion during the quarter (3Q 2013: RM19.8 billion). On an annual basis, outstanding household loans grew at a stable pace of 12.0% as at end-December (end-September 2013: 11.9%). The level of household loan applications was sustained during the quarter.

Bank Lending to SMEs



Source: Bank Negara Malaysia

Financing of the Private Sector through the Banking System and Capital Market

	During the period (RM billion)					Annual growth (%)				
	2012		2013			2012		2013		
	4Q	2012	3Q	4Q	2013	4Q	2012	3Q	4Q	2013
Gross total financing	**262.2**	**1,068.3**	**260.6**	**302.8**	**1,059.2**	**9.0**	**19.9**	**-4.1**	**15.5**	**-0.8**
Loans disbursed*	236.2	927.8	245.0	259.3	961.2	7.6	14.4	5.5	9.8	3.6
Gross PDS (excl. Cagamas)	19.8	113.1	12.9	36.0	82.1	16.2	69.0	-59.4	81.9	-27.4
Equity	6.1	27.4	2.8	7.4	16.0	59.6	117.1	-64.9	21.3	-41.5
Net total financing (A)+(B)	**31.1**	**164.8**	**31.7**	**49.1**	**146.8**	**12.4**	**12.4**	**8.8**	**9.9**	**9.9**
Banking system	26.0	128.4	26.5	40.3	122.7	12.0	12.0	9.3	10.3	10.3
Loans outstanding (A)	*19.8*	*104.5*	*27.2*	*34.4*	*117.8*	*10.4*	*10.4*	*9.5*	*10.6*	*10.6*
Holding of PDS	*6.2*	*23.9*	*-0.7*	*5.9*	*4.9*	*36.6*	*36.6*	*6.4*	*5.5*	*5.5*
PDS outstanding (B)	11.4	60.4	4.5	14.7	29.0	18.8	18.8	6.9	7.6	7.6
Memorandum item										
Gross PDS (incl. Cagamas)	23.1	121.1	13.4	36.0	83.9	33.1	74.1	-58.9	55.9	-30.8

*Banking systems loans include loans sold to Cagamas

Note: Numbers may not add up due to rounding

Source: Bank Negara Malaysia

Loans by Sector

	Loans disbursed						Loans outstanding
	During the period (RM billion)					Share of total	Share of total
						(%)	
	4Q 12	2012	3Q 13	4Q 13	2013		
Business enterprises	**164.9**	**657.6**	**167.4**	**180.9**	**660.0**	**68.7**	**43.7**
Large corporations	*108.2*	*440.4*	*109.9*	*122.0*	*429.8*	*44.7*	*27.4*
*SMEs**	*56.7*	*217.2*	*57.5*	*58.8*	*230.3*	*24.0*	*16.3*
Selected sectors							
Agriculture, hunting, forestry and fishing	8.1	28.8	7.9	7.0	31.2	3.2	2.6
Mining and quarrying	1.9	7.9	2.1	1.9	8.4	0.9	0.7
Manufacturing	51.0	203.7	49.1	54.1	200.5	20.9	7.9
Construction	14.6	54.4	15.4	17.2	62.2	6.5	4.1
Real estate	9.5	40.8	11.7	10.8	41.6	4.3	5.8
Electricity, gas and water supply	3.1	9.0	2.1	2.0	9.5	1.0	0.8
Wholesale, retail, restaurants and hotels	46.1	178.0	45.2	51.5	185.4	19.3	7.4
Transport, storage and communication	3.7	17.7	4.3	5.8	17.1	1.8	2.4
Finance, insurance and business services	18.3	85.0	22.8	23.6	78.3	8.1	7.2
Households	**71.4**	**270.2**	**77.6**	**78.4**	**301.1**	**31.3**	**56.3**
Purchase of residential properties	16.9	64.1	18.8	20.4	74.4	7.7	26.5
Consumption credit	43.3	163.1	45.7	44.5	174.4	18.1	18.5
Of which:							
Credit cards	*24.2*	*90.2*	*25.8*	*27.3*	*100.2*	*10.4*	*2.8*
Purchase of passenger cars	*10.6*	*40.2*	*11.2*	*9.5*	*41.8*	*4.3*	*11.0*
Others	11.1	43.0	13.1	13.5	52.3	5.4	11.3
Total	**236.2**	**927.8**	**245.0**	**259.3**	**961.2**	**100.0**	**100.0**

*Include loans to individual businesses.

