DEVELOPMENTS IN THE MALAYSIAN ECONOMY

Higher growth in the fourth quarter

The Malaysian economy recorded a higher growth of 6.4% in the fourth quarter of 2012 (3Q 12: 5.3%), supported by the continued strength in domestic demand. Total investment remained robust and was the main driver of growth during the quarter. The growth of private consumption continued to remain strong although the pace of increase moderated. Net exports of goods and services continued to contract in the fourth quarter, but by a smaller magnitude. This reflected the contraction in imports following the decline in imports of intermediate goods and lower imports of consumption goods.

Given the smaller contraction in net exports and the sustained growth in domestic demand, overall GDP expanded at a higher rate during the quarter. On the supply side, most economic sectors recorded higher growth during the quarter.

Moderate expansion in domestic demand

Domestic demand continued to expand at the pace of 7.5% in the fourth quarter of 2012 (3Q 12: 11.4%). Gross fixed capital formation and total consumption remained strong, although the pace of increase moderated.

GDP by Expenditure Components
(at constant 2005 prices)

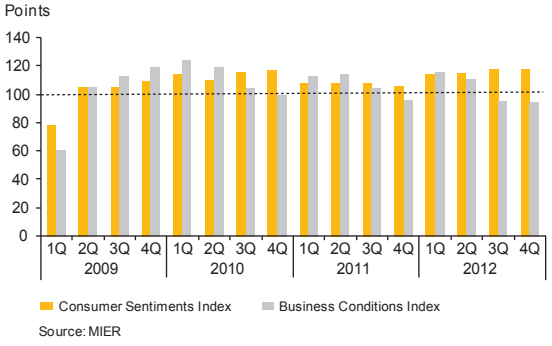
	2011		2012		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Aggregate Domestic Demand (excluding stocks)	10.4	8.2	11.4	7.5	10.6
Consumption	11.1	8.9	7.3	4.8	7.1
Private sector	*7.3*	*7.1*	*8.5*	*6.1*	*7.7*
Public sector	*22.9*	*16.1*	*2.3*	*1.1*	*5.0*
Gross Fixed Capital Formation	8.4	6.5	22.7	15.0	19.9
Private sector	*18.8*	*12.2*	*22.9*	*20.2*	*22.0*
Public sector	*1.9*	*-0.3*	*22.4*	*11.1*	*17.1*
Net Exports	-10.5	-7.4	-50.3	-5.9	-29.4
Exports of Goods and Services	*5.5*	*4.2*	*-3.0*	*-1.5*	*0.1*
Imports of Goods and Services	*7.8*	*6.2*	*4.4*	*-0.9*	*4.5*
GDP	**5.2**	**5.1**	**5.3**	**6.4**	**5.6**

Source: Department of Statistics, Malaysia

Private consumption registered a growth of 6.1% in the fourth quarter (3Q 12: 8.5%), supported by stable labour market conditions and favourable consumer sentiments. The stronger growth in the first half of the year reflected the effects of the various Government transfers to households disbursed during the period. Public consumption grew by 1.1% (3Q 12: 2.3%), attributable to continued Government spending on emoluments amidst lower spending on supplies and services.

Gross fixed capital formation remained strong, registering double-digit growth of 15% in the fourth quarter (3Q 12: 22.7%). Private investment advanced by 20.2% (3Q 12: 22.9%), supported by capital spending in the domestic-oriented manufacturing and consumer-related services sub-sectors, namely, telecommunications, real estate and aviation. The on-going implementation of projects in the oil and gas sector also provided a considerable boost to investment activity. There was also investment in capacity expansion in the primary-related manufacturing cluster and in new growth areas such as medical and communications equipment. Public investment expanded by 11.1% (3Q 12: 22.4%), driven by capital spending by public enterprises in the transportation, utilities, oil and gas and communications sectors. Federal Government development expenditure was channeled mainly into the transportation, education and public utilities sector.

