DEVELOPMENTS IN THE MALAYSIAN ECONOMY

The Malaysian economy grew by 4.9% in the second quarter

The Malaysian economy registered a growth of 4.9% in the second quarter of 2015 (1Q 2015: 5.6%). Private sector expenditure remained the key driver of growth (5.7%; 1Q 2015: 9.6%), and contributed towards a continued expansion in domestic demand. This helped to offset the negative contribution from net exports during the quarter. On a quarter-on-quarter seasonally-adjusted basis, the economy recorded a growth of 1.1% (1Q 2015: 1.2%).

Continued expansion in domestic demand

Domestic demand expanded by 4.6% in the second quarter of 2015 (1Q 2015: 7.9%). This was driven mainly by private sector activity, which grew by 5.7% (1Q 2015: 9.6%) following continued growth in consumption and investment activities. **Private consumption** growth moderated to 6.4% (1Q 2015: 8.8%), as households adjust to the implementation of GST. However, continued wage growth and stable labour market conditions remained supportive of overall consumer spending. **Private investment** registered a growth of 3.9% (1Q 2015: 11.7%), supported by continued capital expenditure in the manufacturing sector, particularly in the export-oriented industries.

Public sector expenditure expanded by 0.9% in the second quarter (1Q 2015: 2.5%). **Public consumption** recorded a higher growth of 6.8% (1Q 2015: 4.1%), reflecting a stronger expansion in supplies and services, and sustained growth in emoluments. However, **public investment** registered a negative growth of 8.0% (1Q 2015: +0.5%) due to the decline in investments by the public enterprises following the near completion of a few large projects. The Federal Government spending on fixed assets remained positive during the quarter.

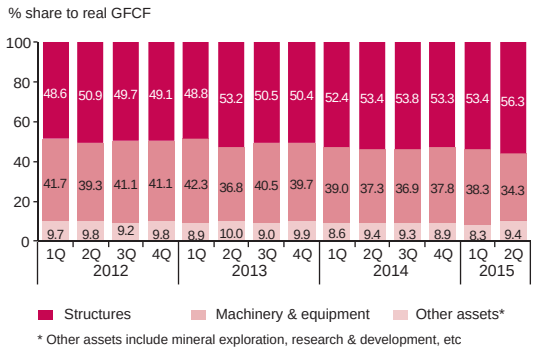
In terms of total investment, **gross fixed capital formation** moderated to 0.5% during the quarter (1Q 2015: 7.9%), supported mainly by the private sector capital expenditure. By type of assets, investment was mainly supported by growth in investment on structures (5.9%; 1Q 2015: 9.9%), which cushioned the decline in investment in machinery and equipment (-7.5%; 1Q 2015: 5.8%).

GDP by Expenditure Components
(at constant 2010 prices)

	Share 2014 (%)	2014		2015		
		2Q	1H	1Q	2Q	1H
		Annual change (%)				
Aggregate Domestic Demand (excluding stocks)	91.5	5.6	6.6	7.9	4.6	6.2
Private Sector	68.5	7.9	8.4	9.6	5.7	7.6
Consumption	*51.8*	*6.5*	*6.7*	*8.8*	*6.4*	*7.6*
Investment	*16.6*	*11.6*	*13.1*	*11.7*	*3.9*	*7.5*
Public Sector	23.0	-1.4	1.0	2.5	0.9	1.7
Consumption	*13.6*	*-0.2*	*5.5*	*4.1*	*6.8*	*5.5*
Investment	*9.5*	*-3.2*	*-4.8*	*0.5*	*-8.0*	*-3.7*
Net Exports	9.3	51.7	25.3	-10.2	-10.5	-10.4
Exports of Goods and Services	*76.1*	*8.7*	*8.3*	*-0.6*	*-3.7*	*-2.2*
Imports of Goods and Services	*66.8*	*4.5*	*6.1*	*1.0*	*-2.8*	*-0.9*
GDP	**100.0**	**6.5**	**6.4**	**5.6**	**4.9**	**5.3**
GDP (q-o-q growth, seasonally adjusted)	**-**	**1.6**	**-**	**1.2**	**1.1**	**-**

Source: Department of Statistics, Malaysia

GFCF by Type of Assets



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

Source: Department of Statistics, Malaysia

GDP by Economic Activity
(at constant 2010 prices)

	Share 2014 (%)	2014		2015		
		2Q	1H	1Q	2Q	1H
		Annual change (%)				
Agriculture	9.2	6.7	4.6	-4.7	4.6	0.0
Mining	9.0	2.1	1.0	9.6	6.0	7.8
Manufacturing	23.0	7.3	7.2	5.6	4.2	4.9
Construction	4.3	10.0	14.5	9.7	5.6	7.7
Services	53.5	6.4	6.5	6.4	5.0	5.7
Real GDP	**100.0[1]**	**6.5**	**6.4**	**5.6**	**4.9**	**5.3**
Real GDP (q-o-q seasonally adjusted)	**-**	**1.6**	**-**	**1.2**	**1.1**	**-**

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

Source: Department of Statistics, Malaysia

Moderation in major economic sectors

On the supply side, the major economic sectors registered more moderate growth during the quarter. The lower growth in the services sector was to the outcome of a slower expansion in most sub-sectors while the moderation in manufacturing sector was due to the more modest performance in export-oriented industries. Growth in the mining sector was affected mainly by the lower production of natural gas. The construction sector also recorded lower growth, due to a moderation in real activity in the residential, non-residential and civil engineering sub-sectors. The agriculture sector turned around to record positive growth amid higher production of palm oil.

