

DEVELOPMENTS IN THE MALAYSIAN ECONOMY

Strong growth in the first quarter

The Malaysian economy registered a strong growth of 10.1% in the first quarter of 2010 (4Q 09: 4.4%), contributed by continued expansion in domestic demand and stronger external demand. Domestic demand expanded further due mainly to higher private consumption and sustained support from public sector spending. The stronger external demand, which benefited from higher regional demand, had also provided further impetus to growth through its spill-over effects on employment, production and overall sentiments. On the supply side, all economic sectors recorded positive growth, led by strong performance in the manufacturing and services sectors.

Domestic demand expanded further

Domestic demand expanded by 5.4% in the first quarter (4Q 09: 2.8%), driven mainly by higher private consumption and sustained public sector spending. Gross fixed capital formation continued to improve, supported by sustained public sector capital spending and a modest recovery in private sector investment.

| | 2009 | | | 2010 |
|---|-------------------|------------|-------------|-------------|
| | 1Q | 4Q | Year | 1Q |
| | Annual change (%) | | | |
| Aggregate Domestic Demand (excluding stocks) | 3.1 | 2.8 | -0.5 | 5.4 |
| Consumption | -0.3 | 1.4 | 1.2 | 5.4 |
| Private sector | -0.6 | 1.6 | 0.7 | 5.1 |
| Public sector | 1.6 | 0.7 | 3.1 | 6.3 |
| Gross Fixed Capital Formation | -11.2 | 8.2 | -5.6 | 5.4 |
| Net Exports | 36.9 | -4.7 | 5.0 | -12.9 |
| Exports of Goods and Services | -15.5 | 6.0 | -10.4 | 19.3 |
| Imports of Goods and Services | -23.0 | 7.0 | -12.3 | 27.5 |
| GDP | -6.2 | 4.4 | -1.7 | 10.1 |

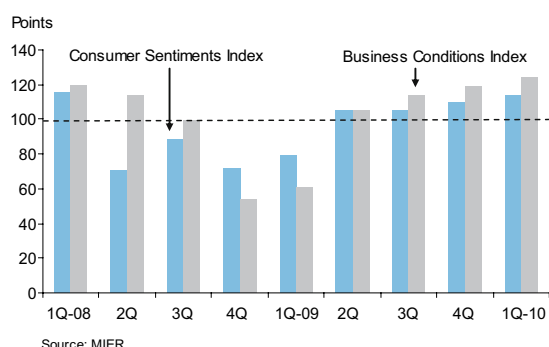
Source: Department of Statistics, Malaysia

Private consumption expanded by 5.1% in the first quarter (4Q 09: 1.6%), supported by improvement in the labour market and the low inflation. Higher consumer spending was reflected in the strong performance of major consumption indicators. These include credit card spending, sales of passenger cars, wages in the manufacturing sector, loans disbursed to households and imports of consumption goods. The MIER Consumer Sentiments Index increased to 114.2 points in the first quarter (4Q 09: 109.6 points), supported by households' improved outlook on the domestic economy.

Public consumption registered a growth of 6.3% during the quarter (4Q 09: 0.7%) due mainly to higher expenditure on emoluments as well as supplies and services.

Gross fixed capital formation increased by 5.4% in the first quarter (4Q 09: 8.2%), supported by sustained public sector capital spending and a modest recovery in private sector investment activity. The latter benefited from the significant increase in domestic production and exports, which led to improvements in both capacity utilisation and business sentiments. Major investment indicators such as imports of capital goods, sales of commercial vehicles, bank lending to businesses and manufacturing sales of construction-related materials expanded, pointing to improved private sector capital spending activity. Similarly, business sentiments improved further in the first quarter, as reflected by the increase in the MIER Business Conditions Index to 124 points (4Q 09: 118.8 points). Meanwhile, public sector capital spending continued to provide support to the domestic economy, with the bulk of the development expenditure channelled into education, transportation, and agriculture and rural development.

Business and consumer sentiments improved



Quarterly GDP by Economic Activity (at constant 2000 prices)

| | 2009 | | | 2010 |
|---------------------------|-------------------|------------|-------------|-------------|
| | 1Q | 4Q | Year | 1Q |
| | Annual change (%) | | | |
| Agriculture | -4.4 | 5.9 | 0.4 | 6.8 |
| Mining | -5.2 | -2.8 | -3.8 | 2.1 |
| Manufacturing | -17.9 | 5.0 | -9.4 | 16.9 |
| Construction | 1.2 | 9.3 | 5.8 | 8.7 |
| Services | -0.2 | 5.2 | 2.6 | 8.5 |
| Real GDP | | | | |
| (Annual Change) | -6.2 | 4.4 | -1.7 | 10.1 |
| Real GDP | | | | |
| (Preceding Change) | -7.6 | 2.0 | -1.7 | -2.6 |

