DEVELOPMENTS IN THE MALAYSIAN ECONOMY

The Malaysian economy grew by 4.3% in the third quarter

The Malaysian economy expanded by 4.3% during the quarter (2Q 2016: 4.0%), underpinned mainly by sustained growth in private sector activity (6.0%; 2Q 2016: 6.1%). Public sector spending, however, expanded at a slower pace. As a result, growth in domestic demand moderated as the improvement in private sector activity was outweighed by the slower growth in public expenditure. On the external front, net exports provided some impetus to growth as real imports of goods and services contracted at a faster pace (-2.3%; 2Q 2016: 2.0%) compared to real exports (-1.3%; 2Q 2016: 1.0%). On a quarter-on-quarter seasonally-adjusted basis, the economy recorded a growth of 1.5% (2Q 2016: 0.7%).

Slower expansion in domestic demand

Domestic demand grew by 4.7% in the third quarter of the year (2Q 2016: 6.3%), as the sustained growth in private sector activity (6.0%; 2Q 2016: 6.1%) was more than offset by the slower expansion in public sector expenditure (0.3%; 2Q 2016: 6.9%). **Private consumption** expanded by 6.4% (2Q 2016: 6.3%), supported by continued wage and employment growth as well as the increase in minimum wage effective 1 July 2016. **Private investment** grew by 4.7% (2Q 2016: 5.6%), underpinned mainly by continued capital spending in the services and manufacturing sectors. Businesses remained cautious in expanding capacity, following headwinds from the external front, including the UK's EU referendum and volatility in both financial and commodity markets.

Public consumption growth moderated to 3.1% (2Q 2016: 6.5%), as a result of lower spending on supplies and services. Growth of **public investment** contracted by 3.8% (2Q 2016: 7.5%), attributable mainly to lower spending on fixed assets by the Federal Government.

GDP by Expenditure Components
(at constant 2010 prices)

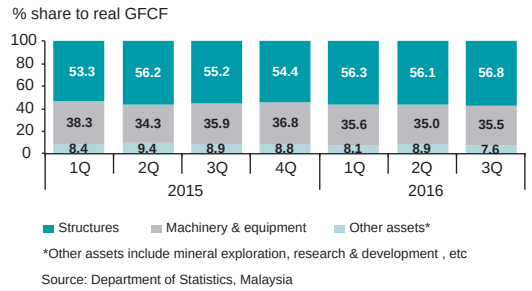
	Share 2015 (%)	2015		2016		
		3Q	4Q	1Q	2Q	3Q
		Annual change (%)				
Aggregate Domestic Demand (excluding stocks)	91.6	4.1	4.0	3.6	6.3	4.7
Private Sector	69.2	4.4	4.9	4.5	6.1	6.0
Consumption	*52.4*	*4.1*	*4.9*	*5.3*	*6.3*	*6.4*
Investment	*16.9*	*5.5*	*4.9*	*2.2*	*5.6*	*4.7*
Public Sector	22.4	2.9	2.1	0.4	6.9	0.3
Consumption	*13.5*	*3.6*	*3.3*	*3.8*	*6.5*	*3.1*
Investment	*8.9*	*1.8*	*0.4*	*-4.5*	*7.5*	*-3.8*
Net Exports	8.6	3.4	4.3	-12.4	-7.0	5.9
Exports of Goods and Services	*72.9*	*3.2*	*4.0*	*-0.5*	*1.0*	*-1.3*
Imports of Goods and Services	*64.3*	*3.1*	*4.0*	*1.3*	*2.0*	*-2.3*
GDP[1]	**100.0[1]**	**4.7**	**4.5**	**4.2**	**4.0**	**4.3**
GDP (q-o-q growth, seasonally adjusted)	**-**	**0.9**	**1.2**	**1.0**	**0.7**	**1.5**

[1] Numbers do not add up due to rounding and exclusion of stocks

Source: Department of Statistics, Malaysia

In terms of total investment, **gross fixed capital formation (GFCF)** growth moderated to 2.0% (2Q 2016: 6.1%), on account of a contraction in public investment and a moderation in private investment. By type of assets, the moderation in total investment was due to broad-based slower growth of capital spending in structures (5.0%; 2Q 2016: 5.9%), machinery and equipment (0.9%; 2Q 2016: 8.1%) and other type of assets (-12.5%; 2Q 2016: 0.8%).

GFCF by Type of Assets



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

Source: Department of Statistics, Malaysia

Major economic sectors continued to expand

On the supply side, growth in the third quarter was supported mainly by the services and manufacturing sectors, while the agriculture sector remained weak. The expansion in the services sector was underpinned primarily by private consumption activity, while growth in the manufacturing sector was supported by the export-oriented industries. In the construction sector, growth continued to be driven by civil engineering activity, while the mining sector expanded at a faster pace on account of higher crude oil production. Growth in the agriculture sector, however, remained in contraction, attributable largely to the lagged impact of El Niño on CPO yields.