Continued improvement in consumer confidence



Source: MIER

Higher growth in most economic sectors

On the supply side, growth in most economic sectors improved in the fourth quarter. Growth was led by the manufacturing and services sectors, supported by domestic demand and a gradual improvement in the external environment. The agriculture sector expanded at a faster pace amidst higher crude palm oil output and production of poultry, while growth in the mining sector rebounded following a recovery in the production of natural gas. Meanwhile, growth in the construction sector continued to be robust, driven by the civil engineering and residential sub-sectors.

The services sector expanded by 6.3% in the fourth quarter of 2012 (3Q 12: 7%), with both consumption- and manufacturing-related activities contributing to growth. The wholesale and retail trade sub-sector expanded at a slower pace of 2.2% (3Q 12: 4.4%), attributable mainly to the moderation in wholesale segment, due to slower wholesale trade of commodity products, while retail segment continued to grow in tandem with positive growth in consumption. Growth in the trade- and manufacturing-related sub-sectors was higher, attributed to stronger domestic production and gradual improvement in external environment. The transport and storage sub-sector grew by 4.4% (3Q 12: 3.6%) while growth in the utilities sub-sector also increased (4.1%; 3Q 12: 3.8%). The finance and insurance sub-sector advanced by 10.9% (3Q 12: 11.8%), driven by bank lending activity and an increase in insurance premiums' growth.

GDP by Economic Activity (at constant 2005 prices)

	2011		2012		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Agriculture	6.9	5.9	0.5	5.6	0.8
Mining	-3.8	-5.7	-1.2	4.3	1.4
Manufacturing	5.2	4.7	3.3	5.8	4.8
Construction	7.5	4.6	18.3	18.1	18.5
Services	6.6	7.0	7.0	6.3	6.4
Real GDP (Annual Change)	**5.2**	**5.1**	**5.3**	**6.4**	**5.6**
Real GDP (Preceding Change)	**1.8**	**5.1**	**3.3**	**2.9**	**5.6**

Source: Department of Statistics, Malaysia

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

	Share 2011 (%)	2011		2012		
		4Q	Year	3Q	4Q	Year
		Annual change (%)				
Intermediate Services	**40.6**	**6.5**	**6.2**	**8.9**	**8.3**	**7.4**
Finance & insurance	17.0	7.1	6.5	11.8	10.9	7.9
Real estate & business services	10.0	4.4	5.5	7.5	6.5	7.1
Transport & storage	6.8	6.0	5.4	3.6	4.4	4.9
Communication	6.8	8.8	7.6	9.1	8.5	9.1
Final Services	**59.4**	**6.7**	**7.5**	**5.7**	**5.0**	**5.7**
Wholesale & retail trade	26.6	6.8	7.1	4.4	2.2	4.6
Accommodation & restaurant	4.5	6.3	6.0	4.0	4.7	5.4
Utilities	4.7	3.6	3.1	3.8	4.1	4.3
Government services	14.3	10.4	12.4	11.0	11.4	9.6
Other services	9.4	2.5	4.7	3.8	3.3	3.9
Total Services	**100.0**	**6.6**	**7.0**	**7.0**	**6.3**	**6.4**

Source: Department of Statistics, Malaysia

Selected Quarterly Indicators in the Services Sector

	2011			2012		
	3Q	4Q	Year	3Q	4Q	Year
	Index					
MIER Consumer Sentiments Index	108.7	106.3	107.8	118.3	118.7	116.6
MIER Retail Trade Index	150.0	92.6	115.6	130.2	94.8	107.4
MIER Tourism Market Index	115.2	126.0	119.9	129.9	129.8	125.6
	Annual change (%)					
Tourist arrivals	4.7	5.4	0.6	-2.2	2.9	1.3
Total passenger traffic at all airports	10.8	7.0	10.6	2.9	8.6	4.9
Total consumption credit outstanding	8.5	9.5	9.5	7.6	7.1	7.1
Total loans outstanding	13.8	13.6	13.6	11.9	10.4	10.4
Loans outstanding to the wholesale & retail trade, hotels & restaurants	9.6	11.5	11.5	11.7	12.2	12.2
Imports of consumption goods	26.4	25.2	19.0	11.4	5.7	11.6
Total sales of motor vehicles	0.6	-1.5	-0.9	2.7	13.1	4.6
Container cargo handled (Port Klang and PTP)	9.8	11.5	11.3	1.7	0.4	3.4

