

DEVELOPMENTS IN THE MALAYSIAN ECONOMY

Economic expansion supported by strong growth in the services sector and higher construction activity

Real GDP growth expanded by 5.3% in the first quarter of 2007 supported by strong growth in the services sector and higher construction activity. Growth in the services sector was driven by consumption-related activities, finance and business services, while the construction sector gained further momentum underpinned by projects launched

Quarterly GDP by Kind of Economic Activity at Year 2000 Prices¹

	2006			2007
	1Q	4Q	Year	1Q
	Annual Change in (%)			
Agriculture	5.9	5.1	5.2	2.0
Mining	-2.7	2.1	-0.4	-1.1
Manufacturing	8.8	4.0	7.1	1.7
Construction	-1.9	0.6	-0.5	4.0
Services	6.6	8.0	7.2	9.6
Real GDP (Ann. Chg.)	6.0	5.7	5.9	5.3
Real GDP (Preceding Chg.)	-1.6	0.5	5.9	-1.9

¹ The GDP has been rebased from 1987 prices to 2000 prices

Source: Department of Statistics, Malaysia

under the Ninth Malaysia Plan as well as by increased activity in the non-residential segment. The manufacturing sector continued to expand as the diversified industrial base provided support, with growth in resource-based industries and selected domestic-oriented industries offsetting the effects of the weakness in the electronics and electrical sector. The current moderation in the electronics sector is assessed to be a temporary phenomenon, as forward-looking indicators in the US such as the book-to-bill ratio and the tech pulse index showed that the electronics industry is expected to pick up during the course of the year. The agriculture sector continued to expand, supported mainly by the minor crops, while the performance in the mining sector was subdued due entirely to lower crude oil production.

Services sector remained the main driver of growth

The services sector strengthened significantly to expand at a higher pace of 9.6% (4Q 2006: 8%), led mainly by the intermediate services segment. The growth in the sector was supported by robust consumption, finance and business activities.

The performance of the **finance, insurance, real estate and business services** sub-sector was exceptionally strong at 17.6% (4Q 2006: 10.8%). Increased contribution from fee-based activity, as well as higher lending activities in both conventional and Islamic banking led to the higher growth in the finance segment. Further developments included the opening of another new Islamic foreign bank in Malaysia and the introduction of new products during the quarter. Increased interest in investment-linked insurance products led to higher growth in insurance activities. The sub-sector was further driven by strong expansion in the business services segment, mainly benefiting from the favourable developments in the stock market and increase in IT-related activities.

Growth in the **wholesale and retail trade, accommodation and restaurant** sub-sector also strengthened to 8.9% (4Q 2006: 6.4%). Strong domestic consumption during the festive period as well as higher tourist arrivals as a result of the programmes launched in conjunction with the 2007 Visit Malaysia Year supported growth in the distributive trade, hospitality and air transportation activities. The strength was reflected in indicators such as imports of consumption goods and credit card spending as well as the MIER Retail Trade Index and Tourism Market Index. The Retail Trade Index recorded its highest level since the third quarter of 2005, while the Tourism Market Index recorded its highest

level since the third quarter of 2004. Only the automotive trade industry was subdued due to the “wait-and-see” attitude by the consumers amidst the weakness in the second-hand car market, and in anticipation of the launch of new models during the later part of the year.

due to the festivities during the quarter. Higher revenue was also generated by the airlines industry following an increase in international passengers induced by tourism activities. In addition, higher revenue from port-related activities particularly transshipment also contributed favourably to the growth of the transportation industry. Meanwhile, the telecommunications industry was supported by the continued expansion in the cellular segment emanating from the enlarged subscriber base as well as higher usage of voice and data services, particularly the short messaging service (SMS). Growth was also augmented by the increase in total Internet subscribers, as well as broadband users which rose close to 1 million subscribers as of end-March 2007.

The **utilities** sub-sector was supported by increased demand for electricity from the commercial and household sub-sectors, while growth in **Government services** reflected increases in emoluments, including allowances paid to civil servants during the quarter.

Continued expansion in the manufacturing sector...

Value-added in the **manufacturing sector** recorded a positive growth of 1.7% (4Q 2006: 4%) despite the moderation in growth in the E&E sector. Output of **export-oriented industries** increased by 0.1% during the quarter (4Q 2006: 4.3%) due mainly to the expansion in the resource-based industries such as chemicals and rubber products, and to a lesser extent wood and

petroleum products, which compensated for the decline experienced by the E&E sector (-5.0%; 4Q 2006: 1.9%). The performance of the E&E sector was mainly affected by the weaker demand from the US market, particularly for computers and parts (-18.7%;

Performance in the Services Sector (Value Added at Year 2000 Prices)

	Share 2006	2006			2007
		1Q	4Q	Year	1Q
	%	Annual change in (%)			
Intermediate Services	42.8	5.2	9.5	7.6	13.4
Transport, storage & communication	14.2	4.6	6.8	6.0	5.4
<i>Transport & Storage</i>	7.0	3.8	6.7	5.2	5.5
<i>Communication</i>	7.2	5.4	6.8	6.8	5.3
Finance, insurance, real estate & business services	28.6	5.6	10.8	8.4	17.6
<i>Finance & Insurance</i>	19.8	6.1	8.8	7.7	13.2
<i>Real Estate & Business Services</i>	8.8	4.5	15.6	9.9	27.3
Final Services	57.2	7.7	7.0	7.0	6.7
Electricity, gas & water	5.9	4.5	6.2	5.2	4.1
Wholesale & retail trade, accomodation & restaurant	26.6	8.3	6.4	6.9	8.9
<i>Wholesale & retail trade</i>	22.3	9.2	6.0	7.1	9.1
<i>Accomodation & Restaurant</i>	4.2	4.0	9.1	6.0	8.1
Government services	13.6	10.1	10.6	9.8	6.0
Other services	11.1	5.4	4.5	4.7	4.1
Total Services	100.0	6.6	8.0	7.2	9.6