The **services sector** expanded by 6.1% (2Q 2016: 5.7%), driven largely by private consumption activity. The growth in wholesale and retail trade; food & beverages and accommodation sub-sectors benefited from continued household spending. In the information and communication sub-sector, growth remained robust, reflecting strong demand for data communication services. Growth in the finance and insurance sub-sector improved, supported mainly by better performance in the life insurance segment and improvement in fee income growth. Amid slower trade activity, the transportation and storage sub-sector was supported mainly by passenger travel, as reflected in higher growth in airport passenger traffic during the quarter.

GDP by Economic Activity (at constant 2010 prices)

	Share 2015 (%)	2015		2016		
		3Q	4Q	1Q	2Q	3Q
		Annual change (%)				
Services	53.5	4.4	5.0	5.1	5.7	6.1
Manufacturing	23.0	4.9	5.0	4.5	4.1	4.2
Mining	9.0	5.1	-1.3	0.3	2.6	3.6
Agriculture	8.9	2.3	1.5	-3.8	-7.9	-5.9
Construction	4.4	9.9	7.4	7.9	8.8	7.9
Real GDP	**100.0[1]**	**4.7**	**4.5**	**4.2**	**4.0**	**4.3**
Real GDP (q-o-q seasonally adjusted)	**-**	**0.9**	**1.2**	**1.0**	**0.7**	**1.5**

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

Source: Department of Statistics, Malaysia

Performance of the Services Sector (value added at constant 2010 prices)

	Share 2015 (%)	2015		2016		
		3Q	4Q	1Q	2Q	3Q
		Annual change (%)				
Intermediate Services	**38.1**	**3.7**	**4.1**	**4.7**	**5.5**	**6.1**
Finance & insurance	12.9	-3.1	-1.5	0.1	1.6	5.0
Real estate & business services	8.0	6.5	6.1	6.4	6.8	7.0
Transport & storage	6.6	5.7	6.0	5.8	5.9	5.2
Information & communication	10.6	9.5	9.2	8.5	8.8	7.6
Final Services	**61.9**	**4.7**	**5.4**	**5.4**	**5.8**	**6.1**
Wholesale & retail trade	27.4	5.7	6.4	5.2	6.6	6.7
Food & beverages and accommodation	5.2	5.8	5.8	6.2	6.9	7.4
Utilities	4.8	3.1	3.2	6.7	5.4	5.0
Government services	16.3	3.2	4.7	5.3	4.9	5.5
Other services	8.2	4.8	4.6	4.6	4.4	5.1
Total Services	**100.0[1]**	**4.4**	**5.0**	**5.1**	**5.7**	**6.1**

[1] Numbers do not add up due to rounding

Source: Department of Statistics, Malaysia

Selected Quarterly Indicators in the Services Sector

	2015		2016		
	3Q	4Q	1Q	2Q	3Q
	Index				
MIER Consumer Sentiments Index	70.2	63.8	72.9	78.5	73.6
MIER Retail Trade Index	93.3	77.9	65.9	105.0	111.6
MIER Tourism Market Index	116.5	89.8	93.0	99.5	112.1
	Annual change (%)				
Tourist arrivals	-3.8	-2.3	2.8	4.6	4.1[1]
Total passenger traffic at all airports	6.1	-3.0	3.8	0.4	8.2[1]
Total consumption credit outstanding	2.7	3.1	1.9	1.8	1.2
Total loans outstanding	9.7	7.9	6.4	5.6	4.2
Loans outstanding to the wholesale & retail trade, hotels & restaurants	10.3	8.2	7.0	5.2	3.1
Imports of consumption goods	27.2	38.1	24.6	10.0	-0.8
Total sales of motor vehicles	2.5	4.1	-22.0	-6.3	-12.4
Container cargo handled (Port Klang and PTP)	7.7	5.4	6.3	5.1	-3.7

[1] July-August 2016

Source: Various sources

The **manufacturing sector** registered a growth of 4.2% in 3Q 2016 (2Q 2016: 4.1%). Growth continued to be driven mainly by the export-oriented industries. This reflected the higher production of chemical-related products resulting from sustained regional demand as well as continued strength in the electronics segment, particularly semiconductors in line with recent recovery in global semiconductor sales. In the domestic-oriented industries, growth was underpinned by the production of food and construction-related products. However, the transport equipment segment remained weak as reflected by the contraction in the production of passenger cars during the quarter due to subdued consumer demand.

