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

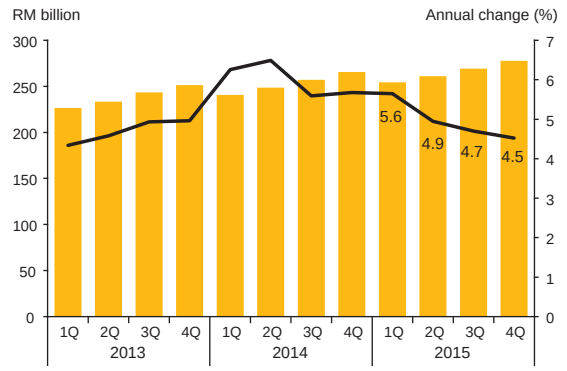
OVERVIEW

Global economic activity continued to expand at a moderate pace in the fourth quarter of 2015. The advanced economies registered modest improvements, but with the pace of growth remaining constrained by crisis-related legacies, including high indebtedness and labour market weaknesses. In Asia, economic activity continued to be supported by domestic demand amid weak export performance. Monetary policy stances experienced a more pronounced divergence given the differing country-specific domestic challenges.

The Malaysian economy expanded by 4.5% in the fourth quarter of 2015

The Malaysian economy registered a growth of 4.5% in the fourth quarter of 2015 (3Q 2015: 4.7%), supported mainly by the private sector demand. On the supply side, growth was underpinned by the major economic sectors. On a quarter-on-quarter seasonally-adjusted basis, the economy grew by 1.5% (3Q 2015: 0.7%). For the year 2015, the Malaysian economy expanded by 5.0%.

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



Source: Department of Statistics, Malaysia

Despite the challenging economic environment during the quarter, the private sector continued to be the key driver of growth. Private consumption grew by 4.9% (3Q 2015: 4.1%), supported by stable wage growth and labour market conditions. Private investment expanded by 5.0% (3Q 2015: 5.5%), driven by capital spending in the manufacturing and services sectors. Public investment growth moderated in the fourth quarter (0.4%; 3Q 2015: 1.8%), following lower growth in fixed assets spending by the Federal Government. Meanwhile, public consumption growth registered sustained growth of 3.3% (3Q 2015: 3.5%) as the stronger growth in emoluments was offset by slower growth in supplies and services expenditure.

On the supply side, growth in the fourth quarter was supported by the major economic sectors. Growth in the services sector was underpinned by the consumption- and trade-related activities. The manufacturing sector recorded a marginally higher growth, supported mainly by domestic-oriented industries. In the construction sector, growth was supported by the civil engineering and residential sub-sectors. Meanwhile, growth in the agriculture sector moderated, reflecting lower production of palm oil. The mining sector, however, registered a contraction arising from the lower production of both crude oil and natural gas.

Inflation, as measured by the annual change in the Consumer Price Index (CPI), was lower at 2.6% in the fourth quarter of 2015 due to the lower domestic fuel prices. However, this was partly offset by the higher inflation for food and cigarettes.

The trade surplus increased to RM30.4 billion in the fourth quarter of 2015 (3Q 2015: RM22.2 billion). Gross exports registered a stronger growth of 8.1% (3Q 2015: 5.5%), supported mainly by the non-resource based manufactured products, particularly machinery, appliances and parts, as well as metal products. Meanwhile, gross imports expanded further by 3.7% (3Q 2015: 2.9%), reflecting higher imports across major categories.

The international reserves of BNM amounted to RM409.1 billion (equivalent to USD95.3 billion) as at 31 December 2015. This reserves level has taken into account the quarterly adjustment for foreign exchange revaluation changes.

As at 29 January 2016, the reserves position amounted to RM410.1 billion (equivalent to USD95.5 billion). The level of international reserves remains ample to facilitate international transactions, being sufficient to finance 8.4 months of retained imports, significantly higher than the 3-month international threshold. The reserves level is also adequate to meet external obligations with a reserves to short-term external debt coverage of 1.2 times. It is important to note that not all short-term external debt creates a claim on reserves given the high level of external assets and export earnings of borrowers.

Interest rates remained stable

The Monetary Policy Committee (MPC) maintained the Overnight Policy Rate (OPR) at 3.25% during the fourth quarter of 2015. At the prevailing level of the OPR, monetary conditions remained supportive of economic activity. While interbank rates below the 1-month tenure were steady, rates beyond the 1-month tenure continued to trend higher during the quarter due to greater demand by banks for stable funding. This led to competition among banks to attract deposits by offering higher deposit rates. The resultant increase in funding cost was transmitted to lending rates in the interbank market. In terms of retail rates, deposit rates were steady throughout the quarter. The average base rate (BR) of banks at the end of the quarter increased slightly, reflecting the upward revision to the BR following the higher KLIBOR.

M3, or broad money, increased by RM12.8 billion on a quarter-on-quarter basis to grow at an annual rate of 2.7% as at end-December 2015 (end-September 2015: 5.2%); driven mainly by the continued expansion in credit extended to the private sector by the banking system. The level of surplus liquidity placed with BNM remained ample at over RM200 billion as at end-December 2015. As part of a comprehensive effort by Bank Negara Malaysia to ensure sufficient liquidity in the domestic financial system, BNM reduced the statutory reserve requirement (SRR) ratio from 4.00% to 3.50%, effective from 1 February 2016.

Total gross financing raised by the private sector through the banking system and the capital market amounted to RM331.4 billion (3Q 2015: RM287.9 billion) in the fourth quarter. On a net basis, outstanding banking system loans and Private Debt Securities (PDS) expanded at a relatively stable growth rate of 8.6% as at end-December 2015 (end-September 2015: 8.8%). While growth in outstanding business loans was at a slower annual pace of 8.0% as at end-December 2015 (end-September 2015: 11.0%), the amount of loans disbursed to businesses increased during the quarter. Financing provided to SMEs remained high, with outstanding SME loans recording an annual growth rate of 15.0% as at end-December 2015 (end-September 2015: 17.6%). Outstanding household loans growth however, moderated to 7.7% as at end-December 2015 (end-September 2015: 8.1%), reflecting mainly the moderation in loans for the purchase of non-residential property and for the purchase of securities. Net funds raised in the capital market increased to RM51.4 billion in the fourth quarter (3Q 2015: -RM2.6 billion), driven mainly by funds raised through private sector issuances in December.

The ringgit, along with other regional currencies, did not face significant volatility during the quarter despite uncertainties over global growth prospects and declining global energy prices. Overall, the ringgit appreciated by 3.6% against

the US dollar during the quarter. The ringgit also appreciated against the euro (6.7%), the pound sterling (6.0%), and the Japanese yen (4.0%), but depreciated against the Australian dollar (-0.5%). The ringgit also appreciated against all regional currencies, by between 2.4% and 5.8%, with the exception of the Indonesian rupiah (-2.4%).

Between 1 January and 16 February 2016, the ringgit appreciated against the US dollar (3.5%). The ringgit also appreciated against the pound sterling (6.3%), the Australian dollar (5.4%), and the euro (1.4%), but depreciated against the Japanese yen (-1.3%). The ringgit appreciated against most regional currencies.

Domestic financial stability remains preserved

The Malaysian financial system remained resilient throughout the quarter despite the environment of heightened market volatility amid uncertainties in global growth and energy prices. Domestic financial intermediation continued to be well-supported by sound and well-capitalised financial institutions. Liquidity in the banking system remained ample despite occasional tight funding conditions. While investors' take a cautious approach in the period ahead, domestic financial system stability is expected to be maintained. The deep and well-developed domestic financial markets have continued to support orderly market conditions and sustained confidence in the financial system.

The Malaysian financial institutions remained well-capitalised. The common equity tier-1 capital, tier-1 capital and total capital ratios of banks were sustained well above the minimum regulatory levels at 12.8%, 13.8% and 16.1%, respectively. More than 80% of the banks' total capital is of high quality, comprising retained earnings, paid-up capital and reserves. The capital adequacy ratio for the insurance sector was similarly healthy at 245.5% (3Q 2015: 243.8%). In aggregate, banks, insurers and takaful operators have capital buffers totalling RM147.4 billion (banks: RM117.3 billion; insurers / takaful operators: RM30.1 billion), that would be able to absorb any potential losses from adverse credit and market events.

Domestic demand will remain the key driver of growth

Downside risks to the global outlook remain elevated. This is reflected in the re-emergence of heightened volatility in the financial markets in the early weeks of 2016, following concerns over the growth prospects of the major economies, the fall in energy prices and the global policy shifts. Going forward, although the global economy is projected to expand further, growth is expected to be moderate and uneven. The pace of recovery will remain modest in the major advanced economies. Meanwhile, in Asia, while growth is expected to slow, domestic demand is projected to continue supporting growth.

The Malaysian economy is expected to face a challenging operating environment in the immediate future. Growth will continue to be driven by domestic demand, with some support from net exports. Nevertheless, the pace of domestic demand expansion is projected to moderate. While the growth in income and employment continues to support private consumption, it is expected to moderate as households continue to adjust to the higher cost of living. Meanwhile, private investment is projected to moderate to below its long term trend but will nevertheless be supported by the capital expenditure in the manufacturing and services sectors, as well as the implementation of infrastructure projects. The downside risks to growth will however remain, given the continued uncertainty in the external environment and the on-going reforms in the domestic economy.

DEVELOPMENTS IN THE FOURTH QUARTER OF 2015

INTERNATIONAL ECONOMIC ENVIRONMENT

Moderate global growth

Global economic activity continued to expand at a moderate pace in the fourth quarter of 2015. The advanced economies registered modest improvements, but with the pace of growth remaining constrained by crisis-related legacies, including high indebtedness and labour market weaknesses. In Asia, economic activity continued to be supported by domestic demand amid weak export performance. Monetary policy stances experienced a more pronounced divergence given the differing country-specific domestic challenges.

Global financial markets remained volatile in the fourth quarter. Investors' sentiments were boosted in the beginning of the quarter following expectations of continued easy monetary policy in the advanced economies and the announcement of additional monetary policy easing by several Asian central banks, including the People's Bank of China (PBOC). However, heightened volatility re-surfaced in December. While the US Federal Reserve's decision to raise interest rates removed some uncertainty from the financial markets, investors' sentiments were more affected by concerns over global growth prospects in some of the major emerging economies. This was further compounded by persistent high uncertainty surrounding renewed downward pressure in global energy prices. Given these developments, most major and regional currencies depreciated against the US dollar towards the end of the year.

In the energy market, Brent crude oil prices declined sharply to an average of USD45 per barrel in the fourth quarter (3Q 2015: USD51 per barrel). This was mainly due to the protracted oversupply in the oil market following a large build-up in OECD oil inventory and OPEC's continued high production rate. In December 2015, prices declined further due to OPEC's decision during the month not to cut its high level of production, as well as the increase in Fed funds rate on 16 December, which triggered a new round of liquidation of positions in the oil market. As a result, Brent oil prices hit an 11-year low of USD36 per barrel on 22 December and ended the quarter at USD37 per barrel.

Growth in the US economy moderated to 1.8% in the fourth quarter (3Q 2015: 2.1%), due mainly to a slower expansion of private consumption and investment activity. Nevertheless, consumer spending remained the key contributor to growth, supported by continued favourable labour market conditions. Meanwhile, growth in fixed investment moderated, as a slowdown in industrial and commodity-related capital spending offset the improvement in residential investment. On a seasonally adjusted annualised basis, the overall growth momentum slowed to 0.7% (3Q 2015: 2.0%). Headline inflation rose to 0.5% (3Q 2015: 0.1%), due mainly to the increase in prices of shelter and medical care services.

The euro area economy grew at an annual pace of 1.5% (3Q 2015: 1.6%). On a quarterly basis, the growth momentum was sustained at 0.3%, supported by a continued expansion of economic activity in the core economies, in particular Germany and Spain. Domestic demand in the region was supported by a gradual improvement in the labour market and accommodative monetary conditions. Headline inflation was sustained at a low rate of 0.1% during the quarter, while core inflation increased slightly (1.0%, 3Q 2015: 0.9%).

Economic activity in the UK expanded at a more moderate pace in the fourth quarter (1.9%; 3Q 2015: 2.1%). The services sectors remained the key contributor to growth, particularly the business services and finance sub-sector. Headline inflation remained flat (3Q 2015: 0%), as the growth in the prices of clothing and footwear was offset by the decline in the cost of food.

Growth in the Japanese economy moderated to 0.5% (3Q 2015: 1.7%). On a seasonally adjusted annualised basis, economic activity contracted by 1.4% (3Q 2015: +1.3%). Growth was mainly affected by a significant decline in

private consumption, amid weak wage growth. On the external front, exports contracted, due mainly to slowing demand from most of its key trading partners. Headline inflation (excluding fresh food) registered a marginal positive growth of 0.1% (3Q 2015: -0.1%), while core inflation (excluding food and energy) was sustained at 0.8%.