Note: Numbers do not add up due to rounding

Source: Bank Negara Malaysia

Loan Indicators

	During the period (RM billion)					Annual growth (%)				
	2012		2013			2012		2013		
	4Q	2012	3Q	4Q	2013	4Q	2012	3Q	4Q	2013
Total										
Loan applications	172.1	771.6	214.2	209.9	820.1	-11.4	2.6	18.0	22.0	6.3
Loan approvals	95.3	391.0	103.2	98.0	392.5	-8.5	-2.5	9.4	2.8	0.4
Loan disbursements	236.2	927.8	245.0	259.3	961.2	7.6	14.4	5.5	9.8	3.6
Loan repayments	227.1	867.1	224.3	233.7	880.7	15.8	19.4	0.5	2.9	1.6
Change in loans outstanding*	19.8	104.5	27.2	34.4	117.8	10.4	10.4	9.5	10.6	10.6
Of which:										
Business enterprises**										
Loan applications	70.3	372.1	93.6	88.6	358.5	-26.5	4.0	15.0	26.1	-3.7
Loan approvals	41.8	186.3	40.4	37.0	154.8	-20.4	-3.6	-2.5	-11.3	-16.9
Loan disbursements	164.9	657.6	167.4	180.9	660.0	9.4	21.0	3.3	9.7	0.4
Loan repayments	164.3	624.8	157.8	167.6	619.2	18.6	26.2	-2.0	2.0	-0.9
Change in loans outstanding*	5.0	41.2	3.5	11.2	35.5	10.9	10.9	7.1	8.5	8.5
SMEs**										
Loan applications	36.1	172.3	52.4	51.0	196.0	-11.4	5.5	39.3	41.4	13.8
Loan approvals	16.3	77.5	18.1	18.1	71.4	2.3	10.0	-1.5	10.8	-7.9
Loan disbursements	56.7	217.2	57.5	58.8	230.3	17.2	20.8	4.0	3.7	6.0
Loan repayments	54.7	199.0	55.0	54.0	214.2	25.0	24.7	6.8	-1.2	7.6
Change in loans outstanding*	2.5	23.8	2.4	6.9	22.6	15.5	15.5	10.5	12.8	12.8
Large corporations										
Loan applications	34.2	199.8	41.2	37.6	162.4	-37.7	2.8	-5.9	10.0	-18.7
Loan approvals	25.5	108.9	22.3	19.0	83.4	-30.3	-11.4	-3.2	-25.5	-23.3
Loan disbursements	108.2	440.4	109.9	122.0	429.8	5.7	21.1	3.0	12.8	-2.4
Loan repayments	109.6	425.8	102.8	113.5	405.0	15.7	26.8	-6.2	3.6	-4.9
Change in loans outstanding*	2.5	17.5	1.1	4.3	12.9	7.8	7.8	4.6	5.3	5.3
Households										
Loan applications	101.8	399.5	120.6	121.3	461.6	3.2	1.3	20.4	19.1	15.5
Loan approvals	53.5	204.7	62.8	60.9	237.7	3.5	-1.4	18.7	13.8	16.1
Loan disbursements	71.4	270.2	77.6	78.4	301.1	3.6	0.9	10.6	9.9	11.4
Loan repayments	62.9	242.2	66.5	66.1	261.5	8.9	4.9	7.0	5.2	8.0
Change in loans outstanding*	18.2	63.9	19.8	20.9	74.1	11.6	11.6	11.9	12.0	12.0

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

Note: Numbers do not add up due to rounding

Source: Bank Negara Malaysia

Financing activities in the capital market increased

Net funds raised in the capital market increased to RM33.7 billion in the fourth quarter (3Q 13: RM17.8 billion). The bulk of funds was raised by the private sectors, in particular through the issuance of private debt securities.

