

## DEVELOPMENTS IN THE MALAYSIAN ECONOMY

### Growth improved in the third quarter

In the third quarter of 2011, the global economy continued to be confronted by a number of challenges. Continuing uncertainties in financial markets, unfavourable fiscal conditions and weaknesses in labour markets in the advanced economies continued to pose risks to growth of the emerging economies, like Malaysia. Despite the challenging environment, the Malaysian economy registered a higher growth of 5.8% (2Q 11: 4.3%), due to stronger domestic demand. The robust domestic demand was driven by an expansion in both household and business spending as well as higher public sector expenditure. On the supply side, most economic sectors recorded improvements in growth during the quarter, with the manufacturing sector recording a significantly better performance supported by firm regional demand for resource-based products, coupled with the normalisation in supply chain disruptions arising from the Japan natural disaster.

### Domestic demand expanded at a faster pace

**Domestic demand** expanded by 9.0% in the third quarter (2Q 11: 5.6%). Growth was driven by the expansion in both household and business spending and higher public sector expenditure.

**Private consumption** recorded a strong growth of 7.3% (2Q 11: 6.4%) amid favourable income growth as labour market conditions remained stable and civil servants benefited from the half-month bonus payment. Firm commodity prices continued to support rural household income. Improved consumer sentiments, as reflected by the increase in the 3Q MIER Consumer Sentiments Index (108.7 points, 2Q 11: 107.9 points), also supported spending during the period. Major consumption indicators showed sustained increase in consumer spending. These include sales of food and beverages, sales of new passenger cars, imports of consumption goods, bank lending to households and credit card spending.

**Public consumption** expanded by 21.7% (2Q 11: 6.6%) following higher expenditure on emoluments and supplies and services, as

### GDP by Expenditure Components (at constant 2000 prices)

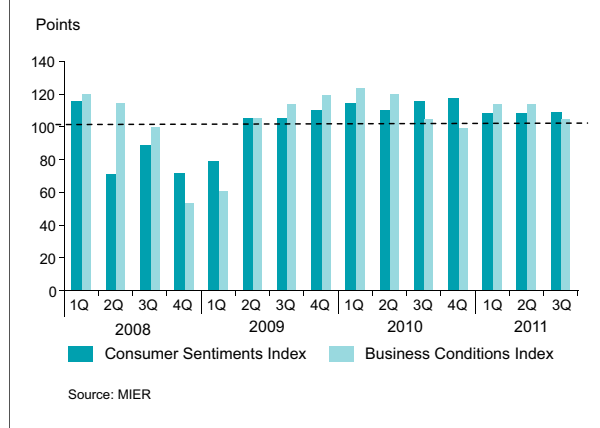
	2010		2011		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
Aggregate Domestic Demand (excluding stocks)	4.9	5.9	7.3	5.6	9.0
Consumption	3.3	4.8	7.6	6.4	9.9
<i>Private sector</i>	6.7	6.4	6.7	6.4	7.3
<i>Public sector</i>	-9.8	0.1	11.7	6.6	21.7
Gross Fixed Capital Formation	10.1	10.0	6.5	3.2	6.1
Net Exports	-30.8	-19.2	-39.6	17.2	18.1
<i>Exports of Goods and Services</i>	6.8	1.7	1.4	4.1	4.2
<i>Imports of Goods and Services</i>	11.2	3.5	8.4	3.2	3.2
<b>GDP</b>	<b>5.3</b>	<b>4.8</b>	<b>5.2</b>	<b>4.3</b>	<b>5.8</b>

Source: Department of Statistics, Malaysia

well as a bonus payment during the quarter. This reflected the continued efforts by the Government to improve the public delivery services through repairs and maintenance of public goods and provision of essential services such as healthcare and education.

**Gross fixed capital formation** increased by 6.1% in the third quarter (2Q 11: 3.2%), supported by higher public sector capital spending, particularly the non-financial public enterprises (NFPEs) and continued expansion in private sector investment. The latter benefited from continued growth in domestic demand and positive business sentiments. It also reflected on-going exploration and development activity in the oil and gas industry and the expansion in telecommunication sector. New capacity continued to be added in the renewable energy and medical equipment industries. Major investment indicators such as sales of commercial vehicles, production and sales of construction-related materials and bank lending to businesses exhibited steady growth, pointing to continued expansion in private sector capital spending. Business sentiments were positive as the MIER Business Conditions Index remained above the 100-point benchmark level (104.5 points, 2Q 11: 114.0 points). The bulk of government development expenditure in the third quarter was channelled into the public utilities, education, transportation, and trade and industry sectors, while the NFPEs' investments were channelled mainly into the oil and gas, utilities and transportation sectors.