Advanced Economies: Real GDP Growth

	2014		2015		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
US	2.5	2.4	2.1	1.8[a]	2.4[a]
Euro area	1.0	0.9	1.6	1.5[p]	1.5[p]
UK	2.8	2.9	2.1	1.9[p]	2.2[p]
Japan	-1.0	0.0	1.7[r]	0.5[p]	0.4[p]

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

Source: National authorities

During the quarter, monetary policy in the advanced countries remained accommodative, albeit with diverging trends across economies. In the US, the Federal Open Market Committee (FOMC) decided to increase the target range for the federal funds rate (FFR) for the first time since 2006 by 25 basis points to 0.25-0.5%. The decision was premised upon solid growth in household spending and business fixed investment, as well as notable improvements in the labour market throughout the year. The FOMC, however, highlighted that the timing and pace of future adjustments in the FFR will be gradual and data dependent while remaining below levels that are expected to prevail in the longer run. In contrast, the European Central Bank (ECB) lowered the interest rate on the deposit facility by 10 basis points to -0.3%, and extended its asset purchase programme of EUR60 billion monthly purchases for at least an additional six months until the end of March 2017. Similarly, the Reserve Bank of New Zealand (RBNZ) lowered its benchmark official cash rate by 25 basis points to 2.50% amid rising growth concerns and lower inflation. Across other advanced economies, central banks in Australia, Canada, Denmark, Norway and Sweden reiterated their commitment to maintain accommodative monetary conditions by keeping policy rates unchanged during the quarter.

Growth in PR China moderated slightly the fourth quarter (6.8%; 3Q 2015: 6.9%). While growth in the services sector moderated (8.2%, 3Q 2015: 8.6%), it continued to outperform the secondary industry (industry and construction) (6.1%, 3Q 2015: 5.8%). During the quarter, the Chinese government implemented a series of wide-ranging policy measures to support domestic demand. These included lower taxes on car purchases, higher infrastructure investment and increased lending to targeted sectors. Further monetary policy easing measures were also introduced following the sharp correction in the stock markets. Nevertheless, growth continued to face headwinds arising from excess capacity in heavy industries and the property market and the weaker sentiments after the correction in the Chinese equity markets. Meanwhile, inflation moderated to 1.5% (3Q 2015: 1.7%) due to lower prices in the food and housing sub-sectors.

In Asia, several economies registered moderate improvements. In Singapore, growth improved to 2.0% (3Q 2015: 1.8%), underpinned by an improvement in construction activity in the public sector. Similarly, growth of the Korean economy also picked up in the fourth quarter to 3.0% (3Q 2015: 2.7%), driven mainly by an improvement in private consumption amid sustained investment activity and stronger export performance. The Indonesian economy registered higher growth of 5% (3Q 2015: 4.7%), reflecting mainly an increase in investment, particularly in infrastructure, amid sustained private consumption but weaker exports. Likewise, growth in the Philippines improved (6.3%; 3Q 2015: 6.1%), driven by stronger private consumption and investment. In Thailand, despite a contraction in exports, economic activity expanded at a pace of 2.8% (3Q 2015: 2.9%), supported by a broad-based improvement in domestic demand. Meanwhile, in Chinese Taipei, economic activity remained in contraction, but at a slower pace of 0.3% (3Q 2015: -0.6%). The improvement in private consumption during the quarter was offset by a contraction in investment activity and exports.

Regional Countries: Real GDP Growth

	2014		2015		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
PR China	7.2	7.3	6.9	6.8	6.9
Philippines	6.6	6.1	6.1	6.3	5.8
Indonesia	5.0	5.0	4.7	5.0	4.8
Thailand	2.1	0.8	2.9	2.8	2.8
Korea	2.7	3.3	2.7	3.0[a]	2.6[a]
Singapore	2.1	2.9	1.8[r]	2.0[a]	2.1[a]
Chinese Taipei	3.6	3.9	-0.6	-0.3[a]	0.9[a]

[a] Advance estimate
[r] Revised

Source: National authorities

Headline inflation in most regional economies picked up modestly in the fourth quarter with the waning impact of the late-2014 decline in energy prices. The Chinese Taipei economy exited deflation while prices contracted at a slower pace in Thailand. However, inflation moderated in Indonesia as the impact of subsidy rationalisation on fuel prices dissipated.

In this environment, monetary policy remained accommodative across the region, with a few central banks lowering their key policy rates during the quarter. In October, the Monetary Authority of Singapore (MAS) reduced slightly the rate of appreciation of the Singapore dollar nominal effective exchange rate (S$NEER) policy band following a weaker-than-expected growth outlook. The People's Bank of China (PBOC) lowered its key policy rate by 25 basis points to 4.35% and reduced the reserve requirement ratio (RRR) for large financial institutions by 50 basis points to 17.5%. Banks lending to SMEs and the agricultural sector also received an additional 50 basis points reduction to their respective RRR. Additionally, the PBOC removed the ceiling on deposit rates, improving market-oriented interest rate setting. In December 2015, the Central Bank of the Republic of China (Taiwan) lowered its key policy rate by 12.5 basis points amid moderate global and domestic growth outlook. In the same month, Bank Indonesia (BI) reduced its RRR by 50 basis points to 7.50%. In January 2016, BI lowered its key policy rate by 25 basis points to 7.25%.

Downside risks to the global outlook remain elevated. This is reflected in the re-emergence of heightened volatility in the financial markets in the early weeks of 2016, following concerns over the growth prospects of the major economies, the fall in energy prices and global policy shifts. Going forward, although the global economy is projected to expand further, growth will be moderate and uneven. The pace of recovery will remain modest in the major advanced economies. Meanwhile, in Asia, domestic demand is expected to continue to support growth.

DEVELOPMENTS IN THE MALAYSIAN ECONOMY

The Malaysian economy expanded by 4.5% in the fourth quarter

The Malaysian economy registered a growth of 4.5% in the fourth quarter of 2015 (3Q 2015: 4.7%). Private sector expenditure remained moderate but continued to be the key driver of growth (4.9%; 3Q 2015: 4.4%). In addition, growth was supported by net exports, which recorded a stronger growth of 4.2% during the quarter (3Q 2015: 3.3%). On a quarter-on-quarter seasonally-adjusted basis, the economy grew by 1.5% (3Q 2015: 0.7%).

Continued expansion in domestic demand

Domestic demand continued to expand by 4.0% in the fourth quarter of 2015 (3Q 2015: 4.0%). Despite the challenging economic environment, private sector expenditure grew by 4.9% (3Q 2015: 4.4%). Private consumption growth improved to 4.9% (3Q 2015: 4.1%), supported by stable wage growth and labour market conditions. The stronger growth was contributed mainly by increased spending in the transport category, as households frontloaded vehicle purchases in anticipation of announced price adjustments that would come into effect in 2016. Private investment expanded by 5.0% (3Q 2015: 5.5%), supported mainly by the progress of on-going projects in the manufacturing and services sectors.

Public sector expenditure expanded by 2.1% in the fourth quarter (3Q 2015: 2.8%). **Public investment** moderated to 0.4% (3Q 2015: 1.8%), following lower growth in fixed assets spending by the Federal Government. **Public consumption** recorded a sustained growth of 3.3% (3Q 2015: 3.5%), as a stronger growth in emoluments was offset by a slower growth in supplies and services expenditure.

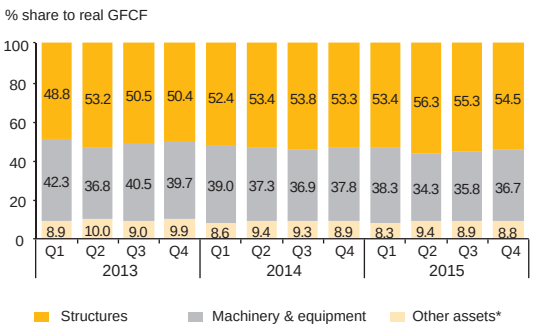
GDP by Expenditure Components
(at constant 2010 prices)

	Share 2015 (%)	2014		2015		
		4Q	Year	3Q	4Q	Year
		Annual change (%)				
Aggregate Domestic Demand (excluding stocks)	91.6	5.7	5.9	4.0	4.0	5.1
Private Sector	69.2	8.3	7.9	4.4	4.9	6.1
Consumption	*52.4*	*7.6*	*7.0*	*4.1*	*4.9*	*6.0*
Investment	*16.9*	*11.1*	*11.0*	*5.5*	*5.0*	*6.4*
Public Sector	22.4	0.6	0.4	2.8	2.1	2.1
Consumption	*13.5*	*2.5*	*4.4*	*3.5*	*3.3*	*4.3*
Investment	*8.9*	*-1.9*	*-4.7*	*1.8*	*0.4*	*-1.0*
Net Exports	8.6	-4.0	12.8	3.3	4.2	-3.7
Exports of Goods and Services	*73.0*	*1.9*	*5.1*	*3.2*	*3.7*	*0.7*
Imports of Goods and Services	*64.4*	*2.6*	*4.2*	*3.2*	*3.6*	*1.3*
GDP	**100.0**	**5.7**	**6.0**	**4.7**	**4.5**	**5.0**
GDP (q-o-q growth, seasonally adjusted)	**-**	**1.8**	**-**	**0.7**	**1.5**	**-**

Source: Department of Statistics, Malaysia

Gross fixed capital formation (GFCF) expanded at a slower pace at 2.8% (3Q 2015: 4.2%) due to a moderation of growth in both public and private investments. By type of assets, GFCF was mainly supported by the continuous growth of investment in structures (5.1%; 3Q 2015: 7.0%).

GFCF by Type of Assets



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

Source: Department of Statistics, Malaysia

Growth supported by major economic sectors

On the supply side, growth in the fourth quarter was supported by the major economic sectors. Growth in the services sector was underpinned by the consumption- and trade-related activities. The manufacturing sector recorded a marginally higher growth, supported mainly by domestic-oriented industries. In the construction sector, growth was supported by the civil engineering and residential sub-sectors. Meanwhile, growth in the agriculture sector moderated, reflecting lower production of palm oil. The mining sector, however, registered a contraction arising from the lower production of both crude oil and natural gas.

GDP by Economic Activity (at constant 2010 prices)

	Share 2015 (%)	2014		2015		
		4Q	Year	3Q	4Q	Year
		Annual change (%)				
Services	53.5	6.6	6.5	4.4	5.0	5.1
Manufacturing	23.0	5.4	6.2	4.8	5.0	4.9
Mining	8.9	9.5	3.3	5.3	-1.4	4.7
Agriculture	8.8	-3.7	2.1	2.4	1.3	1.0
Construction	4.4	8.8	11.8	9.9	7.4	8.2
Real GDP	**100.0**[1]	**5.7**	**6.0**	**4.7**	**4.5**	**5.0**
Real GDP (q-o-q seasonally adjusted)	**-**	**1.8**	**-**	**0.7**	**1.5**	**-**

[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 2015 (%)	2014		2015		
		4Q	Year	3Q	4Q	Year
		Annual change (%)				
Intermediate Services	**38.1**	**6.1**	**5.9**	**3.7**	**4.2**	**4.6**
Finance & insurance	12.9	2.4	2.3	-3.1	-1.5	-0.7
Real estate & business services	8.0	8.3	8.0	6.5	6.2	6.6
Transport & storage	6.6	6.0	5.2	5.6	6.0	5.7
Information & communication	10.6	9.7	9.7	9.5	9.2	9.4
Final Services	**61.9**	**6.9**	**7.0**	**4.8**	**5.4**	**5.5**
Wholesale & retail trade	27.4	9.4	8.9	5.7	6.5	6.9
Food & beverages and accommodation	5.2	7.5	6.5	5.8	5.9	6.4
Utilities	4.8	3.9	3.8	3.1	3.2	3.5
Government services	16.3	4.7	6.1	3.2	4.6	4.0
Other services	8.2	4.7	4.8	4.8	4.6	4.7
Total Services	**100.0**[1]	**6.6**	**6.5**	**4.4**	**5.0**	**5.1**

[1] Numbers do not add up due to rounding

Source: Department of Statistics, Malaysia

Selected Quarterly Indicators in the Services Sector

	2014		2015		
	4Q	Year	3Q	4Q	Year
	Index				
MIER Consumer Sentiments Index	83.0	94.5	70.2	63.8	69.6
MIER Retail Trade Index	92.9	99.7	93.3	77.9	83.4
MIER Tourism Market Index	107.6	108.8	116.5	89.8	97.9
	Annual change (%)				
Tourist arrivals	-1.9	6.7	-2.3[1]	n.a.	-7.7[3]
Total passenger traffic at all airports	-0.2	5.0	6.1	-3.8[2]	1.1[4]
Total consumption credit outstanding	2.7	2.7	2.7	3.1	3.1
Total loans outstanding	9.3	9.3	9.7	7.9	7.9
Loans outstanding to the wholesale & retail trade, hotels & restaurants	7.5	7.5	10.3	8.2	8.2
Imports of consumption goods	3.0	5.7	27.2	38.5	24.2
Total sales of motor vehicles	3.8	1.6	2.5	4.1	0.0
Container cargo handled (Port Klang and PTP)	12.8	8.3	7.7	5.4	7.9

[1] July-Aug 2015
[2] Oct-Nov 2015
[3] Jan-Aug 2015
[4] Jan-Nov 2015

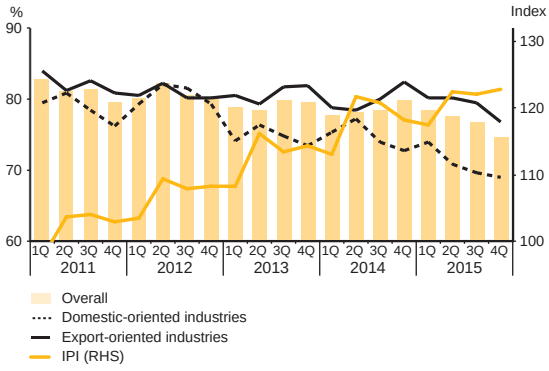
Source: Various sources

The **services sector** grew by 5.0% in the fourth quarter (3Q 2015: 4.4%) underpinned by household spending and trade activity. The wholesale and retail trade sub-sector registered a higher growth of 6.5% (3Q 2015: 5.7%), supported by the private consumption activity. In the information and communication sub-sector, growth remained robust (9.2%; 3Q 2015: 9.5%), driven by the continued strength in demand for data communication services. Growth in the real estate and business services sub-sector expanded by 6.2% (3Q 2015: 6.5%), led by the business services segment.

