DEVELOPMENTS IN THE MALAYSIAN ECONOMY

Growth contracted at a slower pace in the second quarter

The Malaysian economy contracted at a slower pace of 3.9% in the second quarter (1Q 09: -6.2%), due mainly to higher public spending and positive growth in private consumption. Nonetheless, growth continued to be affected by the decline in external demand and weak private investment activity. The contraction in external demand reflected weak global demand and was exacerbated by the high base effect due to strong export performance in the second quarter of 2008. On the supply side, all economic sectors recorded improved performance.

Domestic demand contracted at a slower rate

During the quarter, **domestic demand** registered a slower decline of 2.3% (1Q 09: -2.9%), following higher public sector spending and expansion in private consumption.

Private consumption recorded a positive growth of 0.5% in the second quarter (1Q 09: -0.7%), as stabilisation in labour market conditions and lower price levels provided further support to consumer spending. Consumer sentiments also improved further in the second quarter, as indicated by the increase in the MIER Consumer Sentiments Index (105.8 points; 1Q 09: 78.9 points). There were also notable improvements in major consumption indicators on a preceding quarter basis. These include credit card spending, imports of consumption goods, manufacturing sales of food and beverages as well as sales of new passenger cars.

Meanwhile, **public consumption** expanded by 1%, supported by the increase in expenditure on supplies and services and emoluments for the civil service.

Gross fixed capital formation contracted by 9.8% in the second quarter, due mainly to continued sharp deterioration in private investment. Weak external demand and the lower-than-normal capacity utilisation continued to affect capacity expansion activity in the manufacturing sector. Major investment indicators such as imports of capital goods, sales of commercial vehicles and manufacturing sales of construction-related products also fell further, pointing to sluggish private sector capital spending activity. Nevertheless, higher public sector development expenditure on education, trade and industry as well as agriculture and rural development provided some support to the overall investment activity. Business sentiments have, however, improved towards the end of the quarter, as reflected in the substantial rise in the MIER Business Conditions to 105.2 points (1Q 09: 61.1 points).

GDP by Expenditure Components (at constant 2000 prices)

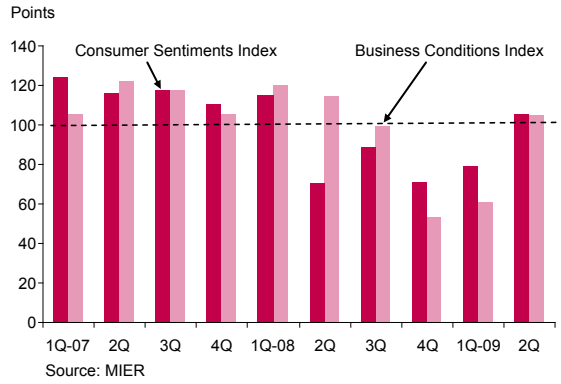
	2008		2009		
	2Q	1H	1Q	2Q	1H
	Annual change (%)				
Aggregate Domestic Demand (excluding stocks)	8.4	9.1	-2.9	*-2.3*	-2.6
Consumption	9.6	10.7	-0.2	*0.6*	0.2
Private sector	*9.4*	*10.3*	*-0.7*	*0.5*	*-0.1*
Public sector	*10.3*	*12.1*	*2.1*	*1.0*	*1.6*
Gross Fixed Capital Formation	5.6	5.1	-10.8	-9.8	-10.3
Net Exports	19.9	23.9	39.1	-0.7	19.1
Exports of Goods and Services	*9.5*	*7.7*	*-15.2*	*-17.3*	*-16.3*
Imports of Goods and Services	*8.1*	*5.7*	*-23.5*	*-19.7*	*-21.5*
GDP	**6.6**	**7.0**	**-6.2**	**-3.9**	**-5.1**

Source: Department of Statistics, Malaysia

Better performance across all economic sectors

On the supply side, all key economic sectors recorded better performance in the second quarter. The services sector turned around to register positive growth, supported mainly by higher growth in the finance and insurance; and the recovery in wholesale and retail trade, and real estate and business services sub-sectors. The manufacturing sector recorded a slower contraction, reflecting a pick-up in production for inventory restocking and final domestic consumption. Meanwhile, the construction sector recorded a higher growth, benefiting from the increased implementation of projects under the fiscal stimulus packages. The agriculture sector turned around to register a positive growth supported by continued strong production of food crops and a smaller decline in industrial crops. The mining sector also declined at a moderate pace, in line with a smaller decline in the output of natural gas and crude oil.