The **services sector** grew by a more moderate rate of 5.0% in the second quarter (1Q 2015: 6.4%) due to slower growth in most sub-sectors. The wholesale and retail trade sub-sector recorded a moderate growth in tandem with lower growth in household spending following the implementation of GST. The finance and insurance sub-sector registered a marginal growth, weighed down by the insurance segment. Expansion in the real estate and business services sub-sector was supported mainly by the professional services segment. In the information and communication sub-sector, growth was driven by strong demand for data communication services amid attractive packages from telecommunications companies. Growth of the transportation and storage sub-sector was mainly supported by trade-related activity.

The **manufacturing sector** recorded a lower growth of 4.2% (1Q 2015: 5.6%) which was the result of the more modest performance in export-oriented industries. The performance of the export-oriented industries was affected by weaker global demand particularly for electronics and electrical products. However, the domestic-

Performance of the Services Sector (value added at constant 2010 prices)

	Share 2014 (%)	2014		2015		
		2Q	1H	1Q	2Q	1H
		Annual change (%)				
Intermediate Services	**38.4**	**5.2**	**5.6**	**5.7**	**4.8**	**5.3**
Finance & insurance	13.7	0.9	1.8	1.9	0.2	1.0
Real estate & business services	7.9	7.6	7.9	7.6	6.2	6.9
Transport & storage	6.5	4.8	4.8	5.7	5.4	5.5
Information & communication	10.2	9.5	9.8	9.6	9.3	9.5
Final Services	**61.6**	**7.1**	**7.1**	**6.8**	**5.1**	**5.9**
Wholesale & retail trade	26.9	9.3	8.9	9.8	5.9	7.8
Food & beverages and accommodation	5.1	5.9	6.1	7.3	6.6	6.9
Utilities	4.8	2.9	3.1	3.7	3.9	3.8
Government services	16.5	6.8	7.2	3.9	4.1	4.0
Other services	8.2	4.3	4.8	4.6	4.7	4.7
Total Services	**100.0**[1]	**6.4**	**6.5**	**6.4**	**5.0**	**5.7**

[1] Numbers do not add up due to rounding

Source: Department of Statistics, Malaysia

Selected Quarterly Indicators in the Services Sector

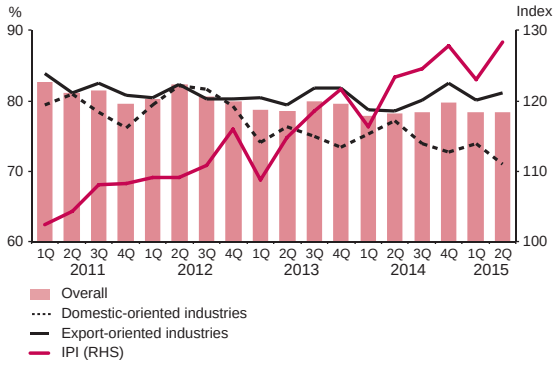
	2014		2015		
	2Q	1H	1Q	2Q	1H
	Index				
MIER Consumer Sentiments Index	100.1	98.5	72.6	71.7	72.2
MIER Retail Trade Index	89.6	88.0	85.4	76.8	81.1
MIER Tourism Market Index	96.7	106.3	100.7	84.7	92.7
	Annual change (%)				
Total passenger traffic at all airports	5.9	12.0	-0.8	1.6	0.4
Total consumption credit outstanding	4.4	4.4	3.5	2.7	2.7
Total loans outstanding	9.3	9.3	9.2	9.1	9.1
Loans outstanding to the wholesale & retail trade, hotels & restaurants	6.4	6.4	9.3	8.2	8.2
Imports of consumption goods	7.1	11.1	4.4	25.4	15.2
Total sales of motor vehicles	11.2	6.3	5.3	-11.2	-3.3
Container cargo handled (Port Klang and PTP)	7.2	5.5	12.9	6.0	9.3

Source: Various sources

oriented industries recorded a stronger growth, supported by better performance in the transport-equipment industries.

Overall capacity utilisation rate in the manufacturing sector remains unchanged in the second quarter (78%; 1Q 2015: 78%). The slight improvement in the export-oriented industries' capacity utilisation (81%, 1Q 2015: 80%) offsets the lower capacity utilisation in the domestic-oriented industries (71%, 1Q 2015: 74%).

