DEVELOPMENTS IN THE MALAYSIAN ECONOMY

Growth contracted in the first quarter

The Malaysian economy contracted by 6.2% in the first quarter of 2009 (4Q 08: 0.1%), the first contraction since the third quarter of 2001, due mainly to a significant deterioration in external demand and the decline in domestic demand. External demand deteriorated significantly following the deepening recession in several advanced economies as well as slower growth in the regional economies. Domestic demand contracted, due mainly to weaker investment and private consumption activities. Higher public spending provided some support to the domestic economy. The large inventory drawdown, particularly in the manufacturing and commodity sectors, also contributed to the decline of growth in the first quarter. On the supply side, all sectors of the economy, except the construction sector, recorded contractions.

Domestic demand contracted

Domestic demand contracted in the first quarter, registering a decline of 2.9% (4Q 08: 2.8%). Households and businesses remained cautious as labour market conditions weakened and export demand contracted further in the first quarter. Nevertheless, higher public sector spending provided some support to domestic demand.

GDP by Expenditure Components (at constant 2000 prices)

	2008			2009
	1Q	4Q	Year	1Q
	Annual change (%)			
Aggregate Domestic Demand (excluding stocks)	9.8	2.8	6.8	-2.9
Consumption	11.8	7.1	9.0	-0.2
Private sector	*11.3*	*5.3*	*8.5*	*-0.7*
Public sector	*14.1*	*12.7*	*10.9*	*2.1*
Gross Fixed Capital Formation	4.6	-10.2	0.8	-10.8
Net Exports	28.1	-39.5	-3.5	39.1
Exports of Goods and Services	*5.9*	*-13.3*	*1.3*	*-15.2*
Imports of Goods and Services	*3.2*	*-10.2*	*1.9*	*-23.5*
GDP	**7.4**	**0.1**	**4.6**	**-6.2**

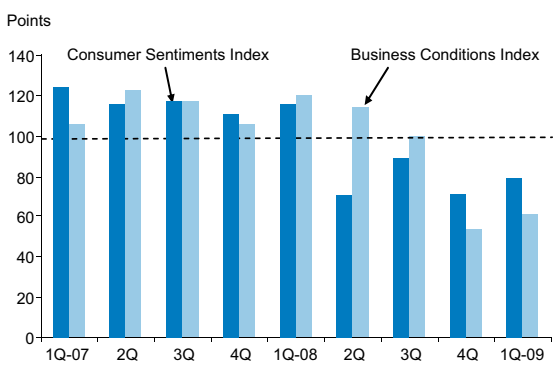
Source: Department of Statistics, Malaysia

Private consumption declined marginally by 0.7% in the first quarter, as household spending was affected by weak sentiments and higher retrenchments, especially in the manufacturing sector. The weak private consumption spending was reflected in most of the major consumption indicators, namely sales of food and beverages, imports of consumption goods and sales of new passenger cars. Nevertheless, the effects of monetary easing, moderating prices of goods and services as well as festive spending, particularly during the early part of the quarter, had lent some support to private consumption. In addition, the MIER Consumer Sentiments Index increased to 78.9 points in March (4Q 08: 71.4 points), indicating that while consumers generally remained cautious, their sentiments have improved.

Meanwhile, **public consumption** continued to expand, recording a growth of 2.1% in the first quarter, underpinned by higher expenditure on emoluments as well as supplies and services.

Gross fixed capital formation declined by 10.8% in the first quarter, reflecting mainly the sharper contraction in private investment activity which more than offset the higher public development spending. Private investment activity was affected by the significant decline in external demand which led to deterioration in business confidence. Major investment indicators such as imports of capital goods, loans disbursed to businesses and number of new companies registered recorded negative growth in the first quarter, pointing to continued weakness in private sector capital spending activity. Similarly, the weaker business conditions were also reflected in the MIER Business Conditions Index, which had remained below the 100-point threshold since the second half of 2008. Meanwhile, public sector capital spending was higher in the first quarter, reflecting the Government's commitment to mitigate the impact of the externally induced slowdown on the domestic economy. The higher spending was mainly focused on education, agriculture and rural development.

