In the **Asian region**, economic activity remained strong with growth in the first quarter strengthening further in PR China, Singapore and Korea. Meanwhile, continued pick-up in demand for electrical and electronic goods contributed to strong export performance. High oil imports, however, led to a lower trade surplus in some regional countries.

Regional Countries: Real GDP Growth

	2005			2006	Key contributing factors for 1Q growth
	1Q	4Q	Year	1Q	
	Annual change (%)				
PR China	9.9	9.9	9.9	10.3	Driven by strong growth in investment.
Singapore	3.4	8.7	6.4	10.6	Buoyed by strong expansion in the manufacturing and services sectors.
Hong Kong	6.0	7.5	7.3	8.2	Driven by exports, consumer spending and investment in machinery and equipment.
Korea	2.7	5.3	4.0	6.2e	Supported by strength in exports as well as private consumption.
C. Taipei	2.5	6.4	4.1	4.9	Supported by electronic exports and the manufacturing sector.
Indonesia	6.1	4.9	5.6	4.6	Supported by the services and mining sectors.

e Advance estimates
Source: National authorities

Inflation trends in the region were mixed. Inflation in Thailand and Indonesia edged downwards slightly, compared with 4Q 2005 following moderation in food prices. However, inflation has risen in Hong Kong, Singapore and the Philippines mainly due to higher housing rentals, utilities and tighter labour markets. To contain inflationary expectations and limit second-round effects, Korea, Thailand and India have raised interest rates. On 27 April, PR China also raised its one-year lending rates by 27 bps to 5.85% (first increase since October 2004), aimed at slowing strong growth in credit and investment.

In the **foreign exchange market**, the US dollar weakened against most currencies during the quarter. Among the major currencies, the US dollar depreciated against euro and sterling. The euro benefited from the ECB's rate increase and market expectations of reserve diversification by some central banks. Meanwhile, regional currencies appreciated, supported by continued inflows from abroad and optimism about economic growth. The Indonesian rupiah recorded the strongest appreciation due to growing investor confidence in the economy and foreign investor interest in Indonesia's high-yielding bonds.

Going forward, the pace of expansion in the global economy is expected to be sustained. However, the risks to growth remain, mainly from the effect of higher oil and commodity prices.

DEVELOPMENTS IN THE MALAYSIAN ECONOMY

Sustained growth, led by the manufacturing and services sectors

In the first quarter of 2006, the Malaysian economy expanded by 5.3% (4Q 2005: 5.2%). Growth continuing to be driven by the manufacturing and services sectors. The manufacturing sector registered a stronger growth, mainly benefiting from the upward trend in the global semiconductor cycle, while growth in the services sector remained firm, supported by trade, consumption and tourism-related activities. Meanwhile, the performance of the primary commodity sector was mixed. The agriculture sector recorded a strong expansion due to better performance in most of the sub-sectors which more than offset the decline in crude palm oil production. Activity in the mining sector, however, declined due to lower output of crude oil and natural gas.

Quarterly GDP by Kind of Economic Activity at 1987 Prices

	2005			2006
	1Q	4Q	Year	1Q
	Annual Change (%)			
Agriculture	6.1	-1.5	2.5	7.3
Mining	3.4	-2.0	0.8	-3.5
Manufacturing	5.7	7.9	5.1	8.0
Construction	-2.4	-0.6	-1.6	-1.8
Services	6.8	5.9	6.5	5.2
Real GDP (Ann. Chg.)	**6.1**	**5.2**	**5.2**	**5.3**
Real GDP (Preceding Chg.)	**-2.9**	**1.8**	**5.2**	**-2.8**

Source: Department of Statistics, Malaysia

The manufacturing sector on an upward trend

Value-added growth in the **manufacturing sector** continued on its upward trend to expand by 8% in the first quarter of 2006 (4Q 2005: 7.9%) in line with the recovery in the global semiconductor cycle. Growth was also supported by improvement in the domestic-oriented industries.

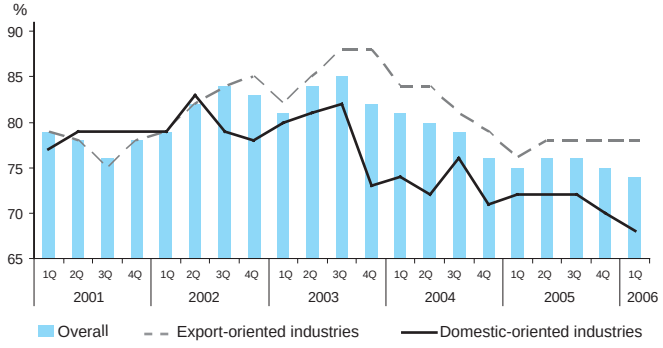
The **export-oriented industries** expanded by 10.1% (4Q 2005: 10.1%), led mainly by stronger growth in the electronics and electrical products (E&E) industry (16.7%; 4Q 2005: 10.5%). Growth was recorded across all major categories of E&E products, including the electrical and semiconductor segments and particularly the computer segment, which benefited from strong buying interest as a result of lower prices as well as the increased demand for laptops due to the popularity of wireless systems. Output of chemical products, meanwhile, grew at a more moderate pace of 4.4% (4Q 2005: 16.8%) reflecting the slower demand for intermediate plastic materials from China. The petroleum products industry also registered a more moderate growth of 8.9% (4Q 2005: 11.5%) in tandem with the lower production of natural gas.

Output in the textiles, wearing apparel and footwear industry continued to expand strongly by 10.5% (4Q 2005: 10.3%). Output of rubber products declined further by 8.3% (4Q 2005: -1.6%) although in terms of exports, the receipts have remained favourable. The main reason for the decline in production was due to a major tyre manufacturer undergoing a transition, shifting into the production of higher-end and more superior quality products.

The **domestic-oriented industries** meanwhile registered a growth of 0.7% in the first quarter of 2006 (4Q 2005: 0.4%), as contraction in the construction-related industries was offset by better performance in the fabricated metal products industry (13.2%; 4Q 2005: -5.7%) and sustained growth in the transport equipment industry (6.5%; 4Q 2005: 6.7%). The iron and steel industry declined at a slower rate of 10.9% (4Q 2005: -13.4%) reflecting in part the gradual recovery in global steel prices. The non-metallic mineral products industry declined by 5.7% (4Q 2005: 1.5%) during the quarter, partly affected by weak construction activities as well as lower production of glass for the shrinking cathode ray tube (CRT)-related products market.

