DEVELOPMENTS IN THE MALAYSIAN ECONOMY

Malaysian economy expanded by 5.2% in the third quarter

The Malaysian economy recorded a growth of 5.2% in the third quarter of 2012 (2Q 12: 5.6%). Growth was driven by a continued robust expansion in domestic demand amid weaker external demand. Net exports contracted further, with exports declining due to the deterioration in exports of manufactured goods and commodities. The last time exports showed a decline was in 3Q 2009. On the supply side, activity in most economic sectors moderated in the third quarter.

Domestic demand remained supportive

Domestic demand expanded by 11.4% in the third quarter of 2012 (2Q 12: 14.0%) supported by the favourable performance of private consumption and investment activity by both the private and public sectors.

GDP by Expenditure Components
(at constant 2005 prices)

	2011		2012		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
Aggregate Domestic Demand (excluding stocks)	8.7	10.4	10.0	14.0	11.4
Consumption	10.0	11.1	7.7	9.2	7.3
Private sector	*7.6*	*7.3*	*7.4*	*8.8*	*8.5*
Public sector	*21.1*	*22.9*	*9.1*	*10.9*	*2.3*
Gross Fixed Capital Formation	5.4	8.4	16.1	26.1	22.7
Private sector	*2.9*	*18.8*	*19.8*	*24.6*	*22.9*
Public sector	*9.4*	*1.9*	*10.3*	*28.9*	*22.4*
Net Exports	10.5	-10.5	-20.9	-36.2	-50.5
Exports of Goods and Services	*4.8*	*5.5*	*2.8*	*2.1*	*-3.0*
Imports of Goods and Services	*3.9*	*7.8*	*6.8*	*8.1*	*4.4*
GDP	**5.7**	**5.2**	**5.1**	**5.6**	**5.2**

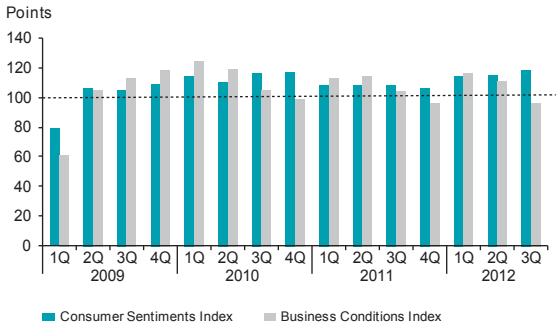
Source: Department of Statistics, Malaysia

Gross fixed capital formation registered a robust growth of 22.7% in the third quarter (2Q 12: 26.1%), underpinned by capital spending by both the private and public sectors. Private investment grew by 22.9% (2Q 12: 24.6%), supported by capital spending in the services sector, such as the transportation, real estate and utilities sub-sectors and the on-going implementation of projects in the oil and gas sector. Public investment expanded by 22.4% (2Q 12: 28.9%), driven by capital spending by the public enterprises (mostly, the non-financial public enterprises in the transportation, oil and gas, and utilities sectors). Federal Government development expenditure was channeled mainly into the transportation, education and public utilities sectors. The continued expansion in investment activity was also reflected in key indicators such as sales of commercial vehicles and imports of capital goods.

Private consumption grew at a continued strong pace of 8.5% in the third quarter (2Q 12: 8.8%). Household spending was supported by favourable labour market conditions and sustained income growth. Consumption also benefited from the bonus paid to civil servants and the second (of three) payout of RM5,000 to 112,635 FELDA settlers. The continued expansion in consumer spending amidst improved sentiments was reflected in the growth of imports of consumption goods, services tax collections and credit card spending.

Public consumption, moderated to 2.3% (2Q 12: 10.9%), attributable to lower spending in supplies and services.

Consumer confidence improved further



Source: MIER

Growth across most economic sectors moderated

On the supply side, activity in most economic sectors moderated in the third quarter. Growth in the manufacturing sector slowed, weighed down by the weaker external environment while the mining sector contracted due to a sharp decline in natural gas production following a prolonged planned shutdown of several gas facilities for maintenance purposes. In the agriculture sector, growth turned positive in line with the recovery in crude palm oil production and strong output of food crops. The construction sector continued to record robust growth, while growth in the services sector expanded further, driven by firm domestic demand.