Source: Department of Statistics, Malaysia

Selected Quarterly Indicators in the Services Sector

	2006			2007
	1Q	4Q	Year	1Q
	Percentage at end-period (%)			
Cellular phone penetration rate	77.7	72.3	72.3	77.0
Internet subscribers penetration rate	13.9	14.0	14.0	14.0
Broadband subscribers penetration rate	2.2	3.3	3.3	3.7
	Annual change (%)			
Total passenger traffic at all airports	6.5	0.2	2.2	-0.9
Total consumption credit outstanding	19.0	14.9	14.9	12.8
Loans outstanding to the wholesale & retail trade, hotels & restaurants	7.5	12.0	12.0	10.1
Imports of consumption goods	14.0	12.1	13.4	8.9
Total sales of motor vehicles	-2.5	-24.8	-11.2	-15.4
SMS traffic	118.9	32.1	52.7	56.9
Container cargo handled (Port Klang and PTP)	7.8	18.7	14.2	18.5
Cargo revenue (Railway)	-1.5	12.3	5.1	8.8

Source: Various sources

The **transport, storage and communication** sub-sector continued to expand by 5.4% (4Q 2006: 6.8%) supported by the telecommunication industry and selected transport segments. Land transport benefited from an increase in travel activities

4Q 2006: -6.1%). Meanwhile, the production of semiconductor chips continued to increase (1%; 4Q 2006: 7.4%) supported by demand from the non-US region.

Within the resource-based industries, the chemical sector turned around to register a positive growth during the quarter arising from higher output of industrial gases and plastic products. The improvement in the plastic segment was supported by higher production of construction-related products such as plastic pipes and tubes. Meanwhile, the rubber products industry continued to record a strong double-digit growth, underpinned by demand for natural rubber gloves and benefiting from higher production of tyre products following the transition by some manufacturers into higher quality tyres. The off-estate processing industry declined during the quarter, in line with the lower production of crude palm oil.

Performance in the Manufacturing Sector

	2006			2007
	1Q	4Q	Year	1Q
Annual change (%)				
Value Added (at year 2000 prices)	8.8	4.0	7.1	1.7
Overall Production	8.9	5.3	7.5	0.4
Export-oriented industries	10.8	4.3	7.5	0.1
<i>Of which:</i>				
Electronics and electrical	17.4	1.9	7.9	-5.0
Electronics	23.1	4.5	11.8	-3.4
Electrical	2.4	-5.5	-2.9	-10.1
Chemicals and chemical products	5.6	-0.6	3.2	7.1
Petroleum products ¹	8.7	12.8	13.6	5.9
Textiles, wearing apparel & footwear	10.6	1.5	6.1	-10.4
Wood and wood products ²	3.3	9.7	3.8	1.5
Rubber products	-7.3	15.2	7.2	16.1
Off-estate processing	-4.9	9.6	5.7	-1.2
Domestic-oriented industries	1.1	9.9	7.2	2.0
<i>Of which:</i>				
Non-metallic mineral products	-5.0	9.2	3.3	-3.0
Iron & steel and non-ferrous metal	-9.8	20.5	3.0	13.0
Food	-1.6	9.7	6.7	14.0
Transport equipment	6.7	-14.0	-1.5	-27.9
Fabricated metal products	15.2	30.1	26.5	18.0
Total Manufactured Exports	10.6	5.7	10.1	1.5
<i>Of which:</i>				
Electronics and electrical products	8.4	1.7	6.4	-1.9
Chemicals and chemical products	-6.9	17.6	10.7	34.0
Petroleum products	40.3	2.5	27.2	-25.2
Wood and wood products	-3.7	26.8	16.7	15.3
Furniture & parts	8.0	7.6	7.9	7.9
Rubber products	17.7	30.8	34.3	29.2

¹ 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

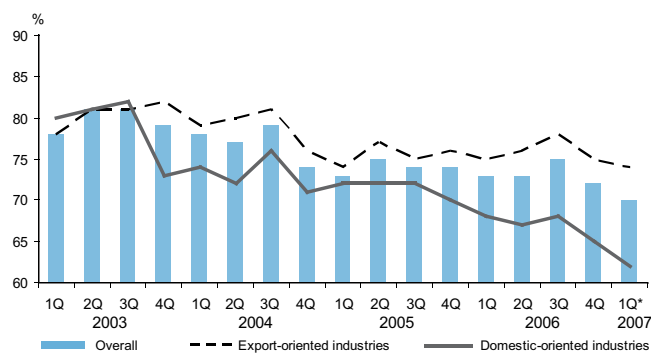
² Output of furniture and parts are not captured in the wood production data

Source: Department of Statistics, Malaysia

Output of **domestic-oriented industries** rose by 2% during the quarter. The growth was led by the food and fabricated metal product industries. Meanwhile, the positive effects from higher construction-related activity on related manufacturing industries was to some extent muted by the decline in the glass product segment. This is due mainly to transition by some television manufacturers shifting away from the production of cathode ray tube (CRT) televisions, to higher-end flat panel televisions. Meanwhile, the transport equipment industry continued to remain weak in tandem with the trends in demand for new vehicles, which was affected by the decline in car prices in the second hand car market.

