DEVELOPMENTS IN THE MALAYSIAN ECONOMY

The Malaysian economy grew by 4.2% in the first quarter

The Malaysian economy expanded by 4.2% in the first quarter of 2016 (4Q 2015: 4.5%). The slight moderation in growth mainly reflected external shocks to the economy and cautious spending by the private sector. Nevertheless, private sector expenditure remained the key driver of growth (4.5%; 4Q 2015: 4.9%). Net exports contributed negatively to growth during the quarter following a decline in real exports of goods and services (-0.5%; 4Q 2015: +4.0%) amid continued positive growth in real imports (1.3%; 4Q 2015: 4.0%). On a quarter-on-quarter seasonally-adjusted basis, the economy recorded a growth of 1.0% (4Q 2015: 1.2%).

Slower expansion in domestic demand

Domestic demand grew by 3.6% in the first quarter of the year (4Q 2015: 4.0%), with private sector expenditure expanding at a slower pace of 4.5% (4Q 2015: 4.9%). **Private consumption** growth expanded by 5.3% (4Q 2015: 4.9%), supported by continued wage and employment growth. **Private investment** registered a slower growth of 2.2% in the first quarter (4Q 2015: 4.9%). The cautious business sentiments and lower commodity prices continued to weigh down on investments in the upstream mining sector. Nevertheless, there was continued investment in the manufacturing and services sectors.

Public consumption growth improved to 3.8% (4Q 2015: 3.3%), as a result of higher spending on emoluments. On the other hand, **public investment** declined by 4.5% (4Q 2015: 0.4%), due to lower spending on fixed assets by public corporations, particularly in the oil and gas and transportation sectors, which more than offset higher investment by the Federal Government.

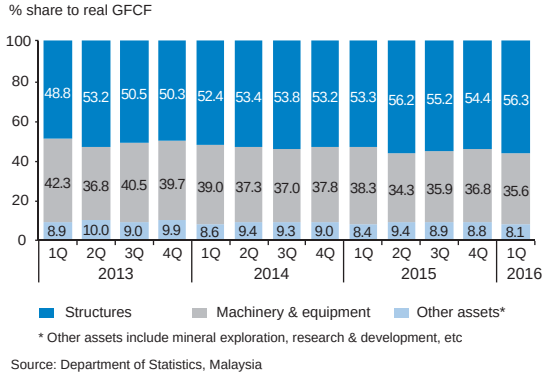
GDP by Expenditure Components
(at constant 2010 prices)

	Share 2015 (%)	2015			2016
		1Q	4Q	Year	1Q
		Annual change (%)			
Aggregate Domestic Demand (excluding stocks)	91.6	8.0	4.0	5.1	3.6
Private Sector	69.2	9.6	4.9	6.1	4.5
Consumption	*52.4*	*9.0*	*4.9*	*6.0*	*5.3*
Investment	*16.9*	*11.6*	*4.9*	*6.4*	*2.2*
Public Sector	22.4	2.6	2.1	2.1	0.4
Consumption	*13.5*	*4.1*	*3.3*	*4.4*	*3.8*
Investment	*8.9*	*0.6*	*0.4*	*-1.0*	*-4.5*
Net Exports	8.6	-10.1	4.3	-3.8	-12.4
Exports of Goods and Services	*72.9*	*-0.6*	*4.0*	*0.6*	*-0.5*
Imports of Goods and Services	*64.3*	*0.9*	*4.0*	*1.2*	*1.3*
GDP	**100.0**	**5.7**	**4.5**	**5.0**	**4.2**
GDP (q-o-q growth, seasonally adjusted)	**-**	**1.4**	**1.2**	**-**	**1.0**

Source: Department of Statistics, Malaysia

In terms of total investment, **gross fixed capital formation (GFCF)** growth moderated to 0.1% (4Q 2015: 2.7%), following a slower growth in private investment and a decline in public investment. By type of assets, the lower growth in GFCF was due to a larger contraction of investment in machinery and equipment (-7.1%; 4Q 2015: -0.1%), which more than offset the improvement in structures investment (5.7%; 4Q 2015: 5.0%).

GFCF by Type of Assets



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

Source: Department of Statistics, Malaysia

Moderate growth in major economic sectors

On the supply side, the major economic sectors registered a moderate growth during the first quarter. The services sector recorded a sustained growth, supported by the continued expansion in domestic demand. In the manufacturing sector, growth was supported by both export- and domestic-oriented industries, albeit at a slower pace. Growth in the agriculture sector contracted, as adverse weather conditions led to a lower production of palm oil. The growth in construction remained strong, driven mainly by the civil engineering sub-sector. The mining sector turned around to record a marginally positive growth, following an improvement in the production of natural gas.