### Businesses and consumers remained optimistic



### Growth strengthened in major economic sectors

On the supply side, growth in most economic sectors strengthened in the third quarter, led by higher growth in the services and manufacturing sectors. The better performance of the services sector was supported mainly by domestic-driven activity while in the manufacturing sector, growth reflected improvements in the supply chain and the higher output of domestic-oriented industries. The construction sector also registered a higher growth, supported by the civil engineering sub-sector. The agriculture sector expanded further, while the mining sector contracted at a slower pace.

The **services sector** grew by 7.0% in the third quarter of 2011 (2Q 11: 6.8%), contributing 4.0 percentage points to overall growth. Growth was supported mainly by stronger domestic demand. The **wholesale and retail trade** sub-sector advanced by 9.0% (2Q 11: 7.3%). Growth in the retail segment remained resilient, as a result of firm private consumption. The increase in private consumption also supported continued growth in the **accommodation and restaurant** sub-sector (5.4%; 2Q 11: 5.6%). The **finance and insurance** sub-sector expanded by 4.6% (2Q 11: 5.6%), with continued growth in net interest and fee-based income arising from loan growth. The **real estate and business services** sub-sector registered a growth of 6.7% (2Q 11: 7.6%), underpinned by favourable capital market-related activity during the quarter.

### GDP by Economic Activity (at constant 2000 prices)

	2010		2011		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
Agriculture	3.0	-3.9	-0.2	6.9	8.2
Mining	-0.7	-1.2	-4.2	-9.2	-6.1
Manufacturing	7.6	6.2	5.5	2.1	5.1
Construction	2.8	5.6	3.8	0.6	3.0
Services	5.3	6.1	7.0	6.8	7.0
<b>Real GDP (Annual Change)</b>	<b>5.3</b>	<b>4.8</b>	<b>5.2</b>	<b>4.3</b>	<b>5.8</b>
<b>Real GDP (Preceding Change)</b>	<b>2.3</b>	<b>1.7</b>	<b>-2.5</b>	<b>2.8</b>	<b>3.7</b>

Source: Department of Statistics, Malaysia

### Performance of the Services Sector (value added at constant 2000 prices)

	Share 2010 (%)	2010		2011		
		3Q	4Q	1Q	2Q	3Q
		Annual change (%)				
<b>Intermediate Services</b>	<b>43.7</b>	<b>6.7</b>	<b>6.0</b>	<b>6.8</b>	<b>6.0</b>	<b>6.0</b>
Finance & insurance	20.3	6.4	3.7	6.8	5.6	4.6
Real estate & business services	9.5	6.3	8.7	8.8	7.6	6.7
Transport & storage	6.6	5.6	5.2	4.3	4.7	6.1
Communication	7.4	9.2	9.8	6.4	6.4	8.7
<b>Final Services</b>	<b>56.3</b>	<b>4.2</b>	<b>6.3</b>	<b>7.1</b>	<b>7.5</b>	<b>7.9</b>
Wholesale & retail trade	23.6	5.7	8.3	6.8	7.3	9.0
Accommodation & restaurant	4.2	5.1	3.7	4.0	5.6	5.4
Utilities	5.2	3.8	4.2	1.3	2.4	4.6
Government services	13.0	2.0	6.1	13.7	12.8	10.7
Other services	10.2	3.7	3.9	3.9	4.6	4.3
<b>Total Services</b>	<b>100.0</b>	<b>5.3</b>	<b>6.1</b>	<b>7.0</b>	<b>6.8</b>	<b>7.0</b>

Source: Department of Statistics, Malaysia

### Selected Quarterly Indicators in the Services Sector

	2010			2011		
	2Q	3Q	4Q	1Q	2Q	3Q
<b>Index</b>						
MIER Consumer Sentiments Index	110.4	115.8	117.2	108.2	107.9	108.7
MIER Retail Trade Index	134.1	140.0	132.0	99.1	120.8	150.0
MIER Tourism Market Index	118.2	118.8	124.6	113.1	125.4	115.2
<b>Annual change (%)</b>						
Tourist arrivals	3.9	5.6	1.2	-3.7	-4.8	n.a.
Total passenger traffic at all airports	14.1	10.0	6.3	11.8	13.4	10.8
Total consumption credit outstanding	10.6	10.7	9.8	9.5	8.7	8.5
Loans outstanding to the wholesale & retail trade, hotels & restaurants	8.6	7.3	7.5	7.2	6.8	9.6
Imports of consumption goods	12.8	2.8	6.9	5.8	17.5	26.5
Total sales of motor vehicles	17.4	3.7	9.3	7.5	-9.7	0.6
Container cargo handled (Port Klang and PTP)	21.3	10.9	9.6	14.4	9.6	9.8