The services sector expanded further in the third quarter of 2012 (7.0%; 2Q 12: 6.6%), as growth continued to be driven by firm domestic demand. The wholesale and retail trade sub-sector moderated to 4.4% (2Q 12: 5.9%), weighed down by the wholesale segment amidst slower trade activity. Nonetheless, growth in the retail segment was sustained, supported by firm household spending. In the communication sub-sector, growth remained robust (9.1%; 2Q 12: 9.5%), supported by continued demand for data communication services. The finance and insurance sub-sector expanded strongly by 11.8% (2Q 12: 6.6%), reflecting continued growth in net interest and fee-based income. In the utilities sub-sector, growth was lower (3.8%; 2Q 12: 4.3%), as slower manufacturing activity resulted in lower electricity demand by industrial users. Growth in the transport and storage sub-sector was also lower (3.6%; 2Q 12: 5.8%), amidst slower trade activity due to the weaker external environment.

GDP by Economic Activity (at constant 2005 prices)

	2011		2012		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
Agriculture	8.8	6.9	2.1	-4.7	0.5
Mining	-5.9	-3.8	0.3	2.3	-1.2
Manufacturing	5.4	5.2	4.4	5.6	3.3
Construction	4.0	7.5	15.5	22.2	18.3
Services	7.1	6.6	5.7	6.6	7.0
Real GDP (Annual Change)	**5.7**	**5.2**	**5.1**	**5.6**	**5.2**
Real GDP (Preceding Change)	**3.7**	**1.8**	**-2.8**	**3.0**	**3.3**

Source: Department of Statistics, Malaysia

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

	Share 2011 (%)	2011		2012		
		3Q	4Q	1Q	2Q	3Q
		Annual change (%)				
Intermediate Services	**40.6**	**5.9**	**6.5**	**5.1**	**7.2**	**8.8**
Finance & insurance	17.0	5.3	7.1	2.0	6.6	11.8
Real estate & business services	10.0	4.6	4.4	6.9	7.6	7.2
Transport & storage	6.8	6.1	6.0	5.9	5.8	3.6
Communication	6.8	8.9	8.8	9.4	9.5	9.1
Final Services	**59.4**	**8.0**	**6.7**	**6.1**	**6.2**	**5.7**
Wholesale & retail trade	26.6	8.4	6.8	6.4	5.9	4.4
Accommodation & restaurant	4.5	6.3	6.3	6.1	6.8	4.0
Utilities	4.7	4.5	3.6	5.0	4.3	3.8
Government services	14.3	11.5	10.4	7.1	8.4	11.0
Other services	9.4	4.3	2.5	4.3	4.3	3.8
Total Services	**100.0**	**7.1**	**6.6**	**5.7**	**6.6**	**7.0**

Source: Department of Statistics, Malaysia

Selected Quarterly Indicators in the Services Sector

	2011			2012		
	2Q	3Q	4Q	1Q	2Q	3Q
	Index					
MIER Consumer Sentiments Index	107.9	108.7	106.3	114.3	114.9	118.3
MIER Retail Trade Index	120.8	150.0	92.6	85.3	119.4	130.2
MIER Tourism Market Index	125.4	115.2	126.0	125.2	117.3	129.9
	Annual change (%)					
Tourist arrivals	-4.8	4.7	5.4	0.4	4.3	n.a.
Total passenger traffic at all airports	13.4	10.8	7.0	6.4	1.9	2.9
Total consumption credit outstanding	8.7	8.5	9.5	7.8	7.5	7.6
Loans outstanding to the wholesale & retail trade, hotels & restaurants	6.8	9.6	11.5	11.1	11.1	11.7
Imports of consumption goods	17.8	26.4	25.2	20.4	10.7	11.4
Total sales of motor vehicles	-9.7	0.6	-1.5	-12.6	17.3	2.7
Container cargo handled (Port Klang and PTP)	9.6	9.8	11.5	7.4	4.2	1.7

Source: Various sources

Value-added growth in the manufacturing sector slowed to 3.3% (2Q 12: 5.6%), as production of both the export-oriented and domestic-oriented industries moderated in the third quarter. In the export-oriented industries, output of the E&E cluster registered a modest growth of 1.2% (2Q: 2.9%), weighed down by weaker output of electrical products. In addition, there was a moderation in the production of chemicals and chemical products due to the weak external demand conditions. On the other hand, expansion in domestic-oriented industries was supported by the performance of the construction-related cluster, which continued to benefit from robust domestic construction activity.