The **services sector** registered a sustained growth of 5.1% in the first quarter of 2016 (4Q 2015: 5.0%), supported by domestic demand. The wholesale and retail trade sub-sector grew by 5.2% (4Q 2015: 6.4%), in tandem with continued growth in household spending. Growth of the information and communication sub-sector remained robust (8.5%; 4Q 2015: 9.2%), benefitting from sustained demand for data communication services. The utilities sub-sector recorded stronger growth of 6.7% (4Q 2015: 3.2%), following higher consumption of electricity during the quarter. The real estate and business services sub-sector expanded by 6.4% (4Q 2015: 6.1%), supported mainly by the business services segment. The transport and storage sub-sector grew by 5.8% (4Q 2015: 6.0%) in line with the continued expansion in trade-related activities. The finance and insurance sub-sector registered a positive growth of 0.1% (4Q 2015: -1.5%), due mainly to improvements in net interest income and fee income.

GDP by Economic Activity (at constant 2010 prices)

	Share 2015 (%)	2015			2016
		1Q	4Q	Year	1Q
		Annual change (%)			
Services	53.5	6.4	5.0	5.1	5.1
Manufacturing	23.0	5.6	5.0	4.9	4.5
Mining	9.0	9.7	-1.3	4.7	0.3
Agriculture	8.9	-4.1	1.5	1.2	-3.8
Construction	4.4	9.6	7.4	8.2	7.9
Real GDP	**100.0[1]**	**5.7**	**4.5**	**5.0**	**4.2**
Real GDP (q-o-q seasonally adjusted)	**-**	**1.4**	**1.2**	**-**	**1.0**

[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
		1Q	4Q	Year	1Q
		Annual change (%)			
Intermediate Services	**38.2**	**5.7**	**4.1**	**4.6**	**4.7**
Finance & insurance	12.9	1.9	-1.5	-0.7	0.1
Real estate & business services	8.0	7.5	6.1	6.6	6.4
Transport & storage	6.6	5.7	6.0	5.7	5.8
Information & communication	10.6	9.6	9.2	9.4	8.5
Final Services	**61.8**	**6.8**	**5.4**	**5.5**	**5.3**
Wholesale & retail trade	27.4	9.8	6.4	6.9	5.2
Food & beverages and accommodation	5.2	7.3	5.8	6.4	6.1
Utilities	4.8	3.7	3.2	3.5	6.7
Government services	16.3	3.8	4.7	4.0	5.3
Other services	8.2	4.6	4.6	4.7	4.6
Total Services	**100.0[1]**	**6.4**	**5.0**	**5.1**	**5.1**

[1] Numbers do not add up due to rounding

Source: Department of Statistics, Malaysia

Selected Quarterly Indicators in the Services Sector

	2015			2016
	1Q	4Q	Year	1Q
	Index			
MIER Consumer Sentiments Index	72.6	63.8	69.6	72.9
MIER Retail Trade Index	85.4	77.9	83.4	65.9
MIER Tourism Market Index	100.7	89.8	97.9	93.0
	Annual change (%)			
Tourist arrivals	-8.6	-2.3	-6.3	n.a
Total passenger traffic at all airports	-0.8	-3.0	0.9	5.9[1]
Total consumption credit outstanding	3.5	3.1	3.1	1.9
Total loans outstanding	9.2	7.9	7.9	6.4
Loans outstanding to the wholesale & retail trade, hotels & restaurants	9.3	8.2	8.2	7.0
Imports of consumption goods	4.4	38.3	24.1	24.6
Total sales of motor vehicles	5.3	4.1	0.0	-22.0
Container cargo handled (Port Klang and PTP)	12.9	5.4	7.9	6.7[1]

[1] Jan-Feb 2016

Source: Various sources

The **manufacturing sector** continued to expand during the quarter (4.5%; 4Q 2015: 5.0%), supported by both domestic- and export-oriented industries. Growth in the domestic-oriented industries was driven by stronger production in the consumer-related cluster, particularly food-related products, as well as firm demand for construction-related materials. Meanwhile, the export-oriented industries were supported by the better performance in the primary-related cluster amid continued expansion in the electrical and electronics (E&E) cluster.

