DEVELOPMENTS IN THE MALAYSIAN ECONOMY

Broad-based economic expansion

Real GDP growth increased by 5.7% during the fourth quarter of 2006 reflecting expansion in all major economic sectors. In particular, the growth was led by strong expansion in the services and agriculture sectors, and reinforced by the turnaround in the mining and construction sectors. The services sector was supported by consumption, tourism, finance and business activities, while growth in the agriculture sector was led by higher palm oil output. The turnaround in the mining sector was due to higher output of crude oil and natural gas. The construction sector expanded for the first time after ten consecutive quarters of decline due to improved performance in the civil engineering and the non-residential segments. Meanwhile, the manufacturing sector recorded a more moderate expansion due to slowdown in the export-oriented sector.

Quarterly GDP by Kind of Economic Activity at 1987 Prices

	2005		2006		
	4Q	Year	3Q	4Q	Year
	Annual Change (%)				
Agriculture	-1.5	2.5	6.2	6.5	6.4
Mining	-2.0	0.8	-0.4	1.9	-0.2
Manufacturing	7.9	5.1	7.2	4.3	7.0
Construction	-0.6	-1.6	-0.4	0.6	-0.5
Services	5.9	6.5	6.4	7.0	6.5
Real GDP (Ann. Chg.)	**5.2**	**5.2**	**5.8**	**5.7**	**5.9**
Real GDP (Preceding Chg.)	**1.8**	**5.2**	**3.4**	**1.7**	**5.9**

Source: Department of Statistics, Malaysia

Services sector remained strong

The **services sector** continued to expand at a faster pace than the overall GDP growth at 7% (3Q: 6.4%). Growth was supported by consumption activity due to the major festivities, holiday season and year-end sales, while the strong promotional campaigns in preparation for the 2007 Visit Malaysia Year resulted in increased tourist arrivals especially towards the year-end. Given these developments, the **wholesale and retail trade, hotels and restaurants** sub-sector expanded by 5.2% (3Q: 5.8%). The automotive trade industry, however, remained lacklustre due to the weakness in the second-hand car market.

Increased domestic travelling during the festival and holiday season also supported the transportation sector during the quarter. This was further enhanced by the special promotions offered by the domestic airline companies which induced domestic tourism. Meanwhile, the telecommunications sector continued to expand led mainly by the cellular segment due to higher usage of the data and voice services in response to the promotions offered by the service providers. Consequently, the **transport, storage and communication** sub-sector expanded by 6.8% (3Q: 7.1%).

Growth in the services sector was also underpinned by increased finance and business activities, particularly in the new growth areas. This was reflected in the **finance, insurance, real estate and business services** sub-sector, which expanded by 8.3% (3Q: 7.4%). Growth was supported by lending activities and increased revenue from fee-based income

Performance in the Services Sector (Value Added)

	Share 2005	2005		2006		
		4Q	Year	3Q	4Q	Year
	%	Annual change (%)				
Intermediate Services	**41.5**	**5.5**	**5.9**	**7.3**	**7.8**	**6.8**
Transport, storage & communication	15.1	4.9	6.2	7.1	6.8	6.3
Finance, insurance, real estate & business services	26.4	5.8	5.7	7.4	8.3	7.1
Final Services	**58.5**	**6.1**	**6.9**	**5.8**	**6.5**	**6.3**
Electricity, gas & water	7.1	3.7	5.6	5.2	6.7	4.9
Wholesale & retail trade, hotels & restaurants	25.2	7.0	8.0	5.8	5.2	5.9
Government services	12.8	7.4	7.6	7.9	10.8	9.6
Other services	13.3	4.6	4.9	4.2	4.7	4.5
Total Services	**100**	**5.9**	**6.5**	**6.4**	**7.0**	**6.5**

Source: Department of Statistics, Malaysia

in both the conventional and Islamic finance. Insurance activity remained high underpinned by increases in the medical and health insurance products as well continued strong performance of the investment-linked products. The, real estate activity was also higher, while business services benefited from the favourable stock market performance and rapid expansion in the IT related businesses. During the quarter, 112 new MSC-status companies came into operation (3Q: 66 companies).

Selected Quarterly Indicators in the Services Sector

	2005		2006		
	4Q	Year	3Q	4Q	Year
	Percentage at end-period (%)				
Cellular phone penetration rate	74.1	74.1	81.6	72.3	72.3
Internet subscribers penetration rate	13.9	13.9	14.0	14.0	14.0
Broadband subscribers penetration rate	1.9	1.9	2.8	3.3	3.3
	Annual change (%)				
Total passenger traffic at all airports	1.9	4.8	0.0	0.2	2.2
Total consumption credit outstanding	18.7	18.7	18.0	14.9	14.9
Loan outstanding to the wholesale & retail trade, restaurants & hotels	8.3	8.3	10.9	12.0	12.0
Imports of consumption goods	4.2	5.9	14.7	12.1	13.4
Total sales of passenger cars	13.6	8.9	-7.0	-26.0	-12.4
Total sales of commercial vehicles	16.5	31.4	-15.0	-20.6	-7.1
SMS traffic	156.3	130.8	36.6	32.1	51.6
Cargo handled (all airports)	6.2	4.3	5.4	1.5	5.7
Container cargo handled (Port Klang and PTP)	7.8	4.9	15.9	18.7	14.2
Cargo revenue (Railway)	-2.9	-1.5	8.2	12.3	5.1

Source: Various sources

The **utilities** sub-sector recorded a higher growth of 6.7% (3Q: 5.2%), due to higher generation of electricity to meet the demand by commercial users during the year-end sale promotion, while the **Government services** continued to expand, reflecting increases in emoluments, including allowances and bonuses paid to the civil servants.