During the quarter, new PDS issuances increased significantly to RM36.0 billion (3Q 13: RM13.4 billion). Funds raised were mainly used for working capital and general corporate purposes. Funds raised from the equity market also increased to RM7.4 billion (3Q 13: RM2.8 billion). After adjusting for redemptions, net funds raised by the private sector amounted to RM19.5 billion (3Q 13: RM6.4 billion).

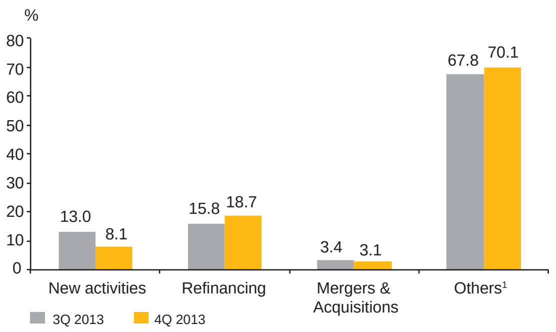
In the public sector, gross funds raised were lower at RM20.4 billion (3Q 13: RM26.6 billion). Funds were raised through the re-opening of a 3-year, 7-year, 10-year and 15-year Malaysian Government Securities (MGS), and new issuances of a 5-year, 10-year and 15-year Government Investment Issue (GII).

Net Funds Raised in the Capital Market

	2012		2013		
	4Q	Year	3Q	4Q	Year
	RM billion				
By Public Sector	**17.6**	**46.7**	**11.4**	**14.3**	**43.9**
Government securities, *net*	15.7	48.7	8.7	14.3	41.9
Malaysian Government Securities	*11.6*	*52.5*	*13.9**	*11.4*	*51.4*
Government Investment Issues	*8.0*	*42.2*	*10.0*	*9.0*	*41.0*
Less: Redemptions	*4.0*	*46.1*	*15.2*	*6.1*	50.6
Savings Bonds, *net*	-	(6.5)	-	-	(2.4)
Government Housing Sukuk, *net*	1.9	4.5	2.7	-	4.4
By Private Sector	**20.1**	**90.7**	**6.4**	**19.5**	**38.3**
Shares	6.1	27.4	2.8	7.4	16.0
Debt securities, *net*	14.0	63.3	3.6	12.0	22.2
Private Debt Securities	*23.1*	*121.1*	*13.4*	*36.0*	*83.9*
Less: Redemptions	*9.1*	*57.8*	*9.7*	*24.0*	*61.6*
Total	**37.7**	**137.4**	**17.8**	**33.7**	**82.1**

Note: Numbers may not add up to total due to rounding
*Adjusted for a Switch Auction of RM2.4 billion during the quarter
Source: Bank Negara Malaysia and Bursa 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

Bond yields increased

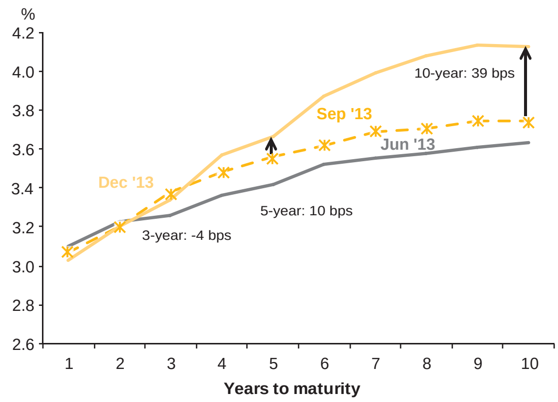
MGS yields increased during the quarter, as the anticipation and eventual announcement of a scale-back in the asset purchase programme by the US Federal Reserve led to the unwinding of portfolio holdings by non-residents . The unwinding by non-residents were mainly concentrated in MGS of 5 to 10 years tenures. As a result, yields on 5-year and 10-year MGS recorded increases of 10 and 39 basis points respectively, while the 3-year MGS recorded a marginal decline of 4 basis points.

In the private debt market, the yield on the 5-year AA and A-rated corporate bonds recorded a slight increase of 7 and 2 basis points respectively, while the 5-year AAA-rated yield decreased marginally by 1 basis points.