The transportation and storage sub-sector expanded by 6.0% (3Q 2015: 5.6%) supported by the improvement in trade activity. The finance and insurance sub-sector registered a smaller contraction of 1.5% (3Q 2015: -3.1%) attributable mainly to higher growth in net interest income and insurance premiums.

Growth in the **manufacturing sector** was marginally higher at 5.0% in the fourth quarter (3Q 2015: 4.8%), driven primarily by the higher growth in the domestic-oriented industries and continued expansion in the export-oriented industries. The turnaround in the domestic-oriented industries was mainly due to the improvement in the consumer-related cluster resulting from higher production of food, beverages and tobacco, as well as transport equipment. However, growth in the export-oriented industries registered a slight moderation as the higher growth in the electronics and electrical (E&E) cluster was offset by the slower performance in the primary-related cluster.

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		
	4Q	Year	3Q	4Q	Year
	Annual Change (%)				
Value Added (at constant 2010 prices)	**7.2**	**6.2**	**4.8**	**5.0**	**4.9**
Export-oriented industries	6.1	5.9	5.8	5.5	5.6
Domestic-oriented industries	9.1	6.9	3.2	4.1	3.7
Overall Manufacturing Production[1]	**5.0**	**6.1**	**4.7**	**4.8**	**4.8**
Export-oriented industries	**5.2**	**5.6**	**5.2**	**4.7**	**4.8**
Electronics and electrical products cluster	**9.7**	**11.8**	**10.6**	**10.7**	**9.2**
Of which:					
Electronics	6.0	10.6	3.5	5.7	0.7
Electrical products	14.4	13.5	27.7	24.7	32.1
Primary-related cluster	**2.9**	**2.5**	**2.3**	**1.5**	**2.5**
Of which:					
Chemicals and chemical products	7.9	3.6	1.6	1.9	4.6
Petroleum products	1.8	0.6	2.1	-0.2	1.2
Rubber products	-0.8	-1.3	6.9	7.0	5.1
Off-estate processing	-5.5	5.1	-0.9	-1.9	-3.5
Domestic-oriented industries	**4.4**	**7.7**	**3.0**	**5.0**	**4.7**
Construction-related cluster	**3.6**	**4.3**	**3.9**	**4.8**	**4.5**
Of which:					
Construction-related products	5.3	5.1	3.7	3.7	4.5
Fabricated metal products	0.6	2.8	4.2	6.9	4.6
Consumer-related cluster	**5.1**	**11.2**	**2.1**	**5.1**	**4.8**
Of which:					
Transport equipment	1.1	14.4	2.2	3.7	5.2
Food, beverage & tobacco products	10.5	7.4	2.5	7.4	4.8

[1] Industrial Production Index (2010=100)

Source: Department of Statistics, Malaysia

Indicators for the Construction Sector

	2014		2015		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Value of construction work done	9.7	12.8	14.0	11.2	12.1
Residential	18.3	22.2	8.3	8.7	10.9
Non-residential	23.5	17.1	13.9	3.6	13.9
Civil engineering	-8.0	1.2	19.0	23.3	11.9
Special trade[1]	7.7	16.7	17.5	4.4	8.0
Housing approvals	8.0	4.2	-44.5	-18.5	-25.3
Production[2] of construction-related materials					
Hydraulic cement	9.9	6.6	14.7	11.9	14.8
Other articles of concrete, cement and plaster n.e.c	27.3	32.8	8.4	-15.3	3.4
Other porcelain and ceramic products	29.6	20.9	17.1	12.2	20.0
Prefabricated structural components for building or civil engineering of cement, concrete or artificial stone	-13.3	-3.8	-8.2	21.1	-2.2
Capital imports (excluding lumpy items)	7.7	0.9	8.4	3.2	4.8
Loans for the construction sector					
Approval	24.9	0.3	-24.0	-5.5	3.8
Disbursement	17.8	12.7	5.4	-13.4	-0.6

[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 **construction sector** grew by 7.4% in the fourth quarter (3Q 2015: 9.9%), supported mainly by the civil engineering and residential sub-sectors. Activity in the civil engineering sub-sector was underpinned by petrochemical and transport-related projects, while construction in the mass-market and high-end housing segments supported growth in the residential sub-sector. The expansion in the non-residential sub-sector registered slower growth, amid lower construction activity in the industrial and commercial property segments.

Growth of the **agriculture sector** moderated to 1.3% (3Q 2015: 2.4%), due to declining palm oil output as a result of the severe haze weather conditions during the quarter. Meanwhile, the growth of the **mining sector** declined by 1.4% (3Q 2015: 5.3%) due to lower production of both crude oil and natural gas.

Performance of the Agriculture Sector

	Share in 2015 (%)	2014		2015		
		4Q	Year	3Q	4Q	Year
		Annual change (%)				
Value Added (at constant 2010 prices)	**100**	**-3.7**	**2.1**	**2.4**	**1.3**	**1.0**
Industrial Crops	**60.9**	**-8.4**	**0.1**	**3.6**	**1.4**	**0.4**
Of which:						
Oil palm	46.9	-8.0	2.4	4.1	1.3	1.3
Rubber	7.1	-25.5	-19.2	5.3	22.2	6.9
Food Crops	**39.1**	**6.2**	**6.4**	**0.5**	**1.3**	**2.0**
Of which:						
Fishing	10.7	2.2	2.1	-3.2	2.5	0.6
Livestock	10.7	8.8	7.9	2.0	0.4	2.4

Source: Department of Statistics, Malaysia

Performance of the Mining Sector

	2014		2015		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Value Added (at constant 2010 prices)	**9.5**	**3.3**	**5.3**	**-1.4**	**4.7**
Production					
Of which:					
Crude oil and condensates	15.9	4.3	8.3	0.9	10.7
Natural gas	3.1	1.6	1.3	-5.2	-2.0

Source: Department of Statistics, Malaysia

Headline inflation declined in the fourth quarter

Inflation, as measured by the annual change in the Consumer Price Index (CPI), was lower at 2.6% in the fourth quarter of 2015 (3Q 2015: 3.0%). The *transport* category registered larger negative inflation of -5.7% (3Q 2015: -1.1%) due to the decline in domestic fuel prices during the quarter amidst low global oil prices. However, the negative inflation in the *transport* category was partly offset by the larger increases in inflation for food and cigarettes during the quarter. Prices of fresh vegetables, fish and seafood were higher due to supply shortages following the adverse weather conditions. Prices of cigarettes were revised upwards by more than 20% in November 2015 in response to the increase in excise duty on tobacco products.

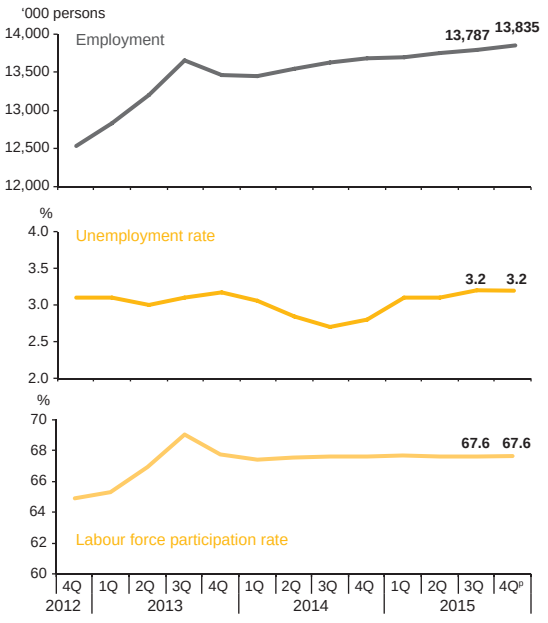
The Producer Price Index (PPI) continued to decline, albeit at a slower pace, on an annual basis in the fourth quarter (4Q 2015: -2.4%; 3Q 2015: -5.4%), driven mainly by lower prices in the *mineral, fuels and lubricants* and *animal and vegetable oils and fat* categories, due to lower global commodity prices. Correspondingly, prices of commodity-related components declined by 10.8% (3Q 2015: -18.1%). Meanwhile, prices of non-commodity-related components increased by 1.9% during the quarter (3Q 2015: 1.7%).

Stable labour market conditions

Labour market conditions remained steady during the fourth quarter[1]. The unemployment rate remained unchanged at 3.2% (3Q 2015: 3.2%), with sustained labour force participation (67.6% of the labour force; 3Q 2015: 67.6%).

While the overall labour market conditions were steady, some signs of softening emerged, as evidenced by the slower hiring in the job market. Demand for new hires was more moderate in the fourth quarter, as fewer new job advertisements were posted on Jobstreet.com (54,569 positions; 3Q 2015: 62,100). The moderation was broad-based across sectors, with notable declines from the oil and gas sector, and financial services sub-sector. Recent indications[2] by industry players revealed that hiring intentions remain subdued, with many employers hesitating to expand their workforce given uncertainties in the global and domestic demand conditions.

Labour Market Indicators



p Preliminary

Source: Department of Statistics, Malaysia

Consumer Price Index

Category	Weights (%) (2010=100)	3Q 2015	4Q 2015
		Annual change, %	
Total	**100.0**	**3.0**	**2.6**
Food and non-alcoholic beverages	30.3	4.1	4.5
Housing, water, electricity, gas and other fuels	22.6	2.6	2.5
Transport	14.9	-1.1	-5.7
Others	32.2	4.1	5.0

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

[1] Based on preliminary data
[2] Bank Negara conducts active engagements with firms and businesses to gain on-the-ground insights on economic conditions, including on the labour market

In the manufacturing sector, aggregate nominal wages grew at a robust rate of 7.4% in the fourth quarter (3Q 2015: 5.1%), driven by the favourable performance in certain export-oriented sectors, particularly the electrical and electronics and chemicals sub-sectors. Nevertheless, employment in this sector remained relatively unchanged (4Q 2015: -0.2% growth in employment), indicating that employers were increasing production through higher labour utilisation rather than workforce expansion. In the distributive trade services sub-sector[3], wage growth was more moderate at 4.6% (3Q 2015: 5.2%), attributable to slower wage growth in the retail trade and motor vehicles sales sub-sectors. Employment in this sub-sector, nevertheless, continued to expand (2.6%; 3Q 2015: 2.9%).

Trade Account

	Share 2015 (%)	2014		2015		
		4Q	Year	3Q	4Q	Year
		Annual change (%)				
Gross Exports	**100.0**	**0.2**	**6.3**	**5.5**	**8.1**	**1.9**
Manufactured	80.2	1.8	7.1	10.8	12.5	6.5
E&E	*35.6*	*5.5*	*8.1*	*14.2*	*9.6*	*8.5*
Non-E&E	*44.6*	*-0.9*	*6.4*	*8.1*	*14.8*	*5.0*
Resource based	*22.3*	*-4.5*	*4.9*	*-0.6*	*2.7*	*-3.9*
Non-resource based	*22.3*	*3.6*	*8.2*	*18.6*	*29.4*	*15.7*
Commodities	19.2	-5.0	3.9	-12.7	-7.3	-13.4
Minerals	*10.6*	*-2.4*	*6.2*	*-24.8*	*-14.4*	*-20.5*
Agriculture	*8.6*	*-8.8*	*0.5*	*3.5*	*3.8*	*-2.8*
Gross Imports	**100.0**	**4.6**	**5.3**	**2.9**	**3.7**	**0.4**
Intermediate goods	58.2	12.2	7.6	-5.3	-1.5	-2.2
Capital goods	14.0	-0.2	-2.4	4.8	0.6	0.1
Consumption goods	9.1	3.0	5.7	27.2	38.5	24.2
Re-exports and dual-use goods	18.7	-11.6	4.1	20.6	9.0	-0.3
Trade balance (RM billion)	**–**	**21.0**	**82.5**	**22.2**	**30.4**	**94.3**

Source: MATRADE and Department of Statistics, Malaysia

Balance of Payments[1]

	2014		2015		
	4Q	Year	3Q	4Q	Year
	RM billion				
Current Account	**5.7**	**47.3**	**5.1**	**11.4**	**34.0**
(% of GNI)	*2.1*	*4.4*	*1.8*	*3.9*	*3.0*
Goods	29.4	113.4	27.1	30.9	108.9
Services	-5.5	-11.2	-5.9	-6.2	-20.5
Primary income	-13.2	-37.3	-10.3	-8.2	-32.2
Secondary income	-5.0	-17.6	-5.9	-5.0	-22.2
Financial Account	**-26.6**	**-81.6**	**-31.2**	**5.3**	**-53.3**
Direct investment	-2.5	-18.4	-0.3	5.7	0.2
Assets	*-9.9*	*-53.1*	*-7.0*	*-2.8*	*-37.4*
Liabilities	*7.5*	*34.6*	*6.7*	*8.5*	*37.6*
Portfolio investment	-20.3	-38.5	-24.4	15.9	-28.2
Assets	*0.3*	*-28.1*	*0.6*	*5.6*	*-9.2*
Liabilities	*-20.6*	*-10.4*	*-25.0*	*10.3*	*-19.0*
Financial derivatives	0.2	-1.0	-0.1	0.1	-0.5
Other investment	-4.0	-23.6	-6.4	-16.4	-24.9
Errors & omissions[2]	9.1	-2.5	43.1	-22.7	24.1
Overall Balance	**-11.5**	**-36.5**	**17.0**	**-6.0**	**3.7**

Assets: (-) denotes outflows due to the acquisition of assets abroad by residents
Liabilities: (+) denotes inflows due to the incurrence of liabilities in Malaysia by non-residents
[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

External position remained resilient in the fourth quarter

The **current account** surplus increased to to RM11.4 billion, equivalent to 3.9% of GNI in 4Q 2015 (3Q 2015: RM5.1 billion or 1.8% of GNI), due mainly to a larger goods surplus and smaller income deficits. For 2015, the current account registered a lower balance of RM34.0 billion or 3.0% of GNI (2014: RM47.3 billion or 4.4% of GNI).