Weak business and consumer sentiment



Source: MIER

Contractions in all economic sectors, except the construction sector

On a sectoral basis, weaknesses were seen across all economic sectors, with the exception of the construction sector. The manufacturing sector recorded a sharp decline amidst significant deterioration in external demand as well as weaker domestic conditions. The services sector registered only a marginal decline, due to weaker growth in sub-sectors closely linked to the manufacturing sector and trade-related activities. The performance of the agriculture sector was affected by weaker production of palm oil and rubber, while growth in the mining sector continued to be sluggish on lower output of both crude oil and natural gas. Meanwhile, the construction sector turned around to register a small positive growth, supported by the activities in the commercial and residential sub-sectors.

Quarterly GDP by Economic Activity (at constant 2000 Prices)

	2008			2009
	1Q	4Q	Year	1Q
	Annual change (%)			
Agriculture	6.5	0.5	4.0	-4.3
Mining	3.6	-5.7	-0.8	-5.2
Manufacturing	7.0	-8.8	1.3	-17.6
Construction	5.3	-1.6	2.1	0.6
Services	8.4	5.7	7.2	-0.1
Real GDP (Annual Change)	**7.4**	**0.1**	**4.6**	**-6.2**
Real GDP (Preceding Change)	**-1.5**	**-3.4**	**4.6**	**-7.7**

Source: Department of Statistics, Malaysia

Marginal decline in the services sector

The **services sector** registered a marginal decline of 0.1% (4Q 08: 5.6%) during the quarter, affected by the challenging economic environment. In particular, services sub-sectors which are closely linked to the manufacturing sector and trade-related services activities declined.

The **transport and storage** sub-sector registered its first contraction (-3.9%; 4Q 08: 1.0%) since the third quarter of 2003, with weaker demand in both the cargo and passenger segments in line with slower trade and tourism-related activity. The **utilities** sub-sector registered a sharper contraction of 8.2% (4Q 08: -2.6%) due to the lower demand for electricity from the manufacturing sector. For the third consecutive quarter, the **real estate and business services** sub-sector declined, in line with slower capital market and general business activity during the quarter.

The **wholesale & retail trade** sub-sector declined by 1.7% (4Q 08: 5.9%), mainly due to slower wholesale activity as well as the decline in motor vehicle sales, reflecting cautious consumer spending for durable goods. Continued consumer retail spending on essential items, provided some cushion to the overall impact on growth.

Meanwhile, the **finance and insurance** sub-sector recorded a positive growth of 1.2% in the first quarter (4Q 08: 3.5%), as continued bank lending to both households and businesses supported growth. However, fee-based income of the banking system was affected by lower capital market activity. In the insurance segment, growth was sustained, due to the continued increase in insurance premiums collectable during the quarter.

The **communication** sub-sector expanded at 4.9% (4Q 08: 6.3%) as demand for both data and voice services particularly broadband services, remained favourable following aggressive promotions and coverage expansion by internet service providers. The **accommodation and restaurant** sub-sector expanded at a slower rate of 2.1% (4Q 08: 7.4%) while growth in the **other services** sub-sector was sustained at 5.2% (4Q 08: 5.3%) benefiting from the strong demand for private education and health services.

Performance of the Services Sector (value added at year 2000 prices)

	Share 2008 (%)	2008			2009
		1Q	4Q	Year	1Q
		Annual change (%)			
Intermediate Services	**43.3**	**8.4**	**2.6**	**6.0**	**-0.7**
Finance & insurance	20.0	9.9	3.5	7.7	1.2
Real estate & business services	9.4	4.8	-0.6	1.5	-6.7
Transport & storage	7.0	9.9	1.0	6.1	-3.9
Communication	7.0	7.5	6.3	7.3	4.9
Final Services	**56.7**	**8.5**	**7.9**	**8.3**	**0.3**
Utilties	5.3	4.7	-2.6	2.1	-8.2
Wholesale & retail trade	23.2	11.8	5.9	9.8	-1.7
Accommodation & restaurant	4.4	10.0	7.4	7.3	2.1
Government services	13.4	7.0	18.2	11.1	2.8
Other services	10.4	5.0	5.3	5.2	5.2
Total Services	**100.0**	**8.4**	**5.7**	**7.2**	**-0.1**