Overall, the manufacturing sector was operating at the **capacity utilisation rate** of 70% during the quarter (4Q 2006: 72%), with both the export- and domestic-oriented industries averaging 74% and 62% respectively (4Q 2006: 75% and 65% respectively).

Capacity Utilisation in the Manufacturing Sector



* Beginning 1Q 2007, the survey has been enhanced to include new companies

Continued expansion in the agriculture sector...

The **agriculture sector** expanded by 2% reflecting increases in fish, livestock, cocoa, forestry, fruits and vegetables segments, which was partly offset by the decline in crude palm oil and rubber activities.

Production of **crude palm oil** declined by 1.4% to 3.19 million tonnes, signalling the end of the high production cycle which began in May 2006. Yields per hectare declined to 4 tonnes per hectare (1Q 2006: 4.12 tonnes per hectare). Output was also affected by the disruption in crop and harvest activity brought about by adverse weather conditions in March in key producing regions.

Rubber output declined by 5.2% during the quarter (4Q 2006: 11.2%). The low production is due to the yearly wintering season, which occurs during February to mid-May that has a significant effect on yields. Given the tight supply conditions, rubber prices rose to average 707 sen per kilogramme during the quarter (4Q 2006: 608 sen per kilogramme), with prices hitting a peak of 750 sen per kilogramme on 9 February 2007.

The expansion in the agriculture sector was mainly supported by other agriculture activities such as fish, livestock, cocoa, fruits and vegetables. **Fish** production increased further by 5.2% to 360,900 tonnes, due mainly to increase in marine fish landings, including a substantial rise in deep sea fishing. Meanwhile, **cocoa** production rebounded to increase by 2.9% to 9,748 tonnes due to higher yields.

Performance in the Agriculture Sector

	2006			2007
	1Q	4Q	Year	1Q
	Annual change (%)			
Value Added (at year 2000 prices)	5.9	5.1	5.2	2.0
Production ¹				
Of which:				
Crude palm oil	-5.4	10.7	6.1	-1.4
Crude palm kernel oil	-8.9	14.7	6.1	3.3
Rubber	27.4	11.2	13.3	-5.2
Cocoa	24.1	-19.9	14.2	2.9
Fish	9.2	10.0	8.3	5.2
Exports (RM million)	4.5	22.1	12.5	7.7
Of which:				
Palm oil				
(⁰⁰⁰ tonnes)	2.7	20.9	7.2	-11.2
(RM/tonne)	-4.6	14.7	6.0	34.1
(RM million)	-2.0	38.6	13.7	19.2
Palm kernel oil				
(⁰⁰⁰ tonnes)	-45.8	15.4	-10.1	65.0
(RM/tonne)	-12.4	-9.9	-16.1	2.1
(RM million)	-52.6	3.9	-24.6	68.5
Rubber				
(⁰⁰⁰ tonnes)	3.0	1.4	1.3	-12.3
(Sen/kilogramme)	43.9	11.1	40.5	-0.7
(RM million)	48.2	12.7	42.3	-12.9
Sawn timber				
(⁰⁰⁰ cu.metres)	-19.6	5.2	-9.9	-5.9
(RM/cu.metre)	37.2	4.1	18.8	-1.8
(RM million)	10.3	9.5	7.0	-7.6
Saw logs				
(⁰⁰⁰ cu.metres)	-19.4	-3.2	-17.1	-8.3
(RM/cu.metre)	18.1	7.2	10.7	-2.4
(RM million)	-4.8	3.8	-8.3	-10.5
Cocoa beans				
(⁰⁰⁰ tonnes)	101.1	-8.2	45.8	-13.5
(RM/tonne)	0.1	10.1	3.7	4.8
(RM million)	101.2	1.1	51.2	-9.3

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

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

In the **mining sector**, growth was mainly influenced by lower output of crude oil (including condensates), which declined by 3.8% to 680,153 barrels per day during the quarter (1Q 2006: 707,294 barrels per day). Nevertheless, **natural gas** output rose by

1.1% to 6,040 million standard cubic feet per day (1Q 2006: 5,974 million standard cubic feet per day) supported by continued demand for power generation in Malaysia and higher LNG exports to Japan and Korea.

Performance in the Mining Sector

	2006			2007
	1Q	4Q	Year	1Q
	Annual change (%)			
Value Added (at year 2000 prices)	-2.7	2.1	-0.4	-1.1
Production				
<i>Of which:</i>				
Crude oil and condensates ('000 barrels)	-0.5	0.3	-0.5	-3.8
Natural gas (net) (million standard cubic feet)	-6.0	4.4	-0.4	1.1
Exports (RM million)	23.0	0.5	8.6	-3.6
<i>Of which:</i>				
Crude oil and condensates ('000 tonnes)	-7.3	-8.1	-8.0	3.8
(USD/barrel)	40.8	4.2	21.3	-6.0
(RM million)	28.1	-8.0	8.1	-8.5
Liquefied natural gas ('000 tonnes)	-2.6	1.8	-1.9	4.5
(RM/tonnes)	19.6	8.7	14.2	-0.2
(RM million)	16.4	10.7	12.0	4.3

Source: PETRONAS
Department of Statistics, Malaysia

Construction Indicators

	2006			2007
	1Q	4Q	Year	1Q
	Annual change (%)			
New sales and advertising permits	-23.6	-2.7	-17.6	7.7
Housing approvals	-43.4	-20.0	-23.2	-9.6
Production of construction-related materials	-6.6	12.8	3.2	2.2
Loans approved for construction	-33.5	73.2	13.0	91.3
Imports of construction materials and mineral products	2.6	-8.2	7.8	0.3 ¹

¹ Jan-Feb 2007

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

Increased construction activity...