Business and consumer sentiments improved



Source: MIER

Quarterly GDP by Economic Activity (at constant 2000 Prices)

	2008		2009		
	2Q	1H	1Q	2Q	1H
	Annual change (%)				
Agriculture	6.3	6.4	-4.3	0.3	-2.0
Mining	-0.5	1.6	-5.2	-2.6	-3.9
Manufacturing	5.6	6.3	-17.9	-14.5	-16.2
Construction	3.9	4.5	1.1	2.8	2.0
Services	7.9	8.2	-0.2	1.6	0.7
Real GDP (Annual Change)	**6.6**	**7.0**	**-6.2**	**-3.9**	**-5.1**
Real GDP (Preceding Change)	**2.3**	**0.2**	**-7.8**	**4.8**	**-7.2**

Source: Department of Statistics, Malaysia

Services sector recorded positive growth

The **services sector** grew by 1.6% during the quarter, an improvement from the marginal contraction of 0.2% recorded in the first quarter. Growth was mainly supported by expansion in the finance and insurance; and the turnaround in both wholesale and retail trade, and real estate and business services sub-sectors.

The **finance and insurance** sub-sector expanded further by 3.3% following higher fee-based income, as a result of the increase in activity in the equity market, as well as improved net interest income. The **wholesale and retail trade** sub-sector turned around to register a growth of 0.4%, reflecting improved consumption activity. The **real estate and business services** sub-sector also registered a positive growth of 3%, in line with the improvement in capital market-related activity.

The **utilities** sub-sector registered a smaller contraction of 1.1% due to higher electricity demand by industrial and commercial users. Meanwhile, the **transport and storage** sub-sector contracted further by 6.4%, in line with the sluggish external sector, which translated into weak demand for cargo-related services.

Performance of the Services Sector (value added at constant 2000 prices)

	Share 2008 (%)	2008		2009		
		2Q	1H	1Q	2Q	1H
		Annual change (%)				
Intermediate Services	**43.3**	**6.8**	**7.6**	**-0.7**	**2.1**	**0.7**
Finance & insurance	20.0	7.5	8.7	1.2	3.3	2.3
Real estate & business services	9.4	3.8	4.3	-6.7	3.0	-1.8
Transport & storage	7.0	8.1	9.0	-4.0	-6.4	-5.2
Communication	7.0	7.9	7.7	4.9	5.8	5.3
Final Services	**56.7**	**8.8**	**8.7**	**0.3**	**1.2**	**0.8**
Utilities	5.3	4.1	4.4	-8.1	-1.1	-4.6
Wholesale & retail trade	23.2	12.7	12.3	-1.7	0.4	-0.6
Accommodation & restaurant	4.4	7.3	8.6	2.1	2.9	2.5
Government services	13.4	7.9	7.4	2.8	0.5	1.6
Other services	10.4	5.3	5.1	5.2	4.5	4.9
Total Services	**100.0**	**7.9**	**8.2**	**-0.2**	**1.6**	**0.7**

Source: Department of Statistics, Malaysia

Selected Quarterly Indicators in the Services Sector

	2008				2009	
	1Q	2Q	3Q	4Q	1Q	2Q
	Index					
MIER Consumer Sentiment Index	115.5	70.6	88.9	71.4	78.9	105.8
MIER Retail Trade Index	106.1	94.5	116.5	52.7	52.3	76.3
MIER Tourism Market Index	120.3	107.5	109.2	94.0	78.1	75.8
	Annual change (%)					
Tourist arrivals	1.2	3.9	8.2	7.5	2.2	4.7
Total passenger traffic at all airports	13.2	6.7	2.7	2.1	-4.6	5.2
Total consumption credit outstanding	7.6	9.6	9.7	8.9	8.5	6.8
Loans outstanding to the wholesale & retail trade, hotels & restaurants	10.1	15.4	14.0	9.0	3.5	-1.8
Imports of consumption goods	5.6	21.3	16.2	4.5	-4.3	-8.3
Total sales of motor vehicles	24.6	27.1	10.5	-8.3	-9.2	-11.5
Container cargo handled (Port Klang and PTP)	9.7	9.4	16.4	-3.9	-10.6	-6.4