Performance of the Manufacturing Sector

	2015			2016
	1Q	4Q	Year	1Q
	Annual Change (%)			
Value Added (at constant 2010 prices)	**5.6**	**5.0**	**4.9**	**4.5**
Export-oriented industries	7.0	5.4	5.6	4.5
Domestic-oriented industries	2.9	4.1	3.7	4.6
Overall Manufacturing Production[1]	**5.7**	**4.8**	**4.8**	**4.3**
Export-oriented industries	**5.1**	**4.7**	**4.8**	**4.2**
Electronics and electrical products cluster	**10.7**	**10.7**	**9.2**	**5.9**
Of which:				
Electronics	-0.2	5.7	0.7	6.0
Electrical products	40.5	24.7	32.1	6.4
Primary-related cluster	**2.2**	**1.5**	**2.5**	**3.2**
Of which:				
Chemicals and chemical products	9.9	1.9	4.6	3.3
Petroleum products	2.1	-0.2	1.2	1.2
Rubber products	-1.3	7.0	5.1	6.9
Off-estate processing	-20.2	-1.9	-3.5	2.7
Domestic-oriented industries	**7.6**	**5.0**	**4.7**	**4.6**
Construction-related cluster	**6.9**	**4.8**	**4.5**	**4.9**
Of which:				
Construction-related products	8.1	3.7	4.5	4.7
Fabricated metal products	4.7	6.9	4.6	5.4
Consumer-related cluster	**8.3**	**5.1**	**4.8**	**4.2**
Of which:				
Transport equipment	9.2	3.7	5.2	2.0
Food, beverage & tobacco products	7.5	7.4	4.8	7.3

[1] Industrial Production Index (2010=100)

Source: Department of Statistics, Malaysia

The **construction sector** grew by 7.9% in the first quarter (4Q 2015: 7.4%), underpinned by the civil engineering sub-sector. The expansion of the civil engineering sub-sector was driven by petrochemical, utility and transport-related projects. Growth in the specialised construction activities sub-sector improved during the quarter, reflecting increased early-work activities such as demolition, piling and earthworks. In the non-residential sub-sector, the pace of expansion was subdued due to slower construction activity for industrial and commercial buildings. In the residential sub-sector, growth remained supported by the construction of properties in both the mass- and high-end markets.

Indicators for the Construction Sector

	2015			2016
	1Q	4Q	Year	1Q
	Annual change (%)			
Value of construction work done	15.1	11.2	12.1	11.1
Residential	19.5	8.7	10.9	8.4
Non-residential	24.3	3.6	13.9	3.8
Civil engineering	4.2	23.3	11.9	21.3
Special trade[1]	4.2	4.4	8.0	17.3
Housing approvals	-24.2	-18.5	-25.3	-22.1
Production[2] of construction-related materials				
Hydraulic cement	20.2	11.9	14.8	-7.9
Other articles of concrete, cement and plaster n.e.c	20.9	-15.3	3.4	-8.9
Other porcelain and ceramic products	31.2	12.2	20.0	0.7
Prefabricated structural components for building or civil engineering of cement, concrete or artificial stone	-13.3	21.1	-2.2	21.7
Capital imports (excluding lumpy items)	11.3	3.1	4.8	-8.1
Loans for the construction sector				
Approval	21.4	-5.5	3.8	0.4
Disbursement	3.2	-13.4	-0.6	-2.8

[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

Growth in the agriculture sector contracted by 3.8% (4Q 2015: 1.5%), reflecting mainly lower production of palm oil as the El Niño weather phenomenon affected crop yields. Meanwhile, growth in the **mining sector** turned around to record a marginally positive growth of 0.3% (4Q 2015: -1.3%) following an improvement in the production of natural gas.

Performance of the Agriculture Sector

	Share in 2015 (%)	2015			2016
		1Q	4Q	Year	1Q
		Annual change (%)			
Value Added (at constant 2010 prices)	**100**	**-4.1**	**1.5**	**1.2**	**-3.8**
Industrial Crops	**61.0**	**-9.3**	**1.7**	**0.7**	**-9.2**
Of which:					
Oil palm	46.9	-11.7	1.2	1.3	-10.0
Rubber	7.2	4.8	26.9	8.1	-13.0
Food Crops	**39.0**	**4.0**	**1.2**	**2.0**	**3.5**
Of which:					
Fishing	10.7	4.4	2.4	0.6	-2.1
Livestock	10.7	4.3	0.4	2.4	5.0

Source: Department of Statistics, Malaysia

Performance of the Mining Sector

	2015			2016
	1Q	4Q	Year	1Q
	Annual change (%)			
Value Added (at constant 2010 prices)	**9.7**	**-1.3**	**4.7**	**0.3**
Production				
Of which:				
Crude oil and condensates	20.3	0.2	10.1	-0.3
Natural gas	-1.3	-5.0	-1.8	0.0
Other mining and support services	14.3	14.4	13.7	6.5

