DEVELOPMENTS IN THE MALAYSIAN ECONOMY

Growth moderated in the first quarter

Growth of the Malaysian economy continued to remain steady, growing at a more moderate pace of 4.7% (4Q 11: 5.2%). While domestic demand remained firm, growth was weighed down by the continued contraction in net exports. Domestic demand was supported by both private and public sector economic activity. This was reflected in the stronger growth of capital imports and the sustained growth in imports of consumption goods. Private consumption remained strong, supported mainly by continued income expansion and stable labour market conditions and reinforced by high commodity prices, improved consumer sentiments, and the disbursement of the income support programmes. Private investment expanded strongly, supported by the implementation of investment projects, particularly in the oil and gas sector. However, net exports contracted further as the growth of exports moderated following the slower growth in exports of resource-based products and commodities, mainly arising from the lower prices of soft commodities. On the supply side, most major economic sectors moderated further, as the weaker growth in export-oriented activity more than offset the sustained growth in domestic-oriented activity.

GDP by Expenditure Components
(at constant 2005 prices)

	2011			2012
	1Q	4Q	Year	1Q
	Annual change (%)			
Aggregate Domestic Demand (excluding stocks)	8.2	10.4	8.2	9.6
Consumption	7.7	11.1	8.9	7.1
Private sector	*6.9*	*7.3*	*7.1*	*7.4*
Public sector	*11.1*	*22.9*	*16.1*	*5.9*
Gross Fixed Capital Formation	9.8	8.4	6.5	16.1
Private sector	*24.9*	*18.8*	*12.2*	*19.8*
Public sector	*-8.2*	*1.9*	*-0.3*	*10.3*
Net Exports	-27.4	-10.5	-7.4	-20.8
Exports of Goods and Services	*1.9*	*5.5*	*4.2*	*2.8*
Imports of Goods and Services	*9.3*	*7.8*	*6.2*	*6.8*
GDP	**5.1**	**5.2**	**5.1**	**4.7**

Source: Department of Statistics, Malaysia

Domestic demand remained firm

Domestic demand registered a firm growth of 9.6% in the first quarter (4Q 11: 10.4%). Growth was supported by the continued expansion of expenditure by both the private and public sectors, particularly in the form of investments.

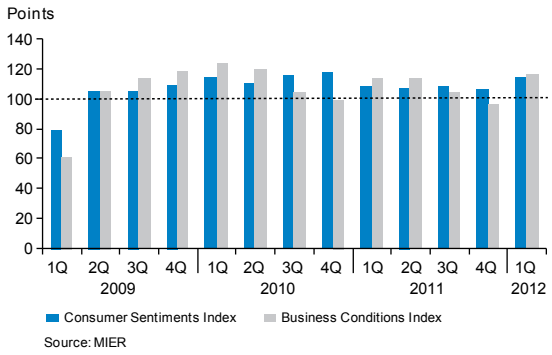
Private consumption remained strong at 7.4% (4Q 11: 7.3%), supported by continued income expansion and stable labour market conditions and reinforced by high commodity prices, improved consumer sentiments and lower inflation. The disbursement of the income support programmes provided further support to private consumption during the quarter. The sustained expansion in consumer spending was reflected in the strong growth of imports of consumption goods, sales of food and beverages, and credit card spending. The MIER Consumer Sentiments Index rose to 114.3 points (4Q 11: 106.3 points), reflecting improved consumer confidence.

Public consumption grew by 5.9% (4Q 11: 22.9%) as a result of the continued expansion in Government spending on emoluments and supplies and services.

Gross fixed capital formation grew at a faster pace of 16.1% (4Q 11: 8.4%), supported by capital spending by both the private and public sectors. Private sector investment grew by 19.8% (4Q 11: 18.8%), underpinned by the implementation of investment projects, particularly in the oil and gas, and manufacturing sectors. Major investment indicators such as the imports of capital goods, sales of construction-related materials and loan disbursements to businesses recorded strong performance, pointing to further expansion in private investment activity. Of significance, the MIER Business Conditions Index strengthened to 116.5 points (4Q 11: 96.6 points) and capacity utilisation in the manufacturing sector remained high. Public investment registered a growth of 10.3% (4Q 11: 1.9%), driven by higher growth in the Federal Government development expenditure and continued high capital spending by the non-financial public enterprises (NFPEs) in the transportation and mining sectors. The higher Federal Government's development expenditure

was mainly channelled into the trade and industry, and public utilities.

Consumer and business confidence improved



Source: MIER

Steady growth in most economic sectors

On the supply side, both the services and manufacturing sectors moderated further in the first quarter of 2012, reflecting the more modest growth in the external sector despite continued expansion in the domestic economy. Growth in the construction sector strengthened further, supported mainly by the civil engineering and residential sub-sectors. In commodities, growth in the agriculture sector moderated, while the mining sector turned around to record a marginal growth.