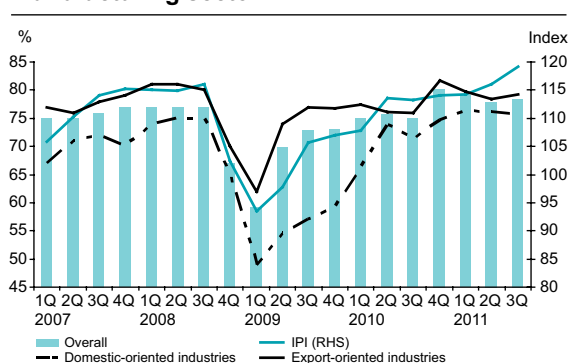
Source: Various sources

In the **manufacturing sector**, value-added growth increased to 5.1% (2Q 11: 2.1%), due to improvements in the production of both domestic-oriented and **export-oriented industries**. In the export-oriented industries, growth was supported by the primary-related cluster with the chemicals and chemical products industry recording a faster expansion during the quarter, driven by firm regional demand. Output of E&E continued to decline, but at a slower pace, as sustained regional demand for semiconductors more than offset the double-digit decline in the production of computers and parts. On the other hand, the robust performance of **domestic-oriented industries** cluster reflected the turnaround in the consumer-related cluster and further strengthening of the construction-related cluster. The turnaround in the consumer-related cluster was due mainly to the gradual normalisation in the production of transport

equipment, as global automotive supply chain pressures continued to recede.

Overall capacity utilisation rate in the manufacturing sector was sustained (78%; 2Q 11: 78%). Export- and domestic-oriented industries operated at 79% and 76% of total capacity respectively during the quarter (2Q 11: 78% and 76% respectively).

### Capacity utilisation rate in the manufacturing sector\*



\* Beginning 2009, the capacity utilisation rate in the manufacturing sector has been rebased from value-add in year 2004 to value-add in year 2006

Source: Bank Negara Malaysia & Department of Statistics, Malaysia

### Performance of the Manufacturing Sector

	2010		2011		
	3Q	4Q	1Q	2Q	3Q
<b>Annual Change (%)</b>					
Value Added (at constant 2000 prices)	7.6	6.2	5.5	2.1	5.1
Overall Production <sup>1</sup>	7.2	6.6	5.9	2.2	5.2
<b>Export-oriented industries</b>	<b>6.4</b>	<b>4.6</b>	<b>5.1</b>	<b>1.7</b>	<b>3.8</b>
<b>Electronics and electrical products cluster</b>	<b>9.6</b>	<b>0.1</b>	<b>-5.3</b>	<b>-5.5</b>	<b>-0.5</b>
<i>Of which:</i>					
Electronics	-7.4	-16.5	-18.1	-13.4	-3.8
Electrical products	44.6	34.8	17.9	6.8	4.0
<b>Primary-related industry cluster</b>	<b>4.7</b>	<b>7.2</b>	<b>11.3</b>	<b>6.0</b>	<b>6.3</b>
<i>Of which:</i>					
Chemicals and chemical products	8.0	4.7	5.5	6.1	9.2
Petroleum products	0.2	16.3	26.0	1.4	1.7
Rubber products	17.5	12.7	12.4	18.3	15.5
Off-estate processing products	2.9	-14.1	-7.4	17.6	9.9
<b>Domestic-oriented industries</b>	<b>9.8</b>	<b>13.6</b>	<b>8.9</b>	<b>3.8</b>	<b>9.7</b>
<b>Construction-related cluster</b>	<b>9.3</b>	<b>22.2</b>	<b>22.1</b>	<b>17.4</b>	<b>18.6</b>
<i>Of which:</i>					
Construction-related materials	14.8	20.4	15.3	15.4	13.0
Fabricated metal products	2.5	24.7	32.0	20.1	26.5
<b>Consumer-related cluster</b>	<b>10.1</b>	<b>7.6</b>	<b>-0.3</b>	<b>-6.2</b>	<b>3.3</b>
<i>Of which:</i>					
Transport equipment	20.7	20.8	-3.9	-14.7	-0.1
Food, beverage & tobacco products	11.1	9.3	6.7	2.1	4.6

<sup>1</sup> Industrial Production Index (2005=100)

Source: Department of Statistics, Malaysia

In the commodities sector, value-added growth of the **agriculture sector** increased to 8.2% (2Q 11: 6.9%), reflecting mainly continued strong production of both crude palm oil and natural rubber, as well as a turnaround in fisheries and forestry. However, the **mining sector** contracted by 6.1% (2Q 11: -9.2%), as the production of crude oil declined, attributed to shutdowns of several crude oil production facilities for maintenance purposes, declining production from mature fields and lower-than-expected production from new fields.