Source: Various sources

Growth in the manufacturing sector was higher in the fourth quarter with the sector expanding by 5.8% (3Q 12: 3.3%). The expansion was broad-based, with all clusters registering better growth in line with the continued expansion in both domestic demand and the external demand for manufactured products. Growth in the export-oriented industry was led by the primary-related cluster, driven in particular by higher demand for chemicals and refined petroleum products. Growth in the E&E cluster also benefited from the low base in the fourth quarter of 2011 when the global E&E supply chain was disrupted by floods in Thailand. Performance of the domestic-oriented industries also strengthened further, driven primarily by the strong expansion in the construction-related cluster, which continued to benefit from robust domestic construction activity. Production in the consumer-related cluster also expanded favourably, especially in transport equipment due to higher production of motor vehicles and related parts.

Overall capacity utilisation rate in the manufacturing sector was sustained in the fourth quarter (80%; 3Q 12: 81%). Export- and domestic-oriented industries were operating at 81% and 79% of total capacity respectively (3Q 12: 80% and 82% respectively).

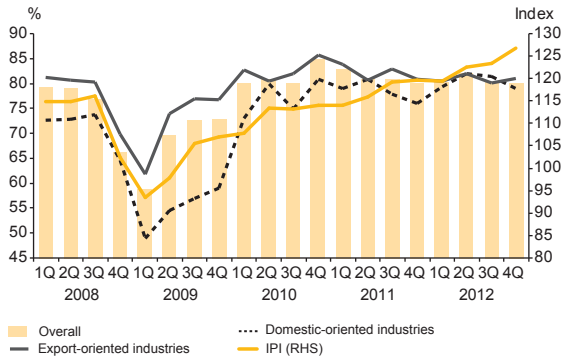
Performance of the Manufacturing Sector

	2011		2012		
	4Q	Year	3Q	4Q	Year
	Annual Change (%)				
Value Added (RM million at constant 2005 prices)	**5.2**	**4.7**	**3.3**	**5.8**	**4.8**
Overall Manufacturing Production[1]	**4.7**	**4.5**	**3.5**	**6.1**	**5.0**
Export-oriented industries	**2.9**	**3.4**	**2.5**	**5.2**	**3.9**
Electronics and electrical products cluster	**-3.0**	**-3.6**	**1.9**	**3.9**	**2.2**
Of which:					
Electronics	-10.3	-11.7	5.1	13.0	4.2
Electrical products	6.5	8.4	-1.9	-5.9	-0.2
Primary-related cluster	**6.1**	**7.4**	**2.7**	**5.9**	**4.8**
Of which:					
Chemicals and chemical products	14.1	8.8	5.9	7.1	8.2
Petroleum products	-1.1	6.2	-0.2	4.2	4.3
Rubber products	9.5	13.9	1.5	3.2	3.0
Off-estate processing	13.8	8.7	2.5	11.0	0.0
Domestic-oriented industries	**10.6**	**8.2**	**6.9**	**8.7**	**8.4**
Construction-related cluster	**12.3**	**17.6**	**10.5**	**11.3**	**8.7**
Of which:					
Construction-related products	8.3	13.0	1.6	-1.8	0.8
Fabricated metal products	17.5	23.8	21.6	27.1	18.5
Consumer-related cluster	**9.3**	**1.3**	**3.9**	**6.6**	**8.2**
Of which:					
Transport equipment	4.6	-4.3	11.9	19.9	14.1
Food, beverage & tobacco products	9.8	5.9	2.1	0.2	5.7

[1] Industrial Production Index (2005=100)

Source: Department of Statistics, Malaysia

Capacity utilisation rate in the manufacturing sector*



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

Source: Bank Negara Malaysia & Department of Statistics, Malaysia

Value-added growth of the agriculture sector expanded strongly by 5.6% (3Q 12: 0.5%), driven largely by a sharply higher output of crude palm oil and supported by higher production of poultry in the livestock sub-sector. The mining sector turned around to record a growth of 4.3% (3Q 12: -1.2%), reflecting a recovery in natural gas production following a prolonged shutdown of several gas facilities for maintenance purposes in the previous quarter. Growth was further supported by higher production of crude oil in fields offshore Sabah.