Secondary trading in the bond market moderated

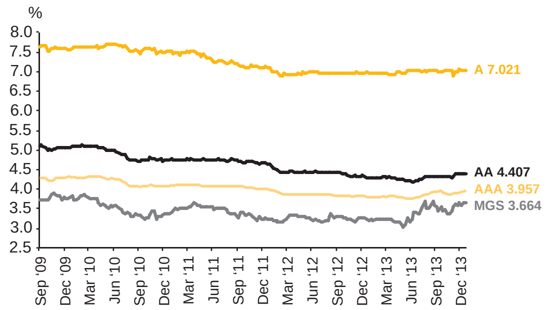
Total trading in the secondary market decreased to RM139 billion during the quarter (3Q 13: RM214 billion), given the year-end holiday season. Both the MGS and GII segments registered lower liquidity ratios of 0.29 and 0.16 respectively, while the liquidity ratio in the PDS segment declined marginally to 0.06.

Trend in MGS Yields



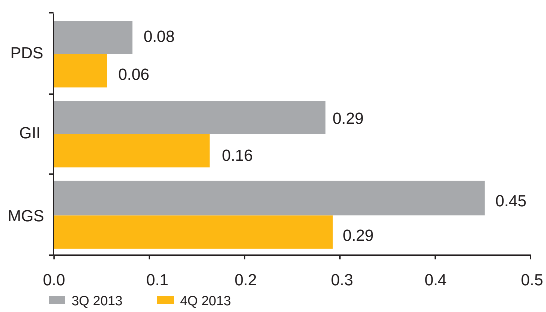
Source: Bank Negara Malaysia

5 year MGS and 5 year Corporate Bond Yield



Source: Bank Negara Malaysia

Liquidity Ratio: Value of Bond Traded / Outstanding



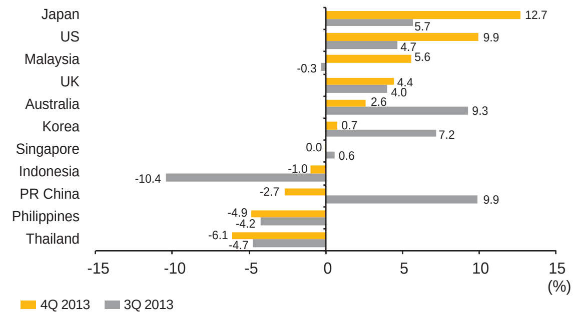
Source: Bank Negara Malaysia

Positive performance of the FBM KLCI

In the fourth quarter, the FBM (FTSE Bursa Malaysia) KLCI increased by 98.3 points, to end the year at 1,867 points (end-September 2013: 1,768.6 points). During the quarter, the index was driven mainly by sustained demand from domestic investors due to the better prospects for global growth and the resolution of the US government shutdown. Positive sentiments in the domestic market were also boosted by the optimism surrounding Malaysia's 2014 Budget. The impact of the discussions and the eventual announcement on the scale-back of the asset purchase programme in the US was relatively limited, as the improving growth outlook in the US was expected to have a positive impact on Malaysian businesses. Overall, market capitalisation increased to RM1.70 trillion at end-December 2013 (end-September 2013: RM1.61 trillion) while the daily average turnover decreased slightly to 1.70 billion units (3Q 13: 1.74 billion units) during the quarter.

On 10 February 2014, the KLCI ended lower at 1,816.1 points (since end-December 2013: -2.72%), with market capitalisation of RM1.68 trillion (since end-December 2013: -1.17%)

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



Source: Bloomberg and Bank Negara Malaysia calculations

Bursa Malaysia: Selected Market Indicators

	2012		2013		
	As at end				
	Dec	Year	Sept	Dec	Year
Price Indices					
Composite	1,689.0	1,689.0	1,768.6	1,867.0	1,867.0
FBMEMAS[1]	11,438.1	11,438.1	12,289.7	12,853.6	12,853.6
ACE Market[2]	4,214.2	4,214.2	5,537.2	5,675.8	5,675.8
Market capitalisation (RM billion)	1,465.7	1,465.7	1,611.2	1,702.2	1,702.2
No. of companies listed	921	921	910	911	911
	During the period				
	4Q	Year	3Q	4Q	Year
Average daily turnover					
Volume (million units)	1,053.6	1,361.3	1,739.8	1,704.7	1,567.3
Value (RM million)	1,509.0	1,667.5	2,083.1	2,330.2	2,157.2