Overall, the capacity utilisation rate in the manufacturing sector moderated marginally (81%; 2Q 12: 82%), reflecting the softer production growth in the sector. Export- and domestic-oriented industries operated at 80% and 82% of total capacity respectively during the quarter (2Q 12: 82% and 82% respectively).

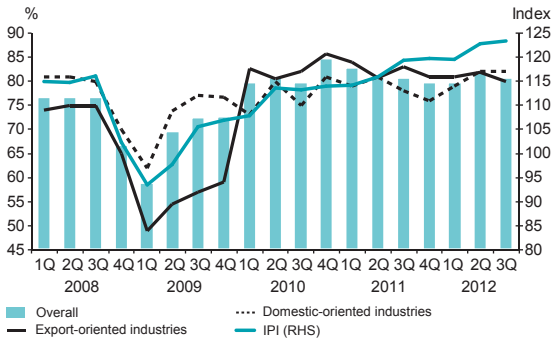
Performance of the Manufacturing Sector

	2011		2012		
	3Q	4Q	1Q	2Q	3Q
	Annual Change (%)				
Value Added (RM million at constant 2005 prices)	**5.4**	**5.2**	**4.4**	**5.6**	**3.3**
Overall Manufacturing Production[1]	**5.4**	**4.9**	**4.6**	**5.8**	**3.5**
Export-oriented industries	**4.0**	**2.9**	**3.0**	**5.1**	**2.3**
Electronics and electrical products cluster	**-0.5**	**-3.0**	**0.0**	**2.9**	**1.2**
Of which:					
Electronics	-3.9	-10.3	-3.6	3.0	5.1
Electrical products	4.0	6.5	4.6	2.8	-3.6
Primary-related cluster	**6.5**	**6.1**	**4.5**	**6.2**	**2.9**
Of which:					
Chemicals and chemical products	9.7	14.1	9.1	10.8	6.2
Petroleum products	1.7	-1.1	3.8	9.5	-0.2
Rubber products	15.5	9.5	3.4	4.1	2.2
Off-estate processing	9.9	13.8	2.2	-15.4	2.5
Domestic-oriented industries	**10.0**	**11.4**	**10.0**	**8.2**	**7.0**
Construction-related cluster	**19.1**	**12.3**	**8.3**	**4.8**	**10.5**
Of which:					
Construction-related products	13.1	8.3	0.9	2.6	1.6
Fabricated metal products	27.5	17.5	17.4	7.6	21.5
Consumer-related cluster	**3.5**	**10.7**	**11.4**	**11.3**	**4.1**
Of which:					
Transport equipment	-0.1	8.5	9.9	14.6	12.7
Food, beverage & tobacco products	4.9	9.8	11.5	10.2	1.9

[1] Industrial Production Index (2005=100)

Source: Department of Statistics, Malaysia

Capacity utilisation rate in the manufacturing sector*



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

Source: Bank Negara Malaysia & Department of Statistics, Malaysia

In the construction sector, growth remained robust in the third quarter (18.3%; 2Q 12: 22.2%), driven by the civil engineering sub-sector. The pickup in progress of newer projects namely the MRT and Tanjung Bin power plant supported the growth of the sub-sector, as did other ongoing major infrastructure and oil and gas projects such as the Second Penang Bridge, Janamanjung power plant, offshore pipelines for Gumusut-Kakap project and Sabah-Sarawak Gas Pipeline. Growth in the residential and non-residential sub-sectors also remained firm. While the growth of the residential sub-sector was underpinned by the construction of high-end residential properties, the non-residential sub-sector was supported by construction of industrial and commercial buildings.