Performance of the Agriculture Sector

	2011		2012		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Value Added (at constant 2005 prices)	**6.9**	**5.9**	**0.5**	**5.6**	**0.8**
Industrial Crops	**7.8**	**5.8**	**-3.9**	**5.0**	**-2.6**
Of which:					
Oil palm	17.0	10.8	1.6	11.7	-0.3
Rubber	-6.9	6.1	-15.6	0.8	-7.0
Food Crops	**5.6**	**6.2**	**6.4**	**6.6**	**5.5**
Of which:					
Fishing	1.2	2.1	4.7	5.6	1.5
Livestock	10.3	10.4	7.1	11.7	9.3

Source: Department of Statistics, Malaysia

Performance of the Mining Sector

	2011		2012		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Value Added (at constant 2005 prices)	**-3.8**	**-5.7**	**-1.2**	**4.3**	**1.4**
Production					
Of which:					
Crude oil and condensates	-6.6	-10.7	0.0	4.1	2.4
Natural gas	0.7	0.0	-3.3	6.0	-0.4

Source: PETRONAS
Department of Statistics, Malaysia

In the construction sector, growth was sustained at a double-digit rate in the fourth quarter (18.1%; 3Q 12: 18.3%), driven mainly by robust activity in the civil engineering and residential sub-sectors. The strong performance in the civil engineering sub-sector was mainly driven by the progress in the MRT project, in addition to other infrastructure and oil and gas projects such as the Second Penang Bridge, Janamanjung Power Plant and Kebabangan Gas Field. The residential sub-sector also registered firm growth, underpinned by the construction of high-end properties while the non-residential sub-sector continued to be supported by the construction of commercial buildings.

Indicators for the Construction Sector

	2011		2012		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Housing approvals	29.8	32.2	3.2	12.3	47.4
New housing sales and advertising permits	22.4	16.1	25.6	-1.1	11.9
Production[1] of construction-related materials	12.3	17.6	10.5	11.3	8.7
Structural metal products	41.4	48.2	40.4	46.7	34.4
Iron and steel	1.0	1.4	-5.9	-2.8	-5.6
Structural non-refractory clay and ceramic products	2.5	-4.5	6.0	2.4	5.1
Ready-mix concrete	35.3	36.8	18.2	12.4	18.1
Loans for construction activity					
Approval	64.4	26.0	5.3	-60.1	-18.4
Disbursement	17.9	5.4	49.0	4.4	20.7

[1] Industrial Production Index (2005=100)

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

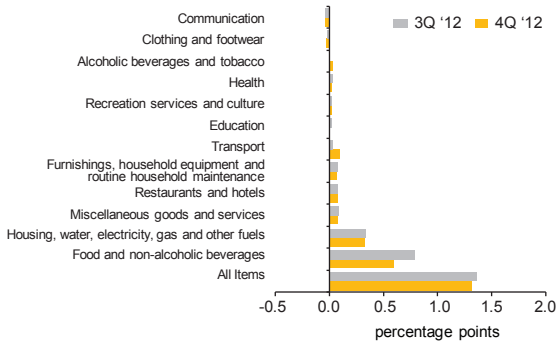
Inflation continued to moderate

The headline inflation rate, as measured by the annual change in the Consumer Price Index (CPI) continued to moderate to 1.3% in the fourth quarter (3Q 12: 1.4%), reflecting lower inflation in the *food and non-alcoholic beverages* category.

Inflation in the *food and non-alcoholic beverages* category was lower at 2.0% during the quarter (3Q 12: 2.6%). Prices in the *fish and seafood* sub-category increased at a slower pace of 3.7% (3Q 12: 7.3%) following cheaper imported fish from Indonesia. In addition, prices in the *food away from home* category also increased at a slower rate of 2.7% (3Q 12: 3.5%).

