DEVELOPMENTS IN THE FOURTH QUARTER OF 2004

International Economic Environment

Moderate global economic expansion in major industrial countries and broad-based growth in the regional economies

The global economy continued to expand, albeit moderately, amidst high oil prices in the fourth quarter, led by strong growth in the United States (US), P.R. China and continued recovery in the European economy. However, revised GDP data showed that the Japanese economy weakened in the second half of 2004. Meanwhile, growth in the Asian region continued to be broad-based.

US GDP growth strengthened at a more modest pace in the fourth quarter, driven mainly by consumption spending, as reflected in expansion in home sales, retail sales, and personal income, amidst strong US consumer confidence. Investment spending was favourable, supported by positive corporate profits and cash flows. However, the trade deficit widened further especially due to high oil prices. Against the backdrop of improving labour market conditions, low inflation and strong growth, the Fed continued to raise interest rates at a measured pace, with two successive interest rate increases by 25 basis points on 10 November and 14 December, raising the Fed funds rate to 2.25% by the end of the year. In the **euro zone**, improving economic sentiment and Germany's IFO business climate index pointed towards continued growth. Growth in the **United Kingdom** economy was sustained, despite some slowing in the housing market and moderation in industrial production. In **Japan**, while the latest Tankan survey showed a moderation in business confidence, corporate capital spending plans were revised upwards.

Global crude oil futures prices reached a record high of $55.67 on 25 October 2004, driven by geopolitical uncertainties, possible supply disruptions in both OPEC (Iraq, Nigeria) and non-OPEC countries (Russia) and strong global demand. Prices remained high in January 2005 due to cold weather in the Northeast of the US and several production disruptions.

Industrial Countries: Real GDP growth

	2003		2004			Key contributing factors for 4Q growth
	4Q	Year	3Q	4Q	Year	
	Annual change (%)					
US[1]	4.2	3.0 r/	4.0	3.8 r/	4.4	Consumption and investment growth were robust, although net exports exerted a larger drag on growth.
UK	2.9	2.2	3.1	2.9 r/	3.1	Domestic demand continues to drive growth.
Euro zone	0.8	0.5	1.8	1.6	2.0	Growth was supported by strong consumer demand in France and Spain.
Japan[1]	3.8 r/	1.4 r/	-1.1 r/	-0.5	2.6	Capital spending was supported by healthy corporate profits while consumption and exports weakened.

[1] annualised basis
r/ revision
Source: National authorities

In the **Asian** region, growth remained strong with broad-based expansion, across both exports and domestic demand. In most regional countries, despite the onset of the

slowdown in the electronics cycle, exports still grew at double-digit rates, supported by the seasonally high year-end demand. The economic impact of the tsunami disaster is assessed to be minimal and short term, affecting mainly the tourism and fishery industries in the affected countries. Overall, regional growth for 2004 is estimated to peak at 7.5% (2003: 6.4%), the highest since 2001. Regional growth continued to be led by real GDP growth of 9.5% in the P.R. China.

Regional Countries: Real GDP growth

	2003		2004			Key contributing factors for 4Q growth
	4Q	Year	3Q	4Q	Year	
	Annual change (%)					
P. R. China	9.9	9.3	9.1	9.5	9.5	Continued broad-based growth supported mainly by strong double-digit export growth.
Singapore	5.6	1.4	7.2	6.5	8.4	The strong performance of the biomedical manufacturing cluster offset slower growth in the electronics and chemicals cluster.
Indonesia	4.1	4.9	5.0	6.7	5.1	Broad-based growth with strong expansion in investment.
Philippines	5.0	4.7	6.3	5.4	6.1	Supported by strong consumer spending, fixed capital investments and exports.
Chinese Taipei	5.7	3.3	5.3	3.3	5.7	Weakest performance since 2Q 2003 due to cooling of exports.

Source: National authorities

In most regional countries, inflation has started to ease on the back of lower oil prices and stronger regional currencies. However, in the Philippines, inflation has hit a 5-year high due to the lag effect of high oil prices, rising food prices and the weaker peso.

In the region, P.R. China, India, C. Taipei and Thailand raised interest rates to mitigate inflationary pressures arising mainly from high oil prices. The latest rate increases by Thailand and C. Taipei have been prompted by the risk to inflation posed by the current low interest rate environment and country-specific factors such as the proposed increase in utility rates in C. Taipei. Korea reduced interest rates to support growth, as domestic demand remained weak.

In the foreign exchange market, the depreciation of the US dollar intensified since November. During the quarter, the euro appreciated by about 9% and the yen by about 7.2% against the dollar. Most of the regional currencies also appreciated due to the weaker dollar and the speculation of a Chinese yuan revaluation. Of significance was the strengthening of the Korean won, New Taiwan dollar and the Singapore dollar to seven-year, six-year and four-year highs respectively during the quarter.

Going forward, the global economic expansion is expected to be sustained at a steady pace in 2005. The pace of slowdown in the US and P.R. China is expected to be moderate, based on the premise that adjustment in imbalances in these economies would be gradual. Monetary policy is expected to remain accommodative as inflation is forecast to remain manageable, amidst stable oil prices. Labour market conditions have improved in several regions. These developments would be supportive of growth in the Asian region. The impact from the electronics down-cycle and high oil prices will vary across countries. While the global electronics industry is consolidating after reaching a peak in mid-2004, the downcycle is forecast to be modest in view of the continued global demand, more rapid inventory adjustments and relatively low

inventory levels. Overall, domestic demand in the region is expected to be supportive of growth, backed by favourable fundamentals and contribution from new growth areas. The impact of the tsunami is estimated to be minimal and short term, confined to the tourism and fishery industries in the affected countries.

Developments in the Malaysian Economy

Growth was led by the private sector

The Malaysian economy registered a growth of 5.6% in the fourth quarter of 2004. Growth was led by private sector activity. In the manufacturing sector, the more diversified base has provided support to moderate the slowdown in the electronic equipment sub-sector. The services sector continued to remain firm, with higher growth in most sub-sectors. The primary commodity sector recorded another quarter of strong performance supported by higher palm oil and natural gas production. The construction sector contracted by 3.3% due mainly to lower civil engineering activity.