Indicators for the Construction Sector

	2011		2012		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
Housing approvals	54.1	29.8	75.6	126.9	3.2
New housing sales and advertising permits	6.0	22.4	12.5	13.9	25.6
Production[1] of construction-related materials	19.1	12.3	8.3	4.8	10.5
Structural metal products	65.5	41.4	49.2	3.1	40.1
Iron and steel	2.1	1.0	-11.7	-2.0	-5.3
Structural non-refractory clay and ceramic products	-2.4	2.5	3.3	8.9	4.3
Ready-mix concrete	38.7	35.3	18.2	23.8	18.2
Loans for construction activity					
Approval	-19.9	64.4	38.2	-9.0	5.3
Disbursement	-4.7	17.9	16.0	17.9	49.0

[1] Industrial Production Index (2005=100)

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

Value-added growth of the agriculture sector turned around to expand by 0.5% (2Q 12: -4.7%), due mainly to a recovery in the production of crude palm oil and strong production of food crops. The mining sector however, contracted by 1.2% (2Q 12: 2.3%), reflecting a sharp drop in natural gas production following a prolonged planned shutdown of several gas facilities for maintenance purposes.

Performance of the Agriculture Sector

	2011		2012		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
Value Added (at constant 2005 prices)	**8.8**	**6.9**	**2.1**	**-4.7**	**0.5**
Industrial Crops	**10.7**	**7.8**	**1.4**	**-12.3**	**-3.9**
Of which:					
Oil palm	12.5	16.9	3.5	-17.5	1.6
Rubber	15.1	-6.9	-9.4	-2.1	-15.6
Food Crops	**6.2**	**5.6**	**2.8**	**5.8**	**6.4**
Of which:					
Fishing	3.6	1.2	-4.4	-0.2	4.7
Livestock	11.9	10.3	11.0	7.7	7.1

Source: Department of Statistics, Malaysia

Performance of the Mining Sector

	2011		2012		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
Value Added (at constant 2005 prices)	**-5.9**	**-3.8**	**0.3**	**2.3**	**-1.2**
Production					
Of which:					
Crude oil and condensates	-9.8	-6.6	0.1	5.7	0.0
Natural gas	-2.0	0.7	-0.2	-4.4	-3.3

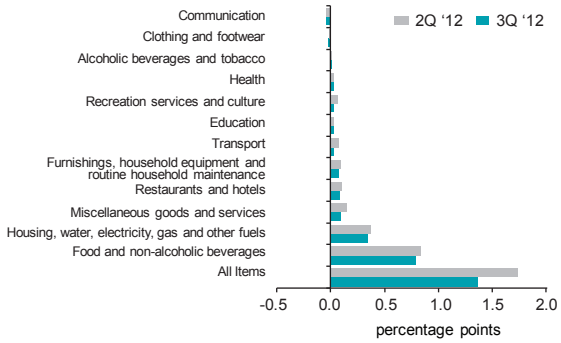
Source: PETRONAS
Department of Statistics, Malaysia

Inflation continued to moderate

The headline inflation rate, as measured by the annual change in the Consumer Price Index (CPI), moderated to 1.4% in the third quarter (2Q 12: 1.7%), reflecting lower inflation in the *transport, recreation services and culture* and *miscellaneous goods and services* categories.

Inflation in the *transport category* moderated to 0.2% (2Q 12: 0.5%) as the impact from the downward adjustment to the price of RON97 petrol in July more than offset the impact from the subsequent upward adjustments in August and September. Inflation in the *recreation*

Contribution to Consumer Price Inflation



Source: Bank Negara Malaysia

services and culture category was lower as the impact from the increase in satellite television services charges in mid-July 2011 dissipated (3Q 12: 0.5%, 2Q 12: 1.3%). Inflation in the *miscellaneous goods and services* category declined to 1.4% during the quarter (2Q 12: 2.3%) reflecting mainly slower increase in the prices of jewellery.