Overall, the **capacity utilisation** rate for the manufacturing sector averaged 74% in the first quarter of 2006 (4Q 2005: 75%) amidst the increase in capacity as a result of higher investment. The export-oriented industries operated at 78% (4Q 2005: 78%), while the domestic-oriented industries at 68% (4Q 2005: 70%) during the quarter.

Capacity Utilisation in the Manufacturing Sector



Performance in the Manufacturing Sector

	2005			2006
	1Q	4Q	Year	1Q
	Annual change (%)			
Value Added (Constant Price)	**5.7**	**7.9**	**5.1**	**8.0**
Overall Production	**4.0**	**8.2**	**5.1**	**8.3**
Export-oriented industries	**3.5**	**10.1**	**5.7**	**10.1**
Of which:				
Electronics and electrical	-1.2	10.5	3.5	16.7
Electronics	-2.2	13.1	5.2	21.5
Electrical	1.7	3.7	-0.8	4.2
Chemicals and chemical products	6.6	16.8	11.0	4.4
Petroleum products[1]	13.4	11.5	10.8	8.9
Textiles, wearing apparel & footwear	-4.3	10.3	3.4	10.5
Wood and wood products [2]	1.3	3.1	1.5	1.9
Rubber products	4.6	-1.6	-0.4	-8.3
Off-estate processing	25.7	-4.6	8.1	-4.9
Domestic-oriented industries	**6.1**	**0.4**	**2.8**	**0.7**
Of which:				
Non-metallic mineral products	4.1	1.5	2.0	-5.7
Iron & steel and non-ferrous metal	1.6	-13.4	-5.3	-10.9
Food	8.6	4.8	7.6	-2.3
Transport equipment	16.0	6.7	8.5	6.5
Fabricated metal products	-6.9	-5.7	-4.9	13.2
Total Manufactured Exports	**12.0**	**13.1**	**10.1**	**10.6**
Of which:				
Electronics and electrical products	9.9	14.7	10.0	8.4
Chemical and chemical products	20.7	4.5	7.0	-6.7
Petroleum products	18.0	20.6	24.7	39.3
Optical & scientific equipment	22.9	12.4	6.5	7.9
Wood and wood products	16.8	6.6	2.1	-3.7
Furniture & parts	10.3	0.8	6.1	8.0
Rubber products	11.9	18.7	12.3	16.7

[1] Under the new Industrial Production Index (2000=100), LNG has been reclassified as petroleum products (previously classified as chemicals and chemical products). Consequently, petroleum products have been reclassified as export-oriented industries.
[2] Output of furniture and parts are not captured in the wood production data.

Source: Department of Statistics, Malaysia

Sustained expansion in the services sector

The **services sector** expanded by 5.2% in the first quarter of 2006 (4Q 2005: 5.9%), supported by trade, consumption and tourism-related activities. Of significance, the finance, insurance, real estate and business services; and wholesale, retail trade, hotels and restaurants sub-sectors continued to perform favourably.

The **finance, insurance, real estate and business services sub-sector** recorded a strong growth of 6% (4Q 2005: 5.8%) led mainly by increased bank lending activities as well as continued growth in the insurance sector, both in the general and life insurance categories. Meanwhile, the business services segment continued to remain strong, due to higher activity from selected businesses that benefited from the better stock market performance during the quarter as well as the higher activity in the shared services and outsourcing (SSO) industry as reflected by the 16 new approvals of MSC-status SSO companies during the quarter.

The **wholesale and retail trade, hotels and restaurants** sub-sector remained resilient to record a sustained growth of 6.1% during the quarter (4Q 2005: 7%). The development was despite the increase in domestic prices of petrol and diesel during the quarter. Growth was supported by continued spending by households amidst the positive earning growth. Robust domestic tourism activity was supported by the special rates on airfares and attractive tour packages offered during the quarter.

Growth in the **transport, storage and communication sub-sector** was supported by both the transportation and telecommunications segments. The transport sector was aided by higher land and port activities in line with the increase in total trade during the quarter. Meanwhile, growth in

Performance in the Services Sector (Value Added)

	Share 2005	2005			2006
		1Q	4Q	Year	1Q
	%	Annual change (%)			
Intermediate Services	**41.5**	**7.1**	**5.5**	**5.9**	**5.4**
Transport, storage & communication	15.1	10.4	4.9	6.2	4.4
Finance, insurance, real estate & business services	26.4	5.2	5.8	5.7	6.0
Final Services	**58.5**	**6.6**	**6.1**	**6.9**	**5.1**
Electricity, gas & water	7.1	6.2	3.7	5.6	4.7
Wholesale & retail trade, hotel & restaurants	25.2	7.8	7.0	8.0	6.1
Government services	12.8	6.7	7.4	7.6	3.7
Other services	13.3	4.7	4.6	4.9	4.6
Total Services	**100.0**	**6.8**	**5.9**	**6.5**	**5.2**

Source: Department of Statistics, Malaysia

Selected Quarterly Indicators in the Services Sector

	2005			2006
	1Q	4Q	Year	1Q
	Annual change (%)			
Total consumption credit outstanding	17.4	18.7	18.7	18.8
Loans outstanding to wholesale & retail trade, hotels & restaurants	12.7	8.3	8.3	7.3
Imports of consumption goods	10.7	4.2	5.9	14.1
Total sales of passenger cars	19.5	13.5	8.6	-9.6
Total sales of commercial vehicles	31.6	16.4	31.2	23.2
Total passenger traffic at all airports	6.6	1.9	4.8	6.5
Cargo handled (all airports)	5.3	6.2	4.3	10.7
Container cargo handled (Port Klang and PTP)	4.7	7.8	4.9	7.8
SMS traffic	70.6	156.3	130.8	118.9
	Percentage (%)			
Cellular phone penetration rate (%)	60.9	74.1	74.1	77.7

Source: Various sources

the telecommunications industry was sustained due to the high level of activity in the cellular segment. The increase in the penetration rate (77.7%; end-2005: 74.1%), and strong growth in SMS traffic exceeding seven billion for two consecutive quarters continued to support growth in the industry. Broadband usage also continued to increase with the number of broadband subscribers exceeding half a million as at end-March 2006 (penetration rate of 2.2%; end-2005: 1.9%).

The **utilities sub-sector** recorded a higher growth of 4.7% (4Q 2005: 3.7%) mainly supported by the increased demand for electricity from the commercial and household users, while growth in the **Government services** sub-sector expanded further due to increase in emoluments and additional allowances paid to civil servants.

Stronger growth in the agriculture sector, while activity in the mining sector remained subdued

Performance in the **primary commodity sector** was mixed in the first quarter of 2006. The agriculture sector recorded a stronger growth of 7.3% (4Q 2005: -1.5%) mainly underpinned by higher activity in the rubber, cocoa, paddy, livestock, fish, fruits and vegetables segments, while crude palm oil production declined during the quarter. Meanwhile, the mining sector continued to decline by 3.5% (4Q 2005: -2%) due to lower production of both crude oil and natural gas.

In the **agriculture sector**, most of the subsectors performed strongly during the quarter. Of significance, **rubber output** turned around to record a significant increase of 25.2% (4Q 2005: -3.8%) despite the wintering season, which occurs during

Performance in the Agriculture Sector

	2005			2006
	1Q	4Q	Year	1Q
	Annual change %)			
Value Added (at 1987 prices)	**6.1**	**-1.5**	**2.5**	**7.3**
Production[1]				
Of which:				
Crude palm oil	27.5	-6.0	7.0	-5.4
Crude palm kernel oil	27.2	-5.4	12.1	-8.9
Rubber	-9.8	-3.8	-3.8	25.2
Fish	-13.0	-1.7	-7.2	8.0
Cocoa	-10.9	-7.8	-16.3	23.2
Exports (RM million)	**6.2**	**3.2**	**3.4**	**5.0**
Of which:				
Palm oil				
('000 tonnes)	13.9	-0.2	10.9	3.5
(RM/tonne)	-15.7	-8.2	-14.6	-4.6
(RM million)	-4.0	-8.4	-5.3	-1.3
Palm kernel oil				
('000 tonnes)	14.5	-2.1	0.0	-30.0
(RM/tonne)	8.3	-12.4	-3.3	-4.7
(RM million)	24.1	-14.2	-3.3	-33.3
Rubber				
('000 tonnes)	-0.8	-0.2	2.1	3.0
(Sen/kilogramme)	-2.2	28.7	9.0	43.7
(RM million)	-2.9	28.4	11.3	48.0
Sawn timber				
('000 cu.metres)	47.8	-0.8	16.4	-21.0
(RM/cu.metre)	-10.3	23.5	8.3	29.8
(RM million)	32.6	22.4	26.0	2.5
Saw logs				
('000 cu.metres)	42.2	1.6	10.6	-19.1
(RM/cu.metre)	4.4	17.0	7.7	17.7
(RM million)	48.4	18.8	19.1	-4.7
Cocoa beans				
('000 tonnes)	183.4	-5.6	-2.1	101.1
(RM/tonne)	0.7	3.5	-1.8	0.1
(RM million)	185.3	-2.3	-3.9	101.2

[1] In '000 tonnes, except for saw logs in '000 cubic metres

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

February to April that affects yields. The strong performance could be related to the prevailing high prices during the quarter underpinned by strong global demand for natural rubber and further induced by the high synthetic rubber prices in line with the increased crude oil prices during the quarter. Rubber prices strengthened markedly by 47.1% to average 689 sen per kilogram during the quarter (4Q 2005: 605 sen per kilogram), with prices consistently above the 700 sen threshold since February 2006. The high prices had motivated particularly smallholders, that account for almost 95% of Malaysia's natural rubber production, to intensify their tapping activities. The smallholders have also been aided by the mild weather conditions in the rubber producing areas in the northern region of Peninsular Malaysia, compared to the extremely dry weather spell that inhibited latex output in the corresponding period of 2005.

Similarly, output of **cocoa and fish** recorded a strong positive growth in the first quarter of 2006 after recording four consecutive quarter of decline in 2005. Cocoa production rebounded strongly to increase by 23.2% to 9,407 tonnes, in the face of lower incidences of black pod disease that had previously affected yields. Production of fish increased by 8% to 343,108 tonnes, due mainly to the recovery in output of marine fish following initiatives taken by the Government in 2005 to address the problems faced by fishermen in the aftermath of the Tsunami and the increases in petroleum prices. Growth was further reinforced by increased harvest from aquaculture activity, which include ornamental fish, tiger prawns and seaweed.

Meanwhile, production of **crude palm oil** declined by 5.4% to 3.23 million tonnes (4Q 2005: -6%), attributable to lower yields as reflected in the decline in fresh fruit bunches (FFB), as well as oil extraction rates (OER). FFB yields during the quarter declined by 4.4% to 4.14 tonnes per hectare (1Q 2005: 4.33 tonnes per hectare), while the OER dropped slightly to 19.54%, compared to 20.20% recorded in the corresponding period of 2005. Yields during the quarter were affected by excessive rainfall and floods in key producing regions in the west coast of Peninsular Malaysia and Sabah, as well as the prolonged festive holiday period that delayed harvesting activities.

Activity in the **mining sector** was dampened by lower output of crude oil and natural gas. Production of **crude oil** (including condensates) declined by 2.2% to 724,166 barrels per day during the quarter, (1Q 2005: 740,383 barrels per day), while **natural gas** output contracted by 5.9% to 5,974 million standard cubic feet per day (1Q 2005: 6,352 million standard cubic feet per day).

Performance in the Mining Sector

	2005			2006
	1Q	4Q	Year	1Q
	Annual change (%)			
Value Added (at 1987 prices)	**3.4**	**-2.0**	**0.8**	**-3.5**
Production				
Of which:				
Crude oil and condensates ('000 barrels)	-5.2	-3.0	-4.9	-2.2
Natural gas (net) (million standard cubic feet)	19.8	-0.5	11.3	-5.9
Exports (RM million)	**34.8**	**20.2**	**27.1**	**24.0**
Of which:				
Crude oil and condensates				
('000 tonnes)	-1.1	8.6	-2.0	-4.1
(USD/barrel)	36.0	26.3	37.1	41.0
(RM million)	34.5	36.3	33.7	32.6
Liquefied natural gas				
('000 tonnes)	17.6	-1.7	5.9	-2.6
(RM/tonnes)	12.8	17.6	15.0	19.6
(RM million)	32.7	15.5	21.7	16.4

Source: PETRONAS
Department of Statistics, Malaysia

Subdued construction activity

The **construction** sector remained subdued with activity contracting by 1.8% during the quarter (4Q: -0.6%). Growth was mainly affected by the weakness in the civil engineering sector as the main players continued to secure projects abroad in the face of excess capacity in the country. Activity in the residential sub-sector showed signs of moderation as developers became cautious in launching new projects amidst the rising costs and softening demand.

Construction Indicators

	2005			2006
	1Q	4Q	Year	1Q
	Annual change (%)			
New sales and advertising permits	2.3	11.4	15.9	-17.8[1]
Housing approvals	11.2	2.8	-2.7	-43.2[1]
Production of construction-related materials	3.3	-3.8	-0.5	-7.5
Loans approved for construction	47.6	3.4	2.2	-33.6
Imports of construction materials and mineral products	6.1	0.2	-7.3	1.1[1]

[1] Jan-Feb 2006
Source: Ministry of Housing and Local Government and Department of Statistics, Malaysia

Stronger Domestic Demand

Domestic demand growth was stronger in the first quarter of 2006, expanding at an annual rate of 7.6% (4Q 2005: 7.2%). The private sector continued to provide the main impetus to growth.

Private consumption expenditure remained strong in the first quarter, increasing by 7.5%. Despite concerns of rising inflation, consumer spending was supported by continued increases in disposable income amidst sustained high commodity prices and strong export performance. Labour market conditions also remained favourable with job vacancies remaining high while retrenchments declined. Financing conditions also remain supportive of growth. Notwithstanding the increase in Bank Negara Malaysia's Overnight Policy Rate in February, and again in April, interest rates continue to remain below neutral levels and therefore are still supportive of economic activity.

Major consumption indicators also point to sustained consumer spending. Imports of consumption goods and credit card spending registered strong growth, while growth in loans approved and disbursed for consumption purposes was sustained. However, reflecting in part the uncertainties regarding the details of the National Automotive Policy, the number of new passenger cars sold recorded a decline in the first quarter.

Meanwhile, **public consumption** grew by 0.1% as the lower expenditure for supplies of education and health services was more than offset by the higher expenditure on emoluments and defence.

Gross fixed capital formation strengthened further, registering a growth of 11.4%. Investment expenditure was mainly supported by private sector's capital spending, as the Federal Government's development expenditure declined. Spurred by a better business outlook and sustained high capacity utilisation, businesses upgraded and expanded their productive capacity, and undertook new investments in downstream activities. MIER's Business Conditions Index climbed higher to 102.5 points (4Q 2005: 100.5 points), suggesting that manufacturers remained sanguine on sales and production despite higher oil prices. Major investment indicators also pointed to a strong investment pattern. Imports of capital goods and sales of commercial vehicles both recorded strong double-digit growth rates while financial

GDP by Expenditure Components (at Constant 1987 prices)

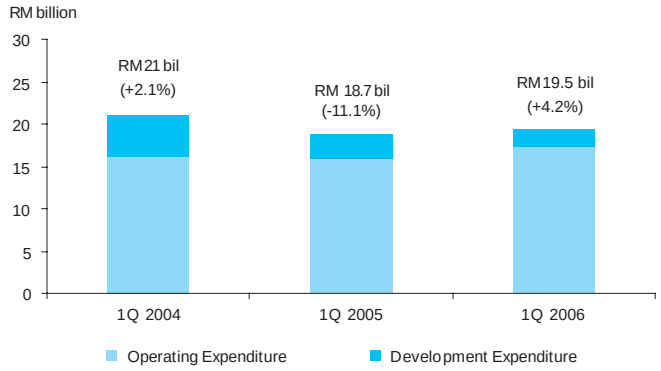
	2005			2006
	1Q	4Q	Year	1Q
	Annual change (%)			
Aggregate Domestic Demand (excluding stocks)	6.4	7.2	7.3	7.6
Consumption	8.3	9.9	8.3	6.1
Private sector	10.1	9.0	9.2	7.5
Public sector	1.0	12.6	5.4	0.1
Gross Fixed Capital Formation	2.0	0.4	4.7	11.4
Exports of Goods and Services	10.8	9.7	8.6	5.9
Imports of Goods and Services	8.4	8.0	8.0	10.8
GDP	**6.1**	**5.2**	**5.2**	**5.3**

Source: Department of Statistics, Malaysia

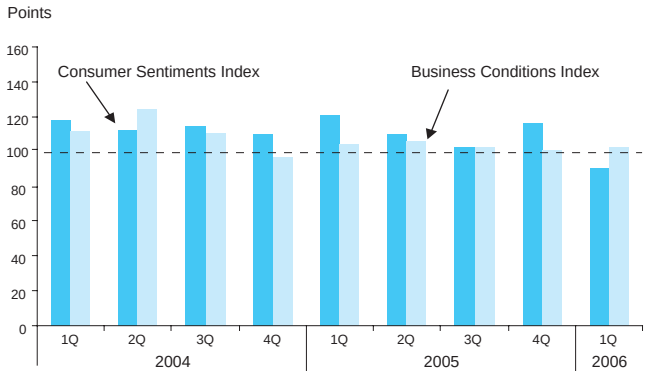
indicators, particularly loans approved and disbursed to businesses, indicated higher investment activities in the first quarter.

The Government's development expenditure, while lower, continued to focus on providing essential services, such as agriculture and rural development, public utilities, education and health services.

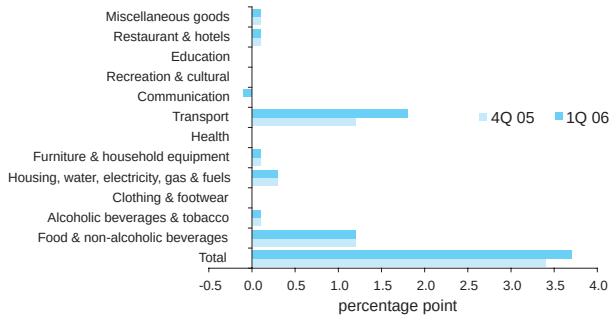
Moderate Increase in Government Spending



Business Confidence Remained High While Consumer Sentiment Declined



Contribution to Consumer Price Inflation



Effective from January 2006, the base reference period for the CPI series is year 2005=100

Inflation increased in the first quarter

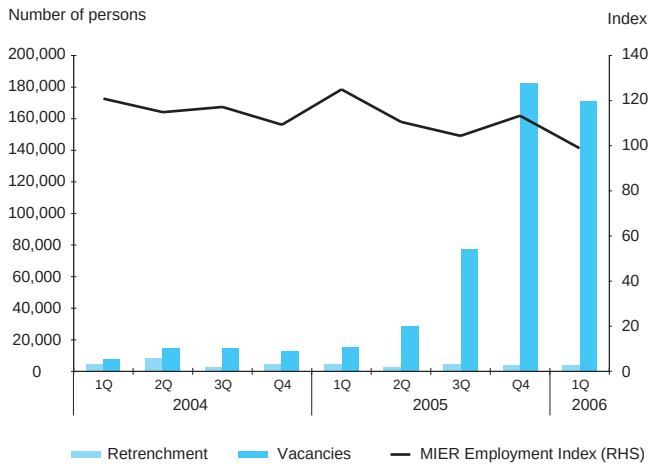
The annual rate of inflation, as measured by the **Consumer Price Index** (CPI), increased to average 3.7% (4Q 2005: 3.4%). This mainly reflected the 18% increase in retail fuel prices on 28 February 2006, resulting in the upward adjustment in the rate of inflation to 4.8% in March.The increase was also in part the result of a higher weight of the transport category in the revised CPI basket (effective from January 2006, the Department of Statistics has revised the CPI base reference period from 2000 to 2005. Please refer to the box article in the Monthly Statistical Bulletin in March 2006 for further details).

The annual rate of increase of the **Producer Price Index** (PPI) increased to 9.9% during the period (4Q 2005: 7.1%). The rise was largely on account of the stronger increase in commodity-related categories amidst higher prices of rubber, crude oil and crude palm oil. Meanwhile, excluding commodities, the rate of increase in the PPI moderated to 0.7% (4Q 2005: 1.7%) due primarily to the slower increase in the PPI for food and live animals and manufacturing-related products, while the PPI for chemical-related products and machinery and transport equipment was lower.

Labour market remained healthy

Labour market conditions continued to be healthy in the first quarter of 2006 as vacancies remained high and both retrenchments and unplaced jobseekers declined further.

Labour Market Conditions



Total vacancies reported during the quarter remained high at 170,882 positions, (4Q 2005: 182,838 positions), with significant numbers of job openings reported in the manufacturing (42%), agriculture (21%) and services (18%) sectors. The sustained strong demand for labour was also reflected in the 23% decline in retrenchments during the quarter, with only 3,648 persons being retrenched during the period (4Q 2005: 3,955 persons). About 34% of the retrenchments affected sales and services workers and some production workers (29%).

The downward trend in retrenchments mirrored the continuing decline in unplaced jobseekers. At end-March 2006, the total number of unplaced jobseekers stood at 56,823, having declined for the seventh successive month since end-September 2005. Most of the jobseekers were school leavers with SPM qualification (32%), degree (24%) and diploma (20%) holders.

Nevertheless, given the greater uncertainty engendered by higher oil prices during the quarter, concerns regarding job prospects heightened during the quarter, as reflected by the weaker MIER Employment Index. It is expected that as the positive trends in the labour market persist over the course of the year, sentiment would similarly pick-up over time.

Real labour productivity, as measured by real sales value of products per employee in the manufacturing sector, declined by 1.1% (4Q 2005: 7.5%), the first quarterly contraction since 1Q 2002 (-3.4%). The decline in real labour productivity growth in the first quarter of this year reflected the lower growth in manufacturing sales on an annual basis amidst higher employment growth and inflation. Real wages, on the other hand, declined more strongly (-1.7%; 4Q 2005: -0.5%) as nominal wages posted a marginal growth, which was more than offset by higher consumer prices.

Exports and imports continued to expand

The trade surplus narrowed to RM25.8 billion in the first quarter of 2006 (4Q 2005: RM28.6 billion) as gross imports grew at a faster pace (13.7%; 4Q 2005: 7.5%) relative to exports (11.5%; 4Q 2005: 12.6%). The strong import growth reflected growth in all categories of imports.

Gross exports grew at a sustained pace of 11.5% in the first quarter of 2006 (4Q 2005: 12.6%) due mainly to strong growth in commodity exports, particularly minerals, and continued double-digit expansion in manufactured exports.

Exports of **manufactured goods** rose by 10.6% (4Q 2005: 13.1%) supported by exports of selected resource-based products and

transport equipment. Meanwhile, exports of E&E products grew, albeit at a more moderate pace of 8.4% (4Q 2005: 14.7%) as robust shipment of computers and computer-related products was offset by slower growth in exports of electrical appliances. Of significance, declining prices of some E&E products amidst the intense competition partly contributed to the lower growth in receipts during the quarter.

Trade Account

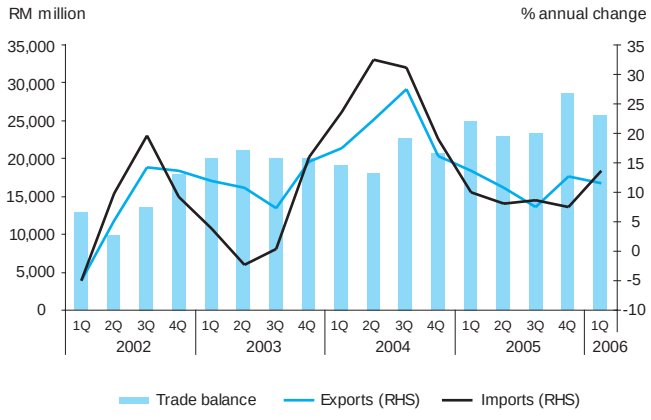
	2005			2006
	1Q	4Q	Year	1Q
	Annual change in (%)			
Gross Exports	**13.7**	**12.6**	**11.0**	**11.5**
Manufacturing	*12.0*	*13.1*	*10.1*	*10.6*
Agriculture	*6.2*	*3.2*	*3.4*	*5.0*
Minerals	*34.8*	*20.2*	*27.1*	*24.0*
Gross Imports	**10.1**	**7.5**	**8.5**	**13.7**
Capital goods	*0.7*	*0.3*	*9.5*	*28.8*
Intermediate goods	*10.6*	*6.3*	*7.2*	*8.0*
Consumption goods	*10.7*	*4.2*	*5.9*	*14.1*
Trade balance (RM bil)	**25.0**	**28.6**	**99.8**	**25.8**

Source: Department of Statistics, Malaysia

Growth in exports of resource-based products was sustained, led mainly by exports of petroleum, rubber products, food and furniture and parts. Exports of petroleum products increased further by 39.3% (4Q 2005: 20.6%), supported by the high prices and robust demand from the regional countries. Similarly, growth in exports of rubber products was sustained at a high level (16.7%; 4Q 2005: 18.7%), due to favourable demand and higher prices as the increase in the cost of raw materials was partially passed on to consumers. Meanwhile, there was a discernible pick-up in exports of furniture and parts (8%; 4Q 2005: 0.8%) supported by favourable demand from the United States, United Kingdom and Australia. Strong growth in exports of floating structures for the oil and gas industry had contributed to the sharp increase (104.9%) in the exports of the transport equipment segment during the quarter.