[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					
	4Q		Year		3Q		4Q		Year	
	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion
Turnover	65.3	93.6	333.5	408.3	109.4	131.2	107.4	146.8	386.9	527.8
Of which:										
Main Board	50.8	91.3	224.2	390.6	85.0	126.4	80.0	140.7	305.2	512.3
Of which										
Consumer Products	4.6	5.0	22.6	24.7	6.1	5.4	7.3	5.5	20.9	22.6
Industrial Products	10.6	8.5	44.6	44.3	13.6	10.3	9.6	9.7	51.5	40.4
Construction	2.1	3.1	8.3	14.3	4.9	7.2	2.8	4.6	15.1	25.0
Trading/Services	20.8	42.1	88.3	161.7	31.5	50.8	34.6	81.0	111.4	229.1
Finance	2.6	17.6	13.5	75.1	4.3	28.4	4.0	18.2	17.2	103.2
Properties	3.7	3.6	19.5	18.7	8.6	9.4	8.8	6.7	34.0	35.6
Plantations	1.1	4.7	5.9	25.4	1.4	4.4	1.7	5.6	5.5	19.6
Infrastructure	1.1	3.9	5.4	13.6	1.7	4.9	1.9	5.0	6.5	19.1
ACE Market[1]	10.0	1.8	76.1	12.6	21.2	4.4	24.4	5.5	69.7	13.5

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

Source: Bursa Malaysia

The ringgit depreciated against most major currencies

Movements of the ringgit and other regional currencies in the fourth quarter were driven mainly by external developments. The ringgit and most other regional currencies depreciated against the US dollar as the anticipation and eventual announcement of a scale-back of monetary injections by the Fed resulted in outflows of funds from regional financial markets.

Overall, the ringgit depreciated by 0.7% against the US dollar during the quarter. The ringgit also depreciated against the euro (-2.8%) and pound sterling (-2.6%), but appreciated against the Japanese yen (6.3%). The ringgit exhibited a mixed performance against regional currencies.

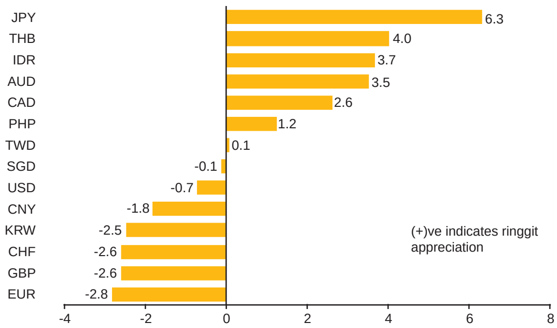
Between 1 January and 10 February, the ringgit depreciated against the US dollar by 1.5%. The ringgit also depreciated against the Japanese yen (-3.8%), pound sterling (-1.1%) and euro (-0.2%), and several regional currencies.

Activity in foreign exchange derivatives was subdued

In the final quarter of 2013, interbank players were cautious and preferred to stay on the sidelines amidst anticipation that the Fed could decide to reduce the pace of their asset purchase programme before the end of the year. This development, coupled with thin liquidity throughout the quarter saw foreign exchange derivatives activity decline by 12.9% compared to the previous quarter.

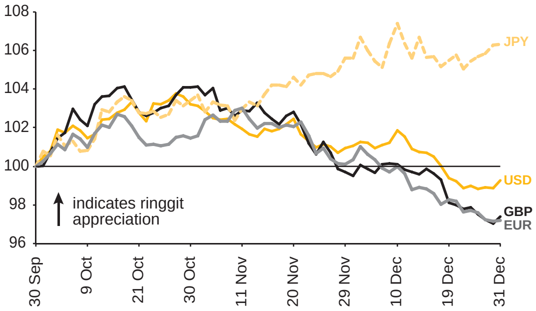
The cost of borrowing US dollar through the cross-currency swap market narrowed in the fourth quarter, with the 5-year USD/MYR cross-currency swaps declining from 90 basis points in September to 70 basis points in December as market volatility moderated. The announcement by the Fed to reduce the pace of its asset purchase programme did not have a major impact to the market, as the decision was already priced into market expectations.