Source: Various sources

Performance in the Manufacturing Sector

	2008		2009		
	2Q	1H	1Q	2Q	1H
	Annual Change (%)				
Value Added (at constant 2000 prices)	**5.6**	**6.3**	**-17.9**	**-14.5**	**-16.2**
Overall Production[1]	**4.2**	**6.4**	**-18.8**	**-14.9**	**-16.9**
Export-oriented industries	**2.5**	**4.9**	**-20.4**	**-16.4**	**-18.4**
Electronics and electrical cluster	**4.6**	**5.7**	**-35.4**	**-30.8**	**-33.1**
Of which:					
Electronics	4.6	7.1	-36.3	-34.6	-35.5
Electrical	4.5	2.3	-33.2	-21.7	-27.3
Primary-related industry cluster	**1.2**	**4.4**	**-10.8**	**-6.7**	**-8.8**
Of which:					
Chemicals and chemical products	-2.3	0.8	-17.6	-3.9	-10.8
Petroleum products	4.0	10.4	2.9	-4.6	-0.7
Rubber products	7.8	7.3	-21.2	-7.4	-14.3
Off-estate processing	18.0	20.0	-8.0	-4.5	-6.2
Domestic-oriented industries	**10.8**	**12.4**	**-12.4**	**-9.7**	**-11.0**
Construction-related cluster	**10.0**	**10.8**	**-21.3**	**-16.7**	**-18.9**
Of which:					
Construction-related materials	6.8	11.1	-29.3	-23.7	-26.5
Fabricated metal products	15.3	10.4	-7.6	-6.3	-6.9
Consumer-related cluster	**11.5**	**13.7**	**-5.4**	**-3.8**	**-4.6**
Of which:					
Transport equipment	21.9	22.4	-10.7	-14.3	-12.6
Food, beverage & tobacco products	11.1	12.1	-4.8	-0.2	-2.6

[1] Industrial Production Index (2005=100)

Source: Department of Statistics, Malaysia

Slower contraction in the manufacturing sector

The **manufacturing sector** registered a slower pace of decline of 14.5% in the second quarter (1Q 09: -17.9%), reflecting an increase in production for inventory restocking and final domestic consumption.

Contraction in output of export-oriented industries was smaller during the quarter (-16.4%; 1Q 09: -20.4%) led by better performance in both E&E and primary-related clusters. In the **E&E cluster**, the decline in output moderated due to inventory replenishment following the large cut in production and inventory drawdown at the end of 2008 and early 2009. Producers, in particular, of electronic parts and components, also benefited from PR China's economic stimulus package which helped to provide some support for demand for final electronic products.

Meanwhile, production of the **primary-related cluster** declined at a slower rate during the quarter (-6.7%; 1Q 09: -10.8%). This was seen across most major segments. In particular, improvements in the E&E cluster provided support to the chemical products industry, in particular, the plastic products segment. In the rubber products industry, the better performance was due to increased demand for rubber gloves. Nonetheless, weakness was seen in the petroleum products industry, as demand from the region worsened during the quarter.

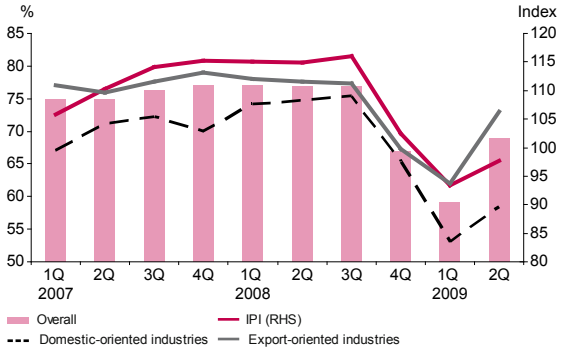
The **domestic-oriented industries** registered a smaller contraction in the second quarter (-9.7%; 1Q 09: -12.4%) reflecting improvements in both the consumer-related and construction-related clusters. In the consumer-related cluster, production of food, beverage and tobacco products improved, offsetting the further contraction in output of transport equipment due to weak sales of new motor vehicles. The better performance of the construction-related cluster was due mainly to higher activity in the construction sector.