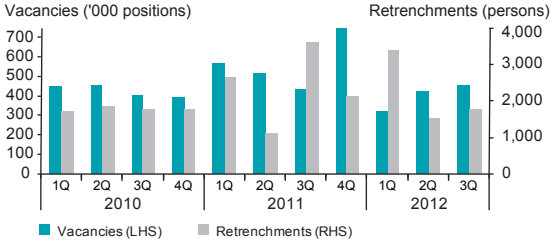
Food inflation remained relatively stable during the quarter at 2.6% (2Q 12: 2.7%). The slight moderation in inflation reflected the decline in prices in the *meat* category (3Q 12: -3.1%; 2Q 12: -1.9%) and slower price increases in the *fish and seafood* category (3Q 12: 7.3%; 2Q 7.6%) due partly to the implementation of the Government's festive season price control scheme in July and August.

The Producer Price Index (PPI) declined by 0.7% on an annual basis in the third quarter (2Q 12: 0.8%). In terms of composition, prices of commodity-related components declined by 2.7% (2Q 12: 1.7%) while prices of non-commodity-related components increased by 0.6% (2Q 12: 0.2%) during the quarter. Prices of local components declined by 1.1% (2Q 12: 0.8%) while prices of imported components increased at a slower rate of 0.7% (2Q 12: 0.8%).

Labour market conditions remained favourable

Overall labour market conditions remained positive during the quarter. Total employment in July and August averaged 12.67 million persons, representing a net job creation of 169,450 jobs from the second quarter. Unemployment rate improved to 2.9% for the first two months of the quarter (2Q 12: 3.0%).

Labour Market Conditions



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

However, retrenchment increased marginally to 1,767 persons from 1,516 persons recorded in the preceding quarter, with the manufacturing sector accounting for 78% of total layoffs, mostly in the export-oriented industries.

Labour demand during the quarter was also sustained, as reflected in the higher number of job vacancies posted in the JobsMalaysia Portal (453,893 positions; 2Q 12: 419,636 positions). The construction sector accounted for the bulk of the increase in job openings, in line with the sector's robust growth. Real wages in the manufacturing sector recorded a lower growth of 3.8% as compared to the preceding quarter (2Q 12: 5.2%).

Sustained current account surplus

The current account surplus narrowed slightly in the third quarter to RM9.5 billion, equivalent to 4.2% of GNI, as the goods surplus was partially offset by net income payment and services deficit.

Balance of Payments

	2011		2012		
	3Q	4Q	1Q	2Q	3Q
	RM billion				
Current Account	**27.4**	**22.4**	**18.1**	**9.6**	**9.5**
(% of GNI)	*12.5*	*10.0*	*8.3*	*4.4*	*4.2*
Goods	37.7	36.8	35.8	29.4	25.5
Services	-1.1	-3.8	-3.8	-3.6	-3.4
Income	-3.9	-5.3	-8.6	-11.7	-7.9
Current transfers	-5.3	-5.4	-5.3	-4.6	-4.7
Financial Account	**-22.5**	**-0.2**	**-10.3**	**5.4**	**-8.7**
Direct investment abroad	-13.0	-14.7	-16.9	-2.5	-7.7
Foreign direct investment	9.1	6.5	7.5	6.1	9.6
Portfolio investment	-28.0	-2.7	25.3	-5.0	27.6
Financial derivatives	-0.3	-0.3	0.0	1.0	-0.1
Other investment	9.7	11.0	-26.1	5.9	-38.1
- Official sector	*-0.5*	*-0.1*	*-0.5*	*-0.3*	*0.0*
- Private sector	*10.2*	*11.1*	*-25.6*	*6.1*	*-38.0*
Errors & omissions	6.0	-15.9	-14.9	-2.2	-8.3
Overall Balance	**10.9**	**6.2**	**-7.2**	**12.7**	**-7.5**

Source: Department of Statistics Malaysia

Gross exports growth turned negative (-1.5%) in the third quarter on account of the decline in the exports of manufactured goods and commodities. The contraction in manufactured exports was due mainly to weaker external demand for E&E products from both the advanced and regional economies. Exports of resource-based manufactured products and commodities also declined, reflecting lower commodity prices and softer demand from regional economies. Nonetheless, exports of minerals continued to expand, supported by sustained demand for and high prices of natural gas.

Gross imports continued to expand (+7.3%), albeit at a slower pace, due mainly to sustained high imports of capital and consumption goods. Growth of capital imports was supported by imports of machineries and aircrafts, reflecting continued investment activity in the domestic economy. Imports of consumption goods were sustained due mainly to higher imports of processed food and beverages and non-durable consumer goods. However, intermediate imports contracted further in tandem with the decline in manufactured exports.

Deficit in the services account was slightly lower at RM3.4 billion in the third quarter. The lower deficit was mainly attributable to lower net payments for transportation services amidst higher net travel receipts. The deficit in income account narrowed to RM7.9 billion, arising from higher investment income accrued to Malaysian companies investing abroad and lower investment income accrued to foreign direct investors in Malaysia. During the quarter, higher profits were mainly reflected by high profits of Malaysian companies investing in the financial and oil and gas sectors abroad.

The financial account turned around to record a net outflow of RM8.7 billion in 3Q 12 (2Q 12: +RM5.4 billion) as net inflows in FDI and portfolio investment were outweighed by net outflows of direct investment abroad and other investment.

Portfolio investment turned around from a small net outflow position to record a net inflow of RM27.6 billion during the quarter (2Q 12: -RM5 billion). Given Malaysia's favourable growth prospects and sound economic fundamentals, the resumption of inflows is attributable to investors' continued search for higher returns in

Trade Account

	2011		2012		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
Gross Exports	**11.7**	**9.8**	**3.9**	**2.8**	**-1.5**
Manufactured	4.9	2.2	1.2	2.1	-1.3
E&E	*-4.0*	*-5.0*	*-1.7*	*-2.4*	*-1.7*
Non-E&E	*15.9*	*10.3*	*4.2*	*6.7*	*-0.8*
Commodities	29.6	28.8	9.1	3.7	-3.0
Agriculture	*45.0*	*18.9*	*-8.0*	*-12.5*	*-21.4*
Minerals	*19.4*	*36.6*	*20.9*	*16.3*	*11.8*
Gross Imports	**7.3**	**6.8**	**6.8**	**8.7**	**7.3**
Capital goods	5.4	2.8	18.3	27.1	22.6
Intermediate goods	3.7	2.4	-1.4	-0.2	-3.1
Consumption goods	26.4	25.2	20.4	10.7	11.4
Trade balance (RM billion)	**30.6**	**32.2**	**29.8**	**21.3**	**17.2**

Source: MATRADE and Department of Statistics, Malaysia

Malaysia: Direction of Exports

	2011		2012			2011		2012		
	3Q	4Q	1Q	2Q	3Q	3Q	4Q	1Q	2Q	3Q
	Annual change (%)					Share of total exports (%)				
United States	**-3.6**	**-3.5**	**5.5**	**3.8**	**8.3**	**8.3**	**8.0**	**8.3**	**8.6**	**9.2**
European Union (EU)	**6.3**	**3.9**	**-10.4**	**-8.9**	**-19.2**	**10.3**	**10.2**	**9.1**	**9.0**	**8.5**
Selected ASEAN countries[1]	**10.1**	**5.6**	**9.3**	**10.3**	**10.6**	**23.8**	**24.3**	**25.8**	**26.2**	**26.7**
North East Asia	**15.1**	**9.4**	**-3.1**	**0.5**	**-7.6**	**25.4**	**24.2**	**22.9**	**24.1**	**23.8**
People's Republic of China	*27.4*	*15.4*	*-3.4*	*9.2*	*-11.6*	*14.2*	*13.0*	*11.9*	*13.2*	*12.7*
Hong Kong SAR	*-2.2*	*-7.3*	*-8.1*	*-3.2*	*0.2*	*4.5*	*4.2*	*4.0*	*4.4*	*4.6*
Chinese Taipei	*5.6*	*13.1*	*-6.0*	*-7.5*	*-1.6*	*3.2*	*3.4*	*3.0*	*3.1*	*3.2*
Korea	*6.2*	*8.5*	*5.8*	*-15.2*	*-6.7*	*3.5*	*3.6*	*4.0*	*3.4*	*3.3*
West Asia	**11.9**	**6.5**	**-4.8**	**-0.9**	**2.5**	**3.4**	**3.5**	**3.4**	**3.6**	**3.6**
India	**36.0**	**33.7**	**-5.1**	**7.6**	**0.7**	**4.3**	**4.0**	**3.6**	**4.2**	**4.3**
Total exports	**11.7**	**9.8**	**3.9**	**2.8**	**-1.5**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