The **services sector** registered a growth of 5% in the first quarter (4Q 11: 6.6%), contributing 2.7 percentage points to the overall GDP growth. Growth was supported by the wholesale and retail trade; real estate and business services; and communication sub-sectors, in line with the favourable domestic demand conditions.

Growth in the **wholesale and retail trade** sub-sector was sustained at 6.4% (4Q 11: 6.8%), mainly driven by the retail segment, as household consumption spending remained strong amidst improvements in consumer sentiments. The **communication** sub-sector grew further to 9.4% (4Q 11: 8.8%), due to sustained robust demand for both mobile data and broadband services. The higher expansion in the **real estate and business services** sub-sector (6.9%; 4Q 11: 4.4%) mainly reflected the increase in professional services, benefiting from the construction and mining sectors. In the **transport and storage** sub-sector, growth was sustained at 5.9% (4Q 11: 6%), driven mainly by land transportation, as continued domestic production more than offset the moderation in trade-related transport activity. Growth in the **finance and insurance** sub-sector moderated to 2% (4Q 11: 7.1%), as net interest margin narrowed due to intense competition among financial institutions to attract deposits and to increase lending activities. Fee based income also moderated, in line with the lower value of market transactions in Bursa Malaysia.

GDP by Economic Activity (at constant 2005 prices)

	2011			2012
	1Q	4Q	Year	1Q
	Annual change (%)			
Agriculture	-0.2	6.9	5.9	2.1
Mining	-3.9	-3.8	-5.7	0.3
Manufacturing	5.7	5.2	4.7	4.2
Construction	5.1	7.5	4.6	15.5
Services	7.1	6.6	7.0	5.0
Real GDP (Annual Change)	**5.1**	**5.2**	**5.1**	**4.7**
Real GDP (Preceding Change)	**-2.7**	**1.8**	**5.1**	**-3.2**

Source: Department of Statistics, Malaysia

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

	Share 2011 (%)	2011			2012
		1Q	4Q	Year	1Q
		Annual change (%)			
Intermediate Services	**40.6**	**6.5**	**6.7**	**6.2**	**5.1**
Finance & insurance	17.0	7.7	7.1	6.5	2.0
Real estate & business services	10.0	5.7	4.4	5.5	6.9
Transport & storage	6.8	4.1	6.0	5.4	5.9
Communication	6.8	6.2	8.8	7.6	9.4
Final Services	**59.4**	**7.7**	**6.4**	**7.5**	**4.9**
Wholesale & retail trade	26.6	6.6	6.8	7.1	6.4
Accommodation & restaurant	4.5	4.8	6.3	6.0	6.1
Utilities	4.7	1.7	3.6	3.1	5.0
Government services	14.3	14.5	10.4	12.4	2.3
Other services	9.4	4.9	2.5	4.7	4.3
Total Services	**100.0**	**7.1**	**6.6**	**7.0**	**5.0**

Source: Department of Statistics, Malaysia

Selected Quarterly Indicators in the Services Sector

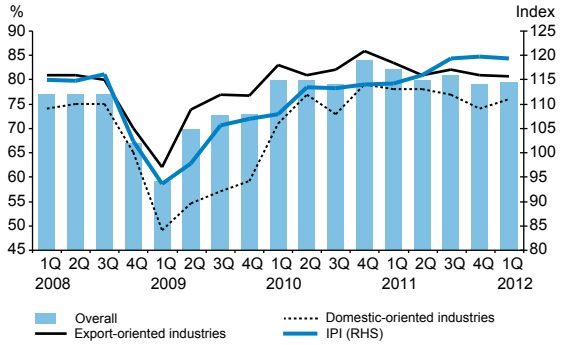
	2010	2011				2012
	4Q	1Q	2Q	3Q	4Q	1Q
	Index					
MIER Consumer Sentiments Index	117.2	108.2	107.9	108.7	106.3	114.3
MIER Retail Trade Index	132.0	99.1	120.8	150.0	92.6	85.3
MIER Tourism Market Index	124.6	113.1	125.4	115.2	126.0	125.2
	Annual change (%)					
Tourist arrivals	1.7	-3.9	-5.2	4.3	4.9	n.a.
Total passenger traffic at all airports	6.3	11.8	13.4	10.8	7.0	6.4
Total consumption credit outstanding	9.8	9.5	8.7	8.5	9.5	7.8
Loans outstanding to the wholesale & retail trade, hotels & restaurants	7.5	7.2	6.8	9.6	11.5	11.2
Imports of consumption goods	6.9	5.8	17.5	26.5	25.4	20.3
Total sales of motor vehicles	9.3	7.5	-9.7	0.6	-1.5	-12.6
Container cargo handled (Port Klang and PTP)	9.6	14.4	9.6	9.8	11.5	7.4

Source: Various sources

Growth in the **manufacturing sector** moderated to 4.2% (4Q 11: 5.2%), mainly reflecting the modest growth in the export-oriented industries. Performance of the **export-oriented industries** was weighed down by the continued contraction in the electronics and electrical products (E&E) cluster. Weak global demand for semiconductors more than offset the positive growth in the electrical segment, which was supported by higher demand from the ASEAN region. Growth in the primary-related cluster moderated, given slower demand for plastics used in E&E and as packaging materials, and lower regional demand for rubber tyres. Nonetheless, growth in the **domestic-oriented industries** remained steady. The construction-related cluster benefited from sustained construction activity, while growth in the consumer-related cluster was driven by higher production in the food, beverages and tobacco industry, in tandem with the firm growth in private consumption.

