DEVELOPMENTS IN THE MALAYSIAN ECONOMY

The Malaysian economy grew by 4.5% in the fourth quarter

The Malaysian economy expanded by 4.5% in the fourth quarter of 2016 (3Q 2016: 4.3%). Private sector expenditure remained the key driver of growth and contributed towards the continued expansion in domestic demand. However, public sector spending declined and partly offset the sustained growth in private sector activity. As a result, growth in domestic demand moderated. On the external front, net exports contributed positively to growth as real exports expanded at a faster rate than real imports. On a quarter-on-quarter seasonally-adjusted basis, the economy recorded a sustained growth of 1.4% (3Q 2016: 1.4%).

Slower expansion in domestic demand

Domestic demand grew by 3.3% in the fourth quarter of the year (3Q 2016: 4.6%), as the sustained growth in private sector expenditure was partly offset by the contraction in public sector expenditure. **Private consumption** expanded by 6.2% (3Q 2016: 6.4%), supported by continued wage and employment growth. **Private investment** registered a growth of 4.9% (3Q 2016: 4.7%), following continued capital spending in the services and manufacturing sectors. Businesses remained cautious in undertaking capacity expansion given headwinds from both external and domestic fronts.

Public investment recorded a smaller contraction of 0.3% (3Q 2016: -3.8%), supported by higher spending on fixed assets by public corporations. Public consumption growth also contracted during the quarter by 4.2% (3Q 2016: +2.2%) arising from lower spending on supplies and services, particularly on discretionary items such as travel, and professional and consultancy services.

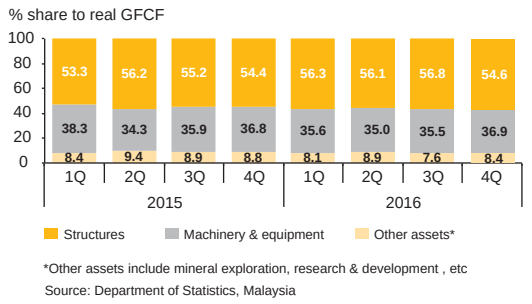
GDP by Expenditure Components
(at constant 2010 prices)

	Share 2016 (%)	2015		2016		
		4Q	Year	3Q	4Q	Year
		Annual change (%)				
Aggregate Domestic Demand (excluding stocks)	91.8	4.0	5.1	4.6	3.3	4.4
Private Sector	70.2	4.9	6.1	6.0	6.0	5.7
Consumption	*53.3*	*4.9*	*6.0*	*6.4*	*6.2*	*6.1*
Investment	*16.9*	*4.9*	*6.4*	*4.7*	*4.9*	*4.4*
Public Sector	21.6	2.1	2.1	-0.2	-2.6	0.4
Consumption	*13.1*	*3.3*	*4.4*	*2.2*	*-4.2*	*1.0*
Investment	*8.5*	*0.4*	*-1.0*	*-3.8*	*-0.3*	*-0.5*
Net Exports	8.1	4.3	-3.8	5.9	5.8	-1.8
Exports of Goods and Services	*70.0*	*4.0*	*0.6*	*-1.3*	*1.3*	*0.1*
Imports of Goods and Services	*61.9*	*4.0*	*1.2*	*-2.3*	*0.7*	*0.4*
GDP[1]	**100.0[1]**	**4.5**	**5.0**	**4.3**	**4.5**	**4.2**
GDP (q-o-q growth, seasonally adjusted)	**-**	**1.2**	**-**	**1.4**	**1.4**	**-**

[1] Numbers do not add up due to rounding and exclusion of stocks
Source: Department of Statistics, Malaysia

Gross fixed capital formation (GFCF) expanded at a slightly faster pace of 2.4% (3Q 2016: 2.0%), due to an improvement in public and private investment growth. The marginally stronger growth in total investment was on account of higher capital spending in machinery and equipment (2.9%; 3Q 2016: 0.9%) amid a moderate expansion in structures investment (2.8%; 3Q 2016: 5.0%) and a smaller contraction in other type of assets investment (-2.1%; 3Q 2016: -12.5%).

GFCF by Type of Assets



*Other assets include mineral exploration, research & development , etc
Source: Department of Statistics, Malaysia

Major economic sectors continued to expand

On the supply side, growth across most major economic sectors improved in the fourth quarter.

The **services sector** expanded at a more moderate pace of 5.5% in the fourth quarter (3Q 2016: 6.1%). The wholesale and retail trade sub-sector registered a slower growth, as the improvement in retail trade and motor vehicles segment was offset by slower growth in the wholesale sub-sector. Growth in the finance and insurance sub-sector also moderated, reflecting the slower expansion in life insurance segment. The transport and storage sub-sector recorded a higher growth, benefitting from the improvement in trade activity and passenger travel during the quarter. In the information and communication sub-sector, growth remained robust, supported by continued demand for data communication services.

