ECONOMIC AND FINANCIAL DEVELOPMENTS IN MALAYSIA IN THE FIRST QUARTER OF 2014

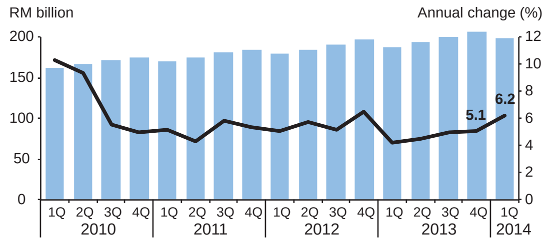
OVERVIEW

The Malaysian economy expanded by 6.2% in the first quarter of 2014

Global economic activity expanded at a moderate pace in the first quarter. The US economy experienced a slower growth, mainly due to unusually adverse weather conditions. In the euro area, the recovery was supported by modest improvements in exports, while domestic demand remained sluggish due to structural constraints. Growth in several Asian economies expanded at a slower pace as domestic demand was affected by country-specific developments.

The Malaysian economy registered a strong growth of 6.2% in the first quarter of 2014 (4Q 2013: 5.1%), driven by a stronger expansion in domestic demand and a turnaround in net 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 grew by 0.8% (4Q 2013: 1.9%).

Strong growth of 6.2% in the first quarter
(at constant 2005 prices)



Source: Department of Statistics, Malaysia

Private consumption growth remained strong at 7.1% (4Q 2013: 7.4%) in the first quarter, supported by stable employment conditions and continued wage growth. Growth in public consumption increased to 11.2% (4Q 2013: 5.2%), reflecting higher Government spending on supplies and services. Gross fixed capital formation grew by 6.3% (4Q 2013: 6.5%), driven by robust private sector capital spending amidst a decline in public investment growth. Growth in private investment remained strong at 14.1% (4Q 2013: 16.6%), underpinned by capital spending in the manufacturing and services sectors. Public investment declined by 6.4% (4Q 2013: -1.4%), reflecting the contraction in capital spending by both the Federal Government and the public enterprises.

On the supply side, growth was supported by the major economic sectors. The services sector expanded further, driven by the improvement in finance and insurance and sustained growth in consumption- and production-related services. Growth in the manufacturing sector was underpinned by the stronger performance in the export-oriented industries. The construction sector recorded stronger growth, driven mainly by the residential sub-sector. Meanwhile, the agriculture sector registered higher growth, underpinned by the production of food crops while the mining sector registered a lower decline due to a smaller contraction in the output of crude oil.

The headline inflation rate, as measured by the annual change in the Consumer Price Index (CPI), averaged at 3.4% in the first quarter of 2014 (4Q 2013: 3%). The increase was on account of higher inflation in the *housing, water, electricity, gas and other fuels* and *transport* categories.

The trade surplus amounted to RM26.4 billion in the first quarter of 2014 (4Q 2013: RM27.5 billion). Gross exports grew at a stronger pace of 10.9% (4Q 2013: 10.2%), reflecting the continued expansion of global economic activity while gross imports expanded at a more moderate pace of 5.5% (4Q 2013: 11.6%).

The international reserves of Bank Negara Malaysia (BNM) amounted to RM424.6 billion (equivalent to USD130.2 billion) as at 31 March 2014. This reserve level has taken into account the quarterly adjustment for foreign exchange revaluation changes. As at 30 April 2014, the reserves position amounted to RM427.8 billion (equivalent to USD131.2 billion), sufficient to finance 9.4 months of retained imports and is 1.3 times the redefined short-term external debt.

With effect from the first quarter of 2014, Malaysia has redefined its external debt. This is in recognition of the significant development in the depth and breadth of Malaysia's financial markets and the consequent increase in the participation of non-resident investors in ringgit-denominated domestic debt securities in recent years. Following this redefinition, non-resident holdings of ringgit-denominated debt securities, non-resident deposits, trade credits provided by foreign trade counterparts and other debt liabilities will now be included as part of Malaysia's external debt. As at end-March 2014, Malaysia's redefined external debt stood at RM700.1 billion, equivalent to USD212.5 billion or 65.2% of GDP (end-December 2013: RM694.6 billion or USD209.2 billion, equivalent to 70.4% of GDP). The increase in the external debt is due mainly to higher offshore borrowing by the private sector and non-resident holdings of ringgit-denominated debt liabilities. More than half of the total external debt has a long-term maturity profile. The short-term debt remained manageable with reserves coverage of 1.3 times as at end-March 2014. Malaysia's external position remains resilient, underpinned by sound domestic economic fundamentals. In addition, well-developed capital markets, strong financial intermediaries, and the presence of large domestic institutional investors have provided the financial system with greater resilience to effectively manage any external shocks (see Box Article on 'The Redefinition of External Debt').

Interest rates remained stable

The Overnight Policy Rate (OPR) was maintained at 3.00% during the first quarter of 2014. At the prevailing level of the OPR, monetary conditions remain supportive of economic activity.

The 3-month interbank rate was higher during the quarter following the absence of trades with BNM at the 3-month tenure as a result of the reduction in the maximum tenure of BNM's Range Maturity Auction (RMA) from 3 months to 2 months. The average interbank rate for other maturities remained relatively stable. Retail deposit rates were stable during the period. The average quoted fixed deposit (FD) rates of commercial banks were relatively unchanged. Borrowing costs were also stable. The average base lending rate (BLR) of commercial banks remained unchanged at 6.53% while the weighted average lending rate (ALR) on outstanding loans was stable during the period (end-March 2014: 5.39%; end-December 2013: 5.36%).

The monetary aggregates expanded at a slower pace in the first quarter of 2014. M1, or narrow money, decreased slightly by RM0.6 billion during the quarter. On an annual basis, M1 expanded by 11.4% as at end-March 2014 (end-December 2013: 13%). M3, or broad money, increased by RM19.5 billion on a quarter-on-quarter basis to record an annual growth rate of 5.9% as at end-March 2014 (end-December 2013: 8.1%). The expansion of M3 during the quarter was mainly on account of credit extended to the private sector by the banking system and higher net claims on the Government.

Total gross financing raised by the private sector through the banking system and the capital market amounted to RM282.2 billion in the first quarter (4Q 2013: RM302.8 billion). On a net basis, outstanding banking system loans and PDS expanded at an annual growth rate of 9.6% as at end-March 2014 (end-December 2013: 9.8%). Net funds raised in the capital market were higher at RM39.4 billion in the first quarter (4Q 2013: RM33.7 billion). The steady growth in net financing has continued to provide support to economic growth.

The ringgit and most other regional currencies continued to be affected by global developments in the first quarter of the year. The commencement of the scale-back of US Federal Reserve's (Fed) asset purchase programme, concerns over the growth outlook for several emerging market economies and geopolitical developments in Eastern Europe led to higher risk aversion and an outflow of funds from regional financial markets. Nevertheless, expectations of stimulus measures in PR China and the continued accommodative monetary policy in the US provided support for the ringgit during the quarter. Overall, the ringgit appreciated by 0.4% against the US dollar. The ringgit also appreciated against the euro (0.7%), but depreciated against the pound sterling (-0.5%) and Japanese yen (-1.5%). Performance of the ringgit against regional currencies was mixed.

Between 1 April and 14 May 2014, the ringgit appreciated against the US dollar by 1.4%. The ringgir also appreciated against the euro (1.6%), Japanese yen (0.7%), pound sterling (0.1%) and most regional currencies.

Financial stability continues to be preserved

The Malaysian financial system continued to demonstrate resilience throughout the first quarter despite volatility in the global and domestic financial markets. Financial intermediation continued to be supported by sound financial institutions, orderly financial market conditions and sustained confidence in the financial system.

The banking system remained well-capitalised with the common equity tier 1 (CET1) capital ratio, tier 1 capital ratio and total capital ratio well above the minimum regulatory levels, at 12%, 12.8% and 14.4%, respectively. The total capital buffer of the banking system stood at more than RM80 billion. Similarly, the capital adequacy ratio of the insurance sector remained strong at 249.7% (4Q 2013: 246.1%), with an excess capital buffer of RM25 billion.

Global recovery and the continued strength of domestic demand will underpin growth

Going forward, recovery in the global economy is expected to continue. International trade will be supported by the continued recovery in the advanced economies. In Asia, while domestic demand is expected to moderate, it will continue to underpin the overall performance of these economies, with additional support coming from the improving external conditions. Continued uncertainty over the monetary policy in key advanced economies, economic developments in both the advanced and emerging market economies, as well as geopolitical developments, are likely to generate continued volatility in the global financial markets.

For the Malaysian economy, growth will remain anchored by domestic demand, with additional support from the improvement in the external environment. Exports will continue to benefit from the recovery in the advanced economies while private domestic demand is expected to remain the key driver of the overall growth. Going forward, the Malaysian economy is therefore expected to remain on a steady growth path.

DEVELOPMENTS IN THE FIRST QUARTER OF 2014

INTERNATIONAL ECONOMIC ENVIRONMENT

Moderate economic expansion

Global economic activity expanded at a moderate pace in the first quarter. In the advanced economies, while the gradual recovery continued across most economies, the US experienced a slower growth, mainly due to adverse weather conditions. Several economies in Asia grew at a slower pace as domestic demand was affected by country-specific factors. Amid an environment of moderate growth and low inflation, global monetary policy remained highly accommodative.

Global financial market conditions were volatile during the quarter. Risk aversion increased, reflecting growth concerns and monetary policy developments in the US, as well as heightened geopolitical risks. Sentiments were weighed down by weaker-than-expected economic data in the US and the Fed's announcement of a further scale-back of its quantitative easing (QE) programme. In the emerging markets, the higher risk aversion was also due to unfavourable developments in several economies, such as the rising risk of a growth deceleration in PR China as well as political and social tensions in several countries, including Turkey and Argentina. Notwithstanding the adverse developments, most major global equity indices ended the quarter higher, as the weakness in economic activity in the US was perceived as temporary in nature. Of significance, the S&P 500 registered its fifth consecutive quarter of increase, with the benchmark equity index recording multiple all-time highs in March. In Japan and PR China, however, the equity indices ended the quarter lower. Japan's equity market was dampened by concerns over the potential impact of the consumption tax hike in April 2014. In PR China, sentiments were affected by rising downside risks to growth amid defaults in the financial sector.

The US economy moderated in the first quarter of 2014 (2.3%, 4Q 2013: 2.6%), attributable mainly to unusually adverse weather conditions. On a seasonally-adjusted annualised basis, growth slowed to 0.1% (4Q 2013: 2.6%). Inventory accumulation was lower while exports moderated. Similarly, the housing market recovery slowed, as the combination of higher mortgage rates and bad weather affected residential construction and home sales. Nevertheless, consumer and business sentiments continued to improve. Consumer spending rose, supported by higher healthcare spending following the implementation of the Affordable Care Act and increased utilities spending during the winter. Notwithstanding the weather-related weakness, labour market conditions were favourable with net job creation sustained at 569,000 (4Q 2013: 595,000). Headline inflation rose to 1.4% (4Q 2013: 1.2%), reflecting higher rent and food prices.

In the euro area, the recovery continued at a modest pace. Domestic demand improved, underpinned by accommodative monetary conditions and a slower pace of fiscal consolidation. Nevertheless, overall demand conditions remained sluggish due to tight financing conditions, high indebtedness and elevated unemployment rates. Inflation moderated to 0.7% (4Q 2013: 0.8%) due to weak energy and food prices.

Economic activity in the UK grew by 3.1% (4Q 2013: 2.7%). On a seasonally-adjusted basis, quarterly growth recorded an expansion of 0.8% (4Q 2013: 0.7%). The services sector remained the key contributor to growth, attributable mainly to the expansion of the business and financial services sub-sectors. The inflation rate moderated to 1.7% (4Q 2013: 2.1%) following lower increases in the prices of food and recreational services.

In Japan, the economy continued to benefit from an improvement in domestic demand. Private consumption rose, underpinned by higher retail spending, amid rushed demand ahead of the consumption tax hike on 1 April 2014. Investment was supported by an improvement in business sentiments, with the index from the

Tankan survey for large manufacturing enterprises rising to 17 (4Q 2013: 16). In the external sector, exports expanded at a slower pace due mainly to lower shipments to Asia, the US and Western Europe. Headline inflation (excluding fresh food) rose (1.3%; 4Q 2013: 1.1%) amid increases in the costs of household durable goods, utilities and recreation. Core inflation was at 0.7% (4Q 2013: 0.5%).