Construction activity strengthened further during the quarter to expand by 4% (4Q 2006: 0.6%). The improvement was underpinned by the better performance in the civil engineering sub-sector as the effects from the launch of the Ninth Malaysia Plan projects began to filter into the economy. This was further augmented by activity in the non-residential sub-sector, supported by construction of a number of new office accommodation and large shopping complexes mainly in the Klang Valley. Meanwhile, performance in the residential segment continued to be supported mainly by construction of high-end property. Activity in the sub-sector is expected to gain momentum in the coming months in response to the recent initiatives introduced by the Government, such as the relaxation on rulings on foreign ownership of property in the country, exemption on real property gains tax, creation of a one stop centre to expedite development of housing projects and attractive incentives to encourage the application of the Build-then-Sell (BTS) method in building residential properties.

Domestic demand remained resilient...

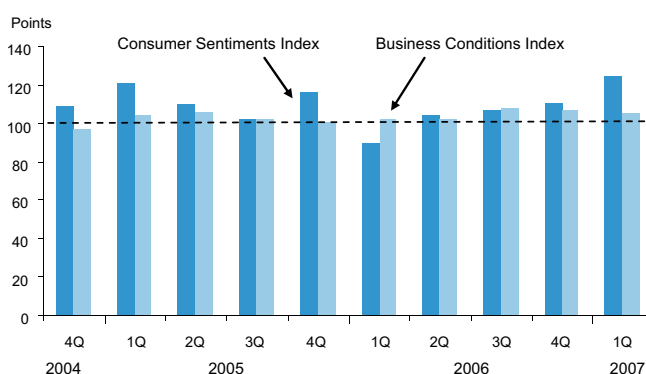
Domestic demand remained resilient, strengthening further in the first quarter to record an annual growth of 7.6% (4Q 2006: 7.1%), driven by private consumption and investment activities, and reinforced by increased public sector expenditure.

GDP by Expenditure Components (at year 2000 prices)

	2006			2007
	1Q	4Q	Year	1Q
	Annual change (%)			
Aggregate Domestic Demand (excluding stocks)	7.1	7.1	7.0	7.6
Consumption	5.6	6.2	6.6	8.3
Private sector	6.6	7.0	7.1	8.6
Public sector	1.2	4.1	5.0	7.3
Gross Fixed Capital Formation	11.4	9.8	7.9	5.4
Exports of Goods and Services	7.0	5.2	7.4	1.9
Imports of Goods and Services	11.9	5.0	8.6	3.5
GDP	6.0	5.7	5.9	5.3

Source: Department of Statistics, Malaysia

Consumer Sentiments Improved, while Business Confidence was Sustained



Source: Malaysian Institute of Economic Research (MIER)

Private consumption spending continued to be strong, growing at 8.6% in the quarter (4Q 2006: 7.6%). The trends of major consumption indicators, such as imports of consumption goods and loans approved and disbursed for consumption purposes pointed to sustained momentum in household spending. The main factor that contributed to the sustained growth in consumer spending

was the steady increase in disposable income, stable labour market conditions and firm commodity prices. The MIER Consumer Sentiment Index (CSI) rose strongly by 13.2 points to 124.1 points in the first quarter (4Q 2006: 110.9 points), signifying sustained positive outlook for consumer spending in the coming quarters.

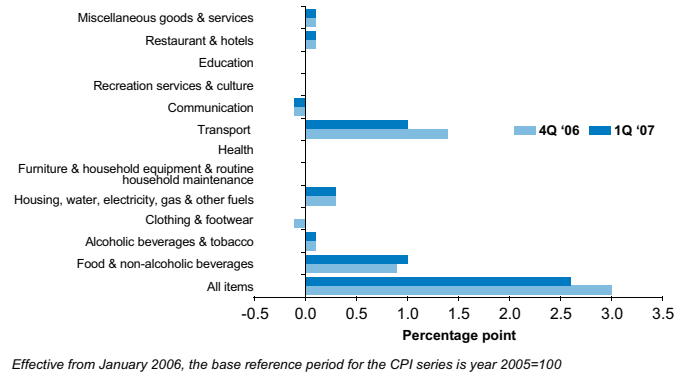
Meanwhile, **public consumption** grew by 7.3% during the quarter (4Q 2006: 4.1%) due mainly to higher expenditure for emoluments and supplies and services.

Gross fixed capital formation recorded a growth of 5.4% in the first quarter of 2007 (4Q 2006: 9.8%). Investment activities by the public sector continued to be sustained at a high level as the Federal Government continued to increase its pace of disbursement of development expenditure. The spending was mainly channelled towards improving essential services including transportation, agriculture and rural development and public utilities. At the same time, private sector capital spending was sustained, as evidenced by the trends of major investment indicators such as loans approved and disbursed to businesses, especially to the manufacturing and construction sectors. The MIER Business Conditions Index (BCI) also remained above the 100-point threshold at 105.5 points, suggesting a steady expansion in private investment activities.

Inflation continued to moderate in the first quarter

The headline inflation rate, as measured by the change in the Consumer Price Index (CPI), continued to moderate, averaging 2.6% in the first quarter of 2007 (4Q 2006: 3%). The slower increase in prices reflected the

Contribution to Consumer Price Inflation



lower contribution of the transport category to the headline inflation rate, following the lapse of the March 2006 increase in the prices of retail petroleum products. Price increases for the food and non-alcoholic beverages category were slightly higher compared to the previous quarter due to transitory factors such as the tighter supply conditions following the severe floods in Johor early this year, and the impact of seasonal factors and festivities. Competition among producers and sellers has continued to sustain the decline in prices for the clothing and footwear and communication categories.