Reflecting the improvement in production, the overall capacity utilisation rate in the manufacturing sector increased to 69% in the second quarter (1Q 09: 59%). Export- and domestic-oriented industries were operating at 73% and 58% of total capacity respectively (1Q 09: 61% and 53% respectively).

Improvement in the commodity sector

The **agriculture sector** turned around to record a positive growth of 0.3% during the quarter (1Q 09: -4.3%) supported by continued strong production of food crops, as well as a smaller decline in the output of industrial crops such as palm oil, rubber and forestry. Meanwhile, the **mining sector** contracted at a moderate pace of 2.6% (1Q: 09: -5.2%), following a smaller decline in output of natural gas and crude oil.

Capacity utilisation rate in the manufacturing sector*



* Beginning 2009, the capacity utilisation rate in the manufacturing sector has been rebased from value-add in year 2004 to value-add in year 2006

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Performance of the Agriculture Sector

	2008		2009		
	2Q	1H	1Q	2Q	1H
	Annual change (%)				
Value Added (at constant 2000 prices)	**6.3**	**6.4**	**-4.3**	**0.3**	**-2.0**
Industrial Crops	**7.0**	**7.9**	**-13.9**	**-5.1**	**-9.4**
Food Crops	**5.3**	**4.4**	**9.2**	**7.9**	**8.5**
Production					
Of which:					
Crude palm oil	21.8	22.8	-3.9	-3.0	-3.4
Rubber	-8.1	-4.9	-39.3	-21.7	-31.7
Fish	1.9	1.2	13.2	14.4	13.8
Livestock	4.1	2.4	-4.6	-0.4	-2.5

Source: Malaysian Palm Oil Board (MPOB)
Malaysian Rubber Board (MRB)
Fisheries Department Malaysia
Department of Veterinary Services, Malaysia
Department of Statistics, Malaysia

Performance of the Mining Sector

	2008		2009		
	2Q	1H	1Q	2Q	1H
	Annual change (%)				
Value Added (at constant 2000 prices)	**-0.5**	**1.6**	**-5.2**	**-2.6**	**-3.9**
Production					
Of which:					
Crude oil and condensates	3.6	5.3	-5.7	-3.1	-4.4
Natural gas (net)	-6.8	-4.0	-4.7	-2.1	-3.5

Source: PETRONAS
Department of Statistics, Malaysia

Higher growth in construction

The **construction** sector registered a higher growth of 2.8% (1Q 09: 1.1%). The better performance was contributed by higher take-off of projects related to the stimulus packages, in particular construction of non-residential buildings, such as schools, colleges and hospitals. The civil engineering sub-sector also improved amidst increased activity of infrastructure projects such as construction of rail track and road. The growth of the sector was further supported by activity in the residential segment, in particular construction of luxury condominiums in Klang Valley and Penang.

Construction Indicators

	2008		2009		
	2Q	1H	1Q	2Q	1H
	Annual change (%)				
New sales and advertising permits	10.9	2.0	-25.5	-9.1	-16.8
Housing approvals	28.5	19.0	-30.2	-17.4	-23.7
Production[1] of construction-related materials	10.0	10.8	-21.3	-16.7	-18.9
Loans approved for construction	-12.4	20.5	-48.2	-26.3	-38.3
Imports of construction materials and mineral products	10.6	7.2	-17.1	-7.6[2]	-13.2[3]

[1] Industrial Production Index (2005=100)
[2] Apr-May 2009
[3] Jan-May 2009

Source: Ministry of Housing and Local Government and Department of Statistics, Malaysia