Source: Department of Statistics, Malaysia

All sectors recorded positive growth

On the supply side, all economic sectors recorded positive growth during the quarter, led by strong performance in the manufacturing and services sectors. In the manufacturing and services sectors, all clusters and sub-sectors registered strong growth following improvements in both domestic and external demand conditions. The construction sector continued to expand at a strong pace of 8.7% during the quarter (4Q 09: 9.3%), supported by the implementation of construction-related projects under the second fiscal stimulus package and the Ninth Malaysia Plan. Meanwhile, the turnaround in the mining

sector largely reflected a strong pick-up in natural gas production. The agriculture sector expanded further, supported mainly by higher rubber production and a moderate increase in palm oil production.

Strong growth in the services sector

The **services sector** registered a higher growth of 8.5% in the first quarter (4Q 09: 5.2%). Growth in almost all sub-sectors strengthened, in line with continued improvements in both domestic and external demand conditions. The services sector remained the largest contributor to growth, with a contribution of 4.9 percentage points to overall GDP growth.

The **finance and insurance** sub-sector grew by 6.4% (4Q 09: 10.5%), following continued expansion in bank lending and favourable increase in fee-based income. Growth in the insurance segment was sustained, reflecting higher premium income. Meanwhile, the **real estate and business services** sub-sector recorded a higher growth of 14.2% (4Q 09: 7.2%), supported by strong capital market-related activity and higher property transactions during the quarter.

Growth in the **wholesale and retail trade** sub-sector also registered a higher growth of 9.6% (4Q 09: 3.6%), due to improved household consumption spending, including for durable goods such as motor vehicles. The **communication** sub-sector continued to record high growth amidst strong demand for broadband and mobile data services, spurred by the competitive packages offered by the telecommunication service providers.

The **transport and storage** sub-sector grew strongly by 9.2% (4Q 09: 2.6%), as the marked increase in trade activities resulted in more demand for cargo-related services. Growth in the **utilities** sub-sector also strengthened further, reflecting higher demand for electricity by the manufacturers during the quarter.

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

| | Share 2009 (%) | 2009 | | | 2010 |
|---------------------------------|----------------------|-------------------|------------|------------|------------|
| | | 1Q | 4Q | Year | 1Q |
| | | Annual change (%) | | | |
| Intermediate Services | 43.6 | -0.4 | 8.0 | 3.4 | 8.6 |
| Finance & insurance | 20.4 | 1.9 | 10.5 | 5.1 | 6.4 |
| Real estate & business services | 9.4 | -6.2 | 7.2 | 2.4 | 14.2 |
| Transport & storage | 6.6 | -4.0 | 2.6 | -2.8 | 9.2 |
| Communication | 7.2 | 4.9 | 7.1 | 6.0 | 6.8 |
| Final Services | 56.4 | 0.0 | 3.3 | 2.0 | 8.5 |
| Wholesale & retail trade | 23.2 | -1.9 | 3.6 | 1.2 | 9.6 |
| Utilities | 5.2 | -8.1 | 9.1 | 0.4 | 16.6 |
| Accommodation & restaurant | 4.3 | 2.1 | 2.2 | 2.8 | 4.9 |
| Government services | 13.2 | 1.9 | 0.4 | 2.0 | 8.1 |
| Other services | 10.5 | 5.1 | 4.2 | 4.4 | 4.4 |
| Total Services | 100.0 | -0.2 | 5.2 | 2.6 | 8.5 |

Source: Department of Statistics, Malaysia

Selected Quarterly Indicators in the Services Sector

| | 2009 | | | | 2010 |
|---|-------------------|-------|-------|-------|------------------|
| | 1Q | 2Q | 3Q | 4Q | 1Q |
| | Index | | | | |
| MIER Consumer Sentiment Index | 78.9 | 105.8 | 105.4 | 109.6 | 114.2 |
| MIER Retail Trade Index | 52.3 | 76.3 | 100.7 | 111.0 | 106.9 |
| MIER Tourism Market Index | 78.1 | 75.8 | 88.7 | 114.1 | 120.5 |
| | Annual change (%) | | | | |
| Tourist arrivals | 2.2 | 4.7 | 12.4 | 9.5 | 1.4 ¹ |
| Total passenger traffic at all airports | -4.6 | 5.2 | 10.4 | 15.8 | 20.3 |
| Total consumption credit outstanding | 8.5 | 6.8 | 6.6 | 7.7 | 9.5 |
| Loans outstanding to the wholesale & retail trade, hotels & restaurants | 3.5 | -1.8 | -4.1 | -1.1 | 4.9 |
| Imports of consumption goods | -4.3 | -8.3 | -4.4 | 6.3 | 18.5 |
| Total sales of motor vehicles | -8.1 | -11.1 | -3.5 | 17.6 | 22.7 |
| Container cargo handled (Port Klang and PTP) | -10.6 | -6.4 | -1.7 | 11.8 | 22.5 |

¹ January 2010

Source: Various sources

Very strong growth in the manufacturing sector

The recovery momentum in the manufacturing sector strengthened in the first quarter, with the sector registering a very strong growth of 16.9% (4Q 09: 5.0%). The continued recovery was broad-based, with all clusters registering better growth in line with the expansion in both external and domestic demand.

Growth in the **export-oriented industry** was led by the E&E cluster, which recorded a very strong growth of 37.2% (4Q 09: 1.8%), driven

in particular by higher regional demand for semiconductors and audio-visual products. Meanwhile, growth in the primary-related cluster continued to be driven by demand for chemical and rubber products.

Growth in the **domestic-oriented industry** also strengthened further, driven primarily by strong expansion in the construction-related cluster, particularly in the metal manufacturing industry. Production in the consumer-related cluster also expanded favourably, especially in transport equipment, due to the robust recovery in domestic motor vehicle sales.

Performance in the Manufacturing Sector

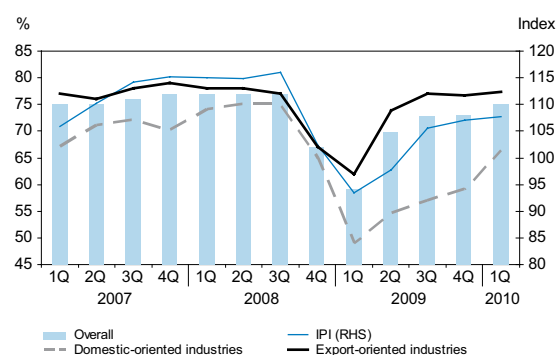
| | 2009 | | | 2010 |
|--|-------------------|------|-------|-------|
| | 1Q | 4Q | Year | 1Q |
| | Annual Change (%) | | | |
| Value Added (at constant 2000 prices) | -17.9 | 5.0 | -9.4 | 16.9 |
| Overall Production¹ | -18.8 | 4.4 | -10.0 | 15.2 |
| Export-oriented industries | -20.4 | 4.1 | -11.1 | 14.6 |
| Electronics and electrical products cluster | -35.4 | 1.8 | -22.8 | 37.2 |
| <i>Of which:</i> | | | | |
| Electronics | -36.3 | 0.8 | -24.6 | 25.5 |
| Electrical products | -33.2 | 4.0 | -18.8 | 65.2 |
| Primary-related industry cluster | -10.8 | 5.5 | -3.5 | 4.1 |
| <i>Of which:</i> | | | | |
| Chemicals and chemical products | -17.6 | 19.5 | -1.7 | 24.0 |
| Petroleum products | 2.9 | -6.9 | -0.8 | -22.1 |
| Rubber products | -21.2 | 16.2 | -3.0 | 36.1 |
| Off-estate processing | -8.0 | 8.5 | -2.1 | 4.3 |
| Domestic-oriented industries | -12.4 | 5.5 | -5.7 | 17.6 |
| Construction-related cluster | -21.3 | 2.5 | -11.4 | 21.4 |
| <i>Of which:</i> | | | | |
| Construction-related materials | -29.3 | -2.5 | -18.1 | 27.3 |
| Fabricated metal products | -7.6 | 10.1 | -1.1 | 13.8 |
| Consumer-related cluster | -5.4 | 7.8 | -1.2 | 15.1 |
| <i>Of which:</i> | | | | |
| Transport equipment | -10.7 | -8.3 | -12.4 | 37.3 |
| Food, beverage & tobacco products | -4.8 | 12.0 | 1.5 | 1.8 |

¹ Industrial Production Index (2005=100)

Source: Department of Statistics, Malaysia

Overall capacity utilisation rate in the manufacturing sector increased to 75% in the first quarter (4Q 09: 73%), reflecting the improving production levels in the sector. The export- and domestic-oriented industries were operating at 77% and 66% of total capacity respectively (4Q 09: 77% and 59% 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 2000 to value-add in year 2005

Source: Bank Negara Malaysia & Department of Statistics, Malaysia

Higher growth in the commodities sector

The **agriculture sector** expanded by 6.8% in the first quarter (4Q 09: 5.9%), supported mainly by higher production of industrial crops. Higher output of forestry and logging reflected increased production throughout the country, including in Sabah and Sarawak. The steady increase in rubber prices during the quarter to historical highs, due partly to concerns over the effects of adverse weather conditions, encouraged increased tapping activity resulting in higher rubber production, especially among smallholders. Growth in crude palm oil production, however, moderated following unfavourable weather conditions and the replanting exercise in 2009. The **mining sector** turned around to register a positive growth of 2.1% (4Q 09: -2.8%), due to the surge in the production of natural gas.

Performance of the Agriculture Sector

| | 2009 | | | 2010 |
|--|-------------------|------|-------|-------------------|
| | 1Q | 4Q | Year | 1Q |
| | Annual change (%) | | | |
| Value Added (at constant 2000 prices) | -4.4 | 5.9 | 0.4 | 6.8 |
| Industrial Crops | -13.9 | 5.4 | -4.5 | 8.0 |
| Food Crops | 9.1 | 6.6 | 7.5 | 5.6 |
| Production | | | | |
| <i>Of which:</i> | | | | |
| Crude palm oil | -3.9 | 6.4 | -1.0 | 1.9 |
| Rubber | -39.3 | 19.6 | -20.2 | 30.1 ¹ |
| Fish | 13.2 | 0.6 | 6.7 | 4.4 |
| Livestock | 0.2 | 13.0 | 7.6 | -5.2 |

¹ Jan-Feb 2010

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

Performance of the Mining Sector

| | 2009 | | | 2010 |
|--|-------------------|------|------|------|
| | 1Q | 4Q | Year | 1Q |
| | Annual change (%) | | | |
| Value Added (at constant 2000 prices) | -5.2 | -2.8 | -3.8 | 2.1 |
| Production | | | | |
| <i>Of which:</i> | | | | |
| Crude oil and condensates | -5.6 | -5.0 | -4.4 | -2.5 |
| Natural gas | -7.2 | 0.4 | -4.0 | 8.8 |

Source: PETRONAS
Department of Statistics, Malaysia

| Indicators for the Construction Sector | | | | |
|---|-------------------|-------|-------|-------------------|
| | 2009 | | | 2010 |
| | 1Q | 4Q | Year | 1Q |
| | Annual change (%) | | | |
| New sales and advertising permits | -25.5 | 100.8 | 12.3 | 32.0 |
| Housing approvals | -30.2 | 111.6 | 4.2 | 13.7 |
| Production ¹ of construction-related materials | -21.3 | 2.5 | -11.4 | 21.4 |
| Loans approved for construction | -48.2 | 14.6 | -19.1 | 40.5 |
| Imports of construction materials and mineral products | -20.5 | 11.1 | -5.6 | 48.1 ² |

¹ Industrial Production Index (2005=100)
² Jan-Feb 2010
Source: Ministry of Housing and Local Government and Department of Statistics, Malaysia

Sustained growth in the construction sector

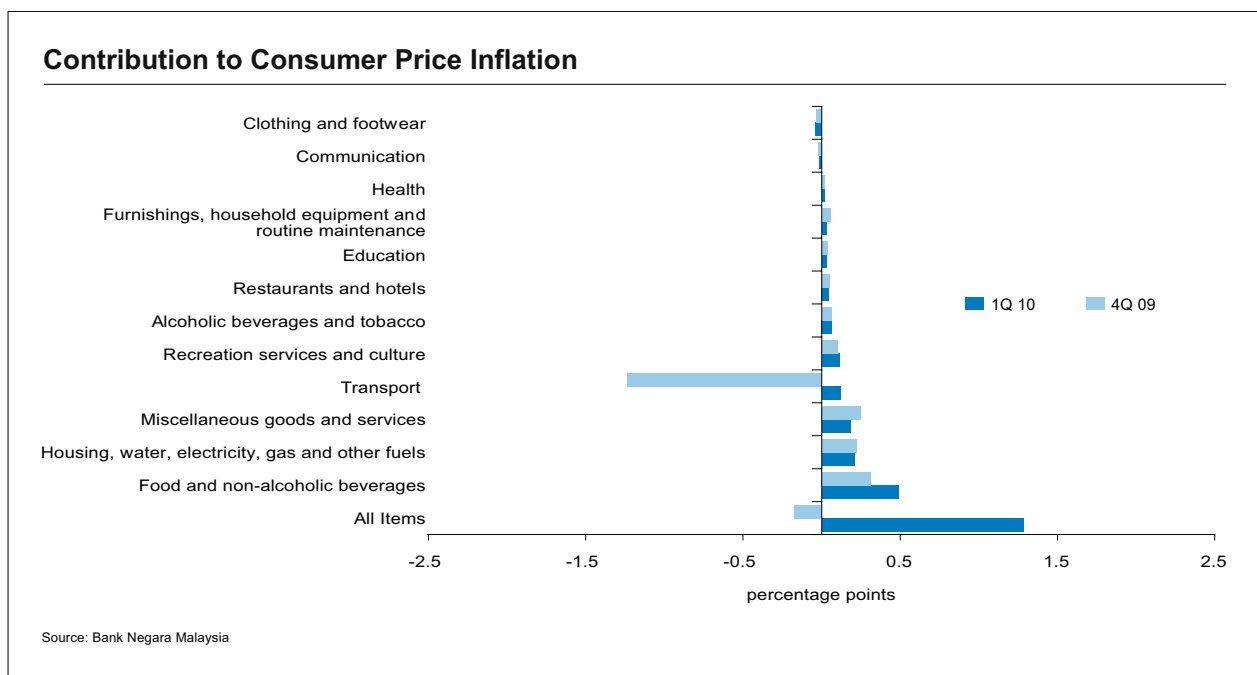
The **construction sector** expanded at a strong pace of 8.7% during the quarter (4Q 09: 9.3%), supported by the implementation of construction-related projects under the second fiscal stimulus package and the Ninth Malaysia Plan. The projects include road upgrading, repairs of schools and Government quarters, the double-track rail project, the second Penang Bridge and the new Low Cost Carrier Terminal (LCCT). Growth in the non-residential sub-sector also reflected the ongoing construction of office and retail spaces, especially in the Klang Valley. Meanwhile,

the residential sub-sector continued to expand, supported by better consumer sentiment and low interest rates.

Inflation turned positive in the first quarter

The headline inflation rate, as measured by the change in the Consumer Price Index (CPI), increased by 1.3% on an annual basis in the first quarter (4Q 09: -0.2%). The increase in consumer prices was attributed mainly to the price increase in *food and non-alcoholic beverages* (1Q 10: 1.4%, 4Q 09: 0.9%). The rate of the price increase in the *transport* category turned from negative to positive (1Q 10: 0.7%, 4Q 10: -7.0%), following the lapse of the high base effect caused by the upward adjustments to retail fuel prices in 2009. These price increases, however, were partially mitigated by declining prices in the *clothing and footwear* category amidst the Chinese New Year sales.

The Producer Price Index³ (PPI) increased to 6.4% on a yearly basis in the first quarter of 2010 (4Q 09: 0.1%). This was mainly the outcome of the 18.4% increase in the prices of commodity-related components (4Q 09: 0.3%). Prices in the non commodity-related components of the PPI also increased by 3.2% (4Q 09: 0.1%).

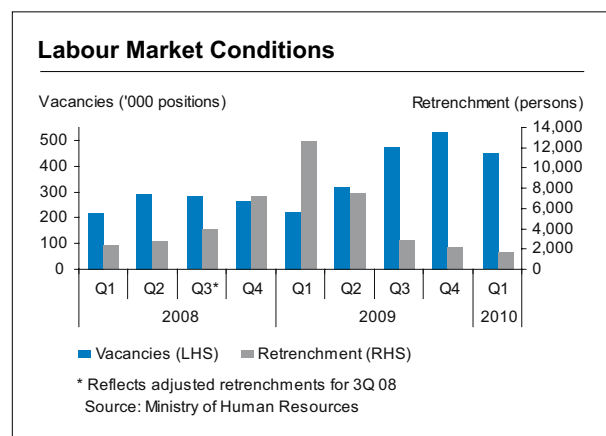


³ The Producer Price Index (PPI) has been rebased to year 2005 from 2000 previously, following the revision of the PPI basket

In terms of composition, both the local and imported components contributed to the higher PPI inflation. Prices in the local component of the PPI increased by 8.4% (4Q 09: -0.6%), while prices in the imported component of the PPI increased by 2.2% (4Q 09: 1.4%).

Improvement in labour market conditions

Conditions in the labour market improved in the first quarter as the number of retrenchments declined by 19.3% from the preceding quarter to 1,714 persons. Although the bulk of the retrenchments continued to be in the manufacturing sector (37%), the number of layoffs in this sector declined significantly in the first quarter (639 persons; 4Q 09: 1,354 persons) following a more upbeat outlook for the E&E industry. Likewise, retrenchments in the services sector also declined (362 persons; 4Q 09: 741 persons), particularly in the wholesale and retail trade, accommodation and restaurant sub-sector.



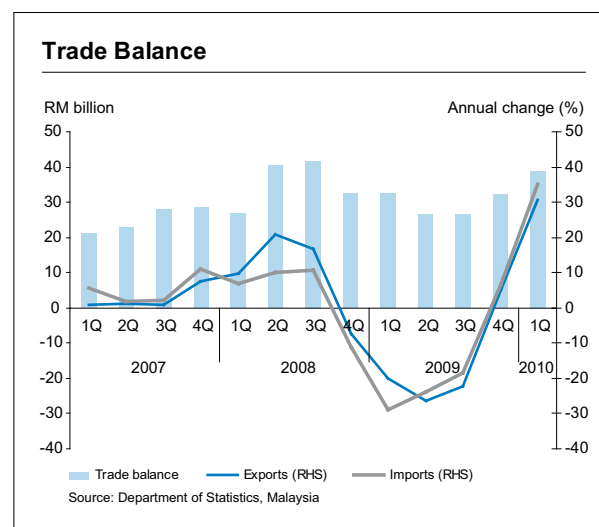
During the quarter, the number of vacancies posted in the JobsMalaysia Portal remained high at 450,042 positions (4Q 09: 531,694), with higher job openings in the agriculture, mining and construction sectors. Meanwhile, real wage per worker in the manufacturing sector increased by 15.4% (4Q 09: 5.9%), reflecting the effect of some salary increments as well as higher wages following the longer working hours instituted to meet the increase in production orders.

Strong expansion in exports and imports

The trade account surplus increased to RM39 billion in the first quarter (4Q 09: RM32.4 billion). Both gross exports and imports

expanded strongly, growing by 30.8% and 35.1% respectively (4Q 09: 5.1% and 6.7% respectively), reflecting the improvement in global conditions and strengthening of domestic demand, and to some extent, the low base of the same period last year.

The higher growth in **gross exports** reflected improvement in all product segments. Manufactured exports increased by 32.7% (4Q 09: 11.8%), led mainly by the E&E products, particularly exports of semiconductors to the region. Exports of non-E&E products also expanded further, following higher commodity prices and sustained demand from regional countries for resource-based products. Likewise, commodity exports turned around to register a double-digit growth, supported by the higher commodity prices as well as larger export volumes for both agriculture and minerals.



Trade Account

| | 2009 ¹ | | | 2010 ¹ |
|-----------------------------------|-------------------|-------------|--------------|-------------------|
| | 1Q | 4Q | Year | 1Q |
| | Annual change (%) | | | |
| Gross Exports | -20.0 | 5.1 | -16.6 | 30.8 |
| Manufactured | -19.1 | 11.8 | -12.5 | 32.7 |
| E&E | -19.1 | 17.2 | -11.0 | 34.6 |
| Non-E&E | -19.0 | 4.7 | -14.4 | 30.3 |
| Commodities | -19.2 | -14.2 | -27.8 | 30.1 |
| Agriculture | -28.9 | 8.2 | -21.6 | 52.2 |
| Minerals | -11.1 | -27.2 | -32.6 | 15.6 |
| Gross Imports | -29.0 | 6.7 | -16.6 | 35.1 |
| Capital goods | -7.8 | 17.4 | -5.9 | 9.6 |
| Intermediate goods | -34.9 | 0.1 | -21.6 | 37.9 |
| Consumption goods | -4.3 | 6.3 | -2.7 | 18.5 |
| Trade balance (RM billion) | 32.7 | 32.4 | 118.4 | 39.0 |

¹ Malaysia's trade classification has been revised in April 2008 to reflect the revisions of the international trade codes i.e. Harmonised System (HS), ASEAN Harmonized Tariff Nomenclature (AHTN) and Standard International Trade Classification (SITC)

Source: MATRADE and Department of Statistics, Malaysia

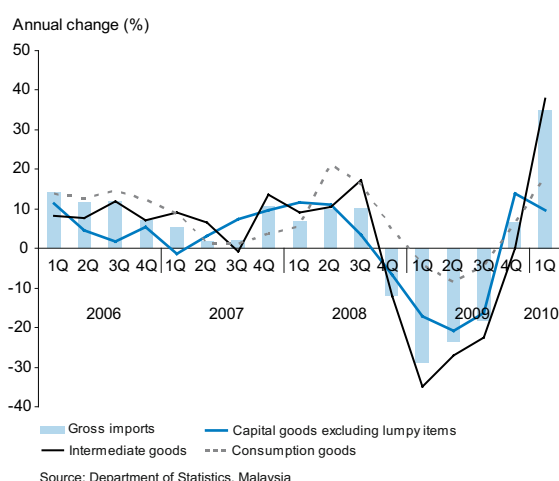
Malaysia: Direction of Exports

| | 2009 | | | 2010 | 2009 | | | 2010 |
|---------------------------------------|-------------------|------------|--------------|-------------|----------------------------|--------------|--------------|--------------|
| | 1Q | 4Q | Year | 1Q | 1Q | 4Q | Year | 1Q |
| | Annual change (%) | | | | Share of total exports (%) | | | |
| United States | -31.0 | -7.4 | -26.8 | 10.6 | 11.1 | 10.6 | 10.9 | 9.4 |
| European Union (EU) | -28.0 | 0.9 | -19.9 | 29.1 | 10.7 | 11.1 | 10.8 | 10.6 |
| Selected ASEAN countries ¹ | -26.8 | 11.7 | -16.8 | 38.5 | 24.4 | 25.7 | 25.5 | 25.9 |
| North East Asia | -5.9 | 42.4 | -1.5 | 47.1 | 22.3 | 24.6 | 23.8 | 25.1 |
| People's Republic of China | -1.8 | 61.0 | 6.4 | 67.9 | 10.2 | 12.8 | 12.2 | 13.1 |
| Hong Kong SAR | 3.5 | 37.8 | 1.9 | 36.8 | 4.7 | 5.2 | 5.2 | 4.9 |
| Chinese Taipei | -18.4 | 24.7 | -11.1 | 50.8 | 2.4 | 2.6 | 2.6 | 2.8 |
| Korea | -14.2 | 15.2 | -18.5 | 12.5 | 5.0 | 4.0 | 3.8 | 4.3 |
| West Asia | -12.7 | -10.2 | -18.0 | 17.0 | 3.7 | 3.4 | 3.9 | 3.3 |
| India | -14.9 | -27.6 | -31.3 | 17.3 | 3.7 | 2.8 | 3.1 | 3.3 |
| Total exports | -20.0 | 5.1 | -16.6 | 30.8 | 100.0 | 100.0 | 100.0 | 100.0 |

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

Source: Department of Statistics, Malaysia

Import Growth



The significant increase in **gross imports** was due to the strong growth in intermediate imports, coupled with a pick-up in the import of consumption goods and sustained capital imports. The import of intermediate goods registered a sharp growth of 37.9% (4Q 09: 0.1%), moving in tandem with the recovery in manufacturing activity. Meanwhile, the positive growth in capital and consumption imports reflected the strengthening of domestic demand amidst improving business and consumer sentiments.

FDI inflows remained broad-based while portfolio investment recorded a net inflow

On a cash basis, gross inflows of **foreign direct investment (FDI)**⁴ amounted to RM4.6 billion in the first quarter (4Q 09: RM10.1 billion). FDI inflows continued to be channelled mainly into the manufacturing, services, and oil and gas sectors. FDI in the manufacturing sector was mainly for E&E and petroleum and petrochemical industries. Meanwhile, inflows of FDI into the services sector were directed largely to the finance and insurance as well as transport and communication sub-sectors. **Net FDI** recorded an outflow of RM1.5 billion (4Q 09: +RM4.4 billion) as the net repayments of inter-company loans more than offset the net inflows of equity capital.

Net direct investment abroad (DIA) by Malaysian companies amounted to RM2.3 billion in the first quarter (4Q 09: -RM5.2 billion), attributed to lower net extension of inter-company loans to subsidiaries abroad and lower outflows of equity capital. The bulk of these investments was undertaken largely by companies in the services sector, particularly those in the finance and insurance, business services and telecommunication sub-sectors.

⁴ The statistics for FDI on a cash basis does not include retained earnings and investment in the form of imported machinery and equipment.

Meanwhile, **portfolio investment** turned around to record a net inflow of RM3.9 billion in the first quarter (4Q 09: -RM2.6 billion). The inflows of portfolio funds largely reflected stronger foreign participation in the domestic debt market. The inflows reflected improved investor sentiments on a stronger growth prospect of the Malaysian economy.

External debt declined

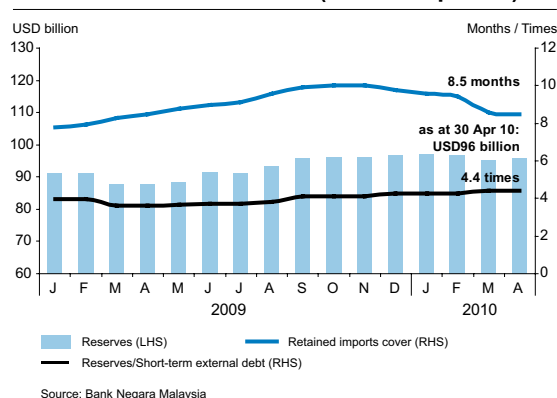
As at end-March 2010, Malaysia's total external debt declined to RM218 billion or USD66 billion (end-December 09: RM233.1 billion or USD67.4 billion), equivalent to 30% of GNI. The **medium- and long-term external debt** declined to RM147.3 billion, reflecting mainly the strengthening of the ringgit against the USD during the quarter (+4.6%). The lower medium- and long-term debt was also attributable to net repayments by both the public and private sectors. The Federal Government and the private sector continued to record net repayments. This decline in drawdown was also evident in the NFPEs, which registered a marginal net repayment for the quarter.

As at end-March 2010, the total **short-term external debt** declined to RM70.8 billion or USD21.4 billion. The short-term external debt accounted for only 32.5% of total external debt and was 22.7% of the net international reserves.

International reserves

The international reserves of Bank Negara Malaysia amounted to RM311.7 billion (equivalent to USD95.3 billion) as at 31 March 2010. The reserves level had taken into account the quarterly adjustment for foreign exchange revaluation loss, following the strengthening of the ringgit against all major currencies during the quarter. As at 30 April 2010, the reserves position amounted to RM313.9 billion (equivalent to USD96 billion), sufficient to finance 8.5 months of retained imports and is 4.4 times the short-term external debt.

Net International Reserves (as at end-period)



External Debt Outstanding

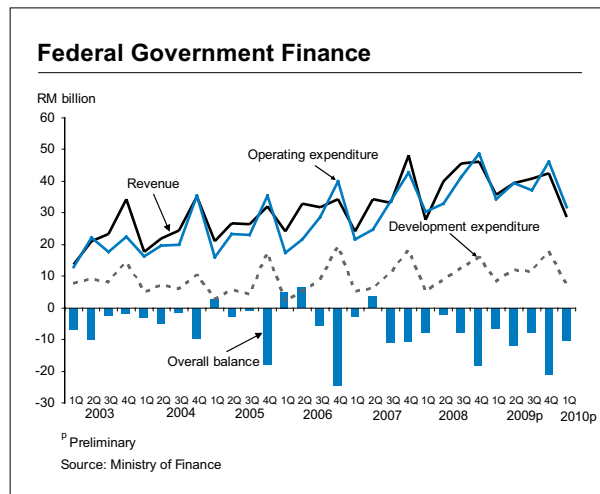
| | 2009 | | 2010 |
|------------------------------|-------------------|-------|-------|
| | 1Q | 4Q | 1Q* |
| | RM billion | | |
| Medium- and long-term debt | 158.5 | 155.4 | 147.3 |
| Public sector | 84.0 | 85.4 | 80.9 |
| Private sector | 74.4 | 70.0 | 66.4 |
| Short-term debt ¹ | 88.1 | 77.8 | 70.8 |
| Total external debt | 246.6 | 233.1 | 218.0 |
| USD billion equivalent | 66.8 | 67.4 | 66.0 |

¹ Excludes currency and deposits held by non-residents with resident banking institutions
* Preliminary

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

Larger fiscal deficit due to lower revenue

The Federal Government recorded a fiscal deficit of RM10.2 billion or 5.6% of GDP in the first quarter. Revenue declined at an annual rate of 19.9%, due mainly to the higher base effect as there was a one-off investment income received in the first quarter of 2009. In terms of spending, the Federal Government's total expenditure remained significant and was mainly channelled to the education, health and defence sectors. The fiscal deficit was fully financed from domestic borrowings. As at end-March 2010, total outstanding debt of the Federal Government amounted to RM378.3 billion or 50.6% of the estimated 2010 GDP.



Federal Government Finance^p

| | 2009 | | | 2010 |
|---|-------------|--------------|--------------|--------------|
| | 1Q | 4Q | Year | 1Q |
| | RM billion | | | |
| Revenue | 35.9 | 42.6 | 158.6 | 28.7 |
| % growth | 28.3 | -8.0 | -0.7 | -19.9 |
| Operating expenditure | 34.4 | 46.2 | 157.1 | 31.9 |
| % growth | 12.9 | -5.4 | 2.3 | -7.1 |
| Current account | 1.5 | -3.6 | 1.6 | -3.2 |
| % of GDP | 1.0 | -2.0 | 0.2 | -1.7 |
| Gross development expenditure | 8.2 | 17.6 | 49.5 | 7.3 |
| % growth | 55.4 | 9.5 | 15.6 | -11.4 |
| Overall balance | -6.7 | -20.9 | -47.4 | -10.2 |
| % of GDP | -4.3 | -11.3 | -7.0 | -5.6 |
| Memo item: | | | | |
| Total gross expenditure | 42.6 | 63.8 | 206.6 | 39.2 |
| % growth | 19.2 | -1.7 | 5.2 | -8.0 |
| Total Federal Government debt (as at end-period) | 317.1 | 362.4 | 362.4 | 378.3 |
| % of GDP | 47.0 | 53.7 | 53.7 | 50.6 |
| Domestic debt | 297.0 | 348.6 | 348.6 | 365.6 |
| % of GDP | 44.0 | 51.7 | 51.7 | 48.9 |
| External debt | 20.2 | 13.8 | 13.8 | 12.7 |
| % of GDP | 3.0 | 2.0 | 2.0 | 1.7 |

^p Preliminary

Source: Ministry of Finance