As a consequence of strong increase in energy prices during the first quarter of 2006, export receipts from **minerals** rose sharply by 24% to RM15 billion, thus achieving the highest ever level on a quarterly basis. Geopolitical uncertainty in major oil producing countries and negligible growth in crude oil supply due to the limited global spare production capacity and inadequate refining capacity in the US amidst the rising demand for petroleum products particularly for transportation purposes had inevitably led to the upward momentum in energy prices. Malaysian crude oil which is of the “light and sweet” variety with low sulphur content was in particular demand from refiners worldwide to produce these transportation-related petroleum products. Consequently, the premium fetched by the Malaysian crude oil over the benchmark grade in the global oil markets increased resulting in the Malaysian export prices to average USD65.32 per barrel. In line with the higher energy prices, proceeds from exports of liquefied natural gas (LNG) also rose by 16.4%, driven entirely by a substantial increase in prices (19.6%) to an average of RM1,041 per tonne.

Trade Balance



Malaysia: Direction of Exports

	2005			2006	2005			2006	2005			2006
	1Q	4Q	Year	1Q	1Q	4Q	Year	1Q	1Q	4Q	Year	1Q
	RM billion				Share of total exports (%)				Annual change (%)			
United States	**21.6**	**27.5**	**105.0**	**24.5**	**17.6**	**19.3**	**19.7**	**17.9**	**12.2**	**18.8**	**16.5**	**13.4**
European Union (EU)	**14.6**	**17.5**	**62.6**	**16.1**	**11.9**	**12.3**	**11.7**	**11.8**	**5.3**	**11.2**	**3.7**	**10.0**
Selected ASEAN countries[1]	**32.6**	**36.7**	**137.8**	**37.4**	**26.6**	**25.7**	**25.8**	**27.3**	**20.9**	**14.5**	**15.1**	**14.7**
North East Asia	**23.5**	**27.0**	**99.2**	**25.2**	**19.2**	**18.9**	**18.6**	**18.4**	**7.3**	**11.0**	**6.2**	**7.2**
People's Republic of China	*8.0*	*10.5*	*35.2*	*8.3*	*6.5*	*7.3*	*6.6*	*6.1*	*10.8*	*26.2*	*9.6*	*4.4*
Hong Kong China	*7.1*	*7.8*	*31.2*	*7.5*	*5.8*	*5.5*	*5.8*	*5.5*	*9.7*	*6.5*	*8.8*	*6.2*
Chinese Taipei	*3.1*	*4.0*	*14.8*	*3.3*	*2.5*	*2.8*	*2.8*	*2.4*	*-14.4*	*-2.4*	*-6.0*	*7.2*
Korea	*5.4*	*4.7*	*17.9*	*6.1*	*4.4*	*3.3*	*3.4*	*4.5*	*14.9*	*2.5*	*6.6*	*12.8*
India	**3.7**	**4.2**	**15.0**	**4.0**	**3.0**	**2.9**	**2.8**	**2.9**	**37.0**	**32.2**	**31.2**	**8.3**
Total exports	**122.6**	**142.6**	**533.8**	**136.7**	**100.0**	**100.0**	**100.0**	**100.0**	**13.7**	**12.6**	**11.0**	**11.5**

[1] Singapore, Thailand, Indonesia, Philippines, Brunei Darussalam and Vietnam
Source: Department of Statistics, Malaysia

Agriculture exports continued to increase further by 5% during the quarter to RM9.2 billion (4Q 2005: 3.2%), mainly supported by the substantial rise in rubber exports of 48% (4Q 2005: 28.4%). The exceptional performance was attributable to the strong increase in export prices (43.7% to 666 sen per kilogramme; 4Q 2005: 28.7%) induced by the high global demand for natural rubber from the automotive sector, coupled with the rise in prices of the competing synthetic rubber, a petrochemical product, which has been rising in tandem with the stronger crude oil prices. These developments had led to depleting global rubber stocks, which exerted upward pressure on prices. Meanwhile, palm oil exports declined by 1.3% during the quarter (4Q 2005: -8.4%) due entirely to lower prices, while export volume continued to rise by 3.5%. Export prices, although remaining attractive at RM1,420 per tonne in the first quarter, was still lower than the level recorded in the corresponding period of 2005. Meanwhile, shipments to the main export markets including PR China, the Middle East and the US continued to increase.

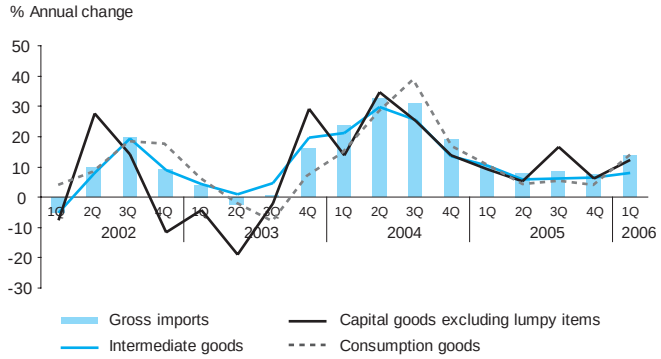
Malaysia's trade with major trading partners continued to grow. Exports to regional countries (excluding Japan) expanded by 11.6% to account for a higher share of 45.8%. Growth in regional exports was driven by Singapore, Vietnam and Korea. Exports to Singapore were supported by strong demand for electronics and electrical (E&E) products, refined petroleum products, transport equipment and crude petroleum while Korea continued to source LNG, crude petroleum and chemicals from Malaysia. Of significance, exports to Vietnam grew by 107%, underpinned by exports of transport equipment, palm oil, manufactures of plastics and metal.

During the quarter, Malaysia also recorded strong export growth to the US, EU, Australia and New Zealand. Exports to the US were led by exports of E&E and wood products, textiles and clothing, rubber products and palm oil. In line with improvements in economic activity, exports to the EU countries recorded growth of 10%. Exports to Australia and New Zealand were supported by strong demand for crude petroleum and E&E products.

On the imports side, Malaysia continued to source imports of components from regional countries, particularly Singapore, PR China, Thailand and Korea. Imports from the regional countries grew strongly by 14.2%, reflecting mainly imports of E&E products, chemicals and manufactures of metal. Imports from the US expanded by 26.4% accounting for a higher share of 14% of imports underpinned by high imports of E&E products, transport equipment as well as optical and scientific equipment.

Gross imports strengthened by 13.7%, reflecting strong private investment activity and domestic consumer spending as well as

Import Growth



Malaysia: Imports by End Use And Broad Economic Categories (BEC) Classification

	2005			2006
	1Q	4Q	Year	1Q
	Annual change (%)			
CAPITAL GOODS	**0.7**	**0.3**	**9.5**	**28.8**
Capital goods (except transport equipment)	7.3	5.3	10.0	17.2
Transport equipment	-43.0	-26.8	5.3	173.3
INTERMEDIATE GOODS	**10.6**	**6.3**	**7.2**	**8.0**
Food and beverages, mainly for Industry	-7.9	6.9	-5.6	29.0
Industrial supplies, n.e.s.	16.0	0.6	6.0	1.3
Fuel and lubricants	95.7	32.2	42.3	21.1
Parts and accessories of capital goods (except transport equipment)	0.1	5.6	2.7	8.9
Parts and accessories of transport equipment	40.9	11.3	34.8	9.4
CONSUMPTION GOODS	**10.7**	**4.2**	**5.9**	**14.1**
Food and beverages, mainly for household consumption	9.5	-1.2	4.0	3.6
Transport equipment, non-industrial	-16.2	17.5	-4.9	23.5
Consumer goods, n.e.s.	12.2	7.4	7.4	20.9
Durables	*11.3*	*12.3*	*12.3*	*32.3*
Semi-durables	*3.4*	*5.1*	*0.4*	*27.3*
Non-durables	*19.2*	*6.5*	*10.2*	*11.3*
DUAL USE GOODS	**17.0**	**12.2**	**21.5**	**23.2**
OTHERS	**-6.0**	**4.9**	**0.8**	**12.0**
RETAINED IMPORTS	**9.0**	**5.4**	**7.7**	**11.7**
RE-EXPORTS	**35.3**	**53.4**	**26.9**	**52.3**
GROSS IMPORTS	**10.1**	**7.5**	**8.5**	**13.7**

Source: Department of Statistics, Malaysia

continued expansion in inputs for manufactured exports. Imports of **intermediate goods,** particularly inputs for the E&E products, grew by 8%. Higher demand for festivities also induced the increase in imports of food and beverages. Imports of fuel and lubricants recorded strong growth during the quarter, underpinned by high oil prices.

A notable feature was the significant growth of 28.8% in **capital goods** to RM15.9 billion. Imports of capital goods excluding lumpy items increased by 12.3%. The increase in imports for capacity expansion and upgrading of technology occurred in the manufacturing and services sectors, as evidenced by the increase in imports of machinery for manufacturing, metal tools, office equipment and generators, turbines and electric motors. Increased exploration and development activity in the upstream oil and gas industry also led to higher imports of construction and mining equipment. Strong external demand for commodity exports and expansion in intra-regional travel led to an increase in deliveries of ships, aircraft and rail locomotives. In line with sustained private consumer spending, imports of **consumption goods** increased by 14.1%. Consumption imports mainly comprised the imports of durable and semi-durable consumer goods.

Continued inflows of FDI

On a cash basis, gross inflows of **foreign direct investment (FDI)** amounted to RM3.7 billion (4Q 2005: RM13 billion), reflecting mainly lower extension of short-term inter-company loans by foreign MNCs to their subsidiaries in Malaysia. The bulk of the gross inflows were in the form of equity capital and channelled into the services, manufacturing and oil and gas sectors. In the services sector, FDI inflows were mainly concentrated in the financing, insurance and business services as well as restaurants, hotels, wholesale and retail trade sub-sectors. Meanwhile, inflows of FDI into the manufacturing sector were directed primarily into the electrical and electronics, petroleum-related as well as optical goods industries. After adjustments for outflows due mainly to repayments of short-term loans to related companies, FDI recorded a net inflow of RM0.9 billion (4Q 2005: RM2.9 billion). The FDI on cash basis does not include retained earnings and investment in the form of imported machinery and equipment.

Overseas investment recorded a significantly higher gross outflow of RM47.9 billion (4Q 2005: RM18.1 billion) due entirely to marked increase in the short-term loan extensions by non-resident controlled companies in the oil and gas sector to their related companies abroad arising from their centralised treasury operations. These outflows were largely offset by inflows arising from repayment of short-term inter-company loans during the quarter. After adjusting mainly for these inflows, overseas investment recorded a net outflow of RM1.8 billion (4Q 2005: +RM1.9 billion). The investments were led by companies in the services sector, particularly in the utilities sub-sector following the acquisition of a power generating company in Egypt, as well as in the financing, insurance and business services sub-sector. Meanwhile, companies in the manufacturing sector continued to invest abroad, primarily in the electrical and electronics and chemical-related products industries.

Portfolio investment recorded a net inflow of RM3.9 billion (4Q 2005: -RM13.7 billion), reflecting renewed foreign interest, particularly in the debt securities.

External debt declined

Malaysia's total external debt declined to RM191 billion or USD51.3 billion as at end-March 2006 (end-2005: RM195.9 billion or USD51.3 billion), equivalent to 36.8% of GNP. The improvement in the external debt position was attributed to declines in both the medium- and long-term and short-term external debt. The lower **medium- and long-term external debt** (RM147.7 billion; end-2005: RM149 billion), reflected mainly the exchange revaluation gain following the appreciation of the ringgit against major currencies, particularly the US dollar. During the quarter, both the Federal Government and the private sector recorded a small net repayment of external loans.