Source: Department of Statistics, Malaysia

Headline inflation increased in first quarter 2016

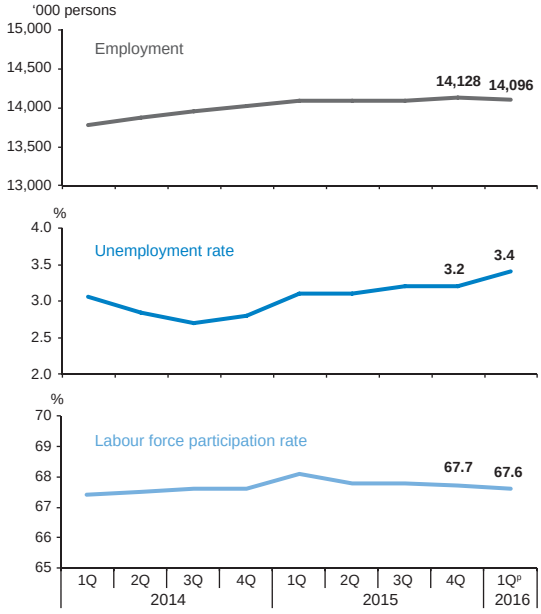
Inflation, as measured by the annual change in the Consumer Price Index (CPI), was higher at 3.4% in the first quarter of 2016 (4Q 2015: 2.6%). Inflation in the *housing, water, electricity, gas and other fuels* category increased to 3.0% in first quarter of 2016 (4Q 2015: 2.5%) following the reduction in electricity tariff rebates from 2.25 sen per kWh to 1.52 sen per kWh in January 2016. The higher inflation during the quarter was also attributable to the smaller negative inflation in the *transport* category (-1.6%; 4Q 2015: -5.7%) due to the base effect from the larger decline in domestic fuel prices in the first quarter of 2015.

The Producer Price Index (PPI) declined in the first quarter of 2016 by 4.4% (4Q 2015: -4.5%). The decline was driven mainly by lower prices of intermediate materials, particularly in the *processed fuel and lubricants* category, reflecting the low global energy and commodity prices during the quarter.

Softer but stable labour market

Labour market conditions were softer but broadly stable during the first quarter of 2016[1], as the unemployment rate increased slightly (3.4% of labour force; 4Q 2015: 3.2%), while labour force participation remained sustained (67.6% of the labour force; 4Q 2015: 67.7%). Demand for new hires was also sustained in the first quarter, as proxied by the high number of new positions posted by employers, mostly from the manufacturing and services sectors on Jobstreet.com (61,378; 4Q 2015: 54,569).

Labour Market Indicators*



* The Labour Force Survey (LFS) figures for 1Q 2015 onwards reflect new current population estimates by the Department of Statistics, Malaysia

[p] Preliminary

Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

Consumer Price Index

Category	Weights (%) (2010=100)	4Q 2015	1Q 2016
		Annual change, %	
Total	**100.0**	**2.6**	**3.4**
Food and non-alcoholic beverages	30.2	4.5	4.6
Housing, water, electricity, gas and other fuels	23.8	2.5	3.0
Transport	13.7	-5.7	-1.6
Others	32.3	5.0	4.8

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

[1] Based on preliminary data

Aggregate wages in the manufacturing sector continued to record robust growth (6.9%; 4Q 2015: 7.4%) supported by continued growth in export performance, particularly in the electrical and electronics cluster. Nevertheless, employment growth in the manufacturing sector remained weak (-0.5%; 4Q 2015: -0.4%) indicating that employers continued to remain cautious about expanding their workforce during the quarter. In the distributive trade services sub-sector[2], wage growth was sustained at 4.7% (4Q 2015: 4.6%). Employment in this sub-sector expanded at a rate of 2.5% (4Q 2015: 2.6%).

External position remained resilient in the first quarter

The **current account** recorded a smaller surplus of RM5.0 billion, equivalent to 1.8% of GNI in the first quarter of 2016 (4Q 2015: RM10.5 billion or 3.6% of GNI), due mainly to a lower goods surplus and a larger services deficit, despite smaller deficits in the income accounts.