However, at 0.6%, inflation was higher in the *transport* category (3Q 12: 0.2%). Although the price of RON97 petrol was revised downwards in November and December 2012, the average price was higher in the fourth quarter of 2012 compared to the corresponding period in 2011 (average price of RON97 petrol in 4Q 12: RM 2.83 per litre; 4Q 11: RM 2.80 per litre). The upward revision in the price of cigarettes by 20 sen per pack of 20 in October 2012 led to higher inflation in the *alcoholic beverages and tobacco* category (4Q 12: 1.4%, 3Q 12: 0.2%).

Contribution to Consumer Price Inflation



Source: Bank Negara Malaysia

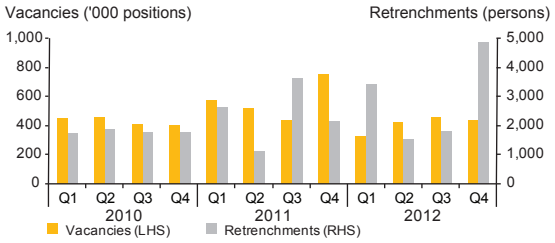
The Producer Price Index (PPI) continued to decline, contracting by 3.7% on an annual basis in the fourth quarter (3Q 12: -0.7%). In terms of composition, prices of commodity-related components declined by 10.3% (3Q 12: -2.7%) while prices of non-commodity-related components increased by 0.2% (3Q 12: 0.6%) during the quarter. Prices of local components declined by 5.2% (3Q 12: -1.1%) while those of imported components remained unchanged (3Q 12: 0.7%).

Softer labour market conditions in the fourth quarter

Overall employment conditions softened slightly during the quarter, with the unemployment rate increasing marginally to 3.1% in October-November (3Q 12: 3.0%). Total employment averaged 12.56 million persons during the first two months of the quarter, representing a year-on-year growth of 2.9% (3Q 12: 2.8%). However, total retrenchments reported to the Ministry of Human Resources during the quarter increased to 4,823 persons from 1,767 persons in the preceding quarter, with the manufacturing sector accounting for 70% of total layoffs.

Labour demand during the quarter declined as reflected in the lower number of job vacancies posted in the JobsMalaysia Portal (429,928 positions; 3Q 12: 453,893 positions). Meanwhile, aggregate real wages in the manufacturing sector recorded a higher growth of 6.4% as compared to the preceding quarter (3Q 12: 3.9%).

Labour Market Conditions



Note: Vacancies data from 2012 onwards is not comparable to previous years due to a reclassification exercise

Source: Ministry of Human Resources

External sector remained strong

The current account surplus increased in the fourth quarter to RM22.8 billion, equivalent to 6.6% of GNI, due to the larger goods surplus and lower services deficit and income outflows.

Balance of Payments

	2011		2012		
	4Q	Year	3Q	4Q	Year
	RM billion				
Current Account	**22.4**	**97.1**	**9.5**	**22.8**	**60.0**
(% of GNI)	*10.0*	*11.3*	*4.2*	*9.6*	*6.6*
Goods	36.8	148.1	25.5	34.5	125.2
Services	-3.8	-8.0	-3.4	-2.7	-13.4
Income	-5.3	-22.0	-7.9	-5.5	-33.7
Current transfers	-5.4	-21.0	-4.7	-3.5	-18.2
Financial Account	**-0.2**	**22.3**	**-8.7**	**-9.0**	**-22.5**
Direct investment abroad	-14.7	-46.7	-7.7	-23.8	-51.0
Foreign direct investment	6.5	36.6	9.6	5.9	29.1
Portfolio investment	-2.7	25.8	27.6	11.3	59.2
Financial derivatives	-0.3	-0.1	-0.1	0.1	0.9
Other investment	11.0	6.6	-38.1	-2.4	-60.7
- Official sector	*-0.1*	*-1.3*	*0.0*	*-0.7*	*-1.4*
- Private sector	*11.1*	*7.9*	*-38.0*	*-1.7*	*-59.3*
Errors & omissions	-15.9	-24.5	-8.3	-8.2	-33.6
Overall Balance	**6.2**	**94.7**	**-7.5**	**5.9**	**3.9**

Source: Department of Statistics Malaysia

The trade surplus widened to RM26.6 billion in the fourth quarter of 2012 as the moderation in gross imports more than offset the decline in gross exports.