Overall, capacity utilisation in the manufacturing sector was higher at 80% (4Q 11: 79%). Export- and domestic-oriented industries operated at 80% and 77% of total capacity respectively during the quarter (4Q 11: 81% and 74% respectively).

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

Performance of the Manufacturing Sector

	2011			2012
	1Q	4Q	Year	1Q
	Annual Change (%)			
Value Added (RM million at constant 2005 prices)	**5.7**	**5.2**	**4.7**	**4.2**
Overall Manufacturing Production[1]	**5.9**	**5.3**	**4.7**	**4.4**
Export-oriented industries	**5.1**	**2.9**	**3.4**	**2.7**
Electronics and electrical products cluster	**-5.3**	**-3.0**	**-3.6**	**-0.1**
Of which:				
Electronics	-18.1	-10.3	-11.7	-3.7
Electrical products	17.9	6.5	8.4	4.4
Primary-related cluster	**11.3**	**6.1**	**7.4**	**4.1**
Of which:				
Chemicals and chemical products	5.5	14.1	8.8	8.4
Petroleum products	26.0	-1.1	6.2	3.8
Rubber products	12.4	9.5	13.9	2.2
Off-estate processing	-7.4	13.8	8.7	2.2
Domestic-oriented industries	**8.9**	**12.8**	**8.9**	**9.8**
Construction-related cluster	**22.1**	**12.3**	**17.6**	**10.3**
Of which:				
Construction-related products	15.3	8.3	13.0	1.0
Fabricated metal products	32.0	17.5	23.8	21.9
Consumer-related cluster	**-0.3**	**13.2**	**2.6**	**9.4**
Of which:				
Transport equipment	-3.9	15.1	-1.0	7.1
Food, beverage & tobacco products	6.7	9.8	5.9	9.7

[1] Industrial Production Index (2005=100)

Source: Department of Statistics, Malaysia

Growth in the **construction sector** strengthened significantly during the quarter (15.5%; 4Q 11: 7.5%), driven mainly by the civil engineering and residential sub-sectors. Growth was supported by the progress of major infrastructure projects such as the Second Penang Bridge, KLIA 2, Sabah-Sarawak Gas Pipeline, Melaka Regasification Terminal and Ipoh-Padang Besar Electrified Double Tracking project. The residential sub-sector also registered sustained growth due a significant increase in the number of housing projects. Improvement in the non-residential segment was underpinned by the construction of commercial buildings, factories, hospitals and learning institutions.

Indicators for the Construction Sector

	2011			2012
	1Q	4Q	Year	1Q
	Annual change (%)			
Value of construction work done	8.8	12.9	5.7	14.2
New sales and advertising permits	25.1	22.4	16.1	12.5
Housing approvals	31.6	29.8	32.2	75.6
Production[1] of construction-related materials	22.1	12.3	17.6	10.3
Loans approved for construction	29.3	64.4	26.0	38.2
Imports of construction-related materials	-1.2	9.4	13.9	9.5

[1] Industrial Production Index (2005=100)

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

Value-added growth of the **agriculture sector** moderated to 2.1% (4Q 11: 6.9%), as a result of lower output of rubber and fish, arising from adverse weather conditions. The **mining sector** turned around to expand by 0.3% (4Q 11: -3.8%), reflecting positive growth in crude oil output, following efforts to enhance recovery in production from the existing oil fields.

Performance of the Agriculture Sector

	2011			2012
	1Q	4Q	Year	1Q
	Annual change (%)			
Value Added (at constant 2005 prices)	**-0.2**	**6.9**	**5.9**	**2.1**
Industrial Crops	**-6.9**	**7.8**	**5.8**	**1.4**
Food Crops	**9.2**	**5.6**	**6.1**	**2.8**
Production				
Of which:				
Crude palm oil	-7.7	16.2	11.3	3.2
Rubber	2.8	-7.4	6.1	-9.6
Livestock	-6.3	11.1	4.4	25.5

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

Performance of the Mining Sector

	2011			2012
	1Q	4Q	Year	1Q
	Annual change (%)			
Value Added (at constant 2005 prices)	**-3.9**	**-3.8**	**-5.7**	**0.3**
Production				
Of which:				
Crude oil and condensates	-8.2	-6.6	-10.7	0.1
Natural gas	-0.6	0.7	0.0	-0.2

Source: PETRONAS
Department of Statistics, Malaysia

Rebasing of the Malaysian GDP from Base Year 2000 to 2005 Prices

The Department of Statistics, Malaysia compiles Malaysia's Gross Domestic Product (GDP) data and publishes it within six weeks from the end of each respective quarter. With effect from 1Q 2012, the estimates of the Malaysian Gross Domestic Product (GDP) in constant terms is rebased to 2005 prices from the 2000 prices. The rebasing exercise by DOSM also reflects the enhancement of data sources and the incorporation of the latest international guidelines in the System of National Accounts 2008 (SNA 2008) statistical framework[1].