Producer price inflation moderated to 4.4% in the first quarter (4Q 2006: 5.6%), as prices in the non commodity-related category rose at a slower pace of 4.9% (4Q 2006: 7%). Inflation in the commodity-related category, in contrast, increased by 2.9% (4Q 2006: 1.7%), reflecting price increases for crude palm oil and natural rubber during the quarter.

Labour market conditions remained healthy

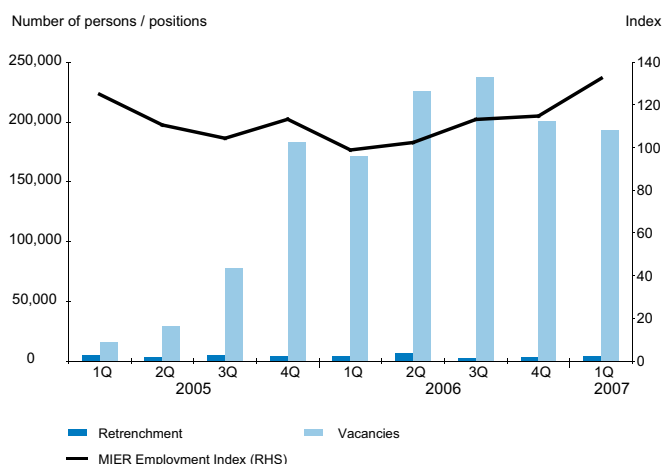
Labour market conditions in the first quarter of 2007 continued to be stable. The favourable employment outlook was also reflected in the

MIER Employment Index, which rose by 17.7 points to 132.5 points in the first quarter.

Total vacancies in the first quarter reported via the Electronic Labour Exchange (ELX) remained high at 193,188 positions, (4Q 2006: 200,523 positions), with significant levels of job openings reported in the manufacturing (35%), services (26%) and agriculture (21%) sectors. The bulk of the positions advertised in the ELX were mainly for

lower skilled jobs which are more suitable for non-executives, such as elementary occupations (59%). This development could be due to the Government's regulation that requires employers to advertise with the ELX if they intend to engage foreign migrant labour. Nonetheless, the Ministry of Human Resource's efforts to widen the use of ELX appear to yield some results, as more companies are utilising ELX to advertise higher skilled jobs, that are more suitable for graduates. The number of positions available for graduates increased by 30% to 17,764 (9% of total job vacancies) in the first quarter from 13,682 (7% of total job vacancies) in the

Labour Market Conditions



previous quarter. Most job openings for graduates are found in the services sector (86%).

Total number of retrenchments rose to 4,180 (4Q 2006: 2,613 persons). About 81% of the layoffs were in the manufacturing sector, affecting mainly workers from the electronics and electrical industry (64% of total retrenchments). The retrenchments mainly involved plant and machine operators and assemblers and general workers as well as craft and related trade workers (54% share). The main reason for the retrenchments cited by most companies is the reduction in demand.

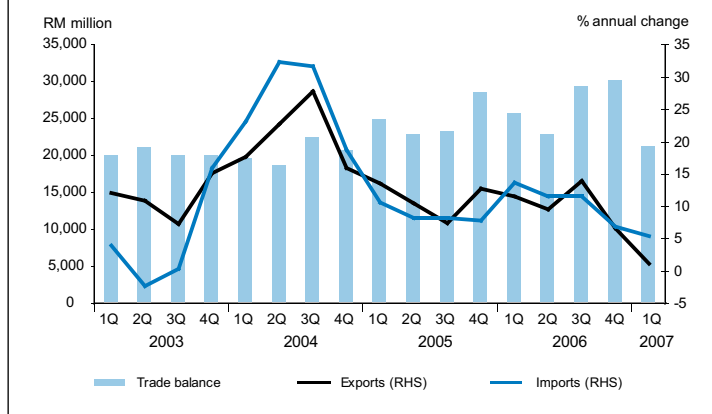
In the first quarter of 2007, labour productivity as indicated by real sales value per employee in the manufacturing sector fell by 4.6% (4Q 2006: -0.5%). The decline in labour productivity growth reflected the lower growth in real sales (-0.1%) amidst higher employment growth (4.7%). Meanwhile, real wages continued to decline (-0.4%), indicating that wage pressures remained weak.

Moderate expansion in both exports and imports

The **trade account** surplus narrowed to RM21.3 billion (4Q 2006: RM30.2 billion) in the first quarter of 2007, as import growth of 5.4% outpaced export growth of 1.1%.

Manufactured exports expanded, albeit at a more moderate pace of 1.5%, due mainly to the slowdown in demand for E&E products, particularly exports of computers and parts to the US market. Exports of electrical products were also affected during the quarter due to the phasing out of some of the lower-end products such as the cathode ray tube televisions and radios. Part of the impact was moderated by continued growth in exports of resource-based products such as chemical and rubber products which registered double-digit growth during the quarter. Exports of consumer products such as food,

Trade Balance



beverages and tobacco were also sustained due to stable demand.