Performance of the Manufacturing Sector

	Share in 2015 (%)	2015		2016		
		3Q	4Q	1Q	2Q	3Q
		Annual Change (%)				
Overall Value Added (at constant 2010 prices)	**100.0**	**4.9**	**5.0**	**4.5**	**4.1**	**4.2**
Export-oriented industries	63.6	5.8	5.4	4.5	7.0	5.6
Domestic-oriented industries	36.4	3.2	4.1	4.6	-0.4	1.7
Overall Manufacturing Production[1]	**100.0**	**4.7**	**4.8**	**4.3**	**3.9**	**4.0**
Export-oriented industries	**77.6**	**5.2**	**4.7**	**4.2**	**4.2**	**4.1**
Electronics and electrical products cluster	**25.0**	**10.6**	**10.7**	**5.9**	**8.5**	**6.2**
Of which:						
Electronics	15.3	3.5	5.7	6.0	9.8	8.9
Electrical products	7.6	27.7	24.7	6.4	7.8	2.2
Primary-related cluster	**52.6**	**2.3**	**1.5**	**3.2**	**1.8**	**2.9**
Of which:						
Chemicals and chemical products	14.3	1.6	1.9	3.3	4.9	5.7
Petroleum products	21.0	2.1	-0.2	1.2	5.0	3.1
Rubber products	2.5	6.9	7.0	6.9	4.7	2.9
Off-estate processing	6.4	-0.9	-1.9	2.7	-21.4	-7.2
Domestic-oriented industries	**22.4**	**3.0**	**5.0**	**4.6**	**2.8**	**3.3**
Construction-related cluster	**11.3**	**3.9**	**4.8**	**4.9**	**5.0**	**4.0**
Of which:						
Construction-related products	8.2	3.7	3.7	4.7	4.5	3.3
Fabricated metal products	3.1	4.2	6.9	5.4	5.9	5.2
Consumer-related cluster	**11.1**	**2.1**	**5.1**	**4.2**	**0.9**	**2.7**
Of which:						
Transport equipment	5.5	2.2	3.7	2.0	-7.4	-2.0
Food, beverage & tobacco products	5.4	2.5	7.4	7.3	13.0	8.3

[1] Industrial Production Index (2010=100)

Source: Department of Statistics, Malaysia

The **construction sector** sector grew by 7.9% (2Q 2016: 8.8%), supported mainly by activity in the civil engineering sub-sector following progress in existing petrochemical, transport and utility projects. The residential sub-sector recorded higher growth, supported by new and ongoing construction activity in the mass-market housing segments, while growth in the non-residential sub-sector was affected by the lower activity for commercial projects. In the special trade sub-sector, growth moderated reflecting slower early-work activities, such as earthworks and land reclamation works.

Growth in the **agriculture sector** remained in contraction (-5.9%; 2Q 2016: -7.9%), as the lagged impact of El Niño on CPO yields continued to affect production. From January to September 2016, fresh fruit bunch (FFB) yields declined by 15%, compared to the same period last year. The **mining sector** grew by 3.6% (2Q 2016: 2.6%), supported by higher crude oil production, particularly in Sabah.

Performance of the Agriculture Sector

	Share in 2015 (%)	2015		2016		
		3Q	4Q	1Q	2Q	3Q
		Annual change (%)				
Value Added (at constant 2010 prices)	**100.0**	**2.3**	**1.5**	**-3.8**	**-7.9**	**-5.9**
Industrial Crops	**61.0**	**3.5**	**1.7**	**-9.2**	**-16.3**	**-12.0**
Of which:						
Oil palm	46.9	4.1	1.2	-10.0	-19.3	-13.8
Rubber	7.2	5.3	26.9	-13.0	-4.5	-9.2
Food Crops	**39.0**	**0.5**	**1.2**	**3.5**	**5.3**	**3.9**
Of which:						
Fishing	10.7	-3.2	2.4	-2.1	6.6	3.2
Livestock	10.7	2.0	0.4	5.0	4.9	4.2

Source: Department of Statistics, Malaysia

Performance of the Mining Sector

	2015		2016		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
Value Added (at constant 2010 prices)	**5.1**	**-1.3**	**0.3**	**2.6**	**3.6**
Production					
Of which:					
Crude oil and condensates	7.3	0.2	-0.3	0.6	6.0
Natural gas	1.5	-5.0	0.0	3.9	0.4
Other mining and support services	15.4	14.4	6.5	8.6	6.9

Source: Department of Statistics, Malaysia

Indicators for the Construction Sector

	Share 2015 (%)	2015		2016		
		3Q	4Q	1Q	2Q	3Q
		Annual change (%)				
Value of construction work done	100.0	14.0	11.2	11.1	11.7	10.7
Residential buildings	29.4	8.3	8.7	8.4	12.5	16.4
Non-residential buildings	34.0	13.9	3.6	3.8	2.1	-1.4
Civil engineering	31.8	19.0	23.3	21.3	21.6	19.3
Special Trade[1]	4.7	17.5	4.4	17.3	13.5	4.2
Housing approvals		-44.5	-18.5	-22.1	-36.6	26.6
Production[2] of construction-related materials		3.9	4.8	4.9	5.0	4.0
Hydraulic cement		14.7	11.9	-7.9	-8.1	-8.3
Other porcelain and ceramic products		17.1	12.2	0.7	7.1	10.7
Prefabricated structural components for building or civil engineering of cement, concrete or artificial stone		-8.2	21.1	21.7	21.1	26.2
Capital imports (excluding lumpy items)		7.9	2.7	-7.8	3.7	0.1
Loans for the construction sector						
Approval		-24.0	-5.5	0.4	-14.1	34.4
Disbursement		5.4	-13.4	-2.8	5.3	7.7

