

## DEVELOPMENTS IN THE MALAYSIAN ECONOMY

### Growth slowed down in the fourth quarter

Growth of the Malaysian economy slowed to 0.1% (3Q 08: 4.7%) in the fourth quarter of 2008, due mainly to sharply weaker external demand. Exports declined significantly following the deepening of the recession in several advanced economies as well as slower growth in the regional economies. Domestic demand provided the support to growth, driven by private and public consumption. On the supply side, growth was supported by the services sector, while manufacturing, mining and construction sectors contracted. Overall, the economy expanded by 4.6% in 2008 (2007: 6.3%).

### Further moderation in domestic demand

**Domestic demand** moderated, with a growth of 3.1% (3Q 08: 6.5%) in the fourth quarter. During the quarter, households and businesses turned cautious, affected by the deterioration in the global economic environment, news of retrenchments and other cost-cutting measures undertaken in the manufacturing sector.

	2007		2008		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Aggregate Domestic Demand (excluding stocks)	9.1	9.8	6.5	3.1	6.9
Consumption	8.7	9.9	7.8	7.4	9.1
<i>Private sector</i>	10.2	10.8	8.1	5.3	8.4
<i>Public sector</i>	4.2	6.6	6.9	13.8	11.6
Gross Fixed Capital Formation	10.2	9.6	3.1	-10.2	1.1
Net Exports	-12.3	-3.8	-14.8	-40.1	-3.8
<i>Exports of Goods and Services</i>	7.8	4.2	5.1	-13.4	1.5
<i>Imports of Goods and Services</i>	11.0	5.4	8.2	-10.1	2.2
<b>GDP</b>	<b>7.3</b>	<b>6.3</b>	<b>4.7</b>	<b>0.1</b>	<b>4.6</b>

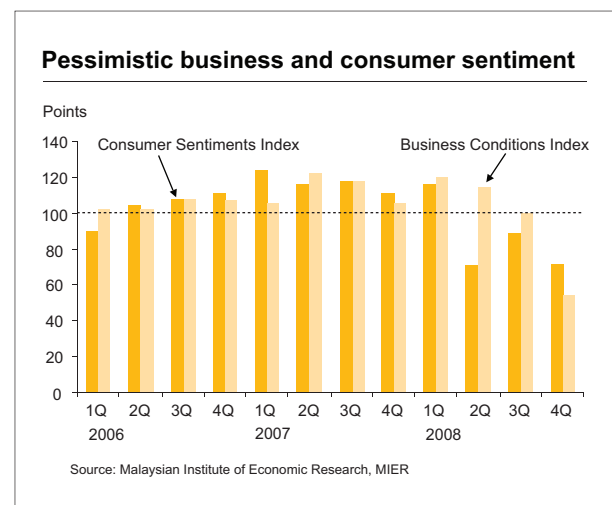
Source: Department of Statistics, Malaysia

**Private consumption** grew by 5.3% in the fourth quarter of 2008, supported by the reduction in retail pump prices, various promotions for the festivities as well as bonuses paid to civil servants in the month of December. Private consumption, however, was affected to some extent by higher retrenchments

in the manufacturing sector as well as lower smallholders' income following the significant declines in commodity prices. The moderation in private consumption was reflected in slower rate of increase of most of the consumption indicators such as credit card spending, imports of consumption goods and loans approved and disbursed to households, as well as the decline in sales of new passenger cars. The MIER Consumer Sentiments Index also dropped to 71.4 points (3Q 08: 88.9 points), reflecting the more pessimistic outlook on employment prospects and income expectations by households.

Meanwhile, **public consumption** grew strongly by 13.8% in the fourth quarter, underpinned by higher expenditure on emoluments while supplies and services remained high.

**Gross fixed capital formation** declined by 10.2% in the fourth quarter due mainly to the decline in both public and private investment activities. The decline in public investment was reflected in the slower disbursement of development expenditure during the quarter. Meanwhile, private investment activities weakened further during the quarter as reflected in the contraction of imports of capital goods and loans disbursed to the manufacturing and construction sectors. Business confidence also deteriorated significantly during the quarter as evident from the MIER Business Conditions Index which shed 45.8 points from the third quarter to 53.8 points in the fourth quarter.



## Lower growth across all economic sectors

On the supply side, growth in all sectors of the economy was lower. Value added in the manufacturing sector declined sharply due mainly to the deterioration in export-oriented industries, particularly the electronics and electrical (E&E) industry. Output in the mining sector also contracted due to lower production of oil and gas, while the agriculture sector registered a lower growth amidst a moderation in the production of palm oil and a decline in the output of rubber. Construction activities also contracted due to weakness in the civil engineering sub-sector. Meanwhile, the services sector moderated, reflecting lower growth in the wholesale and retail trade as well as the finance and insurance sub-sectors, while the real estate and business services as well as the utilities sub-sectors experienced contraction.

### Quarterly GDP by Kind of Economic Activity (at year 2000 prices)

	2007		2008		
	4Q	Year	3Q	4Q	Year
	Annual change in (%)				
Agriculture	4.7	2.2	3.0	0.5	3.8
Mining	3.5	3.3	-0.3	-5.7	-0.8
Manufacturing	5.6	3.1	1.8	-8.8	1.3
Construction	4.7	4.6	1.2	-1.6	2.1
Services	9.3	9.7	7.1	5.6	7.3
<b>Real GDP (Annual Change)</b>	<b>7.3</b>	<b>6.3</b>	<b>4.7</b>	<b>0.1</b>	<b>4.6</b>
<b>Real GDP (Preceding Change)</b>	<b>0.8</b>	<b>6.3</b>	<b>3.1</b>	<b>-3.6</b>	<b>4.6</b>

Source: Department of Statistics, Malaysia

## Continued growth in the services sector

The **services sector** remained resilient, growing by 5.6% in the fourth quarter, supported by growth in the wholesale and retail trade and accommodation and restaurant sub-sectors. The services sector was the anchor of growth, with a contribution of 3 percentage points to the overall GDP growth.

The **wholesale and retail trade** sub-sector expanded at a moderate pace of 5.9% (3Q 08: 9.4%) as continued growth in retail spending on essential goods, the Year-end Malaysia Savings Sales and higher tourist arrivals, more than offset the sharp moderation in the motor vehicle trade segment. The **accommodation and restaurant** and **other services** sub-sectors expanded by 7.4% and 4.7% respectively, as both the sub-sectors benefited from the aggressive promotion of domestic tourism that contributed to the increased demand for recreational and entertainment-related services.

In the **communication** sub-sector, strong growth momentum was sustained, expanding by 6.3% (3Q 08: 7.4%) in the quarter. At the end of the fourth quarter, the cellular and broadband penetration rates increased to 96.8% and 21.1% respectively, buoyed by innovative promotions by the telecommunication providers.

### Performance in the Services Sector (value added at year 2000 prices)

	Share 2007 (%)	2007		2008		
		4Q	Year	3Q	4Q	Year
		Annual change in (%)				
<b>Intermediate Services</b>	<b>43.7</b>	<b>10.2</b>	<b>11.7</b>	<b>6.1</b>	<b>2.7</b>	<b>6.0</b>
Finance & insurance	19.9	10.0	11.1	10.0	3.5	7.7
Real estate & business services	9.8	11.1	18.2	-2.2	-0.4	1.5
Transport & storage	7.0	12.4	10.0	5.9	1.0	6.1
Communication	7.0	7.2	7.0	7.4	6.3	7.3
<b>Final Services</b>	<b>56.3</b>	<b>8.6</b>	<b>8.1</b>	<b>7.9</b>	<b>7.8</b>	<b>8.4</b>
Electricity, gas & water	5.6	3.0	3.9	2.5	-2.6	2.1
Wholesale & retail trade	22.8	12.9	12.5	9.4	5.9	9.8
Accommodation & restaurant	4.4	12.3	10.8	4.6	7.4	7.3
Government services	12.9	5.0	4.5	11.2	18.2	11.9
Other services	10.6	5.4	5.0	5.0	4.7	4.9
<b>Total Services</b>	<b>100.0</b>	<b>9.3</b>	<b>9.7</b>	<b>7.1</b>	<b>5.6</b>	<b>7.3</b>

Source: Department of Statistics, Malaysia

### Selected Quarterly Indicators in the Services Sector

	2007	2008			
	4Q	1Q	2Q	3Q	4Q
	<b>Index</b>				
MIER Consumer Sentiment Index	110.7	115.5	70.6	88.9	71.4
MIER Retail Trade Index	141.2	106.1	94.5	116.5	52.7
MIER Tourism Market Index	133.6	120.3	107.5	109.2	94.0
	<b>Annual change (%)</b>				
Total consumption credit outstanding	7.3	7.6	9.6	9.7	9.0
Loans outstanding to the wholesale & retail trade, hotels & restaurants	7.2	10.1	15.4	14.0	8.9
Imports of consumption goods	3.8	5.6	21.3	16.2	4.1
Total sales of motor vehicles	19.0	24.6	27.1	10.5	-8.3
Container cargo handled (Port Klang and PTP)	14.4	9.7	9.4	16.4	-3.9

Source: Various sources

The growth in the **finance and insurance** sub-sector moderated to 3.5% (3Q 08: 10%), as fee income of the banking system declined following lower activity in the capital market. Reflecting the cautious attitude adopted by loan applicants, new loan applications and approvals also declined during the quarter. Nevertheless, lending activity remained firm as reflected in a higher growth in total loans outstanding (+12.8%; 3Q 08: +10.6%). Total loans disbursed by the banking system remained strong, expanding by 5.3% (3Q 08: 5.5%). Meanwhile, activity in the insurance segment, both for life and general insurance contracted, as reflected by the lower premium income from new businesses and vehicle sales. The **government services** sub-sector, on the other hand, recorded a higher growth during the quarter, reflecting the higher emoluments and bonuses paid.

The **transport and storage** sub-sector registered lower growth of 1% (3Q 08: 5.9%) as cargo-related transportation services showed the growing impact of the adverse external economic environment. The **real estate and business services** sub-sector registered its second consecutive quarter of decline, due mainly to the lower stock market and real estate-related activities during the quarter. Meanwhile, the **utilities** sub-sector posted its first contraction since 1997, affected by the

slower demand for electricity primarily from the manufacturing sector.

### Manufacturing sector contracted

Value added in the **manufacturing sector** contracted significantly by 8.8% in the fourth quarter of 2008 (3Q 08: 1.8%) on account of weak external demand and moderating domestic economic conditions.

### Performance in the Manufacturing Sector

	2007		2008		
	4Q	Year	3Q	4Q	Year
	<b>Annual change (%)</b>				
<b>Value Added (Constant Price)</b>	<b>5.6</b>	<b>3.1</b>	<b>1.8</b>	<b>-8.8</b>	<b>1.3</b>
<b>Overall Production</b>	<b>4.8</b>	<b>1.8</b>	<b>0.8</b>	<b>-10.4</b>	<b>0.2</b>
<b>Export-oriented industries</b>	<b>3.4</b>	<b>0.8</b>	<b>-1.1</b>	<b>-12.3</b>	<b>-1.7</b>
<i>Of which:</i>					
Electronics and electrical	5.5	-0.9	-4.1	-18.3	-4.4
Electronics	10.3	1.5	-6.8	-20.4	-5.6
Electrical	-9.5	-8.7	5.6	-10.0	0.0
Chemicals and chemical products	-1.4	1.8	7.3	-7.7	1.6
Petroleum products <sup>1</sup>	3.7	5.4	-1.7	-5.2	-0.2
Rubber products	1.6	5.9	2.7	2.2	3.6
Off-estate processing	12.0	-0.5	3.6	1.8	9.7
<b>Domestic-oriented industries</b>	<b>10.7</b>	<b>6.3</b>	<b>8.4</b>	<b>-2.5</b>	<b>8.1</b>
<i>Of which:</i>					
Construction-related materials <sup>2</sup>	5.1	5.1	7.4	-4.9	6.5
Fabricated metal products	19.0	19.4	-6.4	-19.7	-0.9
Transport equipment	15.3	-6.0	25.5	14.9	23.5
Food	8.3	7.6	6.7	0.5	7.1

<sup>1</sup> Under the new Industrial Production Index (2000=100), LNG has been reclassified as petroleum products (previously classified as chemicals and chemical products). Consequently, petroleum products have been reclassified as export-oriented industries

<sup>2</sup> Includes iron & steel and non-ferrous metal as well as non-metallic mineral products

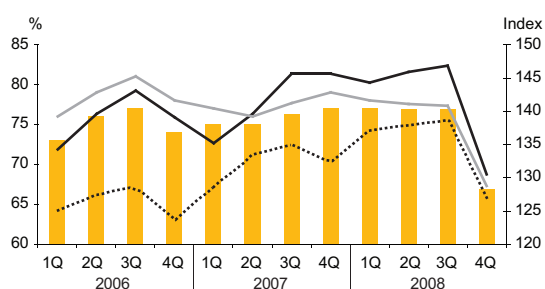
Source: Department of Statistics, Malaysia

Production in **export-oriented industries** declined considerably as the **electronics and electrical (E&E) industry** registered a sharp decline (-18.3%; 3Q 08: -4.1%). The decline in E&E was in tandem with the sharp contraction in global demand. Many manufacturers adopted various cost-cutting measures in response to this decline in demand including temporary shutdown of plants and shorter working weeks. Output of **resource-based industries** also contracted during the quarter. Depressed external demand and more moderate growth in the transport equipment industry resulted in the decline in output of chemical and plastic products segments. The moderation in feedstock as well as the decline in commodity prices towards the end of the year impacted the performance of petroleum and off-estate processing segments. Meanwhile, continued demand for medical and hygiene rubber gloves lent some support to the rubber products industry.

Output of **domestic-oriented industries** declined in the fourth quarter, weighed down mainly by the weakness in production of construction-related materials, following slower activities in the construction sector. The sustained growth in the consumer-related products partly cushioned the impact.

Against this backdrop of weak demand, the overall capacity utilisation rate in the manufacturing sector fell to 67% in the fourth quarter (3Q 08: 77%), with the export- and domestic-oriented industries operating at 67% and 65% respectively (3Q 08: 77% and 75% respectively).

#### Lower Capacity Utilisation Rate in the Manufacturing Sector\* in line with Production



\*Beginning 2004, the capacity utilisation rate in the manufacturing sector has been rebased from value-add in year 2000 to value-add in year 2004  
Source: Department of Statistics, Malaysia and Bank Negara Malaysia

### Lower activity in commodities

The **agriculture sector** registered a lower growth of 0.5% (3Q 08: 3%) during the quarter due to a slowdown in palm oil production (3.6%; 3Q 08: 4.9%) amidst a downturn in yields, while rubber output declined substantially by 28.4% due to lower prices, which reduced smallholders' tapping activity. Meanwhile, the **mining sector** recorded a decline of 5.7% following the continued contraction in natural gas production by 5.5% and a reduction of 5.6% in the output of crude oil to 678,914 barrels per day.

#### Performance in the Agriculture Sector

	2007		2008		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Value Added (at year 2000 prices)	4.7	2.2	3.0	0.5	3.8
Industrial Crops	6.1	0.0	0.6	-2.9	3.2
Food Crops	2.8	5.3	6.4	5.5	4.7
<b>Production</b>					
Of which:					
Crude palm oil	12.9	-0.4	4.9	3.6	12.1
Rubber	-7.6	-6.6	-4.2	-28.4	-10.1
Fish	4.9	0.2	10.7	7.1	5.2
Livestock	6.5	9.9	9.9	3.0	4.3

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

#### Performance in the Mining Sector

	2007		2008		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Value Added (at year 2000 prices)	3.5	3.3	-0.3	-5.7	-0.8
<b>Production</b>					
Of which:					
Crude oil and condensates	5.8	2.4	3.5	-5.6	2.0
Natural gas (net)	-1.8	1.9	-6.4	-5.5	-4.9

Source: PETRONAS  
Department of Statistics, Malaysia

### Slowdown in the construction sector

Growth of the **construction sector** declined by 1.6% during the quarter (3Q 08: 1.2%) due to lower activity in the civil engineering sub-sector. However, growth in the residential segment remained positive, supported by on-going activities in the high-end segment. The non-residential segment continued to grow due to the continued construction of office buildings, particularly in the Klang Valley and university facilities.

### Construction Indicators

	2007		2008		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
New sales and advertising permits	-3.1	2.0	-30.1	-47.8	-18.9
Housing approvals	-6.0	-11.5	-51.5	-53.8	-18.8
Production of construction-related materials	5.1	5.0	7.4	-4.9	6.5
Loans approved for construction	27.7	54.8	-13.4	-25.2	-1.7
Imports of construction materials and mineral products	38.8	12.9	5.2	-15.8 <sup>1</sup>	2.3 <sup>2</sup>

<sup>1</sup>Oct-Nov 2008

<sup>2</sup>Jan-Nov 2008

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

### Inflation moderated in the fourth quarter

The headline inflation rate, as measured by the change in the Consumer Price Index (CPI), moderated to 5.9% in the fourth quarter of 2008 (3Q 08: 8.4%), due mainly to the series of downward adjustments to retail fuel prices by the Government. As a result, inflation in the *transport* category moderated significantly to 6.6% in the fourth quarter (3Q 08: 20.9%), contributing 91.1% to the overall lower inflation during the quarter. Inflation in the *food and non-alcoholic beverages* category also moderated slightly to 11.2% during the period (3Q 08: 11.7%). Inflation in the *alcoholic beverages and*

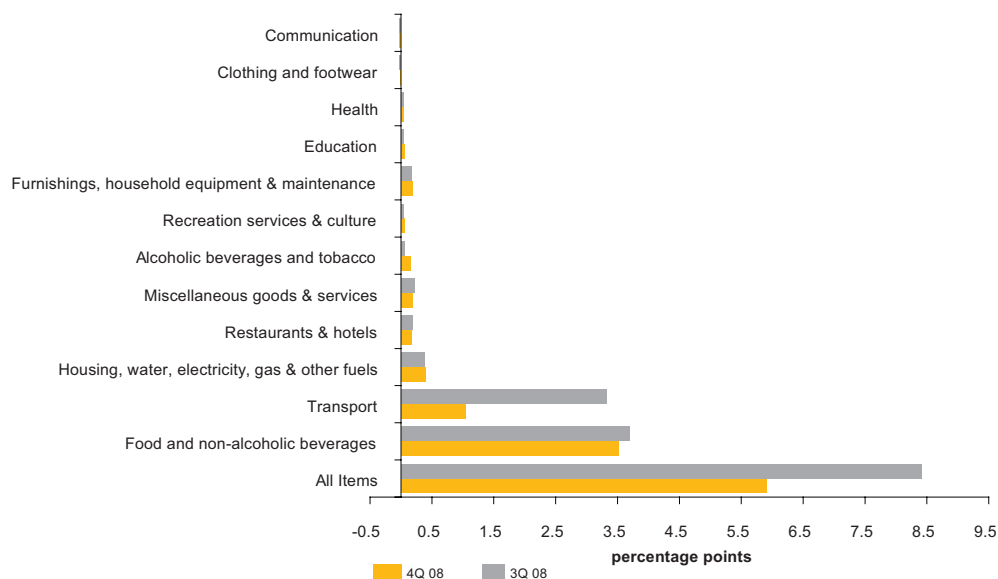
*tobacco* category however, increased to 8.4% (3Q 08: 3.1%), reflecting the 20% rise in excise duties on cigarettes in September.

The downward trend in inflation is expected to continue in 2009. Slowing economic growth is expected to exert downward pressures on domestic prices.

The Producer Price Index (PPI) turned sharply and declined by 0.1% in the fourth quarter of 2008 (3Q 08: 11.4%). This reversal in producer prices was across the board, with all PPI components recording substantially lower inflation rates compared to the previous quarter. Prices in the commodity-related component of the PPI fell significantly by 1.7% (3Q 08: 33%), mirroring the sharp drop in global commodity prices. Meanwhile, prices in the non-commodity-related component of the PPI continued to increase, albeit at a slower pace of 0.6% (3Q 08: 3%).

In terms of composition, both the local and imported components of the PPI recorded lower inflation rates compared to the previous quarter. On average, prices in the local component of the PPI remained constant in the fourth quarter (3Q 08: 15%), while prices in the imported component of the PPI declined slightly by 0.2% (3Q 08: 4.3%).

### Contribution to Consumer Price Inflation

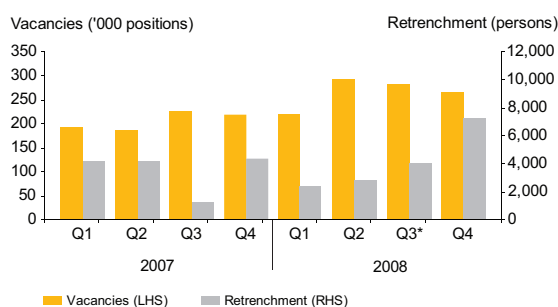


Source: Department of Statistics, Malaysia

## Weaker labour market conditions

Labour market conditions weakened in the fourth quarter as reflected in higher retrenchments while demand for labour moderated. Total retrenchments reported by the Ministry of Human Resources increased to 7,254 persons (3Q 08: 3,997 persons), reflecting higher retrenchments in all sectors. Given the sharp deterioration in external demand, about 68% of total retrenchments were in the manufacturing sector, particularly in the E&E industry (50% of total retrenchments). Meanwhile, retrenchments in the services sector (27% share), occurred mainly in the wholesale and retail trade as well as accommodation and restaurant sub-sectors. Corresponding to the uncertain business environment, total vacancies in the Electronic Labour Exchange moderated to 264,674 positions (3Q 08: 282,006 positions) with lower job openings for the mid- and lower job categories. In the manufacturing sector, labour productivity growth declined by 6.8% (3Q 08: 6.4%) in line with weaker sales.

### Labour Market Conditions

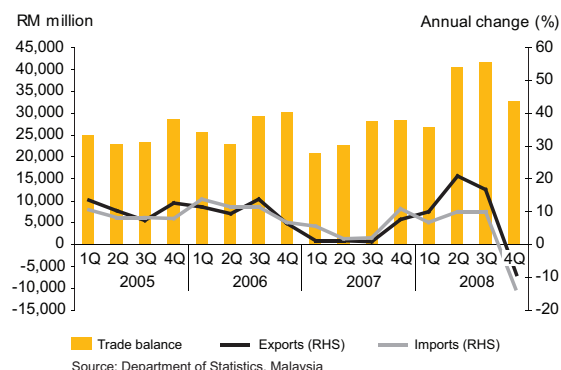


\*Reflects adjusted retrenchments for Q3 08  
Source: Ministry of Human Resources

## Exports and imports contracted

Gross exports and imports contracted by 7.4% and 12.3% respectively in the fourth quarter of 2008. The weaker external demand conditions, which intensified in the fourth quarter, resulted in a sharp decline in manufactured exports and moderation in exports of commodities. The **trade surplus** narrowed to RM32.8 billion during the quarter (3Q 08: RM41.8 billion).

### Trade Balance



Source: Department of Statistics, Malaysia

### Trade Account

	2007		2008 <sup>1</sup>		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
<b>Gross Exports</b>	<b>7.6</b>	<b>2.7</b>	<b>16.8</b>	<b>-7.4</b>	<b>9.6</b>
Manufactured	1.2	0.2	8.5	-11.2	1.8
E&E	-2.5	-5.2	4.5	-16.3	-3.4
Non-E&E	7.0	9.0	14.2	-4.3	8.9
Commodities	1.2	13.4	48.1	6.1	38.5
Agriculture	31.4	24.4	37.5	-10.4	32.3
Minerals	37.7	7.0	55.8	16.9	42.4
<b>Gross Imports</b>	<b>10.9</b>	<b>5.0</b>	<b>10.1</b>	<b>-12.3</b>	<b>3.3</b>
Capital goods	17.3	7.2	-2.3	-13.2	0.0
Intermediate goods	13.6	6.9	17.2	-12.4	5.6
Consumption goods	3.8	3.6	16.2	4.1	11.6
<b>Trade balance (RM billion)</b>	<b>28.4</b>	<b>100.3</b>	<b>41.8</b>	<b>32.8</b>	<b>142.0</b>

<sup>1</sup>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 Harmonised Tariff Nomenclature (AHTN) and Standard International Trade Classification (SITC)

Source: MATRADE and Department of Statistics, Malaysia

The sharp decline in **manufactured exports** reflected contraction in the exports of both E&E and non-E&E products. Electronic exports declined further due mainly to lower demand from the US, Japan, EU and regional countries as well as weaker global semiconductor prices. Meanwhile, growth in electrical exports turned negative due to a broad-based decline in demand for industrial, commercial and household products. Non-E&E exports, both resource- and non-resourced based products, also recorded negative growth due to both falling demand and lower commodity prices. The weaker exports of chemicals and chemical products, rubber and petroleum products reflected lower commodity prices, while the decline in exports of iron and steel products, manufactures of metal and plastic was due to slower demand.

### Malaysia: Direction of Exports

	2007		2008			2007		2008		
	4Q	Year	3Q	4Q	Year	4Q	Year	3Q	4Q	Year
	Annual change (%)					Share of total exports (%)				
<b>United States</b>	-15.8	-14.5	-9.9	-22.2	-12.5	14.3	15.6	11.9	12.1	12.5
<b>European Union (EU)<sup>1</sup></b>	-3.2	3.6	1.0	-14.1	-3.8	12.5	12.9	11.1	11.6	11.3
<b>Selected ASEAN countries<sup>2</sup></b>	15.0	1.2	20.7	-15.1	9.9	26.4	25.5	25.8	24.2	25.6
<b>North East Asia</b>	19.2	10.4	26.7	-18.3	10.9	20.5	19.9	21.2	18.1	20.1
<i>People's Republic of China</i>	32.5	24.3	35.4	-18.4	19.2	9.5	8.8	10.7	8.4	9.5
<i>Hong Kong SAR</i>	13.1	-4.0	9.3	-22.6	1.3	4.7	4.6	4.3	4.0	4.3
<i>Chinese Taipei</i>	1.6	2.6	14.2	-22.2	-1.4	2.6	2.7	2.6	2.2	2.4
<i>Korea</i>	11.5	8.2	38.1	-10.1	12.4	3.7	3.8	3.6	3.6	3.9
<b>West Asia</b>	2.6	18.1	54.6	29.7	38.1	2.9	3.1	4.5	4.0	3.9
<b>India</b>	2.5	7.6	19.1	9.9	22.4	3.4	3.3	3.7	4.0	3.7
<b>Total exports</b>	7.6	2.7	16.8	-7.4	9.6	100.0	100.0	100.0	100.0	100.0

<sup>1</sup> Refers to European Union (EU) 27 from 2007 onwards

<sup>2</sup> Singapore, Thailand, Indonesia, Philippines, Brunei Darussalam and Vietnam

Source: Department of Statistics, Malaysia

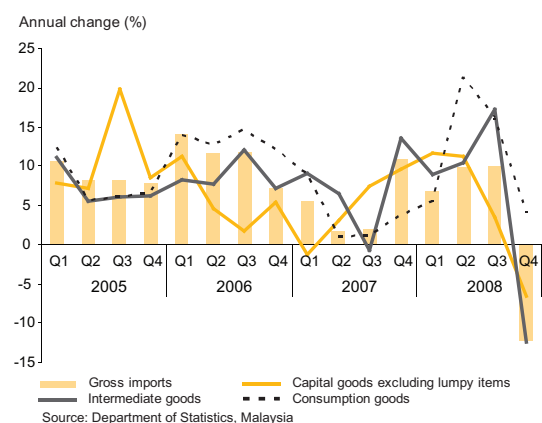
Growth in **commodity exports** moderated significantly due mainly to lower prices. While lower prices and weaker demand for crude palm oil and rubber led to the negative growth in agriculture exports, the moderation in mineral exports was due mainly to the sharp decline in crude oil prices. LNG exports, however, continued to provide some support to export growth.

In tandem with the sharper decline in manufactured exports and slower private investment activities, **gross imports** also contracted, reflecting declines in both intermediate and capital goods. Meanwhile, growth in consumption imports moderated as consumers turned more cautious and prudent in their spending.

### Higher net inflows of FDI and lower net outflows of portfolio funds

On a cash basis, gross inflows of **foreign direct investment (FDI)**<sup>2</sup> were lower at RM9.3 billion in the fourth quarter (3Q 08: RM21.6 billion), reflecting mainly the decline in inter-company loans. After adjusting for gross outflows due mainly to repayment of inter-company loans, net FDI amounted to RM3.4 billion (3Q 08: RM2 billion). During the quarter, net FDI was focused mainly on the oil and gas sector, followed by the services and manufacturing sectors. FDI in the services sector was channelled mainly into the finance and insurance, real estate and business services as well as the transport and

### Import Growth



communication sub-sectors. Meanwhile, in the manufacturing sector, FDI was mainly for the production of solar cells and downstream petroleum activities.

**Overseas investment** by Malaysian companies was lower, recording a net outflow of RM6.6 billion (3Q 08: -RM16 billion), attributed mainly to lower net extension of inter-company loans to subsidiaries abroad. The bulk of overseas investments was in the services sector, particularly for the completion of the acquisition of a strategic stake in the Indonesian finance and insurance sub-sector as well as investments in the real estate and business services, and wholesale and

<sup>2</sup> The statistics for FDI on a cash basis does not include retained earnings and investment in the form of imported machinery and equipment.

retail trade sub-sectors. Meanwhile, overseas investments in the manufacturing sector were channelled mainly into the electrical and electronics and automotive industries.

**Portfolio investment** registered a lower net outflow of RM24.8 billion (3Q 08: -RM38 billion), reflecting mainly lower net liquidation of debt instruments by foreign investors. The bulk of the outflows during the quarter was due to net liquidation of equities, particularly in October 2008 when the global sell-down was at its peak. The outflows subsided thereafter as the intensity of the global deleveraging of stocks eased towards end-year.

### External debt declined

As at end-2008, Malaysia's total external debt declined to RM235.6 billion or USD67.2 billion (end-September 2008: RM253.9 billion or USD72.7 billion), equivalent to 33.6% of GNI. The **medium- and long-term external debt** increased to RM155.6 billion, arising mainly from the depreciation of the ringgit against the US dollar and Japanese yen during the quarter. There was also a net

drawdown of external loans by the private sector (+RM1 billion). Meanwhile, the public sector continued to record a net repayment (-RM0.4 billion).

The total **short-term external debt** declined significantly to RM80 billion or USD22.8 billion due mainly to the de-leveraging activities by some foreign banks following their weaker balance sheets. As at end-2008, the short-term debt accounted for 34% of total external debt and was 25.3% of the net international reserves.

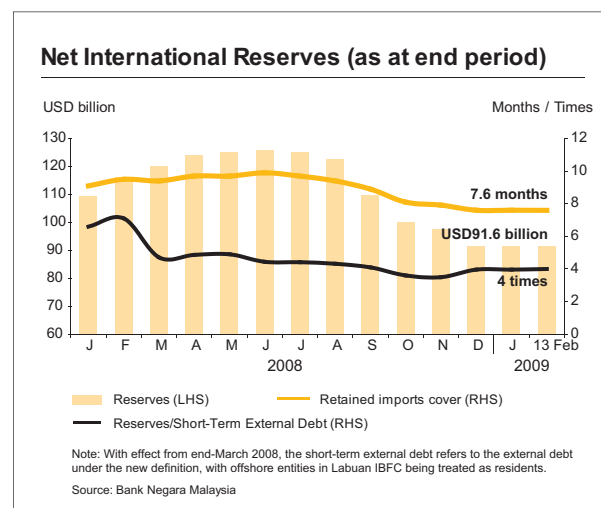
### International reserves

The international reserves of Bank Negara Malaysia amounted to RM316.8 billion (equivalent to USD91.3 billion) as at 31 December 2008. The level of reserves has taken into account the quarterly adjustment of the foreign exchange revaluation loss, following the strengthening of the ringgit against some of the major currencies during the quarter. The reserves amounted to RM317.7 billion (equivalent to USD91.6 billion) as at 13 February 2009 and is sufficient to finance 7.6 months of retained imports and cover 4 times the short-term external debt.

	2008	
	3Q	4Q <sup>a</sup>
	RM billion	
Medium- and long-term debt	151.3	155.6
Public sector	77.8	79.9
Private sector	73.5	75.7
Short-term debt <sup>1</sup>	102.6	80.0
Total external debt	253.9	235.6
- USD billion equivalent	72.7	67.2

<sup>1</sup> Excludes currency and deposits held by non-residents with resident banking institutions  
<sup>a</sup> Preliminary

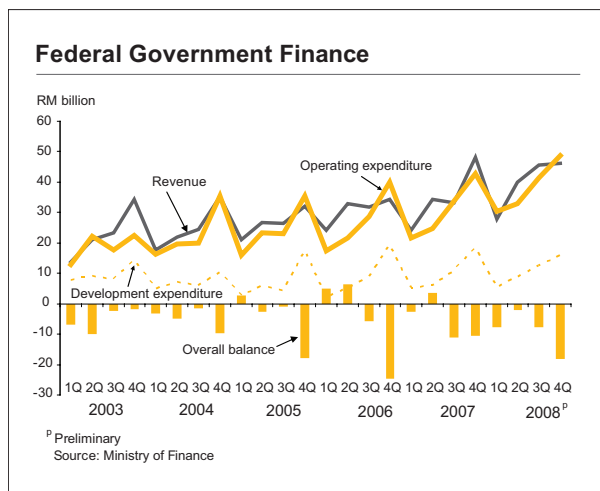
Source: Ministry of Finance, Malaysia and Bank Negara Malaysia



## Fiscal deficit of 4.8% in 2008

The Federal Government intensified its efforts to increase the disbursement of funds in the fourth quarter. As a result, the budgetary operations of the Federal Government were expansionary, recording a fiscal deficit of 4.8% of GDP for the year (4Q 08: -10.3% of GDP). Higher operating expenditure was recorded during the period, mainly for payments of supplies and services, as well as subsidies. Development expenditure

was higher than the preceding quarter, with funds channelled largely to the trade and industry, defence, and education sectors. Nevertheless, it was lower when compared on a year-on-year basis. Meanwhile, revenue from sales tax, corporate income tax and oil earnings were the main contributors to total revenue. The fiscal deficit was financed mainly from domestic borrowings. As at end-2008, total outstanding debt of the Federal Government amounted to RM306.4 billion or 41.4% of GDP.



## Federal Government Finance

	2007		2008 <sup>p</sup>		
	4Q	Year	3Q	4Q	Year
	RM billion				
Revenue	48.2	139.9	45.7	46.3	159.8
% growth	40.0	13.2	37.3	-3.9	14.2
Operating expenditure	42.9	123.1	41.4	48.9	153.5
% growth	7.3	14.3	22.7	13.8	24.7
<b>Current account</b>	<b>5.3</b>	<b>16.8</b>	<b>4.3</b>	<b>-2.6</b>	<b>6.3</b>
% of GDP	3.0	2.6	2.2	-1.4	0.8
Gross development expenditure	18.2	40.6	12.5	16.0	42.8
% growth	-6.0	13.3	16.2	-12.0	5.6
<b>Overall balance</b>	<b>-10.5</b>	<b>-20.7</b>	<b>-7.8</b>	<b>-18.2</b>	<b>-35.6</b>
% of GDP	-5.9	-3.2	-3.9	-10.3	-4.8
<b>Memo item:</b>					
Total gross expenditure	61.1	163.6	53.9	64.9	196.3
% growth	3.0	14.0	21.1	6.2	20.0
Total Federal Government debt (as at end-period)	266.7	266.7	288.1	306.4	306.4
% of GDP	41.6	41.6	38.9	41.4	41.4
Domestic debt	247.1	247.1	268.7	286.1	286.1
% of GDP	38.5	38.5	36.3	38.6	38.6
External debt	19.6	19.6	19.4	20.3	20.3
% of GDP	3.1	3.1	2.6	2.7	2.7

<sup>p</sup> Preliminary

Source: Ministry of Finance