Purpose of Rebasing Exercise

The SNA 1993 recommends that the base year for constant price series should be changed every five years. In addition, the United Nations Statistical Office has recommended that the base year should end in zero or five, for example, the year 2000 or 2005. Therefore, the practice of rebasing GDP is a standard exercise by statistical agencies worldwide. Among others, US, Japan, Italy, South Korea and Singapore are currently using 2005 as their new base year, while Chinese Taipei is using 2006 base year prices. The rebasing of GDP is necessary to ensure that the national accounts statistics reflect the most recent underlying changes in the economic structure and relative prices in the economy. By maintaining relative prices constant, GDP in constant terms would reflect only changes in the volume of economic activity. However, relative prices of goods and services do change over time due to the changing demand conditions, which in itself will result in greater allocation of resources and production towards certain economic sectors relative to other sectors. Consequently, the relative weights of the old base year prices would become less representative of the current structure of the economy.

In addition, the rebasing exercise incorporated conceptual and methodological improvements as recommended by the SNA 2008. For instance, if in the past, research and development (R&D) activity was treated as an intermediate input in production, now it is reflected as an output in Malaysia's GDP, thus quantifying the contribution of R&D to the economy. This is important as R&D is a critical component of investment spending in driving growth. Also, there is a change in the calculation of FISIM[2], where the usage of services of financial intermediation is now rightly distributed across the sectors, giving a better picture of actual value-added of the various economic sectors. Overall, the new GDP base will allow a better comparison between the national accounts of Malaysia and other countries which have adopted the new method.

The improvement in data sources and more comprehensive information on industries also lead to a more accurate representation of the economy. The completion of the Supply and Use Table and Input-Output Table 2005 provides the necessary framework for checking the consistency of statistics on flows of goods and services obtained from other latest DOSM surveys and censuses (e.g. Economic Census, Annual Industry Surveys, and Household Income and Expenditure Survey). In addition, the inclusion of new industries, such as the oil terminal in the transport and storage services sub-sector and Jatropha, bird nest and kenaf in the agriculture sector, also enhances the coverage of the latest national accounts statistics.

[1] The previous publication of System of National Accounts manual was in 1993. Other industrialised and regional economies have also begun adopting selected recommendations from SNA 2008.

[2] FISIM stands for Financial Intermediation Services Indirectly Measured, which is an indirect measure of the value of financial intermediation services provided but for which financial institutions do not charge explicitly. (Source: OECD)

Table 1 outlines some of the key changes in the rebased series.

Table 1: Key Changes and Improvements to Latest Compilation of National Accounts

	Key Changes and Improvements	Description
1	Change in conceptual treatment according to SNA 2008	• Capitalisation of Research and Development (R&D) - From the demand side, R&D is reflected in gross fixed capital formation - From the supply side, R&D is reflected across all sectors • Previously, R&D was not reflected in the national accounts, as it was treated as an intermediate input in production
		• FISIM is calculated based on loans and deposits using the reference rate method on an annual basis instead of the difference between interest received and interest paid
		• Public expenditure on weapon systems is now capitalised
2	Improvement in methodology	• FISIM element is now distributed across all sectors. Previously due to data limitations, FISIM was calculated explicitly
3	Improvement in data sources and information	• Availability of Economic Census 2006, the Supply Use and Input-Output Table 2005, Household Expenditure Survey 2004-05, various annual surveys and industry specific censuses • New activities are included, such as the oil terminal in the transport and storage services sub-sector, and Jatropha, bird nest and kenaf in the agriculture sector

Key implications

GDP in nominal terms is higher compared to before, reflecting new information and improvement in data sources. Malaysia's nominal GDP increased to RM881 billion in 2011 (previous: RM853 billion), implying a gross national income (GNI) per capita of RM29,661 (previous: RM29,094). The increase in nominal GDP after rebasing is in line with the revisions made by other countries after their respective exercises (Table 2).

On the supply side, the services sector accounts for the largest share, followed by manufacturing, mining, agriculture and construction. The commodity sector has a bigger share, reflecting the higher commodity prices relative to non-commodity prices in 2005 compared to that in 2000 (Table 3). On the demand side, gross fixed capital formation comprises a bigger share of GDP, while private consumption share is slightly lower at 49.8% (2000 base year: 54.1%) (Table 4).