Balance of Payments[1]

	2015			2016
	1Q	4Q	Year	1Q
Current Account	**11.3**	**10.5**	**34.7**	**5.0**
(% of GNI)	*4.2*	*3.6*	*3.1*	*1.8*
Goods	27.7	31.1	109.6	23.5
Services	-3.5	-6.4	-21.0	-6.8
Primary income	-7.7	-9.1	-32.0	-6.7
Secondary income	-5.1	-5.0	-21.9	-4.9
Financial Account	**-29.8**	**3.9**	**-50.9**	**5.8**
Direct investment	-1.4	5.8	4.8	3.7
Assets	*-10.0*	*-2.9*	*-37.2*	*-11.2*
Liabilities	*8.5*	*8.6*	*41.9*	*14.9*
Portfolio investment	-7.9	15.9	-28.2	13.1
Assets	*-7.4*	*5.6*	*-9.1*	*-5.9*
Liabilities	*-0.5*	*10.3*	*-19.1*	*19.0*
Financial derivatives	0.0	-0.1	-0.7	0.5
Other investment	-20.5	-17.6	-26.8	-11.5
Errors & omissions[2]	2.8	-20.4	21.1	-38.4
Overall Balance	**-15.7**	**-6.0**	**3.8**	**-27.6**

Assets: (-) denotes outflows due to the acquisition of assets abroad by residents
Liabilities: (+) denotes inflows due to the incurrence of liabilities in Malaysia by non-residents
[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 2015 (%)	2015			2016
		1Q	4Q	Year	1Q
		Annual change (%)			
Gross Exports	**100.0**	**-2.5**	**8.1**	**1.9**	**1.0**
Manufactured	80.2	0.2	12.5	6.5	6.4
E&E	*35.6*	*6.8*	*9.6*	*8.5*	*3.6*
Non-E&E	*44.6*	*-4.7*	*14.9*	*5.0*	*8.7*
Resource based	*22.3*	*-12.2*	*2.7*	*-3.9*	*1.6*
Non-resource based	*22.3*	*4.7*	*29.5*	*15.7*	16.2
Commodities	19.2	-10.6	-7.3	-13.4	-18.3
Minerals	*10.6*	*-7.2*	*-14.5*	*-20.6*	*-32.5*
Agriculture	*8.6*	*-15.9*	*3.8*	*-2.7*	*6.5*
Gross Imports	**100.0**	**0.2**	**3.5**	**0.4**	**-0.4**
Intermediate goods	58.2	3.0	-1.7	-2.3	-3.1
Capital goods	14.0	8.7	0.5	0.0	-12.9
Consumption goods	9.1	4.4	38.3	24.1	24.6
Re-exports and dual-use goods	18.7	-15.0	9.0	-0.3	8.7
Trade balance (RM billion)	**-**	**21.3**	**30.6**	**94.6**	**23.9**

Source: MATRADE and Department of Statistics, Malaysia

In the first quarter of 2016, gross exports continued to increase, albeit at a slower rate of 1.0% (4Q 2015: 8.1%), due mainly to a larger decline in commodities exports amid the continued expansion of manufactured exports. Gross imports contracted slightly by 0.4% (4Q 2015: 3.5%), reflecting mainly the lower imports of capital and intermediate goods. As a result, the trade surplus was lower at RM23.9 billion (4Q 2015: RM30.6 billion).

Commodity exports registered a larger decline in the first quarter of 2016, attributable to lower demand for all major commodities during the quarter, with the exception of crude palm oil. The sharp decline in LNG and rubber prices weighed further on commodities exports. Nevertheless, the continued expansion in manufactured exports (6.4%) remained supportive of gross export growth, driven by both non-resource based and resource-based manufactured products, particularly machinery, equipment and parts, metal products, as well as chemicals and chemical products. Electrical and electronic (E&E) exports also grew, supported mainly by demand for electrical machinery and parts and telecommunication equipment.

[2] The distributive trade services sub-sector consist of wholesale and retail trade, and motor vehicles sub-sectors.

In terms of destination, exports remained supported by demand from key trading partners, particularly the US, EU and the ASEAN region. Exports to the US and ASEAN region were supported mainly by E&E products. Exports to the EU were driven mainly by machinery, equipment and parts, as well as palm oil. Exports to PR China continued to expand during the quarter, supported largely by exports of manufactured metal and metal ores.

Gross imports contracted marginally during the quarter (-0.4%). Capital imports were lower in tandem with the more modest expansion in investment activity. Imports of intermediate goods also recorded a slightly larger contraction, weighed down largely by the decline in fuel-related inputs in line with the lower crude oil prices. Nevertheless, growth of consumption imports remained strong with continued demand for imported food and beverages, as well as higher imports of semi-durable consumer goods, particularly garments and footwear. Imports for re-export, particularly metal and E&E products, also contributed to gross import growth.

