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

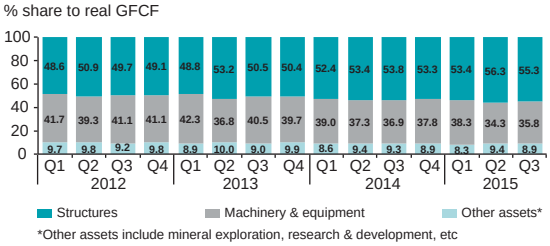
On the supply side, all economic sectors continued to expand during the quarter. Growth was led by the construction and manufacturing sectors. Construction sector growth improved due mainly to a faster expansion in the civil engineering and specialised construction activities sub-sectors. Similarly, 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

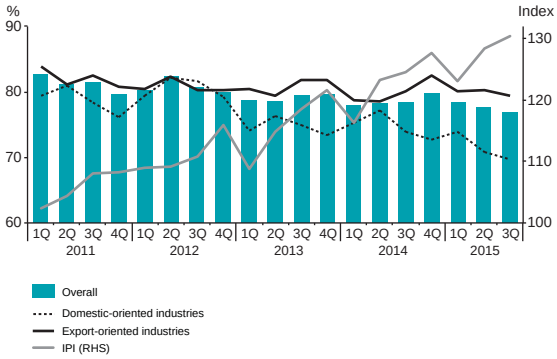
Source: Various sources

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

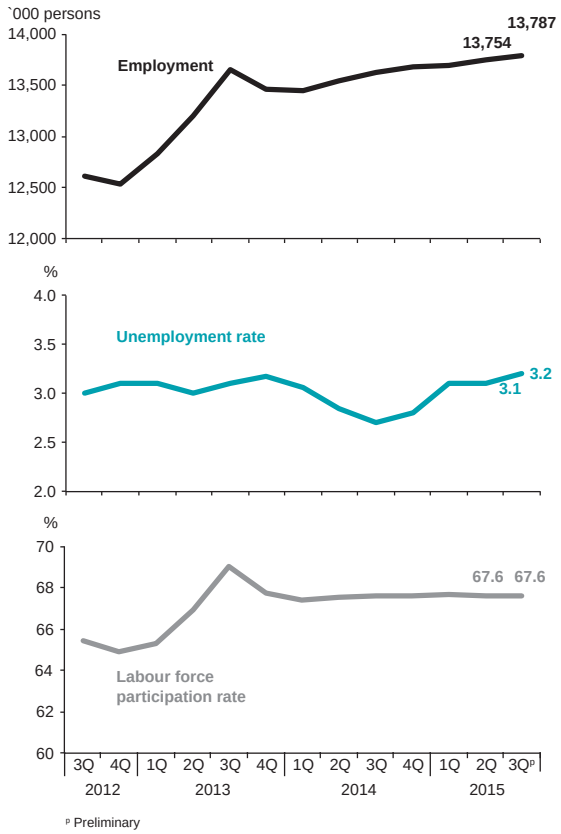
Category	Weights (%) (2010=100)	2Q 2015	3Q 2015
		Annual change, %	
Total	**100.0**	**2.2**	**3.0**
Food and non-alcoholic beverages	30.3	3.3	4.1
Housing, water, electricity, gas and other fuels	22.6	2.5	2.6
Transport	14.9	-3.6	-1.1
Others	32.2	3.6	4.1

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

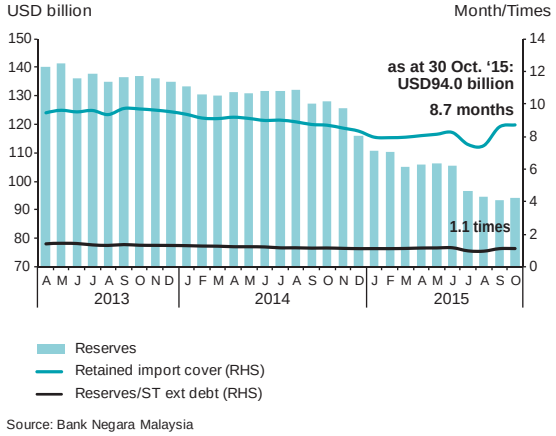
The international reserves of BNM amounted to RM415.1 billion (equivalent to USD93.3 billion) as at 30 September 2015 (end-June: RM398.1 billion; USD105.5 billion). On account of the quarterly adjustment for foreign exchange revaluation changes, the reserves level in ringgit terms has increased due to 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

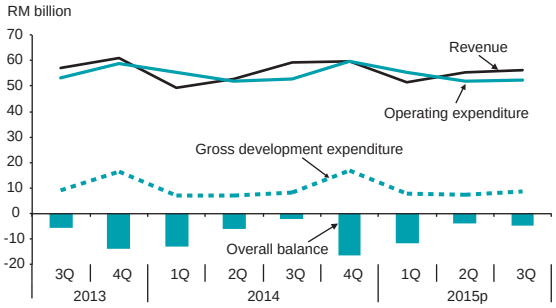
The Federal Government fiscal deficit remained stable at 1.6% of GDP in the third quarter of 2015 (2Q 2015: -1.4% of GDP). Government revenue was sustained at RM56.3 billion in the quarter (2Q 2015: RM55.3 billion), supported by higher Goods and Services Tax (GST) collections. Operating expenditure registered 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