Advanced Economies: Real GDP Growth

	2013			2014
	1Q	4Q	Year	1Q
	Annual change (%)			
US[1]	1.1	2.6	1.9	0.1[a]
UK	0.5	2.7	1.7	3.1[p]

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

Source: National authorities

Monetary policy in the advanced economies remained highly accommodative, even as divergence in policy bias began to emerge, reflecting the uneven pace of economic recovery. The Fed had signalled the possibility of monetary policy normalisation should economic activity continue to gain momentum, while the Bank of England (BoE) had indicated an increase in interest rate once it makes further progress in reducing economic slack. In contrast, the European Central Bank (ECB) and the Bank of Japan (BoJ) reaffirmed their commitments to maintain accommodative monetary policy stances amid low inflation and subdued economic recovery. The Fed continued to reduce the pace of its asset purchases by USD10 billion at each meeting, lowering the total purchases to USD45 billion beginning May 2014 (April 2014: USD55 billion; December 2013: USD85 billion). At the Federal Open Market Committee (FOMC) meeting in March, the Fed maintained its forward guidance for interest rates to remain low for a considerable period of time after the end of QE, but removed the numerical threshold of the unemployment rate of 6.5%. While growth projections were broadly unchanged, the Fed projected the unemployment rate to reach 6.1-6.3% and 5.6-5.9% by end-2014 and 2015, respectively (previous: 6.3-6.6% and 5.3-5.8%, respectively). Similarly, in February, the BoE re-focused its forward guidance from a primary emphasis on the unemployment rate threshold to an assessment of the medium-term equilibrium unemployment rate based on the economy's excess capacity. This followed the BoE's assessment that the 7% unemployment rate threshold will be reached earlier than initially expected. The ECB reiterated that its key interest rates will remain at present or lower levels for an extended period amid expectations of subdued inflation and broad-based economic weakness in the medium term.

Economic activity in some Asian economies moderated in the first quarter due to country-specific developments. In PR China, growth was slower at 7.4% (4Q 2013: 7.7%), reflecting mainly lower investment and a larger negative contribution from net exports. Growth in Indonesia moderated to 5.2% (4Q 2013: 5.7%) due mainly to lower net exports and government consumption amid fiscal consolidation. In Singapore, growth of the economy moderated to 5.1% (4Q 2013: 5.5%) as slower growth in the services sector more than offset continued expansion in the manufacturing and construction sectors. In Korea and Chinese Taipei, economic activity improved, supported by private consumption and net exports.

Regional Countries: Real GDP Growth

	2013			2014
	1Q	4Q	Year	1Q
	Annual change (%)			
PR China	7.7	7.7	7.7	7.4
Indonesia	6.0	5.7	5.8	5.2
Singapore	0.6	5.5[r]	4.1[r]	5.1[a]
Korea	2.1	3.7[r]	3.0[r]	3.9[a]
Chinese Taipei	1.4	2.9	2.1[r]	3.0[a]

[a] Advance estimate
[r] Revised

Source: National authorities

Headline inflation rose in several Asian economies (the Philippines, Chinese Taipei and Thailand) due mainly to the higher cost of food. In Korea, inflation increased at a faster pace as prices of utilities rose. In contrast, inflation in Singapore, Hong Kong SAR and Indonesia slowed, partly attributed to lower transportation costs. In Singapore and Indonesia, the moderation was also on account of slower growth in the prices of housing and food, respectively.

During the quarter, central banks in the region maintained an accommodative policy stance amid an environment of benign inflation and moderate expansion in economic activity. In March, the Bank of Thailand reduced its key policy rate by 25 basis points to 2.00% to support economic activity as downside risks to growth increased amid the prolonged political turmoil. The Reserve Bank of India (RBI), however, raised its policy repo rate by 25 basis points to 8.00% during the quarter to contain inflationary pressures. In April, the RBI increased the liquidity provided under the 7-day and 14-day term repos and reduced the liquidity provided under overnight repos to improve its policy rate transmission.

The price of Brent crude oil was sustained at an average of USD108 per barrel in the first quarter (4Q 2013: USD108 per barrel). Oil prices remained elevated as concerns increased over a potential disruption in supply from Russia, the world's largest oil producer, amidst heightened geopolitical tensions with Ukraine. The continued reduction in output from major OPEC producers placed upward pressure on oil prices, with prices peaking at USD110 per barrel in February. Further upside to oil prices was, however, limited by several factors. These included higher inventory levels of crude oil in major OECD countries, moderate oil demand growth in major oil consuming countries and the rise in shale oil production in the US. Towards the end of the quarter, oil prices moderated to USD108 per barrel.

Major currencies ended the quarter higher against the US dollar while most regional currencies ended the quarter lower. The euro and pound sterling appreciated on account of releases of favourable domestic economic data. Meanwhile, the yen strengthened following higher demand for its safe haven characteristics amid heightened geopolitical tensions. In Asia, regional currencies depreciated due to an increase in risk aversion, driven by concerns over growth and financial risks in PR China, vulnerabilities in several emerging economies such as Turkey and Argentina as well as rising geopolitical tensions in Ukraine. Towards the end of the quarter, however, positive sentiments over the increased possibility of an economic stimulus in PR China provided some support to Asian currencies. In PR China, the renminbi's depreciation during the quarter was driven in part by the widening of the exchange rate trading band to +/- 2% from +/- 1% by the People's Bank of China (PBoC) to increase the two-way flexibility of the currency. The Indonesian rupiah, however, appreciated on improved investors' sentiments following a more favourable political outlook.

Moving forward, recovery in the global economy is expected to continue. International trade activity will continue to benefit from the improving growth prospects in the advanced economies. In Asia, while domestic demand is expected to moderate, it will continue to underpin the overall performance of these economies, with additional support coming from the improving external conditions. Continued uncertainty over monetary policy in key advanced economies, economic developments in both the advanced and emerging economies, as well as geopolitical developments, are likely to generate continued volatility in the global financial markets.

DEVELOPMENTS IN THE MALAYSIAN ECONOMY

Higher growth supported by stronger domestic demand and improving trade

The Malaysian economy registered a higher growth of 6.2% in the first quarter of 2014 (4Q 2013: 5.1%). Growth was driven by a stronger expansion in domestic demand and a turnaround in net exports. Private sector activity remained the main driver of growth in the first quarter, with sustained strong growth in both consumption and investment activities. Real exports of goods and services grew at a faster pace while real imports of goods and services was sustained, resulting in a positive growth in net exports. On a quarter-on-quarter seasonally adjusted basis, the economy grew by 0.8% (4Q 2013: 1.9%).

Domestic demand registered stronger growth

Domestic demand grew by 7.4% in the first quarter of 2014 (4Q 2013: 6.7%). Both private consumption and private investment continued to sustain strong performance, with private investment recording a double-digit growth rate. Public sector spending recorded a stronger expansion as higher consumption spending offset the decline in public investment.

Private consumption growth remained strong at 7.1% (4Q 2013: 7.4%) in the first quarter, supported by stable employment conditions and continued wage growth. Growth in **public consumption** increased to 11.2% (4Q 2013: 5.2%), reflecting higher Government spending on supplies and services.

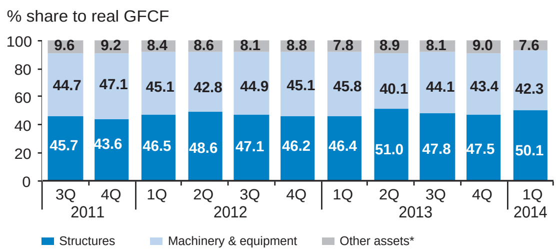
GDP by Expenditure Components
(at constant 2005 prices)

	2013			2014
	1Q	4Q	Year	1Q
	Annual change (%)			
Aggregate Domestic Demand (excluding stocks)	7.5	6.7	7.4	7.4
Consumption	5.3	6.8	7.0	7.8
Private sector	*6.4*	*7.4*	*7.2*	*7.1*
Public sector	*0.6*	*5.2*	*6.3*	*11.2*
Gross Fixed Capital Formation	13.0	6.5	8.5	6.3
Private sector	*10.0*	*16.6*	*13.1*	*14.1*
Public sector	*18.4*	*-1.4*	*2.2*	*-6.4*
Net Exports	-12.9	-6.8	-12.6	14.9
Exports of Goods and Services	*-3.4*	*5.7*	*0.6*	*7.9*
Imports of Goods and Services	*-2.2*	*7.1*	*2.0*	*7.1*
GDP	**4.2**	**5.1**	**4.7**	**6.2**
GDP (q-o-q growth, seasonally adjusted)	**-0.3**	**1.9**	**-**	**0.8**

Source: Department of Statistics, Malaysia

Gross fixed capital formation grew by 6.3% (4Q 2013: 6.5%), driven by robust private sector capital spending amidst a decline in public investment growth. Growth in private investment remained strong at 14.1% (4Q 2013: 16.6%), underpinned by capital spending in the manufacturing and services sectors. Public investment declined by 6.4% (4Q 2013: -1.4%) due to a contraction in capital spending by both the Federal Government and public enterprises. By type of assets, investment activity was driven mainly by robust spending on structures (14.7%; 4Q 2013: 9.6%), which more than offset the decline in machinery and equipment investment (-1.8%; 4Q 2013: +2.7%).

GFCF by Type of Assets



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

Strong growth in major economic sectors

On the supply side, growth was supported by the major economic sectors. The services sector expanded further, driven by the improvement in the finance and insurance and sustained growth in the consumption- and production-related services. Growth in the manufacturing sector was underpinned by the stronger performance in the export-oriented industries. The construction sector recorded stronger growth, driven mainly by the residential sub-sector. Meanwhile, the agriculture sector registered higher growth, underpinned by the production of food crops while the mining sector recorded a lower decline due to a smaller contraction in the output of crude oil.

GDP by Economic Activity (at constant 2005 prices)

	Share 2013 (%)	2013 1Q	2013 4Q	2013 Year	2014 1Q
		Annual change (%)			
Agriculture	7.1	6.2	0.2	2.1	2.3
Mining	8.1	-1.5	-1.2	0.7	-0.8
Manufacturing	24.5	0.4	5.2	3.5	6.8
Construction	3.8	14.2	9.8	10.9	18.9
Services	55.2	6.1	6.4	5.9	6.6
Real GDP	**100.0[1]**	**4.2**	**5.1**	**4.7**	**6.2**
Real GDP (q-o-q seasonally adjusted)	**-**	**-0.3**	**1.9**	**-**	**0.8**

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

Source: Department of Statistics, Malaysia

The **services sector** continued to expand in the first quarter of 2014 (6.6%; 4Q 2013: 6.4%), supported by an improvement in the finance and insurance sub-sector and favourable performance in consumption- and production-related services. Growth in the finance and insurance sub-sector improved (2.4%; 4Q 2013: 0.5%), due mainly to the turnaround in the insurance segment. The wholesale and retail trade sub-sector registered a sustained performance (8.6%; 4Q 2013: 8.4%), supported by continued household spending during the quarter. In the communication sub-sector, growth remained robust (10.1%; 4Q 2013: 10.3%), supported by continued demand for data communication services.