Table 2: Nominal GDP of Selected Countries (during the year of rebase)

Country	Nominal GDP Before Rebasing	Nominal GDP After Rebasing	Revision (%)
South Korea (bil won)	**810,516** (2000=100)	**865,241** (2005=100)	**6.8**
Philippines (bil PHP)	**3,355** (1985=100)	**3,581** (2000=100)	**6.7**
Malaysia (bil RM)	**522** (2000=100)	**544** (2005=100)	**4.0**
Singapore (bil $S)	**202** (2000=100)	**209** (2005=100)	**3.4**
Chinese Taipei (bil NT$)	**11,918** (2001=100)	**12,243** (2006=100)	**2.7**
United States (bil USD)	**12,422** (2000=100)	**12,638** (2005=100)	**1.7**

Table 3: Real GDP by Economic Activity (2011)

	2011 share of GDP (%)	
	2000 prices	2005 prices
Agriculture	**7.3**	**7.7**
Mining & Quarrying	**6.3**	**8.8**
Manufacturing	**27.5**	**25.1**
Construction	**3.2**	**3.0**
Services	**58.6**	**54.2**
Overall GDP	**100.0**	**100.0**
Less: FISIM	*4.2*	-
Plus: Import duties	*1.3*	*1.2*

Conclusion

Malaysia's GDP was rebased to 2005 prices to reflect the latest changes in economic structure and relative prices in the economy. In addition, improvements in concepts and methodology which are in line with the latest international standards will place Malaysia on par with the practices of other countries.

Table 4: Real GDP by Expenditure (2011)

	2011 share of GDP (%)	
	2000 prices	2005 prices
Private consumption	**54.1**	**49.8**
Public consumption	**14.9**	**13.2**
Gross fixed capital formation	**22.1**	**23.5**
Private investment	*12.0*	*13.4*
Public investment	*10.1*	*10.1*
Change in stocks[1] (RM billion, constant prices)	**7.8**	**3.2**
Net exports of goods & services	**7.7**	**13.1**
Exports	*108.4*	*100.6*
Imports	*100.7*	*87.5*
Overall GDP	**100.0**	**100.0**

[1] Includes statistical discrepancies

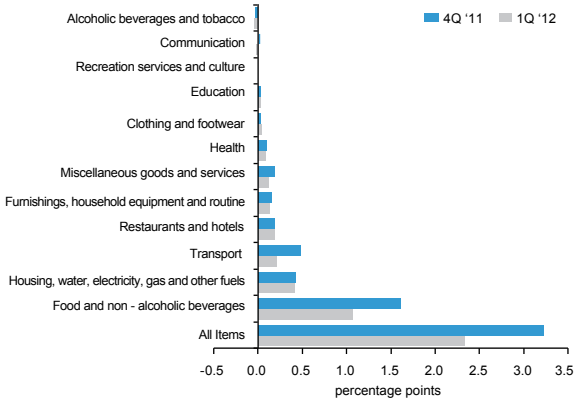
Inflation moderated in the first quarter

The headline inflation rate, as measured by the annual change in the Consumer Price Index (CPI), moderated to 2.3% in the first quarter (4Q 11: 3.2%), reflecting lower inflation in the *food and non-alcoholic beverages* and *transport* categories.

Inflation in the *food and non-alcoholic beverages* category moderated to 3.5% during the quarter (Q4 11: 5.3%) due mainly to a smaller increase in meat prices (1.1%, 4Q 11: 8.5%) and a decline of 3.7% in the price of vegetables (4Q 11: +1.9%). The lower food inflation reflected the implementation of festive season price controls on selected food products by the Government in January, the oversupply of poultry, and the better-than-expected harvests and cheaper imports of vegetables in February and March.

Inflation in the *transport* category moderated to 1.4% (4Q 11: 3.2%) during the quarter as the impact from the adjustment to the price of RON97 petrol in January and February 2011 tapered off.

Contribution to Consumer Price Inflation



Source: Bank Negara Malaysia

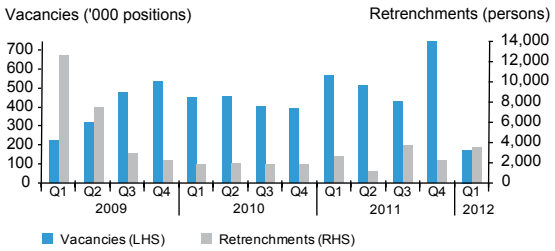
The Producer Price Index (PPI) increased at a slower rate of 3.8% on an annual basis in the first quarter (4Q 11: 7.5%). In terms of composition, prices of the commodity-related components and non-commodity-related components recorded lower growth of 9.2% and 0.8% respectively (4Q 11: 18.3% and 2.1% respectively). Prices of the local components of the PPI experienced a slower increase of 4.8% (4Q 11: 9.7%) while prices of the imported components of the PPI also moderated by 1.4% (4Q 11: 2.4%).

Labour market conditions remained favourable during the quarter

Overall labour market conditions remained favourable in the first quarter, as the unemployment rate remained low at 3% (4Q 11: 3%). Average total employment during the quarter was 12.4 million, representing a net job creation of 232.4 thousand persons compared to the fourth quarter of 2011. Total retrenchment during the quarter increased to 3,388 persons (4Q 11: 2,119 persons), mainly attributable to two company takeovers in the manufacturing and construction sectors. The workers retrenched from the takeovers are expected to be absorbed fully by the acquiring companies.

During the quarter, there were 316,016 job vacancies posted in the JobsMalaysia Portal. Due to a technical review of the system which took effect in January 2012, this figure is not comparable to the 745,205 positions posted in the fourth quarter. The manufacturing sector recorded the largest share of job openings (38%), followed by the services (24%) and agriculture (23%) sectors. Real wages in the manufacturing sector recorded a higher growth as compared to the preceding quarter (7.1%; 4Q 11: 5.3%).

Labour Market Conditions



Note: Beginning 2012, vacancies data reflected a technical review
Source: Ministry of Human Resources

Current account surplus remained sizeable

The **current account** surplus narrowed in the first quarter, but remained sizeable at RM18.1 billion, equivalent to 8.4% of GNI. The lower surplus was due mainly to the smaller goods surplus and larger income outflows. The goods surplus narrowed to RM35.8 billion as import growth outpaced the expansion in exports. Gross exports expanded at a slower pace of 4.4% (4Q 11: 9.8%), due mainly to the moderation in exports of commodity and non-E&E manufactured products. Growth in gross imports was slightly lower at 6.9% (4Q 11: 7.6%) following the contraction in imports of intermediate goods.

Exports grew at a more moderate pace in the first quarter due mainly to the lower growth in exports of non-E&E and commodities. Exports of resource-based non-E&E and commodities moderated mainly on account of lower prices of soft commodities amidst firm regional demand. Mineral exports was sustained, reflecting increased demand for crude oil and higher prices of both crude oil and natural gas. Exports of E&E registered a lower contraction following the improvement in external demand for computer and parts and electrical appliances.

The lower growth in gross **imports** was mainly attributable to the decline in imports of intermediate goods. The contraction in intermediate imports was largely in tandem with the moderation in manufactured exports. However, capital and consumption imports continued to expand. The strong expansion in capital imports was due mainly to higher

Balance of Payments

	2011			2012
	1Q	4Q	Year	1Q
	RM billion			
Current Account	**24.3**	**22.4**	**97.1**	**18.1**
(% of GNI)	*11.9*	*10.0*	*11.3*	*8.4*
Goods	37.6	36.8	148.1	35.8
Services	-2.2	-3.8	-8.0	-3.8
Income	-6.0	-5.3	-22.0	-8.6
Current transfers	-5.0	-5.4	-21.0	-5.3
Financial Account	**-6.6**	**-0.2**	**22.3**	**-10.3**
Direct investment abroad	-11.1	-14.7	-46.7	-16.9
Foreign direct investment	11.3	6.5	36.6	7.5
Portfolio investment	8.4	-2.7	25.8	25.3
Financial derivatives	0.1	-0.3	-0.1	0.0
Other investment	-15.3	11.0	6.6	-26.1
- Official sector	*-0.5*	*-0.1*	*-1.3*	*-0.5*
- Private sector	*-14.7*	*11.1*	*7.9*	*-25.6*
Errors & omissions	-1.9	-15.9	-24.5	-14.9
Overall Balance	**15.9**	**6.2**	**94.7**	**-7.2**

Source: Department of Statistics Malaysia

Trade Account

	2011			2012
	1Q	4Q	Year	1Q
	Annual change (%)			
Gross Exports	**4.9**	**9.8**	**8.7**	**4.4**
Manufactured	-0.6	2.1	2.0	0.9
E&E	*-7.5*	*-5.0*	*-5.4*	*-1.7*
Non-E&E	*7.5*	*10.2*	*10.7*	*3.4*
Commodities	19.5	29.0	26.5	11.7
Agriculture	*26.5*	*18.9*	*32.6*	*-8.0*
Minerals	*14.8*	*36.9*	*22.3*	*26.0*
Gross Imports	**12.5**	**7.6**	**8.6**	**6.9**
Capital goods	16.7	8.2	9.7	21.0
Intermediate goods	12.5	2.3	5.4	-1.3
Consumption goods	5.8	25.4	19.0	20.3
Trade balance (RM billion)	**31.8**	**31.1**	**120.3**	**29.8**

Source: MATRADE and Department of Statistics, Malaysia

Malaysia: Direction of Exports

	2011			2012	2011			2012
	1Q	4Q	Year	1Q	1Q	4Q	Year	1Q
	Annual change (%)				Share of total exports (%)			
United States	**-8.0**	**-3.5**	**-5.5**	**5.5**	**8.3**	**8.0**	**8.3**	**8.3**
European Union (EU)	**5.3**	**3.9**	**4.7**	**-10.4**	**10.7**	**10.2**	**10.4**	**9.1**
Selected ASEAN countries[1]	**0.1**	**5.6**	**5.4**	**9.3**	**24.6**	**24.3**	**24.3**	**25.8**
North East Asia	**2.5**	**9.6**	**8.9**	**-2.0**	**24.4**	**24.2**	**24.6**	**22.9**
People's Republic of China	*3.9*	*15.3*	*13.9*	*-3.2*	*12.9*	*12.9*	*13.1*	*11.9*
Hong Kong SAR	*0.0*	*-7.3*	*-3.6*	*-8.1*	*4.6*	*4.2*	*4.5*	*4.0*
Chinese Taipei	*16.9*	*14.5*	*12.4*	*-2.0*	*3.2*	*3.4*	*3.3*	*3.0*
Korea	*-8.3*	*9.0*	*6.1*	*9.4*	*3.8*	*3.6*	*3.7*	*4.0*
West Asia	**17.6**	**6.5**	**12.1**	**-4.8**	**3.7**	**3.5**	**3.6**	**3.4**
India	**24.2**	**33.7**	**34.6**	**-5.1**	**3.9**	**4.0**	**4.1**	**3.6**
Total exports	**4.9**	**9.8**	**8.7**	**4.4**	**100.0**	**100.0**	**100.0**	**100.0**

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

Source: Department of Statistics, Malaysia

imports of lumpy items and machineries, in line with the improvement in domestic activities. Growth in consumption imports was sustained, supported by imports of food and beverages and non-durable consumer goods.

The deficit in the **services account** was sustained at RM3.8 billion as the smaller outflows in other services was offset by lower receipts for transportation services and travel. The lower net outflows in other services was due mainly to higher receipts of professional business services. Meanwhile, the lower receipts for transportation services mainly reflected the moderation in trade activities. The **income account** registered a larger deficit of RM8.6 billion as lower investment income were accrued to Malaysian companies investing abroad.

The **financial account** recorded a larger net outflow of RM10.3 billion during the quarter (4Q 11: -RM0.2 billion), due mainly to net outflows in other investments which more than offset the large inflows of foreign portfolio funds.

Portfolio investment turned around from a small net outflow position to record a large net inflow of RM25.3 billion (4Q 11: -RM2.7 billion). The resumption of inflows largely reflected foreign purchases of both debt and equity securities following improvements of market sentiments in the global financial markets, particularly in the early part of the quarter. Similar developments were also observed in the regional economies.

FDI increased further to RM7.5 billion, or 3.5% of GNI (4Q 11: +RM6.5 billion, or 2.9% of GNI), supported by larger inflows of equity capital as well as higher earnings retained by the existing multinational companies (MNCs) operating in Malaysia. FDI inflows continued to be broad-based during the quarter, the bulk of which were undertaken by companies in the *mining* and *manufacturing* sectors, particularly the *E&E* and *petrochemical* sub-sectors. The *finance and insurance* and *information and communication* sub-sectors also received sizeable investments during the quarter.

Direct investment abroad (DIA) by Malaysian companies was also higher, amounting to a net outflow of RM16.9 billion in the first quarter (4Q 11: -RM14.7 billion). The larger net DIA reflected substantially higher extensions of inter-company loans to subsidiaries abroad and higher outflows of equity capital. These investments were mainly channelled into the *services* sector, particularly, the *finance and insurance*, *wholesale and retail trade*, and *healthcare* sub-sectors. There were also sizeable investments abroad by Malaysian companies in the *oil and gas* sector. The bulk of the investments abroad was mainly channelled to regional countries.

Other investments reversed to register a net outflow of RM26.1 billion (4Q 11: +RM11 billion) in the first quarter, following the turnaround in the private sector flows. The outflows in the private sector largely reflected the placement of assets abroad by the banking sector as well as higher net extension of trade credits.

Overall balance of payments turned around to record a deficit of RM7.2 billion in the first quarter (4Q 11: +RM6.2 billion), following a lower current account surplus and a higher net outflow from the financial account. Errors and omissions (E&O) including quarterly reserves adjustment for foreign exchange revaluation loss were smaller during the quarter, amounting to an outflow of RM14.9 billion (4Q 11: -RM15.9 billion). Excluding this revaluation loss, the net E&O is significantly smaller and reflects the errors and omission of data compilation.

Lower external debt

Malaysia's **total external debt** declined to RM249.5 billion or USD80.5 billion as at end-March 2012 (end-December 11: RM257.4 billion or USD80.4 billion). This is equivalent to 27.8% of GNI, and remains small as a share to total debt[1] (12%).

The **medium- and long-term external debt** decreased to RM148.6 billion (end-December 11: RM153.5 billion), reflecting the strengthening of ringgit against major and regional currencies during the quarter. This more than offset a small net drawdown of external borrowing by both the public and private sectors.

As at end-March 2012, the **short-term external debt** was lower at RM100.9 billion (USD32.6 billion) and accounted for 40.4% of total external debt. The international reserves were able to cover 4.1 times the short-term external debt.

[1] Total debt comprises domestic and external debt. Domestic debt comprises loans by banking system, private debt securities and federal government debt.

External Debt Outstanding

	2011		2012
	end-Mar	end-Dec	end-Mar[p]
	RM billion		
Medium- and long-term debt	142.3	153.5	148.6
Public sector	77.4	83.1	80.0
Private sector	64.9	70.4	68.6
Short-term debt[1]	91.1	103.9	100.9
Total external debt	**233.5**	**257.4**	**249.5**
USD billion equivalent	76.4	80.4	80.5
External debt/GNI (%)	27.2	30.0	27.8
Reserves/Short-term external debt (times)	3.8	4.1	4.1[2]

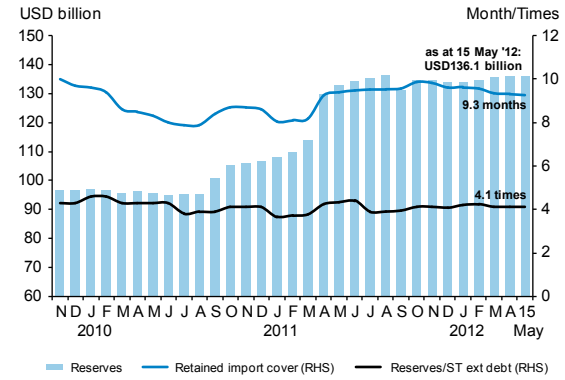
[1] Excludes currency and deposits held by non-residents with resident banking institutions
[2] Based on international reserves as at 15 May 2012
[p] Preliminary

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

International reserves remained high

The international reserves of Bank Negara Malaysia amounted to RM416.1 billion (equivalent to USD135.7 billion) as at 30 March 2012. The reserves level has taken into account the quarterly adjustment for foreign exchange revaluation loss, following the strengthening of ringgit against major and regional currencies during the quarter. As at 15 May 2012, the reserves position amounted to RM417.5 billion (equivalent to USD136.1 billion), sufficient to finance 9.3 months of retained imports and is 4.1 times the short-term external debt.

Net International Reserves (as at end period)



Source: Bank Negara Malaysia

Sustained growth in revenue supported Government spending

In the first quarter, the Federal Government revenue increased by 20.4% on an annual basis due to sustained income tax collections and higher non-tax revenue. The increase in revenue supported the corresponding increase in operating expenditure which was driven by higher subsidy payments and the transfer of funds to statutory bodies. Development expenditure also increased and was channelled mainly to the trade and industry, and public utilities sectors. As a result, the Federal Government recorded a fiscal deficit of RM5.8 billion or 2.6% of GDP during the quarter (1Q 11: -2.5% of GDP). The deficit was financed from domestic borrowing. As at end-March 2012, total outstanding debt of the Federal Government amounted to RM470.8 billion or 51.3% of the estimated 2012 GDP.

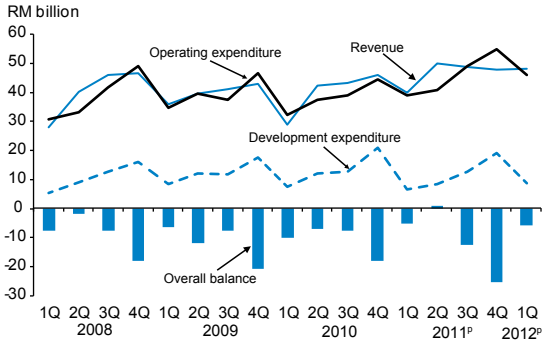
Federal Government Finance[p]

	2011			2012
	1Q	4Q	Year	1Q
	RM billion			
Revenue	39.8	47.7	185.4	47.9
% growth	*38.4*	*4.0*	*16.1*	*20.4*
Operating expenditure	38.7	54.5	182.6	45.6
% growth	*21.2*	*23.6*	*20.4*	*18.0*
Current account	**1.1**	**-6.9**	**2.8**	**2.3**
% of GDP	***0.5***	***-3.0***	***0.3***	***1.0***
Gross development expenditure	6.4	19.1	46.4	8.5
% growth	*-12.0*	*-8.4*	*-12.1*	*32.3*
Overall balance	**-5.2**	**-25.4**	**-42.5**	**-5.8**
% of GDP	***-2.5***	***-11.1***	***-4.8***	***-2.6***
Memo item:				
Total gross expenditure	45.1	73.6	229.0	54.1
% growth	*15.0*	*13.4*	*12.0*	*20.0*
Total Federal Government debt (as at end-period)	430.2	456.1	456.1	470.8
% of GDP	*48.8*	*51.8*	*51.8*	*51.3*
Domestic debt	414.2	438.0	438.0	453.9
% of GDP	*47.0*	*49.7*	*49.7*	*49.4*
External debt	15.9	18.1	18.1	16.9
% of GDP	*1.8*	*2.1*	*2.1*	*1.8*

[p] Preliminary

Source: Ministry of Finance

Federal Government Finance



[p] Preliminary

Source: Ministry of Finance