[1] 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

Headline inflation moderated further in the third quarter

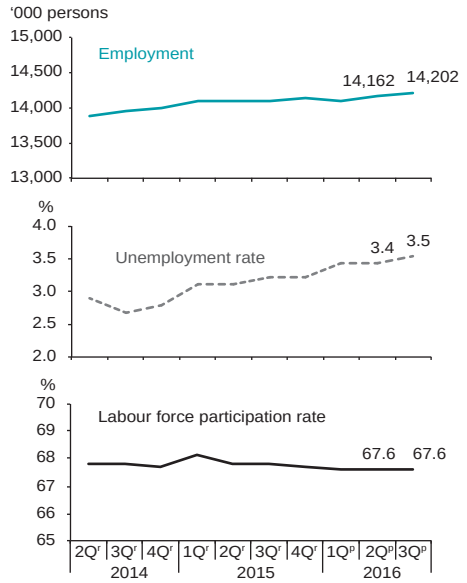
Inflation, as measured by the annual change in the Consumer Price Index (CPI), moderated further to 1.3% in the third quarter of 2016 (2Q 2016: 1.9%). During the quarter, inflation in the *food and non-alcoholic beverages* category was lower at 3.4% (2Q 2016: 4.2%). This was due mainly to an increase in the supply of *vegetables* and *fish and seafood* following an improvement in the weather conditions. Inflation in the *transport* category also registered a larger decline of 7.4% in the third quarter of 2016 (2Q 2016: -6.6%) due mainly to a larger increase in the prices of RON 97 and RON 95 petrol during the base period in the third quarter of 2015 (3Q 2016: average increase of 3 sen/litre; 3Q 2015: average increase of 7 sen/litre).

The Producer Price Index (PPI) declined in the third quarter of 2016 by 0.6% (2Q 2016: -2.1%). The slower pace of decline was due mainly to the increase in prices of *crude materials for further processing*, reflecting higher prices of crude palm oil. Crude palm oil prices rose significantly in the third quarter following rising global demand amid constrained supply as production recovered from El Niño.

Softer labour market conditions

Total employment continued to expand modestly during the quarter, registering a net gain of 40,500 jobs (2Q 2016: 65,700 jobs). Employment gains were supported mainly by the services sub-sectors, particularly in the educational, professional, scientific and technical as well as business services. Nonetheless, the gains in employment remained insufficient to absorb the growth in new labour entrants, contributing to an increase in the unemployment rate to 3.5% (2Q 2016: 3.4%). This was slightly higher than its medium-term average of 3.1% between 2010 and 2015. Based on insights from the Bank's industrial engagements, firms remained cautious in hiring new workers, due to moderate domestic growth, and weak external environment. However, retrenchments remained localised to specific industries, particularly in the oil & gas, E&E manufacturing, and the financial services industries, which are being affected by restructuring plans of global and regional players. Job postings on JobStreet.com remained high at 60,688 positions (2Q 2016: 65,964 positions, 2010-2015 average: 56,683 positions), reflecting employers' continued demand for workers. The labour force participation rate remained stable at 67.6% (2Q 2016: 67.6%).

Labour Market Indicators*



*The Labour Force Survey (LFS) figures for 1Q 2015 onwards reflect new current population estimates by DOSM

[p] Preliminary [r] Revision

Source: Department of Statistics, Malaysia

Consumer Price Index

Category	Weights (%) (2010=100)	2Q 2016	3Q 2016
		Annual change, %	
Total	**100**	**1.9**	**1.3**
Food and non-alcoholic beverages	30.2	4.2	3.4
Housing, water, electricity, gas and other fuels	23.8	2.5	2.2
Transport	13.7	-6.6	-7.4
Others	32.3	2.8	2.7

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Wages in key economic sectors grew favourably, providing support to household spending. Growth was partly supported by the new minimum wage, which took effect in July 2016[1]. In the distributive trade services sub-sector[2], wage growth was slightly higher at 5.2% (2Q 2016: 4.7%). Aggregate wages in the manufacturing sector also grew at a stronger pace (6.9%; 2Q 2016: 5.0%), supported by higher wage growth in the E&E, petrochemicals and rubber industries.

External position remained resilient in the third quarter

In 3Q 2016, the **current account** surplus widened due mainly to a larger goods surplus, which more than offset the higher deficit in the services and investment income accounts.