Source: Department of Statistics, Malaysia

Selected Quarterly Indicators in the Services Sector

	2008				2009
	1Q	2Q	3Q	4Q	1Q
	Index				
MIER Consumer Sentiment Index	115.5	70.6	88.9	71.4	78.9
MIER Retail Trade Index	106.1	94.5	116.5	52.7	52.3
MIER Tourism Market Index	120.3	107.5	109.2	94.0	78.1
	Annual change (%)				
Tourist arrivals	1.2	3.9	8.2	7.5	2.2
Total passenger traffic at all airports	13.1	6.8	2.7	2.1	-4.5
Total consumption credit outstanding	7.6	9.6	9.7	8.9	8.5
Loans outstanding to the wholesale & retail trade, hotels & restaurants	10.1	15.4	14.0	9.0	3.5
Imports of consumption goods	5.6	21.3	16.2	4.5	-3.9
Total sales of motor vehicles	24.6	27.1	10.5	-8.3	-9.2
Container cargo handled (Port Klang and PTP)	9.7	9.4	16.4	-3.9	-10.6

Source: Various sources

Sharper contraction in the manufacturing sector

Value added in the **manufacturing sector** registered a sharp decline (-17.6%; 4Q 08: -8.8%) in the first quarter, reflecting significant deterioration in external demand and weaker domestic conditions.

Production in export-oriented industries contracted further in the first quarter, led by steeper decline in the **E&E industry** (-41.4%; 4Q 08: -22.5%), especially in the first two months of the quarter. In particular, manufacturers reduced production as well as drew down inventories in response to the sharp contraction in demand, which led to a further reduction in output across all segments in the E&E industry. However, the pace of decline in production moderated in March, in tandem with tentative signs of stabilisation in external demand conditions.

Primary-related industries also weakened further during the quarter, with contraction in production for all major segments. In particular, continued sluggish external demand and slowdown in E&E and transport equipment segments contributed to the decline in output of chemical and plastic products segments as well as rubber products industry. Similar weakness was also seen in the petroleum products and off-estate processing segments.

Performance in the Manufacturing Sector

	2008			2009
	1Q	4Q	Year	1Q
	Annual Change (%)			
Value Added (at constant 2000 prices)	**7.0**	**-8.8**	**1.3**	**-17.6**
Overall Production[1]	**8.7**	**-11.1**	**0.6**	**-21.6**
Export-oriented industries	**7.4**	**-13.4**	**-1.2**	**-23.1**
Electronics and electrical cluster	**6.9**	**-22.5**	**-3.6**	**-41.4**
Of which:				
Electronics	9.8	-27.8	-5.4	-44.0
Electrical	0.1	-8.2	0.9	-34.9
Primary-related industry cluster	**7.7**	**-6.8**	**0.4**	**-11.4**
Of which:				
Chemicals and chemical products	3.9	-15.0	-3.5	-18.6
Petroleum products	17.2	2.0	5.9	2.9
Rubber products	6.8	2.1	4.7	-22.8
Off-estate processing	22.1	-0.2	9.4	-7.9
Domestic-oriented industries	**14.0**	**-2.0**	**8.0**	**-15.9**
Construction-related cluster	**11.6**	**-8.3**	**4.3**	**-21.5**
Of which:				
Construction-related materials	15.8	-10.7	3.2	-29.5
Fabricated metal products	5.3	-4.4	6.1	-8.1
Consumer-related cluster	**15.9**	**3.1**	**11.0**	**-11.4**
Of which:				
Transport equipment	22.9	18.4	23.4	-15.9
Food, beverage & tobacco products	13.1	-2.3	7.4	-12.6

[1] Industrial Production Index (2005=100)

Source: Department of Statistics, Malaysia

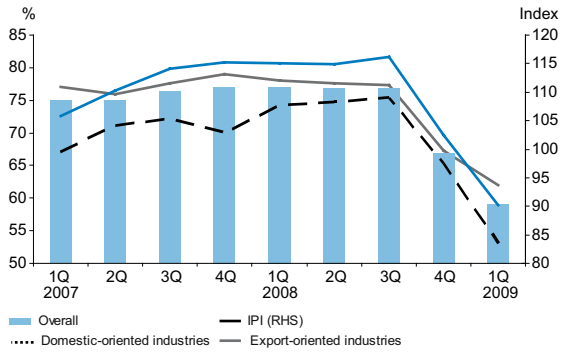
Domestic-oriented industries declined, with weakness coming from both consumer-related products and construction-related materials. In consumer-related industries, decline in growth was recorded in both the transport equipment and food products segments, corresponding with weaker domestic demand conditions. Meanwhile, the subdued performance of construction-related materials was in tandem with slower activities in the civil engineering sub-sector.