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

	Share 2013 (%)	2013 1Q	2013 4Q	2013 Year	2014 1Q
		Annual change (%)			
Intermediate Services	**40.8**	**6.4**	**4.9**	**5.1**	**5.7**
Finance & insurance	16.6	6.3	0.5	1.8	2.4
Real estate & business services	10.3	6.5	8.3	7.5	8.6
Transport & storage	6.6	3.8	5.4	4.6	4.8
Communication	7.4	9.0	10.3	10.0	10.1
Final Services	**59.2**	**5.9**	**7.5**	**6.4**	**7.1**
Wholesale & retail trade	26.1	5.7	8.4	6.4	8.6
Accommodation & restaurant	4.5	6.4	5.8	5.7	6.0
Utilities	4.5	3.9	4.4	4.1	3.2
Government services	15.0	7.1	8.6	8.3	7.7
Other services	9.1	5.2	5.1	5.1	4.8
Total Services	**100.0[1]**	**6.1**	**6.4**	**5.9**	**6.6**

[1] Numbers do not add up due to rounding

Source: Department of Statistics, Malaysia

Selected Quarterly Indicators in the Services Sector

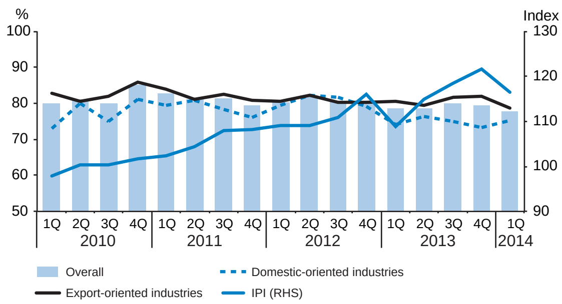
	2013 1Q	2013 4Q	2013 Year	2014 1Q
	Index			
MIER Consumer Sentiments Index	122.9	82.4	104.3	96.8
MIER Retail Trade Index	101.0	81.7	98.9	86.3
MIER Tourism Market Index	115.5	140.3	126.8	115.8
	Annual change (%)			
Tourist arrivals	15.9	1.2	2.7	-
Total passenger traffic at all airports	9.1	24.1	19.0	18.9
Total consumption credit outstanding	7.7	6.2	6.2	4.8
Total loans outstanding	10.6	10.6	10.6	10.2
Loans outstanding to the wholesale & retail trade, hotels & restaurants	14.2	11.1	11.1	5.6
Imports of consumption goods	3.0	9.3	8.7	15.6
Total sales of motor vehicles	13.9	-0.9	4.5	1.4
Container cargo handled (Port Klang and PTP)	-0.4	2.7	1.5	3.7

Source: Various sources

The **manufacturing sector** expanded by 6.8% in the first quarter of 2014 (4Q 2013: 5.2%), supported by stronger performance of the export-oriented industries and continued expansion of the domestic-oriented industries. The export-oriented industries advanced by 6.9% (4Q 2013: 3.8%), in line with better external trade performance during the quarter. Growth was driven primarily by the electronics and electrical (E&E) cluster, particularly semiconductors. Domestic-oriented industries grew by 7.2% (4Q 2013: 8%), supported by the consumer-related cluster, particularly transport equipment.

Overall capacity utilisation rate in the manufacturing sector was sustained at 78% (4Q 2013: 80%). Export- and domestic-oriented industries were operating at 79% and 75% of total capacity, respectively (4Q 2013: 82% and 73%, respectively).

Capacity utilisation rate in the manufacturing sector*



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

Source: Bank Negara Malaysia & Department of Statistics, Malaysia

Performance of the Manufacturing Sector

	Share 2013 (%)	2013			2014
		1Q	4Q	Year	1Q
		Annual Change (%)			
Value Added (RM million at constant 2005 prices)		**0.4**	**5.2**	**3.5**	**6.8**
Overall Manufacturing Production[1]	**100.0**	**-0.2**	**4.9**	**4.2**	**7.0**
Export-oriented industries	**74.8**	**-1.3**	**3.8**	**3.3**	**6.9**
Electronics and electrical products cluster	**24.2**	**2.8**	**16.9**	**10.0**	**15.5**
Of which:					
Electronics	15.3	10.2	25.4	18.6	19.8
Electrical products	8.9	-9.2	1.2	-5.1	7.1
Primary-related cluster	**50.7**	**-3.0**	**-1.8**	**0.3**	**2.9**
Of which:					
Chemicals and chemical products	14.3	-3.9	-1.1	-0.7	1.4
Petroleum products	21.0	-8.5	-4.0	0.2	6.5
Rubber products	2.5	13.8	6.8	8.2	-0.8
Off-estate processing	4.5	10.9	-1.5	1.7	0.7
Domestic-oriented industries	**25.2**	**2.9**	**8.0**	**6.8**	**7.2**
Construction-related cluster	**11.3**	**5.0**	**3.5**	**4.9**	**2.9**
Of which:					
Construction-related products	8.2	1.7	2.2	1.3	1.1
Fabricated metal products	3.1	11.6	5.8	12.2	6.3
Consumer-related cluster	**13.8**	**1.2**	**11.6**	**8.5**	**10.8**
Of which:					
Transport equipment	5.5	-1.6	23.4	13.8	17.1
Food, beverage & tobacco products	7.3	4.7	1.1	4.9	5.3

[1] Industrial Production Index (2010=100)

Source: Department of Statistics, Malaysia

The **construction sector** experienced robust growth during the quarter (18.9%; 4Q 2013: 9.8%), driven mainly by the residential sub-sector. Stronger growth performance in the non-residential and civil engineering sub-sectors provided further support to the sector. The strong growth in the residential sub-sector was supported by construction of high-rise projects, particularly in the Klang Valley, Penang and Johor. Growth in the non-residential sub-sector was underpinned by the construction of commercial and industrial projects. Meanwhile, expansion in the civil engineering sub-sector reflected continued progress in rail, utility, and road projects such as the Klang Valley MRT, the LRT extension, Tanjung Bin and Janamanjung power plants and the expansion of lanes at the North-South Expressway.

Indicators for the Construction Sector

	2013			2014
	1Q	4Q	Year	1Q
	Annual change (%)			
Value of construction work done	16.3	11.3	12.7	21.1
Residential	10.8	18.3	19.6	33.1
Non-residential	-1.4	18.1	6.6	19.9
Civil engineering[1]	40.6	2.8	13.3	14.5
Housing approvals	-19.4	-31.2	-24.5	-47.6
Production[2] of construction-related materials	5.0	3.5	4.9	2.9
Hydraulic cement	3.1	6.2	4.2	1.3
Other articles of concrete, cement and plaster n.e.c	-2.2	25.5	5.3	37.0
Other porcelain and ceramic products	-9.4	3.1	-5.6	15.2
Prefabricated structural components for building or civil engineering of cement, concrete or artificial stone	1.7	6.5	1.7	2.6
Capital imports (excluding lumpy items)	7.3	-2.2	-0.8	-3.3
Loans for the construction sector				
Approval	-28.9	0.6	-10.5	-32.8
Disbursement	23.5	17.9	14.4	20.1

[1] Includes special trade works such as site preparation, electrical installation and painting
[2] Industrial Production Index (2010=100)

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

Performance of the Agriculture Sector

	Share 2013 (%)	2013			2014
		1Q	4Q	Year	1Q
		Annual change (%)			
Value Added (at constant 2005 prices)	**7.7**	**6.2**	**0.2**	**2.1**	**2.3**
Industrial Crops	**4.2**	**5.6**	**-2.9**	**-1.3**	**-1.0**
Of which:					
Oil palm	2.8	14.6	-1.2	2.6	1.6
Rubber	0.7	-0.9	-14.4	-10.1	-12.1
Food Crops	**3.5**	**6.8**	**4.6**	**6.3**	**6.1**
Of which:					
Fishing	1.1	7.7	-3.3	1.6	2.1
Livestock	0.8	6.4	10.6	9.4	7.9

Source: Department of Statistics, Malaysia

Value-added of the **agriculture sector** grew by 2.3% (4Q 2013: 0.2%), on account of higher production of food crops. The **mining sector** recorded a lower decline (-0.8%, 4Q 2013: -1.2%) due to a smaller contraction in output of crude oil.

Performance of the Mining Sector

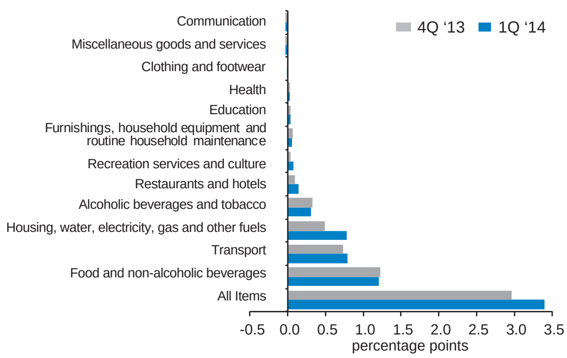
	Share 2013 (%)	2013			2014
		1Q	4Q	Year	1Q
		Annual change (%)			
Value Added (at constant 2005 prices)	**8.8**	**-1.5**	**-1.2**	**0.7**	**-0.8**
Production					
Of which:					
Crude oil and condensates	-	-3.5	-8.3	-2.9	-2.4
Natural gas	-	0.3	3.2	4.4	0.3

Source: PETRONAS
Department of Statistics, Malaysia

Inflation averaged 3.4% in the first quarter

The inflation rate, as measured by the annual change in the Consumer Price Index (CPI) averaged 3.4% in the first quarter of 2014 (4Q 2013: 3%). The increase was on account of higher inflation in the *housing, water, electricity, gas and other fuels* and *transport* categories. During the quarter, higher rental and electricity tariffs contributed to higher inflation in the *housing, water, electricity, gas and other fuels* category. In the *transport* category, the price of RON97 petrol was adjusted upwards three times during the quarter by a total of 15 sen/litre. Meanwhile, inflation in the *food and non-alcoholic beverages* category was stable at 4% during the quarter (4Q 2013: 4%). Higher inflation in the *food away from home* sub-category was offset by lower inflation in the *food at home* sub-category.

Contribution to Consumer Price Inflation



Source: Bank Negara Malaysia

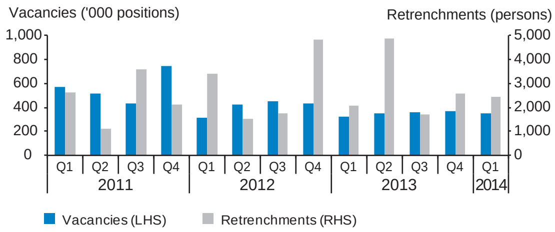
The Producer Price Index (PPI) recorded an increase of 3% on an annual basis in the first quarter (4Q 2013: 2.2%). In terms of composition, prices of commodity-related components increased by 6.8% (4Q 2013: 6.3%) while prices of non-commodity-related components increased by 0.9% (4Q 2013: 0.1%) during the quarter. Meanwhile, prices of local and imported components grew by 4.1% and 0.4%, respectively (4Q 2013: 3.4% and -0.5%, respectively).

Unemployment rate at 3.1%

Employment conditions remained stable, with total employment of 13.5 million persons during the first quarter of 2014 (4Q 2013: 13.7 million persons). The unemployment rate was sustained at 3.1% in the first quarter (4Q 2013: 3.2%).

Total retrenchments reported to the Ministry of Human Resources decreased to 2,437 persons (4Q 2013: 2,584 persons), which took place mainly in the manufacturing sector. Labour demand moderated, as reflected in the lower number of job vacancies posted in the JobsMalaysia Portal (353,030 positions; 4Q 2013: 366,203 positions). Aggregate real wages in the manufacturing sector recorded a slower growth of 3.7% (4Q 2013: 6.5%), weighed down by slower 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 first quarter

The current account surplus increased to RM19.8 billion in the first quarter, equivalent to 7.9% of GNI (4Q 2013: RM14.8 billion or 5.8% of GNI), due to a sustained surplus in the goods account and a lower deficit in the services and income accounts.

Balance of Payments[1]

	2013			2014
	1Q	4Q	Year	1Q
	RM billion			
Current Account	**13.2**	**14.8**	**39.9**	**19.8**
(% of GNI)	*5.8*	*5.8*	*4.2*	*7.9*
Goods	28.0	33.3	108.2	33.6
Services	-2.6	-4.1	-16.7	-2.7
Primary income	-8.0	-10.0	-34.1	-6.4
Secondary income	-4.2	-4.4	-17.5	-4.6
Financial Account	**1.2**	**-9.7**	**-15.8**	**-37.6**
Direct investment	-2.8	-4.0	-5.5	-14.6
Assets	*-11.6*	*-6.5*	*-41.2*	*-20.4*
Liabilities	*8.8*	*10.4*	*35.7*	*5.8*
Portfolio investment	3.9	-0.8	-3.0	-13.4
Assets	*-5.3*	*-5.4*	*-32.1*	*-7.6*
Liabilities	*9.2*	*4.6*	*29.1*	*-5.8*
Financial derivatives	0.2	0.4	-0.3	-1.5
Other investment	-0.2	-13.3	-7.1	-8.1
Errors & omissions[2]	-10.3	-7.8	-9.4	0.4
Overall Balance	**4.0**	**-2.7**	**14.6**	**-17.3**

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 (%)	2013			2014
		1Q	4Q	Year	1Q
		Annual change (%)			
Gross Exports	**100.0**	**-2.6**	**10.2**	**2.4**	**10.9**
Manufactured	67.1	-3.2	10.0	2.7	13.0
E&E	*32.9*	*-4.9*	*13.1*	*2.4*	*12.5*
Non-E&E	*34.2*	*-1.5*	*7.0*	*3.0*	*13.3*
Resource based	*14.9*	*-2.3*	*2.2*	*0.0*	*8.7*
Non-resource based	*19.3*	*-0.8*	*10.9*	*5.5*	*17.2*
Commodities	32.2	-1.8	12.0	2.4	7.1
Minerals	*22.6*	*6.2*	*22.8*	*11.6*	*9.2*
Agriculture	*9.6*	*-17.0*	*-8.3*	*-14.4*	*2.0*
Gross Imports	**100.0**	**6.4**	**11.6**	**7.0**	**5.5**
Intermediate goods	58.4	0.0	10.5	4.3	4.4
Capital goods	15.2	13.8	1.5	2.8	-6.5
Consumption goods	7.3	3.0	9.3	8.7	15.6
Re-exports and dual-use goods	19.0	26.6	25.5	19.7	15.7
Trade balance (RM billion)	**–**	**16.3**	**27.5**	**70.7**	**26.4**

Source: MATRADE and Department of Statistics, Malaysia

The trade surplus amounted to RM26.4 billion in the first quarter of 2014 (4Q 2013: RM27.5 billion). Gross exports grew at a stronger pace of 10.9% (4Q 2013: 10.2%), reflecting the continued expansion of global economic activity while gross imports expanded at a more moderate pace of 5.5% (4Q 2013: 11.6%).