Summary of Ringgit Performance against Selected Currencies Percent Change (1 October - 31 December 2013)



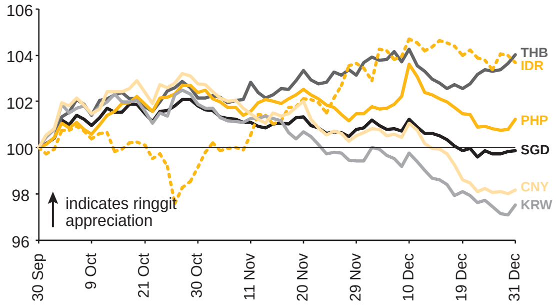
Source: Bank Negara Malaysia

Ringgit Performance against Major Currencies



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	4Q 12	3Q 13	4Q 13	21 Jul 05	4Q 12	3Q 13
US dollar	3.8000	3.0583	3.2575	3.2815	15.8	-6.8	-0.7
Euro	4.6212	4.0412	4.3988	4.5263	2.1	-10.7	-2.8
Pound sterling	6.6270	4.9420	5.2666	5.4076	22.6	-8.6	-2.6
100 Japanese yen	3.3745	3.5576	3.3255	3.1281	7.9	13.7	6.3
Singapore dollar	2.2570	2.5030	2.5912	2.5943	-13.0	-3.5	-0.1
100 Thai baht	9.0681	9.9910	10.378	9.9757	-9.1	0.2	4.0
100 Philippine peso	6.8131	7.4446	7.4825	7.3908	-7.8	0.7	1.2
100 Indonesian rupiah	0.0386	0.0317	0.0279	0.0269	43.4	17.8	3.7
100 Korean won	0.3665	0.2865	0.3031	0.3108	17.9	-7.8	-2.5
Chinese renminbi	0.4591	0.4909	0.5324	0.5422	-15.3	-9.5	-1.8

* (+) 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

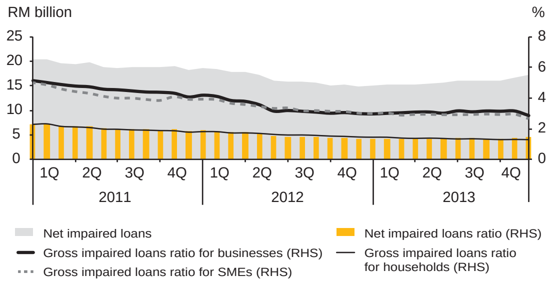
The domestic financial system remained resilient throughout the fourth quarter, despite continued volatility in global and domestic financial markets, and a challenging operating environment. The assessment of risks to financial stability revealed that financial intermediation continued to be well-supported by sound financial institutions, orderly financial market conditions and sustained confidence in the financial system. Risks to the financial system arising from financing to households and developments in the property market continued to be well-contained despite further growth in the financial institutions' exposures to these sectors. This is further supported by additional measures which were implemented in the second half of 2013 to contain further risk build-up in the property market amid continued supervisory vigilance over risk management and valuation practices of financial institutions and intensified financial education initiatives.

Credit risk in the banking system remained stable throughout the quarter with the quality of financing by banks remaining intact. As at end-2013, loans-in-arrears of between one and three months improved to 2.6% of total loans (3Q 2013: 3.0%), while the level of net impaired loans remained stable at 1.4% of net loans, supported by continued strength in borrowers' debt servicing capacity. Credit risk exposures of insurers, which largely emanate from holdings of private debt securities and reinsurance placements, were largely unchanged to account for 3.3% of capital base.

Household debt rose to RM848.1 billion (3Q 2013: RM824.3 billion) as at end-Dec 2013. This was attributed to bank lending for the purchase of residential properties and securities which expanded by 3.2% and 7.2% respectively during the quarter. In response to the series of macroprudential measures introduced by the Bank including measures on personal financing which took effect on 5 July 2013, growth in personal financing extended by banks and non-bank financial institutions to households slowed further to 0.6% (3Q 2013: +2.2%). Approvals for new personal financing facilities by banks also declined further by 21.8% during the quarter (3Q 2013: -8.2%).