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

Growth in the **construction sector** moderated to 5.6% in the second quarter (1Q 2015: 9.7%) following slower expansion in the residential, non-residential and civil engineering sub-sectors. The moderation in the residential sub-sector was attributable to lower construction activity in residential projects. Growth in the non-residential sub-sector was also slower, but was firm, supported by the construction of commercial, education and healthcare buildings. The civil engineering sub-sector expanded at a slower pace, reflecting the completion and near-completion of large transportation and utility projects. Growth in the special trade sub-sector was slightly stronger, underpinned by activity for earthworks, land clearing and land reclamation works.

The **agriculture sector** turned around to register a positive growth of 4.6% (1Q 2015: -4.7%), amid higher production of palm oil. Meanwhile, growth in the **mining sector** was lower (6.0%; 1Q 2015: 9.6%) due mainly to a decline in the output of natural gas.

Performance of the Manufacturing Sector

	Share in 2014 (%)	2014		2015		
		2Q	1H	1Q	2Q	1H
		Annual Change (%)				
Value Added (at constant 2010 prices)	**100.0**	**7.3**	**7.2**	**5.6**	**4.2**	**4.9**
Export-oriented industries	63.6	4.9	6.1	7.0	4.0	5.5
Domestic-oriented industries	36.4	11.5	9.1	2.8	4.5	3.7
Overall Manufacturing Production[1]	**100.0**	**7.4**	**7.2**	**5.7**	**4.1**	**4.8**
Export-oriented industries	**77.6**	**6.1**	**6.5**	**5.1**	**4.3**	**4.7**
Electronics and electrical products cluster	**25.0**	**13.5**	**14.0**	**10.7**	**4.7**	**7.6**
Of which:						
Electronics	15.3	15.1	17.0	-0.2	-6.1	-3.3
Electrical products	7.6	8.2	7.3	40.5	37.7	39.0
Primary-related cluster	**52.6**	**2.5**	**2.8**	**2.2**	**4.0**	**3.1**
Of which:						
Chemicals and chemical products	14.3	-2.1	-0.5	9.9	5.5	7.6
Petroleum products	21.0	-0.5	3.0	2.1	0.9	1.5
Rubber products	2.5	-1.6	-0.1	-1.3	7.6	3.1
Off-estate processing	6.4	21.4	12.1	-20.2	7.3	-5.9
Domestic-oriented industries	**22.4**	**11.5**	**9.5**	**7.6**	**3.5**	**5.4**
Construction-related cluster	**11.3**	**4.6**	**3.9**	**6.9**	**2.8**	**4.8**
Of which:						
Construction-related products	8.2	6.6	4.0	8.1	2.9	5.4
Fabricated metal products	3.1	0.9	3.7	4.7	2.8	3.7
Consumer-related cluster	**11.1**	**18.8**	**15.5**	**8.3**	**4.1**	**6.1**
Of which:						
Transport equipment	5.5	29.8	24.7	9.2	6.0	7.4
Food, beverage & tobacco products	5.4	6.6	5.5	7.5	1.7	4.5

[1] Industrial Production Index (2010=100)

Source: Department of Statistics, Malaysia

Indicators for the Construction Sector

	2014		2015		
	2Q	1H	1Q	2Q	1H
	Annual change (%)				
Value of construction work done	10.8	15.7	15.1	8.2	11.6
Residential	18.1	24.9	19.5	7.8	13.5
Non-residential	14.5	17.1	24.3	15.5	19.8
Civil engineering	1.8	6.0	4.2	1.5	2.9
Special trade[1]	9.8	27.5	4.2	7.4	5.7
Housing approvals	21.4	6.5	-24.2	-3.8[3]	-14.8[4]
Production[2] of construction-related materials					
Hydraulic cement	7.2	4.3	20.2	12.8	16.3
Other articles of concrete, cement and plaster n.e.c	43.5	40.3	20.9	4.9	12.6
Other porcelain and ceramic products	17.5	16.4	31.2	21.6	26.1
Prefabricated structural components for building or civil engineering of cement, concrete or artificial stone	-6.4	-2.0	-13.3	-6.4	-9.9
Capital imports (excluding lumpy items)	0.9	-1.2	11.0	-3.1	3.6
Loans for the construction sector					
Approval	-16.7	-24.5	21.4	46.0	35.4
Disbursement	4.4	13.8	3.2	5.7	4.4

[1] Works such as site preparation, electrical installation and painting
[2] Industrial Production Index (2010=100)
[3] Apr-May 2015
[4] Jan-May 2015

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

Performance of the Agriculture Sector

	Share in 2014 (%)	2014		2015		
		2Q	1H	1Q	2Q	1H
		Annual change (%)				
Value Added (at constant 2010 prices)	**100**	**6.7**	**4.6**	**-4.7**	**4.6**	**0.0**
Industrial Crops	**62.7**	**8.7**	**4.6**	**-11.0**	**6.2**	**-2.4**
Of which:						
Oil palm	47.9	12.8	7.8	-11.7	10.4	-0.4
Rubber	6.9	-16.1	-13.2	5.0	-5.2	0.8
Food Crops	**37.3**	**5.0**	**6.2**	**4.0**	**2.5**	**3.3**
Of which:						
Fishing	8.6	-0.5	1.6	4.4	-0.1	2.2
Livestock	10.8	6.3	7.4	4.3	3.1	3.7

