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.

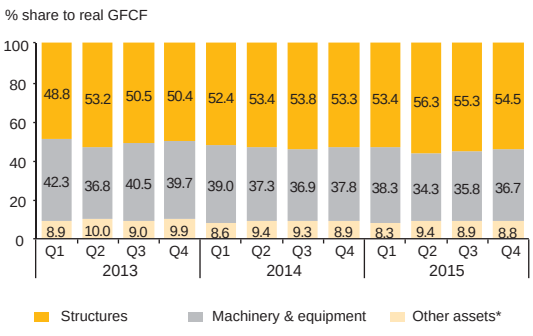
GDP by Expenditure Components
(at constant 2010 prices)

	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

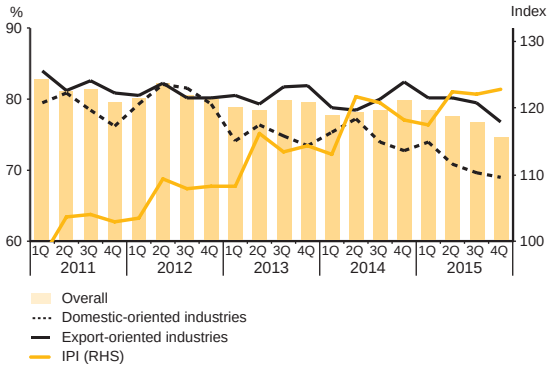
Source: Various sources

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.

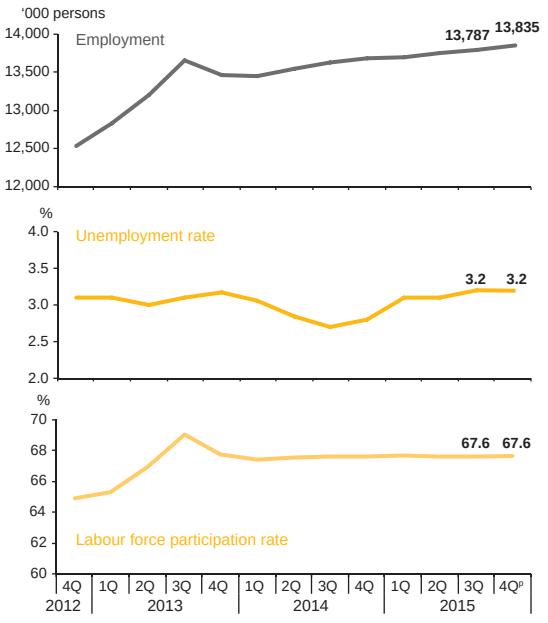
The Producer Price Index (PPI) continued to decline, albeit at a slower pace, on an annual basis in the fourth quarter (4Q 2015: -2.4%; 3Q 2015: -5.4%), driven mainly by lower prices in the *mineral, fuels and lubricants* and *animal and vegetable oils and fat* categories, due to lower global commodity 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



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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

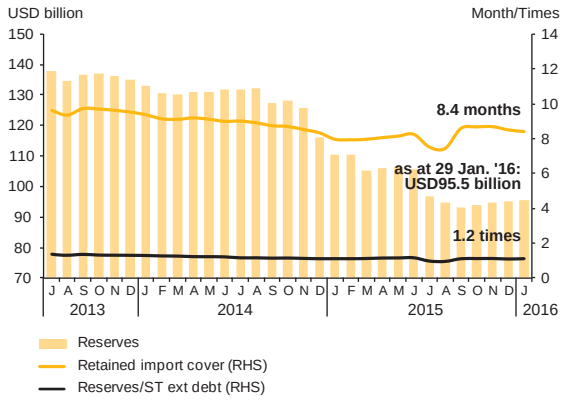
Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

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)

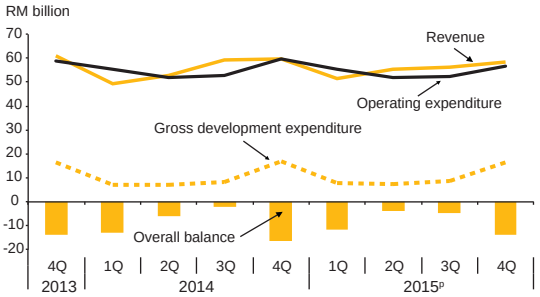


Source: Bank Negara Malaysia

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