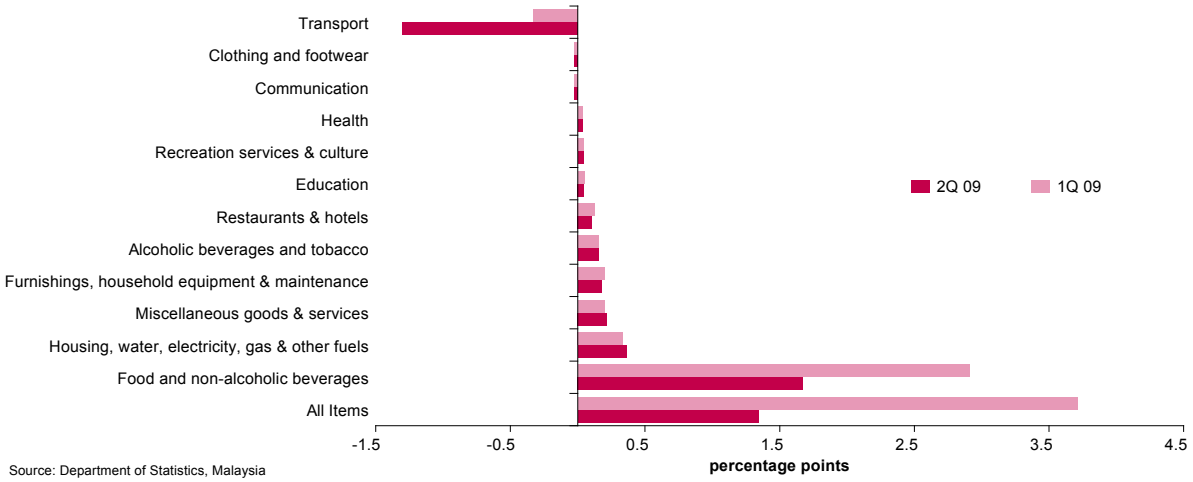
Inflation continued to moderate

The headline inflation rate, as measured by the change in the Consumer Price Index (CPI), was 1.3% in the second quarter of 2009 (1Q 09: 3.7%). As with the previous quarter, the moderation in inflation was largely explained by lower inflation in the *food and non-alcoholic beverages* and *transport* categories. Inflation in the *food and non-alcoholic beverages* category moderated to 5.3% (1Q 09: 9.2%). The slower increase in food prices was registered across all food sub-components, in part reflecting the easing pressure on food prices. Meanwhile, prices in the transport category fell by 8.2% compared to their levels a year ago (1Q 09: -2.1%), reflecting mainly the high base effect of the sharp rise in the price level in June 2008 arising from fuel price adjustments. This was experienced mostly in June, when prices in the transport category declined by 18% (19.6% in June 2008), which subsequently caused headline inflation to decline by 1.4% (April 09: 3%; May 09: 2.4%).

Producer prices, as measured by the Producer Price Index (PPI), declined by 11.0% in the second quarter (1Q 09: -6.6%). Prices in the commodity-related components of the PPI fell by 28.3% compared to its level a year ago (1Q 09: -19.4%). The decline in producer prices was also broad-based, with seven out of 10 PPI categories registering lower prices compared to their levels a year ago. On average, prices in the non commodity-related components of the PPI declined by 2.1% (1Q 09: -0.7%).

In terms of composition, both the local and imported components of the PPI registered declines. Prices in the local component of the PPI declined by 14.5% (1Q 09: -8.5%), while prices in the imported component of the PPI declined by 3.1% (1Q 09: -2.5%)

Contribution to Consumer Price Inflation



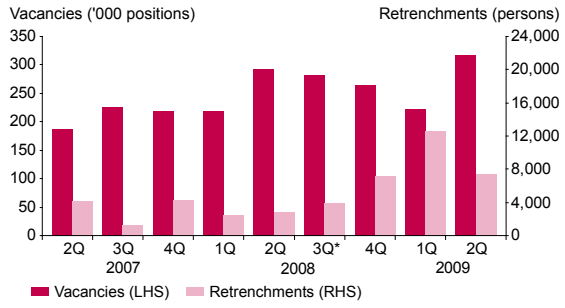
Source: Department of Statistics, Malaysia

Stabilisation in labour market conditions

Conditions in the labour market stabilised in the second quarter as total retrenchments were substantially lower, while there were more job openings compared with the previous quarter. Total retrenchments declined to 7,470 persons (1Q 09: 12,590 persons), reflecting mainly fewer retrenchments in the manufacturing and services sectors. The bulk of the retrenchments continued to be in the manufacturing sector (71% of total retrenchments), in particular the E&E industry (35% of total retrenchments),

Meanwhile, total vacancies in the Electronic Labour Exchange improved, rising to 317,996 positions (1Q 09: 221,876 positions) with higher openings in all sectors except agriculture. In addition, the real wage per worker in the manufacturing sector recorded a smaller contraction (0.8%; 1Q 09: -5.2%), as more companies which had instituted temporary layoffs and shorter work-week earlier have started to resume normal working hours.

