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%).

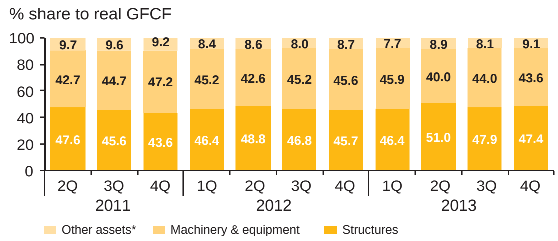
GDP by Expenditure Components
(at constant 2005 prices)

	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

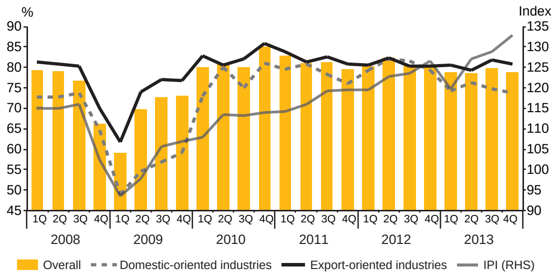
Selected Quarterly Indicators in the Services Sector

	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

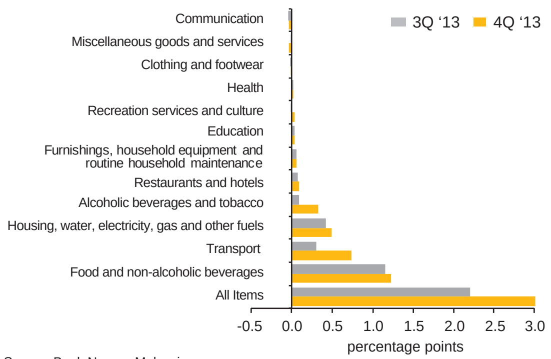
The headline inflation rate, as measured by the annual change in the Consumer Price Index (CPI), increased to 3.0% in the fourth quarter (3Q 13: 2.2%). This largely reflected the upward adjustment to prices of petroleum products and sugar, and the increase in excise duty on tobacco. Supply disruptions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



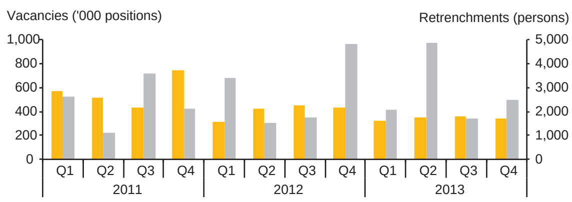
Source: Bank Negara Malaysia

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



Vacancies (LHS) Retrenchments (RHS)

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]

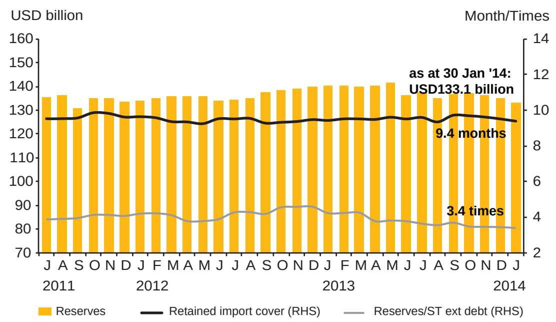
[1] Excludes currency and deposits held by non-residents with resident banking institutions
[2] Based on international reserves as at 30 January 2014
[p] Preliminary

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.

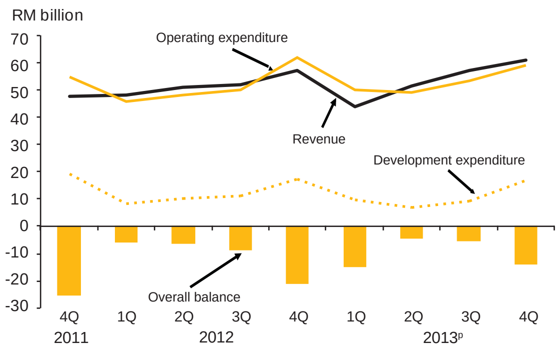
Federal Government Finance

	2012		2013p		
	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