Gross exports continued to decline (-2.3%) in the fourth quarter, weighed down by further contractions in both manufactured and commodity exports. The decline in manufactured exports was due mainly to weaker demand for electronics and electrical (E&E) products. Non-E&E exports contracted at a slower rate, reflecting sustained regional demand for both resource- and non-resource based products. Commodity exports were lower mainly on account of further declines in prices of all major commodities.

Trade Account

	2011		2012		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Gross Exports	**9.8**	**9.2**	**-1.5**	**-2.3**	**0.6**
Manufactured	2.2	2.2	-1.3	-2.4	-0.1
E&E	*-5.0*	*-5.1*	*-1.7*	*-4.4*	*-2.5*
Non-E&E	*10.3*	*10.7*	*-0.8*	*-0.5*	*2.3*
Commodities	28.8	28.0	-3.0	-3.1	1.5
Agriculture	*18.9*	*32.7*	*-21.4*	*-16.8*	*-14.9*
Minerals	*36.6*	*24.7*	*11.8*	*6.2*	*13.6*
Gross Imports	**6.8**	**8.5**	**7.3**	**0.9**	**5.9**
Capital goods	2.8	8.7	22.6	14.5	20.5
Intermediate goods	2.4	5.5	-3.1	-8.8	-3.4
Consumption goods	25.2	19.0	11.4	5.7	11.6
Trade balance (RM billion)	**32.2**	**124.2**	**17.2**	**26.6**	**94.8**

Source: MATRADE and Department of Statistics, Malaysia

Gross imports moderated to 0.9% in the fourth quarter due to a broad-based moderation in all major import categories. Intermediate imports declined further in tandem with the further contraction in manufactured exports, while capital and consumption imports continued expanding, albeit at a slower pace. Growth of capital imports continued to be supported by imports of machinery and transport equipment, reflecting the continued expansion in investment activity. Imports of consumption goods were supported by imports of processed food and beverages and semi-durable consumer goods.

Deficit in the services account was significantly lower at RM2.7 billion in the fourth quarter. The lower deficit was mainly attributable to higher net travel receipts amidst sustained net payments for transportation services. The increase in travel receipts was driven by the higher number and stronger spending of foreign tourists in Malaysia, while the payments for transportation services were supported by higher spending on passenger travel, despite the moderation in imports during the quarter. The deficit in income account narrowed to RM5.5 billion, arising from higher investment

Malaysia: Direction of Exports

	2011		2012			2011		2012		
	4Q	Year	3Q	4Q	Year	4Q	Year	3Q	4Q	Year
	Annual change (%)					Share of total exports (%)				
United States	**-3.5**	**-5.4**	**8.3**	**4.1**	**5.4**	**8.0**	**8.3**	**9.2**	**8.6**	**8.7**
European Union (EU)	**3.9**	**4.9**	**-19.2**	**-15.7**	**-13.7**	**10.2**	**10.3**	**8.5**	**8.8**	**8.9**
Selected ASEAN countries[1]	**5.6**	**5.5**	**10.6**	**8.0**	**9.5**	**24.3**	**24.2**	**26.7**	**26.9**	**26.4**
North East Asia	**9.4**	**9.7**	**-7.6**	**-4.3**	**-3.7**	**24.2**	**24.7**	**23.8**	**23.7**	**23.6**
People's Republic of China	*15.4*	*14.3*	*-11.6*	*-4.9*	*-3.1*	*13.0*	*13.1*	*12.7*	*12.6*	*12.6*
Hong Kong SAR	*-7.3*	*-3.6*	*0.2*	*-4.2*	*-3.8*	*4.2*	*4.5*	*4.6*	*4.1*	*4.3*
Chinese Taipei	*13.1*	*14.9*	*-1.6*	*-8.8*	*-6.1*	*3.4*	*3.3*	*3.2*	*3.1*	*3.1*
Korea	*8.5*	*7.9*	*-6.7*	*2.1*	*-3.6*	*3.6*	*3.8*	*3.3*	*3.8*	*3.6*
West Asia	**6.5**	**12.1**	**2.5**	**-8.8**	**-3.1**	**3.5**	**3.6**	**3.6**	**3.3**	**3.4**
India	**33.7**	**34.5**	**0.7**	**12.9**	**4.2**	**4.0**	**4.0**	**4.3**	**4.6**	**4.2**
Total exports	**9.8**	**9.2**	**-1.5**	**-2.3**	**0.6**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