GDP by Economic Activity (at constant 2010 prices)

	Share 2016 (%)	2015		2016		
		4Q	Year	3Q	4Q	Year
		Annual change (%)				
Services	54.2	5.0	5.1	6.1	5.5	5.6
Manufacturing	23.0	5.0	4.9	4.2	4.8	4.4
Mining	8.8	-1.3	4.7	3.0[r]	4.9	2.7
Agriculture	8.1	1.5	1.2	-6.1[r]	-2.4	-5.1
Construction	4.5	7.4	8.2	7.9	5.1	7.4
Real GDP	**100.0[1]**	**4.5**	**5.0**	**4.3**	**4.5**	**4.2**
Real GDP (q-o-q seasonally adjusted)	**-**	**1.2**	**-**	**1.4**	**1.4**	**-**

[r] Revised
[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 2016 (%)	2015		2016		
		4Q	Year	3Q	4Q	Year
		Annual change (%)				
Intermediate Services	**38.2**	**4.1**	**4.6**	**6.2**	**5.7**	**5.5**
Finance & insurance	12.5	-1.5	-0.7	5.0	3.2	2.5
Real estate & business services	8.1	6.1	6.6	7.0	7.2	6.9
Transport & storage	6.6	6.0	5.7	5.2	5.5	5.6
Information & communication	10.9	9.2	9.4	7.6	7.7	8.2
Final Services	**61.9**	**5.4**	**5.5**	**6.1**	**5.5**	**5.7**
Wholesale & retail trade	27.5	6.4	6.9	6.7	6.2	6.2
Food & beverages and accommodation	5.2	5.8	6.4	7.4	7.7	7.1
Utilities	4.8	3.2	3.5	5.0	4.5	5.4
Government services	16.2	4.7	4.0	5.5	4.1	4.9
Other services	8.1	4.6	4.7	5.1	5.2	4.8
Total Services	**100.0[1]**	**5.0**	**5.1**	**6.1**	**5.5**	**5.6**

[1] Numbers do not add up due to rounding

Source: Department of Statistics, Malaysia

Selected Quarterly Indicators in the Services Sector

	2015		2016		
	4Q	Year	3Q	4Q	Year
	Index				
MIER Consumer Sentiments Index	63.8	69.6	73.6	69.8	73.7
MIER Retail Trade Index	77.9	83.4	111.6	91.4	93.5
MIER Tourism Market Index	89.8	97.9	112.1	101.4	101.5
	Annual change (%)				
Total passenger traffic at all airports	-3.0	0.9	9.9	11.8[1]	6.0[2]
Total consumption credit outstanding	3.1	3.1	1.2	0.9	0.9
Total loans outstanding	7.9	7.9	4.2	5.3	5.3
Loans outstanding to the wholesale & retail trade, hotels & restaurants	8.2	8.2	3.1	5.5	5.5
Imports of consumption goods	38.1	24.1	-0.8	0.1	7.4
Total sales of motor vehicles	4.1	0.0	-12.5	-10.8	-13.0
Container cargo handled (Port Klang and PTP)	5.4	7.9	-4.0	1.5	2.1

[1] Oct-Nov 2016
[2] Jan-Nov 2016

Source: Various sources

The **manufacturing sector** registered a higher growth of 4.8% (3Q 2016: 4.2%), driven by both export- and domestic-oriented industries. The better performance of the export-oriented industries was driven mainly by stronger growth in the E&E segment, with double-digit expansion in semiconductors, which was in line with the continued uptick in global demand for semiconductors. Manufacturing activity was also supported by improvements in the primary-related cluster following higher production of petrochemicals as a result of sustained regional demand. Growth of domestic-oriented industries was supported by sustained construction-related activity and food-related production, despite being weighed down by continued weakness in the transport equipment segment, as car production growth remained contractionary.