The **construction sector** registered a higher growth of 3.0% during the quarter (2Q 11: 0.6%), led by a turnaround in the civil engineering sub-sector. In addition to the progress made in major projects such as the Second Penang Bridge and KLIA2, the sub-sector was also supported by a pick-up in the implementation of other infrastructure projects. The residential sub-sector expanded further, underpinned by accommodative financing and stable labour market conditions while the non-residential sub-sector was supported by ongoing construction of commercial properties.

#### Performance of the Agriculture Sector

	2010		2011		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
<b>Value Added (at constant 2000 prices)</b>	<b>3.0</b>	<b>-3.9</b>	<b>-0.2</b>	<b>6.9</b>	<b>8.2</b>
<b>Industrial Crops</b>	<b>-1.9</b>	<b>-10.2</b>	<b>-8.3</b>	<b>9.9</b>	<b>10.4</b>
<b>Food Crops</b>	<b>8.7</b>	<b>4.5</b>	<b>8.9</b>	<b>3.5</b>	<b>5.8</b>
<b>Production</b>					
<i>Of which:</i>					
Crude palm oil	3.1	-15.1	-7.7	22.2	12.8
Rubber	0.4	6.1	2.5	16.8	15.8
Fish	6.1	2.4	2.0	-1.4	2.7
Livestock	2.6	-2.2	-6.3	6.7	5.6

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

#### Indicators for the Construction Sector

	2010		2011		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
New sales and advertising permits	8.6	13.0	25.1	11.6	6.0
Housing approvals	43.1	31.7	31.6	14.1	54.1
Production <sup>1</sup> of construction-related materials	9.3	22.2	22.1	17.4	18.6
Loans approved for construction	77.0	49.7	29.3	31.8	-20.5
Imports of construction materials and mineral products	13.7	23.1	-1.2	23.3	24.4

<sup>1</sup> Industrial Production Index (2005=100)

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

#### Performance of the Mining Sector

	2010		2011		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
<b>Value Added (at constant 2000 prices)</b>	<b>-0.7</b>	<b>-1.2</b>	<b>-3.0</b>	<b>-9.2</b>	<b>-6.1</b>
<b>Production</b>					
<i>Of which:</i>					
Crude oil and condensates	-5.5	-4.4	-7.3	-17.8	-9.9
Natural gas	5.6	0.2	-0.9	2.7	-1.5

Source: PETRONAS  
Department of Statistics, Malaysia

## Inflation increased in the third quarter

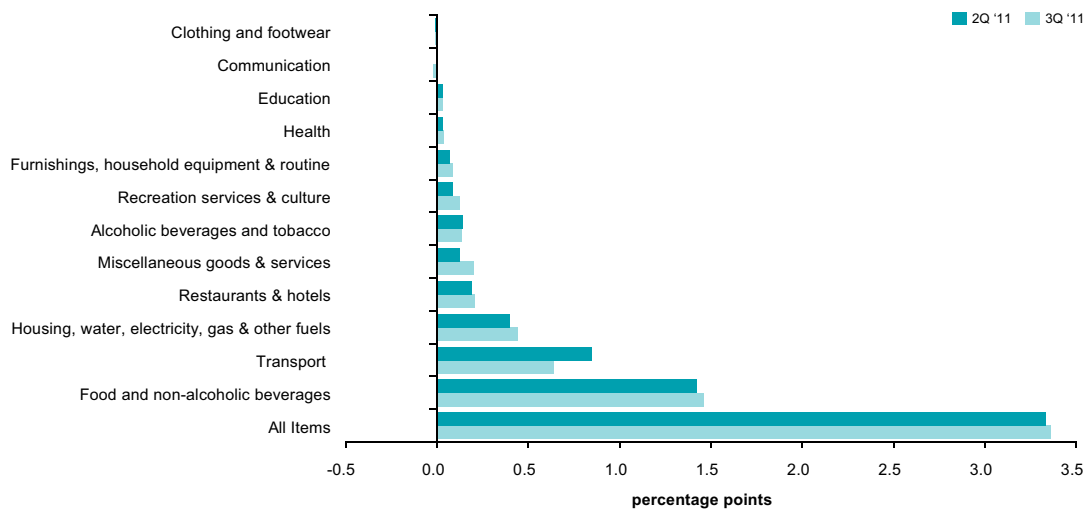
The headline inflation rate, as measured by the change in the Consumer Price Index (CPI), rose to 3.4% on an annual basis in the third quarter (2Q 11: 3.3%). The increase in consumer prices was largely the result of higher prices in the *food and non-alcoholic beverages* category, which rose by 4.8% (2Q 11: 4.7%). Higher food prices were mainly due to higher prices in the *food away from home* category which has been rising gradually since early 2011 (4.9%, 2Q 11: 4.4%). Prices in the fish and seafood category also recorded a higher inflation of 6.7% in the third quarter (2Q 11: 5.2%).