Against the backdrop of weak demand, overall capacity utilisation rate in the manufacturing sector declined to 59% in the first quarter (4Q 08: 66%), with the export- and domestic-oriented industries operating at 62% and 53% of total capacity respectively (4Q 08: 67% and 64% respectively).

Decline in commodities

Value-added of the **agriculture sector** declined by 4.3% in the first quarter (4Q 08: 0.5%) due to lower output of both palm oil and rubber. Palm oil production declined by 3.9%, driven mainly by a lower fresh fruit bunch (FFB) yield of 7.8%, while rubber production fell sharply by 39.2%, as lower prices reduced smallholders' incentive to increase tapping activity. This was mitigated somewhat by the 13.2% increase in output of fish, amidst strong external demand for aquaculture by-products. Meanwhile, the mining sector contracted further by 5.2% during the quarter (4Q 08: -5.7%), due to lower output of both crude oil (-5.7%) and natural gas (-4.7%).

Capacity utilisation rate in the manufacturing sector



* Beginning 2009, the capacity utilisation rate in the manufacturing sector has been rebased from value-add in year 2004 to value-add in year 2006

Source: Department of Statistcs, Malaysia and Bank Negara Malaysia

Performance in the Agriculture Sector

	2008			2009
	1Q	4Q	Year	1Q
	Annual change (%)			
Value Added (at year 2000 prices)	**6.5**	**0.5**	**4.0**	**-4.3**
Industrial Crops	8.8	-3.1	2.9	-13.9
Food Crops	3.4	5.8	5.6	9.2
Production				
Of which:				
Crude palm oil	23.9	3.6	12.1	-3.9
Rubber	-2.2	-29.7	-10.6	-39.2
Fish	0.4	7.1	5.2	13.2
Livestock	0.9	3.0	4.3	-4.6

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

Performance in the Mining Sector

	2008			2009
	1Q	4Q	Year	1Q
	Annual change (%)			
Value Added (at year 2000 prices)	**3.6**	**-5.7**	**-0.8**	**-5.2**
Production				
Of which:				
Crude oil and condensates	7.0	-5.6	2.0	-5.7
Natural gas (net)	-1.2	-5.5	-4.9	-4.7

Source: PETRONAS
Department of Statistics, Malaysia

Positive growth in the construction sector

The value added of the **construction sector** turned around to register a positive growth of 0.6% (4Q 08: -1.6%). This was due mainly to higher construction of office space especially in the Klang Valley as well as, supported by increased activity in the high-end segment of the residential sub-sector, particularly luxury condominiums in Klang Valley and Penang. Meanwhile, the civil engineering sub-sector was lower due to a slower-than-expected take-off of some key infrastructure projects.

Construction Indicators

	2008			2009
	1Q	4Q	Year	1Q
	Annual change (%)			
New sales and advertising permits	-6.4	-47.8	-18.9	-25.5
Housing approvals	10.4	-53.8	-18.8	-30.2
Production[1] of construction-related materials	11.6	-8.3	4.3	-21.5
Loans approved for construction	74.4	-25.2	-1.7	-48.2
Imports of construction materials and mineral products	8.3	-10.0	2.8	-25.8[2]

[1] Industrial Production Index (2005=100)
[2] Jan-Feb 2009

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

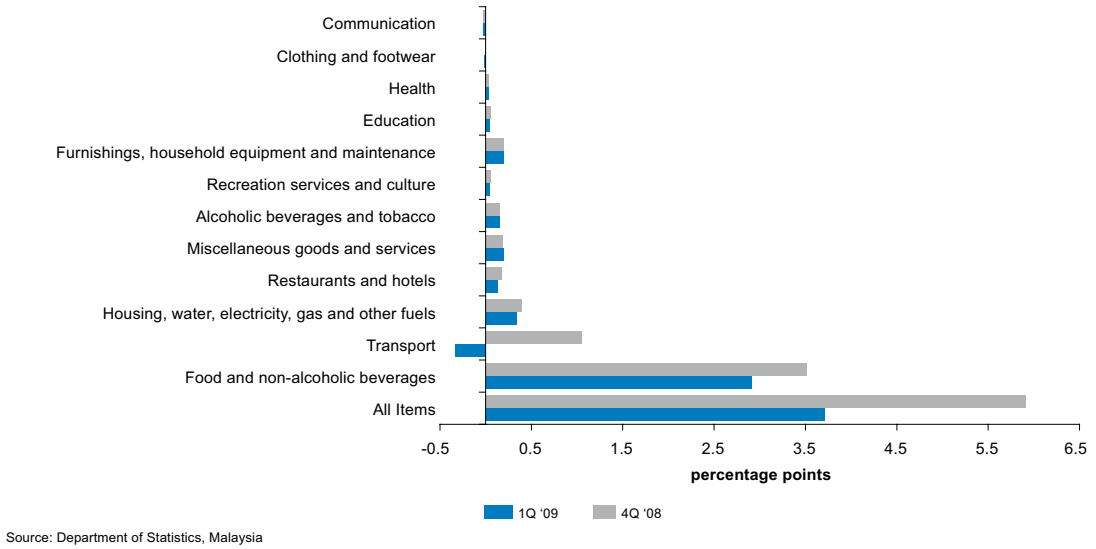
Continued moderation in price pressures

The headline inflation rate, as measured by the change in the Consumer Price Index (CPI), moderated to 3.7% in the first quarter of 2009 (4Q 08: 5.9%). The moderation in inflation was due mainly to lower inflation in the food and non-alcoholic beverages and transport categories. Inflation in the food and non-alcoholic beverages category moderated to 9.2% (4Q 08: 11.2%), with 10 out of the 11 sub-components recording lower inflation rates during the quarter. Prices in the transport category declined by 2.1% compared to its level a year ago (4Q 08: 6.6%). This reflects the fact that retail fuel prices are lower than their levels a year ago. Inflation in the housing, water, electricity, gas and other fuels category also moderated to 1.6% (4Q 08: 1.8%), reflecting the 2.54% reduction in electricity tariffs for households which came into effect on 1 March. Headline inflation continued to moderate to 3.0% in April.

Producer prices, as measured by the Producer Price Index (PPI) declined by 6.6% in the first quarter of 2009 (4Q 08: -0.1%). The decline in producer prices was due mainly to the sharp correction in commodity prices since mid-2008. All commodity-related components of the PPI recorded double-digit declines in prices. As a result, the commodity-related component of the PPI fell significantly by 19.4% (4Q 08: -1.7%). Meanwhile, prices in the non-commodity-related component of the PPI declined by 0.7% (4Q 08: 0.6%).

In terms of composition, both the local and imported components of the PPI recorded declining prices. Prices in the local components of the PPI declined by 8.5% (4Q 08: 0%), while prices in the imported components of the PPI were lower by 2.5% (4Q 08: -0.2%).

Contribution to Consumer Price Inflation

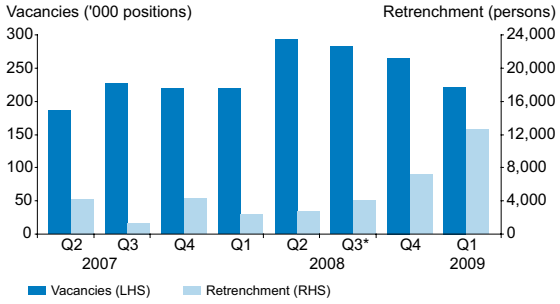


Source: Department of Statistics, Malaysia

Weaker labour market conditions

Labour market conditions weakened in the first quarter on higher retrenchments and lower job vacancies. Total retrenchments increased to 12,590 persons (4Q 08: 7,254 persons), with almost 80% of retrenched workers being from the manufacturing sector, in particular, from the E&E industry (45% of total retrenchments). Meanwhile, total vacancies posted in the Electronic Labour Exchange declined by about 43,000 positions (221,876 positions; 4Q 08: 264,674 positions), reflecting lower job openings especially in the manufacturing sector (-20,717 positions). With the exception of the agriculture sector, all other sectors had fewer vacancies during the quarter. Meanwhile, wages in the manufacturing sector declined further, reflecting the reduction in workforce, as well as the effect of temporary layoffs, pay cuts and lower bonus payments. During the quarter, nominal wage per worker contracted by -1.6% (4Q 08: -3.0%)

Labour Market Conditions



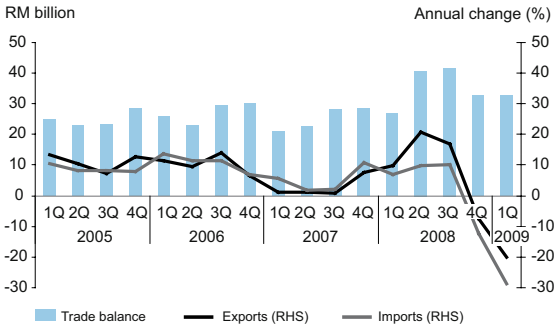
* Reflects adjusted retrenchments for Q3 2008
Source: Ministry of Human Resources

Further contraction in exports and imports

Gross exports contracted by 20% in the first quarter of 2009, the sharpest contraction ever recorded due to the significant decline in demand from the major trading partners as well as lower commodity prices. Further declines in manufactured exports and the ensuing inventory adjustments as well as weaker domestic demand conditions led to a sharper import contraction of 28.9%. The trade balance continued to record a large surplus of RM32.7 billion.

Growth in **commodity exports** turned negative in the quarter reflecting the impact of lower prices and weaker demand for major commodities except

Trade Balance



Source: Department of Statistics, Malaysia

LNG. **Manufactured exports** contracted further as external demand for both E&E and non-E&E manufactured products continued to decline. Lower demand for electrical products from the US, EU, Japan and ASEAN countries led to a further contraction in electrical exports. Meanwhile, electronic exports contracted at a slower pace due mainly to the improvement in semiconductor demand, particularly from PR China, Hong Kong SAR, Chinese Taipei and Korea. Better global semiconductor prices during the quarter also provided support to the growth of semiconductor exports. The continued contraction in non-E&E manufactured exports was generally broad-based, reflecting the impact of sharply lower commodity prices and slower external demand, particularly from Singapore, Hong Kong SAR, Korea and Chinese Taipei. Lower exports of chemicals and chemical products, petroleum products and wood products contributed largely to the decline in resource-based products.

Trade Account

	2008[1]			2009[1]
	1Q	4Q	Year	1Q
	Annual change (%)			
Gross Exports	**9.9**	**-7.5**	**9.6**	**-20.0**
Manufactured	-1.9	-11.2	1.8	-18.0
E&E	*-12.2*	*-16.2*	*-3.4*	*-16.5*
Non-E&E	*12.1*	*-4.3*	*8.9*	*-19.5*
Commodites	55.4	6.1	38.4	-23.8
Agriculture	*61.2*	*-10.6*	*32.2*	*-28.1*
Minerals	*52.1*	*16.9*	*42.4*	*-21.1*
Gross Imports	**6.8**	**-12.2**	**3.3**	**-28.9**
Capital goods	7.8	-13.4	0.0	-6.9
Intermediate goods	9.0	-12.2	5.7	-34.9
Consumption goods	5.6	4.5	11.8	-3.9
Trade balance (RM billion)	**26.8**	**32.7**	**141.9**	**32.7**

[1] Malaysia's trade classification has been revised in April 2008 to reflect the revisions of the international trade codes i.e. Harmonised System (HS), ASEAN Harmonised Tariff Nomenclature (AHTN) and Standard International Trade Classification (SITC)

Source: MATRADE and Department of Statistics, Malaysia

Malaysia: Direction of Exports

	2008			2009	2008			2009
	1Q	4Q	Year	1Q	1Q	4Q	Year	1Q
	Annual change (%)				Share of total exports (%)			
United States	**-17.5**	**-23.1**	**-12.7**	**-31.0**	**12.9**	**11.9**	**12.4**	**11.1**
European Union (EU)[1]	**2.3**	**-14.2**	**-3.8**	**-28.0**	**11.9**	**11.6**	**11.3**	**10.7**
Selected ASEAN countries[2]	**13.9**	**-15.0**	**9.9**	**-26.8**	**26.7**	**24.2**	**25.6**	**24.4**
North East Asia	**3.5**	**-18.3**	**10.9**	**-5.9**	**18.9**	**18.1**	**20.1**	**22.3**
People's Republic of China	*12.5*	*-18.4*	*19.2*	*-1.8*	*8.3*	*8.4*	*9.5*	*10.2*
Hong Kong SAR	*-13.7*	*-22.7*	*1.2*	*3.5*	*3.6*	*4.0*	*4.3*	*4.7*
Chinese Taipei	*-4.5*	*-22.1*	*-1.4*	*-18.1*	*2.4*	*2.2*	*2.4*	*2.4*
Korea	*9.5*	*-9.9*	*12.4*	*-14.3*	*4.7*	*3.6*	*3.9*	*5.0*
West Asia	**25.5**	**29.3**	**38.0**	**-12.7**	**3.4**	**4.0**	**3.9**	**3.7**
India	**24.1**	**9.8**	**22.4**	**-14.9**	**3.5**	**4.0**	**3.7**	**3.7**
Total exports	**9.9**	**-7.5**	**9.6**	**-20.0**	**100.0**	**100.0**	**100.0**	**100.0**

[1]Refers to European Union (EU) 27 from 2007 onwards
[2]Singapore, Thailand, Indonesia, Philippines, Brunei Darussalam and Vietnam

Source: Department of Statistics, Malaysia

Gross imports declined sharply in the first quarter, with all major categories of imports registering negative growth. **Intermediate imports** registered the sharpest decline in tandem with a large contraction in manufactured exports and the corresponding inventory adjustment. Growth in **consumption imports** turned negative as consumers became more cautious and prudent in their spending. Nevertheless, consumption imports turned positive in March, due mainly to imports of food and beverages and non-durable goods. Imports of **capital goods** contracted at a slower pace of 6.9% during the quarter. However, excluding lumpy imports, capital imports recorded a larger contraction of 16%, reflecting weaker private investment activity.

Lower inflows of FDI while outflows of portfolio funds moderated further

On a cash basis, gross inflows of **foreign direct investment (FDI)**[2] amounted to RM6.4 billion in the first quarter of 2009 (4Q 08: RM9 billion), reflecting inflows of equity capital and the drawdown of inter-company loans. After adjusting for gross outflows due mainly to the repayment of inter-company loans, net FDI amounted to RM2.1 billion (4Q 08: RM3.4 billion). During the quarter, net FDI was directed mainly into the manufacturing sector, followed by services and oil and gas sectors. FDI in the manufacturing sector was mainly for investment in the E&E, solar cells and basic metal industries. Meanwhile, FDI in the services sector was channelled mainly into the real estate and business services, wholesale and retail trade as well as transport sub-sectors

Overseas investment by Malaysian companies was also lower, recording a net outflow of RM3 billion in the first quarter of 2009 (4Q 08: -RM8.1 billion), attributed mainly to lower outflows of equity capital. The bulk of overseas investments was in the services sector, particularly for acquisition of strategic stakes in a bank and a power plant in the region. There were also continued investments in real estate and business services, and wholesale and retail trade sub-sectors. Meanwhile, overseas investments in the manufacturing sector were channelled mainly into the E&E and petroleum-related industries.

Net outflows of **portfolio investment** moderated to RM9.5 billion (4Q 08: -RM24.8 billion), reflecting mainly lower net liquidation of both equities and debt securities by foreign investors. Investors sentiment, while remaining cautious for the most of the quarter, improved in the second half of March. The improvement was supported mainly by expectations that global financial market conditions would stabilise and thus facilitate global economic recovery. This led to improved risk appetite towards financial assets in the emerging markets, including Malaysia. Meanwhile, on the domestic front, the announcement of the Second Stimulus Package by the Government had also supported investor sentiments. Net outflows of portfolio investment had moderated further and registered net inflows in May.

[2] The statistics for FDI on a cash basis does not include retained earnings and investment in the form of imported machinery and equipment.

External debt remained manageable

As at end-March 2009, Malaysia's total **external debt** amounted to RM243.8 billion or USD66.1 billion (end-2008: RM236.2 billion or USD67.4 billion), equivalent to 35.1% of GNI. The medium- and long-term external debt increased to RM159.5 billion, reflecting mainly the depreciation of the ringgit against the USD during the quarter (+RM5.7 billion) which more than offset net repayments by both the public and private sectors. Within the public sector, the Federal Government and the NFPEs recorded net repayments of RM0.6 billion and RM1.7 billion respectively. Meanwhile, the private sector recorded a net repayment (-RM1.2 billion) due mainly to repayment of inter-company loans.

The total short-term external debt amounted to RM84.3 billion or USD22.9 billion due mainly to inter-bank borrowing activities. As at end-March 2009, the short-term debt accounted for 34.6% of total external debt and was 26.3% of the net international reserves

External Debt Outstanding

	2008		2009
	1Q	4Q	1Q[p]
	RM billion		
Medium- and long-term debt	131.9	156.5	159.5
Public sector	74.2	83.4	85.1
Private sector	57.7	73.1	74.4
Short-term debt[1]	84.5	79.6	84.3
Total external debt	216.3	236.2	243.8
- USD billion equivalent	67.0	67.4	66.1

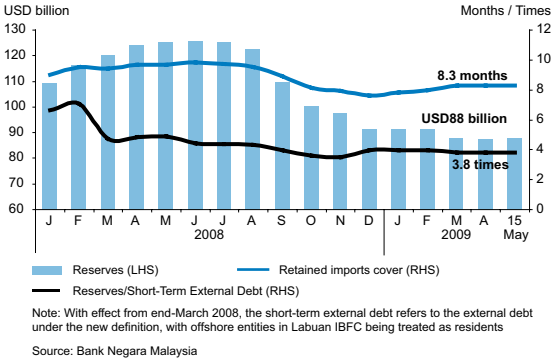
[1] Excludes currency and deposits held by non-residents with resident banking institutions
[p] Preliminary

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

International reserves

The international reserves of Bank Negara Malaysia amounted to RM320.7 billion (equivalent to USD87.8 billion) as at 31 March 2009. The level of reserves had taken into account the quarterly adjustment for the foreign exchange revaluation gain, following the strengthening of some of the major currencies against the ringgit during the quarter. The reserves amounted to RM321.5 billion (equivalent to USD88 billion) as at 15 May 2009 and is sufficient to finance 8.3 months of retained imports and is 3.8 times the short-term external debt.

Net International Reserves (as at end period)



Note: With effect from end-March 2008, the short-term external debt refers to the external debt under the new definition, with offshore entities in Labuan IBFC being treated as residents

Source: Bank Negara Malaysia

Fiscal policy remained expansionary

Fiscal expenditure of the Federal Government continued to be expansionary in the first quarter, recording a deficit of RM6.7 billion or 4.3% of GDP. Development expenditure was higher during the quarter, recording a year-on-year increase of 55.4% (1Q 08: -0.3%). Development spending was mainly for agriculture and rural development and education. During the period, the higher operating expenditure was mainly due to the payments for supplies and services, and grants and transfers to statutory bodies. Meanwhile, total revenue remained favourable on account of higher investment income and collections from sales tax. The fiscal deficit was financed from domestic borrowings. As at end-March 2009, total outstanding debt of the Federal Government amounted to RM317.1 billion or 45.9% of GDP.

Federal Government Finance[p]

	2008			2009
	1Q	4Q	Year	1Q
	RM billion			
Revenue	28.0	46.3	159.8	35.9
% growth	15.4	-3.9	14.2	28.3
Operating expenditure	30.4	48.9	153.5	34.4
% growth	40.3	13.8	24.7	12.9
Current account	**-2.5**	**-2.6**	**6.3**	**1.5**
% of GDP	***-1.4***	***-1.4***	***0.9***	***1.0***
Gross development expenditure	5.3	16.0	42.8	8.2
% growth	-0.3	-12.0	5.6	55.4
Overall balance	**-7.7**	**-18.2**	**-35.6**	**-6.7**
% of GDP	***-4.4***	***-10.3***	***-4.8***	***-4.3***
Memo item:				
Total gross expenditure	35.7	64.9	196.3	42.6
% growth	32.3	6.2	20.0	19.2
Total Federal Government debt				
(as at end-period)	275.1	306.4	306.4	317.1
% of GDP	37.2	41.5	41.5	45.9
Domestic debt	256.8	286.1	286.1	297.0
% of GDP	34.8	38.7	38.7	43.0
External debt	18.2	20.3	20.3	20.2
% of GDP	2.5	2.8	2.8	2.9

[p] Preliminary

Source: Ministry of Finance