Source: Department of Statistics, Malaysia

Performance of the Mining Sector

	Share 2014 (%)	2014		2015		
		2Q	1H	1Q	2Q	1H
		Annual change (%)				
Value Added (at constant 2010 prices)	**100**	**2.1**	**1.0**	**9.6**	**6.0**	**7.8**
Production						
Of which:						
Crude oil and condensates	-	1.8	-0.9	20.4	14.4	17.4
Natural gas	-	1.8	2.0	-1.2	-2.7	-2.0

Source: Department of Statistics, Malaysia

Headline inflation increased in the second quarter

Inflation, as measured by the annual change in the Consumer Price Index (CPI), increased to 2.2% in the second quarter of 2015 (1Q 2015: 0.7%) reflecting mainly the impact of the implementation of the Goods and Services Tax (GST), which replaced the Sales and Services Tax (SST) on 1 April. The price increases were broad-based, with all twelve categories of the CPI basket registering higher inflation in the second quarter compared to the first quarter. Meanwhile, prices in the *transport* category declined at a lower rate of 3.6% in the second quarter (1Q 2015: -7.6%) reflecting the upward adjustment of domestic fuel prices.

The Producer Price Index (PPI) declined further on an annual basis in the second quarter (2Q 2015: -6.1%, 1Q 2015: -5.4%), driven mainly by lower prices in the *mineral, fuels and lubricants* and *animal and vegetable oils and fat* categories, due to the lower prices of global commodities. Prices of commodity-related components declined further by 19.1% (1Q 2015: -16.7%). Meanwhile, prices of non-commodity-related components increased at a relatively steady rate of 1.4% during the quarter (1Q 2015: 1.1%).

Consumer Price Index

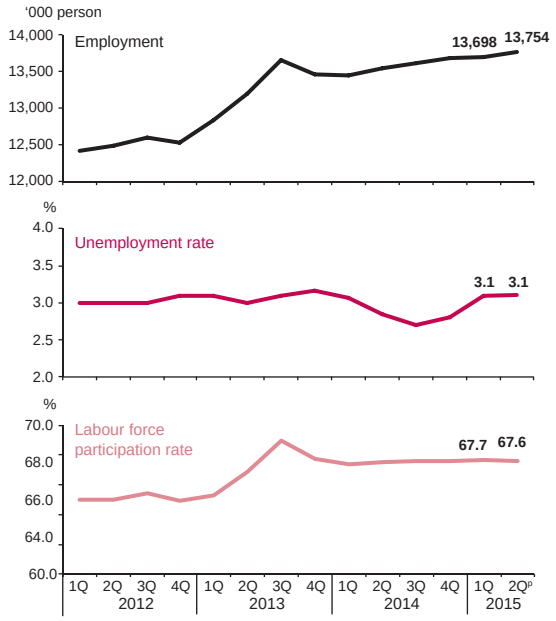
Category	Weights (%) (2010=100)	1Q 2015	2Q 2015
		Annual change, %	
Total	**100.0**	**0.7**	**2.2**
Food and non-alcoholic beverages	30.3	2.5	3.3
Housing, water, electricity, gas and other fuels	22.6	2.1	2.5
Transport	14.9	-7.6	-3.6
Others	32.2	1.6	3.6

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Stable labour market conditions

Labour market conditions remained broadly stable during the second quarter[2]. The unemployment rate remained low at 3.1% (1Q 2015: 3.1%), and the labour force participation rate was sustained at 67.6% (1Q 2015: 67.7%). During the quarter, employment was supported by job gains in the services sector, especially in the wholesale and retail as well as the transportation, storage and communications sub-sectors. Meanwhile, total layoffs (which comprise involuntary retrenchments and voluntary separation schemes) reported to the Ministry of Human Resources increased to 3,688 persons (1Q 2015: 3,184 persons). A proportion of these layoffs are partly attributable to corporate restructuring exercises undertaken by a few large firms during the quarter. Nonetheless, demand for labour was broadly sustained in the second quarter, as new job advertisements posted on Jobstreet.com improved to 70,434 posts (1Q 2015: 63,312 posts), mostly driven by higher labour demand in the services, manufacturing and construction sectors.

Labour Market Indicators



Source: Department of Statistics, Malaysia

Wage growth, as reflected by aggregate real wages in the manufacturing sector, continued to expand albeit modestly at 2.3% (1Q 2015: 5.3%). Wage growth was mainly supported by expansion in wages in the export-oriented industries.

External position remained resilient in the second quarter

The current account continued to record a surplus of RM7.6 billion in the second quarter, equivalent to 2.7% of GNI (1Q 2015: RM10.0 billion or 3.7% of GNI). The sizeable surplus is due to a surplus in the goods account, amid a lower deficit in the primary income account.

Balance of Payments[1]

	2014		2015		
	2Q	1H	1Q	2Q	1H
	RM billion				
Current Account	**15.0**	**34.5**	**10.0**	**7.6**	**17.6**
(% of GNI)	*5.7*	*6.6*	*3.7*	*2.7*	*3.2*
Goods	27.3	58.5	27.5	23.3	50.9
Services	-1.6	-2.1	-3.8	-4.6	-8.3
Primary income	-8.0	-14.5	-8.5	-5.1	-13.6
Secondary income	-2.8	-7.4	-5.3	-6.0	-11.3
Financial Account	**-11.0**	**-49.2**	**-29.7**	**2.3**	**-27.4**
Direct investment	-3.8	-18.3	-1.2	-3.9	-5.2
Assets	*-16.5*	*-37.1*	*-9.8*	*-17.8*	*-27.6*
Liabilities	*12.7*	*18.8*	*8.6*	*13.9*	*22.4*
Portfolio investment	7.2	-7.0	-7.9	-11.8	-19.6
Assets	*-10.4*	*-18.0*	*-7.4*	*-8.1*	*-15.4*
Liabilities	*17.6*	*10.9*	*-0.5*	*-3.7*	*-4.2*
Financial derivatives	0.2	-1.3	0.0	-0.4	-0.4
Other investment	-14.5	-22.6	-20.6	18.4	-2.1
Errors & omissions[2]	-5.0	-3.6	4.0	-0.3	3.7
Overall Balance	**-1.0**	**-18.3**	**-15.7**	**8.5**	**-7.2**

Assets: (-) denotes outflows due to the acquisition of assets abroad by residents
Liabilities: (+) denotes inflows due to the incurrence of foreign liabilities
[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 1H 2015 (%)	2014		2015		
		2Q	1H	1Q	2Q	1H
		Annual change (%)				
Gross Exports	**100.0**	**14.4**	**12.5**	**-2.5**	**-3.7**	**-3.1**
Manufactured	79.5	13.8	13.2	0.1	2.2	1.2
E&E	*35.2*	*13.0*	*12.7*	*6.9*	*3.1*	*4.9*
Non-E&E	*44.3*	*14.4*	*13.5*	*-4.7*	*1.4*	*-1.6*
Resource based	*22.4*	*15.1*	*12.0*	*-12.3*	*-5.5*	*-8.9*
Non-resource based	*21.9*	*13.7*	*15.2*	*4.7*	*9.4*	*7.1*
Commodities	19.9	16.7	10.9	-10.4	-22.9	-16.7
Minerals	*11.5*	*25.2*	*16.0*	*-6.9*	*-35.8*	*-21.4*
Agriculture	*8.4*	*5.6*	*3.9*	*-15.9*	*-2.7*	*-9.3*
Gross Imports	**100.0**	**8.5**	**7.1**	**0.2**	**-5.2**	**-2.6**
Intermediate goods	59.1	2.6	3.4	3.0	-4.6	-0.9
Capital goods	14.3	8.4	0.9	8.4	-12.6	-2.7
Consumption goods	8.8	7.1	11.1	4.4	25.4	15.2
Re-exports and dual-use goods	17.7	31.5	23.3	-15.0	-12.9	-13.9
Trade balance (RM billion)	**–**	**18.5**	**44.8**	**21.3**	**20.4**	**41.7**

Source: MATRADE and Department of Statistics, Malaysia

[2] Based on preliminary data

In the second quarter of 2015, both gross exports and imports recorded a contraction of 3.7% and 5.2%, respectively (1Q 2015: -2.5% and +0.2%, respectively). The decline in gross exports was due mainly to the contraction in exports of commodities and resource-based manufactured products, while the growth of gross imports was weighed down by the weaker performance of all import categories, except for consumption imports. As a result, the trade surplus amounted to RM20.4 billion (1Q 2015: RM21.3 billion).

Commodity exports declined further due mainly to lower prices for major commodities. Of significance, mineral exports were weighed down particularly by the significant decline in LNG prices, reflecting the pricing lag effect between LNG and oil prices. Growth of manufactured exports was supported by expansion in electronics and non-resource based manufactured products. Despite a decline in electrical products, growth of E&E exports expanded at a faster pace due to higher demand for semiconductors and electronics equipment and parts. Exports of non-resource based manufactured products turned around to record a positive growth in 2Q 2015, supported largely by continued expansion in exports of machinery and appliances and stronger demand for manufactures of metal. In terms of destination, exports to the US and PR China continued to expand, while exports to the region declined, reflecting mainly lower exports to Hong Kong, Korea, Chinese Taipei and most of the ASEAN economies during the quarter.

Growth of gross imports declined in the second quarter of 2015, reflecting broad-based decline in major import categories, except for consumption imports. The weak growth of intermediate imports was due mainly to the lower imports of industrial supplies and fuel-related inputs, while the contraction in capital imports was in tandem with the more moderate growth in private investment amid lower imports of transport equipment. Meanwhile, re-export activity remained weak amid lower commodity prices during the quarter. Nevertheless, consumption imports recorded a higher growth, accounted mainly by higher imports of food and beverages and consumer goods, ranging from durable to non-durable goods.

Malaysia: Direction of Exports

	Share 1H 2015 (%)	2014		2015		
		2Q	1H	1Q	2Q	1H
		Annual change (%)				
United States	**9.2**	**13.4**	**8.9**	**14.9**	**4.0**	**9.1**
European Union (EU)	**9.9**	**15.9**	**17.1**	**1.7**	**4.4**	**3.1**
Japan	**9.9**	**12.5**	**10.3**	**-2.5**	**-26.8**	**-14.0**
Selected ASEAN countries[1]	**27.7**	**13.7**	**8.2**	**-2.3**	**-1.0**	**-1.6**
North East Asia	**23.9**	**14.7**	**17.3**	**-7.1**	**2.0**	**-2.6**
People's Republic of China	*12.6*	*3.3*	*9.2*	*-12.6*	*17.1*	*1.8*
Hong Kong SAR	*5.0*	*41.5*	*38.4*	*7.2*	*-7.9*	*-1.0*
Korea	*3.3*	*10.6*	*13.3*	*-8.9*	*-15.5*	*-11.7*
Chinese Taipei	*3.0*	*28.7*	*28.4*	*-3.8*	*-16.9*	*-11.1*
West Asia[2]	**2.9**	**-9.1**	**-5.2**	**-8.0**	**-10.1**	**-9.1**
India	**4.1**	**18.7**	**14.2**	**12.1**	**-2.9**	**3.9**
Total exports	**100.0**	**14.4**	**12.5**	**-2.5**	**-3.7**	**-3.1**

[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 services account recorded a higher deficit of RM4.6 billion in the second quarter (1Q 2015: -RM3.8 billion), due mainly to lower travel receipts amid larger services payments. While the decrease in net travel receipts was attributable to a lower number of tourist arrivals, higher payments were mainly payments for trade- and investment-related services, such as transportation, telecommunication, construction and other services.

The primary income deficit narrowed further to RM5.1 billion during the quarter (1Q 2015: -RM8.5 billion), reflecting mainly a higher net receipt of investment income. During the quarter, investment income accrued to Malaysian companies investing abroad was higher, particularly in the mining and services sector. Income accrued to foreign direct investors was sustained. Meanwhile, the higher net payment in the secondary income account (-RM6.0 billion; 1Q 2015: -RM5.3 billion) was due mainly to higher outward remittances, particularly by foreign workers due to festive season.

The **financial account** recorded a net inflow of RM2.3 billion (1Q 2015: -RM29.7 billion), attributed mainly to net inflows in the other investment account.

Direct investment registered a net outflow of RM3.9 billion (1Q 2015: -RM1.2 billion), as the accumulation of direct investment assets more than offset the incurrence of direct investment liabilities.

On the assets side, the accumulation of foreign assets resulted in a higher outward direct investment of RM17.8 billion (1Q 2015: -RM9.8 billion). Of these, **Direct Investment Abroad** (DIA) amounted to RM16.4 billion (1Q 2015: -RM11.1 billion). The bulk of DIA was due to the extension of long-term loans by the national oil company to its affiliated company to facilitate the acquisition of oil and gas-related assets abroad. Meanwhile, DIA by companies in the services and the manufacturing sector remained sizeable.

On the liabilities side, inward direct investment rose to RM13.9 billion (1Q 2015: +RM8.6 billion). Of these, Foreign Direct Investment (FDI) registered a larger inflow of RM12.5 billion (1Q 2015: RM9.9 billion). Higher FDI was due mainly to higher injection of equity capital in the manufacturing sector, particularly for the acquisition of assets in the petrochemical-related industry and capital expenditure in electrical and electronics industry. There were also significant investments into the services and oil and gas sectors.

Portfolio investment recorded a higher net outflow of RM11.8 billion (1Q 2015: -RM7.9 billion). During the quarter, portfolio investment by residents amounted to RM8.1 billion, as fund managers undertook the strategy to diversify into financial assets abroad to enhance returns amid purchases of debt securities by domestic financial institutions. Portfolio investment by non-residents recorded an outflow of RM3.7 billion, due mainly to larger liquidation of equity securities. Meanwhile, there was a small net inflow of debt securities by non-residents, as the redemption of Bank Negara Monetary Notes (BNMNs) upon maturity was offset by the higher purchases of Malaysian Government Securities (MGS), Treasury Bills and the issuances of the Global Sukuk by the Malaysian Government.

Other investment recorded a net inflow of RM18.4 billion (1Q 2015: -RM20.6 billion). During the quarter, the banking sector repatriated maturing interbank deposits which had been placed abroad. At the same time, there was a net placement of interbank deposits by non-resident financial institutions into the domestic banking system. Export-oriented businesses continued to extend trade credit to their overseas trading partners, resulting in a net outflow in the non-bank sector.

Following these developments, the overall balance of payments registered a surplus of RM8.5 billion in the second quarter (1Q 2015: -RM15.7 billion). Errors and omissions amounted to –RM0.3 billion, partly reflecting the foreign exchange revaluation on international reserves.

Manageable external debt

Malaysia's external debt[3] stood at RM794.3 billion, equivalent to USD208.4 billion or 68.1% of GDP as at end-June 2015 (end-March: RM768.1 billion or USD205.1 billion, equivalent to 65.9% of GDP). More than half of the external debt was of medium to long-term tenure (57.1%). By currency, about 40% of the total external debt is denominated in ringgit, mainly in the form of non-resident holdings of ringgit-denominated debt securities and deposits. During the quarter, the rise in external debt reflected partly further valuation effect from the depreciation of the ringgit, apart from net drawdown of external debt.

The ringgit depreciation affected mainly the offshore borrowing which increased by 5.1% to RM419.9 billion as at end-June 2015 (end-March: RM399.3 billion). Offshore borrowing, nevertheless, remained low at 36% of GDP compared to 60% of GDP during the Asian Financial Crisis in 1997-98. The valuation effects of the strengthening of most regional and major currencies against ringgit during the quarter are contained as offshore borrowing by corporations, namely public enterprises and non-bank private corporations, are largely hedged, either naturally through foreign currency earnings, or through the use of financial instruments. A significant share of their borrowings is intercompany loan with flexible and concessionary terms. In addition, banking sector's offshore borrowings are mostly covered by their corresponding external assets.

Excluding foreign exchange revaluation changes, offshore borrowing increased at a more moderate pace of 3.1%, reflecting largely the net drawdown of interbank borrowing associated mainly with the banking sector's centralised foreign currency liquidity management operations. There was also net drawdown of offshore borrowing, consisting mainly intercompany loans by non-bank private corporations. Similarly, the Federal Government recorded a net drawdown during the quarter following the issuances of 10-year and 30-year sukuk amounting to USD1.5 billion. Part of the proceeds from the issuances was used to redeem the USD1.25 billion 1Malaysia Sukuk Global that matured during the quarter. Of significance, the outstanding offshore borrowing by the Federal Government remained low at 4.5% of total offshore borrowing and 1.6% of GDP. During the quarter, there was a net repayment of offshore borrowing by the public enterprises.

Non-resident deposits increased by 4.8% to RM95.7 billion, equivalent to USD25.1 billion as at end-June 2015 (end-March: RM91.3 billion; USD24.4 billion), partly due to the valuation effect of foreign-currency denominated deposits. Excluding valuation effects, non-resident deposits increased by 3.8%. Non-resident holdings of ringgit-denominated debt securities, however, declined to RM209.2 billion (end-March: RM210.5 billion). The decline was largely attributed to the liquidation of BNMNs by non-residents, which was partially offset by the increase in non-resident holdings of the MGS and Treasury Bills.

The share of short-term external debt declined to 42.9% of the total external debt (end-March: 45.1%) due mainly to the lower non-resident holdings of BNMNs. The short-term external debt remained manageable with reserves coverage of 1.1 times. About two-third of the short-term external debt is held by the banking sector, which does not pose an immediate claim on international reserves given that this debt is mostly covered by the banks corresponding external assets. In addition, the bulk of the remaining short-term external debt is trade credits which are generally backed by export earnings.

Outstanding External Debt

	2014		2015
	end-June	end-Mar	end-June
	RM billion		
Offshore borrowing[1]	337.8	399.3	419.9
USD billion equivalent	*104.1*	*106.6*	*110.1*
Medium- and long-term	*205.3*	*242.3*	*256.2*
Public sector	98.7	117.3	119.4
Private sector	106.6	125.0	136.8
Short-term	*132.6*	*157.0*	*163.6*
NR holdings of dom. debt securities	243.8	210.5	209.2
Medium- and long-term	*168.1*	*168.6*	*186.4*
Short-term	*75.8*	*41.9*	*22.8*
NR deposits	84.4	91.3	95.7
Others[2]	64.2	67.0	69.5
Medium- and long-term	*10.0*	*10.9*	*11.0*
Short-term	*54.3*	*56.1*	*58.5*
Total external debt	**730.3**	**768.1**	**794.3**
USD billion equivalent	*225.1*	*205.1*	*208.4*
External Debt (Redefined)			
Total debt/GDP (%)	66.0	65.9	68.1
Short-term debt[3]/Total debt (%)	47.5	45.1	42.9
Reserves/Short-term debt[3] (times)	1.2	1.1	1.1[5]
External Debt (Previous definition)			
Total debt/GDP (%)	30.5	34.3	36.0
Short-term debt[4]/Total debt (%)	39.2	39.3	39.0
Reserves/Short-term debt[4] (times)	3.2	2.5	2.2[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 and other short-term debt.
[4] Equivalent to short-term offshore borrowing.
[5] Based on international reserves as at 31 July 2015.

Note: NR refers to non-resident

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

[3] This refers to the external debt as redefined, effective from the first quarter of 2014. Apart from the offshore borrowing covered under the previous definition, the redefined external debt also includes non-resident holdings of ringgit debt securities, non-resident deposits with the banking system and other debt liabilities to non-residents. For more information, please refer to the box article titled 'The Redefinition of External Debt' in the Quarterly Bulletin on Economic and Financial Developments in the Malaysian Economy in the First Quarter of 2014.