Labour Market Conditions

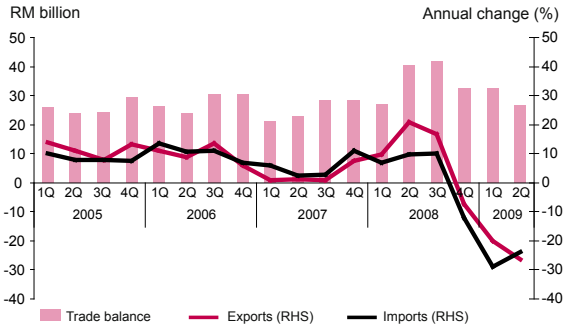


* Reflects adjusted retrenchments for 3Q 2008
Source: Ministry of Human Resources

Continued contraction in exports while decline in imports moderated

Gross exports contracted by 26.3% in the second quarter. The contraction reflected the significant decline in demand from major trading partners and lower commodities prices, and was exacerbated by the high base effect due to strong export performance in the second quarter of 2008. Improved manufacturing output and the restocking of inputs for production led to a smaller import contraction of 23.7%. The trade surplus narrowed, but was still large, amounting to RM26.5 billion (1Q 09: RM32.7 billion).

External Trade Performance



Source: Department of Statistics, Malaysia

Commodity exports contracted further in the second quarter on account of lower prices and demand for commodities, particularly minerals. This weakness was exaggerated by the high base effect due to strong commodity prices in the second quarter of 2008. Meanwhile, the contraction in electronics exports was due to lower demand from the major markets and the downward pressure on prices. Nevertheless, electrical exports declined at a more moderate pace due mainly to a smaller contraction in exports of consumer electrical products. Further contraction in non-E&E manufactured exports reflected the impact of lower commodity prices and slower external demand. While exports of chemicals and chemical products, wood products and petroleum products contributed to the decline in resource-based products, contraction in exports of non-resource based products was due mainly to lower exports of manufactures of metal, optical and scientific equipment as well as iron and steel products.

Trade Account

	2008[1]		2009[1]		
	2Q	1H	1Q	2Q	1H
	Annual change (%)				
Gross Exports	**20.8**	**15.5**	**-20.0**	**-26.3**	**-23.4**
Manufactured	12.3	5.3	-18.0	-20.5	-19.3
E&E	*10.7*	*0.5*	*-19.0*	*-23.0*	*-21.2*
Non-E&E	*14.4*	*11.6*	*-16.9*	*-17.3*	*-17.1*
Commodites	54.3	54.8	-23.8	-40.6	-32.7
Agriculture	*58.8*	*59.9*	*-28.1*	*-29.6*	*-28.9*
Minerals	*51.6*	*51.9*	*-21.1*	*-47.5*	*-35.0*
Gross Imports	**9.9**	**8.4**	**-29.0**	**-23.7**	**-26.3**
Capital goods	11.3	9.6	-7.8	-17.6	-13.0
Intermediate goods	10.4	9.7	-34.9	-27.1	-30.9
Consumption goods	21.3	13.4	-4.3	-8.3	-6.4
Trade balance (RM billion)	**40.6**	**67.5**	**32.7**	**26.5**	**59.2**

[1] Malaysia's trade classification has been revised in April 2008 to reflect the revisions of the international trade codes i.e. Harmonised System (HS), ASEAN Harmonised Tariff Nomenclature (AHTN) and Standard International Trade Classification (SITC)

Source: MATRADE and Department of Statistics, Malaysia

Malaysia: Direction of Exports

	2008		2009			2008		2009		
	2Q	1H	1Q	2Q	1H	2Q	1H	1Q	2Q	1H
	Annual change (%)					Share of total exports (%)				
United States	**0.0**	**-8.9**	**-31.0**	**-35.1**	**-33.2**	**13.0**	**13.0**	**11.1**	**11.5**	**11.3**
European Union (EU)[1]	**-3.5**	**-0.7**	**-28.0**	**-26.4**	**-27.2**	**10.7**	**11.3**	**10.7**	**10.7**	**10.7**
Selected ASEAN countries[2]	**23.9**	**18.9**	**-26.8**	**-24.1**	**-25.4**	**25.5**	**26.0**	**24.4**	**26.2**	**25.4**
North East Asia	**35.7**	**19.7**	**-5.9**	**-22.1**	**-15.1**	**21.8**	**20.5**	**22.3**	**23.0**	**22.7**
People's Republic of China	*55.3*	*34.4*	*-1.8*	*-16.0*	*-10.2*	*10.4*	*9.4*	*10.2*	*11.8*	*11.0*
Hong Kong SAR	*34.9*	*11.1*	*3.5*	*-23.8*	*-13.4*	*5.1*	*4.4*	*4.7*	*5.2*	*5.0*
Chinese Taipei	*6.3*	*1.2*	*-18.4*	*-29.6*	*-24.6*	*2.6*	*2.5*	*2.4*	*2.5*	*2.4*
Korea	*17.9*	*13.4*	*-14.2*	*-31.2*	*-22.4*	*3.8*	*4.2*	*5.0*	*3.5*	*4.2*
West Asia	**38.5**	**32.6**	**-12.7**	**-14.7**	**-13.9**	**3.8**	**3.6**	**3.7**	**4.4**	**4.0**
India	**39.8**	**32.3**	**-14.9**	**-38.9**	**-28.2**	**3.7**	**3.6**	**3.7**	**3.1**	**3.4**
Total exports	**20.8**	**15.5**	**-20.0**	**-26.3**	**-23.4**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

[1]Refers to European Union (EU) 27 from 2007 onwards
[2]Singapore, Thailand, Indonesia, Philippines, Brunei Darussalam and Vietnam

Source: Department of Statistics, Malaysia

Gross imports declined at a slower pace in the second quarter due mainly to the smaller contraction in intermediate imports as firms increased production and replenished stocks. Meanwhile, both consumption and capital imports declined further as households remained cautious on spending on imported goods, while businesses reduced capital spending amidst excess capacity and uncertainty in the outlook for demand.

Higher inflows of foreign direct investment

On a cash basis, gross inflows of **foreign direct investment (FDI)**[5] was higher at RM10.4 billion in the second quarter (1Q 09: RM6.8 billion), reflecting mainly inflows of equity capital. Net FDI amounted to RM6.7 billion (1Q 09: RM2.1 billion), directed mainly into the oil and gas and manufacturing sectors. FDI in the oil and gas sector reflected mainly investment in the petroleum and natural gas production. Meanwhile, FDI in the manufacturing sector was channelled mainly into the manufacturing of petroleum products and solar cells.

Overseas investment by Malaysian companies registered a net outflow of RM0.9 billion (1Q 09: -RM2.8 billion). Investments were concentrated in the services sector, mainly in finance, insurance, real estate and business services and communications.

Meanwhile, net outflows of **portfolio investment** amounted to RM15 billion (1Q 09: -RM9.6 billion), due largely to the maturity of the Federal Government USD1.5 billion Global Bond (1999). Excluding this, net outflows in equity and debt securities were largely unchanged.

External debt declined

As at end-June 2009, Malaysia's total external debt amounted to RM233.3 billion or USD65.5 billion (end-March 2009: RM247.7 billion or USD67.1 billion), equivalent to 33.6% of GNI. The **medium-and long-term external debt** declined to RM147 billion, reflecting mainly net repayment by the public sector and appreciation of the ringgit against the USD during the quarter. The Federal Government and the NFPEs recorded higher gross repayments following the maturity of several large borrowings and scheduled principal repayments of loans. Meanwhile, the private sector recorded a marginal net drawdown of RM0.2 billion.

The total **short-term external debt** declined to RM86.3 billion or USD24.2 billion as inter-bank borrowing activities moderated. As at end-June 2009, the short-term debt accounted for 37% of total external debt and was 26.8% of the net international reserves.

External Debt Outstanding

	2008	2009	
	end-June	end-Mar	end-June[p]
	RM billion		
Medium- and long-term debt	139.2	159.5	147.0
Public sector	73.7	85.1	72.9
Private sector	65.5	74.4	74.1
Short-term debt[1]	96.1	88.1	86.3
Total external debt	235.3	247.7	233.3
USD billion equivalent	71.3	67.1	65.5

[1] Excludes currency and deposits held by non-residents with resident banking institutions
[p] Preliminary

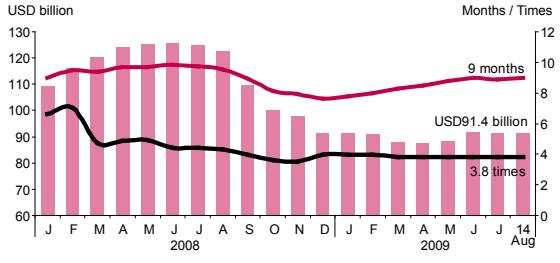
Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

[5] The statistics for FDI on a cash basis does not include retained earnings and investment in the form of imported machinery and equipment

International reserves

The international reserves of Bank Negara Malaysia amounted to RM322.9 billion (equivalent to USD91.5 billion) as at 30 June 2009. The reserves level as at 30 June 2009 has taken into account the quarterly adjustment for the foreign exchange revaluation gain, following the strengthening of some of the major currencies against the ringgit during the quarter. The reserves position is sufficient to finance 8.5 months of retained imports and is 3.8 times the short-term external debt. The reserves amounted to RM322.2 billion (equivalent to USD91.4 billion) as at 14 August 2009 and are sufficient to finance 9 months of retained imports and are 3.8 times the short-term external debt.

Net International Reserves (as at end period)



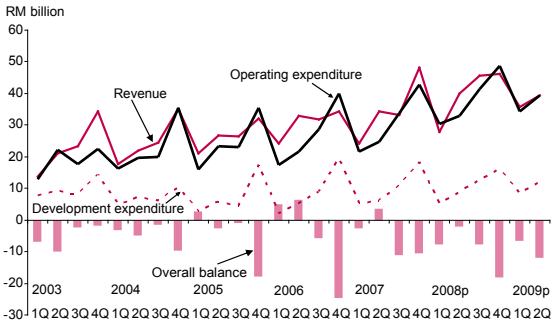
Note: With effect from end-March 2008, the short-term external debt refers to the external debt under the new definition, with offshore entities in Labuan IBFC being treated as residents

Source: Bank Negara Malaysia

Higher total expenditure as fiscal stimulus gathers pace

In the second quarter, the Federal Government's total expenditure was larger, amounting to RM51.5 billion (1Q 09: RM42.6 billion). This reflected the Government's efforts in accelerating the spending allocated under the fiscal stimulus. In particular, larger development expenditure was channeled to the education, trade and industry, as well as agriculture and rural development sectors. Higher operating expenditure was recorded mainly for the payment of grants and transfers to statutory bodies and supplies and services. As revenue increased moderately, the Federal Government's financial position recorded a fiscal deficit of RM12.1 billion (7.5% of GDP) during the quarter. The fiscal deficit was financed from domestic borrowings, including through the issuance of Sukuk Simpanan Rakyat of RM5 billion. As at the end of June 2009, total outstanding debt of the Federal Government amounted to RM335.7 billion or 48.4% of the estimated 2009 GDP.

Federal Government Finance



[p] Preliminary

Source: Ministry of Finance

Federal Government Finance[p]

	2008		2009		
	2Q	1H	1Q	2Q	1H
	RM billion				
Revenue	39.9	67.8	35.9	39.4	75.2
% growth	16.6	16.1	28.3	-1.2	10.9
Operating expenditure	32.9	63.3	34.4	39.4	73.7
% growth	32.6	36.2	12.9	19.8	16.5
Current account	**7.0**	**4.5**	**1.5**	**0.0**	**1.5**
% of GDP	***3.7***	***1.2***	***1.0***	***0.0***	***0.5***
Gross development expenditure	9.0	14.3	8.2	12.1	20.3
% growth	43.8	23.5	55.4	34.9	42.5
Overall balance	**-1.9**	**-9.6**	**-6.7**	**-12.1**	**-18.7**
% of GDP	***-1.0***	***-2.6***	***-4.3***	***-7.5***	***-5.9***
Memo item:					
Total gross expenditure	41.8	77.6	42.6	51.5	94.1
% growth	34.8	33.7	19.2	23.0	21.3
Total Federal Government debt (as at end-period)	285.1	285.1	317.1	335.7	335.7
% of GDP	38.6	38.6	45.7	48.4	48.4
Domestic debt	266.8	266.8	297.0	321.5	321.5
% of GDP	36.1	36.1	42.8	46.3	46.3
External debt	18.4	18.4	20.2	14.3	14.3
% of GDP	2.5	2.5	2.9	2.1	2.1

[p] Preliminary

Source: Ministry of Finance