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

Source: Department of Statistics, Malaysia

the region. In addition, the higher inflows also reflected the market's reaction to the additional monetary policy easing by the advanced economies. Other regional economies also experienced portfolio inflows during the quarter.

FDI recorded a larger net inflow of RM9.6 billion (2Q 12: +RM6.1 billion) following higher earnings retained by the multinational companies (MNCs) in Malaysia as well as larger inflows of equity capital. FDI inflows continued to be broad-based during the quarter, the bulk of which were undertaken by companies in the *manufacturing* and *oil and gas* sectors.

Direct investment abroad (DIA) by Malaysian companies was also higher at RM7.7 billion in the third quarter (2Q 12: -RM2.5 billion). The higher net DIA outflow reflected larger outflows of equity capital amidst sizeable earnings retained by Malaysian companies operating abroad. DIA were mainly channelled into the services sector, particularly the *finance and insurance*, *wholesale and retail trade* and *real estate activities* sub-sectors. There were also sizeable investments abroad by domestic companies in the *oil and gas* sector.

Other investment registered a net outflow of RM38.1 billion in the third quarter (2Q 12: +RM5.9 billion). The outflows were accounted mainly by interbank placements by domestic banking institutions with foreign counterparts amidst an environment of ample global liquidity. There were also sizeable outflows arising from continued extension of trade credits. The official sector registered a small net outflow, due to continued repayment of external loans.

Given the net outflow position in the financial account amidst lower current account surplus, the overall balance of payments turned around to record a deficit of RM7.5 billion in 3Q 2012 (2Q 12: +RM12.7 billion). The errors and omissions amounted to -RM8.3 billion and largely reflected the foreign exchange revaluation loss on external reserves during the quarter, following the appreciation of the ringgit against major currencies.

Lower external debt

Malaysia's total external debt decreased to RM257.8 billion at end-September 2012 (end-June 2012: RM269.3 billion). This is equivalent to 28.4% of GNI and accounted for only 11.8% of total debt[2].

Medium- and long-term external debt was lower at RM156.9 billion (end-June 2012: RM159.2 billion), as the strengthening of ringgit against major and regional currencies during the quarter more than offset net drawdown of external borrowings, particularly by the private sector. As at end-September 2012, the short-term external debt was also lower at RM100.9 billion due mainly to net repayment of interbank borrowing.

External Debt Outstanding

	2011	2012	
	end-Sept	end-June	end-Sept[P]
	RM billion		
Medium- and long-term debt	157.8	159.2	156.9
Public sector	88.5	87.3	84.8
Private sector	69.3	71.9	72.1
Short-term debt[1]	105.5	110.1	100.9
Total external debt	**263.3**	**269.3**	**257.8**
USD billion equivalent	81.8	83.5	83.3
External debt/GNI (%)	30.6	29.7	28.4
Reserves/Short-term external debt (times)	4.0	3.9	4.2[2]

[1] Excludes currency and deposits held by non-residents with resident banking institutions
[2] Based on international reserves as at 31 October 2012
[P] Preliminary

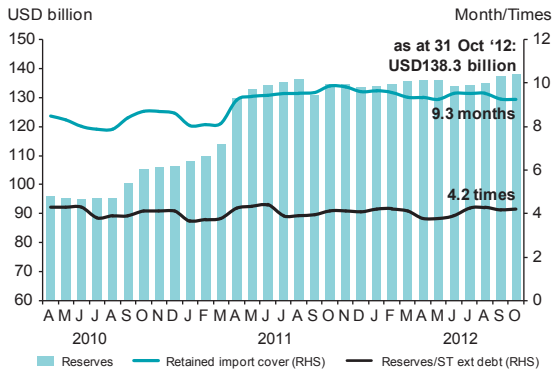
Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