The expansion in gross exports was broad-based. The strong performance of manufactured exports was attributed to both E&E and non-E&E products, and a low base from the first quarter of 2013. E&E exports continued to grow at a double-digit pace, driven by strong demand for semiconductors, while the improvement in non-E&E exports was reflected across both resource and non-resource based products. Commodity exports continued to expand, albeit at a more moderate pace. These were supported by higher prices of palm oil and LNG. In terms of destination, exports to PR China remained strong while exports to the major advanced economies improved. Within the region, exports to the ASEAN economies were lower, in line with the moderation in domestic activity in these economies.

The moderation in gross imports in the first quarter was due mainly to the decline in capital imports. This reflected the base effect arising from high imports of transport equipment in the first quarter of last year. Intermediate imports continued to expand but at a more moderate pace, supported by the strong performance of manufactured exports during the quarter. The double-digit growth in imports for re-exports reflected the continued expansion of storage activities in southern Johor, catering mainly to refined petroleum and metals. Meanwhile, the faster growth in imports of consumption goods was attributed to higher imports of durable and non-durable consumer goods as well as processed food and beverages.

The services account recorded a smaller deficit of RM2.7 billion in the first quarter (4Q 2013: -RM4.1 billion). The lower deficit was mainly attributable to an increase in the net travel receipts and a smaller deficit in the transportation account. While travel receipts was slightly higher relative to the previous quarter, the increase in net receipts was driven mainly by the lower travel payments, as the number of Malaysian residents travelling abroad was smaller compared to the holiday season in the previous quarter. Meanwhile, the lower deficit in the transportation account was due mainly to the decrease in payments for transport services, in line with the moderation in gross imports during the quarter.

The deficit in the primary income balance narrowed to RM6.4 billion (4Q 2013: -RM10 billion), as investment income accrued to foreign direct investors in Malaysia decreased while investment income accrued to Malaysian companies investing abroad was sustained.

The financial account recorded a net outflow of RM37.6 billion in the first quarter of 2014 (4Q 2013: -RM9.7 billion), attributable to the large outflows from outward direct investment, portfolio investment and other investments.

Malaysia: Direction of Exports

	Share 2013 (%)	2013			2014
		1Q	4Q	Year	1Q
		Annual change (%)			
United States	**8.1**	**-2.9**	**-2.5**	**-4.5**	**4.2**
European Union (EU)	**9.1**	**-6.4**	**14.7**	**5.0**	**18.5**
Japan	**11.1**	**-9.5**	**4.9**	**-4.4**	**9.2**
Selected ASEAN countries[1]	**27.6**	**9.9**	**7.4**	**7.3**	**2.9**
North East Asia	**24.4**	**-5.3**	**23.5**	**5.6**	**20.2**
People's Republic of China	*13.5*	*-1.7*	*30.8*	*9.2*	*15.3*
Hong Kong SAR	*4.3*	*-9.0*	*30.1*	*3.9*	*35.0*
Korea	*3.6*	*-4.0*	*15.5*	*3.0*	*15.9*
Chinese Taipei	*2.9*	*-16.7*	*-4.6*	*-3.7*	*28.1*
West Asia[2]	**3.4**	**-1.3**	**-1.2**	**0.3**	**-0.5**
India	**3.6**	**-3.0**	**-17.7**	**-12.2**	**10.2**
Total exports	**100.0**	**-2.6**	**10.2**	**2.4**	**10.9**

[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

Inward direct investment (direct investment liabilities) registered an inflow of RM5.8 billion (4Q 2013: +RM10.4 billion) supported by continued extensions of equity capital and lower earnings retained for reinvestment. Inflows of direct investment were undertaken mainly by companies in the mining and services sectors, including in real estate acquisitions in the Iskandar region.

Outward direct investment (direct investment assets) was particularly large during the quarter, registering outflows amounting to RM20.4 billion (4Q 2013: -RM6.5 billion). This was due to higher extensions of intercompany loans and equity capital to subsidiaries of Malaysian companies operating abroad. The investments were undertaken primarily by companies in the mining and services sectors.

Portfolio investments also recorded net outflows during the quarter amounting to RM13.4 billion (4Q 2013: -RM0.8 billion), partly reflecting some reversals of non-resident portfolio investment. At the beginning of the quarter, the commencement of the scale-back of the Fed's asset purchase programme and concerns over country-specific developments in the emerging economies, and geopolitical tensions prompted sizeable outflows of non-resident portfolio investments. However, this was partially mitigated by improved investors' confidence following reaffirmed commitment by the Fed to maintain its accommodative monetary policy and expectations of policy measures to support economic activity in PR China towards the end of the quarter. The net outflow position was also attributable to the higher acquisitions of portfolio assets abroad by resident institutional investors during the quarter.

Other investments recorded a net outflow of RM8.1 billion (4Q 2013: -RM13.3 billion), mainly reflecting domestic banking sector's placements of deposits abroad.

Following these developments, the overall balance of payments registered a deficit of RM17.3 billion in the first quarter of 2014 (4Q 2013: -RM2.7 billion), as the larger outflows in the financial account more than offset the higher current account surplus. Errors and omissions amounted to RM0.4 billion (0.1% of total trade) and partly reflected foreign exchange revaluation gains on international reserves, as the ringgit depreciated against selected major currencies during the quarter.

Manageable external debt

Given the significant development in the depth and breadth of Malaysia's financial markets and the consequent increase in the participation of non-resident investors in ringgit-denominated domestic debt securities in recent years, Malaysia is redefining its external debt in line with the best international practice. Following this redefinition, non-resident holdings of ringgit-denominated debt securities, non-resident deposits, trade credits provided by foreign trade counterparts and other debt liabilities will now be included as part of Malaysia's external debt (see Box Article on 'The Redefinition of External Debt').

Malaysia's redefined external debt stood at RM700.1 billion, equivalent to USD212.5 billion or 65.2% of GDP as at end-March 2014 (end-December 2013: RM694.6 billion or USD209.2 billion, equivalent to 70.4% of GDP). The higher external debt was attributed largely to the higher offshore borrowing by the private sector and non-resident holdings of ringgit-denominated debt securities, mainly the holdings of Malaysian Government Securities.

Offshore borrowing increased to RM327.9 billion during the quarter (end-December 2013: RM324.1 billion). The higher medium- and long-term offshore borrowing reflects mainly the net borrowing by private sector companies, which offset the net repayment by the public sector. Meanwhile, short-term offshore borrowing remained stable during the quarter. The rise in offshore borrowing during the quarter was partly offset by the strengthening of the ringgit against selected regional and major currencies. Non-resident holdings of ringgit-denominated debt securities issued by the Federal Government, BNM and corporations also registered an increase during the quarter. Higher non-resident holdings of domestic debt securities, which is mainly in medium- and long-term securities, reflecting investors' confidence in the Malaysian economy, as well as the attraction of the higher yields of these maturities. The high non-resident participation in Malaysia's bond market is also a reflection of the deeper, more open and more vibrant domestic financial markets.

Overall, more than half of the total external debt has a long-term maturity profile. The short-term external debt remained manageable with a reserves coverage of 1.3 times.

The Redefinition of External Debt

There are several accepted conventions in the classification of the external debt of a country. One is to emphasise on the foreign currency obligations owed by residents to non-residents. This was the standard practice when most cross-border debt flows were accounted for by residents raising financing in foreign currencies in more developed financial markets. This was in fact the practice adopted by Malaysia, where external debt consisted only of foreign currency-denominated debt, namely loans raised, and bonds and notes issued offshore.

The International Monetary Fund (IMF), et al. (2013)[1] have proposed a wider coverage for external debt, which takes into account the non-resident holdings of local-currency denominated debt papers and other debt-related non-resident financial flows, such as trade credits, currency and deposits, and other loans and liabilities (see Table 1). Under this definition, the external debt would include all liabilities that require payment of principal and/or interest at some point in the future, and are owed to non-residents by residents of an economy irrespective of the currency denomination of the debt.

Table 1: Components of Malaysia's previous and redefined external debt

External debt by maturity & instruments	Previous	Redefined
Short-term		
Inter-bank borrowing (FX)+	✓	✓
Inter-company borrowing (FX)+	✓	✓
Other loans* (FX)+	✓	✓
Trade credits		✓
NR++ holdings of domestic money market instruments		✓
Currency and deposits		✓
Other liabilities**		✓
Long-term		
Bonds issued abroad (FX)+	✓	✓
Inter-company borrowing (FX)+	✓	✓
Other loans* (FX)+	✓	✓
Trade credits		✓
NR++ holding of domestic bonds		✓
Other liabilities**		✓

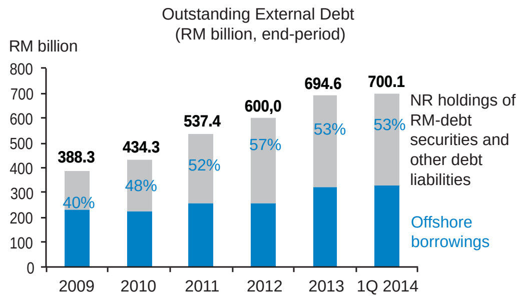
* Includes non-related company borrowing
**Other liabilities refer to IMF allocation of SDRs, and liabilities of pension funds and life insurance companies to NR
+ FX: Foreign currency
++ NR: Non-resident

Over the last decade, Malaysia's financial markets have developed significantly amid progressive liberalisation of the financial system. Consequently, Malaysia's bond market is now the largest in Southeast Asia and the second largest in Asia ex-Japan, while non-resident participation in domestic financial markets has increased significantly.

[1] International Monetary Fund (IMF), Bank for International Settlements (BIS), the Commonwealth Secretariat (Comsec), Eurostat, the Organization for Economic Co-operation and Development (OECD), the Paris Club Secretariat, the United Nations Conference on Trade and Development (UNCTAD) and the World Bank, 2013, External Debt Statistics: Guide for Compilers and Users, Washington, D.C.

With this redefinition, Malaysia's external debt stood at RM700.1 billion (USD212.5 billion or 65.2% of GDP) as at end-March 2014, compared to RM327.9 billion or 30.5% of GDP under the previous definition. The higher redefined external debt reflects the high level of non-resident holdings of ringgit-denominated debt securities, accounting for about two-thirds of the increase in the external debt following the redefinition. This is the outcome of the greater depth, openness and attractiveness of Malaysia's financial markets

Chart 1 : Malaysia's Redefined External Debt



Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

Since these debt securities are ringgit-denominated obligations, the potential for currency mismatches in the country's external indebtedness is reduced. It is also crucial to note that the Federal Government debt remains unchanged. The redefinition of external debt is a prudential measure which allows the Government to better assess its exposure to non-residents. Importantly, although the redefined external debt level is higher, Malaysia's external indebtedness indicators remain within the international benchmark for prudence and external soundness.

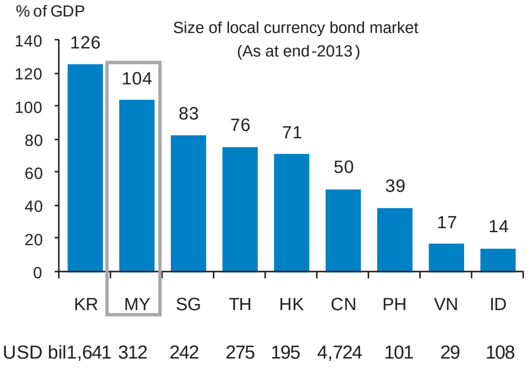
Table 2: Malaysia's external indebtedness indicators

	Standard international threshold	Malaysia's external debt, end-March 2014	
		Previous definition	Redefined
Reserves / ST external debt (times)	1.0	3.3	1.3
Total external debt / GDP (%)	60-90	30.5	65.2
ST external debt / Total external debt (%)	n.a	39.2	47.7
ST external debt / Exports of goods & services (%)	Smaller is better	15.1	39.3

Source: Reinhart. Carmen and Kenneth Rogoff, *"Growth in a Time of Debt"*, American Economic Review, May 2010; Guidotti-Greenspan rule and Bank Negara Malaysia

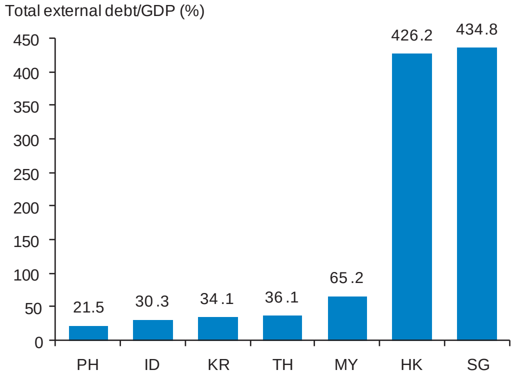
The redefinition of external debt, in essence, consolidates debt statistics that are already publicly available. Moreover, given the rapid deepening and diversification of the Malaysian financial market (Chart 2), the published data would be disaggregated to indicate the nature of Malaysia's external debt position, particularly the growing participation of non-residents in the markets. It is noteworthy that the prevalence of higher external debt amid the growing depth and sophistication of domestic capital markets is a general observation for countries moving to more developed financial markets, as is the case with Hong Kong SAR and Singapore (Chart 3).

Chart 2: Malaysia's local bond market among the largest in Asia excluding Japan



Source: ADB Asian Bonds Monitor, March 2014

Chart 3: Malaysia's external debt position relative to other regional countries



Source: World Bank Quarterly External Debt Statistics, International Monetary Fund

External Robustness

Malaysia's external position remains robust, underpinned by the country's strong economic fundamentals:

- **Growing participation of domestic institutional players in Malaysia's capital market:** In the event of a sell-off by non-residents, domestic players, particularly the well diversified institutional investors, have the capacity to absorb the ringgit-denominated papers. This would mitigate the risk of disruptive price movements in the financial markets. Malaysia now has several large institutional investors, a more developed insurance industry and a larger fund and wealth management industry that would absorb these ringgit-denominated papers.

- **Greater ability to withstand market and financial shocks:** Given the more developed financial system and stronger financial intermediaries, the country would be less susceptible to any financial stress stemming from volatile capital flows. In addition, an adequate level of reserves to finance such short-term external debt (reserves-to-short-term external debt ratio of 1.3 times, higher than the 1:1 minimum international ratio), the continued current account surplus, coupled with sizeable liquid foreign assets in the banking sector, would also provide additional buffers against any external shocks to the economy.

The robustness of Malaysia's external position was evident following the Fed's announcement of its intentions to scale back its quantitative easing measures in May 2013. Amid high global financial market volatility and uncertainty in response to the announcement, emerging market economies, including Malaysia, experienced large capital reversals. Nevertheless, Malaysia's financial system remained resilient and financial stability remained intact with no disruption to financial intermediation.

The redefinition of Malaysia's external debt is, therefore, assessed to be timely, so as to better consolidate Malaysia's external financial obligations in a transparent manner, and to reflect the extent of the advancement in Malaysia's financial markets over this recent decade.

External Debt Outstanding

	2013		2014
	end-Mar	end-Dec	end-Mar
	RM billion		
Offshore borrowing[1]	269.8	324.1	327.9
Medium- and long-term debt	*168.7*	*196.0*	*199.2*
Public sector	87.1	98.9	97.9
Private sector	81.6	97.1	101.3
Short-term	*101.0*	*128.1*	*128.7*
NR holdings of dom. debt securities	222.0	229.7	231.3
Medium- and long-term debt	*150.1*	*151.1*	*156.3*
Short-term	*71.9*	*78.6*	*75.0*
NR deposits	54.8	77.3	77.5
Others[2]	63.1	63.5	63.3
Medium- and long-term debt	*9.4*	*10.0*	*10.3*
Short-term	*53.7*	*53.5*	*53.0*
Total external debt	**609.7**	**694.6**	**700.1**
USD billion equivalent	*195.4*	*209.2*	*212.5*
External Debt (Previous definition)			
Total debt/GDP (%)	27.3	32.8	30.5
Short-term debt[3]/Total debt (%)	37.5	39.5	39.2
Reserves/Short-term debt[3] (times)	4.3	3.4	3.3
External Debt (Redefined)			
Total debt/GDP (%)	61.8	70.4	65.2
Short-term debt[4]/Total debt (%)	46.2	48.6	47.7
Reserves/Short-term debt[4] (times)	1.5	1.3	1.3

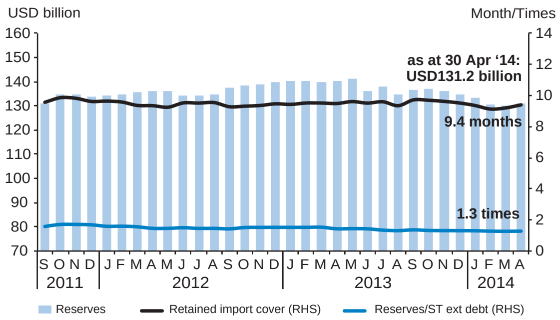
[1] Equivalent to the external debt as previously defined, comprised mainly foreign currency loans raised, and bonds and notes issued offshore.
[2] Comprise trade credits, IMF allocation of SDRs and miscellaneous.
[3] Equivalent to short-term offshore borrowing
[4] Short-term offshore borrowing, NR holdings of short-term domestic debt securities, NR deposits and other short-term debt
Note: NR refers to non-resident

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

International reserves remained high

The international reserves of BNM amounted to RM424.6 billion (equivalent to USD130.2 billion) as at 31 March 2014. This reserves level has taken into account the quarterly adjustment for foreign exchange revaluation changes. As at 30 April 2014, the reserves position amounted to RM427.8 billion (equivalent to USD 131.2 billion), sufficient to finance 9.4 months of retained imports and is 1.3 times the redefined short-term external debt (end-December 2013: 9.5 months of retained imports; 1.3 times the redefined short-term external debt).

Net International Reserves (as at end period)



Source: Bank Negara Malaysia

Lower Government deficit

The Federal Government recorded a lower fiscal deficit of 5.1% of GDP in the first quarter of 2014. This was due to higher revenue collection, mainly from higher individual income tax and non-tax revenue. Total expenditure recorded an increase of 5.9% on an annual basis, contributed by higher operating expenditure. Most of the increase in spending under operating expenditure was accounted for by payments for emoluments and debt service. Development expenditure was lower across the sectors. As at end-March 2014, total outstanding debt of the Federal Government amounted to RM560.6 billion or 52.2% of the estimated 2014 GDP.

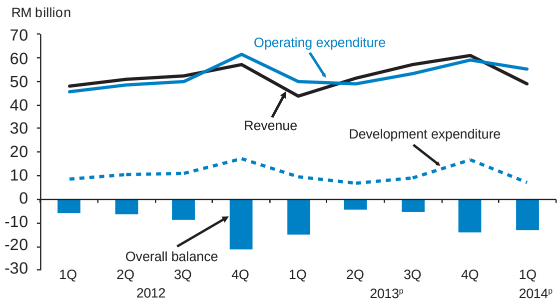
Federal Government Finance[p]

	2013			2014
	1Q	4Q	Year	1Q
	RM billion			
Revenue	43.8	61.1	213.4	49.2
% annual growth	*-8.6*	*6.8*	*2.6*	*12.4*
Operating expenditure	49.9	58.8	211.3	55.2
% annual growth	*9.4*	*-4.6*	*2.8*	*10.6*
Current account	**-6.1**	**2.3**	**2.1**	**-6.0**
% of GDP	***-2.6***	***0.9***	***0.2***	***-2.3***
Net development expenditure	8.8	16.0	40.7	7.0
% annual growth	*8.3*	*-3.4*	*-8.2*	*-20.9*
Overall balance	**-14.9**	**-13.8**	**-38.6**	**-13.0**
% of GDP	***-6.4***	***-5.2***	***-3.9***	***-5.1***
Memo item:				
Total net expenditure	58.7	74.8	252.0	62.2
% annual growth	*9.3*	*-4.4*	*0.8*	*5.9*
Total Federal Government debt (as at end-period)	508.9	539.9	539.9	560.6
% of GDP	*51.6*	*54.7*	*54.7*	*52.2*
Domestic debt	352.2	381.5	381.5	398.5
% of GDP	*35.7*	*38.7*	*38.7*	*37.1*
External debt[1]	156.7	158.4	158.4	162.1
% of GDP	*15.9*	*16.1*	*16.1*	*15.1*
Non-resident holdings of RM-denominated Federal Government debt[2]	*140.5*	*141.7*	*141.7*	*145.7*
% of GDP	*14.3*	*14.4*	*14.4*	*13.6*
Offshore borrowing	*16.2*	*16.8*	*16.8*	*16.5*
% of GDP	*1.6*	*1.7*	*1.7*	*1.5*

[p] Preliminary
[1] Refers to the redefined external debt (see Box Article on the 'Redefinition of External Debt')
[2] Refers to non-resident holdings of ringgit-denominated Government debt (MGS, GII, T-bills etc.), which was classified as domestic debt under the previous definition

Source: Ministry of Finance, Malaysia and Bank Negara 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 first quarter of 2014. At the prevailing level of the OPR, monetary conditions remain supportive of economic activity.

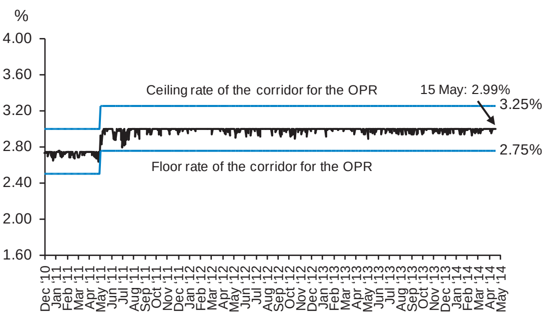
Reflecting the unchanged OPR, the average overnight interbank rate was stable during the quarter, moving within a range of 2.92% to 3.00% between 1 January and 31 March 2014. In February 2014, BNM reduced the maximum tenure of its Range Maturity Auction (RMA) operations from 3 to 2 months. The shorter maturity allows banks' surplus liquidity with BNM to mature more frequently, thereby ensuring that it can be drawn upon during periods of anticipated capital outflows. While placements between banks were stable compared to previous months, the absence of trade with BNM at the 3-month maturity resulted in a higher average 3-month interbank rate. Interbank rates of other short-term maturities were relatively stable during the quarter.

Rates on interest rate swaps and the 3-month Kuala Lumpur Interbank Offered Rate (KLIBOR) futures during the period were stable but remained elevated amid continued market expectations for the OPR to increase in the second half of 2014.

Retail deposit rates were stable during the period. The average quoted fixed deposit (FD) rates of commercial banks were relatively unchanged. As at end-March 2014, the average quoted FD rates of commercial banks for the tenures 1 to 12 months ranged between 2.91% to 3.15%, respectively.

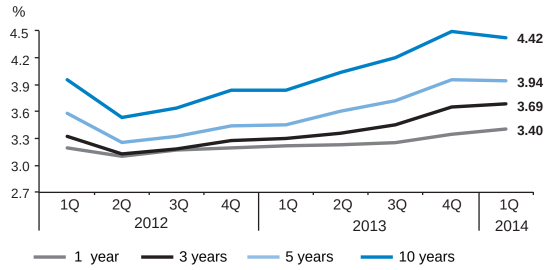
Borrowing costs to the economy were also broadly stable throughout the period. The average base lending rate (BLR) of commercial banks remained unchanged at 6.53%. The weighted average lending rate (ALR) on outstanding loans was stable during the period (end-March 2014: 5.39%; end-December 2013: 5.36%). Borrowing costs for businesses and households remained supportive of economic activity as lending rates continue to be below the levels prior to the Global Financial Crisis.

Daily Weighted Average Overnight Interbank Rate



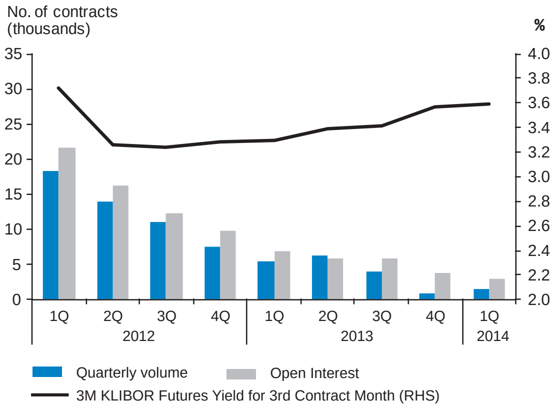
Source: Bank Negara Malaysia

Interest Rate Swap: Rates



Source: Bloomberg

3 Month KLIBOR Futures



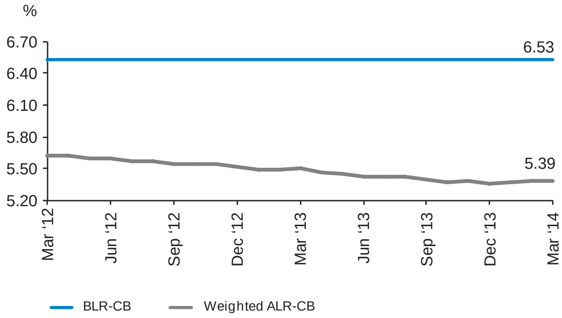
Source: Bursa Malaysia

Interest Rates

	2013		2014
	1Q	4Q	1Q
	At end-period (%)		
Overnight Policy Rate (OPR)	3.00	3.00	3.00
Interbank rates			
Overnight	3.00	2.99	3.00
1-month	3.10	3.20	3.06
Base lending rate (BLR)			
Commercial banks	6.53	6.53	6.53
Weighted average lending rate			
Commercial banks	5.50	5.36	5.39
Fixed deposit rates			
Commercial banks			
1-month	2.91	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

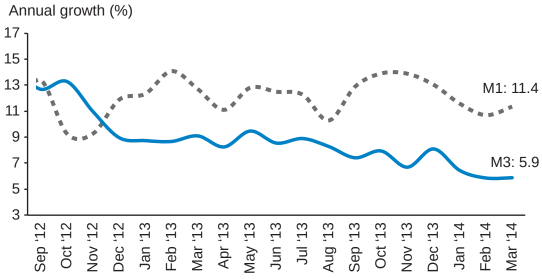
M3 continued to expand

The monetary aggregates expanded at a slower pace in the first quarter of 2014. M1, or narrow money, decreased slightly by RM0.6 billion during the quarter. However, on an annual basis, M1 expanded by 11.4% as at end-March 2014 (end-December 2013: 13%). M3, or broad money, increased by RM19.5 billion on a quarter-on-quarter basis to record an annual growth rate of 5.9% as at end-March 2014 (end-December 2013: 8.1%).

The expansion of M3 during the quarter was mainly on account of credit extended to the private sector by the banking system and higher net claims on the Government. The expansion, however, was partially offset by the decline in net foreign assets following net trade and financial outflows during the quarter.

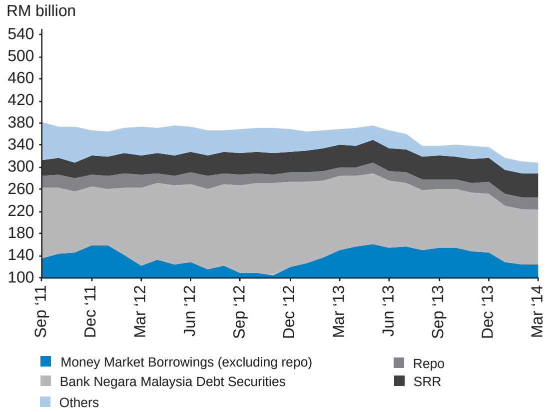
In the banking system, ample liquidity conditions prevailed at both the institutional and system-wide levels. The level of surplus liquidity placed with BNM was marginally lower during the quarter following the release of liquidity to meet the greater demand for funds.

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			
	2013			2014
	1Q	4Q	Year	1Q
	RM billion			
M3	**44.4**	**25.4**	**109.5**	**19.5**
Net claims on Govt	8.4	-5.0	21.4	7.0
Claims on private sector	24.1	41.6	119.5	24.2
Loans	*21.6*	*33.2*	*109.4*	*24.4*
Securities	*2.4*	*8.4*	*10.1*	*-0.2*
Net foreign assets[1]	7.6	4.3	-3.7	-4.9
BNM	*6.3*	*-4.0*	*-4.4*	*-18.0*
Banking System	*1.3*	*8.3*	*0.7*	*13.2*
Other influences	4.4	-15.5	-27.7	-6.8

[1] Pre-revaluation

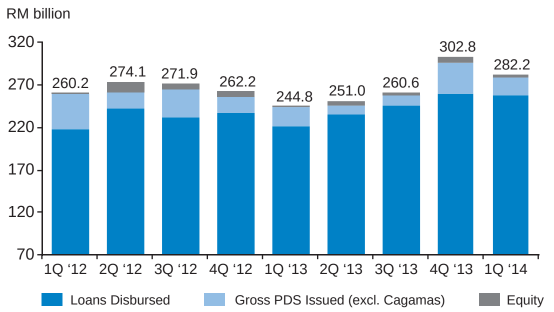
Note: Numbers may not add up due to rounding

Source: Bank Negara Malaysia

Private sector financing activity remained strong in the first quarter

In the first quarter, total gross financing raised by the private sector through the banking system and the capital market amounted to RM282.2 billion (4Q 2013: RM302.8 billion). On a net basis, outstanding banking system loans and PDS expanded at an annual growth rate of 9.6% as at end-March 2014 (end-December 2013: 9.8%).

Gross Private Sector Financing through the Banking System and Capital Market

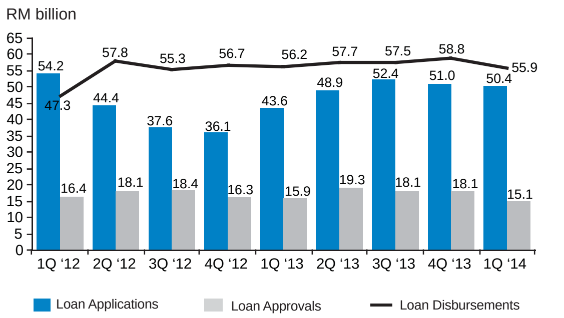


Source: Bank Negara Malaysia

Net lending to businesses by the banking system expanded by a smaller amount of RM8.3 billion (4Q 2013: RM11.1 billion) on account of higher repayments during the quarter. Overall loan disbursements remained steady with more funds channelled to the *wholesale and retail, restaurants and hotels, primary agriculture, manufacturing,* and *real estate* sectors. On an annual basis, outstanding business loans grew at a stable pace of 8.6% during the quarter (end-December 2013: 8.5%). Demand for new financing by businesses remained strong, with loan applications higher by RM1.1 billion compared to the previous quarter. This was mainly observed in the *electricity, gas and water supply* and *transport, storage and communication* sectors.

Net financing to the household sector expanded by RM16.1 billion during the quarter (4Q 2013: RM20.9 billion). On an annual basis, outstanding household loan growth moderated to 11.7% as at end-March (end-December 2013: 12%). Household demand for loans moderated during the quarter, with lower loan applications for the *purchase of residential property, non-residential property* and for *personal use*.

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 (%)			
	2013			2014	2013			2014
	1Q	4Q	Year	1Q	1Q	4Q	Year	1Q
Gross total financing	**244.8**	**302.8**	**1,059.2**	**282.2**	**-5.9**	**15.5**	**-0.8**	**15.3**
Loans disbursed*	221.7	259.3	961.2	258.4	2.2	9.8	3.6	16.5
Gross PDS (excl. Cagamas)	22.1	36.0	82.1	19.6	-47.4	81.9	-27.4	-11.1
Equity	1.0	7.4	16.0	4.2	-24.9	21.3	-41.5	320.7
Net total financing (A)+(B)	**33.5**	**49.0**	**146.7**	**32.3**	**11.1**	**9.8**	**9.8**	**9.6**
Banking system	24.7	38.6	121.0	22.2	11.7	10.1	10.1	9.7
Loans outstanding (A)	*23.4*	*34.3*	*117.7*	*21.0*	10.6	10.6	10.6	10.2
Holding of PDS	*1.4*	*4.3*	*3.4*	*1.1*	28.2	3.8	3.8	3.4
PDS outstanding (B)	10.1	14.7	29.0	11.3	12.7	7.6	7.6	7.7
Memorandum item								
Gross PDS (incl. Cagamas)	22.6	36.0	83.9	20.5	-49.5	55.9	-30.8	-9.1

*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
					(%)	
	1Q 13	4Q 13	Year	1Q 14		
Business enterprises	**150.3**	**180.9**	**660.0**	**184.3**	**71.3**	**43.3**
Large corporations	*94.1*	*122.0*	*429.8*	*128.4*	*49.7*	*26.7*
*SMEs**	*56.2*	*58.8*	*230.3*	*55.9*	*21.6*	*16.6*
Selected sectors						
Agriculture, hunting, forestry and fishing	8.7	7.0	31.2	8.6	3.3	2.6
Mining and quarrying	2.1	1.9	8.4	3.5	1.4	0.7
Manufacturing	48.0	54.1	200.5	55.6	21.5	7.8
Construction	14.7	17.2	62.2	17.6	6.8	4.2
Real estate	8.4	10.8	41.6	12.1	4.7	5.8
Electricity, gas and water supply	1.9	2.0	9.5	2.6	1.0	1.1
Wholesale, retail, restaurants and hotels	43.5	51.5	185.4	54.2	21.0	7.2
Transport, storage and communication	3.1	5.8	17.1	5.4	2.1	2.4
Finance, insurance and business services	14.6	23.6	78.3	18.1	7.0	7.0
Households	**71.4**	**78.4**	**301.1**	**74.1**	**28.7**	**56.7**
Purchase of residential properties	16.8	20.4	74.4	19.6	7.6	26.8
Consumption credit	41.9	44.5	174.4	41.1	15.9	18.2
Of which:						
Credit cards	*23.2*	*27.3*	*100.2*	*25.1*	*9.7*	*2.7*
Purchase of passenger cars	*10.9*	*9.5*	*41.8*	*9.0*	*3.5*	*10.9*
Others	12.6	13.5	52.3	13.4	5.2	11.6
Total	**221.7**	**259.3**	**961.2**	**258.4**	**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 (%)			
	2013			2014	2013			2014
	1Q	4Q	Year	1Q	1Q	4Q	Year	1Q
Total								
Loan applications	187.3	209.9	820.1	189.1	-4.7	22.0	6.3	1.0
Loan approvals	87.4	98.0	392.5	91.1	-2.8	2.8	0.4	4.2
Loan disbursements	221.7	259.3	961.2	258.4	2.2	9.8	3.6	16.5
Loan repayments	210.4	233.7	880.7	249.3	2.3	2.9	1.6	18.5
Change in loans outstanding*	23.4	34.3	117.7	21.0	10.6	10.6	10.6	10.2
Of which:								
Business enterprises**								
Loan applications	84.6	88.6	358.5	89.7	-19.6	26.1	-3.7	6.0
Loan approvals	34.5	37.0	154.8	34.8	-23.8	-11.3	-16.9	0.7
Loan disbursements	150.3	180.9	660.0	184.3	-1.7	9.7	0.4	22.6
Loan repayments	145.7	167.6	619.2	181.1	-0.3	2.0	-0.9	24.3
Change in loans outstanding*	7.0	11.1	35.4	8.3	11.7	8.5	8.5	8.6
SMEs**								
Loan applications	43.6	51.0	196.0	50.4	-19.4	41.4	13.8	15.5
Loan approvals	15.9	18.1	71.4	15.1	-2.8	10.8	-7.9	-5.3
Loan disbursements	56.2	58.8	230.3	55.9	18.8	3.7	6.0	-0.6
Loan repayments	52.5	54.0	214.2	53.5	14.3	-1.2	7.6	1.8
Change in loans outstanding*	5.7	6.9	22.6	7.2	15.6	12.8	12.8	13.2
Large corporations								
Loan applications	41.0	37.6	162.4	39.3	-19.8	10.0	-18.7	-4.1
Loan approvals	18.6	19.0	83.4	19.7	-35.7	-25.5	-23.3	5.9
Loan disbursements	94.1	122.0	429.8	128.4	-10.9	12.8	-2.4	36.4
Loan repayments	93.2	113.5	405.0	127.7	-7.0	3.6	-4.9	37.1
Change in loans outstanding*	1.3	4.2	12.8	1.1	8.9	5.3	5.3	5.2
Households								
Loan applications	102.6	121.3	461.6	99.4	12.5	19.1	15.5	-3.1
Loan approvals	52.9	60.9	237.7	56.3	18.6	13.8	16.1	6.5
Loan disbursements	71.4	78.4	301.1	74.1	11.6	9.9	11.4	3.8
Loan repayments	64.7	66.1	261.5	68.2	8.6	5.2	8.0	5.4
Change in loans outstanding*	16.2	20.9	74.1	16.1	12.1	12.0	12.0	11.7

* 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 activity in the capital market remain healthy

Net funds raised in the capital market were higher at RM39.4 billion in the first quarter (4Q 2013: RM33.7 billion). The bulk of funds was raised by the public sector, amounting to RM24 billion (4Q 2013: RM14.3 billion).