Agriculture exports rose by 7.7%

during the quarter, supported mainly by the substantial rise in palm oil exports of 19.2%. The strong performance was attributable to the increase in export prices by 34.1% to RM1,905 per tonne. Higher prices reflected continued high global demand for palm oil, especially from PR China, EU and the US, amidst declining production and stocks during the quarter. This was further supported by the rise in soybean oil prices following reduction in output in the US as farmers switched to planting corn to fulfil domestic demand for biofuel. Meanwhile, rubber exports declined by 12.9% during the quarter (4Q 2006: 12.7%) due to both lower volume and prices, which declined by 12.3% and 0.7% respectively.

Trade Account

	2006			2007
	1Q	4Q	Year	1Q
	Annual change (%)			
Gross Exports	11.5	6.6	10.3	1.1
Manufacturing	10.6	5.7	10.1	1.5
Agriculture	4.5	22.1	12.5	7.7
Minerals	23.0	0.5	8.6	-3.6
Gross Imports	13.7	6.8	10.8	5.4
Capital goods	27.8	4.1	7.4	-4.7
Intermediate goods	8.2	7.1	8.8	8.8
Consumption goods	14.0	12.1	13.4	8.9
Trade balance (RM billion)	25.8	30.2	108.2	21.3

Source: Department of Statistics, Malaysia

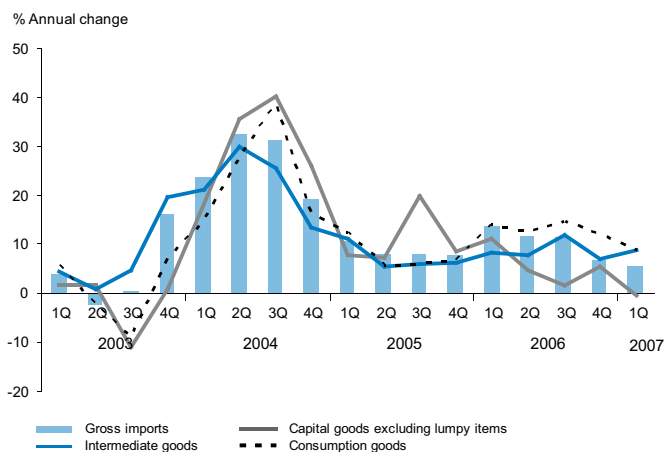
Export receipts from minerals declined during the quarter due to lower exports of crude oil arising from the decline in prices (-6% to USD61.18 per barrel; 1Q 2006: USD65.24 per barrel). Meanwhile, LNG exports expanded further supported by higher offtake from traditional buyers.

Malaysia's exports to the regional countries (excluding Japan), which accounted for 45.9% of Malaysia's exports, increased by 1.4%. These exports were mainly to PR China, Korea and Indonesia, underpinned by demand for exports of E&E products, as well as chemicals and chemical products. Exports to the EU expanded by 9.7%, led by exports to the United Kingdom, Germany, the Netherlands, France and Italy, comprising mainly E&E products, crude rubber and rubber products, palm oil as well as wood products. Export growth to West Asia and India also strengthened by 22.3% and 7.1% respectively.

On the imports side, Malaysia continued to source import components from Singapore, Hong Kong SAR, Korea and PR China. Imports from the regional countries increased by 9.6%, reflecting imports of E&E products, chemicals and chemical products, iron and steel products as well as manufactures of metal.

Gross imports increased by 5.4% (4Q 2006: 6.8%), reflecting higher imported inputs for manufactured exports and higher imports of consumption goods. Imports of **intermediate goods** strengthened by 8.8% (4Q 2006: 7.1%), driven by imports of metal and metal products, chemicals, electronics as well as parts of telecommunication products. In addition, imports of primary and processed materials used by the fuel and lubricant industry continued to grow strongly. Lower domestic demand for motor vehicles led to a decline in imports of parts and accessories of transport equipment.

Import Growth



Malaysia: Direction of Exports

	2006				2007				2006				2007			
	1Q		Year		1Q		1Q		1Q		Year		1Q			
	RM billion				Share of total exports (%)				Annual change (%)							
United States	24.5	27.8	110.6	23.7	17.9	18.3	18.8	17.2	13.4	1.0	5.3	-3.2				
European Union (EU) ¹	16.1	21.1	74.9	17.7	11.8	13.9	12.7	12.8	10.0	20.5	19.7	9.7				
Selected ASEAN countries ²	37.4	37.5	152.5	35.7	27.3	24.7	25.9	25.8	14.7	2.2	10.7	-4.5				
North East Asia	25.2	28.2	109.1	27.8	18.4	18.5	18.5	20.1	7.3	4.4	10.0	10.2				
People's Republic of China	8.3	11.7	42.7	11.2	6.1	7.7	7.2	8.1	4.4	11.9	21.1	34.6				
Hong Kong SAR	7.5	6.8	29.1	6.3	5.5	4.5	4.9	4.6	6.2	-12.6	-6.6	-15.6				
Chinese Taipei	3.3	4.1	16.0	3.8	2.4	2.7	2.7	2.7	7.2	2.8	8.3	15.4				
Korea	6.1	5.5	21.3	6.5	4.5	3.6	3.6	4.7	12.9	17.4	18.6	5.9				
India	4.0	5.4	18.8	4.2	2.9	3.6	3.2	3.1	8.3	30.1	25.5	7.1				
Total exports	136.7	152.0	588.9	138.2	100.0	100.0	100.0	100.0	11.5	6.6	10.3	1.1				

¹ Refers to European Union (EU) 27 from 2007 onwards
² Singapore, Thailand, Indonesia, Philippines, Brunei Darussalam and Vietnam
Source: Department of Statistics, Malaysia

Imports of **capital goods** amounted to RM15 billion. Capacity expansion amidst high agriculture prices spurred imports of agriculture machinery and equipment during the quarter. Increased development activity and upgrading for fuel efficiency led to higher growth in imports of generators, turbines and machinery in the services as well as oil and gas sectors. Meanwhile, imports of telecommunication equipment remained strong, in line with continued capacity expansion and upgrading activities by the telecommunication industry.

Consistent with strong private consumption, imports of **consumption goods** grew by 8.9%. Consumption imports were supported mainly by higher imports of primary

Larger inflows of portfolio investment

On a cash basis¹, gross inflows of **foreign direct investment (FDI)** amounted to RM7.3 billion in the first quarter of 2007, reflecting inflows of both the equity capital and drawdown of inter-company loans from parent companies abroad. FDI in the form of equity capital were mainly in the manufacturing sector, followed by the services and oil and gas sectors. In the manufacturing sector, FDI were channelled mainly into the petroleum-related products, chemical-related industries, as well as the paper and paper-product industry following the acquisition of a Malaysian company. Meanwhile, FDI in the services sector were directed primarily into the finance, insurance, real estate and business services as well as the restaurants, hotels, wholesale and retail trade sub-sectors. After adjustments for gross outflows due mainly to repayments of inter-company loans, net FDI amounted to RM0.9 billion.

Overseas investment by Malaysian companies recorded a gross outflow of RM24.8 billion, reflecting largely short-term loan extended by non-resident controlled companies in the services and manufacturing sectors to their related companies abroad arising from their centralised treasury operations. These outflows were offset largely by inflows arising from repayment of short-term inter-company loans during the quarter. After adjusting mainly for these inflows, overseas investment recorded a larger net outflow of

RM3.8 billion (4Q 2006: -RM1.6 billion). Overseas investments in the form of equity capital were effected mainly by companies in the manufacturing and services sectors. In the manufacturing sector, overseas investment were channelled mainly into the

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

	2006			2007
	1Q	4Q	Year	1Q
	Annual change (%)			
CAPITAL GOODS	27.8	4.1	7.4	-4.7
Capital goods (except transport equipment)	16.1	4.6	5.4	-4.1
Transport equipment	173.3	-0.1	23.5	-7.4
INTERMEDIATE GOODS	8.2	7.1	8.8	8.8
Food and beverages, mainly for industry	29.0	18.2	24.9	4.1
Industrial supplies, n.e.s.	1.2	19.2	11.1	23.9
Fuel and lubricants	21.1	-0.5	25.7	8.8
Parts and accessories of capital goods (except transport equipment)	9.2	3.3	5.1	2.5
Parts and accessories of transport equipment	8.8	-22.5	-8.7	-18.2
CONSUMPTION GOODS	14.0	12.1	13.4	8.9
Food and beverages, mainly for household consumption	3.4	5.7	4.8	14.8
Transport equipment, non-industrial	23.6	45.7	9.4	-11.7
Consumer goods, n.e.s.	20.9	15.1	18.8	5.9
Durables	31.3	13.7	9.8	1.1
Semi-durables	27.4	24.5	34.6	7.1
Non-durables	11.6	9.3	12.6	7.8
DUAL USE GOODS	23.2	-5.7	7.8	-8.1
OTHERS	12.0	-3.4	-2.7	15.7
RETAINED IMPORTS	11.6	6.4	8.7	6.4
RE-EXPORTS	52.7	12.5	50.6	-7.3
GROSS IMPORTS	13.7	6.8	10.8	5.4

Source: Department of Statistics, Malaysia

and processed food as well as beverages for household consumption. Imports of household electrical products, furniture, cameras, jewellery and medicine also increased during the quarter.

¹ The FDI data on cash basis does not include retained earnings and investment in the form of imported machinery and equipment.

External Debt Outstanding

	2006		2007
	1Q	4Q	1Q ^P
	RM billion		
Medium- and long-term debt	150.5	141.4	139.0
Public sector	86.9	75.7	73.5
Private sector	63.7	65.7	65.5
Short-term debt ¹	44.9	41.8	38.9
Total external debt	195.4	183.1	178.0
- USD billion equivalent	52.5	51.4	51.0

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

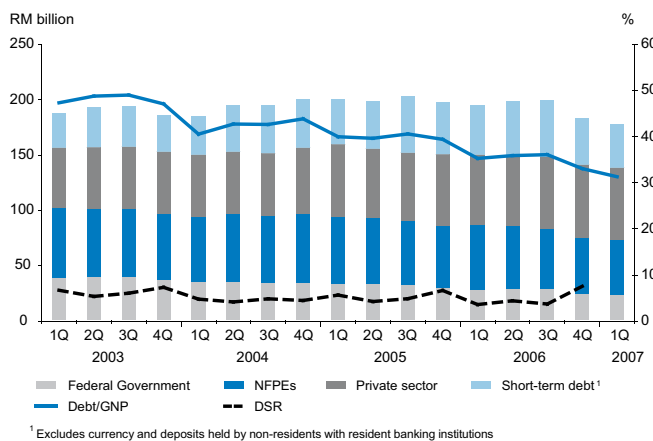
Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

also contributed to the positive investor sentiment.

Further improvement in external debt position

Malaysia's total external debt declined further to RM178 billion or USD51 billion as at end-March 2007 (end-2006: RM183.1 billion or USD51.4 billion), equivalent to 31.3% of GNP. The improvement in the external debt position was attributed to declines in both the medium- and long-term and short-term external debt. The lower **medium- and long-term external debt** (RM139 billion; end-2006: RM141.4 billion) reflected mainly the exchange revaluation gain following the appreciation of the ringgit against major currencies, particularly the US dollar. The public sector continued to register a net repayment of external loans during the quarter, reflecting both lower gross borrowings and repayments by the Federal Government and NFPEs. The net repayment by NFPEs was attributed mainly to companies in the oil and gas and transportation sectors. Meanwhile, the private sector recorded a smaller net drawdown of external loans of RM1.3 billion, mainly by companies in the agriculture, wholesale and retail trade, and transportation sectors.

External Debt Outstanding



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

food processing and automotive industries. Meanwhile, overseas investments by the services sector were led by companies in the finance, insurance, real estate and business services sub-sector.

Portfolio investment registered a net inflow of RM26.9 billion in the first quarter of 2007. The inflows of portfolio funds reflect mainly the strong foreign participation in the domestic equity market, supported by continued positive investor sentiment due to stronger fundamentals and expectations of stronger corporate earnings. Announcements to further liberalise the foreign exchange administration measures, removal of the real property gains tax and special incentives to promote investment in the Iskandar Development Region (IDR)

The total short-term external debt declined to RM38.9 billion or USD11.2 billion (end-2006: RM41.8 billion or USD11.7 billion), reflecting lower short-term borrowings by both banking and non-bank sectors. As at end-March 2007, the short-term debt accounted for only 21.9% of total external debt and was 12.7% of the net international reserves.

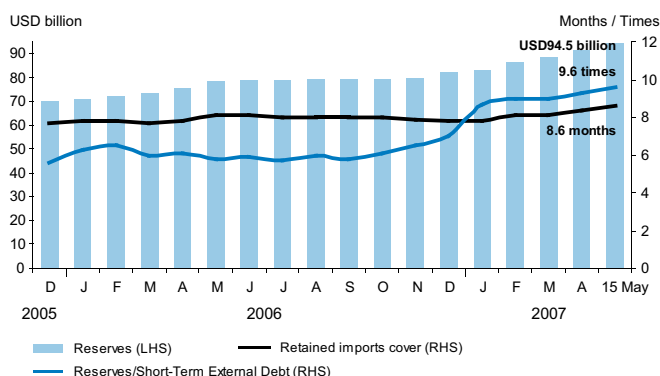
International reserves

The international reserves of Bank Negara Malaysia amounted to RM305.9 billion or equivalent to USD88.6 billion as at 30 March 2007. The reserves level as at 30 March 2007 has taken into account the quarterly revaluation loss, following the strengthening of ringgit against the major currencies during the first quarter. The reserves increased to RM326.5 billion or equivalent to USD94.5 billion as at 15 May 2007. The reserves position is sufficient to finance 8.6 months of retained imports and is 9.6 times the short-term external debt.

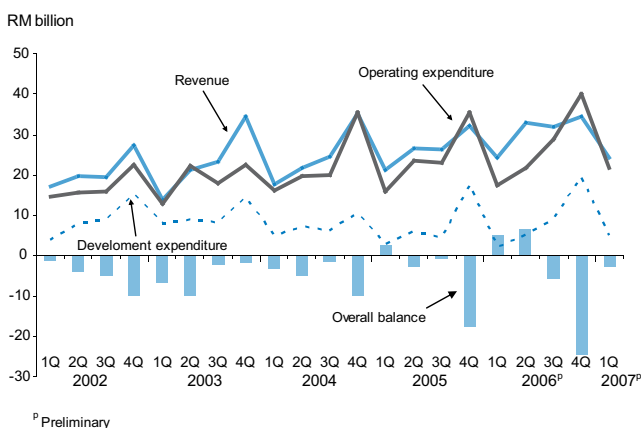
Expansionary budgetary operations

In the first quarter of 2007, total expenditure rose at an annual rate of 38.7%. Development spending increased at a faster pace compared with the first quarter of 2006, reflecting the pick-up in momentum in the implementation of the Ninth Malaysia Plan. Together with stable revenue collection during the quarter, the Federal Government's financial position recorded a deficit of RM2.6 billion or 1.8% of GDP during the quarter (1Q 2006: fiscal surplus of 3.6% of GDP). The deficit was financed mainly by domestic borrowings. As at end-March 2007, total outstanding debt of the Federal Government amounted to RM250 billion or 42.4% of the estimated 2007 GDP.

Net International Reserves (as at end period)



Federal Government Finance



Federal Government Finance^P

	2006			2007
	1Q	4Q	Year	1Q
	RM billion			
Revenue	24.2	34.4	123.5	24.2
% growth	14.5	6.9	16.2	0.1
Operating expenditure	17.3	40.0	107.7	21.7
% growth	8.9	12.8	10.2	25.2
Current account	6.9	-5.6	15.9	2.5
% of GDP	5.1	-3.8	2.8	1.8
Gross development expenditure	2.1	19.4	35.8	5.3
% growth	-23.0	11.0	17.3	148.4
Overall balance	4.9	-24.6	-19.1	-2.6
% of GDP	3.6	-16.6	-3.3	-1.8
Memo item:				
Total gross expenditure	19.5	59.4	143.5	27.0
% growth	4.2	12.2	11.9	38.7
Total Federal Government debt (as at end-period)	232.2	242.2	242.2	250.0
% of GDP	40.6	42.3	42.3	42.4 ¹
Domestic debt	203.3	217.2	217.2	225.9
% of GDP	35.5	37.9	37.9	38.3 ¹
External debt	28.9	25.0	25.0	24.1
% of GDP	5.1	4.4	4.4	4.1 ¹

^P Preliminary
¹ GDP at 1987 prices