The ratios of impaired loans and loans-in-arrears of between one and three months for banks were unchanged at 1.3% and 2.1% of banking system household loans. Household financial buffers remained intact at the aggregate level with financial asset, at a healthy level of 2.2 times of household debt.

Banking System: Loan Quality



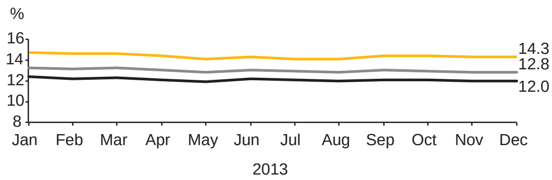
Source: Bank Negara Malaysia

The debt servicing capacity of businesses improved further supported by sustained revenue and operating efficiency. The interest coverage ratio improved to 6.1 times during 3Q 2013 (2Q 2013: 5.0 times) adding further to the debt servicing capacity of aggregate businesses amidst a lower leverage ratio of 39.2% (2Q 2013: 45.8%). Cash and cash equivalent holdings of aggregate businesses were sustained at 11.5 times of finance costs (2Q 2013: 12 times), while current assets remained stable at 1.9 times of current liabilities. Loans-in-arrears of between one and three months improved to 0.4% of total business loans (3Q 2013: 0.8%), while the gross impaired loans ratio improved to 2.9% (3Q 2013: 3.2%). The risk of delinquency, as measured by expected default frequency, continued to be sustained at a low level of 0.24% (3Q 2013: 0.30%).

Market risk exposures of financial institutions remained manageable despite heightened volatility in the financial markets stemming from external developments particularly the US Federal Reserve's tapering strategy. Volatile short-term capital flows were well-intermediated by the financial system. The domestic institutional investors exhibited strong support and continued to fill the void amidst selling pressure by non-residents, resulting in stable bid-ask spreads of bond and equity markets averaging at 0.1% and 0.7% of the mid-price (3Q 2013: 0.2% and 0.4%) respectively. Market activities and volatility declined towards the end of the quarter given greater clarity on the timing of the Federal Reserve's tapering programme and on account of seasonal year-end factor. Turnover ratio for MGS and FBM KLCI eased to 9.7% and 1.6% (3Q 2013: 11.9% and 2.2%) respectively. Average volatility for 10-year MGS yields and the FBM KLCI also declined to 15.5% and 8.8% (3Q 2013: 17.8% and 10.4%) respectively, in tandem with lower turnover ratios.

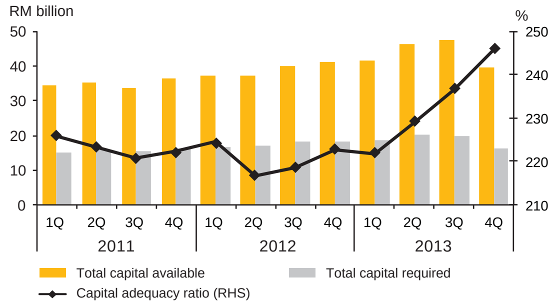
Banks' exposures to interest rate risk increased to 5.7% of total capital (3Q 2013: 4.1%) primarily due to an increase in interest rate derivative positions with tenures of less than 10 years maturity and exposures to equity risk increased slightly to 0.7% of total capital (3Q 2013: 0.6%). Meanwhile, the FX net open position of the banking system declined to 5.7% of total capital (3Q 2013: 6.1%). Market risk of the insurance industry increased to form 12.2% of the total capital available (3Q 2013: 11.7%). This was mainly due to increase in investment in equities of RM4.6 billion, driven mainly by the strong performance of FBM KLCI and new purchase of equities by life insurers of RM2 billion. Hence, equity risk exposures increased to 7.6% of total capital available while interest rate risk remained unchanged at 2.5% of total capital available.