Malaysia: Direction of Exports

	Share 2015 (%)	2015			2016
		1Q	4Q	Year	1Q
		Annual change (%)			
United States	**9.4**	**14.9**	**18.4**	**14.4**	**13.1**
European Union (EU)	**10.1**	**1.7**	**13.0**	**8.4**	**8.0**
Japan	**9.5**	**-2.8**	**-6.7**	**-10.7**	**-20.6**
Selected ASEAN countries[1]	**27.6**	**-2.3**	**7.7**	**2.6**	**5.7**
North East Asia	**24.0**	**-7.1**	**7.1**	**3.0**	**-4.3**
People's Republic China	*13.0*	*-12.3*	*10.8*	*10.0*	*1.3*
Hong Kong SAR	*4.7*	*7.2*	*1.0*	*-0.5*	*-3.2*
Korea	*3.2*	*-9.5*	*-10.0*	*-9.7*	*-13.7*
Chinese Taipei	*3.0*	*-3.6*	*25.0*	*-3.5*	*-15.1*
West Asia[2]	**2.8**	**-8.0**	**-3.3**	**-4.1**	**5.2**
India	**4.1**	**12.1**	**7.8**	**-0.7**	**3.0**
Total exports	**100.0**	**-2.5**	**8.1**	**1.9**	**1.0**

[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

The deficit in the **services account** was larger at RM6.8 billion in the first quarter of 2016 (4Q 2015: a deficit of RM6.4 billion) attributable mainly to higher net payments for other services, particularly for construction and telecommunication services, as well as usage charges for intellectual properties. This was partially offset by smaller net transportation payments amid more modest trade activities, and slightly higher travel surplus following lower outbound travel by residents.

The deficit in the **primary income** account narrowed to RM6.7 billion in the first quarter of 2016 (4Q 2015: a deficit of RM9.1 billion), reflecting mainly lower income accrued to foreign direct investors, particularly in the mining and manufacturing sectors. This more than offset the lower direct investment income accrued to Malaysian companies investing abroad in the mining sector following persistent weakness in oil prices and higher operating costs. The net payments in the **secondary income** account were lower at RM4.9 billion in the first quarter of 2016 (4Q 2015: net payment of RM5.0 billion), due mainly to lower outward remittances.

The **financial account** recorded a net inflow of RM5.8 billion (4Q 2015: net inflow of RM3.9 billion), due particularly to direct investment and portfolio investment inflows.

Direct investment account registered a net inflow of RM3.7 billion (4Q 2015: net inflow of RM5.8 billion), as the incurrence of direct investment liabilities continued to offset the accumulation of direct investment assets. On the assets side, outward direct investment increased to RM11.2 billion (4Q 2015: net outflow of RM2.9 billion). Of these, Direct Investment Abroad (DIA) by Malaysian companies increased to RM11.3 billion (4Q 2015: net outflow of RM6.4 billion), mainly on account of higher injection of equity capital to subsidiaries abroad and sizeable earnings retained for reinvestment purposes. The bulk of DIA was channelled into the mining sector, followed by the services sector, particularly in the finance and insurance as well as information and communications (ICT) sub-sectors. On the liabilities side, inward direct investment rose to RM14.9 billion (4Q 2015: net inflow of RM8.6 billion). Of these, Foreign Direct Investment (FDI) amounted to RM15.0 billion (4Q 2015: net inflow of RM12.2 billion), largely in the form of equity capital and continued reinvestments sourced from retained earnings. The bulk of FDI inflows were channelled into the services sector, mainly reflecting the acquisition of domestic power generation assets by a foreign entity and continued investments in the finance and insurance and ICT sub-sectors. FDI into the mining and construction sector also remained sizeable.

The **portfolio investment** account continued to record net inflows amounting to RM13.1 billion (4Q 2015: net inflow of RM15.9 billion). Net portfolio investments by non-residents rose to RM19.0 billion (4Q 2015: net inflow of RM10.3 billion), on account of continued purchases of debt securities, particularly for Malaysian Government Securities (MGS), and a resumption of net purchases of equities. While global financial markets remained volatile, investor sentiments improved in the latter part of the quarter, supported by a modest rebound in oil prices and signals by the Fed for a more gradual pace in US monetary policy adjustments. On the other hand, portfolio investment by residents recorded a net outflow of RM5.9 billion (4Q 2015: net inflow of RM5.6 billion), due mainly to a resumption in net acquisition of foreign financial assets by domestic banks and institutional investors.