Expansion in manufacturing activity led by domestic-oriented industries

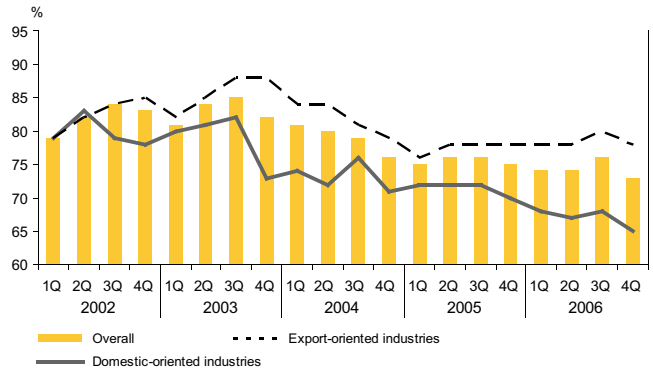
The **manufacturing sector** continued to expand by 4.3% in the final quarter of 2006 (3Q: 7.2%). Growth was supported by export-oriented industries and strong performance in the domestic-oriented industries.

The **export-oriented industries** expanded by 4.3% (3Q: 5.9%) as the electronics and electrical industry was affected by the slower demand for the computer segment from the US market. Nevertheless, demand for selected resource-based products was sustained at a high level. Of significance, rubber products grew at a double-digit growth supported by continued expansion in the gloves segment and improvement in tyre industry. Stronger external demand and favorable export prices led to the expansion in wood products, while activity in the off-estate processing industry was sustained in line with the trends in crude palm oil production. Meanwhile, performance of the chemical industry was subdued due to slower demand for plastic bags following some build-up in stocks in the European Union as well as slower growth in the industrial gas segment.

The **domestic-oriented industries** expanded by 11.1%; (3Q: 12.2%), driven mainly by the higher production of construction-related materials and further supported by the fabricated metal and food products. Output of construction-related industries (such as iron and steel, cement and glass products) was underpinned by both domestic and external demand. The transport equipment industry, however, contracted further (-11.5%; 3Q: -2.6%), as demand for new passenger cars remained weak due to the weakness in the low resale value of second hand cars.

The **overall capacity utilisation rate** of the manufacturing sector averaged 73% in the 4Q (3Q: 76%), with the export-oriented and domestic-oriented industries operating at 78% and 65% respectively (3Q: 80% and 68% respectively).

Capacity Utilisation in the Manufacturing Sector



Performance in the Manufacturing Sector

	2005		2006		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Value Added (Constant Price)	**7.9**	**5.1**	**7.2**	**4.3**	**7.0**
Overall Production	**8.2**	**5.1**	**7.1**	**5.6**	**7.6**
Export-oriented industries	**10.1**	**5.7**	**5.9**	**4.3**	**7.6**
Of which:					
Electronics and electrical	10.5	3.5	5.1	2.5	8.0
Electronics	13.1	5.2	8.8	5.0	11.9
Electrical	3.7	-0.8	-5.5	-4.7	-2.7
Chemicals and chemical products	16.8	11.0	-1.8	-2.2	2.8
Petroleum products[1]	11.5	10.8	18.1	13.1	13.7
Textiles, wearing apparel & footwear	10.3	3.4	-0.8	0.9	5.9
Wood and wood products [2]	3.1	1.5	4.2	12.4	4.5
Rubber products	-1.6	-0.4	13.5	14.4	7.0
Off-estate processing	-4.6	8.1	9.7	9.4	5.6
Domestic-oriented industries	**0.4**	**2.8**	**12.2**	**11.1**	**7.5**
Of which:					
Non-metallic mineral products	1.5	2.0	8.1	8.8	3.2
Iron & steel and non-ferrous metal	-13.4	-5.3	7.9	25.7	4.2
Food	4.8	7.6	14.4	9.6	6.6
Transport equipment	6.7	8.5	-2.6	-11.5	-0.9
Fabricated metal products	-5.7	-4.9	36.1	32.0	27.0
Total Manufactured Exports	**13.0**	**10.0**	**14.2**	**5.7**	**10.1**
Of which:					
Electronics and electrical products	14.7	9.9	10.3	1.7	6.4
Chemicals and chemical products	4.5	6.8	22.0	17.9	10.8
Petroleum products	20.6	24.7	32.0	3.1	27.3
Wood and wood products	7.1	2.1	34.3	26.8	16.7
Furniture & parts	2.9	6.6	10.5	7.6	7.9
Rubber products	18.7	11.6	48.5	31.9	34.6

[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

Commodities sector supported by strong agriculture output and expansion in the mining activities

Growth in the agriculture sector strengthened to 6.5% in the 4Q (3Q: 6.2%), led by the industrial crops namely crude palm oil and rubber, as well as expansion in selected other sub-sectors. Meanwhile, the mining sector turned around to register a growth of 1.9% (3Q: -0.4%), supported by higher output of crude oil (including condensates) and natural gas.

In the **agriculture sector**, crude palm oil output was sustained at a high level of 4.1 million tonnes (3Q: 4.5 million tonnes) representing a growth of 10.7%, even though output traditionally moderates in the last quarter of the year. This was due entirely to better yield performance. Fresh fruit bunches (FFB) rose to 5.03 tonnes per hectare (4Q 2005: 4.76 tonnes per hectare) and the oil extraction rate (OER) improved to 20.5% (4Q 2005: 20.2%). Growth in natural rubber output rose by 7.7% (3Q: 7.8%), as smallholders who account for almost 95% of total output continued to tap intensively, motivated by high prices. Although prices have somewhat tapered from the exceptionally high levels seen in the earlier months (608 sen per kilogramme compared with above 700 sen per kilogramme), smallholders continued to use high-yielding technologies such as the Low Intensity Tapping System (LITS) to increase yields.