Performance of the Manufacturing Sector

	Share in 2015 (%)	2015		2016		
		4Q	Year	3Q	4Q	Year
		Annual Change (%)				
Overall Value Added (at constant 2010 prices)	**100.0**	**5.0**	**4.9**	**4.2**	**4.8**	**4.4**
Export-oriented industries	63.6	5.4	5.6	5.6	6.1	5.8
Domestic-oriented industries	36.4	4.1	3.7	1.7	2.4	1.9
Overall Manufacturing Production[1]	**100.0**	**4.8**	**4.8**	**4.0**	**4.9**	**4.3**
Export-oriented industries	**77.6**	**4.7**	**4.8**	**4.1**	**6.0**	**4.7**
Electronics and electrical products cluster	**25.0**	**10.7**	**9.2**	**6.2**	**7.4**	**7.0**
Of which:						
Electronics	15.3	5.7	0.7	8.9	10.6	8.9
Electrical products	7.6	24.7	32.0	2.2	2.4	4.6
Primary-related cluster	**52.6**	**1.5**	**2.5**	**2.9**	**5.2**	**3.3**
Of which:						
Chemicals and chemical products	14.3	1.9	4.6	5.7	7.0	5.2
Petroleum products	21.0	-0.2	1.2	3.1	3.1	3.1
Rubber products	2.5	7.0	5.1	2.9	1.4	3.9
Off-estate processing	6.4	-1.9	-3.5	-7.2	9.5	-5.0
Domestic-oriented industries	**22.4**	**5.0**	**4.7**	**3.3**	**1.6**	**3.0**
Construction-related cluster	**11.3**	**4.8**	**4.5**	**4.0**	**3.9**	**4.4**
Of which:						
Construction-related products	8.2	3.7	4.5	3.3	3.9	4.1
Fabricated metal products	3.1	6.9	4.6	5.2	3.9	5.1
Consumer-related cluster	**11.1**	**5.1**	**4.8**	**2.7**	**-0.5**	**1.7**
Of which:						
Transport equipment	5.5	3.7	5.2	-2.0	-4.0	-3.1
Food, beverage & tobacco products	5.4	7.4	4.8	8.3	3.8	8.0

[1] Industrial Production Index (2010=100)

Source: Department of Statistics, Malaysia

The **construction sector** grew by 5.1% in the fourth quarter (3Q 2016: 7.9%), underpinned mainly by activity in the civil engineering sub-sector following progress in various projects in the petrochemical, transportation and utilities segments. Although still affected by oversupply issues in the commercial segment, growth in the non-residential sub-segment improved marginally, benefitting from the low base from the previous year. Activity in the residential sub-sector moderated, reflecting the subdued property market, while growth in the special trade sub-sector was supported by both early- and end-work activity.

Growth in the **agriculture sector** contracted at a slower pace (-2.4%; 3Q 2016[r]: -6.1%), supported by an improvement in crude palm oil yields as the negative impact of El Niño gradually waned. Of significance, in December, fresh fruit bunch (FFB) yields recorded its first positive growth in 2016, growing by 1.5% compared to the same period last year. In the **mining sector**, growth improved (4.9%, 3Q 2016[r]: 3.0%), due mainly to higher natural gas production, underpinned particularly by output increases in Sarawak and Sabah.

Performance of the Agriculture Sector

	Share in 2016 (%)	2015		2016		
		4Q	Year	3Q	4Q	Year
		Annual change (%)				
Value Added (at constant 2010 prices)	**100.0**	**1.5**	**1.2**	**-6.1[r]**	**-2.4**	**-5.1**
Industrial Crops	**57.3**	**1.7**	**0.7**	**-12.3[r]**	**-5.4**	**-10.8**
Of which:						
Oil palm	43.1	1.2	1.3	-13.8	-7.2	-12.7
Rubber	7.1	26.9	8.1	-8.1[r]	1.1	-6.3
Food Crops	**42.7**	**1.2**	**2.0**	**3.9**	**2.6**	**3.8**
Of which:						
Fishing	11.5	2.4	0.6	3.2	1.1	2.2
Livestock	11.7	0.4	2.4	4.2	0.8	3.7

[r] Revised

Source: Department of Statistics, Malaysia

Performance of the Mining Sector

	2015		2016		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Value Added (at constant 2010 prices)	**-1.3**	**4.7**	**3.0[r]**	**4.9**	**2.7**
Production					
Of which:					
Crude oil and condensates	0.2	10.1	6.3[r]	0.2	1.6
Natural gas	-5.0	-1.8	-1.1[r]	10.1	3.3
Other mining and support services	14.4	13.7	6.9[r]	5.7	6.9

[r] Revised

Source: Department of Statistics, Malaysia

Indicators for the Construction Sector

	Share 2016 (%)	2015		2016		
		4Q	Year	3Q	4Q	Year
		Annual change (%)				
Value of construction work done	100.0	11.2	12.1	10.7	8.1	10.3
Residential buildings	26.1	8.7	10.9	16.4	9.8	11.7
Non-residential buildings	26.3	3.6	13.9	-1.4	2.5	1.7
Civil engineering	29.0	23.3	11.9	19.3	12.5	18.4
Special Trade[1]	18.5	4.4	8.0	4.2	3.7	9.6
Housing approvals		-18.5	-25.3	26.6	-18.5	-17.7
Production[2] of construction-related materials		4.8	4.5	4.0	3.9	4.4
Hydraulic cement		11.9	14.7	-8.3	-6.3	-7.6
Other porcelain and ceramic products		12.2	20.0	10.7	-0.8	4.4
Prefabricated structural components for building or civil engineering of cement, concrete or artificial stone		21.1	-2.2	26.2	6.8	18.3
Capital imports (excluding lumpy items)		2.7	4.3	0.1	4.9	0.3
Loans for the construction sector						
Approval		-5.5	3.8	34.4	2.9	5.1
Disbursement		-13.4	-0.6	7.7	4.5	3.5