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

International reserves remained high

The international reserves of Bank Negara Malaysia amounted to RM421.3 billion (equivalent to USD137.5 billion) as at 28 September 2012. This reserves level has taken into account the quarterly adjustment for foreign exchange revaluation loss, following the strengthening of ringgit against major and regional currencies during the third quarter. As at 31 October 2012, the reserves position amounted to RM423.9 billion (equivalent to USD138.3 billion), sufficient to finance 9.3 months of retained imports and is 4.2 times the short-term external debt.

Net International Reserves (as at end period)



Source: Bank Negara Malaysia

Steady revenue growth supported Government expenditure

In the third quarter, the Federal Government revenue increased to RM52.1 billion (2Q 12: RM50.7 billion), supported by income tax collection. The higher revenue was adequate to sustain the moderate increase in operating expenditure, which was driven by higher emolument payments. Development expenditure amounting to RM10.9 billion (2Q 12: RM10.3 billion) were disbursed primarily to the transportation and public utilities sectors. Overall Government expenditure stood at RM60.9 billion (2Q 12: RM58.5 billion), resulting in a deficit of RM8.8 billion (-3.7% of GDP) during the quarter (2Q 12: RM7.8 billion, -3.3% of GDP). The deficit was financed by domestic borrowings. As at end-September 2012, total outstanding debt of the Federal Government stood at RM484.6 billion or 51.8% of the estimated 2012 GDP.

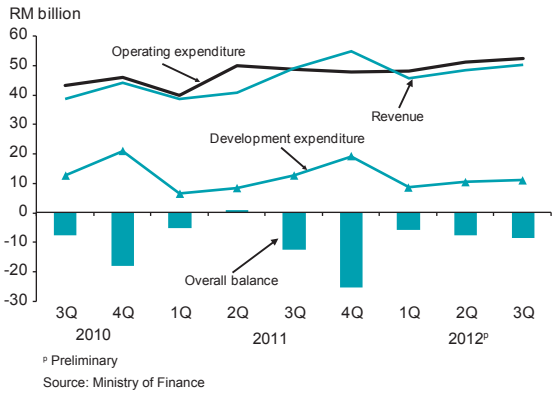
Federal Government Finance

	2011		2012[p]		
	3Q	4Q	1Q	2Q	3Q
	RM billion				
Revenue	48.3	47.7	47.9	50.7	52.1
% annual growth	*12.1*	*4.0*	*20.4*	*2.2*	*7.8*
Operating expenditure	48.8	54.5	45.6	48.2	50.1
% annual growth	*26.6*	*23.6*	*18.0*	*18.8*	*2.5*
Current account	**-0.5**	**-6.9**	**2.3**	**2.5**	**2.0**
% of GDP	***-0.2***	***-3.0***	***1.0***	***1.1***	***0.9***
Gross development expenditure	12.6	19.1	8.5	10.3	10.9
% annual growth	*0.3*	*-8.4*	*32.3*	*24.0*	*-13.0*
Overall balance	**-12.8**	**-25.4**	**-5.8**	**-7.8**	**-8.8**
% of GDP	***-5.7***	***-11.1***	***-2.6***	***-3.3***	***-3.7***
Memo item:					
Total net expenditure	61.1	73.0	53.7	58.5	60.9
% annual growth	*20.0*	*14.1*	*19.4*	*19.9*	*-0.4*
Total Federal Government debt (as at end-period)	440.8	456.1	470.8	476.7	484.6
% of GDP	*50.0*	*51.8*	*50.3*	*50.9*	*51.8*
Domestic debt	422.8	438.0	453.9	458.8	467.4
% of GDP	*48.0*	*49.7*	*48.5*	*49.0*	*49.9*
External debt	18.1	18.1	16.9	17.9	17.3
% of GDP	*2.1*	*2.1*	*1.8*	*1.9*	*1.8*

[p] Preliminary

Source: Ministry of Finance

Federal Government Finance



[p] Preliminary

Source: Ministry of Finance