Quarterly GDP by Kind of Economic Activity at 1987 Prices

	2003		2004		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Agriculture	1.9	5.7	5.3	7.7	5.0
Mining	5.3	5.9	4.7	4.7	4.1
Manufacturing	12.2	8.3	9.9	5.4	9.8
Construction	2.7	1.9	-3.0	-3.3	-1.9
Services	4.7	4.4	6.1	6.3	6.7
Real GDP (Ann. Chg.)	**6.6**	**5.3**	**6.7**	**5.6**	**7.1**
Real GDP (Preceding Chg.)	**2.7**	**5.3**	**2.8**	**1.7**	**7.1**

Source: Department of Statistics, Malaysia

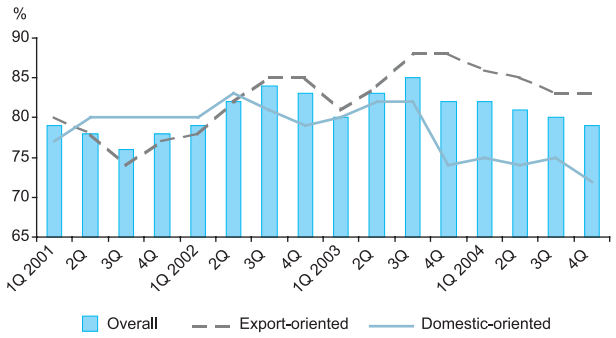
Continued expansion in the manufacturing sector

Value-added in the **manufacturing sector** increased by 5.4% in the fourth quarter of 2004 (3Q: 9.9%). The pace of growth moderated mainly in the electronics and electrical products industry (production growth: 4.7%; 3Q: 19.3%). Other major export-oriented industries continued to record strong growth during the quarter. The overall capacity utilisation rate remained relatively high at 79% (3Q: 80%), with both the export and domestic-oriented industries operating at 83% and 72% respectively (3Q: 83% and 75% respectively).

The **export-oriented industries** expanded by 7.5% (3Q: 12.8%) due to lower growth in the electrical and electronics industry amidst the consolidation in the global electronics industry. During the quarter, electronic manufacturers rationalised output with inventory adjustments at the various levels of the supply chain. Meanwhile, growth in the chemical products industry strengthened to 13.4% (3Q: 8.7%), led by higher production of industrial gases in line with the strong performance of the natural gas production. The chemical industry was also supported by strong growth in the plastics segment. Similarly, off-estate activity strengthened during the quarter due to increased palm oil processing following the exceptionally good harvest during the quarter.

Growth in the **domestic-oriented industries** was sustained at 6.2% (3Q: 7.2%), supported by strong growth in the transport

Capacity Utilisation in the Manufacturing Sector



Performance of the Manufacturing Sector

	2003		2004		
	4Q	Year	3Q	4Q	Year
	Annual Change in %				
Value Added (Constant Price)	**12.2**	**8.3**	**9.9**	**5.4**	**9.8**
Overall Production	**15.7**	**10.5**	**11.6**	**7.3**	**12.6**
Export-oriented industries	**17.7**	**11.9**	**12.8**	**7.5**	**14.1**
of which :					
- Electronics	30.4	15.1	27.0	9.5	24.9
- Electrical	-3.5	-7.0	-8.8	-15.6	-9.8
- Textiles & wearing apparel	-11.1	-2.2	-13.8	-15.3	-11.9
- Chemicals and chemical products	22.7	20.8	8.7	13.4	14.1
- Off-estate processing	0.0	11.8	1.5	17.9	4.0
- Rubber products	23.9	18.7	7.5	9.0	14.8
- Wood and wood products[1/]	-0.9	0.9	11.3	4.4	12.5
Domestic-oriented industries	**8.8**	**6.1**	**7.2**	**6.2**	**7.1**
of which :					
- Transport equipment	3.4	-5.5	6.4	16.6	8.3
- Fabricated metal products	17.5	7.4	38.0	20.7	29.0
- Iron & steel and non-ferrous metal	13.3	10.8	-1.9	4.8	4.5
- Non-metallic mineral products	8.3	9.7	-4.6	-4.9	-4.9
- Petroleum products	-1.2	2.3	7.1	5.5	1.3
- Food	7.2	8.8	-1.8	1.8	3.6
Total Manufactured Exports	**14.1**	**8.0**	**27.3**	**13.5**	**19.7**
- Electronics and electrical products	13.1	5.0	21.3	7.5	15.3
- Wood and wood products	9.8	6.1	47.1	12.4	29.5
- Furniture & parts	18.0	8.5	24.5	16.2	17.8
- Textiles, clothing & footwear	0.2	2.2	19.4	14.0	17.9
- Optical & scientific equipment	12.4	12.3	40.5	19.6	26.3
- Chemical and chemical products	24.5	23.1	43.6	26.9	31.0
- Petroleum products	10.5	23.8	66.8	57.1	42.2

[1/] Output of furniture and parts are not captured in the wood production data.

equipment and fabricated metal industries, and to a lesser extent iron and steel industries. Growth in the transport equipment industry strengthened to 16.6% (3Q: 6.4%), due to strong demand for passenger car sales induced by the introduction of new models during the quarter, as well as higher external demand for scooters and motorcycle. Strong external demand also supported the growth in the fabricated metal, and iron and steel industries during the quarter.

Services sector remained firm

The growth momentum in the **services sector** continued (6.3%; 3Q: 6.1%), supported by strong consumption, tourism and trade-related activities. The finance, insurance, real estate and business services sub-sector recorded a strong growth of 6.2% (3Q: 5.4%) attributable to higher bank lending and insurance activities, while growth in the wholesale and retail trade, hotels and restaurants sub-sector was higher at 6.9% (3Q: 5.9%). The latter was supported by continued increase in tourist arrivals (15.4%) as well as strong consumer spending during the holiday season and festivities, including demand for durable items such as motor vehicles.