Banking System: Basel III Capitalisation



Source: Bank Negara Malaysia

Insurance Sector: Capitalisation



Source: Bank Negara Malaysia

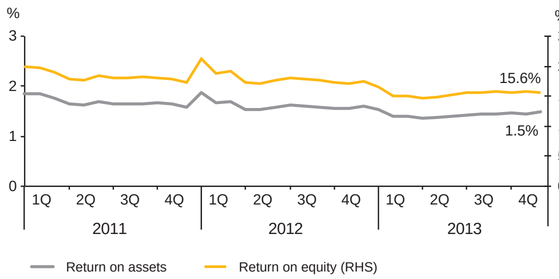
The financial sector continued to remain sound and resilient

The banking system continued to be well-capitalised. The common equity tier 1 (CET1) capital ratio, tier 1 capital ratio and total capital ratio were well above the minimum regulatory levels, at 12%, 12.8 % and 14.3%, respectively. The capital buffer of the banks in excess of the minimum total capital requirement stood at more than RM77 billion. More than 80% of total capital consists of high quality capital, namely paid-up capital, retained earnings and reserves. Similarly, the capital adequacy ratio of the insurance sector remained strong at 245.9% (3Q 2013: 236.7%), with an excess capital buffer of RM23.5 billion.

The banking system recorded pre-tax profits totalling RM8.3 billion (3Q 2013: RM 7.8 billion) on account of higher net interest income from lending activities and higher net fee and commission income. Profitability indicators remained stable with returns on assets and equity of 1.5% and 15.6% (3Q 2013: 1.5% and 15.7%). Life insurers and family takaful operators registered a higher profit amount of RM3.2 billion (3Q 2013: RM1.4 billion profit), driven by increases in net premium and net investment income which grew by 37% and 33.8% from the preceding quarter, respectively. Life insurers and family takaful operators continued to record net MTM revaluation losses, albeit at a much lower level of RM126.2 million (3Q 2013: RM1.9 billion of unrealised losses). Similarly, general insurers and takaful operators also recorded a higher operating profit of RM1 billion (3Q 2013: RM671.9 million), on account of an increase in earned premium income and investment income.

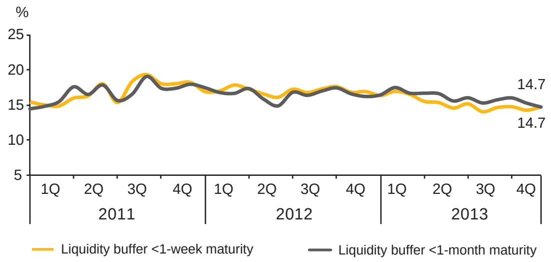
Banking system resilience was further supported by ample liquidity in the system. Buffers to meet short-term liquidity needs over the 1-week and 1-month horizons both stood at 14.7% of total deposits (3Q 2013: 14.6% and 15.7%) respectively. Net placements by banking institutions with the Bank, which can be drawn to meet additional liquidity needs, stood at RM135 billion (3Q 2013: RM152.2 billion). US dollar mismatch positions in the less than 1-week and 1-month maturity buckets registered a net surplus of RM1.5 billion (3Q 2013: surplus of RM2.9 billion) and RM5.3 billion (3Q 2013: shortfall of RM2.9 billion) respectively.

Banking System: Profitability



Source: Bank Negara Malaysia

Banking System: Liquidity Buffer to Total Deposit Ratio



Source: Bank Negara Malaysia

Insurance and Takaful Sectors: Indicators

	2012		2013		
	4Q	Year	3Q	4Q	Year
	RM million				
Life insurance & family takaful					
Excess of income over outgo	4,365.8	17,635.1	1,436.1	3,205.3	13,048.2
General insurance & general takaful					
Operating profit	882.6	2,926.7	671.9	1,036.7	3,219.3
Claims ratio (%)	57.3	57.3	58.8	57.1	57.1
	Annual Change				
Life insurance & family takaful					
Excess of income over outgo	1.2	39.5	-72.6	-26.6	-26.0
General insurance & general takaful					
Operating profit	276.7	63.8	-2.4	17.5	10.0
Claims ratio (percentage points)	-1.4	-1.4	-0.3	-0.2	-0.2

Source: Bank Negara Malaysia