[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

Headline inflation was higher in the fourth quarter 2016

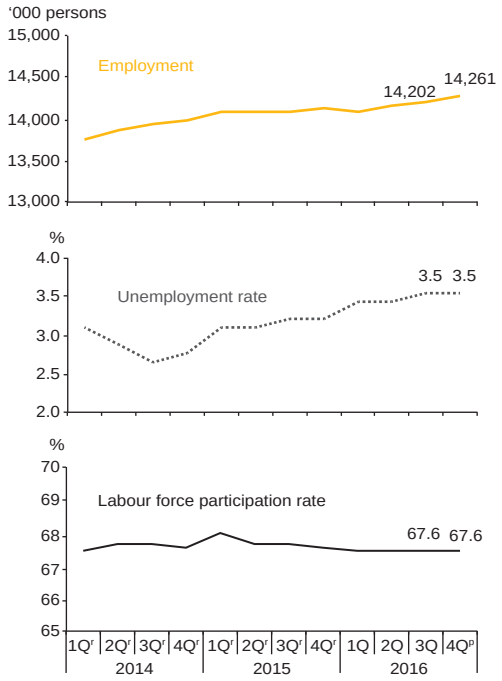
Inflation, as measured by the annual change in the Consumer Price Index (CPI), increased to 1.7% in the fourth quarter of 2016 (3Q 2016: 1.3%). The higher inflation was driven mainly by upward adjustments to domestic fuel prices during the quarter. Average prices of RON95 petrol, RON97 petrol and diesel increased by 15 sen, 15 sen and 17 sen, respectively, leading to a smaller negative inflation in the *transport* category (-2.6%; 3Q 2016: -7.4%). The inflationary impact was mitigated by the lower inflation in the *alcoholic beverages and tobacco* category (6.6%; 3Q 2016: 19.7%) due to the lapse in the impact of the upward revision in cigarette prices in the base period of 4Q 2015. For the year as a whole, inflation averaged 2.1% (2015: 2.1%).

The Producer Price Index (PPI) turned around to increase by 2.9% (3Q 2016: -0.6%) in the fourth quarter of 2016. The increase in PPI was due mainly to higher prices of *crude materials for further processing* and *intermediate materials, supplies and components*, reflecting higher prices of crude palm oil-related materials and global oil price during the quarter. Crude palm oil price rose significantly during the quarter amid the seasonal decline in production and low inventory levels. Global oil price was also higher following the OPEC agreement to reduce output.

Softer labour market

Labour market conditions remained stable. While total employment was higher during the quarter, registering a higher net gain of 58,600 jobs (3Q 2016: 40,500 jobs), the unemployment rate was unchanged, at 3.5% of the labour force (3Q 2016: 3.5%). The job gains in the fourth quarter were attributable mainly to the services sector, particularly the wholesale and retail, and accommodation and food services; and the finance and insurance sub-sectors. Labour force participation was sustained at 67.6% of total working-age population (3Q 2016: 67.6%), while new job postings on JobStreet.com moderated to an average of 17,738 positions per month in the fourth quarter (3Q 2016: 20,229), following continued conservative hiring by businesses.

Labour Market Indicators*



*The Labour Force Survey (LFS) figures for 1Q 2014 onwards reflect new current population estimates by DOSM

[p] Preliminary [r] Revision

Source: Department of Statistics, Malaysia

Consumer Price Index

Category	Weights (%) (2010=100)	3Q 2016	4Q 2016
		Annual change, %	
Total	**100**	**1.3**	**1.7**
Food and non-alcoholic beverages	30.2	3.4	3.3
Housing, water, electricity, gas and other fuels	23.8	2.2	2.1
Transport	13.7	-7.4	-2.6
Alcoholic beverages and tobacco	2.9	19.7	6.6
Others	29.4	1.1	1.1

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Private sector wage growth was sustained, supported by the increase in the minimum wage, which took effect in July 2016. In the major services sub-sectors[1], wage growth was slightly higher at 3.3% (3Q 2016: 3.1%). Manufacturing sector wages continued to expand, albeit at a more moderate pace of 5.9% (3Q 2016: 6.9%), supported by export-oriented sectors, particularly the petrochemicals and resource-related clusters. In the public sector, aggregate wage growth remained strong in the fourth quarter, following the civil servants' salary adjustment, which was implemented in July 2016 (7.1%; 3Q 2016: 11.7%).

External position remained resilient in the fourth quarter

In 4Q 2016, the current account surplus widened, due mainly to a higher trade surplus and narrower deficits in the income accounts.