Other investment account recorded lower outflows of RM11.5 billion (4Q 2015: net outflow of RM17.6 billion), due mainly to lower net outflows by both the banks and non-bank private sector. The net outflows were attributed mainly to the placements of funds by Malaysian banks in foreign financial institutions, as well as the net extension of trade credits by Malaysian exporters. At the same time, the public sector also recorded a lower net outflow, attributed mainly to the lower repayment of long-term loans by public enterprises.

Following these developments, the overall balance of payments registered a deficit of RM27.6 billion in the first quarter (4Q 2015: a deficit of RM6.0 billion). Errors and omissions amounted to –RM38.4 billion or -11.1% of total trade, mostly reflecting the foreign exchange revaluation changes in international reserves arising from the strengthening of the ringgit against major currencies during the quarter.

Manageable external debt

Malaysia's external debt stood at RM809.1 billion, equivalent to USD203.7 billion or 65.8% of GDP as at end-March 2016 (end-December 2015: RM833.8 billion or USD192.3 billion, equivalent to 72.1% of GDP). The lower external debt was attributed mainly to the valuation effects following the strengthening of ringgit against most currencies. This was partially offset by the higher non-resident holdings of domestic debt securities.

The strengthening of the ringgit affected mainly the outstanding amount of offshore borrowing, which declined to RM439.0 billion as at end-March 2016 (end-December 2015: RM463.6 billion). It also resulted in lower non-resident deposits and other external debt liabilities, which declined to RM78.8 billion and RM67.5 billion, respectively (end-December 2015: RM81.6 billion and RM77.2 billion, respectively).

During the quarter, there was a net repayment of offshore borrowing by the public sector, mainly on account of the net repayment by public corporations reflecting, in particular, the redemption of an international bond. Nevertheless, these were partly offset by the net drawdown of intercompany loans by foreign multinational corporations with direct investments in the country.

During the quarter, non-resident holdings of domestic debt securities increased by RM12.5 billion to RM223.9 billion, reflecting continued improvement in investor sentiments (end-December 2015: RM211.3 billion). The acquisitions were concentrated mainly in Government domestic debt securities, namely MGS and Government Investment Issues. The non-resident holdings of Bank Negara Monetary Notes, meanwhile, declined to RM21.1 billion as at end-March 2016 (end-December 2015: RM23.7 billion).

Overall, Malaysia's external debt remains manageable, with medium- to long-term external debt comprising more than half of the outstanding position (59.4%). The impact of foreign exchange fluctuations is also fairly contained, as about 40% of the total external debt is denominated in ringgit. The remaining external debt are mostly hedged, either naturally through foreign currency earnings, or through the use of financial instruments. The short-term external debt was lower during the quarter and accounted for only 40.6% of the total external debt. The international reserves were adequate to cover the short-term external debt by 1.2 times. Given the foreign currency earnings and high external assets of banks and corporations, not all of the short-term external debt will create claims on international reserves.

Outstanding External Debt

	2015		2016
	end-Mar	end-Dec	end-Mar
	RM billion		
Offshore borrowing[1]	408.6	463.6	439.0
USD billion equivalent	*109.1*	*106.9*	*110.5*
Medium- and long-term	*241.7*	*285.9*	*271.8*
Public sector	117.3	128.3	117.0
Private sector	124.3	157.6	154.8
Short-term	*166.9*	*177.7*	*167.1*
NR holdings of dom. debt securities	210.7	211.3	223.9
Medium- and long-term	*168.8*	*184.1*	*197.8*
Short-term	*41.9*	*27.2*	*26.1*
NR deposits	81.4	81.6	78.8
Others[2]	66.5	77.2	67.5
Medium- and long-term	*10.9*	*11.9*	*11.4*
Short-term	*55.6*	*65.3*	*56.1*
Total external debt	**767.1**	**833.8**	**809.1**
USD billion equivalent	*204.9*	*192.3*	*203.7*
External debt (Redefined)			
Total debt/GDP (%)	66.3	72.1	65.8
Short-term debt[3]/Total debt (%)	45.1	42.2	40.6
Reserves/Short-term debt[3] (times)	1.1	1.2	1.2[5]
External debt (Previous definition)			
Total debt/GDP (%)	35.3	40.1	35.7
Short-term debt[4]/Total debt (%)	40.8	38.3	38.1
Reserves/Short-term debt[4] (times)	2.3	2.3	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 29 April 2016.