Prices in the *transport* category registered a slower increase of 4.3% (2Q 11: 5.7%) in

the third quarter, in the absence of further adjustments to the prices of RON95 petrol and diesel in 2011. Price increases in the third quarter were partially mitigated by declining prices in the *communication* and *clothing and footwear* categories.

The Producer Price Index (PPI) increased at a higher rate of 10.9% on an annual basis during the quarter (2Q 11: 10.2%). In terms of composition, the prices of commodity-related components were higher by 29.6% (2Q 11: 27.1%). Price increases in the non-commodity-related components of the PPI were unchanged at 2.3% (2Q 11: 2.3%). Prices of the local components of the PPI rose by 14.9% (2Q 11: 13.6%) while prices of the imported components of the PPI recorded a slower increase of 2.3% (2Q 11: 2.8%).

### Contribution to Consumer Price Inflation

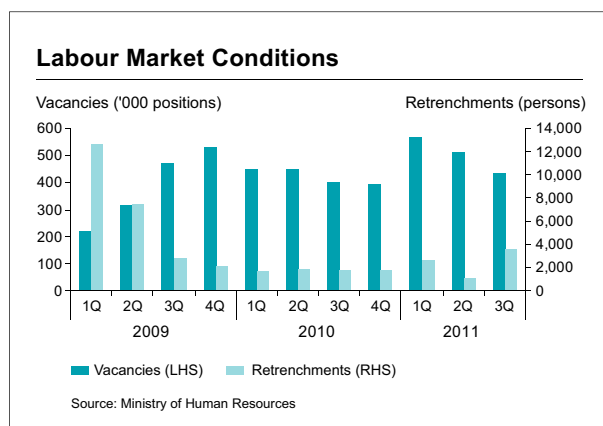


Source: Bank Negara Malaysia

## Stable labour market conditions

Overall labour market conditions remained stable, with the unemployment rate unchanged at 3.0% during the first two months of the quarter (2Q 11: 3.0%). Retrenchments increased to 3,605 persons (2Q 11: 1,105 persons), due mostly to one-off incidences in the month of August, in which a total of 2,545 workers were retrenched. Closures of several companies in the low end segment of the E&E and furniture industries accounted for 77% for total layoffs during the month. Despite the higher retrenchment, there was a net employment gain, mainly in the domestic-oriented sectors (July-Aug employment: 12.32 mil persons; 2Q 11: 12.13 mil persons).

Labour demand during the quarter remained high, as evidenced by the sustained high number of job vacancies posted in the JobsMalaysia Portal (431,437 positions; 2Q 11: 514,189 positions). The decline from the previous quarter reflects the lower number of job openings in the manufacturing and services sectors. Real wages in the manufacturing sector expanded at a slower pace as compared to the preceding quarter (3.9%; 2Q 11: 4.7%).



## External sector remained strong

**Overall balance of payments** remained strong, recording a surplus of RM10.9 billion in 3Q 2011 (2Q 11: RM61.7 billion), as the higher surplus in the current account more than offset the net outflow position in the financial account.

## Balance of Payments

	2010		2011		
	3Q	4Q	1Q	2Q	3Q
	RM billion				
<b>Current Account</b>	<b>20.2</b>	<b>23.8</b>	<b>25.9</b>	<b>23.4</b>	<b>26.6</b>
(% of GNI)	10.7	11.9	13.1	11.5	12.5
Goods	28.0	32.3	38.1	36.3	38.2
Services	1.1	0.9	-1.3	-0.7	-2.4
Income	-3.5	-4.0	-5.7	-6.9	-3.8
Current transfers	-5.3	-5.5	-5.2	-5.3	-5.3
<b>Financial Account</b>	<b>-3.3</b>	<b>1.2</b>	<b>-6.0</b>	<b>44.5</b>	<b>-23.3</b>
Direct investment abroad	-24.1	-8.9	-10.1	-7.9	-12.9
Foreign direct investment	6.5	10.7	11.1	10.2	5.2
Portfolio investment	18.3	3.5	8.4	48.1	-23.4
Financial derivatives	0.8	0.1	0.1	0.4	-0.3
Other investment	-4.8	-4.3	-15.5	-6.3	8.2
- Official sector	1.4	-0.2	-0.5	-0.2	-0.5
- Private sector	-6.2	-4.2	-14.9	-6.1	8.7
Errors & omissions	-15.9	-7.0	-4.0	-6.2	7.6
<b>Overall Balance</b>	<b>1.0</b>	<b>17.9</b>	<b>15.9</b>	<b>61.7</b>	<b>10.9</b>

Source: Department of Statistics Malaysia

The **current account** recorded a larger surplus of RM26.6 billion, equivalent to 12.5% of GNI due to higher goods surplus and lower income deficits. The goods surplus widened to RM38.2 billion in the 3Q 2011 as export expansion outpaced import growth. Gross exports recorded a stronger growth of 11.4% (2Q 11: 8.8%), reflecting further expansion in exports of non-E&E manufactured products and commodities. Import growth sustained at 7.4% (2Q 11: 7.4%).

## Trade Account

	2010		2011		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
<b>Gross Exports</b>	<b>9.0</b>	<b>3.3</b>	<b>4.9</b>	<b>8.8</b>	<b>11.4</b>
Manufactured	5.4	-0.3	-0.6	1.6	4.9
E&E	4.0	-8.0	-7.5	-5.0	-4.0
Non-E&E	7.1	10.2	7.5	9.4	15.8
Commodities	25.0	15.8	19.5	28.9	28.6
Agriculture	17.8	31.9	26.5	43.3	44.9
Minerals	30.1	5.7	14.8	19.3	17.8
<b>Gross Imports</b>	<b>16.4</b>	<b>10.2</b>	<b>12.5</b>	<b>7.4</b>	<b>7.4</b>
Capital goods	18.4	9.0	16.7	10.2	5.6
Intermediate goods	16.1	10.6	12.5	3.8	3.7
Consumption goods	2.8	6.9	5.8	17.5	26.5
<b>Trade balance (RM billion)</b>	<b>22.1</b>	<b>25.5</b>	<b>31.8</b>	<b>27.4</b>	<b>30.1</b>

Source: MATRADE and Department of Statistics, Malaysia

### Malaysia: Direction of Exports

	2010		2011			2010		2011		
	3Q	4Q	1Q	2Q	3Q	3Q	4Q	1Q	2Q	3Q
	Annual change (%)					Share of total exports (%)				
United States	-1.3	-11.0	-8.0	-7.1	-3.6	9.7	9.1	8.3	8.5	8.4
European Union (EU)	10.6	0.3	5.3	3.4	6.3	10.8	10.8	10.7	10.2	10.3
Selected ASEAN countries <sup>1</sup>	4.4	1.9	0.1	6.3	10.1	24.1	25.3	24.6	24.6	23.8
North East Asia	7.0	1.4	2.5	9.0	14.6	24.6	24.2	24.4	24.5	25.3
People's Republic of China	2.4	-0.5	3.9	9.7	27.1	12.4	12.3	12.9	12.5	14.2
Hong Kong SAR	-1.7	-0.7	0.0	-4.6	-2.2	5.2	5.0	4.6	4.7	4.5
Chinese Taipei	18.0	30.6	16.9	14.7	4.3	3.4	3.3	3.2	3.3	3.2
Korea	32.1	-8.3	-8.3	22.1	5.0	3.6	3.7	3.8	4.0	3.4
West Asia	-8.1	11.0	17.6	13.1	11.9	3.4	3.7	3.7	3.7	3.4
India	28.2	20.2	24.2	45.6	36.0	3.5	3.3	3.9	4.1	4.3
Total exports	9.0	3.3	4.9	8.8	11.4	100.0	100.0	100.0	100.0	100.0

<sup>1</sup>Singapore, Thailand, Indonesia, Philippines, Brunei Darussalam and Vietnam

Source: Department of Statistics, Malaysia

The stronger export performance reflected a broad-based expansion in all major export sectors. Higher growth in exports of non-E&E products was attributable mainly to higher demand for chemicals and chemical products; machinery appliances and parts, manufactures of metal, and iron and steel products. The elevated commodity prices and higher demand boosted exports of commodities. In contrast, exports of E&E products remained weak due to sluggish global demand for computers and computer-related products.

Growth of gross imports was sustained at 7.4% in 3Q 2011. Improvement in manufactured exports contributed to the sustained growth in intermediate imports. Consumption imports expanded strongly, particularly for transport equipment as well as food and beverages. Growth in capital imports moderated due to lower lumpy imports while capital goods for capacity expansion continued to increase.

During the quarter, the **income account** recorded a lower deficit of RM3.8 billion attributed to higher investment income accruing to Malaysian companies investing abroad and lower investment income accruing to foreign direct investors in Malaysia. The **services account** deficit widened to RM2.4 billion, attributable mainly to lower net receipts from travel amid higher net payments for imported transportation services.

The **financial account** turned around from a net inflow position to record a net outflow of RM23.3 billion in 3Q 2011 (2Q 11: +RM44.5 billion), due to large net outflows of portfolio investment and lower net inflows of foreign direct investment (FDI). **Portfolio investment** reversed to record a large net outflow of RM23.4 billion during the

quarter (2Q 11: +RM48.1 billion), largely on account of the liquidation of both debt and equity securities by foreign investors amid increased volatility in the global financial markets.

**FDI** recorded a lower net inflow of RM5.2 billion (2Q 11: +RM10.2 billion) as higher earnings retained by the multinational companies (MNCs) in Malaysia were partly offset by lower inflows of equity and other capital. During the quarter, the bulk of FDI inflows was mainly undertaken by companies in the manufacturing sector, particularly the E&E and petrochemical sub-sectors. There were also sizeable investments in the oil and gas sector, and finance and insurance sub-sector. Of significance, net FDI in the first nine months of the year was higher than the corresponding period in 2010, broadly indicating continued improvement in FDI flows in Malaysia (Jan-Sept 2011: +RM26.4 billion; Jan-Sept 2010: +RM18.6 billion).

**Direct investment abroad (DIA)** by Malaysian companies increased further, registering a net outflow of RM12.9 billion in the third quarter (2Q 11: -RM7.9 billion). The larger net DIA reflected higher outflows of equity capital and larger earnings retained abroad. These investments were mainly channelled into the finance and insurance sub-sector, and the oil and gas sector, mainly in the Asian countries.

**Other investment** recorded a net inflow of RM8.2 billion (2Q 11: -RM6.3 billion), reflecting mainly the turnaround from a net outflow position to a sizeable net inflow by the private sector, particularly the banking sector. The official sector recorded a small net outflow due to net external loan repayments.

## External debt increased

Malaysia's **total external debt** rose to RM262.6 billion or USD81.6 billion as at end-September 2011 (end-June 2011: RM241.6 billion or USD79.1 billion), equivalent to 32% of GNI.

The **medium- and long-term external debt** was higher at RM157.8 billion (end-June 2011: RM149.2 billion), reflecting the net borrowing position of the private sector and an increase in debt following the strengthening of major currencies against the ringgit during the quarter. In the private sector, the higher debt reflected mainly the intercompany borrowings in the E&E, healthcare and retail sub-sectors. Although the NFPEs recorded a net repayment position, the medium- and long-term debt of the public sector increased following the Federal Government's successful issuance of a dual tranche (5-year and 10-year) Wakala Global Sukuk of USD2 billion.

As at end-September 2011, the **short-term external debt** amounted to RM104.8 billion or

USD32.6 billion (end-June 2011: RM92.3 billion), reflecting mainly higher interbank borrowings. Short-term external debt accounted for 39.9% of total external debt. The latest international reserves position as at 31 October 2011 is 4.1 times the short-term external debt.

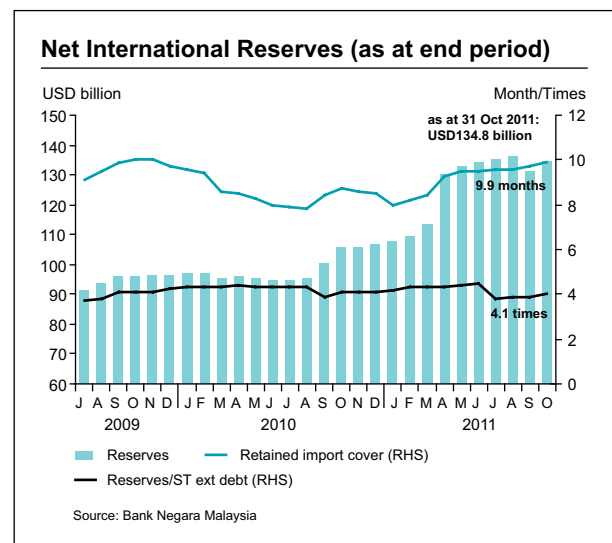
## International reserves remained high

The international reserves of Bank Negara Malaysia amounted to RM417.2 billion (equivalent to USD131 billion) as at 30 September 2011. The reserves level has taken into account the quarterly adjustment for foreign exchange revaluation gain following the strengthening of some major currencies against the ringgit during the quarter. As at 31 October 2011, the reserves position had increased to RM429.1 billion, equivalent to USD134.8 billion. The reserves position is sufficient to finance 9.9 months of retained imports and is 4.1 times the short-term external debt.

External Debt Outstanding	2010		2011	
	end-Sept <sup>1</sup>	end-June <sup>2</sup>	end-Sept <sup>2</sup>	
	RM billion			
Medium- and long-term debt	146.7	149.2	157.8	
Public sector	84.1	80.0	83.8	
Private sector	62.6	69.3	74.0	
Short-term debt <sup>1</sup>	80.7	92.3	104.8	
<b>Total external debt</b>	<b>227.4</b>	<b>241.6</b>	<b>262.6</b>	
USD billion equivalent	73.0	79.1	81.6	
External debt/GNI	30.8	29.5	32.0	
Reserves/Short-term external debt	3.9	4.4	4.1 <sup>2</sup>	

<sup>1</sup> Excludes currency and deposits held by non-residents with resident banking institutions  
<sup>2</sup> Based on reserves as at 31 October 2011  
<sup>3</sup> Preliminary

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia



## Larger fiscal deficit due to higher Government spending

The Federal Government's total expenditure was higher in the third quarter, resulting in a larger overall fiscal deficit of 6.0% of GDP. The increase in operating expenditure was for the payment of emoluments, subsidies, and grants and transfers to statutory bodies. Higher development expenditure was also recorded during the quarter, due mainly to increased spending in the trade and industry, and public utilities sectors. The deficit was financed from issuances of government securities and the proceeds from Wakala Global Sukuk issued on 6 July 2011. As at end-Sep 2011, total outstanding debt of the Federal Government amounted to RM440.8 billion or 52.0% of GDP.

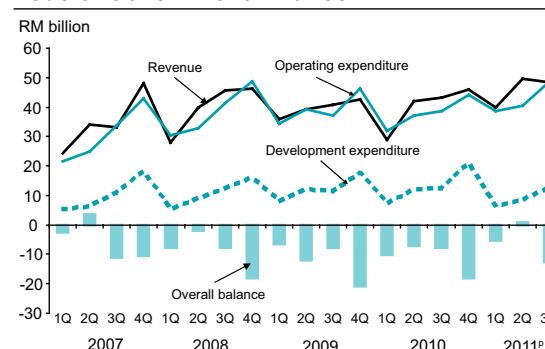
### Federal Government Finance

	2010		2011 <sup>¶</sup>		
	3Q	4Q	1Q	2Q	3Q
<b>RM billion</b>					
Revenue	43.1	45.8	39.8	49.6	48.3
% growth	5.7	7.6	38.4	18.3	12.1
Operating expenditure	38.6	44.1	38.7	40.6	48.8
% growth	3.9	-4.6	21.2	9.5	26.6
<b>Current account</b>	<b>4.6</b>	<b>1.7</b>	<b>1.1</b>	<b>9.1</b>	<b>-0.5</b>
% of GDP	<b>2.4</b>	<b>0.8</b>	<b>0.5</b>	<b>4.3</b>	<b>-0.2</b>
Gross development expenditure	12.5	20.8	6.4	8.3	12.6
% growth	8.0	18.6	-12.0	-31.3	0.3
<b>Overall balance</b>	<b>-7.8</b>	<b>-18.2</b>	<b>-5.2</b>	<b>0.8</b>	<b>-12.8</b>
% of GDP	<b>-4.0</b>	<b>-8.9</b>	<b>-2.6</b>	<b>0.4</b>	<b>-6.0</b>
<b>Memo item:</b>					
Total gross expenditure	51.1	64.9	45.1	48.9	61.4
% growth	4.9	1.8	15.0	-0.5	20.1
Total Federal Government debt (as at end-period)	397.8	407.1	430.2	437.2	440.8
% of GDP	51.9	53.1	50.8	51.6	52.0
Domestic debt	381.4	390.4	414.2	421.0	422.8
% of GDP	49.8	51.0	48.9	49.7	49.9
External debt	16.4	16.7	15.9	16.2	18.1
% of GDP	2.1	2.2	1.9	1.9	2.1

<sup>¶</sup> Preliminary

Source: Ministry of Finance

### Federal Government Finance



<sup>¶</sup> Preliminary

Source: Ministry of Finance