Balance of Payments[1]

	2015		2016		
	4Q	Year	3Q	4Q	Year
	RM billion				
Current Account	**10.5**	**34.7**	**6.0**	**12.2**	**25.2**
(% of GNI)	*3.6*	*3.1*	*2.0*	*3.8*	*2.1*
Goods	31.1	109.6	26.5	31.4	101.2
Services	-6.4	-21.0	-5.1	-6.0	-22.6
Primary income	-9.1	-32.0	-10.8	-9.0	-34.7
Secondary income	-5.0	-21.9	-4.6	-4.1	-18.7
Financial Account	**3.9**	**-50.9**	**-6.3**	**-13.2**	**-4.2**
Direct investment	5.8	4.8	3.0	5.9	17.9
Assets	*-2.9*	*-37.2*	*-11.3*	*-7.9*	*-34.3*
Liabilities	*8.6*	*41.9*	*14.3*	*13.8*	*52.2*
Portfolio investment	15.9	-28.2	-10.6	-22.3	-19.7
Assets	*5.6*	*-9.1*	*-7.1*	*2.8*	*-15.0*
Liabilities	*10.3*	*-19.1*	*-3.5*	*-25.1*	*-4.7*
Financial derivatives	-0.1	-0.7	-0.1	-1.2	-0.8
Other investment	-17.6	-26.8	1.4	4.4	-1.7
Errors & omissions[2]	-20.4	21.1	14.9	20.1	-6.0
Overall Balance	**-6.0**	**3.8**	**14.6**	**19.2**	**15.0**

Assets: (-) denotes outflows due to the acquisition of assets abroad by residents
Liabilities: (+) denotes inflows due to the incurrence of foreign liabilities
[1] In accordance with the Sixth Edition of The Balance of Payments and International Investment Position Manual (BPM6) by the International Monetary Fund (IMF)
[2] Includes unrealised foreign exchange revaluation gains/losses on international reserves

Source: Department of Statistics, Malaysia

Trade Account

	Share 2016 (%)	2015		2016		
		4Q	Year	3Q	4Q	Year
		Annual change (%)				
Gross Exports	**100.0**	**8.0**	**1.6**	**-2.3**	**2.8**	**1.1**
Manufactured	82.2	12.5	6.5	-1.1	3.4	3.2
E&E	*36.6*	*9.6*	*8.5*	*-0.6*	*7.6*	*3.5*
Non-E&E	*45.5*	*14.9*	*5.0*	*-1.6*	*0.1*	*3.0*
Resource based	*22.9*	*2.7*	*-3.9*	*-0.5*	*5.6*	*3.3*
Non-resource based	*22.7*	*29.5*	*15.7*	*-2.7*	*-5.2*	*2.7*
Commodities	17.1	-7.7	-14.9	-8.2	-0.9	-8.6
Minerals	*8.2*	*-15.1*	*-22.9*	*-17.7*	*-12.8*	*-19.8*
Agriculture	*9.0*	*3.8*	*-2.8*	*1.2*	*14.1*	*4.7*
Gross Imports	**100.0**	**3.4**	**0.4**	**-0.1**	**5.0**	**1.9**
Intermediate goods	57.1	-1.7	-2.1	-0.3	3.8	-0.1
Capital goods	14.3	0.2	-0.3	15.7	6.5	4.9
Consumption goods	9.6	38.1	24.1	-0.8	0.1	7.4
Others (including re-exports and dual-use goods)	18.9	8.9	-0.2	-9.5	10.4	3.2
Trade balance (RM billion)	**–**	**30.6**	**91.6**	**18.0**	**27.5**	**87.3**

Source: MATRADE and Department of Statistics, Malaysia

Gross exports turned around to register a positive growth of 2.8% in 4Q 2016, (3Q 2016: -2.3%). The expansion was underpinned by higher manufactured exports and improvement in commodity exports. Gross imports also recorded a positive growth of 5% (3Q 2016: -0.1%). The faster growth was due to a higher growth in all import categories, except capital imports. As a result, the trade surplus widened to RM27.5 billion (3Q 2016: RM18.0 billion). For 2016 as a whole, exports and imports recorded a growth of 1.1% and 1.9%, respectively (2015: 1.6% and 0.4%, respectively), contributing an accumulated trade surplus of RM87.3 billion (2015: RM91.6 billion).

Manufactured exports recorded a positive turnaround in the fourth quarter, attributed mainly to the improvement in exports of semiconductor devices. The higher E&E exports more than offset the decline in exports of non-resource based products such as manufactures of metal, and machinery, equipment and parts. Commodity exports continued to improve, supported by broad-based improvement in prices.

[1] Major services sector consists of wholesale and retail trade and food and beverages, accommodations; information and communications, transportation and storage; health, education and arts, entertainment and recreation; and professional and real estate services sub-sectors.

By destination, exports to major trading partners, particularly P.R. China and Hong Kong, experienced a sharp turnaround to register positive growth due mainly to higher demand for E&E and agriculture exports. Exports to the EU also recorded an improvement, largely underpinned by higher E&E exports and commodity exports. Export growth to Japan continued to decline, while exports to the US moderated, reflecting lower exports of LNG and manufactured goods, respectively.