Note: NR refers to non-resident

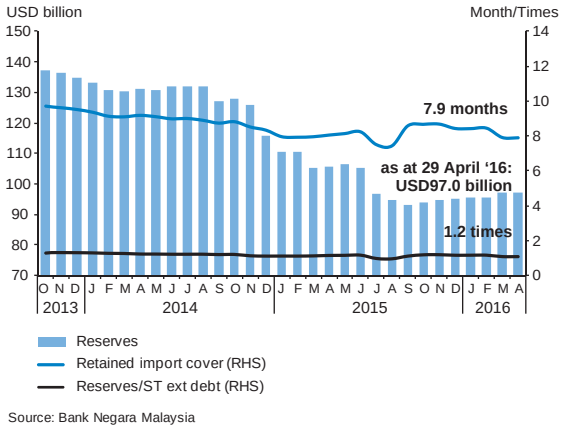
Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

International reserves remain ample to facilitate international transactions

The international reserves of BNM amounted to RM381.6 billion (equivalent to USD97.0 billion) as at 31 March 2016. On account of the quarterly adjustment for foreign exchange revaluation changes, the reserves level in ringgit terms has declined due to the strengthening of ringgit against various currencies. However, underscoring the diversified composition of foreign currency reserve assets, the reserves level in USD terms had correspondingly increased, amid the weakening of USD against most major and regional currencies during the quarter.

As at 29 April 2016, the reserves position amounted to RM381.4 billion (equivalent to USD97.0 billion). The international reserves remain ample to facilitate international transactions. They are sufficient to finance 7.9 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 claim on reserves given the external assets and export earnings of borrowers.

Net International Reserves (as at end period)

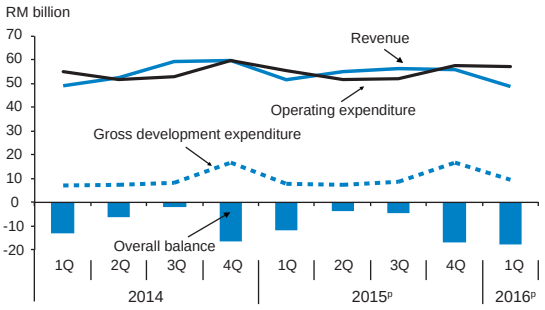


Source: Bank Negara Malaysia

Government spending increased

Federal Government expenditure increased by 5.1% (4Q 2015: -4.2%), due to higher operating and development expenditure. Operating expenditure increased on account of higher spending on *supplies and services* and *pension and gratuities*. Development expenditure rose reflecting higher disbursements for housing projects, roads and bridges under the *social services* and *transportation* sectors, respectively. Government revenue declined by 5.3% (4Q 2015: -6.0%), due mainly to lower oil-related and corporate tax collections. Overall, the Federal Government recorded a deficit of 6.1% of GDP (4Q 2015: -5.6% of GDP) during the quarter. As at end-March 2016, total outstanding debt of the Federal Government amounted to RM626.9 billion or 51.0% of the estimated 2016 GDP.

Federal Government Finance



p Preliminary

Source: Ministry of Finance, Malaysia

Federal Government Finance[p]

	2015			2016
	1Q	4Q	Year	1Q
	RM billion			
Revenue	51.5	56.0	219.1	48.8
% annual growth	*4.8*	*-6.0*	*-0.7*	*-5.3*
Operating expenditure	55.4	57.5	217.0	57.4
% annual growth	*0.4*	*-3.8*	*-1.2*	*3.5*
Current account	**-3.9**	**-1.4**	**2.1**	**-8.6**
% of GDP	***-1.4***	***-0.5***	***0.2***	***-2.9***
Net development expenditure	7.9	15.5	39.3	9.2
% annual growth	*13.2*	*-5.7*	*2.2*	*16.1*
Overall balance	**-11.8**	**-16.9**	**-37.2**	**-17.7**
% of GDP	***-4.2***	***-5.6***	***-3.2***	***-6.1***
Memo item:				
Total net expenditure	63.3	72.9	256.3	66.5
% annual growth	*1.8*	*-4.2*	*-0.7*	*5.1*
Total Federal Government debt (as at end-period)	596.8	630.5	630.5	626.9[1]
% of GDP	*51.6*	*54.5*	*54.5*	*51.0*
Domestic debt	418.9	433.1	433.1	416.7
% of GDP	*36.2*	*37.4*	*37.4*	*33.9*
External debt	177.9	197.4	197.4	210.2
% of GDP	*15.4*	*17.1*	*17.1*	*17.1*
Non-resident holdings of RM-denominated Federal Government debt	*160.2*	*176.0*	*176.0*	*190.2*
% of GDP	*13.8*	*15.2*	*15.2*	*15.5*
Offshore borrowing	*17.6*	*21.5*	*21.5*	*19.9*
% of GDP	*1.5*	*1.9*	*1.9*	*1.6*

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 2010.

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia