ECONOMIC AND FINANCIAL DEVELOPMENTS IN MALAYSIA IN THE THIRD QUARTER OF 2015

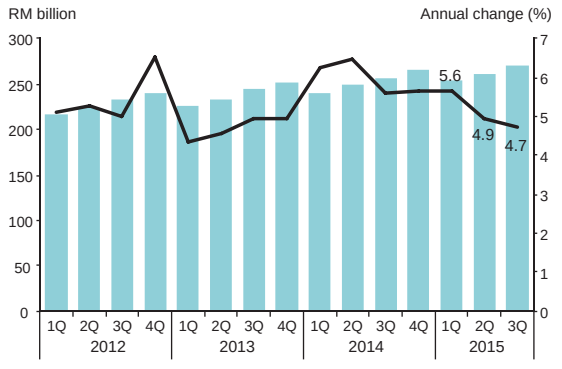
OVERVIEW

The global economy continued to expand at a moderate pace in the third quarter of 2015, with diverging growth momentum across economies. While the US and the UK economies registered moderate growth, economic activity in the euro area and Japan improved at a more gradual pace. In Asia, growth was supported by the continued expansion of domestic demand amid weak export performance. Against a backdrop of moderate growth and low inflation, several major and regional central banks lowered policy rates. In addition, a number of economies in the region have also announced fiscal measures to support domestic demand activity.

The Malaysian economy expanded by 4.7% in the third quarter of 2015

The Malaysian economy recorded a growth of 4.7% in the third quarter of 2015 (2Q 2015: 4.9%), supported mainly by private sector demand. On the supply side, all economic sectors continued to expand during the quarter. On a quarter-on-quarter seasonally-adjusted basis, the economy grew by 0.7% (2Q 2015: 1.1%).

The economy expanded in the third quarter
(at constant 2010 prices)



Source: Department of Statistics, Malaysia

The private sector continued to be the key driver of growth during the quarter. Private investment grew by 5.5% (2Q 2015: 3.9%), driven by capital spending in the manufacturing and services sectors. Private consumption expanded at a more moderate rate of 4.1% (2Q 2015: 6.4%) as households continued to adjust to the implementation of the Goods and Services Tax (GST). Public investment turned around to record a positive growth due to the improvement in spending on fixed assets by both the Federal Government and public enterprises Meanwhile, public consumption growth moderated to 3.5% (2Q 2015: 6.8%) following the slower growth in both emoluments and supplies and services expenditure.

On the supply side, all economic sectors continued to expand during the quarter. Growth was led by the construction and manufacturing sectors. Construction sector growth improved due mainly to a faster expansion in the civil engineering and specialised construction activities sub-sectors. Similarly, the manufacturing sector registered higher growth, supported in particular by an improvement in the export-oriented industries. The services sector registered lower growth due to a moderation in household spending and slower capital market activity. The mining and agriculture sectors expanded at a slower pace due to a moderation in crude oil and palm oil production, respectively.

Inflation, as measured by the annual change in the Consumer Price Index (CPI), increased to 3.0% in the third quarter of 2015 (2Q 2015: 2.2%) largely reflecting the higher inflation in the *food and non-alcoholic beverages* category amid shortages in supplies arising from adverse weather conditions. The *transport* category also contributed to the increase in inflation following the higher domestic fuel prices during the quarter.

The trade surplus amounted to RM22.2 billion in the third quarter of 2015 (2Q 2015: RM20.4 billion). Gross exports turned around to register an expansion of 5.5% (2Q 2015: -3.7%), supported mainly by the broad-based expansion in manufactured exports. Meanwhile, gross imports grew by 2.9% (2Q 2015: -5.2%), reflecting an improvement in most major import categories.

The international reserves of BNM amounted to RM415.1 billion (equivalent to USD93.3 billion) as at 30 September 2015. This reserves level has taken into account the quarterly adjustment for foreign exchange revaluation changes.

As at 30 October 2015, the reserves position amounted to RM417.9 billion (equivalent to USD94.0 billion). The international reserves remain ample to facilitate international transactions without disruptions. It is sufficient to finance 8.7 months of retained imports, significantly higher than the 3-month international threshold. It is also adequate to meet external obligations with the reserves to short-term external debt coverage of 1.1 times. It is important to note that not all short-term external debt pose an immediate claim on reserves given the external assets and export earnings of borrowers.

Interest rates remained stable

The Monetary Policy Committee (MPC) maintained the Overnight Policy Rate (OPR) at 3.25% during the third quarter of 2015. At the prevailing level of the OPR, monetary conditions remained supportive of economic activity. Despite increased volatility in international financial markets and domestic uncertainties, interest rates in the domestic money market remained broadly stable during the quarter. However, interbank rates beyond the 1-month tenure trended higher towards the end of the quarter, reflecting the shift in liquidity towards the shorter tenures amid the greater preference of corporates and banks for shorter-term placements. In terms of retail rates, both deposit and lending rates were broadly unchanged throughout the quarter. The average base rate (BR) of banks at the end of the third quarter was slightly lower at 3.85%.

The monetary aggregates increased in the third quarter. M3, or broad money, increased by RM0.5 billion on a quarter-on-quarter basis to record an annual growth rate of 5.3% as at end-September (2Q 2015: 6.0%). The increase in M3 during the quarter was driven mainly by the continued expansion in credit extended to the private sector by the banking system. The expansion was also on account of lower net claims on the Government, reflecting the redemption of Government bonds during the quarter. The growth in broad money, however, was partially offset by the lower net foreign assets due to external sector outflows during the quarter. In the banking system, ample liquidity conditions prevailed at both the institutional and system-wide levels. While the level of surplus liquidity placed with BNM was lower arising from external sector outflows, it remained high at above RM200 billion as at end-September.

Total gross financing raised by the private sector through the banking system and the capital market amounted to RM287.9 billion (2Q 2015: RM287.1 billion). On a net basis, outstanding banking system loans and PDS expanded at a higher growth rate of 8.8% as at end-September (2Q 2015: 8.3%). Outstanding business loans grew at a stronger pace with higher level of credit extended mainly to the *manufacturing; wholesale and retail trade, and restaurants and hotels; real estate* and *finance, insurance and business services* sectors. In particular, outstanding SME loans continued to grow at a strong rate of 17.6% (2Q 2015: 17.1%). Outstanding household loans growth moderated to 8.1% in the third quarter (2Q 2015: 8.7%). While fund raising activity in the capital market continued to be supported by gross funds raised by both private and public sectors, large redemptions of Government debt securities more than offset the net funds raised by the private sector, resulting in an overall position of net redemptions of RM2.6 billion during the quarter.

The ringgit and other regional currencies continued to face volatility during the quarter due to uncertainty in global growth and monetary conditions. Overall, the ringgit depreciated by 14.8% against the US dollar during the quarter. The ringgit also depreciated

against the Australian dollar (-6.8%), the pound sterling (-11.7%), the euro (-15.4%), and the Japanese yen (-16.6%). Against all regional currencies, the ringgit depreciated by between 6.3% and 12.8%.

Between 1 October and 11 November 2015, the ringgit appreciated against all major currencies. The ringgit appreciated against the US dollar (1.8%), the euro (6.5%), the Japanese yen (4.4%), the pound sterling (1.8%), and the Australian dollar (0.9%). The ringgit also appreciated against most regional currencies, except for the Korean won (-1.2%) and the Indonesian rupiah (-5.7%).

Domestic financial stability continued to be preserved

The Malaysian financial system remained resilient despite heightened volatility during the quarter. The domestic financial markets demonstrated continued resilience and orderly conditions, while sound financial institutions and ample banking system liquidity continued to lend support for financing to businesses and households. Fragile investor sentiment is expected to persist in the period ahead, with prospects of a repricing of risks continuing to weigh on sentiment. Domestic financial system stability is nonetheless expected to be maintained. This is underpinned by the strong financial buffers of financial institutions, a sustained focus on prudent risk-taking, especially among banks, and deep domestic financial markets. Debt servicing capacity of most borrowers remained intact, with the net impaired loans ratio unchanged at 1.2%.

The capitalisation of financial institutions remained strong and is sufficient to absorb potential losses from adverse developments in financial and economic conditions. For banks, the common equity tier-1 capital, tier-1 capital and total capital ratios were sustained well above the minimum regulatory levels at 12.1%, 12.8% and 14.8% respectively. More than 80% of banks' total capital is of high quality, comprising retained earnings, paid-up capital and reserves. The capital adequacy ratio for the insurance sector was similarly healthy at 243.8% (2Q 2015: 239.0%). In aggregate, financial institutions have capital buffers totalling RM132 billion (banks: RM100.2 billion; insurers/ takaful operators: RM31.8 billion), that can be used to absorb potential losses from adverse credit and market events.

Domestic demand will remain the key driver of growth

Going forward, global growth is expected to remain moderate. While the major advanced economies continue to improve, the pace of recovery will be modest. In Asia, domestic demand is expected to continue to support growth. Downside risks to global growth remain high arising from the moderating growth momentum in a number of major economies, uncertainty surrounding energy and commodity prices and possible disorderly market conditions arising from policy shifts in major economies.

While downside risks to growth remain, the Malaysian economy is expected to expand within the region of 4.5 – 5.5% this year and 4 – 5% in 2016. As a result of structural adjustments that have been steadily undertaken over the years, the economy is now supported by diversified sources of growth. With the external sector performance expected to be modest, domestic demand will continue to be the main driver of growth, supported mainly by the private sector activity. In addition, the flexible exchange rate, deep and more mature financial markets and solid financial institutions will support this trend and ensure that shocks such as volatile capital flows are well intermediated, therefore minimising spillovers to the real economy.

DEVELOPMENTS IN THE THIRD QUARTER OF 2015

INTERNATIONAL ECONOMIC ENVIRONMENT

Moderate global economic expansion

The global economy continued to expand at a moderate pace in the third quarter of 2015, with diverging growth momentum across economies. While the US and the UK economies registered moderate growth, economic activity in the euro area and Japan improved at a more gradual pace. In Asia, growth was supported by the continued expansion of domestic demand amid weak export performance. Against a backdrop of moderate growth and low inflation, several major and regional central banks lowered policy rates. In addition, a number of economies in the region have also announced fiscal measures to support domestic demand activity.

Global financial market volatility increased during the quarter, arising mainly from heightened investor concerns over global growth prospects and financial sector volatility, particularly in PR China. Early in the quarter, global equity markets were affected by adverse developments related to the Greek debt crisis. This subsequently improved following the tentative approval of Greece's third bailout programme in mid-July. This trend, however, reversed as investor sentiments were affected by stock market corrections in PR China and an unexpected move by the People's Bank of China (PBoC) to lower the central parity rate of the Renminbi (RMB). Correspondingly, the CBOE Volatility (VIX) index increased to a four-year high on 24 August, as a sharp decline in Chinese equities triggered heightened global investor risk aversion. During the quarter, global equity markets were also affected by weaker-than-expected economic data releases in the region, continued uncertainty surrounding the US Federal Reserve's (Fed) first interest rate increase since June 2006 and further declines in global oil prices.

The US economy continued to expand, although at a more moderate pace, in the third quarter (2.0%; 2Q 2015: 2.7%). On a seasonally adjusted annualised basis, the growth momentum slowed to 1.5% (2Q 2015: 3.9%), due mainly to a sharper decline in inventories. During the quarter, growth was driven mainly by private consumption, as households continued to benefit from lower oil prices, further strengthening of the labour market and improved household balance sheets. Growth of fixed investment was sustained as stronger investment in the services sector offset more moderate manufacturing investment growth and a sharper decline in oil and gas-related capital expenditure. Of significance, capital expenditure in the real estate sub-sector was underpinned by the gradual improvement in housing starts and existing home sales. Headline inflation rose marginally in the third quarter (0.1%; 2Q 2015: 0%), due mainly to higher prices of shelter and transportation services.

Economic activity in the euro area continued to improve at a gradual pace in the third quarter. Domestic demand conditions were supported by low energy prices, accommodative monetary policy and better labour market conditions in a few key economies, including Germany. Amid lower concerns over the Greek debt crisis during the quarter, business and consumer sentiments remained steady, while the expansion in manufacturing PMI was sustained (52.2; 2Q 2015: 52.2). Headline inflation moderated slightly during the quarter (0.1%; 2Q 2015: 0.2%), due to a sharper contraction in the cost of energy.

Economic activity in the UK expanded at a more moderate pace in the third quarter (2.3%; 2Q 2015: 2.4%). The mining and quarrying as well as services sectors remained the key contributor to growth, particularly the business services and finance sub-sector. Headline inflation growth remained flat (2Q 2015: 0%), as an increase in the prices of clothing and footwear were offset by lower costs of housing and household expenditures.

The Japanese economy expanded at a modest pace in the third quarter, due in part to a low base effect arising from the consumption tax increase in 2014. Retail sales moderated across a broad segment of goods (0.9%; 2Q 2015: 3.0%), while business sentiments

declined during the quarter, as reflected by the decrease in the Tankan survey index for large manufacturers (12; 2Q 2015: 15). On the external front, export growth moderated to 3.7% (2Q 2015: 6.7%), due to lower demand from China and other Asian economies. Inflation (excluding fresh food) turned around to register a negative growth of 0.1% (2Q 2015: 0.1%), while core inflation (excluding food and energy) was higher at 0.8% (2Q 2015: 0.4%).

Advanced Economies: Real GDP Growth

	2014		2015		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
US	2.9	2.5	2.9	2.7	2.0[a]
UK	2.9	3.0	2.7	2.4	2.3[p]

[a] Advance estimate
[p] Preliminary

Source: National authorities

The overall monetary policy stance in the advanced economies remained accommodative during the quarter given rising growth concerns and lower inflation. Most central banks reaffirmed their commitment to maintain accommodative monetary conditions by keeping policy rates unchanged. In the US, the Federal Open Market Committee (FOMC) left its Federal Funds Rate unchanged in September and October. In September, the FOMC highlighted that recent global economic and financial developments could restrain economic activity and pose downside risks to the inflation outlook. The FOMC members also reduced their median estimates for the Federal Funds Rate, indicating that the pace of interest rate normalisation will be more gradual. Similarly, the European Central Bank (ECB), Bank of Japan (BOJ) and Bank of England (BOE) maintained their asset purchase programmes during the quarter. The ECB reaffirmed its intention to purchase EUR60 billion of assets per month until end-September 2016 or until medium-term inflation is close to 2%. However, it also announced its intention to re-examine the degree of monetary accommodation in December, particularly should downside risks to inflation and growth materialise. The BOJ reiterated its commitment to increase the monetary base by JPY80 trillion annually, while the Bank of England (BOE) maintained the stock of its purchased assets at GBP375 billion.

Meanwhile, the Bank of Canada and Sveriges Riksbank (Swedish National Bank) reduced their key policy rates by 25 and 10 basis points each to 0.50% and -0.35%, respectively, in July. Similarly, Norway's Norges Bank lowered its key policy rate by 25 basis points in September to 0.75%, while the Reserve Bank of New Zealand cut its key policy rate by a cumulative 50 basis points in July and September to 2.75%.

In PR China, growth moderated slightly to 6.9% in the third quarter (2Q 2015: 7.0%). By industry, the slower expansion across secondary (industry and construction) industries was partially offset by improvements in the tertiary (services) sector. During the quarter, the Chinese government implemented a series of wide-ranging policy measures, including infrastructure investment and increased lending to targeted sectors to support domestic economic activity. In addition, further monetary policy easing measures were also introduced following the sharp decline in the stock markets. Nevertheless, growth continued to face headwinds arising from excess capacity in heavy industries, the property market and weaker sentiments after the adjustments in the Chinese equity markets. Inflation increased to 1.7% (2Q 2015: 1.4%) following higher prices in the food, housing and alcoholic beverages and tobacco sub-sectors.

In Asia, economic activity continued to expand, supported by improvement in domestic economic activity. Growth in the Korean economy picked up in the third quarter (2.6%; Q2 2015: 2.2%), underpinned by a rebound in investment and private consumption after the MERS outbreak. However, net exports constituted a larger drag to growth in the third quarter. Growth in Indonesia was sustained at 4.7% (2Q 2015: 4.7%), as the improvement in domestic demand offset weaker external demand. However, the Chinese Taipei economy contracted by 1.0% (2Q 2015: +0.5%), due to weaker exports and a moderation in domestic demand growth. Singapore's growth moderated to 1.4% in the third quarter (2Q 2015: 2.0%), due mainly to a sharper contraction in the manufacturing sector. This was in turn attributed to a decline in the output of electronics, biomedical and transport engineering. In addition, both the services and construction sectors expanded at a slower pace during the quarter.

Regional Countries: Real GDP Growth

	2014		2015		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
Singapore	2.8	2.1	2.6[r]	2.0[r]	1.4[a]
PR China	7.2	7.2	7.0	7.0	6.9
Korea	3.3	2.7	2.5	2.2[p]	2.6[a]
Chinese Taipei	4.3	3.5	3.8[r]	0.5[p]	-1.0[a]
Indonesia	4.9	5.0	4.7	4.7	4.7

[a] Advance estimate
[r] Revised
[p] Preliminary

Source: National authorities

During the quarter, inflationary pressures remained subdued in most regional economies given the low energy prices. Of note, Thailand, Singapore and Chinese Taipei remained in deflation during the quarter. In Indonesia, however, inflation remained elevated due mainly to higher fuel prices following the reductions in government fuel subsidies.

In this environment, monetary policy remained accommodative in the region with a few central banks lowering their key policy rates during the quarter. The Reserve Bank of India (RBI) lowered its policy repo rate by 50 basis points to 6.75% to support domestic investment activity. Similarly, the Central Bank of the Republic of China (CBC) reduced its discount rate by 12.5 basis points to 1.75%, amid slowing domestic economic activity and weak exports. Meanwhile, in August and October, the People's Bank of China (PBoC) reduced its one-year benchmark lending rate by a total of 50 basis points to 4.35% (Previous: 4.85%) and lowered the reserve requirement ratio for large depository financial institutions by a total of 100 basis points to 17.5%. The PBoC also removed the ceiling on deposit rates, improving market-oriented interest rate formation in the Chinese economy. The Monetary Authority of Singapore (MAS) also reduced slightly the rate of appreciation of the Singapore dollar nominal effective exchange rate (S$NEER) policy band in October, following a weaker-than-expected growth outlook.

Brent crude oil prices declined sharply to an average of USD51 per barrel in the third quarter (2Q 2015: USD63 per barrel), due mainly to expectations of worsening oversupply in the oil market in the next few quarters following the successful conclusion of the Iranian nuclear agreement. This was further exacerbated by the Chinese equity market sell-off in July, which led to heightened risk aversion in the oil futures market. Sentiments remained bearish throughout the quarter with prices hitting a 6-year low of USD42 per barrel on 24 August 2015. However, prices recovered somewhat towards the end of the quarter, as the FOMC's decision to maintain its policy interest rate boosted investor sentiments. As a result, oil prices ended the quarter at USD48 per barrel on 30 September 2015.

The euro and the yen appreciated against the US dollar during the quarter. The euro was supported by better economic data releases and an improvement in investor sentiments following the approval of Greece's third bailout programme. The Japanese yen strengthened, benefitting from safe haven flows due to heightened investor risk aversion during the quarter. In the rest of Asia, however, most currencies depreciated against the US dollar, as concerns over stock market corrections and moderating economic activity in PR China affected investor sentiments in the region. In addition, regional currencies continued to be weighed down by high uncertainty over the timing of the Fed's first interest rate increase.

Going forward, global growth is expected to remain moderate. While the major advanced economies continue to improve, the pace of recovery will be modest. In Asia, domestic demand is expected to continue to support growth. Downside risks to global growth remain high arising from the moderating growth momentum in a number of major economies, uncertainty surrounding energy and commodity prices and possible disorderly market conditions arising from policy shifts in major economies.

DEVELOPMENTS IN THE MALAYSIAN ECONOMY

The Malaysian economy expanded by 4.7% in the third quarter

The Malaysian economy registered a growth of 4.7% in the third quarter of 2015 (2Q 2015: 4.9%). Private sector expenditure continued to be the key driver of growth (4.4%; 2Q 2015: 5.7%), and contributed towards the expansion in domestic demand. In addition, growth was supported by the improvement in public sector spending (2.8%; 2Q 2015: 0.9%) and the turnaround in net exports, which recorded a positive growth during the quarter (3.3%; 2Q 2015: -10.5%). On a quarter-on-quarter seasonally-adjusted basis, the economy grew by 0.7% (2Q 2015: 1.1%).

Continued expansion in domestic demand

Domestic demand expanded by 4.0% in the third quarter of 2015 (2Q 2015: 4.6%). This was driven mainly by private sector activity, which grew by 4.4% (2Q 2015: 5.7%) following continued growth in investment and consumption activities. **Private investment** expanded by 5.5% (2Q 2015: 3.9%), supported by continued capital spending in the manufacturing and services sectors. **Private consumption** growth moderated to 4.1% (2Q 2015: 6.4%), as households continued to adjust to the implementation of GST. However, wage growth and stable labour market conditions remained supportive of overall consumer spending.

Public sector expenditure recorded a higher growth of 2.8% in the third quarter (2Q 2015: 0.9%). **Public investment** turned around to register a positive growth of 1.8% (2Q 2015: -8.0%) due to the improvement in spending on fixed assets by both the Federal Government and public enterprises during the quarter. **Public consumption** recorded a more moderate growth of 3.5% (2Q 2015: 6.8%), reflecting a slower growth in emoluments and supplies and services.

Gross fixed capital formation (GFCF) growth expanded further by 4.2% (2Q 2015: 0.5%), driven mainly by private sector capital spending. By type of assets, GFCF was mainly supported by the improvement in the growth of structures investment (7.0%; 2Q 2015: 5.9%) and machinery and equipment investment (1.2%; 2Q 2015: -7.5%).

Expansion in all economic sectors

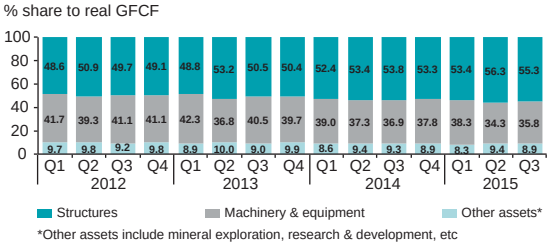
On the supply side, all economic sectors continued to expand during the quarter. Growth was led by the construction and manufacturing sectors. Construction sector growth improved due mainly to a faster expansion in the civil engineering and specialised construction activities sub-sectors. Similarly, the manufacturing sector registered higher growth, supported in particular by an improvement in the export-oriented industries. The services sector registered lower growth due to a moderation in household spending and slower capital market activity. The mining and agriculture sectors expanded at a slower pace due to a moderation in crude oil and palm oil production, respectively.

GDP by Expenditure Components
(at constant 2010 prices)

	Share 2014 (%)	2014		2015		
		3Q	4Q	1Q	2Q	3Q
		Annual change (%)				
Aggregate Domestic Demand (excluding stocks)	91.5	5.0	5.7	7.9	4.6	4.0
Private Sector	68.5	6.8	8.3	9.6	5.7	4.4
Consumption	*51.8*	*6.8*	*7.6*	*8.8*	*6.4*	*4.1*
Investment	*16.6*	*7.0*	*11.1*	*11.7*	*3.9*	*5.5*
Public Sector	23.0	-0.9	0.6	2.5	0.9	2.8
Consumption	*13.6*	*5.2*	*2.5*	*4.1*	*6.8*	*3.5*
Investment	*9.5*	*-8.5*	*-1.9*	*0.5*	*-8.0*	*1.8*
Net Exports	9.3	7.4	-4.0	-10.2	-10.5	3.3
Exports of Goods and Services	*76.1*	*2.6*	*1.9*	*-0.6*	*-3.7*	*3.2*
Imports of Goods and Services	*66.8*	*2.0*	*2.6*	*1.0*	*-2.8*	*3.2*
GDP	**100.0**	**5.6**	**5.7**	**5.6**	**4.9**	**4.7**
GDP (q-o-q growth, seasonally adjusted)	**-**	**0.8**	**1.8**	**1.2**	**1.1**	**0.7**

Source: Department of Statistics, Malaysia

GFCF by Type of Assets



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

Source: Department of Statistics, Malaysia

The **services sector** registered a more moderate growth of 4.4% in the third quarter (2Q 2015: 5.0%). The wholesale and retail trade sub-sector expanded by 5.7% (2Q 2015: 5.9%), supported by the wholesale segment. The retail segment, on the other hand, registered lower growth following a moderation in household spending. The finance and insurance sub-sector registered a contraction of 3.1% (2Q 2015: +0.2%) weighed down by the decline in fee-based income attributed mainly to the slower capital market activity during the quarter. The transport and storage sub-sector expanded by 5.6% (2Q 2015: 5.4%) supported mainly by port and airport activities. In the information and communication sub-sector, growth remained robust (9.5%; 2Q 2015: 9.3%), underpinned by continued strong demand for data communication services.

GDP by Economic Activity (at constant 2010 prices)

	Share 2014 (%)	2014		2015		
		3Q	4Q	1Q	2Q	3Q
		Annual change (%)				
Services	53.5	6.5	6.6	6.4	5.0	4.4
Manufacturing	23.0	5.3	5.4	5.6	4.2	4.8
Agriculture	9.2	3.4	-3.7	-4.7	4.6	2.4
Mining	9.0	1.4	9.5	9.6	6.0	5.3
Construction	4.3	9.7	8.8	9.7	5.6	9.9
Real GDP	**100.0**[1]	**5.6**	**5.7**	**5.6**	**4.9**	**4.7**
Real GDP (q-o-q seasonally adjusted)	**-**	**0.8**	**1.8**	**1.2**	**1.1**	**0.7**

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

Source: Department of Statistics, Malaysia

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

	Share 2014 (%)	2014		2015		
		3Q	4Q	1Q	2Q	3Q
		Annual change (%)				
Intermediate Services	**38.4**	**6.1**	**6.1**	**5.7**	**4.8**	**3.7**
Finance & insurance	13.7	3.2	2.4	1.9	0.2	-3.1
Real estate & business services	7.9	7.8	8.3	7.6	6.2	6.5
Transport & storage	6.5	5.2	6.0	5.7	5.4	5.6
Information & communication	10.2	9.5	9.7	9.6	9.3	9.5
Final Services	**61.6**	**6.7**	**6.9**	**6.8**	**5.1**	**4.8**
Wholesale & retail trade	26.9	8.4	9.4	9.8	5.9	5.7
Food & beverages and accommodation	5.1	6.1	7.5	7.3	6.6	5.8
Utilities	4.8	5.0	3.9	3.7	3.9	3.1
Government services	16.5	5.8	4.7	3.9	4.1	3.2
Other services	8.2	4.7	4.7	4.6	4.7	4.8
Total Services	**100.0**[1]	**6.5**	**6.6**	**6.4**	**5.0**	**4.4**

[1] Numbers do not add up due to rounding

Source: Department of Statistics, Malaysia

Selected Quarterly Indicators in the Services Sector

	2014		2015		
	3Q	4Q	1Q	2Q	3Q
	Index				
MIER Consumer Sentiments Index	98.0	83.0	72.6	71.7	70.2
MIER Retail Trade Index	130.0	92.9	85.4	76.8	93.3
MIER Tourism Market Index	115.2	107.6	100.7	84.7	116.5
	Annual change (%)				
Tourist arrivals	8.6	-1.9	-8.6	-10.3	-2.3[1]
Total passenger traffic at all airports	-2.0	-0.2	-0.8	1.6	6.1
Total consumption credit outstanding	2.9	2.7	3.5	2.7	2.7
Total loans outstanding	9.0	9.3	9.2	9.1	9.7
Loans outstanding to the wholesale & retail trade, hotels & restaurants	7.3	7.5	9.3	8.2	10.3
Imports of consumption goods	-1.0	3.0	4.4	25.4	27.2
Total sales of motor vehicles	-8.8	3.8	5.3	-11.2	2.6
Container cargo handled (Port Klang and PTP)	9.2	12.8	12.9	6.0	7.7

[1] July-August 2015

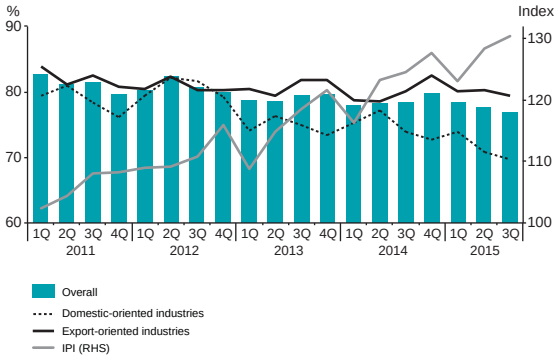
Source: Various sources

The **manufacturing sector** registered a higher growth of 4.8% (2Q 2015: 4.2%) in the third quarter, driven by the improvement in the export-oriented industries, particularly the electronics and electrical (E&E) cluster. The stronger performance of the E&E cluster was supported by continued firm demand for consumer-based electrical products as well as a turnaround in the electronics segment. The expansion in the domestic-oriented industries was mainly supported by the construction-related cluster amid moderation in the production of food and transport equipment.

The overall capacity utilisation rate in the manufacturing sector moderated to 77% in the third quarter (2Q 2015: 78%) due to slower capacity utilisation in the domestic-oriented industries (70%, 2Q 2015: 71%) amid sustained capacity utilisation in the export-oriented industries (80%, 2Q 2015: 80%).

Growth in the **construction sector** improved to 9.9% in the third quarter (2Q 2015: 5.6%), mainly on account of faster expansion in the civil engineering and specialised construction activities sub-sectors. In the civil engineering sub-sector, the faster growth was driven by petrochemical and transport-related projects, while higher activity for earthworks, land clearing and land reclamation underpinned the growth in the specialised construction activities sub-sector. In the non-residential sub-sector, growth was sustained by large ongoing industrial and commercial projects, while construction in the high-end housing segments in the Klang Valley and Johor supported growth in the residential sub-sector.

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

	2014		2015		
	3Q	4Q	1Q	2Q	3Q
	Annual Change (%)				
Value Added (at constant 2010 prices)	**5.3**	**5.4**	**5.6**	**4.2**	**4.8**
Export-oriented industries	4.5	6.8	7.0	4.0	5.8
Domestic-oriented industries	6.7	3.1	2.8	4.5	3.2
Overall Manufacturing Production[1]	**5.1**	**5.0**	**5.7**	**4.1**	**4.7**
Export-oriented industries	**4.3**	**5.2**	**5.1**	**4.3**	**5.2**
Electronics and electrical products cluster	**9.8**	**9.7**	**10.7**	**4.7**	**10.6**
Of which:					
Electronics	3.9	6.0	-0.2	-6.1	3.5
Electrical products	24.5	14.4	40.5	37.7	27.7
Primary-related cluster	**1.6**	**2.9**	**2.2**	**4.0**	**2.3**
Of which:					
Chemicals and chemical products	7.4	7.9	9.9	5.5	1.6
Petroleum products	-5.4	1.8	2.1	0.9	2.1
Rubber products	-4.0	-0.8	-1.3	7.6	6.9
Off-estate processing	4.6	-5.5	-20.2	7.3	-0.9
Domestic-oriented industries	**7.7**	**4.4**	**7.6**	**3.5**	**3.0**
Construction-related cluster	**5.7**	**3.6**	**6.9**	**2.8**	**3.9**
Of which:					
Construction-related products	7.0	5.3	8.1	2.9	3.7
Fabricated metal products	3.2	0.6	4.7	2.8	4.2
Consumer-related cluster	**9.8**	**5.1**	**8.3**	**4.1**	**2.1**
Of which:					
Transport equipment	11.4	1.1	9.2	6.0	2.2
Food, beverage & tobacco products	7.9	10.5	7.5	1.7	2.5

[1] Industrial Production Index (2010=100)

Source: Department of Statistics, Malaysia

Indicators for the Construction Sector

	2014		2015		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
Value of construction work done	10.7	9.7	15.1	8.2	14.0
Residential	21.5	18.3	19.5	7.8	8.3
Non-residential	10.9	23.5	24.3	15.5	13.9
Civil engineering	2.2	-8.0	4.2	1.5	19.0
Special trade[1]	7.4	7.7	4.2	7.4	17.5
Housing approvals	-3.6	8.0	-24.2	-16.0	-44.5
Production[2] of construction-related materials					
Hydraulic cement	7.8	9.9	20.2	12.8	14.7
Other articles of concrete, cement and plaster n.e.c	25.9	27.3	20.9	4.9	8.4
Other porcelain and ceramic products	20.7	29.6	31.2	21.6	17.1
Prefabricated structural components for building or civil engineering of cement, concrete or artificial stone	2.6	-13.3	-13.3	-6.4	-8.2
Capital imports (excluding lumpy items)	-1.3	7.7	11.3	-2.8	8.6
Loans for the construction sector					
Approval	25.9	24.9	21.4	46.0	-24.0
Disbursement	4.8	17.8	3.2	5.7	5.4

[1] Works such as site preparation, electrical installation and painting
[2] Industrial Production Index (2010=100)

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

The **agriculture sector** moderated to 2.4% (2Q 2015: 4.9%), as palm oil output slowed. Meanwhile, the **mining sector** grew by 5.3% (2Q 2015: 6.0%) as a result of a moderation in production of crude oil.

Headline inflation increased in the third quarter

Inflation, as measured by the annual change in the Consumer Price Index (CPI), increased to 3.0% in the third quarter of 2015 (2Q 2015: 2.2%). This largely reflects the higher inflation in the *food and non-alcoholic beverages* category amid shortages in supplies arising from adverse weather conditions. The *transport* category also contributed to the increase in inflation following the higher domestic fuel prices during the quarter.

The Producer Price Index (PPI) continued to decline on an annual basis in the third quarter (3Q 2015: -5.4%; 2Q 2015: -6.1%), driven mainly by lower prices in the *mineral, fuels and lubricants* and *animal and vegetable oils and fats* categories, which reflected the environment of low global commodity prices. Correspondingly, prices of commodity-related components declined further by 18.1% (2Q 2015: -19.1%). Meanwhile, prices of non-commodity-related components increased by 1.7% during the quarter (2Q 2015: 1.4%).

Performance of the Agriculture Sector

	Share in 2014 (%)	2014		2015		
		3Q	4Q	1Q	2Q	3Q
		Annual change (%)				
Value Added (at constant 2010 prices)	**100**	**3.4**	**-3.7**	**-4.7**	**4.6**	**2.4**
Industrial Crops	**62.7**	**1.9**	**-8.4**	**-11.0**	**6.2**	**3.5**
Of which:						
Oil palm	47.9	5.2	-8.0	-11.7	10.4	4.1
Rubber	6.9	-24.1	-25.5	5.0	-5.2	5.3
Food Crops	**37.3**	**7.5**	**6.5**	**4.0**	**2.4**	**0.8**
Of which:						
Fishing	8.6	2.8	2.2	4.4	-0.1	-3.2
Livestock	10.8	8.0	8.8	4.3	3.1	2.0

Source: Department of Statistics, Malaysia

Performance of the Mining Sector

	Share 2014 (%)	2014		2015		
		3Q	4Q	1Q	2Q	3Q
		Annual change (%)				
Value Added (at constant 2010 prices)	**100**	**1.4**	**9.5**	**9.6**	**6.0**	**5.3**
Production						
Of which:						
Crude oil and condensates	-	3.1	16.2	20.4	14.4	8.3
Natural gas	-	-1.0	3.1	-1.2	-2.7	1.3

Source: Department of Statistics, Malaysia

Consumer Price Index

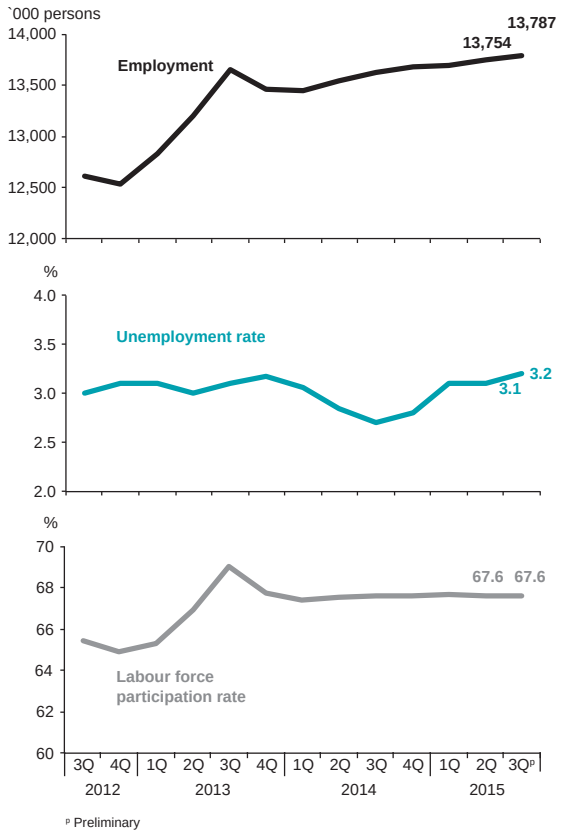
Category	Weights (%) (2010=100)	2Q 2015	3Q 2015
		Annual change, %	
Total	**100.0**	**2.2**	**3.0**
Food and non-alcoholic beverages	30.3	3.3	4.1
Housing, water, electricity, gas and other fuels	22.6	2.5	2.6
Transport	14.9	-3.6	-1.1
Others	32.2	3.6	4.1

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Stable labour market conditions

Labour market conditions remained broadly stable during the third quarter[1]. The unemployment rate edged higher to 3.2% (2Q 2015: 3.1%) and the labour force participation rate was sustained at 67.6% (2Q 2015: 67.6%).

Labour Market Indicators



p Preliminary

Source: Department of Statistics, Malaysia

Total layoffs (which comprise involuntary retrenchments and voluntary separation schemes) reported to the Ministry of Human Resources amounted to 3,273 persons (2Q 2015: 3,688 persons). Nonetheless, demand for labour remained healthy, as reflected in the 62,131 new job advertisements posted on Jobstreet.com (2Q 2015 was higher than average, at 70,434 posts). This has mostly been driven by higher labour demand in the services and manufacturing sectors.

Wage growth, as reflected by average wages in the manufacturing sector, was sustained during the quarter, at 5.8% (2Q 2015: 4.8%), supported by higher pay in the export-oriented sectors.

[1] Based on preliminary data

External position remained resilient in the third quarter

The **current account** surplus narrowed to RM5.1 billion, equivalent to 1.8% of GNI in 3Q 2015 (2Q 2015: RM7.6 billion or 2.7% of GNI), due mainly to the larger deficits in primary income and services accounts despite a higher goods surplus.

Balance of Payments[1]

	2014		2015		
	3Q	4Q	1Q	2Q	3Q
	RM billion				
Current Account	**7.1**	**5.7**	**10.0**	**7.6**	**5.1**
(% of GNI)	*2.7*	*2.1*	*3.7*	*2.7*	*1.8*
Goods	25.5	29.4	27.5	23.3	27.1
Services	-3.6	-5.5	-3.8	-4.6	-5.9
Primary income	-9.6	-13.2	-8.5	-5.1	-10.3
Secondary income	-5.2	-5.0	-5.3	-6.0	-5.9
Financial Account	**-5.8**	**-26.6**	**-29.7**	**2.3**	**-31.2**
Direct investment	2.3	-2.5	-1.2	-3.9	-0.3
Assets	*-6.1*	*-9.9*	*-9.8*	*-17.8*	*-7.0*
Liabilities	*8.3*	*7.5*	*8.6*	*13.9*	*6.7*
Portfolio investment	-11.2	-20.3	-7.9	-11.8	-24.4
Assets	*-10.4*	*0.3*	*-7.4*	*-8.1*	*0.6*
Liabilities	*-0.7*	*-20.6*	*-0.5*	*-3.7*	*-25.0*
Financial derivatives	0.0	0.2	0.0	-0.4	-0.1
Other investment	3.0	-4.0	-20.6	18.4	-6.4
Errors & omissions[2]	-8.0	9.1	4.0	-0.3	43.1
Overall Balance	**-6.7**	**-11.5**	**-15.7**	**8.5**	**17.0**

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 2014 (%)	2014		2015		
		3Q	4Q	1Q	2Q	3Q
		Annual change (%)				
Gross Exports	**100.0**	**1.5**	**0.2**	**-2.5**	**-3.7**	**5.5**
Manufactured	76.7	1.9	1.8	0.2	2.3	10.8
E&E	*33.5*	*2.6*	*5.5*	*6.8*	*3.1*	*14.2*
Non-E&E	*43.2*	*1.3*	*-0.9*	*-4.7*	*1.6*	*8.1*
Resource based	*23.6*	*2.1*	*-4.5*	*-12.2*	*-5.5*	*-0.5*
Non-resource based	*19.6*	*0.3*	*3.6*	*4.7*	*9.8*	*18.6*
Commodities	22.6	0.3	-5.0	-10.6	-23.0	-12.8
Minerals	*13.6*	*-2.5*	*-2.4*	*-7.2*	*-36.0*	*-24.8*
Agriculture	*9.0*	*4.3*	*-8.8*	*-15.9*	*-2.7*	*3.4*
Gross Imports	**100.0**	**2.6**	**4.6**	**0.2**	**-5.2**	**2.9**
Intermediate goods	59.8	11.0	12.2	3.0	-4.6	-5.4
Capital goods	14.0	-10.1	-0.2	8.7	-12.5	4.9
Consumption goods	7.4	-1.0	3.0	4.4	25.4	27.2
Re-exports and dual-use goods	18.8	-10.5	-11.6	-15.0	-12.9	20.6
Trade balance (RM billion)	**–**	**16.8**	**21.0**	**21.3**	**20.4**	**22.2**

Source: MATRADE and Department of Statistics, Malaysia

In the third quarter of 2015, gross exports turned around to register an expansion of 5.5% (2Q 2015: -3.7%), supported mainly by a broad-based expansion in manufactured exports, amid a smaller decline in commodities exports. Meanwhile, gross imports grew by 2.9% (2Q 2015: -5.2%), reflecting improvement in most major import categories. As increase in exports outpaced imports, trade surplus was higher at RM22.2 billion (2Q 2015: RM20.4 billion).

Growth of manufactured exports was largely driven by the stronger expansion in electrical and electronic (E&E) products, as well as non-resource based manufactured products. Growth of E&E exports was underpinned by higher demand, particularly for semiconductors, and electronic equipment and parts, by the US and China.

Non-resource based manufactured exports, particularly machinery and appliances, and manufactures of metal, also grew at a faster pace. The smaller decline of resource-based manufactured exports also provided support to exports. Meanwhile, the smaller contraction in commodities exports was due to the improvement in major commodity prices, amid higher demand for all commodities, except crude palm oil (CPO).

In terms of destination, there was a broad-based improvement in exports to key trading partners. Of significance, exports to the US and China recorded strong double-digit growth, reflecting mainly higher demand for manufactured exports, in particular E&E products. Exports to the region, including ASEAN, also registered an improvement during the quarter.

Gross imports turned around to register a positive growth in the third quarter of 2015. Higher imports of capital goods excluding transport equipment, and lower decline in imported transport equipment supported capital imports growth. Growth in consumption imports remained strong, due to higher imports of foods and beverages, as well as durable and non-durable consumer goods. Imports for re-exports activity picked up during the quarter, providing some support to gross imports. Meanwhile, intermediate imports was lower, weighed down mainly by fuel-related inputs, and inputs for manufacturing production amid the likely drawdown in inventories.

The deficit in the **services** account was larger at RM5.9 billion (2Q 2015: -RM4.6 billion), arising from the lower travel surplus amid higher outbound travel for education and pilgrimage purposes. Payments for transportation and other services were also larger in tandem with higher trade- and investment-related activities.

The deficit in the **primary income** account widened to -RM10.3 billion (2Q 2015: -RM5.1 billion), reflecting mainly lower investment income accrued to Malaysian companies investing abroad, particularly in the mining and services sectors. Investment income accrued to foreign direct investors in 3Q 2015 remained sizeable, particularly in the manufacturing and services sectors. Meanwhile, the net payments in **secondary income** account (-RM5.9 billion; 2Q 2015: -RM6.0 billion) remained broadly sustained.

Malaysia: Direction of Exports

	Share 2014 (%)	2014		2015		
		3Q	4Q	1Q	2Q	3Q
		Annual change (%)				
United States	**8.4**	**9.0**	**16.9**	**14.9**	**4.0**	**20.3**
European Union (EU)	**9.5**	**5.5**	**7.9**	**1.7**	**4.4**	**13.8**
Japan	**10.8**	**-3.8**	**0.8**	**-2.8**	**-26.6**	**-7.4**
Selected ASEAN countries[1]	**27.4**	**1.8**	**5.0**	**-2.3**	**-1.0**	**5.5**
North East Asia	**23.8**	**-6.0**	**-9.2**	**-7.1**	**2.1**	**9.9**
People's Republic of China	*12.1*	*-15.1*	*-15.6*	*-12.3*	*17.1*	*25.7*
Hong Kong SAR	*4.8*	*11.9*	*-3.9*	*7.2*	*-8.0*	*-0.9*
Korea	*3.7*	*0.6*	*0.6*	*-9.5*	*-14.9*	*-4.4*
Chinese Taipei	*3.2*	*1.2*	*1.9*	*-3.6*	*-16.2*	*-14.1*
West Asia[2]	**3.0**	**-9.5**	**-2.8**	**-8.0**	**-10.1**	**5.5**
India	**4.2**	**51.6**	**16.0**	**12.1**	**-2.9**	**-14.4**
Total exports	**100.0**	**1.5**	**0.2**	**-2.5**	**-3.7**	**5.5**

[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 **financial account** recorded a net outflow of RM31.2 billion (2Q 2015: +RM2.3 billion), due mainly to net outflows in the portfolio investment account.

Direct investment account registered a small net outflow of RM0.3 billion (2Q 2015: -RM3.9 billion), as the accumulation of direct investment assets marginally offsets the incurrence of direct investment liabilities.

On the assets side, outward direct investment moderated to RM7.0 billion (2Q 2015: -RM17.8 billion). Of these, **Direct Investment Abroad** (DIA) by Malaysian companies amounted to RM5.0 billion (2Q 2015: -RM16.4 billion), due mainly to the lower extension of intercompany loans amid continued injection of equity capital to subsidiaries abroad. During the quarter, the bulk of DIA was channelled mainly in the mining sector, while investments in the services sector was undertaken largely by investment holding companies in the finance and insurance as well as real estate sub-sectors.

On the liabilities side, inward direct investment also moderated to RM6.7 billion (2Q 2015: +RM13.9 billion). Of these, **Foreign Direct Investment** (FDI) amounted to RM4.7 billion (2Q 2015: RM12.5 billion), mainly on account of lower injection of equity capital by multinational corporations into their Malaysian operations while earnings retained for the purpose of reinvestment were sustained. FDI flows during the quarter were mainly in the manufacturing sector, particularly the electrical and electronics and petrochemical-related industries, and to a lesser extent, the mining sector.

Portfolio investment account recorded a net outflow of RM24.4 billion (2Q 2015: -RM11.8 billion), mainly attributable to higher outflows by non-residents (3Q 2015: -RM25.0 billion; 2Q 2015: -RM3.7 billion). During the quarter, non-residents liquidated their holdings of equity securities, while outflows related to debt securities reflected mainly the maturity of Malaysian Government Securities (MGS) as well as several foreign currency denominated corporate bonds issued by the public enterprises (PEs). Portfolio investment by residents recorded a net inflow of RM0.6 billion, as domestic financial institutions and corporates redeemed their holdings of offshore foreign currency debt securities amid lower investment in equity securities abroad by domestic fund managers.

Other investment account recorded a net outflow of RM6.4 billion (2Q 2015: +RM18.4 billion), as net outflows in the banking and non-bank private sector more than offset the net inflows in the public sector. In the banking sector, the net outflows mainly reflected the extension of loans by Malaysian banks to foreign financial institutions abroad as well as the maturity of non-resident financial institutions' deposits in the domestic banking system. In the non-bank private sector, the net outflows was attributed mainly to the net extension of trade credits by Malaysian exporters to their trading partners and the repayment of external loans. Meanwhile, net inflows in the public sector arose mainly from the drawdown of external borrowings by the PEs.

Following these developments, the overall balance of payments registered a surplus of RM17.0 billion in the third quarter (2Q 2015: +RM8.5 billion). Errors and omissions amounted to RM43.1 billion or 11.4% of total trade, mostly reflecting the foreign exchange revaluation changes in international reserves of about RM50 billion, arising from the significant depreciation in the ringgit.

Manageable external debt

Malaysia's external debt[1] stood at RM852.9 billion, equivalent to USD189.9 billion or 73.4% of GDP as at end-September 2015 (end-June: RM794.3 billion or USD208.4 billion, equivalent to 68.4% of GDP). The rise in external debt reflects mainly the valuation effect from the depreciation of ringgit against most regional and major currencies. More than half of the total external debt was of medium- and long-term tenure (56.3%). By currency, about 35% of the total external debt is denominated in ringgit, mainly in the form of deposits and non-resident holdings of ringgit-denominated debt securities.

[1] 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 entitled 'The Redefinition of External Debt' in the Quarterly Bulletin on Economic and Financial Developments in the Malaysian Economy in the First Quarter of 2014.

The ringgit depreciation affected mainly the offshore borrowing, which increased by 16.7% to RM489.9 billion as at end-September 2015 (end-June: RM419.9 billion). The impact of exchange rate valuation changes on offshore borrowing were, nevertheless, manageable as borrowings 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. About two-third of the non-bank private corporations' borrowing is intercompany loan with flexible and concessionary terms. As at end-September, the offshore borrowing remained low at 42.2% of GDP compared to 60% of GDP during the Asian Financial Crisis (AFC) in 1997-98. Of importance, the offshore borrowings of the corporates declined to 20.3% of GDP from 47.1% of GDP during the AFC.

Excluding foreign exchange revaluation changes, offshore borrowing had increased marginally by 0.6%. The increase was driven largely by issuances of foreign currency debt securities and drawdown of long-term loans by banks as part of their effort to diversify the maturity structure of their funding. Interbank borrowing was also higher as at end-September. Nevertheless, the higher offshore borrowing of the banking sector was largely offset by a net repayment by the public sector, arising from a large redemption by the public enterprises of several debt securities that matured during the quarter.

Non-resident deposits declined by 13.5% to RM82.8 billion as at end-September 2015 (end-June: RM95.7 billion). The decline reflects largely the maturity of deposits placed in domestic banking institutions during the quarter. Meanwhile, non-resident holdings of ringgit-denominated debt securities also declined to RM198.9 billion (end-June: RM209.2 billion), largely attributed to the maturity and subsequent liquidation of MGS held by non-residents. Nevertheless, part of the proceeds from this liquidation were then reinvested in Bank Negara Monetary Notes and Treasury bills, resulting in higher non-resident holdings of these instruments as at end-September.

The share of the short-term external debt increased slightly to 43.7% of the total external debt (end-June: 42.9%) due mainly to the exchange rate valuation effects. It remained manageable with reserves coverage of 1.1 times. About two-thirds 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 partly covered by the banks' corresponding external assets. Meanwhile, the bulk of the remaining short-term external debt is accounted for by trade credits and intercompany loans. Trade credits are largely backed by export earnings, while intercompany loans are generally on flexible and concessionary terms, such as no fixed repayment schedule and zero or low interest rate.

Outstanding External Debt

	2014	2015	
	end-Sept	end-June	end-Sept
	RM billion		
Offshore borrowing[1]	351.3	419.9	489.9
USD billion equivalent	*106.2*	*110.1*	*109.1*
Medium- and long-term	*199.5*	*256.2*	*295.7*
Public sector	89.1	119.4	135.3
Private sector	110.4	136.8	160.4
Short-term	*151.8*	*163.6*	*194.3*
NR holdings of dom. debt securities	247.0	209.2	198.9
Medium- and long-term	*167.6*	*186.4*	*171.7*
Short-term	*79.4*	*22.8*	*27.2*
NR deposits	80.5	95.7	82.8
Others[2]	65.5	69.5	81.2
Medium- and long-term	*10.1*	*11.0*	*12.5*
Short-term	*55.4*	*58.5*	*68.7*
Total external debt	**744.3**	**794.3**	**852.9**
USD billion equivalent	*225.0*	*208.4*	*189.9*
External Debt (Redefined)			
Total debt/GDP (%)	67.3	68.4	73.4
Short-term debt[3]/Total debt (%)	49.3	42.9	43.7
Reserves/Short-term debt[3] (times)	1.1	1.2	1.1[5]
External Debt (Previous definition)			
Total debt/GDP (%)	31.7	36.2	42.2
Short-term debt[4]/Total debt (%)	43.2	39.0	39.6
Reserves/Short-term debt[4] (times)	2.7	2.4	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 30 October 2015.

Note: NR refers to non-resident

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

International reserves remained ample to meet international obligations

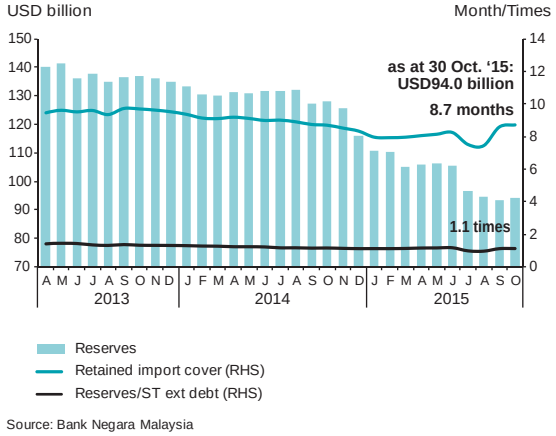
The international reserves of BNM amounted to RM415.1 billion (equivalent to USD93.3 billion) as at 30 September 2015 (end-June: RM398.1 billion; USD105.5 billion). On account of the quarterly adjustment for foreign exchange revaluation changes, the reserves level in ringgit terms has increased due to the weakening of ringgit against most regional and major currencies during the period. However, underscoring the diversified composition of foreign currency reserve assets, the reserves level in USD terms had correspondingly declined, amid the strengthening of USD against most other currencies during the quarter.

As at 30 October 2015, the reserves position amounted to RM417.9 billion (equivalent to USD94.0 billion). The international reserves remain ample to facilitate international transactions without disruptions. It is sufficient to finance 8.7 months of retained imports, significantly higher than the 3-month international threshold. It is also adequate to meet external obligations with the reserves to short-term external debt coverage of 1.1 times. It is important to note that not all short-term external debt pose an immediate claim on reserves given the external assets and export earnings of borrowers.

Government revenue continues to support expenditure

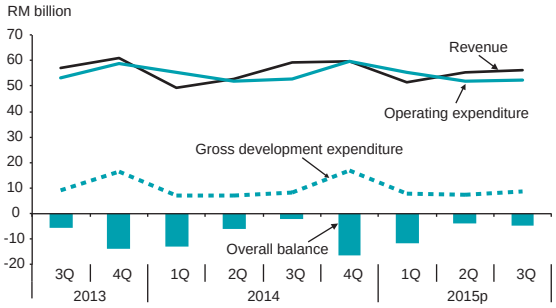
The Federal Government fiscal deficit remained stable at 1.6% of GDP in the third quarter of 2015 (2Q 2015: -1.4% of GDP). Government revenue was sustained at RM56.3 billion in the quarter (2Q 2015: RM55.3 billion), supported by higher Goods and Services Tax (GST) collections. Operating expenditure registered a slower increase to RM52.3 billion (2Q 2015: RM51.8 billion), primarily due to lower spending on subsidies. As a result, the Federal Government current account recorded a higher surplus of RM4 billion (2Q 2015: RM3.4 billion). Development expenditure expanded to RM8.7 billion (2Q 2015: RM7.3 billion), mainly for housing and transportation. As at end-September 2015, total outstanding debt of the Federal Government amounted to RM623.3 billion or 53.7% of the estimated 2015 GDP.

Net International Reserves (as at end period)



Source: Bank Negara Malaysia

Federal Government Finance



[p] Preliminary

Source: Ministry of Finance, Malaysia

Federal Government Finance

	2014		2015[p]		
	3Q	4Q	1Q	2Q	3Q
	RM billion				
Revenue	59.1	59.6	51.5	55.3	56.3
% annual growth	*3.8*	*-2.3*	*4.8*	*4.9*	*-4.9*
Operating expenditure	52.9	59.7	55.4	51.8	52.3
% annual growth	*-0.9*	*1.6*	*0.4*	*0.2*	*-1.2*
Current account	**6.2**	**-0.1**	**-3.9**	**3.4**	**4.0**
% of GDP	***2.2***	***0.0***	***-1.4***	***1.2***	***1.4***
Net development expenditure	8.1	16.4	7.9	7.3	8.7
% annual growth	*-10.3*	*2.2*	*13.2*	*3.5*	*7.5*
Overall balance	**-1.9**	**-16.5**	**-11.8**	**-3.8**	**-4.7**
% of GDP	***-0.7***	***-5.7***	***-4.2***	***-1.4***	***-1.6***
Memo item:					
Total net expenditure	61.0	76.1	63.3	59.1	61.0
% annual growth	*-2.2*	*1.7*	*1.8*	*0.6*	*-0.1*
Total Federal Government debt (as at end-period)	569.3	582.8	596.8	627.5	623.3
% of GDP	*51.4*	*52.7*	*51.4*	*54.0*	*53.7*
Domestic debt	397.2	414.7	418.9	429.2	435.1
% of GDP	*35.9*	*37.5*	*36.1*	*37.0*	*37.5*
External debt	172.1	168.2	177.9	198.3	188.3
% of GDP	*15.6*	*15.2*	*15.3*	*17.1*	*16.2*
Non-resident holdings of RM-denominated Federal Government debt	*156.0*	*151.4*	*160.2*	*179.5*	*166.0*
% of GDP	*14.1*	*13.7*	*13.8*	*15.5*	*14.3*
Offshore borrowing	*16.1*	*16.8*	*17.6*	*18.8*	*22.2*
% of GDP	*1.5*	*1.5*	*1.5*	*1.6*	*1.9*

[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

MONETARY AND FINANCIAL DEVELOPMENTS

Interest rates remained stable

The Monetary Policy Committee (MPC) maintained the Overnight Policy Rate (OPR) at 3.25% during the third quarter of 2015. At the prevailing level of the OPR, monetary conditions remained supportive of economic activity.

Despite increased volatility in international financial markets and domestic uncertainties, interest rates in the domestic money market remained broadly stable. The average overnight interbank rate traded within a range of 3.10% and 3.25% during the quarter. While interbank rates below the 1-month tenure were steady, rates beyond the 1-month tenure trended higher at the end of the quarter. This reflected the shift in liquidity towards the shorter tenures amid the greater preference of corporates and banks for shorter-term placements. Interest rate swaps (IRS) remained stable, reflecting the market expectations for the OPR to be maintained.

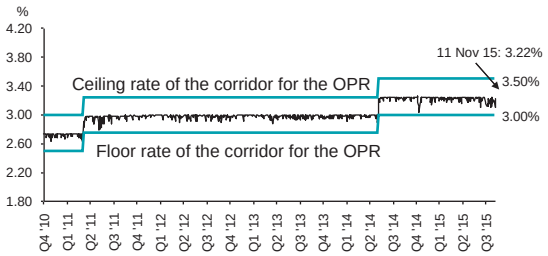
Retail rates in terms of deposit and lending rate were steady throughout the quarter. The average fixed deposit (FD) rates of commercial banks for the tenures 1 to 12 months ranged from 3.08% to 3.31%. The average base rate (BR) of banks at the end of the third quarter was slightly lower at 3.85%. During the quarter as a whole, the weighted average lending rate (ALR) on outstanding loans trended slightly lower (end-September: 5.38%; end-June: 5.44%).

Interest Rates

	2014		2015		
	2Q	3Q	1Q	2Q	3Q
	At end-period (%)				
Overnight Policy Rate (OPR)	3.00	3.25	3.25	3.25	3.25
Interbank rates					
Overnight	3.00	3.20	3.24	3.24	3.12
1-month	3.54	3.41	3.28	3.48	3.60
Base lending rate (BLR)					
Commercial banks	6.53	6.79	6.79	6.79	6.79
Base rate (BR)					
Commercial banks	-	-	3.90	3.88	3.85
Weighted average lending rate					
Commercial banks	5.37	5.52	5.48	5.44	5.38
Fixed deposit rates					
Commercial banks					
1-month	2.91	3.07	3.08	3.08	3.08
12-month	3.15	3.30	3.31	3.31	3.31

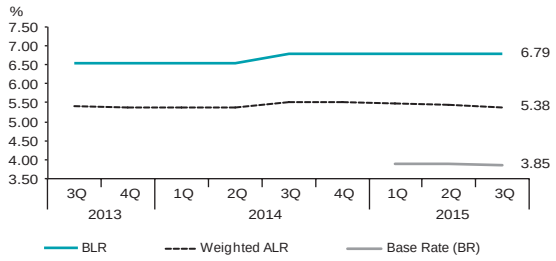
Source: Bank Negara Malaysia

Daily Weighted Average Overnight Interbank Rate



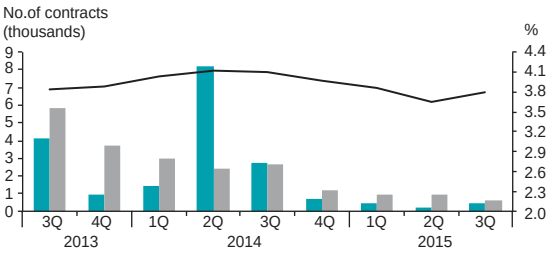
Source: Bank Negara Malaysia

Lending Rates of Commercial Banks (At end-period)



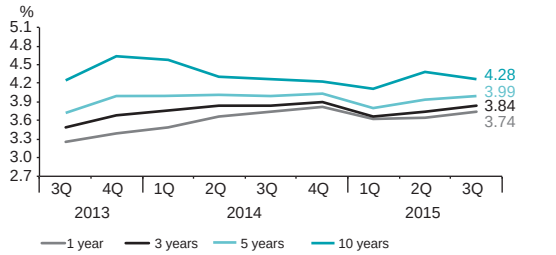
Source: Bank Negara Malaysia

3 Month KLIBOR Futures



Source: Bursa Malaysia

Interest Rate Swap: Rates



Source: Bloomberg

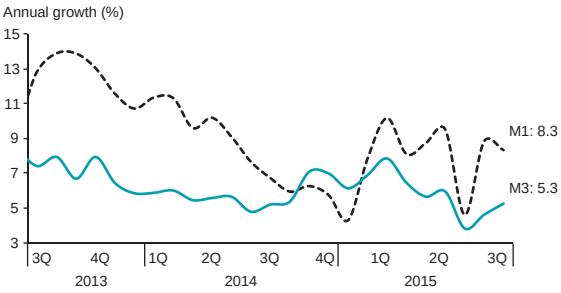
M3 expanded during the quarter

M1, or narrow money, moderated by RM2.6 billion during the quarter. On an annual basis, M1 continued to grow at a rate of 8.3% as at end-September (end-June: 9.5%). M3, or broad money, increased marginally by RM0.5 billion on a quarter-on-quarter basis to record an annual growth rate of 5.3% as at end-September (end-June: 6.0%).

The increase in M3 during the quarter was driven mainly by the continued expansion in credit extended to the private sector by the banking system. The expansion was also on account of lower net claims on the Government, reflecting the redemption of Government bonds during the quarter. The expansion in broad money, however, was partially offset by the lower net foreign assets due to external sector outflows during the quarter.

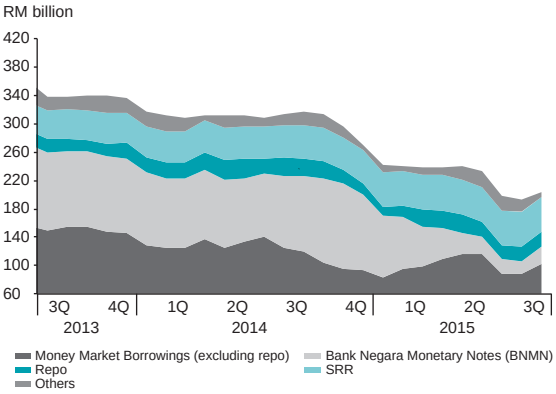
In the banking system, ample liquidity conditions prevailed at both the institutional and system-wide levels. While the level of surplus liquidity placed with BNM was lower arising from external sector outflows, it remained high at above RM200 billion as at end-September.

Monetary Aggregates



Source: Bank Negara Malaysia

Outstanding Liquidity Placed with Bank Negara Malaysia (At end-period, RM billion)



Source: Bank Negara Malaysia

Determinants of Broad Money, M3

	Change during the period				
	2014		2015		
	3Q	4Q	1Q	2Q	3Q
	RM billion				
M3	**10.4**	**49.9**	**35.9**	**-7.2**	**0.5**
Net claims on Government	6.3	18.2	-4.6	-20.4	12.0
Claims on private sector	23.8	40.8	28.3	23.2	37.0
Loans	*21.9*	*38.4*	*25.2*	*22.3*	*32.9*
Securities	*1.9*	*2.4*	*3.1*	*0.9*	*4.1*
Net foreign assets[1]	0.4	-28.1	-1.5	-13.8	-43.8
BNM	*-0.6*	*-28.5*	*-25.0*	*-2.1*	*-36.2*
Banking System	*1.0*	*0.4*	*23.5*	*-11.7*	*-7.6*
Other influences	-20.0	19.0	13.8	3.9	-4.7

[1] Pre-revaluation

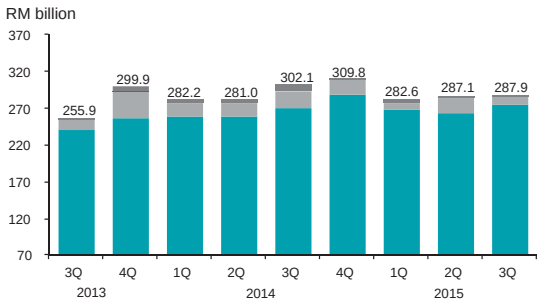
Note: Numbers may not add up due to rounding

Source: Bank Negara Malaysia

Private sector financing activity was sustained in the third quarter

In the third quarter, total gross financing raised by the private sector through the banking system and the capital market amounted to RM287.9 billion (2Q 2015: RM287.1 billion). On a net basis, outstanding banking system loans and PDS expanded at a higher growth rate of 8.8% as at end-September (end-June 2015: 8.3%).

Gross Private Sector Financing through the Banking System and Capital Market

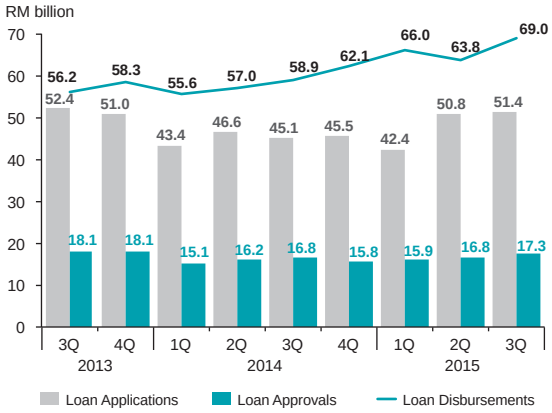


Source: Bank Negara Malaysia

Net lending to businesses by the banking system expanded by RM16.7 billion during the quarter (2Q 2015: RM8.2 billion). On an annual basis, outstanding business loans grew at a stronger pace of 11.0% as at end-September (end-June 2015: 8.7%), with the higher level of credit extended mainly to the *manufacturing; wholesale and retail trade, and restaurants and hotels; real estate* and *finance, insurance, and business services* sectors. Financing for SMEs continued to be robust, with outstanding SME loans growing at 17.6% as at end-September (end-June 2015: 17.1%). Demand for new financing by businesses increased compared to the previous quarter, with higher loan applications by both large corporates and SMEs. This was matched by higher loan approvals to businesses, in particular to SMEs.

Net financing to the household sector expanded at a stable amount of RM12.8 billion during the quarter (2Q 2015: RM12.9 billion). On an annual basis, outstanding household loans growth moderated to 8.1% as at end-September (end-June 2015: 8.7%). Demand for new financing by household sector was also sustained during the quarter, with higher household loan applications matched by stable loan approvals.

Bank Lending to SMEs



Source: Bank Negara Malaysia

Financing of the Private Sector through the Banking System and Capital Market

	During the period (RM billion)					Annual growth (%)				
	2014		2015			2014		2015		
	3Q	4Q	1Q	2Q	3Q	3Q	4Q	1Q	2Q	3Q
Gross total financing	**302.1**	**309.8**	**282.6**	**287.1**	**287.9**	**18.1**	**3.3**	**0.1**	**2.2**	**-4.7**
Loans disbursed	269.7	287.7	267.4	263.8	273.6	12.3	12.2	3.5	2.2	1.5
Gross PDS[1]	23.6	21.2	10.5	20.1	11.8	83.0	-41.2	-46.5	13.4	-49.8
Equity	8.8	1.0	4.7	3.3	2.5	217.7	-87.1	11.3	-36.4	-72.0
Net total financing (A)+(B)	**30.8**	**52.4**	**26.0**	**32.2**	**41.3**	**8.9**	**8.8**	**8.3**	**8.3**	**8.8**
Banking system	27.2	44.3	23.7	27.1	38.6	9.0	9.2	9.2	8.9	9.6
*Loans outstanding (A)**	*25.7*	*41.6*	*22.2*	*25.8*	*36.4*	*9.0*	*9.3*	*9.2*	*9.1*	*9.7*
Holding of PDS	*1.5*	*2.7*	*1.5*	*1.3*	2.2	*10.0*	*7.9*	*8.2*	*7.4*	*8.0*
PDS outstanding (B)	5.1	10.8	3.8	6.4	5.0	8.6	7.3	5.4	6.1	6.0
Memorandum item										
Gross PDS[2]	24.9	21.6	10.9	20.5	13.1	85.7	-40.1	-46.8	10.8	-47.1

* Banking systems loans include loans sold to Cagamas
[1] Excluding Cagamas and foreign issuances
[2] Including Cagamas and foreign issuances
Note: Numbers may not add up due to rounding

Source: Bank Negara Malaysia

Loan Indicators

	During the period (RM billion)					Annual growth (%)				
	2014		2015			2014		2015		
	3Q	4Q	1Q	2Q	3Q	3Q	4Q	1Q	2Q	3Q
Total										
Loan applications	219.1	210.1	178.5	208.2	224.8	2.3	-0.2	-3.9	0.5	2.6
Loan approvals	105.7	106.4	94.0	102.5	96.5	2.5	8.6	3.1	4.5	-8.7
Loan disbursements	269.7	287.7	267.4	263.8	273.6	12.3	12.2	3.5	2.2	1.5
Loan repayments	252.4	258.5	255.6	243.4	255.3	15.8	12.8	4.0	1.5	1.1
Change in loans outstanding*	25.7	41.6	22.2	25.8	36.3	9.0	9.3	9.2	9.1	9.7
Of which:										
Business enterprises[1,2]										
Loan applications	108.3	100.4	78.4	97.8	112.9	15.7	12.7	-9.1	7.2	4.2
Loan approvals	44.0	46.1	39.9	47.0	44.0	8.8	24.5	14.5	33.8	0.1
Loan disbursements	195.5	209.9	189.0	190.3	201.4	19.7	17.6	2.7	5.2	3.0
Loan repayments	187.8	192.3	187.8	178.0	190.5	22.5	16.7	4.6	1.2	1.5
Change in loans outstanding*	5.3	17.7	9.8	8.2	16.7	7.9	9.4	8.9	8.7	11.0
SMEs[1]										
Loan applications	45.1	45.5	42.4	50.8	51.4	-13.9	-10.8	-2.4	9.0	13.9
Loan approvals	16.8	15.8	15.9	16.8	17.2	-7.4	-12.8	5.5	3.7	2.8
Loan disbursements	58.9	62.1	66.0	63.8	69.0	4.9	6.5	18.9	11.9	17.1
Loan repayments	58.4	57.5	60.3	61.4	66.0	9.0	7.7	14.4	14.0	13.0
Change in loans outstanding*	5.3	10.0	14.5	6.3	7.3	12.5	14.0	17.2	17.1	17.6
Large corporations[2]										
Loan applications	63.2	54.9	36.1	47.0	61.5	53.3	44.1	-15.8	5.4	-2.6
Loan approvals	27.2	30.4	24.0	30.2	26.8	22.0	60.2	21.3	59.7	-1.5
Loan disbursements	136.6	147.8	123.0	126.4	132.4	27.5	23.0	-4.2	2.1	-3.0
Loan repayments	129.4	134.8	127.5	116.6	124.6	29.7	20.9	0.6	-4.4	-3.7
Change in loans outstanding*	0.0	7.6	-4.7	1.9	9.4	4.3	5.7	2.3	1.9	5.5
Households										
Loan applications	110.8	109.7	100.1	110.4	111.9	-8.1	-9.6	0.7	-4.8	1.0
Loan approvals	61.8	60.3	54.1	55.5	52.5	-1.6	-1.1	-3.9	-11.9	-15.1
Loan disbursements	74.2	77.8	78.4	73.5	72.2	-3.6	-0.3	5.4	-4.9	-2.7
Loan repayments	64.6	66.2	67.8	65.4	64.7	0.1	2.9	2.2	2.3	0.1
Change in loans outstanding*	16.5	17.9	16.3	12.9	12.8	10.7	9.9	9.8	8.7	8.1

* The annual growth is for end-period.
[1] Include loans to individual businesses.
[2] Include domestic financial institutions, government, domestic other entities and foreign entities, except for loan outstanding which refers to businesses only.
Note: Numbers do not add up due to rounding

Source: Bank Negara Malaysia

Loans by Sector

	Loans disbursed						Loans out-standing
	During the period (RM billion)					Share of total (%)	Share of total (%)
	3Q 2014	4Q 2014	1Q 2015	2Q 2015	3Q 2015		
Business enterprises[1,*]	**195.5**	**209.9**	**189.0**	**190.3**	**201.4**	**73.6**	**43.5**
Large corporations[1]	*136.6*	*147.8*	*123.0*	*126.4*	*132.4*	*48.4*	*25.2*
*SMEs**	*58.9*	*62.1*	*66.0*	*63.8*	*69.0*	*25.2*	*17.8*
Selected sectors[1]							
Agriculture, hunting, forestry and fishing	7.0	8.4	8.8	10.7	10.1	3.7	2.6
Mining and quarrying	1.8	2.9	7.0	3.9	3.6	1.3	0.9
Manufacturing	51.5	54.7	50.4	51.8	54.4	19.9	7.3
Construction	15.0	19.2	17.4	15.3	15.8	5.8	4.2
Real estate	12.7	14.3	13.3	12.1	14.8	5.4	6.4
Electricity, gas and water supply	7.2	2.1	1.8	2.5	1.9	0.7	0.8
Wholesale and retail trade, restaurants and hotels	54.9	59.8	47.0	49.0	50.7	18.5	7.4
Transport, storage and communication	6.7	7.2	6.1	6.7	5.7	2.1	2.5
Finance, insurance and business services	27.1	29.0	24.9	23.2	24.4	8.9	6.9
Households	**74.2**	**77.8**	**78.4**	**73.5**	**72.2**	**26.4**	**57.0**
Purchase of residential properties	20.0	21.7	21.0	21.7	20.2	7.4	28.1
Consumption credit	41.4	43.9	44.4	40.8	42.4	15.5	17.2
Of which:							
Credit cards	*24.3*	*26.3*	*26.3*	*24.0*	*25.0*	*9.1*	*2.5*
Purchase of passenger cars	*9.4*	*9.8*	*10.8*	*9.3*	*10.2*	*3.7*	*10.3*
Others	12.8	12.1	13.0	11.0	9.6	3.5	11.7
Total	**269.7**	**287.7**	**267.4**	**263.8**	**273.6**	**100.0**	**100.0**

* Include loans to individual businesses.
[1] Include domestic financial institutions, government, domestic other entities and foreign entities.
Note: Numbers do not add up due to rounding

Source: Bank Negara Malaysia

Sustained private sector financing amid net redemptions in the public sector

Fund raising activity in the capital market in the third quarter continued to be supported by gross funds raised by both private and public sectors. However, large redemptions of Government debt securities which more than offset net funds raised in the private sector resulted in net redemptions of RM2.6 billion in the third quarter (net funds raised in the 2Q 2015: +RM39.3 billion).

In the private sector, net funds raised amounted to RM7.4 billion (2Q 2015: RM9.1 billion) with the bulk of financing used to finance new activity. The funds were mainly raised through the issuances of private debt securities.

In the public sector, lower gross funds raised were further offset by large redemptions, resulting in net redemptions of RM10.0 billion in the third quarter (net funds raised in the 2Q 2015: +RM30.1 billion). The funds were raised through new issuances of a 3-year Malaysian Government Security (MGS), as well as the re-opening of a 5-year, 10-year, 15-year and 30-year MGS and 7-year and 10-year Government Investment Issues (GII). Additionally, RM0.5 billion was raised via an issuance of the Government Housing Sukuk.

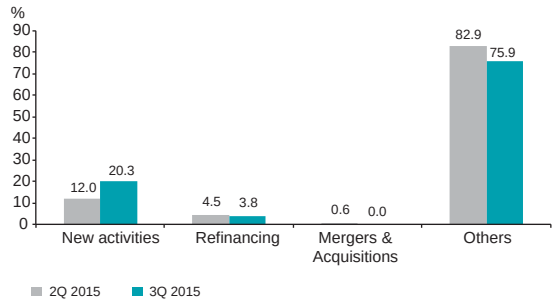
Net Funds Raised in the Capital Market

	2014		2015		
	3Q	4Q	1Q	2Q	3Q
	RM billion				
By Public Sector	**2.1**	**15.3**	**13.2**	**30.1**	**-10.0**
Government Securities, *Gross*	22.0	22.8	27.0	30.1	21.5
Malaysian Government Securities	12.3	12.7	13.5	12.5	14.5
Government Investment Issues	8.2	6.6	9.5	14.1	6.5
Sukuk Pinjaman Perumahan Kerajaan	1.5	3.4	4.0	3.5	0.5
Less: Redemptions	19.9	7.5	13.8	-	31.5
Malaysian Government Securities	8.4	2.0	11.8	-	21.0
Government Investment Issues	11.5	5.5	2.0	-	10.5
Sukuk Pinjaman Perumahan Kerajaan	-	-	-	-	-
By Private Sector	**15.0**	**11.2**	**7.8**	**9.1**	**7.4**
Shares	8.8	1.0	4.7	3.3	2.5
Private Debt Securities, *Net*	6.2	10.2	3.1	5.8	4.9
Private Debt Securities, Gross	*24.9*	*21.6*	*10.9*	*20.5*	*13.1*
Less: Redemptions	*18.7*	*11.4*	*7.8*	*14.7*	*8.2*
Total	**17.1**	**26.4**	**21.0**	**39.3**	**-2.6**

Note: Numbers may not add up to total due to rounding

Source: Bank Negara Malaysia and Bursa Malaysia

Private Debt Securities Issued by Purpose (% of total)



[1] Includes issuance for the purpose of working capital and general business activities as well as issuance by non-residents & Cagamas

Source: Bank Negara Malaysia

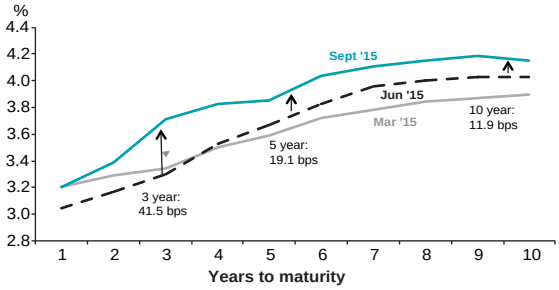
Bond yields across all tenures increased in the third quarter

MGS yields trended upward in the third quarter due to liquidations by non-resident investors amid increased expectations of an interest rate increase by the Fed and concerns over the impact of the continued sharp decline in global oil prices and ringgit depreciation on the domestic economy. Non-resident investors reduced MGS holdings by RM13.0 billion during the quarter. As a result, yield on the 3-year, 5-year and 10-year MGS increased by 41.5, 19.1 and 11.9 basis points respectively. Higher-rated corporate bond yields also edged higher in tandem with the rise in MGS yields. The yields on the 5-year AAA and AA-rated corporate bonds increased by 18.7 and 14.5 basis points, respectively.

Lower secondary trading in the bond market

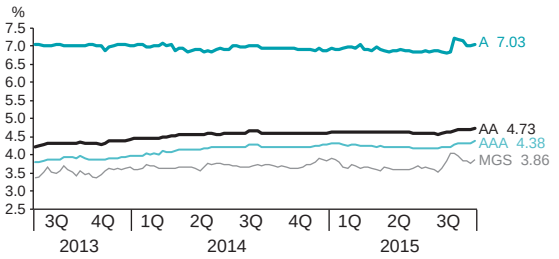
Total trading in the secondary market moderated to RM215.7 billion during the quarter (2Q 2015: RM218.5 billion), following increased volatility in the global and domestic financial markets. The decline in turnover was mainly concentrated in the trading of GII and PDS which registered lower liquidity ratios of 0.23 and 0.05 respectively. Higher turnover in the trading of MGS mostly reflected selling activities by non-resident investors.

Trend in MGS Yields



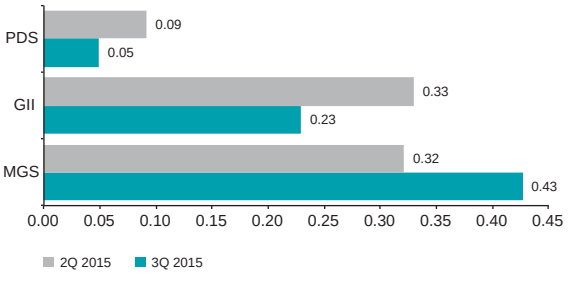
Source: Bank Negara Malaysia

5 year MGS and 5 year PDS Yields



Source: Bank Negara Malaysia

Liquidity Ratio: Value of Bond Traded / Outstanding

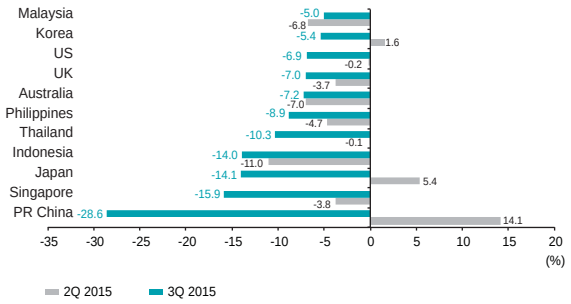


Source: Bank Negara Malaysia

FBM KLCI declined during the quarter

In the third quarter, the FBM (FTSE Bursa Malaysia) KLCI declined by 5.0% to close at 1,621.0 points (end-June 2015: 1,706.6 points). The decline was broadly consistent with trends in the regional stock markets amid weak global market sentiments following concerns over China's growth outlook. The index was also weighed down by concerns on the impact of decline in crude oil prices and weakening exchange rate on the domestic economy.

Performance of Selected Global and Regional Markets in 2015 (% growth QoQ)



Source: Bloomberg and Bank Negara Malaysia calculations

Overall, market capitalisation declined to RM1.60 trillion as at end-September 2015 (end-June 2015: RM1.66 trillion), while the daily average turnover declined to 1.90 billion units (2Q 2015: 1.92 billion units) during the quarter.

On 11 November 2015, the KLCI ended higher at 1,665.3 points (since end-September 2015: +2.7%), with market capitalisation of RM1.67 trillion (since end-September 2015: +4.3%).

Bursa Malaysia: Selected Market Indicators

	2014		2015		
	As at end				
	Sept	Dec	Mar	June	Sept
Price Indices					
Composite	1,846.3	1,761.3	1,830.8	1,706.6	1,621.0
FBMEMAS[1]	12,924.7	12,066.3	12,563.4	11,771.9	11,201.6
ACE Market[2]	7,278.9	5,653.4	7,120.2	6,220.3	5,567.6
Market capitalisation (RM billion)	1,774.1	1,651.2	1,737.5	1,659.0	1,597.4
No. of companies listed	906	906	903	905	904
	During the period				
	3Q	4Q	1Q	2Q	3Q
Average daily turnover					
Volume (million units)	2,773.9	1,944.4	2,107.4	1,918.0	1,899.2
Value (RM million)	2,300.3	1,999.9	2,177.4	2,002.1	2,005.6

[1] FBMEMAS stands for FTSE Bursa Malaysia EMAS Index
[2] From 3 August 2009, MESDAQ market was replaced with ACE Market

Source: Bursa Malaysia

Bursa Malaysia: Market Turnover

	2014				2015					
	3Q		4Q		1Q		2Q		3Q	
	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion
Turnover	169.2	140.3	122.5	126.0	124.3	128.5	120.8	126.1	117.8	124.3
Of which:										
Main Board	128.9	132.3	85.5	117.3	75.8	117.7	72.7	114.1	68.0	111.4
Of which										
Consumer Products	9.7	7.9	5.3	5.2	7.4	6.4	6.2	6.2	6.3	6.2
Industrial Products	23.6	15.4	13.3	11.2	12.8	11.1	14.3	12.4	12.9	14.7
Construction	6.5	7.7	3.4	5.7	3.7	5.9	4.6	7.0	4.2	5.4
Trading/Services	59.6	55.6	42.0	56.7	32.7	55.4	31.2	52.1	28.4	45.5
Finance	3.5	20.4	3.1	18.7	3.5	21.3	3.0	18.3	3.5	22.3
Properties	12.6	10.7	6.1	6.3	5.4	4.8	5.3	4.9	5.5	4.1
Plantations	1.9	5.3	1.2	3.6	1.0	3.5	1.0	3.4	1.3	3.7
Infrastructure	1.1	3.7	1.3	4.4	1.0	4.4	1.1	5.3	1.1	4.7
ACE Market[1]	35.5	7.2	30.3	7.3	41.2	8.7	40.3	9.9	21.0	5.1

[1]From 3 August 2009, MESDAQ market was replaced with ACE Market

Source: Bursa Malaysia

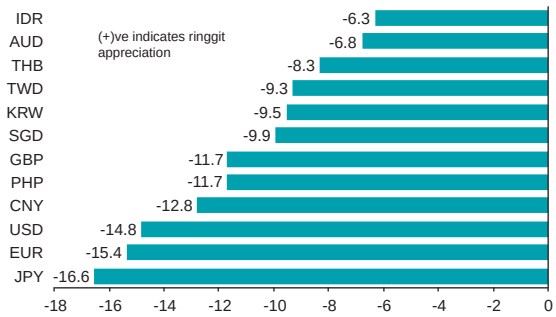
Ringgit depreciation driven by external and domestic factors

The ringgit and other regional currencies continued to face volatility during the quarter. Uncertainties surrounding the interest rate normalisation in the U.S. and concerns on the momentum of global growth remain the main factors for the outflows of portfolio investments from emerging markets. The ringgit, however, faced larger depreciation pressure following the continued decline in global crude oil prices and negative sentiments driven by domestic factors.

Overall, the ringgit depreciated by 14.8% against the US dollar during the quarter. The ringgit also depreciated against the Australian dollar (-6.8%), the pound sterling (-11.7%), the euro (-15.4%), and the Japanese yen (-16.6%). Against all regional currencies, the ringgit depreciated by between 6.3% and 12.8%.

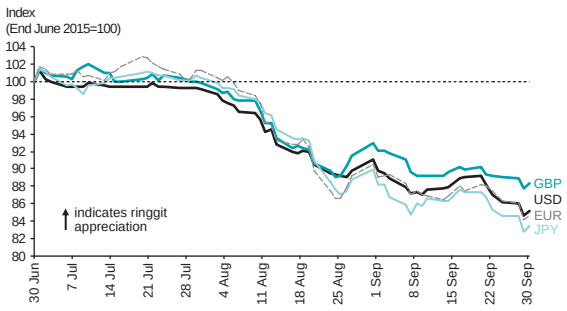
Between 1 October and 11 November 2015, the ringgit appreciated against all major currencies. The ringgit appreciated against the US dollar (1.8%), the euro (6.5%), the Japanese yen (4.4%), the pound sterling (1.8%), and the Australian dollar (0.9%). The ringgit also appreciated against most regional currencies, except for the Korean won (-1.2%) and the Indonesian rupiah (-5.7%).

Summary of Ringgit Performance against Selected Currencies Percent Change (1 July - 30 September 2015)



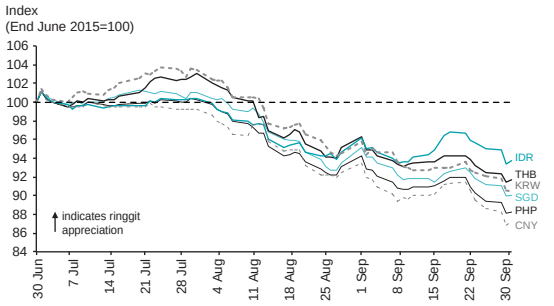
Source: Bank Negara Malaysia

Ringgit Performance against Major Currencies



Source: Bank Negara Malaysia

Ringgit Performance against Regional Currencies



Source: Bank Negara Malaysia

Performance of Ringgit against Selected Currencies

RM per foreign currency	As at end				% change since*		
	21 Jul 2005	3Q 2014	2Q 2015	3Q 2015	21 Jul 2005	3Q 2014	2Q 2015
US dollar	3.8000	3.2715	3.7855	4.4455	-14.5	-26.4	-14.8
Euro	4.6212	4.1527	4.2364	5.0052	-7.7	-17.0	-15.4
Pound sterling	6.6270	5.3193	5.9527	6.7412	-1.7	-21.1	-11.7
Australian dollar	2.8823	2.8632	2.9059	3.1176	-7.5	-8.2	-6.8
100 Japanese yen	3.3745	2.9922	3.0946	3.7084	-9.0	-19.3	-16.6
Singapore dollar	2.2570	2.5702	2.8096	3.1191	-27.6	-17.6	-9.9
100 Thai baht	9.0681	10.107	11.205	12.223	-25.8	-17.3	-8.3
100 Philippine peso	6.8131	7.2959	8.3899	9.5050	-28.3	-23.2	-11.7
100 Indonesian rupiah	0.0386	0.0269	0.0284	0.0303	27.4	-11.4	-6.3
100 Korean won	0.3665	0.3106	0.3384	0.3740	-2.0	-17.0	-9.5
100 New Taiwan dollar	11.890	10.743	12.257	13.516	-12.0	-20.5	-9.3
Chinese renminbi	0.4591	0.5323	0.6099	0.6994	-34.4	-23.9	-12.8

* (+) indicates appreciation of ringgit against respective currency and (-) indicates depreciation.

Source: Bank Negara Malaysia

Volume of foreign exchange derivatives rose in the third quarter of 2015

Volume of foreign exchange derivatives, mainly in cross-currency swap transactions, rose by 4.3% in the third quarter of 2015 (2Q 2015: +1.5%). During the quarter, the implied cost of borrowing US dollar through the cross-currency swap was higher and within a wider range of 83 to 150 bps, compared to 2Q 2015 (range between 75 to 83 bps). This reflected the pressure on the ringgit and higher volatility following heightened anxiety in financial markets awaiting the decision on Fed's impending rate hike.

Despite the rise in overall derivatives volume, volume of forward transactions by residents contracted by 24.4% on a year-on-year basis contributed mainly by the decline in exporters selling forward. The reduction in hedging activities was due to the expectations of further strengthening in the US dollar that was prevalent during the quarter.

MANAGING RISKS TO FINANCIAL STABILITY

Domestic financial stability continued to be preserved

The Malaysian financial system remained resilient despite heightened volatility during the quarter. The domestic financial markets demonstrated continued resilience and orderly conditions, while sound financial institutions and ample banking system liquidity continued to lend support for financing to businesses and households. Fragile investor sentiment is expected to persist in the period ahead, with prospects of a repricing of risks continuing to weigh on sentiment. Domestic financial system stability is nonetheless expected to be maintained. This is underpinned by the strong financial buffers of financial institutions, a sustained focus on prudent risk-taking, especially among banks, and deep domestic financial markets.

Sustained debt servicing capacity of borrowers

Outstanding financing by banks recorded a more moderate growth of 9.7% as at end of the quarter in line with developments in the real economy. The debt servicing capacity of most borrowers remained intact, with the ratio of net impaired loans unchanged at 1.2%. Delinquencies, as measured by loans-in-arrears of between one and three months, also remained stable at 2.2% of total loans. In the insurance industry, credit exposures, mainly in the form of holdings of private debt securities, remained unchanged at 4.1% of total capital available.

Stable employment conditions have supported the financial resilience of households. The overall impairment level for bank loans extended to the household sector has thus far been sustained at a low level of 1.1% of total household borrowings. While overall delinquencies have also remained low and unchanged at 1.6% of total household borrowings, some signs of late payments are emerging among more highly leveraged borrowers as higher costs of living begin to stretch incomes. Small increases in delinquencies have been observed in some pockets of financing for the purchase of securities and properties. Although the level of household indebtedness remains high, the growth of household borrowings has continued on the moderating trend observed in the past several years (3Q 2015: +7.6%; 2Q 2015: +8.3%). Of significance, unsecured borrowings by households have remained subdued, increasing by 3.4% (2Q 2015: +3.7%).

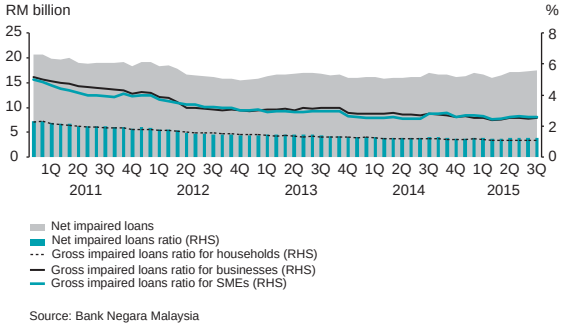
Banks generally continue to observe sound underwriting standards for lending to households. About half of new loans approved were to borrowers with an aggregate debt service ratio not exceeding 40%, with the average debt service ratio for all new household borrowings remaining below 60%. Competition has started to lead some lenders, including non-bank financial institutions, to ease debt service ratios for households in the higher income segments. While having greater capacity to service debt, the Bank will continue to exercise close vigilance to ensure that banks carry out robust affordability assessments when granting financing especially for cases involving higher debt service ratios. Overall household financial buffers remained comfortable, with financial assets at slightly above two times of total household debt. This was despite the more moderate expansion in household financial assets (3Q 2015: +3.6%; 2Q 2015: +5%) following slower deposit growth and lower market valuations of household holdings of equities and unit trusts.

In the business sector, the impact of the depreciation of the ringgit and lower commodity prices has so far not affected the debt servicing capacity of most Malaysian businesses to the extent that earnings performance has remained positive. Businesses in the export-oriented industries, especially crude palm oil producers, have benefitted from higher sales proceeds amid lower selling prices. Domestic-oriented businesses on the other hand, particularly in the retail trade sector, performed less favourably compared to the previous quarter as the effects of front-loaded consumer purchases ahead of the implementation of the goods and services tax (GST) wore off.

Total business sector borrowings increased modestly by 2.2% during the quarter (2Q 2015: +1.6%) or 11.1% on an annual basis. External borrowings of businesses also grew at a slower pace (2Q 2015: +1.1%; 1Q 2015: +4.5% (excluding a large issuance)) during the quarter. This maintained the aggregate leverage of businesses within prudent levels at below 50%. Overall, businesses remained well-positioned to service their debt. The median interest coverage ratio (ICR) of Malaysian businesses[2], while lower at 5.2 times in 2Q 2015 (1Q 2015: 6.3 times), remains well above the prudent level of two times by international standards. This was further supported by satisfactory liquidity positions, with both the median current ratio (current assets-to-current liabilities) and cash cover to meet short-term debt obligations remaining stable at 1.7 times and 1.2 times respectively. While the overall risk of potential delinquency, using the expected default frequency as a proxy, edged higher, it remained low at 0.63% (2Q 2015: 0.54%).

The annual growth of the Malaysian House Price Index (MHPI) moderated to 7.8% in 1Q 2015 (4Q 2014: +8.0%), in line with the decline in the number and value of residential properties transacted (-6.4% and -11.9% respectively). Transactions involving residential properties priced below RM250,000 registered a positive growth, reflecting continued strong demand for affordable housing. Debt-funded speculative purchases of residential properties, as proxied by the number of borrowers with three or more outstanding housing loans, accounted for a small and stable share of below 3% of individuals with existing housing loans.

Banking System: Loan Quality



Source: Bank Negara Malaysia

Orderly conditions in domestic financial markets facilitated efficient price discovery

Net outflows of portfolio investments amounted to RM24.4 billion during the third quarter (2Q 2015: net outflows of RM11.8 billion), driven by external and domestic developments. This exerted significant pressure on the ringgit against major currencies. The Malaysian currency depreciated by 14.8% during the quarter and recorded its weakest level at RM4.4725 per US dollar on 29 September 2015. Despite increased risk aversion among investors, orderly conditions in the domestic financial markets were sustained throughout the quarter. The presence of domestic institutional investors and financial institutions supported liquidity and demand in the market, thus containing surges in volatility.

In the bond market, the yield curve shifted upwards with yields for the 10-year MGS rising to 4.15% (2Q 2015: 4.03%) as investor risk aversion increased. Compounded by prevailing uncertainties in the financial markets, the quarter also saw the 5-year credit default swap, an indicator of market-perceived sovereign risk, for Malaysia overshoot to 232 bps (2Q 2015: 137 bps). Consolidation of exposures and position-taking in the equity market took place during the quarter, causing average volatility of the FBM KLCI to increase to 10.8% (2Q 2015: 8.9%). The monthly turnover ratio for the MGS and FBM KLCI rose to 14.4% (2Q 2015: 10.3%) and 2% (2Q 2015: 1.8%) respectively. Trading liquidity was preserved, with the bid-ask spreads for the MGS and FBM KLCI unchanged at 0.1% and 0.4% of the mid-price respectively. The FBM KLCI ended the quarter lower, in line with regional equity markets, at 1,621.0 points, with overall market capitalisation registering a decline of 4.8% to amount to RM1.60 trillion (2Q 2015: 1,706.6 points and RM1.66 trillion respectively). The price-to-earnings ratio of the FBM KLCI nonetheless remained broadly stable at 17 times. At the close of the quarter, non-resident holdings accounted for 45.6% of total outstanding MGS and 23.0% of equity market capitalisation (2Q 2015: 48.5% in the MGS market and 23.6% in the equity market).

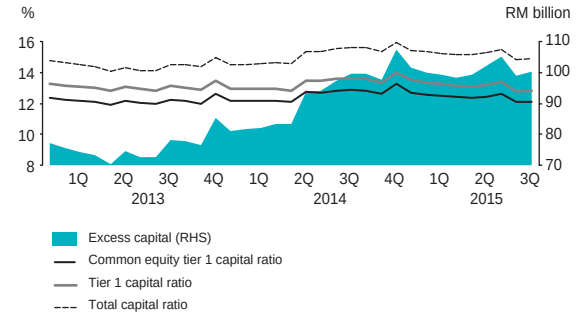
[2] Based on 160 companies listed on Bursa Malaysia with market capitalisation of 80% (excluding financial institutions) covering 10 key economic sectors

Onshore US dollar liquidity conditions remained manageable. The 5-year cross-currency basis swap spread peaked at 150 bps in August, in tandem with movements in the ringgit, before easing to 115 bps at end 3Q 2015 (2Q 2015: 83 bps; Global Financial Crisis, Oct 2008: 200 bps) on improved investor confidence towards the end of quarter.

Sustained resilience of financial institutions

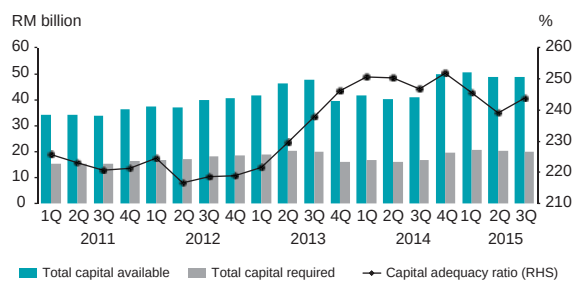
The capitalisation of financial institutions remained strong and is sufficient to absorb potential losses from adverse developments in financial and economic conditions. For banks, the common equity tier-1 capital, tier-1 capital and total capital ratios were sustained well above the minimum regulatory levels at 12.1%, 12.8% and 14.8% respectively. More than 80% of banks' total capital is of high quality, comprising retained earnings, paid-up capital and reserves. The capital adequacy ratio for the insurance sector was similarly healthy at 243.8% (2Q 2015: 239.0%). In aggregate, financial institutions have capital buffers totalling RM132 billion (banks: RM100.2 billion; insurers/ takaful operators: RM31.8 billion), that can be used to absorb potential losses from adverse credit and market events.

Banking System: Basel III Capitalisation



Source: Bank Negara Malaysia

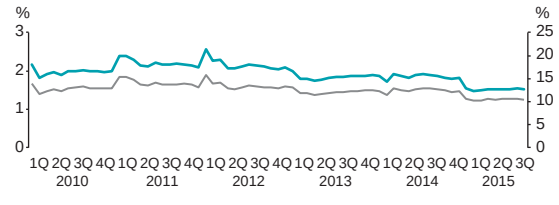
Insurance Sector: Capitalisation



Source: Bank Negara Malaysia

The pre-tax profit of the banking system amounted to RM7.3 billion in 3Q 2015 (2Q 2015: RM7.5 billion), a little lower than the preceding quarter. Higher provisions for loan losses recorded by some banks along with rising deposit rates saw interest/ financing margins (net of administrative costs and expenses on loss provisions) narrow further to 0.53 ppts (2Q 2015: 0.60 ppts). Returns on assets and equity remained healthy at 1.2% (2Q 2015: 1.3%) and 12.6% (2Q 2015: 12.7%) respectively. In the insurance sector, operating profits recorded by general insurers and takaful operators was lower on account of lower investment income at RM556.8 million (2Q 2015: RM681.7 million). Underwriting profits declined to RM69.7 million (2Q 2015: RM72 million) driven by higher claims costs in the fire insurance segment. The performance of life insurers and family takaful operators turned marginally negative with a net deficiency in income over outgo of RM0.4 billion (2Q 2015: positive excess income over outgo of RM1.8 billion). This stemmed from a larger net capital loss of RM3.1 billion (2Q 2015: net capital loss of RM1.1 billion) following higher valuation losses on debt investments, in line with the increase in bond yields during the quarter.

Banking System: Profitability



Source: Bank Negara Malaysia

Insurance and Takaful Sectors: Indicators

	2014		2015		
	3Q	4Q	1Q	2Q	3Q
	RM million				
Life insurance & family takaful					
Excess of income over outgo	3,836	2,120	5,336	1,844	-416
General insurance & general takaful					
Operating profit	788	760	781	682	557
Claims ratio (%)	56.8	57.5	50.3	57.4	60.1
	Annual Change (%)				
Life insurance & family takaful					
Excess of income over outgo	18.3	4.3	66.2	-59.9	-110.9
General insurance & general takaful					
Operating profit	10.7	-1.5	-5.2	-15.2	-29.3
Claims ratio (percentage points)	-2.0	0.4	-4.67	0.45	3.29

Source: Bank Negara Malaysia

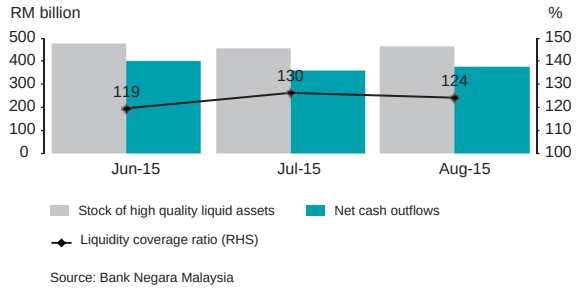
Banks continued to actively manage market risk exposures given the heightened volatility in recent periods. There were no observed changes in the risk-taking behaviour of financial institutions. Banks' exposures to interest rate risk in the trading book and equity risk remained limited at 1.4% and 0.7% of total capital respectively (2Q 2015: 1.3% and 0.8% respectively). The foreign exchange net open position of banks was higher but manageable at 5.9% (2Q 2015: 5.1%) of total capital during the quarter. Market risk exposures of the insurance industry were lower at 12.2% (2Q 2015: 13.3%) of total capital, reflecting lower valuations of investments. Equity risk, which forms the bulk of insurers' market risk exposures, contracted to 7.3% (2Q 2015: 7.9%) of total capital.

Domestic funding conditions remained favourable and supportive of financing activities despite portfolio outflows which led KLIBOR higher during the quarter (3Q 2015: 3.74%; 2Q 2015: 3.69%). Aggregate liquidity in the banking system continued to be in a surplus position. Under the Basel III Liquidity Coverage Ratio (LCR) standards which has been phased in since 1 June 2015[3], the banking system LCR stood at 124% in August 2015 (June 2015: 119%), with all banks reporting LCR levels that are above the current minimum regulatory requirement of 60%. As at 3Q 2015, banking system liquidity placed with Bank Negara Malaysia, which can be unwound to meet liquidity needs, continued to be ample at a level in excess of RM100 billion, providing comfortable buffers against unexpected cash outflows or adverse liquidity shocks.

Banks' funding continues to be predominantly deposit-based and in local currency. Among Islamic banks, deposit growth moderated since July following the reclassification of previously recognised deposits as investment accounts in line with requirements under the Islamic Financial Services Act 2013 (IFSA). The decline has been gradual since IFSA came into force, due largely to the two-year transition period provided by the Bank. However, this has been more pronounced in the recent quarter with the expiry of the transition period on 30 June 2015. The loan-to-deposit ratio for the banking system was higher at 90.1% in 3Q 2015 (2Q 2015: 88.0%), following a slower pace in the growth of deposits (+5.4%) vis-à-vis financing (+10.2%). In recent years, banks have also begun to tap the domestic bond market in efforts to reduce liquidity and maturity mismatch through the issuance of medium term papers. The quarter also saw continued competition among banks for corporate deposits which caused average cost of deposits for banks to edge upwards to 2.28% (2Q 2015: 2.23%).

[3] In the first phase, compliance is set at 60% with progressive increment of 10% each year to the full compliance beginning 2019

Banking System: Basel III Liquidity Coverage Ratio



Source: Bank Negara Malaysia

Banks' external exposures expanded moderately, in line with the continued growth in regional operations. During the first half of the year, growth in banks' external assets (+9.1%) outpaced that of external liabilities (+6.9%). As at 2Q 2015, banks' net external liabilities remained broadly stable at RM135 billion (2014: RM131 billion). This comprised mainly deposit placements and capital funds from parent entities of locally incorporated foreign banks. Short-term deposit placements with domestic banks partly relate to centralised liquidity management operations which involve pooling excess liquidity from overseas banking operations at the parent entity in Malaysia. Risks from such short-term placements are largely mitigated by stringent regulations requiring banking entities to maintain adequate liquidity buffers in each jurisdiction of operation.