In the trade account, gross export growth declined by 2.3% in 3Q 2016 (2Q 2016: 1.6%), as the broad-based contraction in manufactured exports more than offset the smaller drag from commodity exports. Gross import growth contracted by 0.1% (2Q 2016: 2.8%), reflecting weaknesses across all major import categories, except capital goods. As a result, the trade surplus remained sustained at RM18.0 billion (2Q 2016: RM17.9 billion).

After several quarters of positive growth, manufactured exports registered a contraction, attributable mainly to a decline in major resource- and non-resource based manufactured products. Nonetheless, the weakness in manufacturing exports was partially offset by continued positive growth in semiconductor exports. Commodity exports posed a smaller drag on exports due to higher demand for most major commodities and improved price of crude oil.

In terms of destination, export growth to key trading partners, such as Japan and the EU were affected by slower manufactured exports, particularly E&E products. Exports to PR China remained weak, as a result of lower exports of petroleum products, optical and scientific equipment, and E&E products. The moderation in exports to ASEAN countries was due mainly to slower exports of crude oil. Export performance to the US also moderated owing to the broad-based decline in agriculture goods.

Trade Account

	Share 2015 (%)	2015		2016		
		3Q	4Q	1Q	2Q	3Q
		Annual change (%)				
Gross Exports	**100.0**	**5.6**	**8.0**	**2.3**	**1.6**	**-2.3**
Manufactured	80.5	10.8	12.5	6.5	4.7	-1.1
E&E	*35.8*	*14.2*	*9.6*	*3.6*	*3.5*	*-0.7*
Non-E&E	*44.7*	*8.1*	*14.9*	*8.8*	*5.7*	*-1.5*
Resource based	*22.4*	*-0.6*	*2.7*	*1.7*	*6.4*	*-0.5*
Non-resource based	*22.3*	*18.6*	*29.5*	*16.2*	*5.1*	*-2.5*
Commodities	19.0	-12.3	-7.7	-13.4	-12.9	-8.2
Minerals	*10.3*	*-24.0*	*-15.1*	*-25.9*	*-23.0*	*-17.7*
Agriculture	*8.7*	*3.4*	*3.8*	*6.6*	*-2.8*	*1.2*
Gross Imports	**100.0**	**2.9**	**3.4**	**-0.4**	**2.8**	**-0.1**
Intermediate goods	58.3	-5.3	-1.7	-3.2	-1.0	-0.3
Capital goods	13.9	4.4	0.2	-12.7	10.9	15.6
Consumption goods	9.1	27.2	38.1	24.6	10.0	-0.8
Others (including re-exports and dual-use goods	18.7	20.7	8.9	8.8	5.2	-9.5
Trade balance (RM billion)	**–**	**22.4**	**30.6**	**23.9**	**17.9**	**18.0**

Source: MATRADE and Department of Statistics, Malaysia

Balance of Payments[1]

	2015		2016		
	3Q	4Q	1Q	2Q	3Q
	RM billion				
Current Account	**4.7**	**10.5**	**5.0**	**1.9**	**6.0**
(% of GNI)	*1.7*	*3.6*	*1.8*	*0.6*	*2.0*
Goods	27.2	31.1	23.5	19.8	26.5
Services	-6.0	-6.4	-6.8	-4.6	-5.1
Primary income	-10.6	-9.1	-6.7	-8.2	-10.8
Secondary income	-5.9	-5.0	-4.9	-5.1	-4.6
Financial Account	**-30.7**	**3.9**	**5.8**	**9.5**	**-6.3**
Direct investment	-0.2	5.8	3.7	5.3	3.0
Assets	*-6.7*	*-2.9*	*-11.2*	*-3.8*	*-11.3*
Liabilities	*6.5*	*8.6*	*14.9*	*9.1*	*14.3*
Portfolio investment	-24.4	15.9	13.1	0.1	-10.6
Assets	*0.7*	*5.6*	*-5.9*	*-4.7*	*-7.1*
Liabilities	*-25.1*	*10.3*	*19.0*	*4.8*	*-3.5*
Financial derivatives	-0.1	-0.1	0.5	0.0	-0.1
Other investment	-5.9	-17.6	-11.5	4.1	1.4
Errors & omissions[2]	43.0	-20.4	-38.4	-2.7	14.9
Overall Balance	**17.0**	**-6.0**	**-27.6**	**8.8**	**14.6**

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

[1] The upward revision of the minimum wage sets the level at RM1,000 per month in Peninsular Malaysia and RM920 per month in Sabah and Sarawak (Previous: RM900 and RM800, respectively)
[2] The distributive trade services sub-sector consists of the wholesale trade, retail trade, and motor vehicles industries

Gross imports registered a slight contraction during the quarter (-0.1%; 2Q 2016: 2.8%), weighed down by intermediate and consumption goods. Intermediate import growth remained weak, due mainly to lower demand for production inputs, particularly fuel-related products, in tandem with slower manufactured export growth. The contraction in consumption goods imports was due to slower imports of food and beverages, and semi-durable goods, particularly garments and footwear. Nonetheless, capital import growth was stronger in the third quarter, driven mainly by the delivery of a large gas vessel in July.