In the private sector, new issuances of private debt securities (PDS) amounted to RM20.5 billion (4Q 2013: RM36.0 billion). Funds raised were mainly for working capital and general corporate purposes. Meanwhile, equity issuances during the quarter amounted to RM4.2 billion (4Q 2013: RM7.4 billion). After adjusting for redemptions, net funds raised by the private sector amounted to RM15.4 billion (4Q 2013: RM19.5 billion).

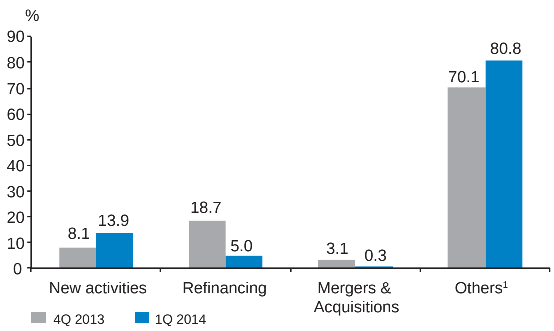
In the public sector, gross funds raised increased to RM27.5 billion (4Q 2013: RM20.4 billion). Funds were raised through new issuances of 3-year, 7-year and 10-year Malaysian Government Security (MGS), as well as the re-opening of a 15-year MGS and 5-year, 7-year and 10-year Government Investment Issue (GII). In addition, funds were raised via a RM4 billion issuance of the Government Housing Sukuk.

Net Funds Raised in the Capital Market

	2013			2014
	1Q	4Q	Year	1Q
	RM billion			
By Public Sector	**8.0**	**14.3**	**43.9**	**24.0**
Government securities, *net*	6.3	14.3	41.9	20.0
Malaysian Government Securities	*13.5*	*11.4*	*51.4*	*14.5*
Government Investment Issues	*10.1*	*9.0*	*41.0*	*9.0*
Less: Redemptions	*17.2*	*6.1*	50.6	3.5
Savings Bonds, *net*	-	-	(2.4)	-
Government Housing Sukuk, *net*	1.7	-	4.4	4.0
By Private Sector	**8.7**	**19.5**	**38.3**	**15.4**
Shares	1.0	7.4	16.0	4.2
Debt securities, *net*	7.7	12.0	22.2	11.2
Private Debt Securities	*22.6*	*36.0*	*83.9*	*20.5*
Less: Redemptions	*14.9*	*24.0*	*61.6*	*9.4*
Total	**16.7**	**33.7**	**82.1**	**39.4**

Note: Numbers may not add up to total due to rounding
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 were largely stable

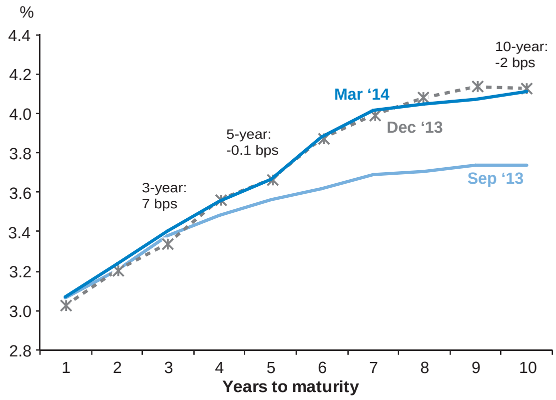
Despite the increased volatility in the global financial markets and rising risk aversion in regional financial markets, MGS yields remained relatively unchanged in the first quarter of 2014. Demand for MGS from domestic institutions, and expectations of continued accommodative monetary policy stance in the US provided support for yields during the period. As a result, yields on 5-year and 10-year MGS recorded small declines of 0.1 and 2 basis points, respectively while the 3-year MGS recorded an increase of 7 basis points.

In general, corporate bond yields increased in the first quarter. The 5-year AAA and AA-rated yields increased by 18 and 14 basis points, respectively while the A-rated yields declined by 9 basis points.

Secondary trading in the bond market decreased

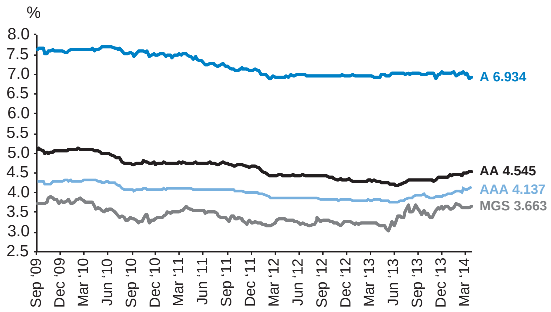
Total trading in the secondary market decreased marginally to RM137 billion during the quarter (4Q 2013: RM139 billion). Compared to the previous quarter, the MGS segment registered a lower liquidity ratio of 0.26, GII segment registered a higher liquidity ratio of 0.18, while the PDS segment remained relatively unchanged at 0.06.

Trend in MGS Yields



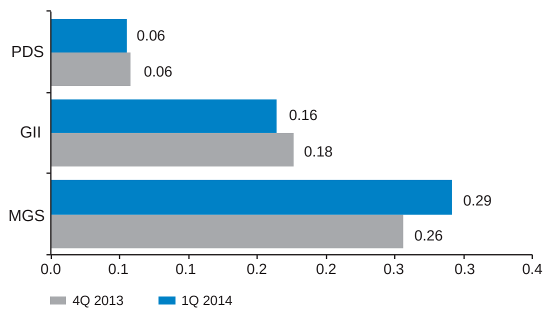
Source: Bank Negara Malaysia

5-year MGS and 5-year PDF Yields



Source: Bank Negara Malaysia

Liquidity Ratio: Value of Bond Traded / Outstanding

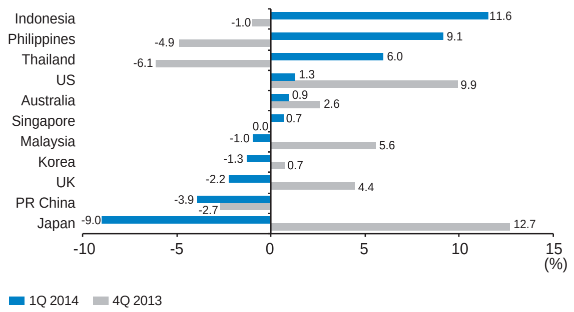


Source: Bank Negara Malaysia

FBM KLCI declined slightly

In the first quarter, the FBM (FTSE Bursa Malaysia) KLCI declined by 17.8 points, to close at 1,849.2 points (end-December 2013: 1,867 points). The decline was mainly driven by investors' concerns over further scale-back in the asset purchase programme by the Fed, the growth prospects in several emerging economies and geopolitical developments in Eastern Europe. The decline, however, was mitigated by positive sentiments in the market following favourable data releases for the domestic economy and the US labour market.

Performance of Selected Global and Regional Markets in 2014 (% growth QoQ)



Source: Bloomberg and Bank Negara Malaysia calculations

Overall, market capitalisation increased to RM1.72 trillion as at end-March 2014 (end-December 2013: RM1.70 trillion) while the daily average turnover increased to 2.05 billion units (4Q 2013: 1.70 billion units) during the quarter.

On 14 May 2014, the KLCI ended higher at 1,879.2 points (since end-March 2014: 1.6%), with market capitalisation of RM1.75 trillion (since end-March 2014: 1.6%).

Bursa Malaysia: Selected Market Indicators

	2013			2014
	As at end			
	Mar	Dec	Year	Mar
Price Indices				
Composite	1,671.6	1,867.0	1,867.0	1,849.2
FBMEMAS[1]	11,420.5	12,853.6	12,853.6	12,797.6
ACE Market[2]	4,008.3	5,675.8	5,675.8	6,661.3
Market capitalisation (RM billion)	1,472.5	1,702.2	1,702.2	1,719.1
No. of companies listed	915	911	911	907
	During the period			
	1Q	4Q	Year	1Q
Average daily turnover				
Volume (million units)	1,070.6	1,704.7	1,567.3	2,046.4
Value (RM million)	1,716.1	2,330.2	2,157.2	2,158.8

[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

	2013						2014	
	1Q		4Q		Year		1Q	
	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion
Turnover	62.1	99.5	107.4	146.8	386.9	527.8	120.7	127.4
Of which:								
Main Board	48.9	97.9	80.0	140.7	305.2	512.3	91.3	119.7
Of which								
Consumer Products	3.1	5.3	7.3	5.5	20.9	22.6	8.4	7.1
Industrial Products	8.7	7.0	9.6	9.7	51.5	40.4	18.9	13.1
Construction	2.4	3.9	2.8	4.6	15.1	25.0	4.0	5.9
Trading/Services	16.6	42.3	34.6	81.0	111.4	229.1	33.9	51.9
Finance	3.5	21.9	4.0	18.2	17.2	103.2	3.4	18.8
Properties	5.1	5.7	8.8	6.7	34.0	35.6	10.5	7.8
Plantations	1.2	4.8	1.7	5.6	5.5	19.6	1.7	5.4
Infrastructure	1.2	4.1	1.9	5.0	6.5	19.1	1.5	4.7
ACE Market[1]	10.5	1.3	24.4	5.5	69.7	13.5	26.8	7.0

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

Source: Bursa Malaysia

Ringgit continued to be affected by external uncertainties

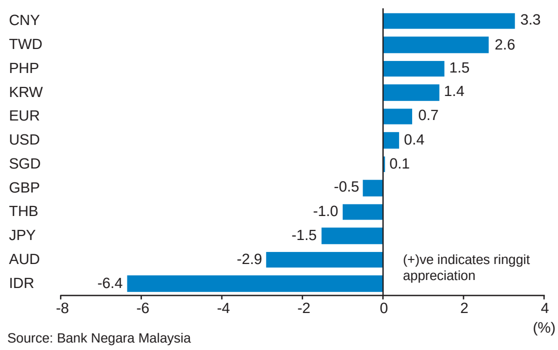
The ringgit and most other regional currencies continued to be affected by global developments in the first quarter of the year. The commencement of the scale-back of the Fed's asset purchase programme, concerns over the growth outlook for several emerging economies and geopolitical developments led to heightened risk aversion and an outflow of funds from regional financial markets. Nevertheless, expectations of stimulus measures in PR China and the continued accommodative monetary policy in the US provided support for the ringgit during the quarter.

Overall, the ringgit appreciated by 0.4% against the US dollar. The ringgit also appreciated against the euro (0.7%), but depreciated against the pound sterling (-0.5%) and Japanese yen (-1.5%).

Performance of the ringgit against regional currencies was mixed.

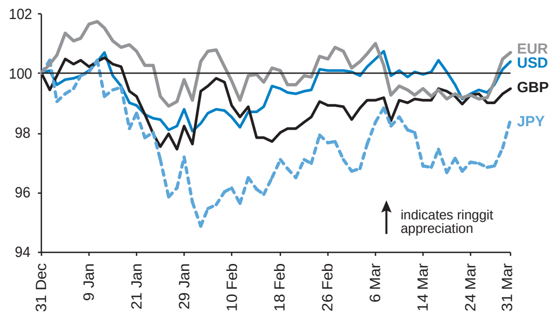
Between 1 April and 14 May 2014, the ringgit appreciated against the US dollar by 1.4%. The ringgit also appreciated against the euro (1.6%), Japanese yen (0.7%), pound sterling (0.1%) and most regional currencies.

Summary of Ringgit Performance against Selected Currencies Percent Change (1 January - 31 March 2014)



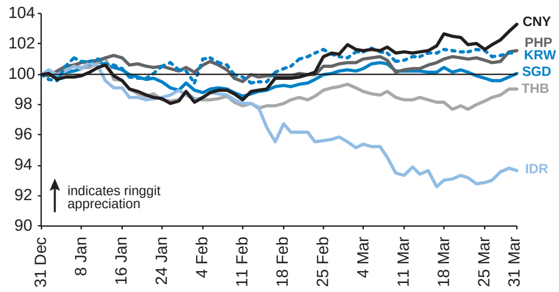
Source: Bank Negara Malaysia

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	1Q 13	4Q 13	1Q 14	21 Jul 05	1Q 13	4Q 13
US dollar	3.8000	3.0885	3.2815	3.2685	16.3	-5.5	0.4
Euro	4.6212	3.9618	4.5263	4.4934	2.8	-11.8	0.7
Pound sterling	6.6270	4.6971	5.4076	5.4354	21.9	-13.6	-0.5
Australian dollar	2.8823	3.2174	2.9299	3.0173	-4.5	6.6	-2.9
100 Japanese yen	3.3745	3.2811	3.1281	3.1770	6.2	3.3	-1.5
Singapore dollar	2.2570	2.4911	2.5943	2.5927	-12.9	-3.9	0.1
100 Thai baht	9.0681	10.545	9.9757	10.077	-10.0	4.6	-1.0
100 Philippine peso	6.8131	7.5606	7.3908	7.2795	-6.4	3.9	1.5
100 Indonesian rupiah	0.0386	0.0318	0.0269	0.0288	34.3	10.5	-6.4
100 Korean won	0.3665	0.2773	0.3108	0.3065	19.6	-9.5	1.4
100 New Taiwan dollar	11.890	10.342	11.009	10.727	10.8	-3.6	2.6
Chinese renminbi	0.4591	0.4973	0.5422	0.5251	-12.6	-5.3	3.3

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

Source: Bank Negara Malaysia

Market activity for foreign exchange derivatives rose in the first quarter

The volume of foreign exchange swaps, forwards and options grew by 37.2% from the fourth quarter of 2013. The rise was mainly driven by foreign exchange swap activities which expanded by 43% from the fourth quarter of 2013 as interbank players facilitated increased trading and hedging activities in a more volatile market environment. There was also increased activity in the USD/CNY currency pair as markets reacted to the PBoC's decision to widen the yuan trading band to +/- 2% from +/- 1%.

Meanwhile, the cost of borrowing US dollar through the cross-currency swap markets had initially increased throughout January and February, with the 5-year USD/MYR cross-currency swaps rising by 15 basis points to a high of 85 basis points during the period. This, however, decreased to 78 basis points in March following greater clarity on the pace and consistency of the Fed's scale-back of its asset purchase programme.

MANAGING RISKS TO FINANCIAL STABILITY

Domestic financial stability continues to be preserved

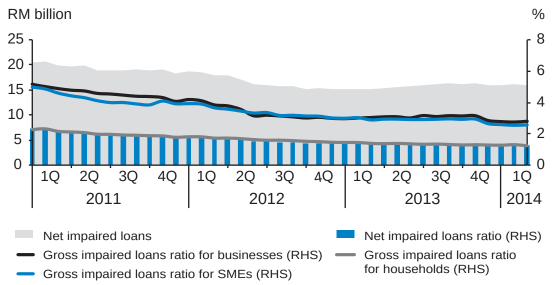
The Malaysian financial system continued to demonstrate resilience throughout the first quarter despite volatility in the global and domestic financial markets. Financial intermediation continued to be well-supported by sound financial institutions, orderly financial market conditions and sustained confidence in the financial system.

Credit risk in the banking system remained stable throughout the quarter, following the sustained debt servicing capacity of borrowers in general. The level of net impaired loans and loans-in-arrears of between one and three months were almost unchanged at 1.3% of net loans (4Q 2013: 1.3%) and 2.4% of total loans (4Q 2013: 2.5%). The size of credit risk exposures of the insurance industry, mainly attributed to holdings of private debt securities and reinsurance placements, remained stable at 3.4% of capital base (4Q 2013: 3.3%).

During the quarter, aggregate household borrowings via banks and major non-bank financial institutions grew at a more moderate pace of 2.3% as compared to the previous quarter (4Q 2013: +2.9%) to RM873.3 billion (4Q 2013: RM854.3 billion). On a year-on-year basis, aggregate household debt also grew more moderately by 11.0% (1Q 2013: 13.9%). These trends mainly reflected the slower growth in financing for personal use and the purchase of properties and motor vehicles during the quarter. Coupled with stable income and employment conditions, household sector impaired loans and loans-in-arrears of between one and three months declined further to account for 1.2% and 1.7% of total borrowings from the banking sector, respectively (4Q 2013: 1.3% and 2.1%, respectively). At the aggregate level, household financial assets remained healthy at 2.2 times of household debt.

The overall interest coverage ratio of businesses improved to 9 times in 4Q 2013 (3Q 2013: 6.1 times) underpinned by higher operating profit, while leverage as measured by the ratio of debt-to-equity was stable at 39.7% (3Q 2013: 39.2%). Aggregate cash and cash equivalent of businesses accounted for 11.5 times of finance costs (3Q 2013: 11.4 times). Similarly, current assets were stable at 1.8 times of current liabilities (3Q 2013: 1.9 times). The quality of banking system credit exposures to businesses remained healthy, with impaired loans and loans-in-arrears of between one and three months at 2.8% and 0.5% of total business loans, respectively (4Q 2013: 2.8% and 0.4%, respectively). The risk of delinquency, as measured by the expected default frequency, remained low and improved further to 0.18% (4Q 2013: 0.23%) amid the sustained financial performance of businesses.

Banking System: Loan Quality



Source: Bank Negara Malaysia

Volatile short-term portfolio flows were well-intermediated without any disruptive effects on the domestic financial markets and intermediation activities. Average volatility for 10-year MGS yields and the FBM KLCI declined to 10.7% and 7.1%, respectively (4Q 2013: 15.5% and 8.8%, respectively) amid greater clarity in the Fed's scale-back of its QE programme. Demand by local institutions for equities and bonds, to some extent, also contributed in attenuating some of the volatility in the domestic financial market. The bid-ask spreads of MGS and FBM KLCI averaged at 0.1% and 0.4% of the mid-price, respectively (4Q 2013: 0.1% and 0.7%, respectively). The turnover ratio for MGS and FBM KLCI remained stable at 9.1% and 1.8%, respectively (4Q 2013: 9.7% and 1.6%, respectively).

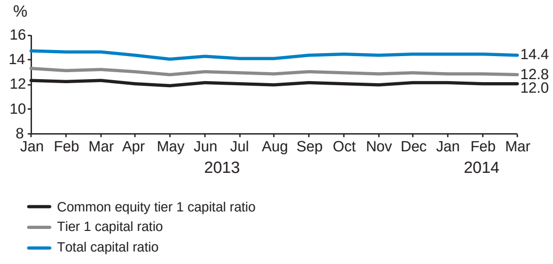
Market risk exposures continued to be well managed by financial institutions, supported by sustained pro-active risk management and hedging strategies. Bank exposures to interest rate risk in the trading book accounted for 1.7% of total capital (4Q 2013: 1.6%). Exposures to equity risk increased slightly to 0.9% of total capital (4Q 2013: 0.8%), while the foreign exchange (FX) net open position of the banking system increased to 6.2% of total capital during the quarter (4Q 2013: 5.7%). Market risk exposures of the insurance industry increased slightly to account for 12.4% (4Q 2013: 12.3%) of total capital available driven by higher equity risk which formed 7.7% (4Q 2013: 7.6%) of total capital available.

BNM continues to closely monitor signs of a potential build-up of risk in the financial system. While the growth of household indebtedness has continued to moderate following the implementation of macro and micro-prudential measures, household leverage particularly among lower income households remains high. There is a need to maintain a high degree of vigilance over lending practices in the household and property segments which can contribute to financial imbalances. Continued prudent risk management by financial institutions and businesses is also warranted in an environment where market conditions are likely to remain volatile.

The financial sector continued to remain sound and resilient

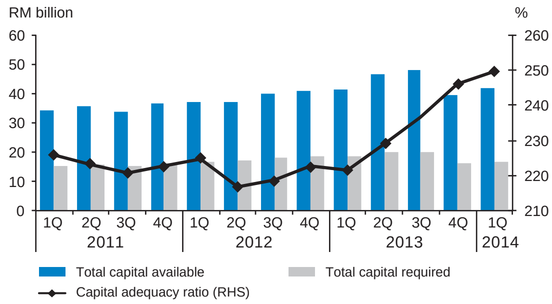
The banking system remained well-capitalised with the common equity tier 1 (CET1) capital ratio, tier 1 capital ratio and total capital ratio well above the minimum regulatory levels, at 12%, 12.8% and 14.4%, respectively. The total capital buffer of the banking system stood at more than RM80 billion. More than 80% of banks' total capital consists of high quality capital, in the form of paid-up capital, retained earnings and reserves. Similarly, the capital adequacy ratio of the insurance sector remained strong at 249.7% (4Q 2013: 246.1%), with an excess capital buffer of RM25 billion.

Banking System: Basel III Capitalisation



Source: Bank Negara Malaysia

Insurance Sector: Capitalisation

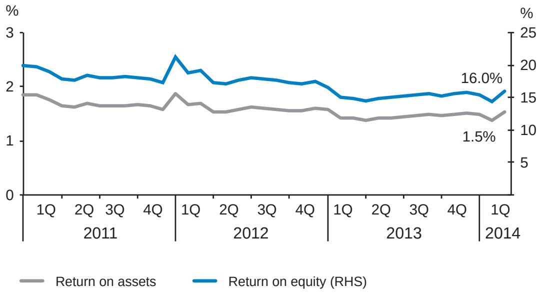


Source: Bank Negara Malaysia

The banking system recorded pre-tax profit of RM8 billion in the first quarter of 2014 (4Q 2013: RM8.2 billion), with returns on assets and equity at 1.5% and 16%, respectively (4Q 2013: 1.5% and 15.9%, respectively). The slightly lower profit level was attributed to lower income growth from trading activities, and underwriting and corporate advisory related services. The excess income over outgo of life insurers and family takaful operators remained unchanged at RM3.2 billion as lower net policy benefits payments offset the higher net unrealised investment losses during the quarter. General insurers and takaful operators recorded a lower operating profit of RM816.9 million (4Q 2013: RM1 billion) due to lower investment income and earned premium income.

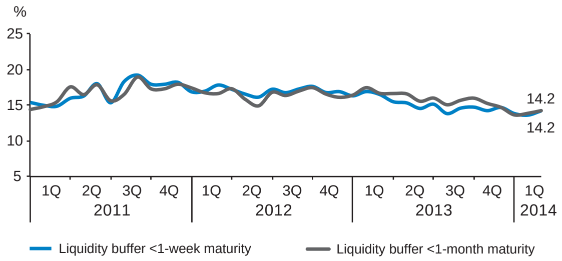
Liquidity in the banking system remained ample with the buffers to meet short-term liquidity needs over the 1-week and 1-month horizons remaining above minimum regulatory requirements, both at 14.2% of total deposits, respectively (4Q 2013: both stood at 14.7%). Net placements by banking institutions with BNM, which can be utilised to meet additional liquidity needs, stood at RM115 billion (4Q 2013: RM135 billion). US dollar mismatch positions in the less than 1-week and 1-month maturity buckets recorded a net surplus of RM1.7 billion and RM7.9 billion, respectively (4Q 2013: surplus of RM1.5 billion and RM5.3 billion, respectively) despite net capital outflows during the quarter.

Banking System: Profitability



Source: Bank Negara Malaysia

Banking System: Liquidity Buffer to Total Deposit Ratio



Source: Bank Negara Malaysia

Insurance and Takaful Sectors: Indicators

	2013			2014
	1Q	4Q	Year	1Q
	RM million			
Life insurance & family takaful				
Excess of income over outgo	3,784.1	3,322.3	13,165.3	3,205.9
General insurance & general takaful				
Operating profit	739.6	1,063.7	3,223.4	816.9
Claims ratio (%)	58.3	57.1	57.1	54.9
	Annual Change (%)			
Life insurance & family takaful				
Excess of income over outgo	-3.3	-28.2	-26.5	-15.3
General insurance & general takaful				
Operating profit	17.5	24.6	14.7	10.4
Claims ratio (percentage points)	-2.2	-0.2	-0.2	-3.4

Source: Bank Negara Malaysia