Meanwhile, the non-financial public enterprises (NFPEs), which had recorded six consecutive quarters of net repayments, reversed to register a net drawdown of external loans (RM3 billion). The drawdown of external loans was mainly to finance capital expenditure, working capital requirement and repayments of offshore loans, particularly by transportation companies.

The total **short-term external debt** declined to RM43.3 billion or USD11.6 billion (end-2005: RM46.8 billion), reflecting lower short-term borrowings by both the banking and non-bank private sectors. As at end-March 2006, the short-term debt accounted for only 22.7% of total external debt and is 16% of the net international reserves.

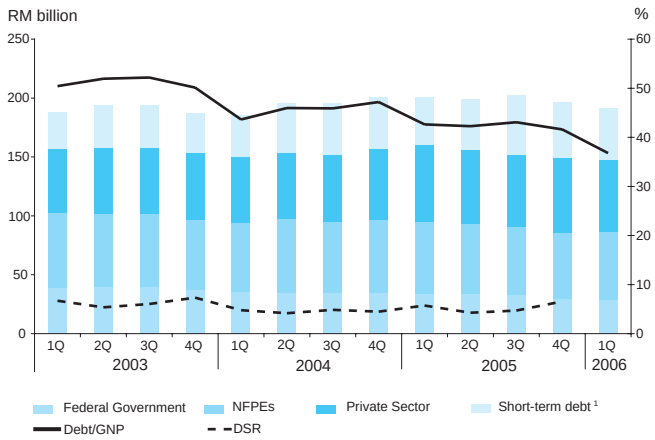
External Debt Outstanding

	2005		2006
	1Q	4Q	1Q [p/]
	RM billion		
Medium- and Long-term debt	160.1	149.0	147.7
Public sector	94.7	86.1	86.8
Private sector	65.4	62.9	60.9
Short-term debt[1]	40.5	46.8	43.3
Total external debt	200.6	195.9	191.0
- USD billion equivalent	52.8	51.3	51.3

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

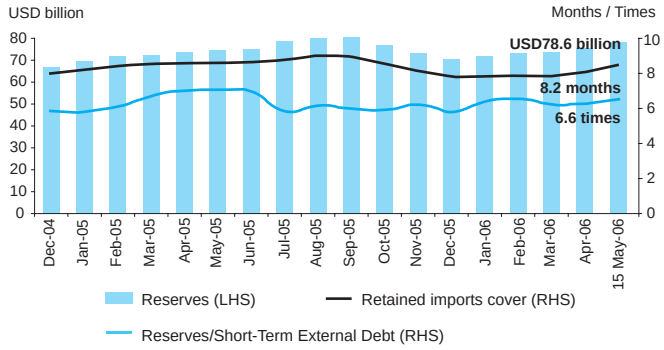
Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

External Debt Outstanding

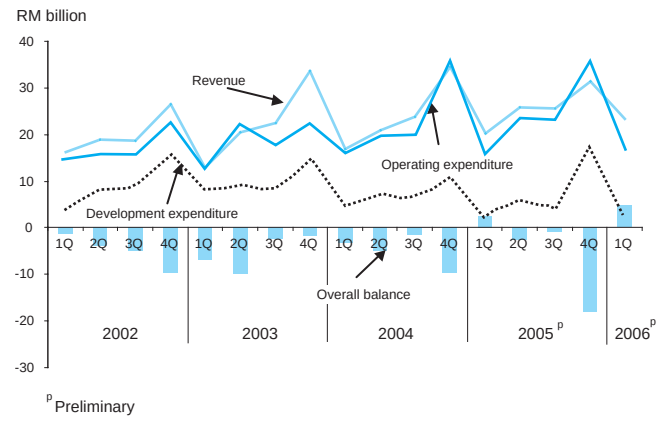


[1] Excludes currency and deposits held by non-residents with resident banking institutions

Net International Reserves (as at end-period)



Federal Government Finance



Federal Government Finance[p]

	2005			2006
	1Q	4Q	Year	1Q
	RM billion			
Revenue	21.1	32.2	106.3	24.2
% growth	*19.2*	*-8.7*	*6.9*	*14.5*
Operating expenditure	15.9	35.5	97.7	17.3
% growth	*-1.5*	*-0.2*	*7.1*	*8.9*
Current account	**5.2**	**-3.3**	**8.6**	**6.9**
% of GDP	***4.5***	***-2.5***	***1.7***	***5.3***
Gross development expenditure	2.8	17.5	30.5	2.1
% growth	*-42.9*	*66.5*	*5.8*	*-23.0*
Overall balance	**2.6**	**-17.9**	**-18.7**	**4.9**
% of GDP	***2.3***	***-13.7***	***-3.8***	**3.8**
Memo item:				
Total gross expenditure	18.7	52.9	128.3	19.5
% growth	*-11.1*	*15.0*	*6.8*	4.2
Total Federal Government debt (as at end-period)	223.1	228.7	228.7	232.2
% of GDP	*45.0*	*46.2*	*46.2*	*42.8*
Domestic debt	189.3	198.7	198.7	203.3
% of GDP	*38.2*	*40.1*	*40.1*	*37.5*
External debt	33.8	30.0	30.0	28.9
% of GDP	*6.8*	*6.1*	*6.1*	*5.3*

[p] Preliminary

Higher international reserves

The international reserves of Bank Negara Malaysia amounted to RM271.6 billion or equivalent to USD73.7 billion as at 31 March 2006. The reserves level has taken into account the quarterly adjustment of the foreign exchange revaluation loss, following the strengthening of ringgit against the major currencies. The reserves increased further to RM289.5 billion or equivalent to USD78.6 billion as at 15 May 2006. The reserves position is sufficient to finance 8.2 months of retained imports and is 6.6 times the short-term external debt.

Improved Fiscal Position

Stronger revenue collection which more than offset the increase in total expenditure resulted in larger fiscal surplus of RM4.9 billion or 3.8% of GDP in the first quarter of 2006. Higher receipts were mainly from petroleum-based revenue coupled with payments of income taxes by individual and corporation. Total expenditure rose at an annual rate of 4.2%, due to higher operating expenditure reflecting the annual grant to the Pension Trust Fund and higher debt servicing. Funds were raised entirely from domestic sources. As at end-March 2006, total outstanding debt of the Federal Government amounted to RM232.2 billion or 42.8% of GDP. The external debt of the Federal Government continues to remain low at 5.3% of GDP.