[1]Singapore, Thailand, Indonesia, Philippines, Brunei Darussalam and Vietnam

Source: Department of Statistics, Malaysia

income accrued to Malaysian companies investing abroad and lower investment income accrued to foreign direct investors in Malaysia. The higher income of Malaysian companies investing abroad was mainly attributable to companies in the oil and gas and services sectors.

The financial account sustained a net outflow of RM9.0 billion in 4Q 12 (3Q 12: -RM8.7 billion) as net inflows of portfolio investment and FDI were offset by an increase in direct investment abroad.

Portfolio investment recorded a smaller net inflow of RM11.3 billion during the quarter (3Q 12: RM 27.6 billion). While developments in the US, Japan and Europe caused significant deterioration of risk appetites in the markets; the expanded global liquidity conditions arising from the continued accommodative monetary policy stance in the advanced economies contributed to steady inflows of capital into the developing economies, including Malaysia. Moreover, the brighter growth prospects in the developing economies continued to attract portfolio investment inflows from non-residents, particularly into the purchases of Government debt securities.

FDI recorded a small net inflow of RM5.9 billion (3Q 12: +RM9.6 billion) due to slightly lower inflows of equity capital and retained earnings. FDI inflows continued to be broad-based during the quarter, mostly undertaken by companies in the *manufacturing, oil and gas*, and *services* sectors, particularly *within the wholesale and retail trade* and *finance and insurance* sub-sectors.

Direct investment abroad (DIA) by Malaysian companies, however, was significantly higher at RM23.8 billion in the last quarter of the year (3Q 12: -RM7.6 billion). Most of these outflows reflected strategic investments in the Liquefied Natural Gas (LNG) export market. Thus, the bulk of DIA were accounted by the *oil and gas* sector.

Other investment registered a small net outflow of RM2.4 billion in the fourth quarter (3Q 12: -RM38.1 billion), reflecting a turnaround in private sector flows, as large inflows from the banking sector were matched by outflows of trade credit extensions by Malaysian exporters. The official sector continues to register a small net outflow due to repayments of external loans.

The small net outflow position of the financial account, combined with the significant surplus in the current account resulted in a turnaround of the overall balance of payments to a surplus of RM5.9 billion in 4Q 12 (3Q 12: -RM7.5 billion). Taking into account a small revaluation gain in international reserves, the errors and omissions amounted to RM8.2 billion during the quarter.

Lower external debt

Malaysia's total external debt declined to RM252.8 billion at end-December 2012 (end-Sept: RM259.6 billion). This is equivalent to 28% of GNI and accounted for only 14.5% of total debt[2].

Medium- and long-term external debt edged higher to RM159.8 billion, as net drawdown of external borrowings by the private sector was partly offset by net repayment of the public sector. As at end-December 2012, the short-term external debt was lower at RM93 billion due mainly to net repayment of interbank borrowing.

External Debt Outstanding

	2011	2012	
	end-Dec	end-Sept	end-Dec[p]
	RM billion		
Medium- and long-term debt	153.5	159.1	159.8
Public sector	87.8	84.8	82.9
Private sector	65.8	74.3	76.9
Short-term debt[1]	103.9	100.5	93.0
Total external debt	**257.4**	**259.6**	**252.8**
USD billion equivalent	80.4	83.9	81.7
External debt/GNI (%)	30.0	28.7	28.0
Reserves/Short-term external debt (times)	4.1	4.2	4.6[2]

[1] Excludes currency and deposits held by non-residents with resident banking institutions
[2] Based on international reserves as at 31 January 2013
[p] Preliminary

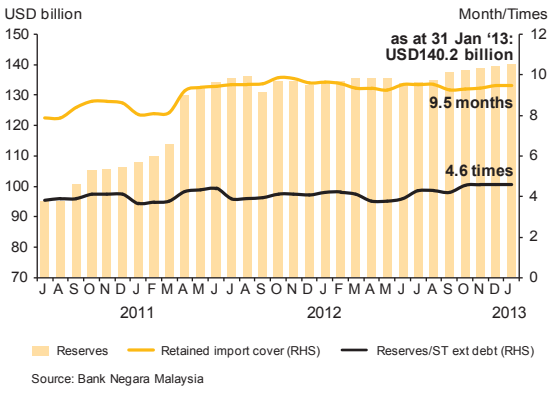
Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

[2] Total debt comprises domestic and external debt. Domestic debt comprises loans by banking system, private debt securities and Federal Government debt.