Performance in the Agriculture Sector

	2005		2006		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Value Added (at 1987 prices)	**-1.5**	**2.5**	**6.2**	**6.5**	**6.4**
Production[1]					
Of which:					
Crude palm oil	-6.0	7.0	10.6	10.7	6.1
Crude palm kernel oil	-5.4	12.1	11.5	14.7	6.1
Rubber	-3.5	-3.7	7.8	7.7	11.9
Saw logs	3.6	1.6	-1.3	1.6	-4.2
Cocoa	-7.8	-16.3	17.8	-19.9	14.2
Exports (RM million)	**-0.3**	**0.6**	**19.7**	**22.8**	**12.7**
Of which:					
Palm oil					
('000 tonnes)	-4.9	7.0	11.4	21.4	7.4
(RM/tonne)	-8.5	-14.6	11.0	14.7	6.1
(RM million)	-13.0	-8.7	23.7	39.3	13.9
Palm kernel oil					
('000 tonnes)	-2.1	16.9	36.2	41.2	-4.0
(RM/tonne)	-12.4	-0.3	-15.8	-4.5	-14.6
(RM million)	-14.2	16.5	14.7	34.8	-18.0
Rubber					
('000 tonnes)	-0.2	1.8	-4.1	1.4	1.3
(Sen/kilogramme)	28.7	9.2	59.5	11.1	40.5
(RM million)	28.4	11.2	53.0	12.7	42.3
Sawn timber					
('000 cu.metres)	6.7	16.5	-8.0	-7.5	-12.8
(RM/cu.metre)	12.6	-1.8	17.9	9.6	20.3
(RM million)	20.2	14.4	8.4	1.4	4.8
Saw logs					
('000 cu.metres)	-4.9	8.4	-21.7	-3.2	-17.1
(RM/cu.metre)	17.5	6.4	7.7	7.2	10.7
(RM million)	11.8	15.4	-15.6	3.8	-8.3
Cocoa beans					
('000 tonnes)	-5.6	-1.4	321.3	-8.2	45.8
(RM/tonne)	3.5	-2.4	4.4	10.2	3.7
(RM million)	-2.3	-3.9	339.9	1.1	51.2

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

Source: Malaysian Palm Oil Board (MPOB)
Malaysian Rubber Board (MRB)
Malaysian Cocoa Board (MCB)
Forestry Department (Peninsular Malaysia, Sabah & Sarawak)
Department of Statistics, Malaysia

In addition, the food-related activities, particularly fish, livestock, fruits and vegetables also contributed to the growth during the quarter. The output was supported by the increase in domestic demand during the major festivals. Fish landings rose strongly, due to increase in output of marine fish and strong growth in aquaculture, while livestock activity was supported by domestic demand for poultry.

The **mining sector** was supported by higher output of natural gas (4.4% to 6,085 million standard cubic feet) and crude oil (including condensates) which rose marginally by 0.3% to 729,013 barrels per day.

Performance in the Mining Sector

	2005		2006		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Value Added (at 1987 prices)	**-2.0**	**0.8**	**-0.4**	**1.9**	**-0.2**
Production					
Of which:					
Crude oil and condensates	-6.1	-8.0	-2.1	0.3	-0.5
('000 barrels)					
Natural gas (net)	-0.6	11.3	3.5	4.4	-0.4
(million standard cubic feet)					
Exports (RM million)	**21.1**	**26.4**	**3.2**	**2.5**	**9.2**
Of which:					
Crude oil and condensates					
('000 tonnes)	8.7	-1.8	-11.1	-7.6	-7.9
(USD/barrel)	26.3	35.6	16.7	4.3	21.3
(RM million)	36.4	32.6	1.0	-7.5	8.2
Liquefied natural gas					
('000 tonnes)	-0.8	6.9	1.8	1.8	-1.9
(RM/tonnes)	18.4	13.1	13.0	8.7	14.2
(RM million)	17.4	21.0	15.0	10.7	12.0

Source: PETRONAS
Department of Statistics, Malaysia

Positive growth in construction sector

The **construction sector** turned around to register a growth of 0.6%. The improved performance was led by the civil engineering sub-sector following the gradual commencement of projects under the Ninth Malaysia Plan. This positive development was further supported by the strong interest in the non-residential sub-sector, in particular construction activities for new supply of retail space. Meanwhile, the residential segment continued to be supported by demand in a number of prime locations and high-end property.

Construction Indicators

	2005		2006		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
New sales and advertising permits	11.4	15.9	-21.7	-2.7	-17.6
Housing approvals	2.8	-2.7	-12.6	-20.0	-23.2
Production of construction-related materials	-3.8	-0.5	8.0	14.2	3.5
Loans approved for construction	3.4	2.2	8.0	73.2	13.0
Imports of construction materials and mineral products	0.2	-7.3	38.3	-10.8[1]	8.8[2]

[1] Oct-Nov 2006
[2] Jan-Nov 2006

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

Domestic demand strengthened further

Domestic demand strengthened further in the fourth quarter to record an annual growth of 7.5% (3Q: 6.8%), driven mainly by private sector expenditure. Meanwhile, the public sector continued to remain supportive of growth.

GDP by Expenditure Components (at constant 1987 prices)

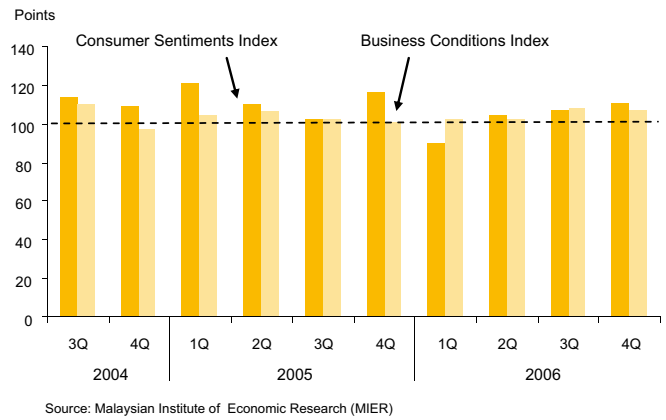
	2005		2006		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Aggregate Domestic Demand (excluding stocks)	7.2	7.3	6.8	7.5	7.4
Consumption	9.9	8.3	8.2	6.7	7.2
Private sector	*9.0*	*9.2*	*6.8*	*6.6*	*7.0*
Public sector	*12.6*	*5.4*	*13.0*	*6.9*	*7.9*
Gross Fixed Capital Formation	0.4	4.7	3.5	9.8	7.9
Exports of Goods and Services	9.7	8.6	10.5	4.1	6.3
Imports of Goods and Services	8.0	8.0	7.4	3.5	7.2
GDP	**5.2**	**5.2**	**5.8**	**5.7**	**5.9**

Source: Department of Statistics, Malaysia

Private consumption spending remained strong, growing at 6.6% for the quarter (3Q: 6.8%). Major consumption indicators, such as credit card spending, imports of consumption goods and loans approved and disbursed for consumption credit purposes, confirmed this trend in private consumption expenditure. At the same time, the nationwide Year-End Sale carnival and promotions held in conjunction with the major festive celebrations and school holidays during the quarter spurred household spending. The main factor that contributed to the sustained growth in consumer spending was the steady increase in disposable income owing to firm commodity prices and the payment of year-end bonuses. Consumers' income prospects remained positive in view of stable labour market conditions, with retrenchments remaining low amid rising job vacancies. Consumers' optimistic outlook on job prospects and income expectations was reflected in the Consumer Sentiment Index (CSI), which rose to 110.9 points (3Q: 107.5 points), the highest level in 2006. Meanwhile, **public consumption** grew by 6.9% due mainly to higher expenditure for emoluments.

Gross fixed capital formation recorded a robust growth of 9.8% in the fourth quarter of 2006 (3Q: 3.5%). Investment activities by the public sector rose significantly as the Federal Government stepped up its disbursement of development expenditure. The spending was mainly channeled towards improving essential services including transportation, agriculture and rural development, public utilities, and provision of education as well as health services. At the same time, private sector capital spending remained strong, as evidenced by the upward trend in major indicators such as imports of capital goods and loans approved to businesses, especially to the manufacturing and construction sectors. Furthermore, business sentiments remained resilient, and the sustained high capacity utilisation rates in the manufacturing sector supported the expansion in private investment activities. Reflecting the positive business sentiment,

Consumer Confidence Improved, while Business Confidence Remained Resilient



Source: Malaysian Institute of Economic Research (MIER)

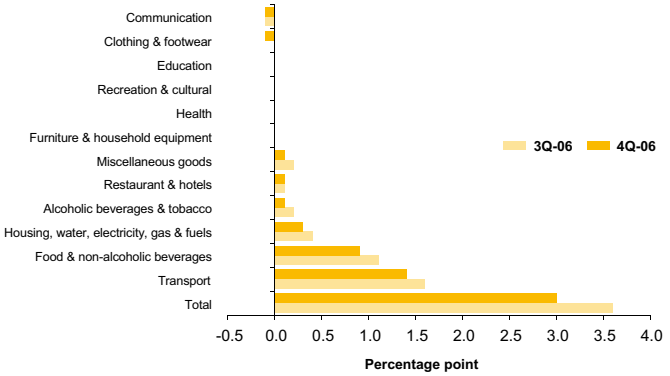
the Business Conditions Index (BCI) was sustained at 107.2 points (3Q: 107.8 points).

Inflation moderated in the fourth quarter

For the fourth quarter, headline inflation, as measured by the Consumer Price Index (CPI), moderated to 3% (3Q: 3.6%), in line with market and official expectations. The decline in inflation was broad-based with all the major categories of the CPI basket registering lower inflation rates, due mainly to supply factors. The decline in the inflation rate of the transport category reflected the lapse of the upward price adjustments of retail petroleum products which took place in 2005. The lapse of the October 2005 imposition of excise duties on items in the alcoholic beverages and tobacco category contributed to the slower rate of inflation for this category in the fourth quarter. Demand-induced inflation was relatively subdued despite sustained private consumption growth during the quarter. Competitive pressures continued to sustain the decline in the prices of clothing and footwear and communication charges. For the year as a whole, the headline inflation rate averaged at 3.6% (2005: 3%)

The rate of increase of raw material costs slowed in the fourth quarter, reflecting the moderating global oil prices. Consequently, producer price inflation slowed to 5.6% in the fourth quarter (3Q: 6.4%), as prices in the commodity-related category rose at a slower pace of 1.4% (3Q: 5%). Excluding commodities, the annual rate of increase in the PPI was relatively stable at 7% (3Q: 6.9%), supported mainly by the higher inflation of manufactured goods. For the year as a whole, producer price inflation moderated slightly to 6.7% from 6.8% in 2005.

Contribution to Consumer Price Inflation



Stable labour market conditions

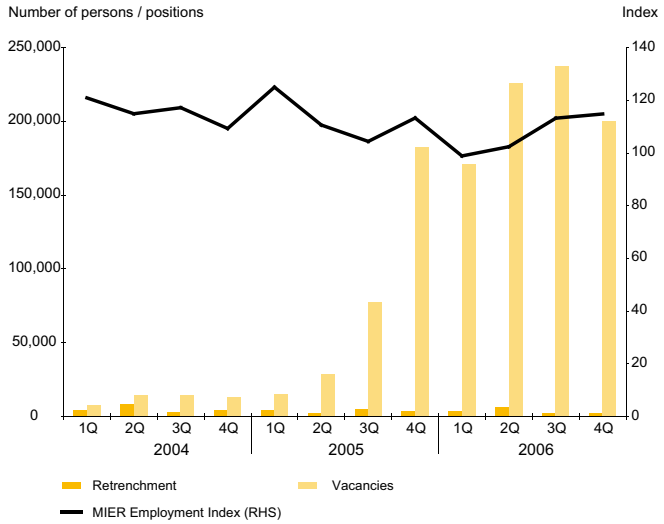
In the fourth quarter, the number of new job vacancies reported continued to be significant with job openings across all economic sectors. Although total retrenchments were higher than the previous quarter, they remain considerably lower than the peak recorded in the second quarter.

The number of new vacancies reported via the Electronic Labour Exchange (ELX) continued to be substantial, about 200,523 positions (3Q: 237,407 positions), with job openings found mainly in the manufacturing, agriculture and services sectors. The bulk of the positions advertised in the ELX were mainly lower skilled jobs such as elementary occupations (61%), which are more suitable for non-executives. One reason for this could be the Government requirement that employers post vacancies on the Exchange prior to submitting applications to hire foreign migrant workers. Nevertheless, total vacancies available in the economy is likely to be much higher than that reported by the ELX as employers also draw on the expertise and reach of private employment agencies and print media to fill available jobs. The positive employment outlook and the increased job opportunities in the market are also reflected in the improvement of the MIER

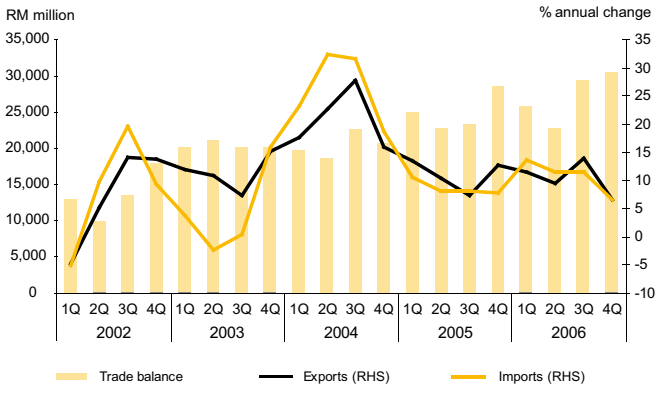
Employment Index to 114.8 points in the fourth quarter (3Q: 113.2 points).

Real labour productivity growth in the manufacturing sector moderated in the fourth quarter but continued to surpass real wage growth. Real sales value per employee was about the same as a year earlier (3Q: 1.1%), due to the weaker sales of manufactured products. During the same period, wage pressures continued to be subdued (-1.2%; 3Q: -1.8%).

Labour Market Conditions



Trade Balance



Continued expansion in both exports and imports

The **trade account** recorded a surplus of RM30.4 billion (3Q: RM29.4 billion) in the fourth quarter of 2006. Both gross exports and imports continued to expand by 6.6% (3Q: 13.9% and 11.5%, respectively).

Growth in **gross exports** was influenced by slower expansion in manufactured goods and decline in mineral exports. However, agricultural exports continued to remain strong.

The slower expansion in **manufacturing exports** (5.7%; 3Q: 14.2%) was due mainly to E&E exports (1.7%; 3Q: 10.3%) affected by the softer demand in particular, for computers and parts, which more than offset the higher shipment of telecommunication equipment. Exports of resource-based products such as chemicals, rubber, wood and metal related products continued to perform favourably. While chemical exports were supported by the strong demand from the regional countries, exports of rubber products were mainly driven by increased volume.

Agriculture exports strengthened further to increase by 22.8% (3Q: 19.7%) driven by the strong performance of the two largest agricultural commodities, namely palm oil and rubber. Growth in palm oil exports accelerated as a result of a significant increase in external demand (21.4%) and price (14.7%). The upward trend in external demand for crude palm oil is due to its increasing utilisation for both edible and non-edible

purposes, including as a healthier substitute for other edible oils that contain trans fatty acids and as feedstock to produce palm-based biodiesel. External markets where demand rose significantly during the quarter included the PR China, the European Union, India, and the United States. Concomitant with the increase in demand, price of crude palm oil rose to an average of RM1,672 per tonne (3Q: RM1,594 per tonne). Meanwhile, the growth in rubber exports (12.7%) was due mainly to higher prices (+11.1% to 657 sen per kilogramme).

Mineral exports rose by 2.5% in the fourth quarter led mainly by higher proceeds from liquefied natural gas (LNG) which rose by 10.7%. The growth in LNG receipts was driven by the increase in export prices. Meanwhile, exports of crude oil declined due to lower shipment during the quarter, while prices remained stable at USD63.50 per barrel compared to the corresponding quarter of 2005.

Exports to the European Union (EU) expanded by 20.5% and consisted mainly of E&E products, palm oil, crude rubber, optical and scientific equipment, as well as wood products. The United Kingdom, Netherlands and Germany were the major export destinations. Export growth to the US moderated to 1%, reflecting mainly slower growth in exports of computers and computer related parts. Of significance, exports to West Asia increased by 33.1% (3Q: 20.4%), spurred by demand for electrical machinery, electrical apparatus as well as iron and steel products.

Malaysia's exports to the regional countries (excluding Japan) expanded by 3.1%, driven by demand from PR China, Indonesia, Thailand, and South Korea. Demand from PR China was for E&E products and resource-based products, such as petroleum-related products, chemical products, rubber products and manufactures of metal. Demand for commodities, such as crude palm oil and rubber also increased. Meanwhile, Korea continued to source LNG, crude petroleum and chemicals from Malaysia. Exports to India increased by 30.1%, supported by strong demand for crude oil, palm oil, electric apparatus, office machines as well as iron and steel products.

Meanwhile, Malaysia also sourced components from the regional countries, particularly Thailand, PR China and South Korea. Imports from the regional countries expanded by 10.7%, consisting mainly of E&E products, iron and steel products, and chemicals and chemical products. Imports from the EU countries also strengthened and consisted mainly of E&E products, aircraft as well as optical and scientific equipment.

During the quarter, **gross imports** increased, though at a more moderate pace of 6.6%, due mainly to slower growth in **intermediate imports**, in tandem with lower external demand for E&E products.

Trade Account

	2005		2006		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Gross Exports	**12.8**	**10.9**	**13.9**	**6.6**	**10.3**
Manufacturing	*13.0*	*10.0*	*14.2*	*5.7*	*10.1*
Agriculture	*-0.3*	*0.6*	*19.7*	*22.8*	*12.7*
Minerals	*21.1*	*26.4*	*3.2*	*2.5*	*9.2*
Gross Imports	**7.8**	**8.6**	**11.5**	**6.6**	**10.7**
Capital goods	*2.0*	*9.5*	*-4.6*	*4.6*	*7.6*
Intermediate goods	*6.2*	*7.1*	*12.0*	*6.7*	*8.7*
Consumption goods	*6.6*	*7.5*	*14.7*	*12.1*	*13.4*
Trade balance (RM bil)	**28.6**	**99.8**	**29.4**	**30.4**	**108.5**

Source: Department of Statistics, Malaysia

Malaysia: Direction of Exports

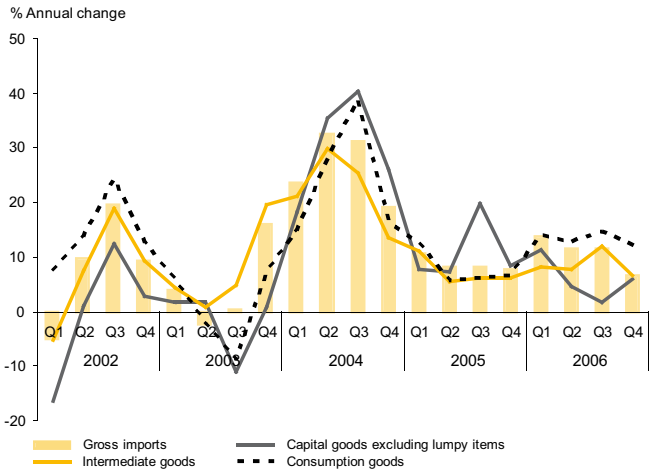
	2005		2006			2005		2006			2005		2006		
	4Q	Year	3Q	4Q	Year	4Q	Year	3Q	4Q	Year	4Q	Year	3Q	4Q	Year
	RM billion					Share of total exports (%)					Annual change (%)				
United States	**27.5**	**105.0**	**30.1**	**27.8**	**110.6**	**19.3**	**19.7**	**19.2**	**18.3**	**18.8**	**18.8**	**16.4**	**4.2**	**1.0**	**5.3**
European Union (EU)	**17.5**	**62.6**	**20.1**	**21.1**	**74.9**	**12.3**	**11.7**	**12.8**	**13.9**	**12.7**	**11.2**	**3.6**	**29.9**	**20.5**	**19.7**
Selected ASEAN countries[1]	**36.7**	**137.8**	**39.9**	**37.5**	**152.5**	**25.7**	**25.8**	**25.4**	**24.6**	**25.9**	**14.9**	**15.4**	**14.5**	**2.2**	**10.6**
North East Asia	**27.0**	**99.2**	**29.5**	**28.2**	**109.1**	**18.9**	**18.6**	**18.8**	**18.5**	**18.5**	**11.0**	**5.5**	**20.1**	**4.4**	**10.0**
People's Republic of China	*10.5*	*35.2*	*12.7*	*11.7*	*42.7*	*7.3*	*6.6*	*8.1*	*7.7*	*7.2*	*26.0*	*9.1*	*48.9*	*11.9*	*21.1*
Hong Kong China	*7.8*	*31.2*	*7.5*	*6.8*	*29.1*	*5.5*	*5.8*	*4.8*	*4.5*	*4.9*	*6.5*	*8.6*	*-10.8*	*-12.6*	*-6.6*
Chinese Taipei	*4.0*	*14.8*	*4.6*	*4.1*	*16.0*	*2.8*	*2.8*	*2.9*	*2.7*	*2.7*	*-2.6*	*-7.8*	*15.8*	*2.8*	*8.3*
Korea	*4.7*	*17.9*	*4.8*	*5.5*	*21.3*	*3.3*	*3.4*	*3.1*	*3.6*	*3.6*	*3.0*	*5.9*	*28.1*	*17.3*	*18.6*
India	**4.2**	**15.0**	**5.3**	**5.4**	**18.8**	**2.9**	**2.8**	**3.4**	**3.6**	**3.2**	**31.9**	**30.7**	**36.2**	**30.1**	**25.5**
Total exports	**142.6**	**533.8**	**157.1**	**152.0**	**588.9**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**12.8**	**10.9**	**13.9**	**6.6**	**10.3**

[1] Singapore, Thailand, Indonesia, Philippines, Brunei Darussalam and Vietnam

Source: Department of Statistics, Malaysia

Intermediate imports, which consist mainly of primary and processed industrial supplies such as metal and metal products, electronics as well as parts of telecommunication products, expanded by 6.7%. Imports for the domestic market, namely primary and processed materials used by the food and beverage industry also continued to expand. Imports of parts and accessories of transport equipment, however, declined concomitant with lower domestic demand for motor vehicles.

Import Growth



Imports of **capital goods** expanded by 4.6% (3Q: -4.6%) to RM16.7 billion during the quarter. Strong demand for commodity exports and expansion in intra-regional travel led to the delivery of more aircraft and ships. Imports of construction and mining equipment strengthened, spurred by continued exploration and development activities in the oil and gas sector. Imports of telecommunication equipment also increased during the quarter, reflecting the upgrading of communications infrastructure.

Consonant with strong private consumption, imports of **consumption goods** increased by 12.1% (3Q: 14.7%) to RM7.4 billion. These imports were semi-durable

and non-durable items such as medicines, records, clothing and footwear as well as recreational and sports equipment. Household consumption items, such as primary and processed food and beverages also increased as festivities stimulated demand.

Higher inflows of FDI and portfolio investment

On a cash basis, gross inflows of **foreign direct investment (FDI)** increased to RM18.1 billion in the fourth quarter of 2006 (3Q: RM12.4 billion), due mainly to larger inflows of equity capital and sustained inflows of inter-company loans. The significantly larger inflows of equity capital reflected mainly inflows of funds for acquisition of a Malaysian company in the manufacturing sector as well as investment in the Islamic financial services. There were also inflows of funds for investment in the petroleum-related, textiles and chemical industries. Meanwhile, the bulk of the inter-company loans was in the form of short-term loans extended by foreign companies to their subsidiaries in Malaysia, particularly in the services and oil and gas sectors. After adjustments for gross outflows due mainly to repayments of inter-company loans, net FDI increased to RM12 billion (3Q: RM5.5 billion). The FDI data on cash basis does not include retained earnings and investment in the form of imported machinery and equipment.

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

	2005		2006		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
CAPITAL GOODS	**2.0**	**9.5**	**-4.6**	**4.6**	**7.6**
Capital goods (except transport equipment)	7.5	11.5	0.8	5.1	5.6
Transport equipment	-27.0	-4.5	-39.9	-0.1	23.5
INTERMEDIATE GOODS	**6.2**	**7.1**	**12.0**	**6.7**	**8.7**
Food and beverages, mainly for industry	6.3	-4.9	24.8	18.1	24.9
Industrial supplies, n.e.s.	1.3	7.4	22.8	19.0	11.0
Fuel and lubricants	33.0	42.6	45.6	-2.9	25.0
Parts and accessories of capital goods (except transport equipment)	4.8	1.9	1.6	3.1	5.1
Parts and accessories of transport equipment	12.9	33.4	-10.2	-21.7	-8.5
CONSUMPTION GOODS	**6.6**	**7.5**	**14.7**	**12.1**	**13.4**
Food and beverages, mainly for household consumption	-0.7	4.1	4.5	5.5	4.7
Transport equipment, non-industrial	17.8	-3.4	-35.0	45.8	9.4
Consumer goods, n.e.s.	11.3	10.0	22.4	15.1	18.8
Durables	*23.8*	*16.3*	*4.4*	*14.8*	*10.1*
Semi-durables	*9.8*	*4.7*	*44.4*	*15.0*	*34.7*
Non-durables	*6.4*	*10.8*	*15.8*	*8.4*	*12.4*
DUAL USE GOODS	**14.2**	**24.2**	**14.8**	**-6.8**	**7.6**
OTHERS	**5.0**	**3.3**	**-25.1**	**-3.5**	**-2.8**
RETAINED IMPORTS	**5.8**	**7.8**	**9.0**	**6.2**	**8.6**
RE-EXPORTS	**52.0**	**26.1**	**63.3**	**12.0**	**50.4**
GROSS IMPORTS	**7.8**	**8.6**	**11.5**	**6.6**	**10.7**

Source: Department of Statistics, Malaysia

Overseas investment by Malaysian companies increased to RM28.7 billion (3Q: -RM23.2 billion) reflecting mainly a marked increase in the short-term loan extensions by non-resident controlled companies in the services and manufacturing sectors to their related companies abroad arising from their centralised treasury operations. These outflows were offset largely by inflows arising from repayment of short-term inter-company loans during the quarter. After adjusting mainly for these inflows, overseas investment recorded a smaller net outflow of RM1.4 billion (3Q: -RM2.1 billion). The bulk of the net outflows for overseas investment were in the form of equity capital, and effected mainly by companies in the services, manufacturing and oil and gas sectors. In the services sector, overseas investment were channeled mainly into the finance, insurance, real estate and business services sub-sectors. Meanwhile, overseas investments by the manufacturing sector were led by companies in the E&E and food sub-sectors.

Portfolio investment turned around to register a net inflow of RM7.8 billion (3Q: -RM2.2 billion) in the fourth quarter. The positive economic prospects following the announcements of the rolling out of 9MP projects, the mergers and acquisitions activities in the plantation sector and the development of the Iskandar Development Region, as well as the stronger corporate earnings announcements attracted inflows of portfolio funds for investment, particularly in the equity market.

External debt declined further

Malaysia's total external debt improved considerably to RM179.5 billion or USD50.3 billion as at end-2006 (3Q: RM199.6 billion or USD53.6 billion), equivalent to 34.1% of GNP. The **medium and long-term external debt** was lower at RM138 billion (3Q: RM148.9 billion), reflecting mainly the net repayment of external debt by the public sector, and partly, the exchange revaluation gain following the appreciation of the ringgit against major currencies, in particular the US dollar. The NFPEs recorded a larger net repayment of external loans due to the maturity of a USD-denominated bond and some scheduled principal loan repayments, particularly by companies in the oil and gas and utilities sectors. Meanwhile, the net loan repayment by the Federal Government mainly reflected the maturity of two syndicated loans amounting to RM2.9 billion. The private sector continued to record a net drawdown of external loans of RM2.1 billion (3Q: RM1.1 billion), mainly by companies in the financial services and construction sectors.

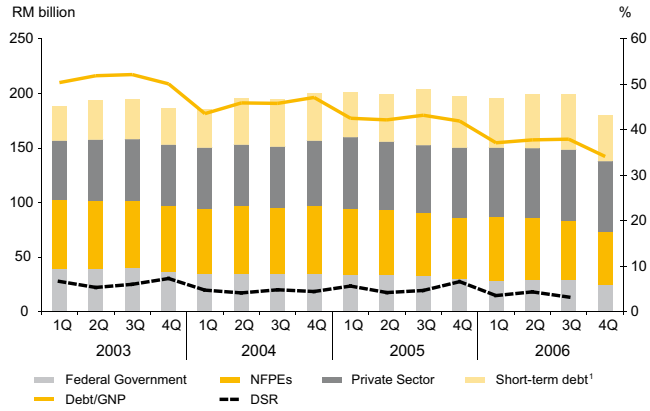
External Debt Outstanding

	2005	2006	
	4Q	3Q	4Q [p]
	RM billion		
Medium- and Long-term debt	150.7	148.9	138.0
Public sector	86.2	83.7	73.2
Private sector	64.5	65.1	64.8
Short-term debt[1]	47.0	50.8	41.5
Total external debt	197.7	199.6	179.5
- USD billion equivalent	51.8	53.6	50.3

[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

The total **short-term external debt** declined to RM41.5 billion or USD11.6 billion, reflecting mainly lower short-term borrowings by the banking sector. As at end-2006, the short-term debt accounted for only 23.1% of total external debt and was 14.3% of the net international reserves.

International reserves

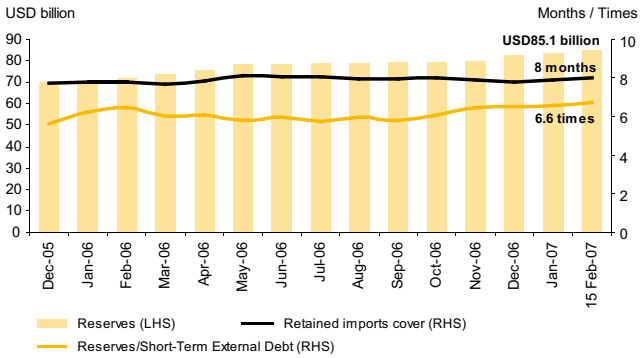
The international reserves of Bank Negara Malaysia amounted to RM290.4 billion or equivalent to USD82.5 billion as at 31 December 2006. The reserves level has taken into account the quarterly revaluation

loss, following the strengthening of ringgit against the major currencies. The reserves amounted to RM299.8 billion or equivalent to USD85.1 billion as at 15 February 2007. The reserves position is sufficient to finance 8 months of retained imports and is 6.6 times the short-term debt.

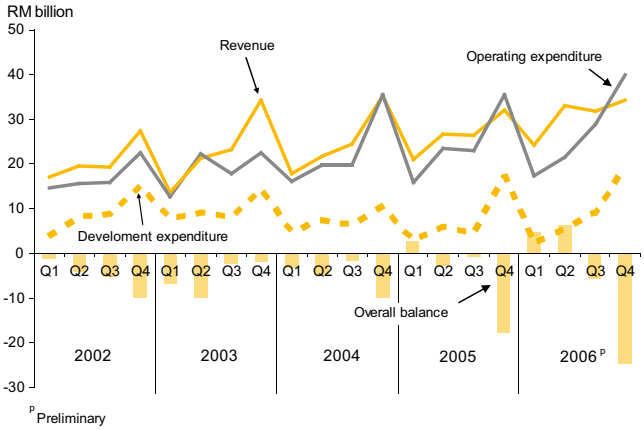
Larger fiscal deficit

The Federal Government's total expenditure was higher in the fourth quarter resulting in an overall fiscal deficit of 3.5% of GDP for the year as a whole. In particular, higher operating expenditure was recorded for the payment of emoluments due to the payment of bonuses in October and December. Meanwhile, revenue remained favourable on account of higher collection from oil related revenue. The fiscal deficit was funded largely from a drawdown of the realisable assets of the Government and domestic borrowings. As at end-2006, total outstanding debt of the Federal Government was lower at RM242.1 billion or 44.3% of GDP, reflecting mainly the maturity of two external syndicated loans in December.

Net International Reserves (as at end period)



Federal Government Finance



P Preliminary

Federal Government Finance[P]

	2005	2006[P]	
	4Q	3Q	4Q
	RM billion		
Revenue	32.2	31.9	34.4
% growth	*-8.7*	*20.8*	*6.9*
Operating expenditure	35.5	28.8	40.0
% growth	*-0.2*	*25.2*	*12.8*
Current account	**-3.3**	**3.1**	**-5.6**
% of GDP	***-2.5***	***2.2***	***-4.0***
Gross development expenditure	17.5	9.1	19.4
% growth	*66.5*	*108.1*	*11.0*
Overall balance	**-17.9**	**-5.8**	**-24.6**
% of GDP	***-13.7***	***-4.1***	***-17.5***
Memo item:			
Total gross expenditure	52.9	37.8	59.4
% growth	*15.0*	*38.4*	*12.2*
Total Federal Government debt			
(as at end-period)	228.7	245.8	242.1
% of GDP	*46.2*	*45.2*	*44.3*
Domestic debt	198.7	216.9	217.2
% of GDP	*40.1*	*39.9*	*39.8*
External debt	30.0	28.9	24.9
% of GDP	*6.1*	*5.3*	*4.6*

[P] Preliminary