In the fourth quarter of 2015, gross exports registered a stronger growth of 8.1% (3Q 2015: 5.5%), supported mainly by the broad-based expansion in manufactured exports and a smaller contraction in commodities exports. Meanwhile, gross imports expanded further by 3.7% (3Q 2015: 2.9%), reflecting higher imports across major categories. As a result, the trade surplus was higher at RM30.4 billion (3Q 2015: RM22.2 billion).

[3] The distributive trade services sub-sector consist of wholesale and retail trade, and motor vehicles sub-sectors.

Growth of manufactured exports was driven mainly by the strong performance of non-resource based manufactured products, particularly machinery, appliances and parts, as well as metal products. Exports of electrical and electronic (E&E) products also expanded, supported mainly by demand for office and auto data processing machines, and electrical machinery. The positive turnaround in resource-based manufactured exports also contributed to the growth of manufactured exports. Meanwhile, the smaller decline in commodity exports was attributable to the improvement in the prices of major commodity during the quarter, and higher demand for all commodities other than rubber.

In terms of destination, exports to key trading partners remained strong. Exports to the US, China and EU, in particular, continued to record strong double-digit growth. The strong exports to the US were driven mainly by E&E products. For EU, apart from higher demand for E&E products, exports were also augmented by optical and scientific equipment. Exports to China were largely supported by manufactured metal and petroleum products. Exports to the region, including ASEAN, also strengthened during the quarter.

Gross imports grew further in the fourth quarter of 2015. Consumption imports registered stronger growth, owing to higher imports of food and beverages, as well as durable and semi-durable consumer goods. Capital imports also recorded a marginal growth, in tandem with the continued expansion in private investment. The pick-up in imports for re-export, particularly metal products also contributed to gross imports growth. Meanwhile, intermediate imports recorded a smaller contraction, amid a smaller decline in imports of industrial supplies and higher imports of parts and accessories for transport equipment.

Malaysia: Direction of Exports

	Share 2015 (%)	2014		2015		
		4Q	Year	3Q	4Q	Year
		Annual change (%)				
United States	**9.4**	**16.9**	**10.9**	**20.3**	**18.4**	**14.4**
European Union (EU)	**10.1**	**7.9**	**11.5**	**13.8**	**13.0**	**8.4**
Japan	**9.5**	**0.8**	**4.3**	**-7.4**	**-6.7**	**-10.7**
Selected ASEAN countries[1]	**27.6**	**5.0**	**5.7**	**5.5**	**7.7**	**2.6**
North East Asia	**24.0**	**-9.2**	**3.2**	**10.0**	**7.1**	**3.0**
People's Republic of China	*13.0*	*-15.6*	*-4.9*	*25.7*	*10.8*	*10.0*
Hong Kong SAR	*4.7*	*-3.9*	*18.5*	*-0.9*	*1.0*	*-0.5*
Korea	*3.2*	*0.6*	*6.6*	*-4.4*	*-10.0*	*-9.7*
Chinese Taipei	*3.0*	*1.9*	*13.2*	*-14.1*	*25.0*	*-3.5*
West Asia[2]	**2.8**	**-2.8**	**-5.7**	**5.5**	**-3.3**	**-4.1**
India	**4.1**	**16.0**	**23.9**	**-14.4**	**7.8**	**-0.7**
Total exports	**100.0**	**0.2**	**6.3**	**5.5**	**8.1**	**1.9**

[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 deficit in the **services** account widened slightly to -RM6.2 billion (3Q 2015: -RM5.9 billion), attributable mainly to larger payments for other business services and construction services in tandem with higher trade- and investment-related activities. These more than offset the higher travel surplus following an increase in tourist arrivals during the quarter.

The deficit in the **primary income** account narrowed to -RM8.2 billion (3Q 2015: -RM10.3 billion), reflecting mainly higher direct investment income accrued to Malaysian companies investing abroad, particularly in the services sector. Income from direct investment abroad in the mining sector also contributed to the improvement, due mainly to improved cost efficiency. Investment income accrued to foreign direct investors in 4Q 2015 was also higher, particularly in the manufacturing and services sectors. Meanwhile, the net payments in **secondary income** account were lower at -RM5.0 billion (3Q 2015: -RM5.9 billion) due to higher receipts amid smaller outward remittances.

The **financial account** recorded a net inflow of RM5.3 billion (3Q 2015: -RM31.2 billion), as both direct investment and portfolio investment turned around to record net inflows.

Direct investment account registered a net inflow of RM5.7 billion (3Q 2015: -RM0.3 billion), as the incurrence of direct investment liabilities, which were mostly **Foreign Direct Investment** (FDI) (RM8.5 billion; 3Q 2015: +RM6.7 billion), more than offset the accumulation of direct investment assets, which were mostly accounted by **Direct Investment Abroad** (DIA) (RM2.8 billion; 3Q 2015: -RM7.0 billion).

On a directional principle basis, DIA by Malaysian companies rose to RM6.8 billion (3Q 2015: -RM5.0 billion), due mainly to the higher extension of intercompany loans to subsidiaries. The contribution of equity capital was lower due to several major divestments during the quarter. The bulk of DIA was channelled to the mining sector, followed by the services sector, particularly in the finance and insurance; and information and communication sub-sectors.

FDI increased significantly to RM12.5 billion (3Q 2015: RM4.7 billion), mainly on account of net drawdowns of intercompany loans by the subsidiaries of multinational corporations operating in Malaysia and higher injection of equity capital. FDI flows during the quarter were mainly to the manufacturing sector, particularly to the electrical and electronics industry, and to a lesser extent the petro-chemical industry. Investments in the mining and services sector, especially the finance and insurance sub sector were also sizeable.

Portfolio investment account turned around to record a net inflow of RM15.9 billion (3Q 2015: -RM24.4 billion), on account of net inflows contributed by both non-resident and resident investors. Net inflows by non-resident investors amounted to RM10.3 billion (3Q 2015: -RM25.0 billion). Investor sentiments generally improved during the quarter, driven by greater certainty over the timing and pace of the US Fed's monetary policy normalisation coupled with additional monetary easing measures by major central banks. This had led to a net purchase of debt securities, particularly Malaysian Government Securities (MGS) while the liquidation of equity securities was lower. Portfolio investment by residents also recorded a net inflow of RM5.6 billion (3Q 2015: RM0.6 billion), due primarily to the maturing of offshore foreign currency debt securities held by domestic financial institutions, which more than offset the higher acquisition of foreign securities.

Other investment account recorded higher outflows of RM16.4 billion (3Q 2015: -RM6.4 billion), due mainly to higher net outflows in the banking sector. The net outflows in the banking sector mainly reflected the maturity of non-resident financial institutions' deposits in domestic banks. In addition, there were also placements of funds by Malaysian banks in foreign financial institutions. In the non-bank private sector, the net outflows reflected mainly a net extension of trade credits by Malaysian exporters. Meanwhile, the public sector also recorded net outflows, attributed mainly by the repayment of long-term loans by public enterprises.

Arising from these developments, the overall balance of payments registered a deficit of RM6.0 billion in the fourth quarter (3Q 2015: +RM17.0 billion). Errors and omissions amounted to RM22.7 billion or -5.8% of total trade, partially reflecting the foreign exchange revaluation changes in international reserves.

Manageable external debt

Malaysia's external debt stood at RM833.7 billion, equivalent to USD192.2 billion or 72.1% of GDP as at end-December 2015 (end-September: RM852.9 billion or USD189.9 billion, equivalent to 73.7% of GDP). The lower external debt was attributed mainly to a net repayment of offshore borrowing, as well as the valuation effects following the strengthening of the ringgit against most currencies. This was partially offset by the higher non-resident holdings of domestic debt securities.

Offshore borrowings declined by 5.4% to RM463.6 billion as at end-December 2015 (end-September: RM489.9 billion). Excluding the foreign exchange valuation changes, offshore borrowing declined by 2.0% reflecting net repayment by banks and public enterprises. Banks recorded a net repayment of interbank borrowings from intra-group foreign banking entities while the net repayment by public enterprises reflected largely the repayment of intercompany loans. These net repayments offset the net drawdown of intercompany loans by the non-bank private corporations.

The non-resident holdings of domestic debt securities accounted for 25.3% of external debt. The holdings increased during the quarter, with the purchases concentrated mainly in the MGS and to a lesser extent, the Bank Negara Monetary Notes (BNMNs). These acquisitions more than offset the non-resident liquidation of the Malaysian Treasury Bills. The outstanding Malaysian Treasury Bills held by non-residents declined by RM1.8 billion to RM3.3 billion (outstanding) as at end-December 2015 (end-September 2015: outstanding RM5.1 billion).

The non-resident deposits in the domestic banking sector declined marginally to RM81.6 billion as at end-December 2015 (end-September: RM82.8 billion). Meanwhile, Malaysia's other debt liabilities declined to RM77.2 billion as at end-December 2015 (end-September: RM81.2 billion), mainly reflecting settlement of the trade credits and foreign exchange revaluation changes.

Overall, Malaysia's external debt remains manageable with more than half of the total external debt being of medium- and long-term tenure (57.8%). Since about 36% of the total external debt is denominated in ringgit, the impact of foreign exchange fluctuations is fairly contained. Given the high level of foreign currency earnings and external assets owned by the private sector, the short-term debt will not create immediate claim on international reserves. Furthermore, the international reserves are adequate to cover 1.2 times the short-term external debt.

Outstanding External Debt

	2014	2015	
	end-Dec	end-Sept	end-Dec
	RM billion		
Offshore borrowing[1]	371.1	489.9	463.6
USD billion equivalent	*105.2*	*109.1*	*106.9*
Medium- and long-term	*211.4*	*295.7*	*285.9*
Public sector	93.1	135.3	128.3
Private sector	118.3	160.4	157.6
Short-term	*159.7*	*194.3*	*177.7*
NR holdings of dom. debt securities	223.3	198.9	211.3
Medium- and long-term	*162.4*	*171.7*	*184.1*
Short-term	*60.9*	*27.2*	*27.2*
NR deposits	87.7	82.8	81.6
Others[2]	65.5	81.2	77.2
Medium- and long-term	*10.5*	*12.5*	*11.9*
Short-term	*55.0*	*68.7*	*65.3*
Total external debt	**747.5**	**852.9**	**833.7**
USD billion equivalent	*211.8*	*189.9*	*192.2*
External Debt (Redefined)			
Total debt/GDP (%)	67.5	73.7	72.1
Short-term debt[3]/Total debt (%)	48.6	43.7	42.2
Reserves/Short-term debt[3] (times)	1.1	1.1	1.2[5]
External Debt (Previous definition)			
Total debt/GDP (%)	33.5	42.4	40.1
Short-term debt[4]/Total debt (%)	43.0	39.6	38.3
Reserves/Short-term debt[4] (times)	2.5	2.1	2.3[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 29 January 2016.

Note: NR refers to non-resident

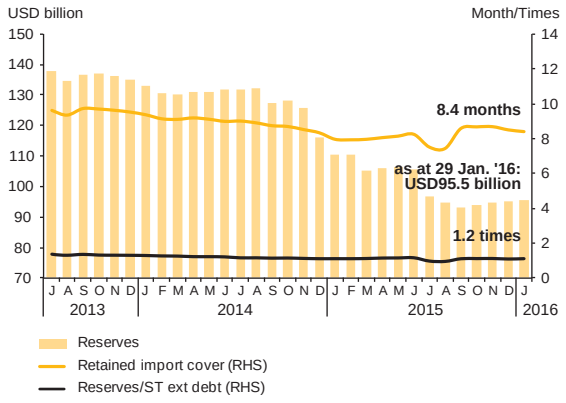
Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

International reserves remain ample to facilitate international transactions

The international reserves of BNM amounted to RM409.1 billion (equivalent to USD95.3 billion) as at 31 December 2015. This reserves level has taken into account the quarterly adjustment for foreign exchange revaluation changes.

As at 29 January 2016, the reserves position amounted to RM410.1 billion (equivalent to USD95.5 billion). The level of international reserves remains ample to facilitate international transactions, being sufficient to finance 8.4 months of retained imports, significantly higher than the 3-month international threshold. The reserves level is also adequate to meet external obligations with reserves to short-term external debt coverage of 1.2 times. It is important to note that not all short-term external debt creates a claim on reserves given the external assets and export earnings of borrowers.

Net International Reserves (as at end period)

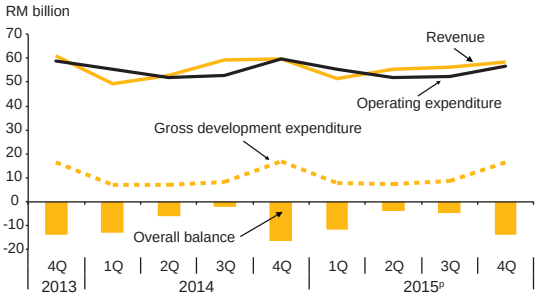


Source: Bank Negara Malaysia

Lower fiscal deficit of 3.2% of GDP in 2015

Federal Government spending remained supportive of growth in the fourth quarter of 2015, with total net expenditure amounting to RM72.9 billion (3Q 2015: RM61 billion). Operating expenditure increased to RM57.5 billion (3Q 2015: RM52.3 billion) on account of higher spending on supplies and services. Development expenditure similarly expanded to RM15.5 billion (3Q 2015: RM8.7 billion) and was disbursed mainly to the education, and trade and industry sectors. Revenue was sustained at RM56.0 billion (3Q 2015: RM56.3 billion), driven by the improved collection of corporate income tax and the Goods and Services Tax (GST). For the year as a whole, the Federal Government achieved a fiscal deficit target of 3.2% of GDP (2014: 3.4% of GDP). Total outstanding debt of the Federal Government stood at RM630.5 billion or 54.5% of GDP as at end-2015.

Federal Government Finance



p Preliminary

Source: Ministry of Finance, Malaysia

Federal Government Finance

	2014		2015p		
	4Q	Year	3Q	4Q	Year
	RM billion				
Revenue	59.6	220.6	56.3	56.0	219.1
% annual growth	*-2.3*	*3.4*	*-4.9*	*-6.0*	*-0.7*
Operating expenditure	59.7	219.6	52.3	57.5	217.0
% annual growth	*1.6*	*3.9*	*-1.2*	*-3.8*	*-1.2*
Current account	**-0.1**	**1.0**	**4.0**	**-1.4**	**2.1**
% of GDP	***-0.03***	***0.1***	***1.4***	***-0.5***	***0.2***
Net development expenditure	16.4	38.5	8.7	15.5	39.3
% annual growth	*2.2*	*-5.5*	*7.5*	*-5.7*	*2.2*
Overall balance	**-16.5**	**-37.4**	**-4.7**	**-16.9**	**-37.2**
% of GDP	***-5.7***	***-3.4***	***-1.6***	***-5.6***	***-3.2***
Memo item:					
Total net expenditure	76.1	258.0	61.0	72.9	256.3
% annual growth	*1.7*	*2.4*	*-0.1*	*-4.2*	*-0.7*
Total Federal Government debt (as at end-period)	582.8	582.8	623.3	630.5	630.5
% of GDP	*52.7*	*52.7*	*53.9*	*54.5*	*54.5*
Domestic debt	414.7	414.7	435.1	433.1	433.1
% of GDP	*37.5*	*37.5*	*37.6*	*37.4*	*37.4*
External debt	168.2	168.2	188.3	197.4	197.4
% of GDP	*15.2*	*15.2*	*16.3*	*17.1*	*17.1*
Non-resident holdings of RM-denominated Federal Government debt	*151.4*	*151.4*	*166.0*	*176.0*	*176.0*
% of GDP	*13.7*	*13.7*	*14.4*	*15.2*	*15.2*
Offshore borrowing	*16.8*	*16.8*	*22.2*	*21.5*	*21.5*
% of GDP	*1.5*	*1.5*	*1.9*	*1.9*	*1.9*

p Preliminary

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

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

MONETARY AND FINANCIAL DEVELOPMENTS

Interest rates remained stable

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

Reflecting the unchanged OPR, the average overnight interbank rate was relatively stable, trading within a range of 3.03% and 3.24% during the quarter. While interbank rates below the 1-month tenure were steady, rates beyond the 1-month tenure continued to trend higher during the quarter due to greater demand by banks for stable funding. This led to competition among banks to attract deposits by offering higher deposit rates. The resultant increase in funding cost was transmitted to lending rates in the interbank market, with the 3-month Kuala Lumpur Interbank Offered Rates (KLIBOR) increasing from 3.77% to 3.84%. Rates on interest rate swaps, however, trended lower during the quarter, reflecting the decline in Malaysian Government Securities (MGS) yields.

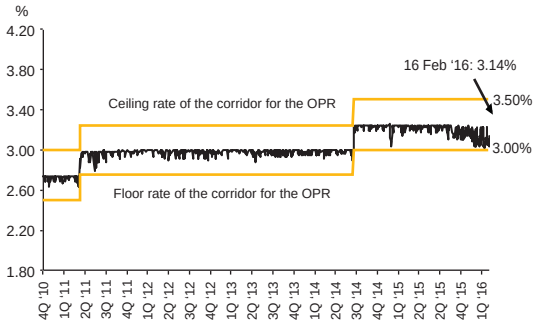
At the end of the quarter and the start of 2016, the average base rate (BR) of commercial banks increased slightly to 3.86%. The upward revision to the BR is on account of the higher interbank rates, as the BR is benchmarked off the 3-month KLIBOR for most banks. Nevertheless, the average BR of the banking system still remained lower than at the beginning of the year[4] as the BR of some banks had earlier been reduced when the KLIBOR moderated in the middle of 2015. During the quarter as a whole, the weighted average lending rate (ALR) on outstanding loans trended slightly higher (end-December 2015: 5.40%; end-September 2015: 5.38%).

Interest Rates

	2014		2015	
	3Q	4Q	3Q	4Q
	At end-period (%)			
Overnight Policy Rate (OPR)	3.25	3.25	3.25	3.25
Interbank rates				
Overnight	3.20	3.23	3.12	3.05
1-month	3.41	3.38	3.60	3.45
Base lending rate (BLR)				
Commercial banks	6.79	6.79	6.79	6.79
Base rate (BR)				
Commercial banks	-	-	3.85	3.86
Weighted average lending rate				
Commercial banks	5.52	5.51	5.38	5.40
Fixed deposit rates				
Commercial banks				
1-month	3.07	3.08	3.08	3.08
12-month	3.30	3.31	3.31	3.31

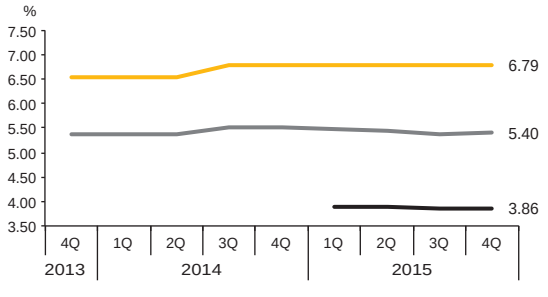
Source: Bank Negara Malaysia

Daily Weighted Average Overnight Interbank Rate



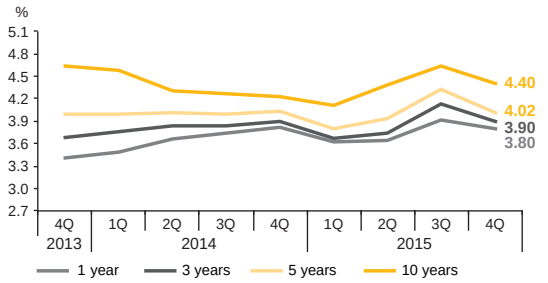
Source: Bank Negara Malaysia

Lending Rates of Commercial Banks (At end-period)



Source: Bank Negara Malaysia

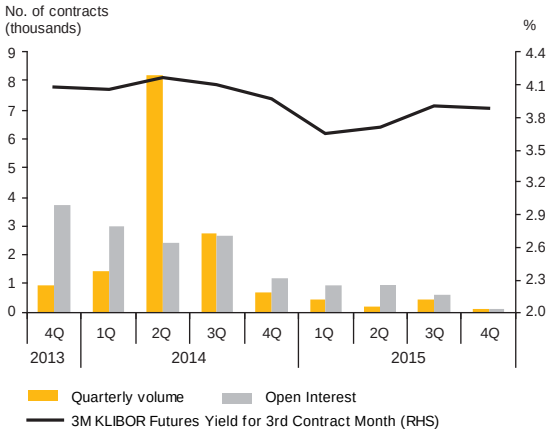
Interest Rate Swap: Rates



Source: Bloomberg

[4] As at 1Q 2015, the average BR of the banking system stood at 3.90%.

3 Month KLIBOR Futures



Source: Bursa Malaysia

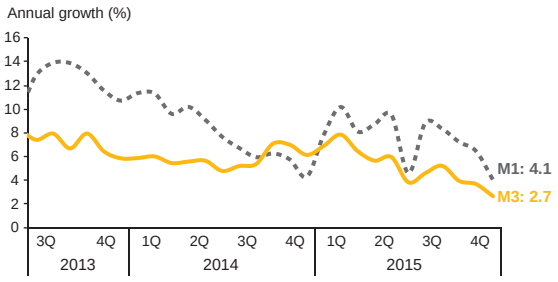
M3 expanded during the quarter

M1, or narrow money, declined by RM0.3 billion during the quarter. On an annual basis, M1 continued to grow at a rate of 4.1% as at end-December (end-September 2015: 8.3%). M3, or broad money, increased by RM12.8 billion on a quarter-on-quarter basis to grow at an annual rate of 2.7% as at end-December (end-September 2015: 5.2%).

The increase in M3 during the quarter was driven mainly by the continued expansion in credit extended to the private sector by the banking system. For the year, the expansion in broad money was negatively affected by the lower net foreign assets due to external sector outflows.

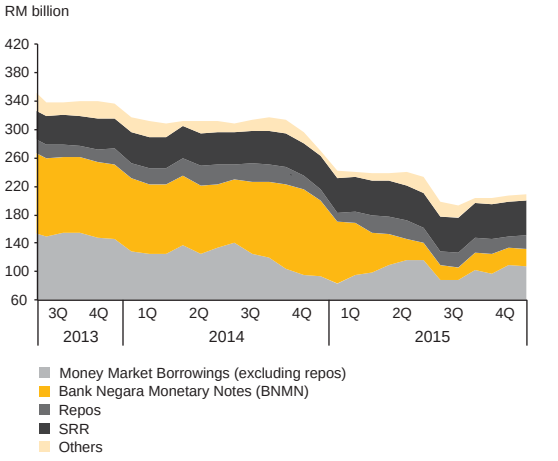
The level of surplus liquidity placed with BNM remained ample at over RM200 billion as at end-December. As part of a comprehensive effort by Bank Negara Malaysia to ensure sufficient liquidity in the domestic financial system, BNM reduced the statutory reserve requirement (SRR) ratio from 4.00% to 3.50%, effective from February 1, 2016. BNM also undertook operations to support the availability of ample liquidity in the banking system.

Monetary Aggregates



Source: Bank Negara Malaysia

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



Source: Bank Negara Malaysia

Determinants of Broad Money, M3

	Change during the period				
	2014		2015		
	4Q	Year	3Q	4Q	Year
	RM billion				
M3	**49.9**	**101.5**	**-0.1**	**12.8**	**41.5**
Net claims on Government	18.2	34.3	11.1	5.2	-8.8
Claims on private sector	40.8	118.0	37.0	31.6	120.1
Loans	*38.4*	*111.4*	*32.9*	*25.7*	*106.1*
Securities	*2.4*	*6.6*	*4.2*	*5.9*	*14.0*
Net foreign assets[1]	-27.8	-19.1	-31.9	14.9	-32.7
BNM	*-28.5*	*-44.1*	*-36.2*	*8.6*	*-54.7*
Banking System	*0.7*	*25.1*	*4.2*	*6.3*	*22.0*
Other influences	18.8	-31.7	-16.2	-38.9	-37.2

[1] Pre-revaluation

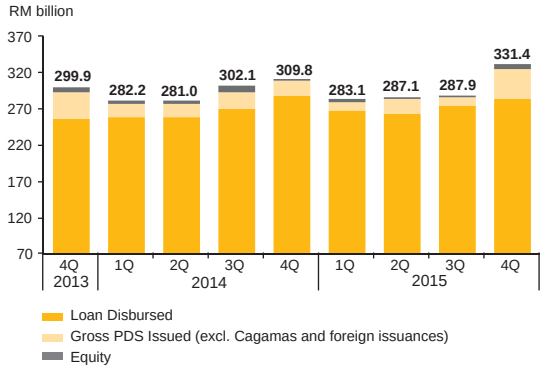
Note: Numbers may not add up due to rounding

Source: Bank Negara Malaysia

Private sector financing remained healthy in the fourth quarter

In the fourth quarter of 2015, total gross financing raised by the private sector through the banking system and the capital market amounted to RM331.4 billion (3Q 2015: RM287.9 billion). On a net basis, outstanding banking system loans and PDS expanded at a relatively stable growth rate of 8.6% as at end-December (end-September 2015: 8.8%).

Gross Private Sector Financing through the Banking System and Capital Market

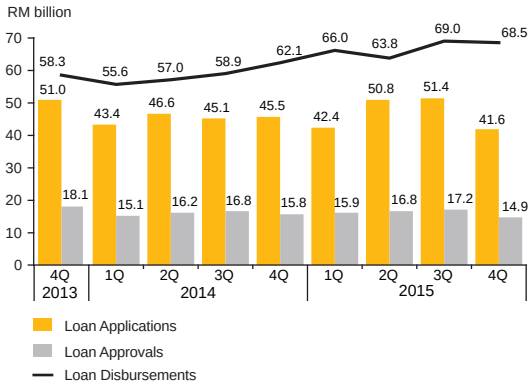


Source: Bank Negara Malaysia

Net lending to businesses by the banking system expanded by RM4.9 billion during the quarter (3Q 2015: RM16.7 billion). On an annual basis, outstanding business loans grew at a slower pace of 8.0% as at end-December (end-September 2015: 11.0%). However, the amount of loans disbursed to businesses increased during the quarter with a higher level of credit extended mainly to the *finance, insurance, and business services; wholesale and retail trade, and restaurants and hotels;* and *mining and quarrying* sectors. Financing provided to SMEs remained high, with outstanding SME loans recording an annual growth rate of 15.0% as at end-December 2015 (end-September 2015: 17.6%).

Net financing to the household sector expanded by RM16.9 billion during the quarter (3Q 2015: RM12.8 billion). On an annual basis, outstanding household loans growth moderated to 7.7% as at end-December 2015 (end-September 2015: 8.1%), reflecting mainly the moderation in loans for the *purchase of non-residential property* and the *purchase of securities.*

Bank Lending to SMEs



Source: Bank Negara Malaysia

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

	During the period (RM billion)					Annual growth (%)				
	2014		2015			2014		2015		
	4Q	Year	3Q	4Q	Year	4Q	Year	3Q	4Q	Year
Gross total financing	**309.8**	**1,175.2**	**287.9**	**331.4**	**1,189.5**	**3.3**	**12.3**	**-4.7**	**6.9**	**1.2**
Loans disbursed	287.7	1,079.3	273.6	283.3	1,088.1	12.2	13.2	1.5	-1.5	1.3
Gross PDS[1]	21.2	82.1	11.8	40.6	83.5	-41.2	0.0	-49.8	91.4	1.7
Equity	1.0	19.2	2.5	7.5	17.9	-87.1	19.6	-72.0	681.5	-6.5
Net total financing (A)+(B)	**52.4**	**144.2**	**41.3**	**53.3**	**152.8**	**8.8**	**8.8**	**8.8**	**8.6**	**8.6**
Banking system	44.3	121.3	38.5	24.0	113.4	9.2	9.2	9.6	7.9	7.9
*Loans outstanding (A)**	*41.6*	*114.1*	*36.3*	*21.1*	*105.4*	*9.3*	*9.3*	*9.7*	*7.9*	*7.9*
Holding of PDS	*2.7*	*7.3*	*2.2*	*2.9*	*8.0*	*7.9*	*7.9*	*8.0*	*8.0*	*8.0*
PDS outstanding (B)	10.8	30.1	5.0	32.2	47.4	7.3	7.3	6.0	10.7	10.7
Memorandum item										
Gross PDS[2]	21.6	85.5	13.1	40.6	85.6	-40.1	2.0	-47.1	87.9	0.2

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

Source: Bank Negara Malaysia

Loan Indicators

	During the period (RM billion)					Annual growth (%)				
	2014		2015			2014		2015		
	4Q	Year	3Q	4Q	Year	4Q	Year	3Q	4Q	Year
Total										
Loan applications	210.1	822.1	224.8	215.6	827.2	-0.2	0.2	2.6	2.6	0.6
Loan approvals	106.4	401.4	96.5	100.2	393.2	8.6	2.3	-8.7	-5.8	-2.0
Loan disbursements	287.7	1,073.9	273.6	283.3	1,088.1	12.2	13.2	1.5	-1.5	1.3
Loan repayments	258.5	996.5	255.3	266.9	1,021.1	12.8	15.6	1.1	3.2	2.5
Change in loans outstanding*	41.6	114.1	36.3	21.1	105.4	9.3	9.3	9.7	7.9	7.9
Of which:										
Business enterprises[1,2]										
Loan applications	100.4	386.2	112.9	107.6	396.8	12.7	7.6	4.2	7.2	2.7
Loan approvals	46.1	160.0	44.0	49.0	179.9	24.5	3.4	0.1	6.2	12.4
Loan disbursements	209.9	770.3	201.4	206.5	787.2	17.6	18.6	3.0	-1.6	2.2
Loan repayments	192.3	735.5	190.5	201.1	757.5	16.7	21.1	1.5	4.6	3.0
Change in loans outstanding*	17.7	42.3	16.7	4.9	39.6	9.4	9.4	11.0	8.0	8.0
SMEs[1]										
Loan applications	45.5	180.7	51.4	41.6	186.2	-10.8	-7.8	13.9	-8.6	3.0
Loan approvals	15.8	63.8	17.2	14.9	64.8	-12.8	-10.6	2.8	-5.6	1.6
Loan disbursements	62.1	233.7	69.0	68.5	267.4	6.5	3.1	17.1	10.2	14.4
Loan repayments	57.5	222.5	66.0	66.4	254.1	7.7	5.9	13.0	15.4	14.2
Change in loans outstanding*	10.0	27.8	7.3	5.7	33.8	14.0	14.0	17.6	15.0	15.0
Large corporations[2]										
Loan applications	54.9	205.5	61.5	66.0	210.6	44.1	26.1	-2.6	20.3	2.5
Loan approvals	30.4	96.2	26.8	34.1	115.0	60.2	15.3	-1.5	12.3	19.6
Loan disbursements	147.8	536.6	132.4	138.1	519.9	23.0	26.9	-3.0	-6.6	-3.1
Loan repayments	134.8	513.0	124.6	134.7	503.4	20.9	29.1	-3.7	-0.1	-1.9
Change in loans outstanding*	7.6	14.5	9.4	-0.8	5.8	5.7	5.7	5.5	2.2	2.2
Households										
Loan applications	109.7	435.9	111.9	108.0	430.4	-9.6	-5.6	1.0	-1.5	-1.3
Loan approvals	60.3	241.4	52.5	51.2	213.4	-1.1	1.6	-15.1	-15.0	-11.6
Loan disbursements	77.8	303.6	72.2	76.8	300.9	-0.3	1.6	-2.7	-1.3	-0.9
Loan repayments	66.2	261.0	64.7	65.8	263.7	2.9	2.4	0.1	-0.6	1.0
Change in loans outstanding*	17.9	68.9	12.8	16.9	59.0	9.9	9.9	8.1	7.7	7.7

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

Source: Bank Negara Malaysia

Loans by Sector

	Loans disbursed						Loans out-standing
	During the period (RM billion)					Share of total	Share of total
						(%)	
	4Q 2014	2014	3Q 2015	4Q 2015	2015		
Business enterprises[1,*]	**209.9**	**770.3**	**201.4**	**206.5**	**787.2**	**72.3**	**43.2**
Large corporations[1]	*147.8*	*536.6*	*132.4*	*138.1*	519.9	*47.8*	*25.2*
*SMEs**	*62.1*	*233.7*	*69.0*	*68.5*	*267.4*	*24.6*	*18.0*
Selected sectors[1]							
Agriculture, hunting, forestry and fishing	8.4	31.3	10.1	10.2	39.9	3.7	2.6
Mining and quarrying	2.9	12.2	3.6	5.9	20.4	1.9	1.0
Manufacturing	54.7	213.4	54.4	53.3	209.9	19.3	7.1
Construction	19.2	65.5	15.8	16.7	65.1	6.0	4.3
Real estate	14.3	51.6	14.8	13.3	53.3	4.9	6.8
Electricity, gas and water supply	2.1	14.0	1.9	2.7	8.9	0.8	0.8
Wholesale and retail trade, restaurants and hotels	59.8	221.1	50.7	52.7	199.4	18.3	7.4
Transport, storage and communication	7.2	27.0	5.7	4.0	22.5	2.1	2.4
Finance, insurance and business services	29.0	96.2	24.4	31.6	104.1	9.6	6.9
Households	**77.8**	**303.6**	**72.2**	**76.8**	**300.9**	**27.7**	**56.8**
Purchase of residential properties	21.7	81.4	20.2	21.7	84.7	7.8	28.4
Consumption credit	43.9	167.7	42.4	44.9	172.5	15.9	16.9
Of which:							
Credit cards	*26.3*	*99.3*	*25.0*	*27.2*	*102.4*	*9.4*	*2.5*
Purchase of passenger cars	*9.8*	*37.8*	*10.2*	*10.1*	*40.4*	*3.7*	*10.1*
Others	12.1	54.6	9.6	10.1	43.7	4.0	11.5
Total	**287.7**	**1,073.9**	**273.6**	**283.3**	**1,088.1**	**100.0**	**100.0**

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

Source: Bank Negara Malaysia

Higher net funds raised in the capital market

Net funds raised in the capital market increased to RM51.4 billion in the fourth quarter (3Q 2015: -RM2.6 billion), driven mainly by funds raised through private sector issuances.

In the private sector, gross issuances of both private debt securities and equity were substantially higher, amounting to RM40.6 billion and RM7.5 billion respectively in the fourth quarter (3Q 2015: RM13.1 billion, RM2.5 billion). The bulk of funds, particularly private debt securities, were raised mainly in December, following the policy rate increase in the US which helped to reduce market uncertainty. Higher fund raising activities were undertaken largely by companies in the services sector, particularly those in the utilities, financial services and transportation sub-sectors.

In the public sector, gross funds raised were also marginally higher at RM21.7 billion (3Q 2015: RM21.5 billion). Funds were raised through a new issuance of a 20-year Government Investment Issue (GII), as well as the re-opening of a 5-year, 7-year, and 10-year Malaysian Government Security (MGS) and 3-year, 5-year and 10-year GII. During the quarter, redemptions of Government securities were lower at RM8.2 billion (3Q 2015: RM31.5 billion). Overall, net funds raised by the public sector increased by RM13.5 billion (3Q 2015: -RM10.0 billion).

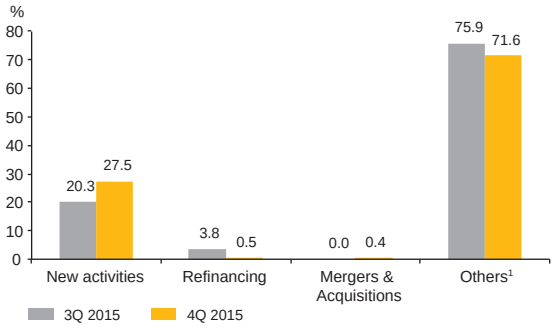
Net Funds Raised in the Capital Market

	2014		2015		
	4Q	Year	3Q	4Q	Year
	RM billion				
By Public Sector	**15.3**	**49.9**	**-10.0**	**13.5**	**46.8**
Government Securities, *Gross*	22.8	96.8	21.5	21.7	100.4
Malaysian Government Securities	12.7	51.4	14.5	10.9	51.3
Government Investment Issues	6.6	33.9	6.5	10.9	41.1
Sukuk Pinjaman Perumahan Kerajaan	3.4	11.5	0.5	-	8.0
Less: Redemptions	7.5	46.9	31.5	8.2	53.6
Malaysian Government Securities	2.0	26.4	21.0	8.2	41.1
Government Investment Issues	5.5	20.5	10.5	-	12.5
Sukuk Pinjaman Perumahan Kerajaan	-	-	-	-	-
By Private Sector	**11.2**	**50.2**	7.4	**37.9**	**62.8**
Shares	1.0	19.2	2.5	7.5	17.9
Private Debt Securities, *Net*	10.2	31.0	5.0	30.5	44.9
Private Debt Securities, Gross	*21.6*	*85.5*	*13.1*	*40.6*	*85.6*
Less: Redemptions	*11.4*	*54.5*	*8.2*	*10.1*	*40.8*
Total	**26.4**	**100.1**	**-2.6**	**51.4**	**109.6**

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

Source: Bank Negara Malaysia and Bursa Malaysia

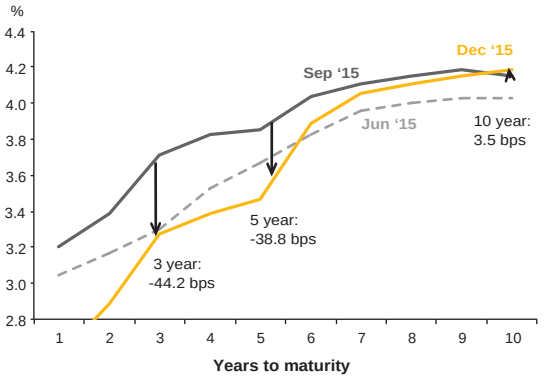
Private Debt Securities Issued by Purpose (% of total)



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

Source: Bank Negara Malaysia

Trend in MGS Yields

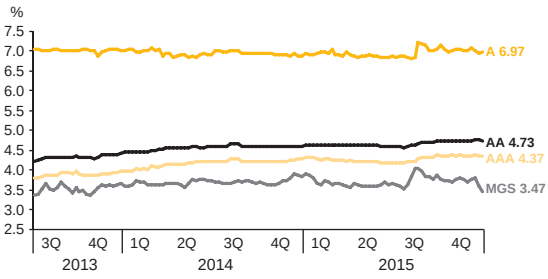


Source: Bank Negara Malaysia

Lower bond yields especially in the short- to medium-term tenures

MGS yields declined in the fourth quarter of 2015 amid the resumption of non-resident inflows into the MGS market. This was driven by improved sentiments among global investors as the policy rate increase by the Fed in December reduced market uncertainty. Non-resident investors increased MGS holdings by RM8.4 billion during the quarter. As a result, yields on the 3-year and 5-year MGS declined by 44.2 and 38.8 basis points respectively while the yield on the 10-year MGS increased marginally by 3.5 basis points. In the PDS market, yields remained stable on account of sustained demand by domestic institutional investors.

5 year MGS and 5 year Corporate Bond Yield

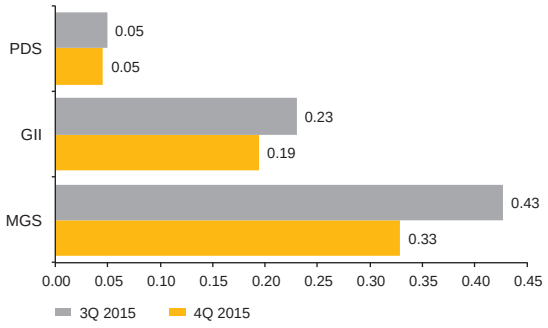


Source: Bank Negara Malaysia

Secondary trading in the bond market remained low

Total trading in the secondary market remained low at RM173.9 billion during the quarter (3Q 2015: RM215.8 billion) as investors consolidated investment positions in anticipation of the year-end holiday season. Correspondingly, all segments recorded lower liquidity ratios compared to previous quarter. The MGS, GII and PDS segments registered liquidity ratios of 0.33, 0.19 and 0.05, respectively.

Liquidity Ratio: Value of Bond Traded / Outstanding



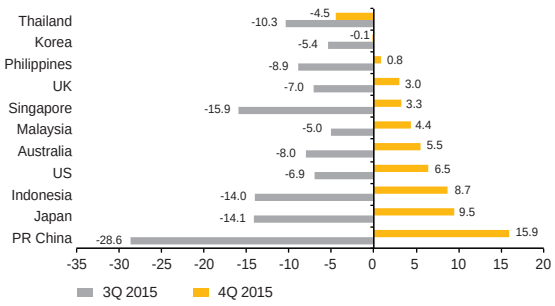
Source: Bank Negara Malaysia

FBM KLCI rebounded in the fourth quarter

In the fourth quarter of 2015, the FBM (FTSE Bursa Malaysia) KLCI rose by 4.4% to close at 1,692.5 points at end-December 2015 (end-September 2015: 1,621.0 points).

The increase in the FBM KLCI was in line with regional equity markets amid improved global market sentiments towards the end of the year. Gains in the domestic equity market during the quarter were also supported by active buying of selected blue-chip stocks, particularly the plantation and oil and gas-related stocks amid the slight recovery in oil prices towards the end of the year.

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



Source: Bloomberg and Bank Negara Malaysia calculations

Market capitalisation increased to RM1.70 trillion as at end-December 2015 (end-September 2015: RM1.60 trillion) while the daily average turnover increased to 2.23 billion units (3Q 2015: 1.90 billion units) during the quarter.

On 16 February 2016, the KLCI ended lower at 1665.0 points (since end-December 2015: -1.6%), with market capitalisation of RM1.66 trillion (since end-December 2015: -2.1%).

Bursa Malaysia: Selected Market Indicators

	2014		2015		
	As at end				
	Dec	Year	Sept	Dec	Year
Price Indices					
Composite	1,761.3	1,761.3	1,621.0	1,692.5	1,692.5
FBMEMAS[1]	12,066.3	12,066.3	11,201.6	11,793.7	11,793.7
ACE Market[2]	5,653.4	5,653.4	5,567.6	6,389.2	6,389.2
Market capitalisation (RM billion)	1,651.2	1,651.2	1,597.4	1,695.2	1,695.2
No. of companies listed	906	906	904	903	903
	During the period				
	4Q	Year	3Q	4Q	Year
Average daily turnover					
Volume (million units)	1,944.4	2,157.1	1,899.2	2,234.0	2,038.3
Value (RM million)	1,999.9	2,161.8	2,005.6	2,149.7	2,082.2

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

Source: Bursa Malaysia

Bursa Malaysia: Market Turnover

	2014				2015					
	4Q		Year		3Q		4Q		Year	
	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion
Turnover	122.5	126.0	530.7	531.8	117.8	124.3	138.5	133.3	501.4	512.2
Of which:										
Main Board	85.5	117.3	397.1	501.2	68.0	111.4	82.5	121.4	299.1	464.6
Of which										
Consumer Products	5.3	5.2	29.6	26.3	6.3	6.2	7.0	6.8	26.9	25.6
Industrial Products	13.3	11.2	72.0	52.2	12.9	14.7	19.1	21.8	59.0	60.0
Construction	3.4	5.7	19.0	26.3	4.2	5.4	3.9	4.6	16.5	22.9
Trading/Services	42.0	56.7	172.0	219.0	28.4	45.5	32.4	51.3	124.7	204.3
Finance	3.1	18.7	13.9	84.9	3.5	22.3	2.9	17.7	12.8	79.6
Properties	6.1	6.3	41.0	34.6	5.5	4.1	7.5	5.0	23.7	18.9
Plantations	1.2	3.6	6.3	19.8	1.3	3.7	1.7	5.0	5.0	15.6
Infrastructure	1.3	4.4	5.4	17.2	1.1	4.7	1.0	4.3	4.2	18.8
ACE Market[1]	30.3	7.3	115.6	27.1	21.0	5.1	36.7	8.3	139.2	32.2

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

Source: Bursa Malaysia

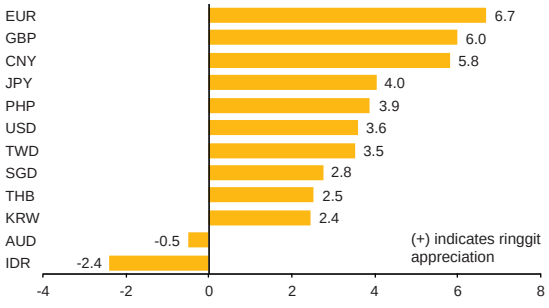
Ringgit stabilised towards end year

Despite uncertainties over global growth prospects and declining global energy prices, the ringgit, along with other regional currencies, did not face significant volatility during the quarter. This was mainly the outcome of improved sentiments among global investors as the anticipated policy rate increase by the Fed in December reduced market uncertainties. The ringgit, in fact, appreciated against most major and regional currencies following renewed portfolio investment inflows, despite a 23% decline in Brent crude oil prices during the quarter.

Overall, the ringgit appreciated by 3.6% against the US dollar during the quarter. The ringgit also appreciated against the euro (6.7%), the pound sterling (6.0%), and the Japanese yen (4.0%), but depreciated against the Australian dollar (-0.5%). The ringgit also appreciated against all regional currencies, by between 2.4% and 5.8%, with the exception of the Indonesian rupiah (-2.4%).

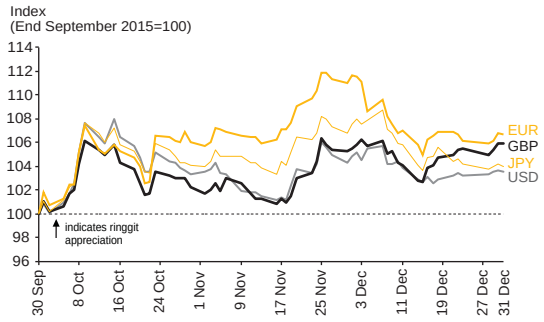
Between 1 January and 16 February 2016, the ringgit appreciated against the US dollar (3.5%). The ringgit also appreciated against the pound sterling (6.3%), the Australian dollar (5.4%), and the euro (1.4%), but depreciated against the Japanese yen (-1.3%). The ringgit appreciated against most regional currencies.

Summary of Ringgit Performance against Selected Currencies Percent Change (1 October - 31 December 2015)



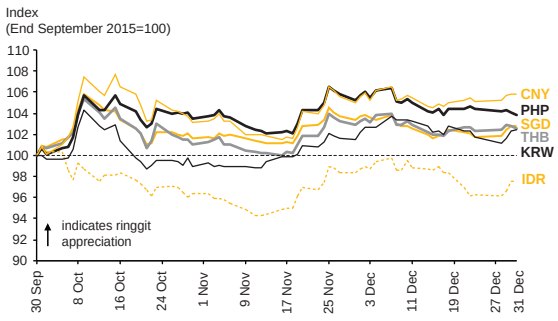
Source: Bank Negara Malaysia

Ringgit Performance against Major Currencies



Source: Bank Negara Malaysia

Ringgit Performance against Regional Currencies



Source: Bank Negara Malaysia

Performance of Ringgit against Selected Currencies

RM per foreign currency	As at end				% change since*		
	21 Jul 2005	4Q 2014	3Q 2015	4Q 2015	21 Jul 2005	4Q 2014	3Q 2015
US dollar	3.8000	3.4950	4.4455	4.2920	-11.5	-18.6	3.6
Euro	4.6212	4.2513	5.0052	4.6918	-1.5	-9.4	6.7
Pound sterling	6.6270	5.4396	6.7412	6.3607	4.2	-14.5	6.0
Australian dollar	2.8823	2.8664	3.1176	3.1338	-8.0	-8.5	-0.5
100 Japanese yen	3.3745	2.9255	3.7084	3.5645	-5.3	-17.9	4.0
Singapore dollar	2.2570	2.6449	3.1191	3.0356	-25.6	-12.9	2.8
100 Thai baht	9.0681	10.627	12.223	11.922	-23.9	-10.9	2.5
100 Philippine peso	6.8131	7.8066	9.5050	9.1494	-25.5	-14.7	3.9
100 Indonesian rupiah	0.0386	0.0281	0.0303	0.0311	24.4	-9.5	-2.4
100 Korean won	0.3665	0.3201	0.3740	0.3651	0.4	-12.3	2.4
100 New Taiwan dollar	11.890	11.068	13.516	13.056	-8.9	-15.2	3.5
Chinese renminbi	0.4591	0.5637	0.6994	0.6610	-30.5	-14.7	5.8

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

Source: Bank Negara Malaysia

Volume of foreign exchange derivatives remained subdued in Q4 2015

Volume of foreign exchange derivatives fell by 7.0% on a year-on-year basis in 4Q 2015 (3Q 2015: -3.6%). The drop in volume was primarily driven by a fall in FX options transactions which contracted by 21.6% on a year-on-year basis due to a decline in hedging requirements as volatility in the domestic financial markets moderated. Implied volatility decreased from a high of 19.3% in October to 12.0% in December. US data improvement in the quarter strengthened market expectations that the Federal Reserve will hike interest rates towards end-2015. However, net forward purchases of foreign currency by residents increased by 17.1% on a year-on-year basis as more importers expect further US dollar strength.

During the quarter, the 5-year USD/MYR cross-currency swap narrowed to 75 bps from a wider spread of 118 bps in the previous quarter as market volatility moderated. USD liquidity in the domestic market improved in 4Q 2015 compared to the previous quarter due to improved two-way flows by both residents and non-residents.

MANAGING RISKS TO FINANCIAL STABILITY

Domestic financial stability preserved

The Malaysian financial system remained resilient throughout the quarter despite the environment of heightened market volatility amid uncertainties in global growth and energy prices. Domestic financial intermediation continued to be well-supported by sound and well-capitalised financial institutions. Liquidity in the banking system remained ample despite occasional tight funding conditions. While investors' take a cautious approach in the period ahead, domestic financial system stability is expected to be maintained. The deep and well-developed domestic financial markets have continued to support orderly market conditions and sustained confidence in the financial system.

Manageable credit risk exposures amid sustained debt servicing capacity

The debt servicing capacity of borrowers remained generally intact. Delinquencies, measured in terms of loans-in-arrears (LIA) of between one and three months, remained low and stable at 2.2% of total bank loans, while the ratio of net impaired loans held steady at 1.2% of total bank loans. In the insurance industry, credit exposures, mainly in the form of holdings of private debt securities, were unchanged at 4.1% of total capital available.

The pace of year-on-year growth in household debt moderated further in the final quarter of the year to 7.3% (3Q 2015: +7.6%; 4Q 2014: +9.4%). This continued to be mainly driven by the modest growth of 3.4% in the financing for personal use by non-bank financial institutions (NBFI). Stable income and employment conditions continue to support the repayment capacity of the majority of households. Correspondingly, the performance of household loans from the banking sector was sustained with the impaired and delinquent loan ratios at 1.1% and 1.5%, respectively, across all types of financing facilities. Nevertheless, borrowers in the more vulnerable income segments faced some challenges in adjusting to the higher cost of living. Based on the Bank's on-going engagements with banks and key NBFI lenders, higher delinquencies were observed in the compact car hire purchase and personal financing segments, likely reflecting difficulties faced by more highly leveraged households in the lower income group of borrowers. For some borrowers, this has also started to increase challenges faced in maintaining regular home financing repayments, resulting in slightly higher house financing delinquencies.

Household financial assets increased by 4.8% over the same period last year (3Q 2015: +3.4%) largely attributed to a continued expansion in deposits and deposit-like instruments of 4.8% (3Q 2015: +6.5%). The recovery in the equity market during the quarter also helped boost the value of household investments in equities and other unit trust funds. Overall, household financial assets remained above two times of total debt. Based on the Bank's supervisory assessments, banks were observed to have maintained generally sound underwriting practices and loan affordability assessments. About half of new loans approved were to borrowers with an aggregate debt service ratio not exceeding 40%, with the average debt service ratio for all new household borrowings remaining below 60%.

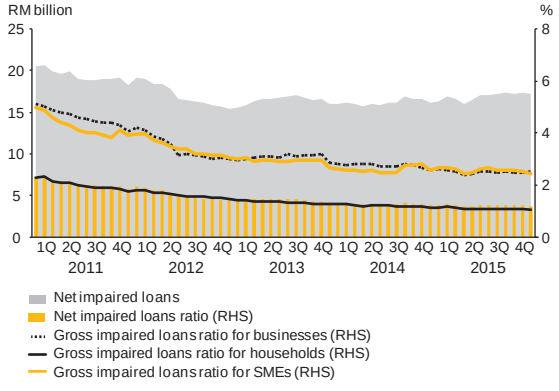
Total business sector borrowings expanded further by 14.1% as at end of the year (3Q 2015: +14.8%). This reflected the higher growth in external borrowings in the third quarter, about half of which was attributed to exchange rate valuation effects. New external borrowings by domestic conglomerates and GLCs comprised funds for domestic and overseas operations and investments and intra-company loans from multinational corporations for operations in Malaysia. These are generally supported by foreign currency denominated receivables which act as a natural hedge against exchange rate movements. Business loans from the banking system recorded a slower growth of 8% as at end-2015 (3Q 2015: +11%), with the growth in financing to small and medium enterprises (SMEs) remaining robust at 15% (3Q 2015: +17.6%). Aggregate leverage of Malaysian businesses[5], as measured by the median debt-to-equity ratio, was 46.8% in 3Q 2015, little changed from the previous quarter (2Q 2015: 46.5%).

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

Overall debt servicing capacity of Malaysian businesses remained largely intact amid the weaker ringgit, lower oil prices and more moderate growth. The median interest coverage ratio (ICR) was stable at 5.2 times in the third quarter (2Q 2015: 5.3 times). Businesses in the export-oriented sectors experienced some deterioration in the median ICR to 5.8 times (2Q 2015: 7.3 times) on lower demand for crude palm oil from China which added to the effect of lower global oil prices. In the domestic-oriented sectors, the median ICR was stable at 4.8 times (2Q 2015: 4.9 times), despite weaker consumer sentiment following the implementation of the goods and services tax. Businesses also generally maintained satisfactory liquidity positions with the median current ratio (current assets-to-current liabilities) and cash-to-short-term debt ratio stable at 1.7 times and 1.2 times respectively. This supported the overall quality of business loans in the banking system which remained sound. The ratio of business sector impaired loans stood at 2.5% while the ratio of LIA of up to 2 months was at 0.3% (3Q 2015: 2.5% and 0.4% respectively). In the SME segment, the ratio of impaired loans improved to 2.4% (3Q 2015: 2.6%). At an aggregate level, the credit risk outlook for businesses, as measured by the overall expected default frequency, remained steady at 0.61% (3Q 2015: 0.63%).

In 2Q 2015, the annual growth of the Malaysian House Price Index moderated slightly to 7.5% (1Q 2015: +7.8%). Housing transactions remained soft, particularly in the high-end market, as buyers remained on the sideline. On an annual basis, total transaction volume and value declined by 9.4% to 57,662 units and 18.1% to RM17.7 billion respectively in the third quarter (2Q 2015: -6.4% and -12%). In contrast, transactions in the affordable segment (houses priced below RM250,000) continued to register positive growth, reflecting strong demand for affordable housing. Speculative financing for house purchases remained subdued and continued to account for only a small proportion (2.8%) of housing loan borrowers.

Banking System: Loan Quality



Source: Bank Negara Malaysia

Orderly market conditions despite persistent volatility

Portfolio investments registered a net inflow of RM15.9 billion during the quarter (3Q 2015: net outflows of RM24.4 billion), driven by sustained demand for the Malaysian Government Securities (MGS). Declining crude oil prices, anticipation of the US policy rate normalisation and concerns on global growth weighed on the ringgit throughout the quarter. Nevertheless, the ringgit appreciated by 3.6% against the US dollar by the end of the quarter to RM4.2920 (3Q 2015: RM4.4455), in line with the performance of the domestic bond and equity markets towards the end of the year, which were driven by improved sentiments among global investors after the first policy rate increase in the US in seven years. The yield curve steepened with yields for the 10-year MGS rising slightly to 4.19% (3Q 2015: 4.15%), while yields at the shorter term of the curve declined (3-year MGS declined to 3.27% (3Q 2015: 3.71%)). In the equity market, the FBM KLCI ended the quarter higher at 1,692.51 points (3Q 2015: 1,621.04 points) in line with most regional equity markets. The price-to-earnings (PE) ratio of the FBM KLCI remained broadly stable at 18 times against a long-term average PE ratio of 17 times. While average volatility of both the 10-year MGS yield and FBM KLCI rose to 17.2% and 14.5%, respectively, for the quarter (3Q 2015: 11.8% and 10.8%, respectively), market volatility moderated towards the end of the year with more clarity emerging after the US policy rate increase. Trading liquidity was preserved, with the bid-ask spreads for the MGS and FBM KLCI unchanged at 0.1% and 0.4% of the mid-price, respectively. The monthly turnover ratio for the MGS and FBM KLCI remained firm at 10.4% and 2.1% respectively (3Q 2015: 14.4% and 2%, respectively). At the end of the fourth quarter, non-resident holdings accounted for

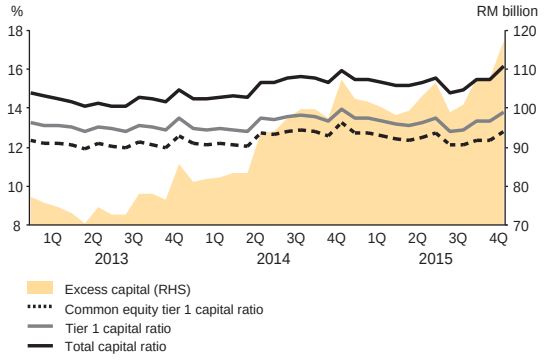
47.7% of total outstanding MGS and 22.3% of equity market capitalisation (3Q 2015: 45.6% and 23%, respectively). Investors' perception of Malaysia's sovereign credit risk and onshore US dollar liquidity conditions also improved during the quarter. The 5-year sovereign cross default swap spread eased to 180.2 basis points (3Q 2015: 238.9 basis points) while the 5-year cross-currency basis swap spread declined to 75 basis points (3Q 2015: 115 basis points).

Sustained resilience of financial institutions

The Malaysian financial institutions remained well-capitalised. The common equity tier-1 capital, tier-1 capital and total capital ratios of banks were sustained well above the minimum regulatory levels at 12.8%, 13.8% and 16.1%, respectively. More than 80% of the banks' total capital is of high quality, comprising retained earnings, paid-up capital and reserves. The capital adequacy ratio for the insurance sector was similarly healthy at 245.5% (3Q 2015: 243.8%). In aggregate, banks, insurers and takaful operators have capital buffers totalling RM147.4 billion (banks: RM117.3 billion; insurers / takaful operators: RM30.1 billion), that would be able to absorb any potential losses from adverse credit and market events.

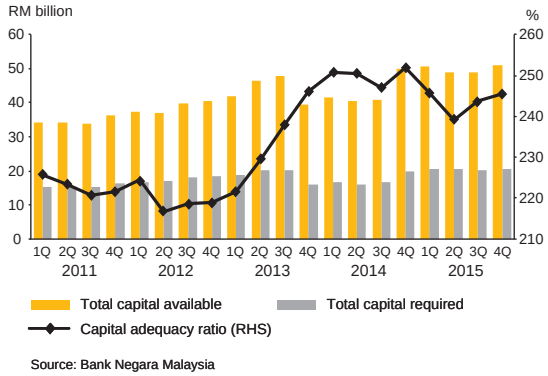
The pre-tax profit of the banking system amounted to RM7.2 billion in 4Q 2015 (3Q 2015: RM7.3 billion), as higher staff cost and overhead expenses partly offset the growth in interest- and fee-income and lower provisioning. Returns on assets and equity remained healthy at 1.3% and 12.4% respectively (3Q 2015: 1.3% and 12.7% respectively). In the general insurance and takaful sector, higher operating profits were recorded, boosted by higher investment income of RM659.9 million (3Q 2015: RM555.7 million). Underwriting performance also improved (4Q 2015: RM335.9 million; 3Q 2015: RM69.7 million) mainly due to lower claims costs. Similarly, the earnings performance of life insurers and family takaful operators improved during the quarter with a positive excess income over outgo of RM5.2 billion (3Q 2015: negative excess income over outgo of RM0.4 billion). This stemmed from a net capital gain of RM2.0 billion (3Q 2015: net capital loss of RM3.1 billion) following higher valuation in equity holdings, in line with the rise in the FBM KLCI towards year-end. As part of on-going portfolio rebalancing strategies, life insurers have slightly reduced asset allocation to domestic equities since end-2014, reflecting the more volatile equity market outlook.

Banking System: Basel III Capitalisation



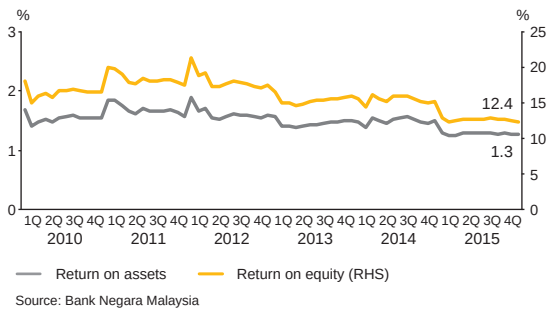
Source: Bank Negara Malaysia

Insurance Sector: Capitalisation



Source: Bank Negara Malaysia

Banking System: Profitability



Source: Bank Negara Malaysia

Insurance and Takaful Sectors: Indicators

	2014		2015		
	4Q	Year	3Q	4Q	Year
	RM million				
Life insurance & family takaful					
Excess of income over outgo	2,120	13,760	-417	5,230	11,993
General insurance & general takaful					
Operating profit	760	3,176	556	660	2,678
Claims ratio (%)	57.5	57.5	60.1	60.2	60.2
	Annual Change (%)				
Life insurance & family takaful					
Excess of income over outgo	4.3	-36.6	-110.9	146.6	-12.8
General insurance & general takaful					
Operating profit	-27.0	-1.5	-29.5	-13.2	-15.7
Claims ratio (percentage points)	0.4	0.4	3.3	2.7	2.7

Source: Bank Negara Malaysia

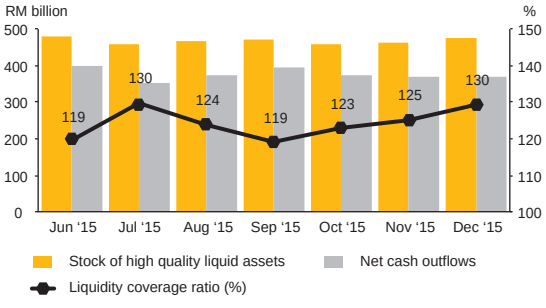
Market risk exposures remained manageable. The banking institution's exposures to interest rate risk in the trading book and equity risk remained low at 1.2% and 0.7% of total capital, respectively (3Q 2015: 1.4% and 0.7%, respectively). The foreign exchange net open position of banks meanwhile rose to 6.1% (3Q 2015: 5.9%) of total capital, largely reflecting developments in the ringgit. Market risk exposures of the insurance industry increased to 13.1% (3Q 2015: 12.2%) of total capital, reflecting higher valuations of investments particularly in the equity market. Correspondingly, equity risk, which forms the bulk of insurers' market risk exposures, rose to account for 7.7% (3Q 2015: 7.3%) of total capital.

Aggregate liquidity in the banking system remained firmly supportive of financing activities. As at end-2015, banking system placements and reverse repos with Bank Negara Malaysia, which can be unwound to meet liquidity needs, were in excess of RM100 billion, preserving comfortable buffers against unexpected cash outflows or adverse liquidity shocks. The reduction in the Statutory Reserve Requirement (SRR) effective 1 February 2016 added additional liquidity to the domestic financial system. In addition, as provided for under the rules of the Basel Committee on Banking Supervision, the Bank will establish a committed liquidity facility that can be utilised by banking institutions with the undrawn portion of this facility eligible for recognition as a high-quality liquid asset for purposes of compliance with the Liquidity Coverage Ratio (LCR). Under the standards which have been phased in since 1 June 2015[6], the banking system LCR stood at 130% as at end-December 2015 (August 2015: 124%), with all banks reporting LCR levels that are above the 2015 minimum regulatory requirement of 60%.

Domestic funding conditions were tighter amid continued competition in the deposit market which also drove the KLIBOR higher. During the quarter, the banking system average cost of deposit[7] remained stable at 2.53% (3Q 2015: 2.53%, 2014: 2.38%). The 3-month KLIBOR edged higher to 3.84% at the close of the year (3Q 2015: 3.74%) as competition for year-end placements by corporate depositors remained elevated but further improved to 3.75% as at 16 February 2016 as competition eased. While bank funding continues to be predominantly deposit-based and in local currency, banks have increasingly tapped the deeper domestic capital markets to maintain a stable funding profile through issuances of medium term funding instruments. This also reflects the wider avenues available for funding instruments, which has led in part to more moderate deposit growth over the years. Taking into account the broader funding base of banks, the loan-to-funds ratio[8] (LTF) stood at 83% compared with a loan-to-deposit ratio[9] of 88.7% at the end of the quarter (3Q 2015: 82.8% and 88.3%, respectively).

[6] In the first phase, compliance is set at 60% with progressive increment of 10% each year to the full compliance beginning 2019
[7] Revision in the computation of the average cost of deposits (calculated as the interest expense on deposits as a percentage of total deposits accepted)
[8] Fund comprises deposits and all debt instruments (including subordinated debt, debt certificates/sukuk issued, commercial papers and structured notes).
[9] Beginning July 2015, loans exclude financing funded by Islamic investment accounts

Banking System: Basel III Liquidity Coverage Ratio



Source: Bank Negara Malaysia

External exposures of the banking system expanded in-line with banks' regional operations and regional trade activities. The growth in banks' external assets slightly outpaced that of external liabilities. At the end of the third quarter, banks' net external liabilities increased to RM149 billion (2Q 2015: RM142 billion), driven primarily by higher interbank borrowings (+19.4%) and an increase in debt securities issued (+28.4%). This is largely reflective of the centralised liquidity management operations of Malaysian banks, particularly those with larger overseas operations. Banks have also been actively diversifying into medium to longer term funding instruments via issuances of multicurrency subordinated debt and structured notes, in efforts to lengthen the maturity profile and reduce currency mismatches.