International reserves remained high

The international reserves of Bank Negara Malaysia amounted to RM427.1 billion (equivalent to USD139.7 billion) as at 31 December 2012. This reserve level has taken into account the quarterly adjustment for foreign exchange revaluation changes. As at 31 January 2013, the reserves position amounted to RM428.6 billion (equivalent to USD140.2 billion), sufficient to finance 9.5 months of retained imports and is 4.6 times the short-term external debt.

Net International Reserves (as at end period)



Source: Bank Negara Malaysia

Lower fiscal deficit of 4.5% in 2012 on higher revenue collection

The Federal Government's total revenue increased significantly in the fourth quarter, resulting in an improvement of fiscal deficit to 4.5% of GDP for the year as a whole (2011: 4.8% of GDP). The increase in revenue during the quarter was supported by the higher petroleum income tax. Expenditure was primarily channelled to the education and health sectors.

The fiscal deficit was fully financed from domestic borrowings. As at end-December 2012, total outstanding debt of the Federal Government stood at RM501.6 billion or 53.5% of GDP.

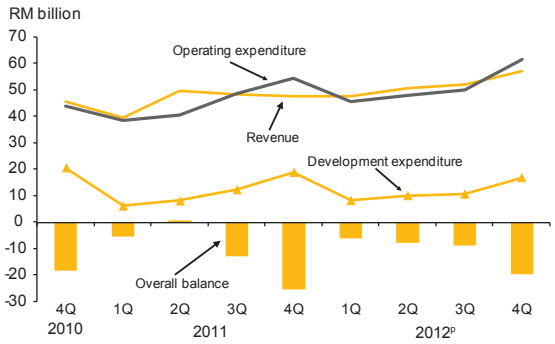
Federal Government Finance

	2011		2012[P]		
	4Q	Year	3Q	4Q	Year
	RM billion				
Revenue	47.7	185.4	52.1	57.2	207.9
% annual growth	*4.0*	*16.1*	*7.8*	*20.0*	*12.1*
Operating expenditure	54.5	182.6	50.1	61.6	205.5
% annual growth	*23.6*	*20.4*	*2.5*	*13.1*	*12.6*
Current account	**-6.9**	**2.8**	**2.0**	**-4.5**	**2.4**
% of GDP	***-3.0***	***0.3***	***0.9***	***-1.8***	***0.3***
Net development expenditure	18.5	45.3	10.8	16.6	44.3
% annual growth	*-7.1*	*-11.6*	*-11.8*	*-10.2*	*-2.2*
Overall balance	**-25.4**	**-42.5**	**-8.8**	**-21.1**	**-42.0**
% of GDP	***-11.1***	***-4.8***	***-3.7***	***-8.7***	***-4.5***
Memo item:					
Total net expenditure	73.0	227.9	60.9	78.3	249.9
% annual growth	*14.1*	*12.3*	*-0.4*	*7.2*	*9.6*
Total Federal Government debt (as at end-period)	456.1	456.1	484.6	501.6	501.6
% of GDP	*51.8*	*51.8*	*51.7*	*53.5*	*53.5*
Domestic debt	438.0	438.0	467.4	484.8	484.8
% of GDP	*49.7*	*49.7*	*49.9*	*51.7*	*51.7*
External debt	18.1	18.1	17.3	16.8	16.8
% of GDP	*2.1*	*2.1*	*1.8*	*1.8*	*1.8*

[P] Preliminary

Source: Ministry of Finance

Federal Government Finance



[P] Preliminary

Source: Ministry of Finance