Gross imports expanded by 5% during the quarter (3Q 2016: -0.1%), supported by higher import growth in intermediate and consumption goods. The recovery in intermediate imports was due mainly to a higher demand for fuel and lubricants, and industrial supplies, in line with higher commodity prices and manufactured export growth. Higher imports of consumption goods, particularly food and beverages, durable and non-durable goods, also supported gross import growth. The expansion in imports for re-exports reflects the improvement in global demand and a pick-up in trade activity. Capital import growth however, moderated due primarily to lower imports of telecommunications equipment and metal containers.

Malaysia: Direction of Exports

	Share 2016 (%)	2015		2016		
		4Q	Year	3Q	4Q	Year
		Annual change (%)				
European Union (EU)	**10.2**	**12.9**	**8.4**	**-3.5**	**1.0**	**1.2**
Japan	**8.1**	**-6.9**	**-12.0**	**-13.0**	**-13.2**	**-12.9**
United States	**10.2**	**18.4**	**14.4**	**4.8**	**2.3**	**8.9**
ASEAN[1]	**29.4**	**8.5**	**2.7**	**3.3**	**6.1**	**5.4**
North East Asia	**22.9**	**6.9**	**2.3**	**-7.7**	**5.6**	**-3.2**
People's Republic of China	*12.5*	*10.9*	*10.0*	*-8.3*	*12.3*	*-2.9*
Hong Kong SAR	*4.8*	*1.0*	*-0.5*	*-1.4*	*10.4*	*2.1*
Korea	*2.9*	*-9.8*	*-11.7*	*-16.2*	*-7.8*	*-7.6*
Chinese Taipei	*2.7*	*22.6*	*-6.5*	*-6.1*	*-13.5*	*-8.0*
West Asia[2]	**2.9**	**-3.3**	**-4.1**	**-9.4**	**11.8**	**3.1**
India	**4.1**	**7.8**	**-0.7**	**1.4**	**1.1**	**1.1**
Total exports	**100.0**	**8.0**	**1.6**	**-2.3**	**2.8**	**1.1**

[1] Singapore, Thailand, Indonesia, Philippines, Brunei Darussalam, Vietnam, Cambodia, Myanmar and Laos
[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 was larger at RM6.0 billion in the fourth quarter of 2016 (3Q 2016: a deficit of RM5.1 billion), attributable mainly to higher net transportation payments amid better trade activities and higher net payments for other services, particularly for construction; and usage charges for intellectual properties. In addition, lower net receipts from travel services arising from the rise of outbound tourists posed a drag to the services account.

The deficit in the **primary income** account narrowed to RM9.0 billion in the fourth quarter of 2016 (3Q 2016: a deficit of RM10.8 billion), reflecting mainly higher direct investment income accrued to Malaysian companies investing abroad in the mining sector as a result of higher commodity prices. Income accrued to foreign direct investors, particularly in the mining and manufacturing sectors, was broadly unchanged. The net payments in the **secondary income** account were lower at RM4.1 billion in the fourth quarter of 2016 (3Q 2016: net payment of RM4.6 billion), due mainly to higher inward remittances.

In the fourth quarter of 2016, the **financial account** recorded a net outflow of RM13.2 billion (3Q 2016: net outflow of RM6.3 billion), as the larger net outflows in the portfolio investment account had more than offset the higher net inflows in both the direct and other investment accounts.

Portfolio investment recorded a significant net outflow of RM22.3 billion (3Q 2016: net outflow of RM 10.6 billion). Portfolio investment by non-residents recorded a net outflow of RM25.1 billion (3Q 2016: net outflow of RM3.5 billion), mainly on account of lower foreign holdings of Malaysian Government Securities (MGS) and Government Investment Issues (GII) as well as higher liquidation of equity securities. During the period, volatility in the global financial markets intensified as investor sentiments were affected by the outcome of the US presidential election, and the expectation of a faster pace of monetary policy normalisation by the Federal Reserve. Portfolio investment by residents registered a net inflow of RM2.8 billion (3Q 2016: net outflow of RM7.1 billion), due mainly to the maturity of foreign currency debt securities held by domestic financial institutions, which more than offset the continued purchases of foreign equity securities.

Direct investment account recorded a higher net inflow of RM5.9 billion (3Q 2016: net inflow of RM3.0 billion), as the incurrence of direct investment liabilities continued to outpace the moderating accumulation of direct investment assets.

On the liabilities side, inward direct investment amounted to a net inflow of RM13.8 billion (3Q 2016: net inflow of RM14.3 billion). Of these, **Foreign Direct Investment (FDI)** rose to RM10.8 billion (3Q 2016: net inflow of RM6.5 billion), due mainly to a higher injection of equity capital and a net extension of loans by parent companies to their subsidiaries in Malaysia. FDI inflows were largely channelled into the manufacturing sector, particularly the E&E and petrochemical industries. This is followed by investments in the services sector, mainly in the finance and insurance as well as the wholesale and retail trade sub-sectors.

On the assets side, outward direct investment amounted to a net outflow of RM7.9 billion (3Q 2016: net outflow of RM11.3 billion). Of these, **Direct Investment Abroad (DIA)** by Malaysian companies increased to RM4.9 billion (3Q 2016: net outflow of RM3.6 billion), due mainly to a higher reinvestment of earnings and sustained equity capital injections to subsidiaries abroad. The bulk of DIA was undertaken by companies in the mining sector, followed by the services sector, particularly the telecommunication and wholesale and retail trade sub-sectors.

Other investment account registered a larger net inflow of RM4.4 billion (3Q 2016: net inflow of RM 1.4 billion), attributed mainly to a net placement of interbank deposits by foreign financial institutions in Malaysian banks as well as a repayment of trade credits which were previously extended by Malaysian exporters.

Following these developments, the overall balance of payments registered a surplus of RM19.2 billion in the fourth quarter (3Q 2016: surplus of RM 14.6 billion). Errors and omissions amounted to RM20.1 billion or 4.9% of total trade, mostly reflecting the foreign exchange revaluation changes in international reserves arising from the strengthening of major currencies against the ringgit during the quarter.

Manageable external debt

Malaysia's external debt increased by RM43.4 billion or 5.0% to RM908.7 billion, equivalent to USD200.6 billion or 73.9% of GDP as at end-December 2016 (end-September 2016: RM865.3 billion or USD206.6 billion, equivalent to 70.4% of GDP). The increase was mainly attributed to valuation effects following the weakening of the ringgit against most currencies during the quarter. About 82% of the foreign exchange valuation changes were recorded in offshore borrowing. Nonetheless, the offshore borrowing remained low at 42.7% of GDP as at end-December compared to 60% of GDP during the Asian Financial Crisis (AFC) in 1997-98. Also, the Federal Government only accounts for 4.0% of total offshore borrowing as at end-December 2016.

In aggregate, the impact of foreign exchange fluctuations was mostly contained, as one-third of total external debt was denominated in ringgit. The remaining portion denominated in foreign currency was largely hedged, either naturally through foreign currency earnings, or through the use of financial instruments.

Excluding valuation effects, Malaysia's external debt position would have increased by only 0.7% from the previous quarter. The increase reflected a net increase in interbank borrowing and intercompany loans, on top of a slightly higher placement of deposits in the domestic banking system by non-residents. This was partly offset by some liquidation of non-resident holdings of domestic debt securities, especially MGS and Government Investment Issues.

Overall, Malaysia's external debt remains manageable, with medium- to long-term external debt accounting for more than half of the outstanding position (58.6%). The share of short-term external debt increased slightly to account for 41.4% of the total external debt (end-September 2016: 38.6%) during the quarter. The international reserves were adequate to cover the short-term external debt by 1.1 times. About two-thirds of the short-term external debt is held by the banking sector, not all of which poses a claim on the international reserves given that this debt is partly covered by the banks' corresponding external assets. The bulk of the remaining short-term external debt is accounted for by trade credits and intercompany loans. The former are largely backed by export earnings, while the latter are generally on flexible and concessionary terms, such as having no fixed repayment schedule and zero or low interest rate.

Outstanding External Debt

	2015	2016	
	end-Dec	end-Sep	end-Dec
	RM billion		
Offshore borrowing[1]	463.6	472.1	524.3
USD billion equivalent	*106.9*	*112.7*	*115.8*
Medium- and long-term	*285.9*	*295.8*	*316.4*
Public sector	128.3	120.4	130.6
Private sector	157.6	175.4	185.9
Short-term	*177.7*	*176.3*	*207.9*
NR holdings of dom. debt securities	211.3	237.1	214.2
Medium- and long-term	*184.1*	*223.5*	*203.3*
Short-term	*27.2*	*13.6*	*10.9*
NR deposits	81.6	82.6	86.2
Others[2]	77.2	73.5	84.0
Medium- and long-term	*11.9*	*11.8*	*12.4*
Short-term	*65.3*	*61.7*	*71.6*
Total external debt	**833.8**	**865.3**	**908.7**
USD billion equivalent	*192.3*	*206.6*	*200.6*
Total debt/GDP (%)	72.1	70.4	73.9
Short-term debt[3]/Total debt (%)	42.2	38.6	41.4
Reserves/Short-term debt[3] (times)	1.2	1.2	1.1[4]

[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, short-term trade credits and miscellaneous.
[4] Based on international reserves as at 31 January 2017.

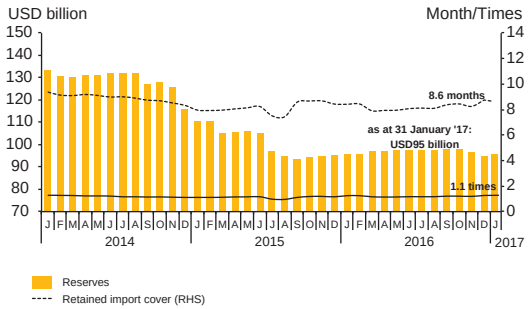
Note: NR refers to non-resident

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

International reserves remain ample to facilitate international transactions

As at 31 January 2017, the reserves position amounted to USD95.0 billion (equivalent to RM426.0 billion). The international reserves remain ample to facilitate international transactions. They are sufficient to finance 8.6 months of retained imports, significantly higher than the 3-month international threshold. The reserves level is also adequate to meet external obligations given the reserves to short-term external debt coverage of 1.1 times. It is important to note that not all short-term external debt creates a claim on reserves given the availability of external assets and export earnings of borrowers.

Net International Reserves (as at end period)

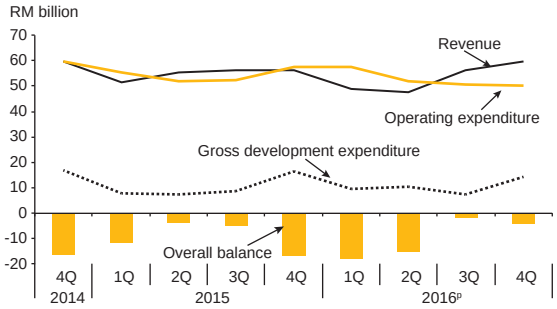


Source: Bank Negara Malaysia

Lower fiscal deficit of 3.1% of GDP in 2016

In the fourth quarter, the Federal Government recorded a fiscal deficit of 1.3% of GDP (3Q 2016: -0.6% of GDP), due to higher growth in revenue and a decline in total expenditure. Revenue increased by 6.8% on an annual basis (3Q 2016: 0.1%) driven by higher collections of Goods and Services Tax (GST). Operating expenditure declined by 13.0% on an annual basis (3Q 2016: -3.0%) due mainly to lower expenditure on supplies and services, and subsidies. Development expenditure similarly recorded a decline on an annual basis. The bulk of the expenditure during the quarter was disbursed primarily to the health sector, and agriculture and rural development. For the year as a whole, the Federal Government achieved a fiscal deficit target of 3.1% of GDP (2015: 3.2% of GDP). Total outstanding debt of the Federal Government stood at RM648.5 billion or 52.7% of GDP as at end-2016.

Federal Government Finance



p Preliminary

Source: Ministry of Finance, Malaysia

Federal Government Finance

	2015		2016p		
	4Q	Year	3Q	4Q	Year
	RM billion				
Revenue	56.0	219.1	56.3	59.8	212.4
% annual growth	*-6.0*	*-0.7*	*0.1*	*6.8*	*-3.0*
Operating expenditure	57.5	217.0	50.7	50.0	210.2
% annual growth	*-3.8*	*-1.2*	*-3.0*	*-13.0*	*-3.1*
Current account	**-1.4**	**2.1**	**5.6**	**9.8**	**2.2**
% of GDP	***-0.5***	***0.2***	***1.8***	***3.0***	***0.2***
Net development expenditure	15.5	39.3	7.4	13.9	40.9
% annual growth	*-5.7*	*2.2*	*-15.1*	*-9.8*	*4.2*
Overall balance	**-16.9**	**-37.2**	**-1.8**	**-4.1**	**-38.7**
% of GDP	***-5.6***	***-3.2***	***-0.6***	***-1.3***	***-3.1***
Memo item:					
Total net expenditure	72.9	256.3	58.1	64.0	251.1
% annual growth	*-4.2*	*-0.7*	*-4.7*	*-12.3*	*-2.0*
Total Federal Government debt[1]					
(as at end-period)	630.5	630.5	643.6	648.5	648.5
% of GDP	*54.5*	*54.5*	*52.4*	*52.7*	*52.7*
Domestic debt	433.1	433.1	411.4	435.6	435.6
% of GDP	*37.4*	*37.4*	*33.5*	*35.4*	*35.4*
External debt	197.4	197.4	232.2	212.9	212.9
% of GDP	*17.1*	*17.1*	*18.9*	*17.3*	*17.3*
Non-resident holdings of RM-denominated Federal Government debt	*176.0*	*176.0*	*211.8*	*191.8*	*191.8*
% of GDP	*15.2*	*15.2*	*17.2*	*15.6*	*15.6*
Offshore borrowing	*21.5*	*21.5*	*20.4*	*21.1*	*21.1*
% of GDP	*1.9*	*1.9*	*1.7*	*1.7*	*1.7*

p Preliminary
[1] A portion of the Housing Loan Fund debt amounting to RM21.9 billion (1.8% of estimated 2016 GDP) has been transferred to the new statutory body for civil servant housing loans (Public Sector Home Financing Board, LPPSA) beginning 2016

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