Malaysia: Direction of Exports

	Share 2015 (%)	2015		2016		
		3Q	4Q	1Q	2Q	3Q
		Annual change (%)				
European Union (EU)	**10.2**	**13.8**	**12.9**	**7.9**	**-0.1**	**-3.5**
Japan	**9.4**	**-6.7**	**-6.9**	**-16.1**	**-8.1**	**-13.0**
United States	**9.5**	**20.3**	**18.4**	**13.1**	**17.4**	**4.8**
ASEAN[1]	**28.2**	**5.5**	**8.5**	**6.5**	**5.6**	**3.3**
North East Asia	**23.9**	**10.1**	**6.9**	**-1.8**	**-9.3**	**-7.7**
People's Republic of China	*13.1*	*25.7*	*10.9*	*1.3*	*-16.6*	*-8.3*
Hong Kong SAR	*4.7*	*-0.9*	*1.0*	*-3.2*	*2.8*	*-1.4*
Korea	*3.2*	*-4.2*	*-9.8*	*-6.5*	*1.1*	*-16.2*
Chinese Taipei	*3.0*	*-13.4*	*22.6*	*-6.1*	*-4.8*	*-6.1*
West Asia[2]	**2.8**	**5.5**	**-3.3**	**5.2**	**5.6**	**-9.4**
India	**4.1**	**-14.4**	**7.8**	**3.0**	**-1.1**	**1.4**
Total exports	**100.0**	**5.6**	**8.0**	**2.3**	**1.6**	**-2.3**

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

Source: Department of Statistics, Malaysia

The deficit in the services account was larger at RM5.1 billion in the third quarter of 2016 (2Q 2016: a deficit of RM4.6 billion) due mainly to the higher payments for personal, cultural, and recreational services as residents engaged foreign service providers in hosting some international events. Higher payments for construction services and outbound tourism also contributed to the larger deficit. The former was due to payments for construction work done in projects related to oil and gas sector, the latter was due to residents travelling abroad for Hajj and participation in international sport events.

The deficit in the primary income account was larger at RM10.8 billion in the third quarter of 2016 (2Q 2016: a deficit of RM8.2 billion) as investment income accrued to foreign investors in Malaysia remained large while income accrued to Malaysian firms with ventures abroad were lower. During the quarter, FDI firms in the manufacturing, services and mining sectors continued to declare sizeable profits following higher demand and better commodity prices compared to 2Q 2016. Of importance, the FDI companies retained a larger portion of investment incomes for reinvestment in Malaysia. Similarly, the net payments in the secondary income account were lower at RM4.6 billion in the third quarter of 2016 (2Q 2016: net payment of RM5.1 billion), due mainly to lower outward remittances.

In the third quarter of 2016, the **financial account** recorded a net outflow of RM6.3 billion (2Q 2016: net inflow of RM9.5 billion), as net outflows in the portfolio investment account had more than offset the net inflows in the direct and other investment accounts.

Direct investment account continued to register a net inflow, albeit smaller at RM3.0 billion (2Q 2016: net inflow of RM5.3 billion), as the incurrence of direct investment liabilities continued to outpace the accumulation of direct investment assets.

On the assets side, outward direct investment amounted to RM11.3 billion (2Q 2015: net outflow of RM3.8 billion). Of these, Direct Investment Abroad (DIA) by Malaysian companies amounted to RM3.6 billion (2Q 2016: net outflow of RM3.5 billion), due mainly to sustained equity capital injections to subsidiaries abroad. The bulk of DIA was undertaken by companies in the services sector, particularly the finance and insurance and telecommunication sub-sectors, followed by the manufacturing sector.

On the liabilities side, inward direct investment was higher at RM 14.3 billion (2Q 2016: net inflow of RM9.1 billion). Of these, Foreign Direct Investment (FDI) moderated to RM6.5 billion (2Q 2016: net inflow of RM8.8 billion), as sustained equity capital injection and higher reinvested earnings were partially offset by a net extension of loans by subsidiaries in Malaysia to their parent companies. FDI inflows were largely channelled into the mining sector, followed by the services sector, mainly the finance and insurance and real estate sub-sectors.

During the quarter, portfolio investment recorded a significant outflow of RM10.6 billion (2Q 2016: net inflow of RM0.1 billion). Portfolio investment by non-residents recorded a net outflow of RM3.5 billion (2Q 2016: net inflow of RM4.8 billion), reflecting mainly the maturity of foreign currency-denominated Wakala Global Sukuk by the Federal Government and Bank Negara Monetary Notes (BNMN). This had more than offset the net purchase of equity securities during the quarter. Portfolio investment by residents also registered a higher outflow of RM 7.1 billion (2Q 2016: net outflow of RM4.7 billion), following higher net acquisition of foreign debt and equity securities, particularly by domestic institutional investors.