The transport, storage and communication sub-sector recorded a

Performance in the Services Sector (Value Added)

	2003		2004		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Intermediate Services	**5.8**	**5.5**	**6.2**	**7.3**	**7.2**
Transport, storage & communication	8.0	5.7	7.5	9.2	8.4
Finance, insurance, real estate & business services	4.6	5.4	5.4	6.2	6.5
Final Services	**3.9**	**3.7**	**6.0**	**5.6**	**6.3**
Electricity, gas & water	5.5	5.7	7.4	7.7	8.1
Wholesale & retail trade, hotel & restaurants	3.1	1.5	5.9	6.9	7.1
Government services	5.1	7.6	6.9	3.7	5.1
Other services	3.4	3.3	4.6	3.9	5.0
Total Services	**4.7**	**4.4**	**6.1**	**6.3**	**6.7**

Source: Department of Statistics, Malaysia

Selected Quarterly Indicators in the Services Sector

	2003		2004		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Tourism-related indicators					
Hotel occupancy rate (index)	59.3	53.3	65.6	62.7	60.8
Tourist arrivals	3.8	-20.4	51.5	15.4	48.5
Total passenger traffic at all airports	10.7	2.0	15.2	11.2	18.9
Consumption-driven indicators					
Total consumption credit outstanding	11.1	11.1	14.7	16.4	16.4
Imports of consumption goods	5.8	-1.2	38.8	16.5	24.1
Total sales of passenger cars	-11.7	-10.9	19.6	27.3	15.3
Cellular phone penetration rate (% as at end)	43.9	43.9	50.8	55.9	55.9
Trade-related services indicators					
Cargo handled (All airports)	2.9	7.0	13.7	10.2	10.5
Container cargo handled (Port Klang and PTP)	11.2	15.6	8.8	3.6	11.2

Source: Various sources

significant increase of 9.2% benefiting mainly from the robust performance of the telecommunications industry. Growth was driven by the higher subscriber base in the cellular segment, with the highest number of new subscribers recorded during the quarter. In addition, broadband usage increased with the penetration rate rising from 0.85% at end-September to almost 1% by end-2004. The trade and travel-related activities also contributed favourably to the transport, storage and communications sub-sector. The utilities sub-sector was supported by increasing demand for electricity by all categories of users, while the expansion in the Government services sub-sector was attributed to the increase in emoluments and bonus payments to civil servants.

Strong performance in the primary commodity sector

The **primary commodity sector** continued to record a strong performance with both the agriculture and mining sectors expanding further by 7.7% and 4.7% respectively (3Q 2004: 5.3% and 4.7% respectively). The agriculture sector was underpinned by exceptionally strong performance of the palm oil sector, while the expansion in the mining sector was driven largely by strong natural gas production and continued growth in crude oil production.

In the **agriculture sector**, crude palm oil output grew at a double-digit rate of 16.5% (3Q 2004: 5.2%), due to further expansion in matured palm oil areas, particularly in East

Performance of the Agriculture Sector

	2003		2004		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Value Added (at 1987 prices)	**1.9**	**5.7**	**5.3**	**7.7**	**5.0**
Production[1]					
Of which:					
Crude palm oil	5.4	12.1	5.2	16.5	4.7
Crude palm kernel oil	3.4	11.6	-3.5	11.8	-0.1
Rubber	12.4	10.8	22.5	5.7	20.4
Saw logs	-7.8	4.3	6.8	3.8	0.2
Cocoa beans	-42.0	-24.0	17.7	17.9	-7.8
Exports (RM million)	**14.9**	**28.0**	**4.2**	**1.2**	**7.4**
Of which:					
Palm oil					
('000 tonnes)	0.7	15.0	-14.0	2.3	-5.6
(RM/tonne)	10.6	18.3	5.9	-6.1	5.5
(RM million)	11.4	36.1	-8.9	-3.9	-0.4
Palm kernel oil					
('000 tonnes)	42.4	17.1	-39.9	-24.7	-8.3
(RM/tonne)	10.3	18.0	55.9	38.9	46.9
(RM million)	57.0	38.2	-6.4	4.5	34.7
Rubber					
('000 tonnes)	9.7	2.0	15.3	16.6	16.7
(Sen/kilogramme)	36.1	41.0	29.0	2.6	24.3
(RM million)	49.4	43.8	48.7	19.6	45.1
Sawn timber					
('000 cu.metres)	4.5	1.3	15.3	16.3	13.5
(RM/cu.metre)	1.6	2.9	-1.9	-10.2	-10.4
(RM million)	6.2	4.2	13.1	4.4	1.7
Saw logs					
('000 cu.metres)	11.2	8.4	22.8	-17.9	-5.9
(RM/cu.metre)	-5.8	1.8	7.3	6.2	8.9
(RM million)	4.7	10.3	31.8	-12.8	2.5
Cocoa beans					
('000 tonnes)	-53.6	-37.9	53.8	-15.6	-27.7
(RM/tonne)	-11.0	20.9	-5.8	-5.9	-12.6
(RM million)	-58.7	-25.0	44.8	-20.6	-36.8

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

Malaysia, as well as higher productivity. Yields, both in terms of fresh fruit bunches (FFB) and oil extraction rates (OER), were higher during the quarter, at 5.19 tonnes per hectare and 20.19% respectively, compared to the fourth quarter of 2003 (4.74 tonnes per hectare and 19.9% respectively). Meanwhile, rubber production recorded a more moderate increase during the quarter (5.7%; 3Q 2004: 22.5%), on account of lower number of tapping days caused by the long stretch of holidays during the major festivities.

In the **mining sector**, natural gas output grew by 10.3%, recording an historic quarterly output of 5,865 million standard cubic feet per day. The strong production was due to higher capacity utilisation of Malaysian Liquefied Natural Gas (MLNG) plants in Sarawak and Gas Processing Plants (GPPs) in Peninsular Malaysia. While output of crude oil (including condensates) grew at a moderate pace of 1.4% during the quarter (3Q 2004: 5.4%), the quarterly production was an all-time high of 774,191 barrels per day amidst the strong global demand and high prices. The Malaysian Tapis Blend crude oil prices reached a historic high of above US$55 per barrel on 21 October in line with developments in the global oil market before easing to the US$40 - 45 range thereafter.