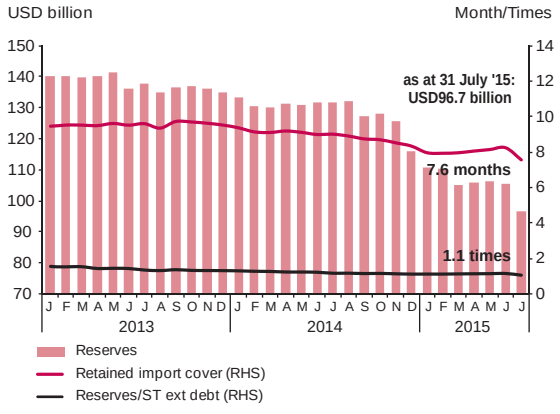
International reserves remained ample to meet international obligations

The international reserves of BNM amounted to RM398.1 billion (equivalent to USD105.5 billion) as at 30 June 2015. This reserves level has taken into account the quarterly adjustment for foreign exchange revaluation changes.

As at 31 July 2015, the reserves position amounted to RM364.7 billion (equivalent to USD96.7 billion). It is sufficient to finance 7.6 months of retained imports, significantly higher than the 3-month international threshold. The reserves to short-term external debt coverage of 1.1 times is adequate for a country with a relatively high degree of financial openness.

The decline in international reserves had been anticipated and is a natural outcome when facing sharp capital reversal. It has fallen below USD100 billion before in the aftermath of the Global Financial Crisis and remained below that level for almost two years from end-2008 to end-2010. The international reserves remain ample to facilitate international transactions without disruptions.

Net International Reserves (as at end period)

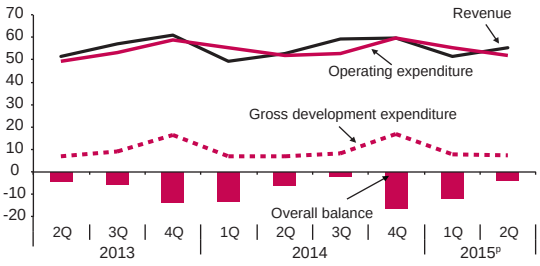


Source: Bank Negara Malaysia

Fiscal position improved in the second quarter due to higher revenue and lower expenditure

In the second quarter of 2015, the Federal Government recorded a lower fiscal deficit of 1.4% of GDP (1Q 2015: -4.2% of GDP). This was due to the sustained increase in revenue amid a smaller increase in operating expenditure. Revenue increased by 4.9% (1Q 2015: 4.8%), due mainly to higher tax collection. Operating expenditure grew marginally by 0.2% (1Q 2015: 0.4%), primarily driven by the lower spending on subsidies. Growth of development expenditure also moderated to 3.5% (1Q 2015: 13.2%), with the bulk of expenditure mainly channelled to the social sector, particularly for housing and higher education. As at end-June 2015, total outstanding debt of the Federal Government amounted to RM627.5 billion or 53.8% of the estimated 2015 GDP.

Federal Government Finance



p Preliminary

Source: Ministry of Finance, Malaysia

Federal Government Finance[p]

	2014		2015		
	2Q	1H	1Q	2Q	1H
	RM billion				
Revenue	52.7	101.8	51.5	55.3	106.8
% annual growth	*2.1*	*6.8*	*4.8*	*4.9*	*4.9*
Operating expenditure	51.7	106.9	55.4	51.8	107.3
% annual growth	*5.2*	*7.9*	*0.4*	*0.2*	*0.3*
Current account	**0.9**	**-5.1**	**-3.9**	**3.4**	**-0.5**
% of GDP	***0.3***	***-0.9***	***-1.4***	***1.2***	***-0.1***
Net development expenditure	7.0	14.0	7.9	7.3	15.1
% annual growth	*2.7*	*-10.6*	*13.2*	*3.5*	*8.3*
Overall balance	**-6.1**	**-19.1**	**-11.8**	**-3.8**	**-15.6**
% of GDP	***-2.2***	***-3.5***	***-4.2***	***-1.4***	***-2.8***
Memo item:					
Total net expenditure	58.7	120.9	63.3	59.1	122.4
% annual growth	*4.9*	*5.4*	*1.8*	*0.6*	*1.2*
Total Federal Government debt (as at end-period)	568.9	568.9	596.8	627.5	627.5
% of GDP	*51.4*	*51.4*	*51.2*	*53.8*	*53.8*
Domestic debt	397.0	397.0	418.9	429.2	429.2
% of GDP	*35.9*	*35.9*	*35.9*	*36.8*	*36.8*
External debt	171.9	171.9	177.9	198.3	198.3
% of GDP	*15.5*	*15.5*	*15.3*	*17.0*	*17.0*
Non-resident holdings of RM-denominated Federal Government debt	*155.6*	*155.6*	*160.2*	*179.5*	*179.5*
% of GDP	*14.1*	*14.1*	*13.7*	*15.4*	*15.4*
Offshore borrowing	*16.2*	*16.2*	*17.6*	*18.8*	*18.8*
% of GDP	*1.5*	*1.5*	*1.5*	*1.6*	*1.6*

p Preliminary

Note: Beginning first quarter of 2015, GDP has been rebased from base year 2005 to base year 2010

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia