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ECONOMIC AND FINANCIAL DEVELOPMENTS IN MALAYSIA IN THE THIRD QUARTER OF 2013

OVERVIEW

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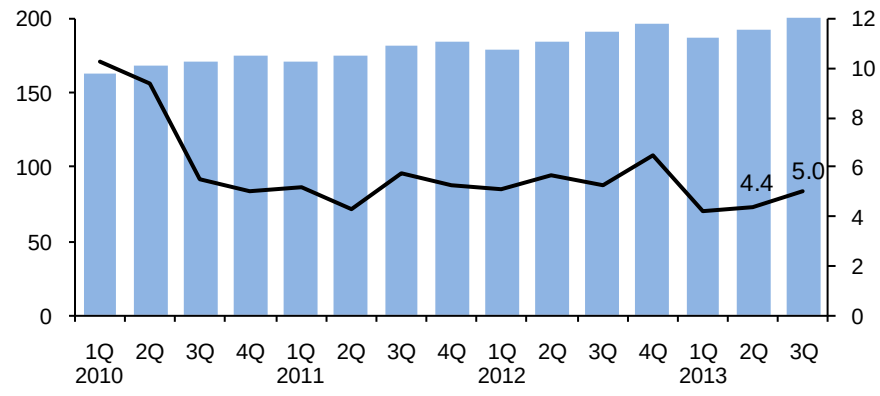
The Malaysian economy recorded a stronger growth of 5.0% in the third quarter (2Q 2013: 4.4%). Domestic demand remained the key driver of growth, expanding by 8.3% (2Q 2013: 7.4%), while exports turned around to grow by 1.7% (2Q 2013: -5.2%). On the supply side, most major sectors expanded further in the third quarter, supported by the continued strength in domestic demand and the improvement in trade activity. The moderate expansion in the global economy in the third quarter supported the recovery in exports. International financial markets, however, experienced increased volatility amid uncertainties over the fiscal and monetary policies of the advanced economies, particularly the US. On a quarter-on-quarter seasonally adjusted basis, the economy expanded by 1.7% (2Q 2013: 1.4%).

The economy strengthened in the third quarter
(at constant 2005 prices)



Source: Department of Statistics, Malaysia

Private consumption expanded by 8.2% (2Q 2013: 7.2%), supported by sustained employment conditions and wage growth. Growth in public consumption moderated in the third quarter to 7.8% (2Q 2013: 11.8%), reflecting mainly lower Government spending on supplies and services.

Growth in gross fixed capital formation improved to 8.6% (2Q 2013: 6.0%), underpinned by capital spending in the private sector. Private investment grew by 15.2% (2Q 2013: 12.7%), driven by capital spending in the services and manufacturing sectors as well as the on-going implementation of projects in the oil and gas sector. Meanwhile, public investment growth improved but remained weak at -1.3% (2Q 2013: -6.4%). Public investment was driven mainly by public enterprises investing in the transportation, oil and gas and utilities sectors.

On the supply side, growth in most economic sectors improved in the third quarter. The services and manufacturing sectors expanded further, supported by domestic demand and the improvement in trade activity. Growth of the agriculture sector was higher, supported mainly by production of food crops, while the moderation in growth of the mining sector reflected the lower production of natural gas and crude oil. In the construction sector, growth was sustained, driven mainly by the residential sub-sector. Growth was further supported by the non-residential and civil engineering sub-sectors.

The headline inflation rate, as measured by the annual change in the Consumer Price Index (CPI), was higher at 2.2% in the third quarter (2Q 2013: 1.8%). The increase was mainly attributed to higher inflation in the *transport* and *food and non-alcoholic beverages* categories.

In the external sector, the current account surplus increased to RM9.8 billion in the third quarter, equivalent to 4.1% of GNI (2Q 2013: RM2.6 billion or 1.1% of GNI), mainly due to a higher surplus in the goods account. The financial account recorded a net outflow of RM11.5 billion (2Q 2013: inflow of RM5.2 billion), as net inflows of direct investment were offset by outflows from portfolio and other investments. The overall balance of payments registered a larger surplus of RM11.8 billion in the third quarter (2Q 2013: RM1.5 billion).

The international reserves of Bank Negara Malaysia amounted to RM444.6 billion (equivalent to USD136.5 billion) as at 30 September 2013. This reserve level has taken into account the quarterly adjustment for foreign exchange revaluation changes. As at 31 October 2013, the reserves position amounted to RM446.2 billion (equivalent to USD137.1 billion), sufficient to finance 9.7 months of retained imports and is 3.7 times the short-term external debt.

Interest rates remained stable

The Overnight Policy Rate (OPR) was maintained at 3.00% during the third quarter of 2013. At the prevailing level of the OPR, monetary conditions remain supportive of economic activity.

The average interbank rates for all maturities remained relatively stable. In terms of retail interest rates, the average quoted fixed deposit (FD) rates of

commercial banks were relatively unchanged. The average base lending rate (BLR) of commercial banks also remained unchanged at 6.53%, while the weighted average lending rate (ALR) on loans outstanding continued its gradual moderating trend (end-September 2013: 5.40%; end-June 2013: 5.43%).

The monetary aggregates continued to experience positive growth during the third quarter. M1, or narrow money, increased by RM10.9 billion. On an annual basis, M1 expanded by 12.9% as at end-September (end-June 2013: 12.5%). M3, or broad money, increased by RM16.4 billion on a quarter-on-quarter basis to record an annual growth rate of 7.4% as at end-September (end-June 2013: 8.5%). M3 continued to expand during the quarter on account of credit extended to the private sector by the banking system and higher net claims on the Government.

Total gross financing raised by the private sector through the banking system and the capital market amounted to RM260.5 billion in the third quarter (2Q 2013: RM251.0 billion). Outstanding banking system loans expanded at an annual growth rate of 9.5% as at end-September (end-June 2013: 9.1%), while net funds raised in the capital market amounted to RM20.1 billion in the third quarter (2Q 2013: RM13.9 billion).

The foreign exchange market was volatile during the quarter. The ringgit depreciated against the major and most regional currencies. The ringgit, alongside most regional currencies, depreciated against the US dollar as expectations for a scale-back in the US Federal Reserve's asset purchase program prompted a reversal of capital flows from most regional financial markets. Overall, the ringgit depreciated by 2.4% against the US dollar during the quarter. The ringgit also depreciated against the pound sterling (7.8%), euro (5.6%) and Japanese yen (3.3%), as well as against most regional currencies, by between 1.7% and 8.5%. The ringgit, however, strengthened against the Indonesian rupiah by 14.6%.

Between 1 October and 13 November, the ringgit appreciated against the US dollar by 1.5%. The ringgit also appreciated against the pound sterling (3.3%), Japanese yen (3.1%) and euro (2.0%). Against regional currencies, the ringgit strengthened by between 0.9% and 2.2% during the period.

Financial stability continued to be preserved

The domestic financial system remained resilient throughout the third quarter, despite the increased volatility in global and domestic financial markets. Domestic financial intermediation continued to be well-supported by sound financial institutions, orderly financial market conditions and sustained confidence in the financial system.

The banking system remained well-capitalised, with the common equity tier 1 (CET1) capital ratio, tier 1 capital ratio and total capital ratio remaining well above the minimum regulatory levels, at 12.1%, 13.0% and 14.4% respectively. Similarly, the capital adequacy ratio of the insurance sector

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remained strong at 236.7% (2Q 2013: 229.5%), with an excess capital buffer of RM27.4 billion.

Domestic demand will continue to be supportive of growth

Going forward, emerging signs of a recovery in the major advanced economies are expected to support overall global growth. Uncertainties surrounding the fiscal and monetary policy adjustments in these economies, however, may affect market sentiment and overall growth prospects in the global economy. While global policy spillovers may have some impact on Asia, growth will continue to be underpinned by domestic demand.

For the Malaysian economy, the gradual recovery in the external sector will support growth. Domestic demand from the private sector will remain supportive of economic activity amid the continued consolidation of the public sector. The economy is therefore expected to remain on its steady growth trajectory.

Bank Negara Malaysia
15 November 2013

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GDP by Economic Activity (at constant 2005 prices)

	Share 2012 (%)	2012		2013		
		3Q	4Q	1Q	2Q	3Q
		Annual change (%)				
Agriculture	7.3	0.6	5.6	6.0	0.4	2.1
Mining	8.4	-1.2	4.2	-1.9	4.1	1.7
Manufacturing	24.9	3.3	5.7	0.3	3.5	4.2
Construction	3.5	17.9	17.6	14.2	9.9	10.1
Services	54.6	7.0	6.4	6.1	5.0	5.9
Real GDP	**100.0**[1]	**5.3**	**6.5**	**4.1**	**4.4**	**5.0**
Real GDP (q-o-q seasonally adjusted)	**-**	**1.0**	**2.2**	**-0.3**	**1.4**	**1.7**

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

Source: Department of Statistics, Malaysia

GDP by Expenditure Components (at constant 2005 prices)

	2012		2013		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
Aggregate Domestic Demand (excluding stocks)	11.4	7.8	8.2	7.4	8.3
Consumption	7.4	4.9	6.2	8.1	8.1
Private sector	*8.6*	*6.2*	*7.5*	*7.2*	*8.2*
Public sector	*2.4*	*1.2*	*0.6*	*11.8*	*7.8*
Gross Fixed Capital Formation	22.3	16.0	13.1	6.0	8.6
Private sector	*22.4*	*20.1*	*10.8*	*12.7*	*15.2*
Public sector	*22.2*	*12.9*	*17.3*	*-6.4*	*-1.3*
Net Exports	-47.6	-9.3	-36.4	-41.6	1.6
Exports of Goods and Services	*-2.5*	*-1.6*	*-0.6*	*-5.2*	*1.7*
Imports of Goods and Services	*4.5*	*-0.6*	*3.6*	*-2.0*	*1.8*
GDP	**5.3**	**6.5**	**4.1**	**4.4**	**5.0**
GDP (q-o-q growth, seasonally adjusted)	**1.0**	**2.2**	**-0.3**	**1.4**	**1.7**

Source: Department of Statistics, Malaysia