Performance of the Mining Sector

	2003		2004		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Value Added (at 1987 prices)	**5.3**	**5.9**	**4.7**	**4.7**	**4.1**
Production					
Of which:					
Crude oil and condensates ('000 barrels)	6.4	5.6	5.4	1.4	3.6
Natural gas (net) (million standard cubic feet)	5.2	7.2	-1.5	10.3	4.0
Exports (RM million)	**26.6**	**33.3**	**50.1**	**44.7**	**38.2**
Of which:					
Crude oil					
('000 tonnes)	19.2	10.6	7.8	-11.0	1.0
(US$/barrel)	12.6	22.0	50.6	53.3	34.8
(RM million)	34.2	35.0	62.3	36.4	36.1
Liquefied natural gas					
('000 tonnes)	15.1	15.4	8.9	19.4	19.7
(RM/tonne)	2.4	17.1	11.7	15.9	6.8
(RM million)	17.8	35.1	21.7	38.5	27.9

Lower construction activity

Growth in the **construction sector** contracted by 3.3% (3Q 2004: -3%) due mainly to lower civil engineering activity, while the residential and non-residential segments continued to expand. Demand, particularly for landed properties remained firm supported by the attractive financing packages and rising disposable income. Construction of the non-residential segment was driven largely by demand for office and retail space amidst the favourable business activities.

Construction Indicators

	2003		2004		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
New sales and advertising permits	21.5	-2.7	-31.9	-19.4	-5.9
Housing approvals	23.7	2.2	-30.7	-34.9	-14.1
Production of construction-related materials	10.6	10.2	-3.4	-0.4	-0.6
Loans approved for construction	16.1	-4.7	39.0	-14.8	2.4
Imports of construction materials & mineral products	17.8	-6.7	86.5	15.8*	42.2**

* Oct. - Nov. '04 ** Jan. - Nov. '04

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

Private sector led growth….

Economic growth, which has gained considerable momentum since the first quarter of this year, was sustained by the expansion in domestic demand in the fourth

quarter (6.4%; 3Q 2004: 7.3%), led by private sector. While higher household and business spending contributed to the robust expansion, the Federal Government continued to scale down its expenditure as it continued with its fiscal consolidation program.

GDP by Expenditure Components (at Constant 1987 prices)

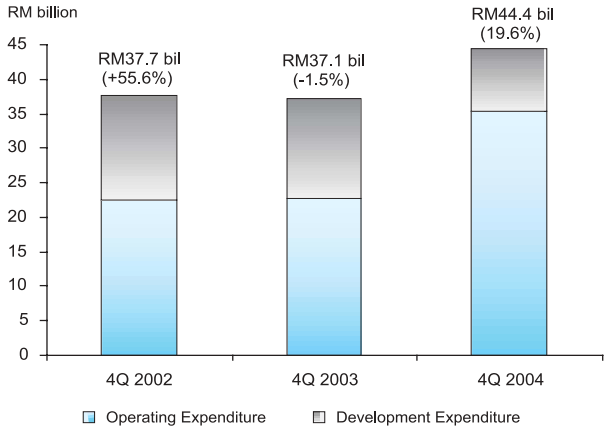
	2003		2004		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Aggregate Domestic Demand (excluding stocks)	7.7	5.9	7.3	6.4	7.3
Consumption	9.5	7.4	9.2	8.1	9.2
Private sector	8.6	6.6	10.8	9.7	10.1
Public sector	12.2	10.0	4.6	3.7	6.6
Gross Fixed Capital Formation	3.6	2.7	3.2	2.2	3.1
Exports of Goods and Services	10.9	6.3	18.2	10.7	15.6
Imports of Goods and Services	15.9	5.0	23.2	12.6	19.8
GDP	**6.6**	**5.3**	**6.7**	**5.6**	**7.1**

Source: Department of Statistics, Malaysia

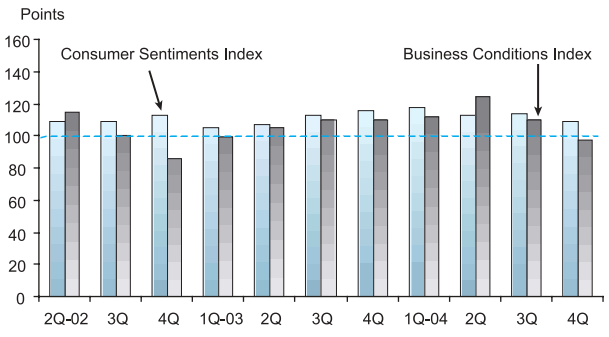
The stable employment conditions and sustained high disposable incomes derived from strong commodity export proceeds sustained consumer sentiments, causing the **private consumption** to rise further during the quarter (9.7%; 3Q 2004: 10.8%). Favourable financing conditions, low inflation and interest rates as well as the prolonged festive period also contributed to their willingness to spend. Although the MIER Consumer Sentiments Index was lower in the fourth quarter, the index remained above the 100-point threshold, indicating that consumer confidence remains positive. Consumer optimism is also reflected by the performance of other major indicators such as imports of consumption goods, sales of passenger cars, loans approved and disbursed to households for the purposes of consumption and purchase of durable goods, which continued to record strong double-digit growth. Growth in **public consumption** moderated to 3.7% (3Q 2004: 4.6%).

Private investment activity was robust, supported by expenditure on the replacement of machinery and equipment in the manufacturing sector as well as investment in seismic and geophysical survey apparatus for oil exploration activities. The strength of business activities was supported by the continued improvements in demand,

Lower Federal Government Development Spending



Consumer and business confidence sustained in 4Q



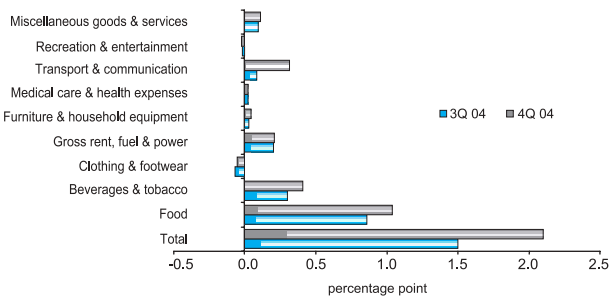
capacity utilisation and corporate earnings. As a result, the rise in private investment activities was sufficient to offset the decline in the Federal Government's development expenditure, therefore resulting in an increase in the **gross fixed capital formation** (2.2%). Despite the lower development expenditure, spending continued to be channelled to essential fiscal operations and capacity enhancing services such as education, housing, transportation, agriculture and rural development.

Inflation

Inflation edged up slightly

The annual rate of inflation, as measured by the **Consumer Price Index** (CPI), increased to 2.1% in the fourth quarter (3Q 2004: 1.5%). The increase was driven mainly by the increase in prices of transport, food, and cigarettes and tobacco products. The increase in transportation prices was due to the five sen increase in prices of retail petroleum products effective from 1 October 2004. Food prices increased further mainly on account of the continued increase in the prices of food taken away from home.

Contribution to Inflation



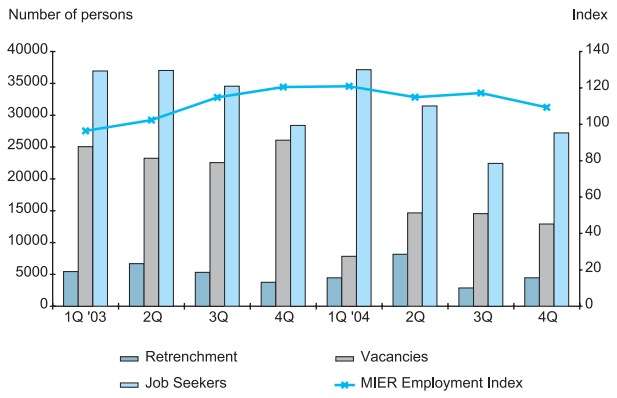
Price increases for cigarette and tobacco were also higher due to the increase in excise duties, which were announced in Budget 2005.

The **Producer Price Index** (PPI) increased at a slower rate of 7.7% (11.9% in Q3 2004), due mainly to the lower commodity prices. Meanwhile, the PPI excluding commodities remained stable at 2.2% in the fourth quarter (1.8% in Q3 2004).

Stable labour market conditions

Labour market conditions in the fourth quarter remained stable, supported by strong growth in productivity. Vacancies reported to the authorities (12,921 positions) significantly outpaced retrenchments (4,459 persons) and registered unplaced jobseekers remained low (27,227 persons). Growth in labour productivity during the quarter, as measured by real sales value of products per employee in the manufacturing sector, rose by 15.3%. Real wage per employee declined by 1.4%.

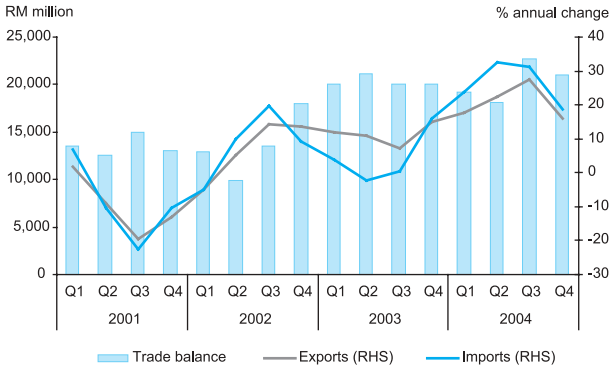
Stable Labour Market Conditions



Sustained strong growth in both exports and imports

In the fourth quarter of 2004, the **trade account** recorded a sustained large surplus of RM21 billion (3Q 2004: RM22.7 billion). Gross exports and imports continued to expand by 16.1% and 18.6% respectively, in line with the growth in production and investment activity.

Trade balance



All categories of exports, namely manufacturing, agriculture and mineral exports registered a more moderate growth. **Manufactured exports** expanded at a slower rate of 13.5% (3Q: 27.3%) mainly attributable to the slowdown in the global electronics cycle. Amidst the slower growth in exports of electronics and electrical products (E&E) (7.5%), these manufacturers rationalised production during the quarter to accommodate speedier inventory adjustments. Part of the slowdown in E&E exports was offset by the strong growth in exports of resource-based products. Of significance, exports of petroleum and chemical products remained strong, underpinned by demand from the Asian region and improving export prices. In the non-resource-based segment, exports of transport equipment remained firm supported by increase in exports of floating and drilling platforms for oil and gas exploration activities, as well as demand for scooters and motorcycles. External demand for metal products was also high from the regional countries, particularly P.R. China.

Exports of agriculture commodities registered an increase of 1.2% during the quarter, as decline in exports of major sub-sectors particularly palm oil was more than offset by the sharp increase in exports of rubber and crude palm kernel oil. Palm oil exports fell by 3.9% during the quarter due entirely to lower prices. Average export prices of Malaysian palm oil declined by 6.1% to RM1,587 per tonne as sentiment was affected by the increase in stocks levels of Malaysian palm oil (1.49 million tonnes as at end-December 2004) and larger-than-expected harvests of soybean (palm oil's closest competitor) in the United States. Nevertheless, export volume increased during the quarter reflecting higher offtake

Trade Account

	2003		2004		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Gross Exports	**15.1**	**11.3**	**27.5**	**16.1**	**20.8**
Manufacturing	*14.1*	*8.0*	*27.3*	*13.5*	*19.7*
Agriculture	*14.9*	*28.0*	*4.2*	*1.2*	*7.4*
Minerals	*26.6*	*33.3*	*50.1*	*44.7*	*38.2*
Gross Imports	**16.0**	**4.4**	**31.1**	**18.6**	**26.3**
Capital goods	*8.8*	*-5.6*	*38.4*	*37.7*	*36.1*
Intermediate goods	*19.7*	*7.6*	*25.5*	*12.8*	*22.0*
Consumption goods	*5.8*	*-1.2*	*38.8*	*16.5*	*24.1*
Trade balance (RM bil)	**20.0**	**81.3**	**22.7**	**21.0**	**81.1**

Source: Department of Statistics, Malaysia

(2.3%; 3Q 2004: -14%), mainly from P.R. China and the European Union. Export receipts from rubber continued to increase at a double-digit rate of 19.6% supported mainly by firm increase in export volume (16.6%) and higher export prices (460 sen per kilogramme).

Mineral exports continued to expand at a strong pace of 44.7% as a result of record high crude oil prices. Prices of Malaysian crude oil exports strengthened significantly by 53.3% to average of US$48.19 per barrel, in line with developments in the international oil markets during the quarter. The Malaysian crude, namely Tapis Blend reached an intra-day record time of US$55.10 per barrel on 21 October. Major buyers, particularly Australia and Indonesia, increased their purchases significantly by 73.6% and 30.3%, respectively. LNG exports also increased by 38.5%, supported by stronger prices (15.9%) and higher volume (19.4%). The latter was due to higher demand for natural gas from Malaysia's traditional LNG buyers, namely Japan, Korea and Chinese Taipei.

Malaysia's trade with regional countries (excluding Japan) continued to increase. East Asia (excluding Japan) accounted for 44.5% of Malaysia's total exports. The impetus to the growth stemmed from strong growth in exports to the ASEAN, P.R. China and Korea, particularly, in electrical and electronic products, and resource-based products, namely, crude and refined petroleum products, chemicals, metals and liquefied natural gas (LNG). However, increased sourcing of cheaper components from regional countries caused the growth of imports from these countries to outpace export growth. Exports to the United States grew at a more moderate pace to account for a lower share of 18.3% (3Q2004: 19.5%). Exports to the EU countries continued to grow to account for a share of 11.6%. A significant development during the quarter was the increase in resource-based exports to Australia, which increased by 70.8%.

Gross imports remained strong, albeit at a more moderate pace of 18.6%,

Malaysia: Direction of exports

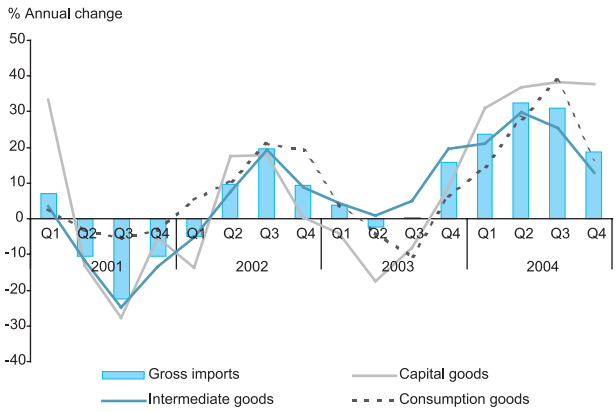
	2003		2004			2003		2004			2003		2004		
	4Q	Year	3Q	4Q	Year	4Q	Year	3Q	4Q	Year	4Q	Year	3Q	4Q	Year
	RM billion					Share of total exports (%)					Annual change (%)				
United States	**21.1**	**77.9**	**25.0**	**23.2**	**90.2**	**19.3**	**19.6**	**19.5**	**18.3**	**18.8**	**15.5**	**5.0**	**25.7**	**9.8**	**15.8**
European Union (EU) [1]	**12.7**	**48.1**	**15.0**	**14.7**	**56.7**	**11.7**	**12.1**	**11.7**	**11.6**	**11.8**	**8.5**	**9.7**	**24.4**	**15.3**	**17.7**
Selected ASEAN countries [2]	**27.1**	**97.9**	**31.9**	**32.0**	**119.7**	**24.8**	**24.6**	**24.8**	**25.3**	**24.9**	**17.1**	**7.3**	**32.2**	**18.2**	**22.3**
North East Asia	**21.8**	**77.4**	**24.1**	**24.3**	**93.4**	**20.0**	**19.5**	**18.8**	**19.2**	**19.4**	**15.8**	**18.3**	**22.8**	**11.5**	**20.7**
People's Republic of China	7.6	25.8	8.6	8.3	32.1	7.0	6.5	6.7	6.6	6.7	35.0	28.9	28.3	8.8	24.6
Hong Kong China	6.9	25.7	7.4	7.3	28.7	6.3	6.5	5.8	5.8	6.0	9.9	26.8	7.1	6.4	11.5
Chinese Taipei	3.8	14.3	4.2	4.1	15.8	3.5	3.6	3.3	3.2	3.3	14.6	8.0	14.9	7.4	10.0
Korea	3.5	11.6	3.9	4.6	16.8	3.2	2.9	3.0	3.6	3.5	-2.9	-2.6	66.0	32.0	45.7
India	**2.7**	**9.6**	**2.8**	**3.2**	**11.4**	**2.5**	**2.4**	**2.2**	**2.5**	**2.4**	**30.2**	**43.8**	**24.3**	**17.4**	**18.3**
Total exports	**109.1**	**397.9**	**128.2**	**126.7**	**480.7**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**15.1**	**11.3**	**27.5**	**16.1**	**20.8**

1 Refers to 15 EU countries
2 Include Singapore, Thailand, Indonesia, Philippines, Brunei Darussalam and Viet Nam

Source: Department of Statistics, Malaysia

in line with the growth in production and exports of E&E products. Imports of **intermediate goods**, which were inputs used for manufactured exports, particularly the E&E products, continued to expand by 12.8%. The growth in intermediate imports was also supported by higher demand for metals and resource-based inputs, which led to significant increases in industrial supplies, namely, metals, iron and steel products, and chemicals. Sustained growth in private consumption also led to an increase in imports of primary and processed materials used by the food and beverages industry. Growth of the motor assembly industry arising from higher demand for motor vehicle caused imports of parts and accessories of transport equipment to expand.

Import growth



Capital imports, which accounted for 15.1% of total imports continued to expand strongly by 37.7%, reflecting higher investment activity. The bulk of capital imports were channeled into the manufacturing and services industries for upgrading for advances in technology and capacity expansion. The introduction of new technology for cellular phone led to higher imports of telecommunications equipment in the fourth quarter. Imports of office equipment remained strong as corporations continued to upgrade their infrastructure in information technology. Imports of lumpy items increased due to deliveries of new ships and aircraft following increased demand for fleet expansion to service new markets. Capital imports excluding lumpy items, increased by 26.6%.

Consonant with higher disposable income and higher demand owing to festivities, imports of **consumption goods** grew by 16.5%. Growth in consumption imports was mainly supported by higher demand for food and beverages and

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

	2003		2004		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
CAPITAL GOODS	**8.8**	**-5.6**	**38.4**	**37.7**	**36.1**
Capital goods (except transport equipment)	0.7	0.2	27.6	31.0	28.4
Transport equipment	202.7	-49.1	292.6	90.9	151.0
INTERMEDIATE GOODS	**19.7**	**7.6**	**25.5**	**12.8**	**22.0**
Food and beverages, mainly for industry	9.2	12.4	58.7	25.1	52.9
Industrial supplies, n.e.s.	16.4	2.6	53.6	29.2	38.9
Fuel and lubricants	18.7	23.2	76.4	68.4	41.8
Parts and accessories of capital goods (except transport equipment)	21.6	9.4	8.3	-1.5	10.5
Parts and accessories of transport equipment	24.9	-8.6	36.0	38.9	35.0
CONSUMPTION GOODS	**5.8**	**-1.2**	**38.8**	**16.5**	**24.1**
Food and beverages, mainly for household consumption	10.1	-5.2	55.2	18.9	31.3
Transport equipment, non-industrial	125.9	102.9	50.6	-34.4	-6.7
Consumer goods,n.e.s.	1.3	-0.3	29.9	16.9	20.8
Durables	*-23.1*	*-4.3*	*35.9*	*17.3*	*20.8*
Semi-durables	*8.3*	*-5.9*	*23.7*	*9.9*	*18.2*
Non-durables	*14.8*	*6.9*	*32.4*	*22.3*	*22.9*
DUAL USE GOODS	**14.2**	**8.8**	**54.3**	**43.5**	**39.8**
OTHERS	**-5.0**	**-6.3**	**26.1**	**4.7**	**10.8**
RETAINED IMPORTS	**16.5**	**4.8**	**28.5**	**16.8**	**24.1**
RE-EXPORTS	**0.6**	**-6.9**	**134.5**	**77.6**	**102.9**
GROSS IMPORTS	**16.0**	**4.4**	**31.1**	**18.6**	**26.3**

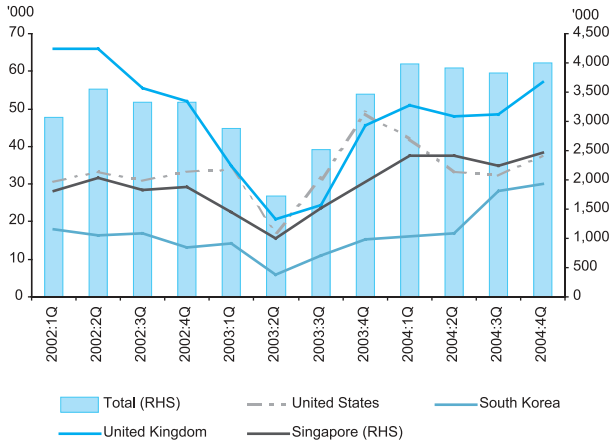
Source: Department of Statistics, Malaysia

consumer goods. During the quarter, imports for re-exports continued to record a strong growth of 77.6% arising mainly from assembling and packing activities in distribution parks located in the free commercial zones. Imports of re-exports comprise mainly E&E products, telecommunication equipment as well as iron and steel products.

Highest quarterly tourist arrivals for the year

Tourist arrivals increased by 15.4% to 4 million in the fourth quarter of 2004, the highest quarterly arrivals for the year. The surge in tourist arrivals was contributed mainly by visitors from Singapore, Thailand, Indonesia and Brunei which together accounted for 79.1% of total tourist arrivals. Meanwhile, visitors from South Korea and United Kingdom recorded strong increases, in line with greater connectivity with increased number of flights. Long-haul visitors from the Americas and European countries continued to increase during the quarter supported by attractive promotional packages and increased connectivity.

Quarterly Tourist Arrivals



Higher flows for FDI, overseas investment and portfolio investment

On a cash basis, gross inflows of **foreign direct investment (FDI)** increased to RM4.6 billion in 4Q 2004 (3Q 2004: RM4.1 billion). The inflows were channelled evenly across the three main sectors, namely manufacturing, services and the oil and gas sectors. FDI inflows into the manufacturing sector were mainly for the electrical and electronics, paper products and petroleum-related activities. Meanwhile, the services-related FDI were largely for the business and support services as well as the wholesale and retail trade sub-sectors. After adjustments for outflows due to repayment of loans to related companies and liquidation of foreign-owned businesses in Malaysia, net FDI inflows were sustained at RM1.7 billion (3Q 2004: RM1.9 billion).

Gross outflows for **overseas investment** increased significantly to RM16.5 billion (3Q 2004: RM5.2 billion), attributed mainly to higher short-term loan extension by non-resident controlled companies in Malaysia to their related companies abroad arising from the centralised treasury operation activities. Nevertheless, these outflows were largely offset by inflows arising from repayment of short-term inter-company loans during the quarter. Excluding the outflows for treasury operations, overseas investment from the

services sector was dominated by the utilities sub-sector, reflecting the acquisition of a power plant in Indonesia. Overseas investment by companies in the manufacturing sector was larger, channelled mainly to the semiconductor and other electronic components as well as petroleum-related manufacturing industries. Investments abroad by the oil and gas sector also increased, with the bulk of the investments channelled to United States and selected ASEAN and African countries. After adjusting for inflows due to repayment of short-term inter-company loans and liquidation of Malaysian-owned businesses abroad, overseas investment recorded a net outflow of RM3.5 billion (3Q 2004: -RM1.6 billion).

Portfolio investment recorded a net inflow of RM11.1 billion (3Q 2004: RM6.1 billion) reflecting renewed active foreign participation in both Malaysian equities and debt securities in tandem with improved investor sentiment following an upgrade in Malaysia's sovereign rating as well as expectations of realignments of exchange rates in the Asian region.

External debt remained manageable

Malaysia's total external debt increased to RM197.3 billion or US$51.9 billion as at end-2004 (3Q 2004: RM193.5 billion or US$50.9 billion), equivalent to 47.9% of GNP. The higher **medium and long-term external debt** at RM154.2 billion or US$40.6 billion (3Q 2004: RM149.9 billion), was attributable to net borrowings of external loans by both the public and private sectors. The public sector reversed to register a small net borrowing of RM0.4 billion, reflecting both lower drawdown and repayments of external loans. While the private sector recorded a higher gross borrowing of external loans, particularly by the oil and gas industry and manufacturing sector, repayments of loans also increased during the quarter.

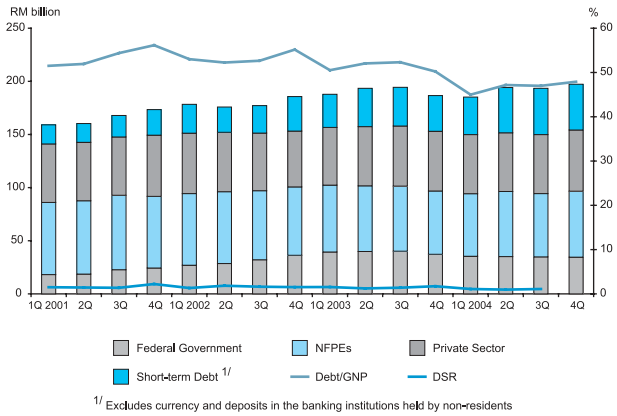
The total **short-term external debt** declined marginally to RM43.1 billion or US$11.3 billion (3Q 2004: RM43.6 billion), due

External Debt Outstanding

	2003	2004		
	End-Dec.	End-June	End-Sept.	End-Dec.p/
Medium & Long-term debt	152.9	151.6	149.9	154.2
Public sector	96.8	96.4	94.4	96.6
Private sector	56.1	55.2	55.5	57.6
Short-term debt[1]	33.7	42.6	43.6	43.1
Total external debt	186.6	194.2	193.5	197.3
- US$ billion equivalent	49.1	51.1	50.9	51.9

[1] Excludes currency and deposits held by non-residents with banking institutions.
p/ Preliminary
Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

External Debt Outstanding

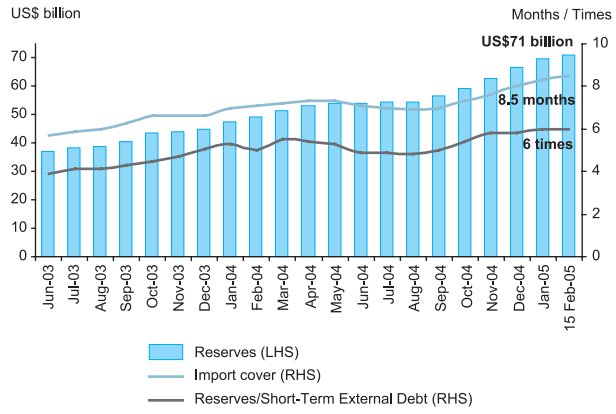


mainly to the lower short-term debt of the non-bank private sector. As at end-2004, the short-term debt remained low, accounting for 21.8% of total external debt, and is about 17% of the net international reserves.

International reserves strengthened to record level

The international reserves of Bank Negara Malaysia strengthened further by RM37.4 billion (US$9.8 billion) in the fourth quarter of 2004 to a record level of RM253.5 billion (US$66.7 billion) as at 31 December 2004. The increase during the quarter was attributed mainly to higher repatriation of export earnings, as well as higher inflows of foreign direct investment and portfolio funds. The reserves level has also taken into account the quarterly adjustment of the foreign exchange revaluation gain amounting to US$2.6 billion. Meanwhile, outflows reflected mainly higher payment for imports of goods and services, year-end repatriation of profits and dividends, and some repayments of external loans.

Net International Reserves (as at end period)



The reserves increased further to RM269.6 billion (US$71 billion) as at 15 February 2005, supported mainly by sustained repatriation of export earnings. The reserves level is sufficient to finance 8.5 months of retained imports and is 6 times the short-term external debt.

Larger fiscal deficit

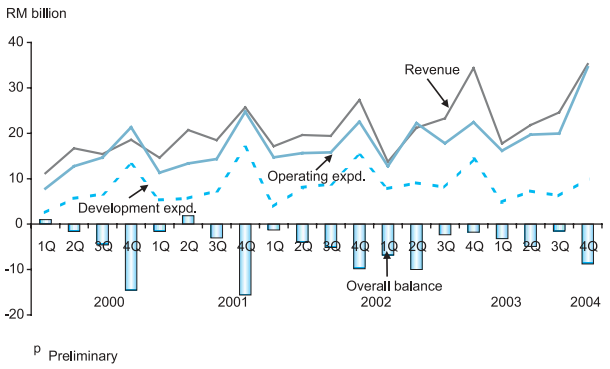
The Federal Government recorded a larger fiscal deficit of RM8.8 billion in the fourth quarter of 2004, due to higher operating expenditure. Higher disbursements were recorded for payment of emoluments due the to payment of bonuses, pensions and gratuities, payment of oil subsidies as

Federal Government Finance

	2003		2004		
	4Q	Jan.-Dec.	3Q	4Q	Jan.-Dec.[p]
	RM billion				
Revenue	34.4	92.6	24.6	35.2	99.4
% growth	*25.8*	*10.9*	*5.5*	*1.8*	*7.1*
Operating expenditure	22.4	75.2	19.9	34.5	90.3
% growth	*-0.5*	*9.5*	*11.9*	*53.9*	*20.1*
Current account	**12.0**	**17.4**	**4.6**	**0.7**	**9.0**
% of GDP	***11.4***	***4.4***	***4.0***	***0.6***	***2.0***
Gross development expenditure	14.3	39.4	6.2	9.9	28.3
% growth	*-5.5*	*9.4*	*-23.0*	*-30.8*	*-28.1*
Loan recoveries	0.6	1.0	0.1	0.4	0.8
Overall balance	**-1.8**	**-20.9**	**-1.5**	**-8.8**	**-18.4**
% of GDP	***-1.7***	***-5.3***	***-1.3***	***-7.5***	***-4.1***
Memo item:					
Total gross expenditure	36.8	114.6	26.2	44.4	118.6
% growth	*-2.5*	*9.5*	*1.0*	*20.9*	*3.5*
Total Federal Government debt (as at end period)	188.8	188.8	204.4	216.5	216.5
% of GDP	*47.9*	*47.9*	*45.7*	*48.5*	*48.4*
Domestic debt	151.5	151.5	169.5	182.0	182.0
% of GDP	*38.4*	*38.4*	*37.9*	*40.7*	*40.7*
External debt	37.3	37.3	34.9	34.5	34.5
% of GDP	*9.5*	*9.5*	*7.8*	*7.7*	*7.7*

p Preliminary

Federal Government Finance [p]



[p] Preliminary

well as tax refunds. Revenue performance remained favourable, reflecting higher collections from income taxes and most major categories of indirect taxes. Given the ample liquidity condition in the domestic banking system, the fiscal deficit was funded from domestic sources. As at end-2004, total outstanding debt of the Federal Government amounted to RM216.5 billion or 48.4% of GDP. The external debt of the Federal Government was lower and accounted for 17.5% of the nation's outstanding external debt or 7.7% of GDP. Based on preliminary data, a fiscal deficit of 4.1% of GDP was recorded in 2004.