Other investment account registered a smaller net inflow of RM1.4 billion (2Q 2016: net inflow of RM4.1 billion), as the repatriation of maturing interbank placements abroad by domestic banks were mostly offset by the maturity of non-resident financial institutions' deposits in domestic banks.

Following these developments, the overall balance of payments registered a surplus of RM14.6 billion in the third quarter (2Q 2016: surplus of RM8.8 billion). Errors and omissions amounted to RM 14.9 billion or 4% of total trade, mostly reflecting the foreign exchange revaluation changes in international reserves arising from the strengthening of major currencies against the ringgit during the quarter. Excluding these revaluation changes, actual errors and omissions amounted to 0.5% of total trade.

Manageable external debt

Malaysia's external debt increased by RM17.0 billion to RM865.3 billion, equivalent to USD206.6 billion or 70.2% of GDP as at end-September 2016 (end-June 2016: RM848.2 billion or USD209.0 billion, equivalent to 68.8% of GDP). The increase was attributed to valuation effects following the weakening of the ringgit against most currencies during the quarter. About 80% of the foreign exchange valuation changes were accounted by offshore borrowing. Nonetheless, the offshore borrowing remained low at 38.3% of GDP as at end-September compared to 60% of GDP during the Asian Financial Crisis (AFC) in 1997-98.

In aggregate, the impact of foreign exchange fluctuations is mostly contained, as about 40% of total external debt is denominated in ringgit. The remaining portion denominated in foreign currency is largely hedged, either naturally through foreign currency earnings, or through the use of financial instruments.

Excluding valuation effects, Malaysia's external debt position increased marginally from the previous quarter. The increase in non-resident holdings of domestic debt securities and deposits in the domestic banking system was largely mitigated by net repayment of interbank borrowing and the redemption of the maturing Wakala Global Sukuk issued by the Federal Government in 2011.

Overall, Malaysia's external debt remains manageable, with medium- to long-term external debt accounting for more than half of the outstanding position (61.4%). The share of short-term external debt was reduced slightly to account for only 38.6% of the total external debt (end-June 2016: 39.3%) during the quarter. The international reserves were adequate to cover the short-term external debt by 1.2 times. About two-thirds of the short-term external debt is held by the banking sector, whereby not all pose a claim on international reserves given that this debt is partly covered by the banks' corresponding external assets. The bulk of the remaining short-term external debt is accounted for by trade credits and intercompany loans. The former are largely backed by export earnings, while the latter are generally on flexible and concessionary terms, such as no fixed repayment schedule and zero or low interest rate.

Outstanding External Debt

	2015	2016	
	end-Sept	end-June	end-Sept
	RM billion		
Offshore borrowing[1]	488.7	466.7	472.1
USD billion equivalent	*108.8*	*115.0*	*112.7*
Medium- and long-term	*294.4*	*288.4*	*295.8*
Public sector	135.3	121.7	120.4
Private sector	159.1	166.7	175.4
Short-term	*194.3*	*178.4*	*176.3*
NR holdings of dom. debt securities	198.9	232.3	237.1
Medium- and long-term	*171.7*	*215.8*	*223.5*
Short-term	*27.2*	*16.5*	*13.6*
NR deposits	82.8	77.3	82.6
Others[2]	80.2	71.9	73.5
Medium- and long-term	*12.5*	*11.0*	*11.8*
Short-term	*67.7*	*60.9*	*61.7*
Total external debt	**850.6**	**848.2**	**865.3**
USD billion equivalent	*189.4*	*209.0*	*206.6*
External debt (Redefined)			
Total debt/GDP (%)	73.5	68.8	70.2
Short-term debt[3]/Total debt (%)	43.7	39.3	38.6
Reserves/Short-term debt[3] (times)	1.1	1.2	1.2[5]
External debt (Previous definition)			
Total debt/GDP (%)	42.2	37.9	38.3
Short-term debt[4]/Total debt (%)	39.8	38.2	37.3
Reserves/Short-term debt[4] (times)	2.1	2.2	2.3[5]

[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] Short-term offshore borrowing, NR holdings of short-term domestic debt securities, NR deposits, short-term trade credits and miscellaneous.
[4] Equivalent to short-term offshore borrowing.
[5] Based on international reserves as at 31 October 2016.

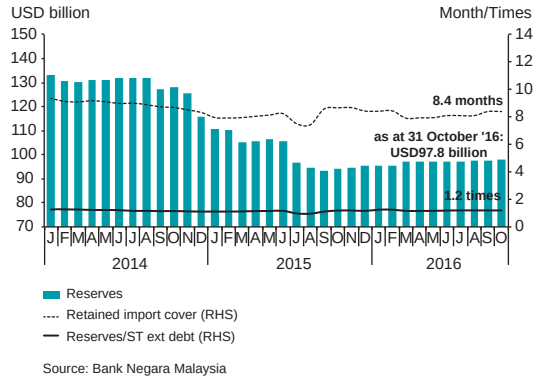
Note: NR refers to non-resident

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

International reserves remain ample to facilitate international transactions

As at 31 October 2016, the reserves position amounted to USD97.8 billion (equivalent to RM405.5 billion). The international reserves remain ample to facilitate international transactions. They are sufficient to finance 8.4 months of retained imports, significantly higher than the 3-month international threshold. The reserves level is also adequate to meet external obligations given the reserves to short-term external debt coverage of 1.2 times. It is important to note that not all short-term external debt creates a claim on reserves given the availability of external assets and export earnings of borrowers.

Net International Reserves (as at end period)

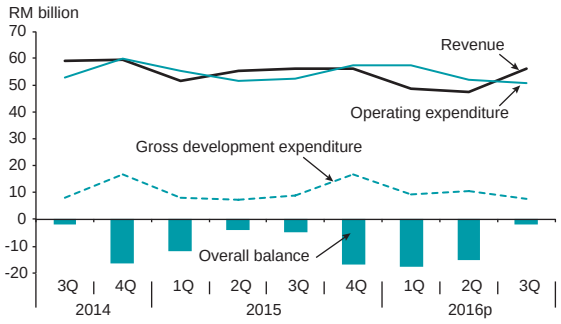


Source: Bank Negara Malaysia

Lower fiscal deficit

The Federal Government recorded a lower fiscal deficit of 0.6% of GDP in the third quarter (2Q 2016: -5.0% of GDP), due to higher revenue collection and a decline in total expenditure. Revenue increased by 0.1% on an annual basis (2Q 2016: -14.0%), supported by higher tax collections. Operating expenditure declined by 3.0% on an annual basis (2Q 2016: +0.5%) due mainly to lower expenditures on subsidies and transfers to statutory bodies. Development expenditure also recorded a decline on an annual basis. The bulk of the expenditure during the quarter was disbursed primarily to the transportation and public amenities sectors. As at end-September 2016, total outstanding debt of the Federal Government amounted to RM643.6 billion or 52.2% of the estimated 2016 GDP. In October, the Government tabled the 2017 Budget outlining a lower fiscal deficit target of 3.0% of GDP for 2017, reflecting its continued commitment on fiscal consolidation.

Federal Government Finance



p Preliminary

Source: Ministry of Finance, Malaysia

Federal Government Finance

	2015		2016p		
	3Q	4Q	1Q	2Q	3Q
	RM billion				
Revenue	56.3	56.0	48.8	47.5	56.3
% annual growth	*-4.9*	*-6.0*	*-5.3*	*-14.0*	*0.1*
Operating expenditure	52.3	57.5	57.4	52.1	50.7
% annual growth	*-1.2*	*-3.8*	*3.5*	*0.5*	*-3.0*
Current account	**4.0**	**-1.4**	**-8.6**	**-4.6**	**5.6**
% of GDP	***1.4***	***-0.5***	***-2.9***	***-1.5***	***1.8***
Net development expenditure	8.7	15.5	9.2	10.4	7.4
% annual growth	*7.5*	*-5.7*	*16.1*	*43.9*	*-15.1*
Overall balance	**-4.7**	**-16.9**	**-17.7**	**-15.0**	**-1.8**
% of GDP	***-1.6***	***-5.6***	***-6.1***	***-5.0***	***-0.6***
Memo item:					
Total net expenditure	61.0	72.9	66.5	62.5	58.1
% annual growth	*-0.1*	*-4.2*	*5.1*	*5.8*	*-4.7*
Total Federal Government debt[1]					
(as at end-period)	623.3	630.5	626.9	655.7	643.6
% of GDP	*53.9*	*54.5*	*50.9*	*53.2*	*52.2*
Domestic debt	435.1	433.1	416.7	424.9	411.4
% of GDP	*37.6*	*37.4*	*33.8*	*34.5*	*33.4*
External debt	188.3	197.4	210.2	230.8	232.2
% of GDP	*16.3*	*17.1*	*17.1*	*18.7*	*18.8*
Non-resident holdings of RM-denominated Federal Government debt	*166.0*	*176.0*	*190.2*	*206.2*	*211.8*
% of GDP	*14.3*	*15.2*	*15.4*	*16.7*	*17.2*
Offshore borrowing	*22.2*	*21.5*	*19.9*	*24.7*	*20.4*
% of GDP	*1.9*	*1.9*	*1.6*	*2.0*	*1.7*

p Preliminary

1 A portion of the Housing Loan Fund debt amounting to RM21.9 billion (1.8% of estimated 2016 GDP) has been transferred to the new statutory body for civil servant housing loans (Public Sector Home Financing Board, LPPSA) beginning 2016

Note: Beginning first quarter of 2015, GDP has been rebased from base year 2005 to base year 2010

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia