

DEVELOPMENTS IN THE MALAYSIAN ECONOMY

The Malaysian economy continued on a steady growth path supported by sustained strong growth in the services sector, and higher growth in the mining and construction sectors

The Malaysian economy continued on a steady growth path, with real GDP expanding by 5.7% in the second quarter of 2007, led mainly by strong performance in the services sector and further supported by higher growth in the mining and construction sectors. The services sector continued to benefit from strong spending by domestic consumers and tourists as well as increased finance and business activity amidst the development of new products and services, the entry of new players as well as favourable stock market performance. Growth in the construction sector picked up further supported by commencement of the Ninth Malaysia Plan projects and activity in the non-residential segment, while the mining sector was supported by higher output of both crude oil and natural gas. For the second consecutive quarter, the manufacturing

Strong services activity...

The **services sector** expanded at a significantly higher growth (9.2%), led mainly by intermediate services.

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

	Share 2006	2006		2007		
		2Q	1H	1Q	2Q	1H
	%	Annual change in (%)				
Intermediate Services	42.8	6.7	6.0	13.4	11.6	12.5
Transport, storage & communication	14.2	6.2	5.4	5.4	8.6	7.0
<i>Transport & Storage</i>	7.0	4.7	4.3	5.5	9.3	7.4
<i>Communication</i>	7.2	7.6	6.5	5.3	8.0	6.6
Finance, insurance, real estate & business services	28.6	7.0	6.3	17.6	13.1	15.3
<i>Finance & Insurance</i>	19.8	6.8	6.5	13.2	11.0	12.1
<i>Real Estate & Business Services</i>	8.8	7.5	6.0	27.3	18.0	22.6
Final Services	57.2	7.2	7.4	6.8	7.4	7.1
Electricity, gas & water	5.9	4.9	4.7	4.3	4.5	4.4
Wholesale & retail trade, accommodation & restaurant	26.6	6.9	7.6	8.9	11.6	10.3
<i>Wholesale & retail trade</i>	22.3	7.3	8.2	9.1	11.9	10.5
<i>Accommodation & Restaurant</i>	4.2	4.9	4.4	8.1	10.3	9.2
Government services	13.6	10.7	10.4	6.0	2.8	4.3
Other services	11.1	4.9	5.2	4.2	4.8	4.6
Total Services	100.0	7.0	6.8	9.7	9.2	9.4

Source: Department of Statistics, Malaysia

The **finance, insurance, real estate and business services** sub-sector continued to record a double-digit growth during the quarter mainly benefiting from the introduction of banking products and services and entry of the new players resulting in increased interest and fee-based income. Growth was also supported by business activities due to the favourable stock market performance, increased demand for professional services from the construction and oil and gas sectors as well as increased activity in IT services. Similarly, the **wholesale and retail trade, accommodation and restaurant** sub-sector recorded a strong growth underpinned by strong purchases by domestic consumers and robust tourism activities benefiting from the 2007 Visit Malaysia Year.

Growth in the **transport, storage and communication** sub-sector was higher during the quarter led by stronger growth in both

Quarterly GDP by Kind of Economic Activity at Year 2000 Prices

	2006		2007		
	2Q	1H	1Q	2Q	1H
	Annual Change in (%)				
Agriculture	3.9	4.9	2.2	-0.9	0.6
Mining	-1.1	-2.0	-0.6	7.7	3.5
Manufacturing	8.4	8.6	2.0	1.5	1.8
Construction	-0.5	-1.2	4.0	4.8	4.4
Services	7.0	6.8	9.7	9.2	9.4
Real GDP (Ann. Chg.)	6.1	6.0	5.5	5.7	5.6
Real GDP (Preceding Chg.)	2.8	0.2	-1.7	2.9	0.0

Source: Department of Statistics, Malaysia

sector expanded at a moderate pace, due to the weakness in external demand for the electronics and electrical (E&E) products. The performance in the agriculture sector was affected by lower oil palm yields due to weather-related factors.

the telecommunications and transportation segments. The telecommunication players generated higher revenue especially from the mobile segment due to strong demand for

voice and data services and larger customer base. Growth was also contributed by the increase in internet and broadband services following the active promotions by the players to increase their subscriber base. Increased air travel, sea transportation and port-related activities led to the higher growth in the transportation sub-sector.

Selected Quarterly Indicators in the Services Sector

	2006		2007	
	2Q	1Q	2Q	1Q
	Percentage at end-period (%)			
Cellular phone penetration rate	80.8	77.0	78.0	
Internet subscribers penetration rate	14.0	14.0	14.2	
Broadband subscribers penetration rate	2.5	3.7	4.1	
	Index			
MIER Consumer Sentiment Index	104.2	124.1	115.9	
MIER Retail Trade Index	81.5	118.8	129.5	
MIER Tourism Market Index	110.0	133.8	131.6	
	Annual change (%)			
Total consumption credit outstanding	21.1	12.8	7.1	
Loans outstanding to the wholesale & retail trade, hotels & restaurants	15.5	10.1	0.0	
Imports of consumption goods	12.8	8.9	1.3	
Total sales of motor vehicles	-7.1	-15.5	-7.2	
Container cargo handled (Port Klang and PTP)	13.9	18.5	12.2	

Source: Various sources

Expansion in the manufacturing sector led by domestic-oriented industries...

Value-added growth in the **manufacturing sector** registered a positive growth of 1.5% in the second quarter of 2007 (1Q: 2%) reflected the increase in production by domestic-oriented industries, while the export-oriented industries was affected by weakness in external demand for electronic products, particularly from the US market.

Performance in the Manufacturing Sector

	2006		2007		
	2Q	1H	1Q	2Q	1H
	Annual change (%)				
Value Added (at year 2000 prices)	8.4	8.6	2.0	1.5	1.8
Overall Production	8.7	8.8	0.7	0.4	0.5
Export-oriented industries	9.6	10.2	-0.2	-1.7	-1.0
<i>Of which:</i>					
Electronics and electrical	8.3	12.6	-5.5	-6.2	-5.9
Electronics	12.4	17.5	-4.0	-4.5	-4.3
Electrical	-2.9	-0.3	-10.3	-11.3	-10.8
Chemicals and chemical products	10.8	8.3	7.3	1.4	4.3
Petroleum products ¹	15.5	11.9	5.0	11.3	8.1
Textiles, wearing apparel & footwear	14.5	12.6	-10.4	-10.6	-10.5
Wood and wood products ²	-1.3	0.9	1.6	3.8	2.7
Rubber products	8.6	0.4	16.9	3.2	9.7
Off-estate processing	7.2	1.4	-1.3	-12.9	-7.7
Domestic-oriented industries	5.3	3.3	4.8	9.0	7.0
<i>Of which:</i>					
Non-metallic mineral products	1.2	-1.9	-2.0	11.3	5.0
Iron & steel and non-ferrous metal	-4.1	-6.9	12.9	18.6	15.9
Food	3.7	1.1	16.2	8.6	12.2
Transport equipment	3.9	5.3	-21.9	-14.9	-18.4
Fabricated metal products	24.4	20.0	21.9	24.4	23.3
Total Manufactured Exports	10.0	10.3	1.4	-1.1	0.1
<i>Of which:</i>					
Electronics and electrical products	5.6	6.9	-2.0	-6.7	-4.4
Chemicals and chemical products	9.9	1.3	33.8	13.3	22.9
Petroleum products	39.0	39.6	-24.5	5.0	-9.4
Wood and wood products	10.0	3.1	15.3	8.1	11.5
Furniture & parts	5.4	6.7	7.9	14.3	11.2
Rubber products	38.4	28.5	31.0	6.1	17.0

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 **export-oriented industries** declined during the quarter (-1.7%; 1Q: -0.2%), mainly weighed down by the weakness in the electronics and electrical (E&E) industry (-6.2%; 1Q: -5.5%). The weakness was evident in the computer and parts segment arising from the subdued demand, particularly from the US. However, production of semiconductor components experienced a modest increase following an increase in demand from the non-US regions. Meanwhile, the chemical and chemical products industry recorded a moderate growth during the quarter due to normalization in output of plastic products after strong increases seen in the previous quarters. The industry was supported by growth in other segments, namely industrial gasses and construction-related plastic products.

Capacity Utilisation in the Manufacturing Sector *



* Beginning 2004, the capacity utilisation in the manufacturing sector has been rebased from value-add in year 2000 to value-add in year 2004

Production of **domestic-oriented industries** was higher (9%; 1Q: 4.8%), supported by favourable domestic demand. Non-metallic mineral, and iron and steel products benefited from the improvement in domestic construction activities, expanding by 11.3% and 18.6% respectively (1Q: -2% and 12.9% respectively). In contrast, the transport equipment industry remained weak for the fourth successive quarter due to the spillover effects from the lackluster second hand car market and the demand for new vehicles.

Performance in the Agriculture Sector

	2006		2007		
	2Q	1H	1Q	2Q	1H
	Annual change (%)				
Value Added (at year 2000 prices)	3.9	4.9	2.2	-0.9	0.6
Production ¹					
Of which:					
Crude palm oil	7.4	1.3	-1.4	-13.3	-8.0
Crude palm kernel oil	6.7	-0.9	3.3	-13.9	-6.2
Rubber	7.3	17.9	-6.9	1.2	-3.5
Cocoa	52.4	37.1	7.8	-10.5	-1.5
Fish	6.8	7.9	5.2	2.0	3.5
Exports (RM million)					
Of which:					
Palm oil ('000 tonnes)	-4.9	-1.4	-11.8	-5.7	-8.6
(RM/tonne)	1.0	-1.7	34.0	49.6	42.5
(RM million)	-4.0	-3.1	18.2	41.0	30.3
Palm kernel oil ('000 tonnes)	-23.3	-34.6	40.9	32.7	36.1
(RM/tonne)	-19.6	-16.4	-3.9	28.9	14.5
(RM million)	-38.3	-45.3	35.4	71.1	55.8
Rubber ('000 tonnes)	5.1	4.0	-12.3	-19.6	-16.0
(Sen/kilogramme)	53.9	49.0	-0.7	2.0	0.4
(RM million)	61.7	55.0	-12.9	-18.0	-15.6
Sawn timber ('000 cu.metres)	-15.1	-17.4	-2.1	-11.3	-6.7
(RM/cu.metre)	17.6	26.8	9.7	2.7	6.3
(RM million)	-0.1	4.8	7.4	-8.9	-0.9
Saw logs ('000 cu.metres)	-23.0	-21.2	-8.3	0.8	-3.7
(RM/cu.metre)	9.9	13.8	-2.5	-4.2	-3.4
(RM million)	-15.4	-10.4	-10.5	-3.4	-7.0
Cocoa beans ('000 tonnes)	1.6	48.4	-13.5	42.1	6.7
(RM/tonne)	1.4	0.1	4.8	10.5	8.1
(RM million)	3.1	48.6	-9.3	57.0	15.4

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

Overall, the manufacturing sector was operating at the capacity utilisation rate of 75% in the second quarter of 2007 (1Q: 75%), with both export- and domestic-oriented industries averaging 76% and 71% respectively (1Q: 77% and 67% respectively).

Primary commodities supported by strong growth in mining sector

Performance in the **primary commodity sector** was supported by strong growth in the mining sector (7.7%), due to both higher output of crude oil and natural gas. Meanwhile, the agriculture sector recorded a subdued performance (-0.9%) due to lower output of crude palm oil during the quarter.

In the **agriculture sector**, production of **crude palm oil** declined by 13.3% to 3.49 million tonnes (1Q: -1.4%) due to lower yields. Fresh fruit bunches (FFB) averaged 4.17 tonnes per hectare during the quarter compared with 4.95 tonnes per hectare in the second quarter of 2006 as harvest activity, particularly in the key producing states was affected by unfavourable weather conditions. Following the seasonal wintering which ended in early May, output of **rubber** turned around to increase by 1.2% in the second quarter of 2007 (1Q: -6.9%). The high prices (2Q 2007: 741 sen per kilogramme) supported tapping

activity, especially among the smallholders. Meanwhile, the food crop segment continued to lend support to the agriculture sector during the quarter. Growth emanated from higher production of livestock, vegetables and fish, due mainly to increases in marine fish landings led by the substantial rise in deep sea tuna fish.

In the **mining sector**, production of **crude oil** (including condensates) strengthened by 7.6% to 676,282 barrels per day during the quarter (2Q 2006: 628,341 barrels per day). The development was further augmented by stronger output of **natural gas**, which rose by 8% to 5,928 million standard cubic feet per day, supported by rising demand from the domestic electricity producers as well as external demand for liquefied natural gas, particularly from Japan and Korea.

Construction sector continued to expand ...

The construction sector continued on its growth momentum (4.8%;1Q: 4%), mainly supported by the **civil engineering** and non-residential sub-sectors. The former was underpinned by implementation of infrastructure projects related to the Ninth Malaysia Plan as well as oil and gas projects, while the latter was supported by new buildings of office and retail space, especially in the Klang Valley. Activity in the **residential** segment also picked up during the quarter supported by demand for high-end property in selected locations.

Strong expansion in domestic demand

Domestic demand registered a strong increase of 10.8% in the second quarter

Performance in the Mining Sector

	2006		2007		
	2Q	1H	1Q	2Q	1H
	Annual change (%)				
Value Added (at year 2000 prices)	-1.1	-2.0	-0.6	7.7	3.5
Production					
<i>Of which:</i>					
Crude oil and condensates ('000 barrels)	-4.2	-3.3	-1.9	7.6	2.7
Natural gas (net) (million standard cubic feet)	-3.0	-4.5	1.1	8.0	4.4
Exports (RM million)					
<i>Of which:</i>					
Crude oil and condensates ('000 tonnes)	-5.3	-6.3	3.2	-3.8	-0.2
(USD/barrel)	31.0	35.8	-5.6	3.2	-1.4
(RM million)	19.2	23.4	-8.6	-6.6	-7.6
Liquefied natural gas ('000 tonnes)	-8.5	-5.3	4.5	21.0	11.7
(RM/tonnes)	15.2	17.6	-0.2	6.4	2.9
(RM million)	5.4	11.4	4.3	28.8	14.9

Source: PETRONAS
Department of Statistics, Malaysia

Construction Indicators

	2006		2007		
	2Q	1H	1Q	2Q	1H
	Annual change (%)				
New sales and advertising permits	-20.3	-21.9	7.7	-6.3	0.4
Housing approvals	-7.4	-29.0	-9.6	-24.8	-17.5
Production of construction-related materials	-0.6	-3.6	2.8	13.7	8.5
Loans approved for construction	5.7	-12.5	81.8	103.8	94.9
Imports of construction materials and mineral products	-0.8	0.9	12.6	10.7 ¹	11.8 ²

¹ April-May 2007
² January-May 2007

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

(1Q: 8.7%), driven by private sector activity. The public sector sustained its supportive role as the Federal Government stepped up its development expenditure. As in the previous quarters, consumption expenditure, especially from the household sector, remained as the main contributor to domestic demand growth during the quarter.

Private consumption expenditure was stronger, increasing by 13.1%, supported by the steady increase in disposable income and stable labour market conditions as well as stronger commodity prices. At the same time, the favourable performance of the stock market reinforced consumer sentiment during the quarter. The latest Consumer Sentiment Index (CSI) compiled by the Malaysian

Institute of Economic Research (MIER), remained above 100-points for the fifth consecutive quarter. Major consumption indicators, such as imports of consumption goods, consumer spending on credit cards and loans disbursed for consumption purposes, remained on a positive growth trend reflecting prospects for continued expansion in consumer spending activity.

Meanwhile, **public consumption** was higher, recording a growth rate of 10.2% in the second quarter due to higher expenditure for emoluments and supplies and services.

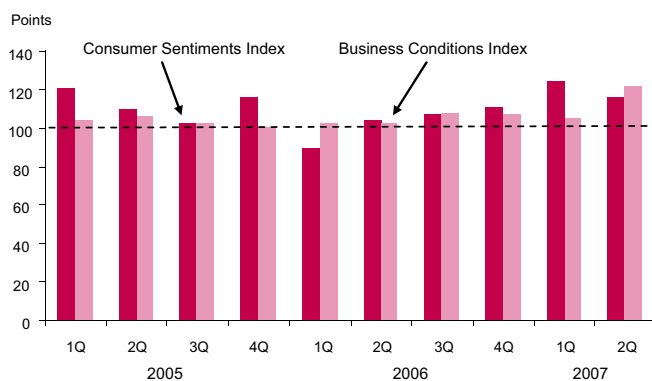
Gross fixed capital formation increased by 6.6% in the second quarter, as capital spending activities by both the private and public sector gathered momentum. Public sector capital spending continued to increase at a firm rate as evidenced by the higher disbursements of development expenditure by the Federal Government. During the quarter, government development spending initiatives were focussed on high-multiplier impact projects, mainly for agriculture and rural development, upgrading and construction of transportation related infrastructure and public utilities as well as improving the provisions of education services. Meanwhile, the steady expansion in private sector capital spending activities was notable in the manufacturing, construction and upstream oil and gas sectors. The MIER's second quarter Business Conditions Index rose significantly by 16.6 points from the previous quarter (122.1 points; 1Q: 105.5 points), signifying improved business sentiment. Indicators such as approved business loans and sales of construction-related materials recorded strong double-digit growth, pointing to expansion in investment activities in the manufacturing and construction sectors.

GDP by Expenditure Components (at constant 2000 prices)

	2006		2007		
	2Q	1H	1Q	2Q	1H
	Annual change (%)				
Aggregate Domestic Demand (excluding stocks)	7.2	7.2	8.7	10.8	9.8
Consumption	7.1	6.4	8.3	12.6	10.4
Private sector	7.7	7.2	8.6	13.1	10.8
Public sector	4.5	2.9	7.1	10.2	8.8
Gross Fixed Capital Formation	7.6	9.4	9.9	6.6	8.1
Exports of Goods and Services	5.5	6.2	1.9	3.0	2.5
Imports of Goods and Services	9.2	10.5	3.5	1.4	2.4
GDP	6.1	6.0	5.5	5.7	5.6

Source: Department of Statistics, Malaysia

Business Confidence Improved, while Consumer Sentiment was Sustained



Source: Malaysian Institute of Economic Research (MIER)

Inflation continued to moderate in the second quarter

The headline inflation rate, as measured by the change in the Consumer Price Index (CPI), moderated further to average 1.5% in the second quarter of 2007 (1Q: 2.6%), which is the lowest rate observed since the third quarter of 2004.

Several categories of goods and services experienced either slower price increases or declining prices during the quarter. The annual growth rate of transport prices decelerated to 1.1% in the second quarter from 6.1% in the first quarter of 2007, as there was no new impetus to prices in this sector after the lapse of the impact of the upward adjustments in retail petroleum product

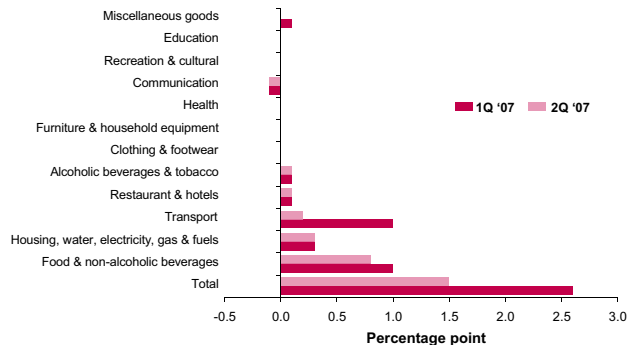
prices in March 2006. Prices for the food and non-alcoholic beverages category increased at a more moderate pace of 2.6% in the second quarter (1Q: 3.1%). The inflation rates of restaurants and hotels and recreation and culture however, were higher in the second quarter, due mainly to the price adjustments that took place in selected consumption goods and services. These price increases were partially offset by the continued decline in prices for the clothing and footwear and communication categories. Lower inflation is supported by expanding production capacity and competitive pressures in various goods and services markets.

Producer price inflation moderated to 3.9% in the second quarter (1Q: 4.3%), as prices in the non commodity-related category rose at a slower pace of 2.6% (1Q: 4.9%). Inflation in the commodity-related category, in contrast, increased sharply by 8.3% (1Q: 2.9%), reflecting price increases for crude oil, crude palm oil and natural rubber during the quarter.

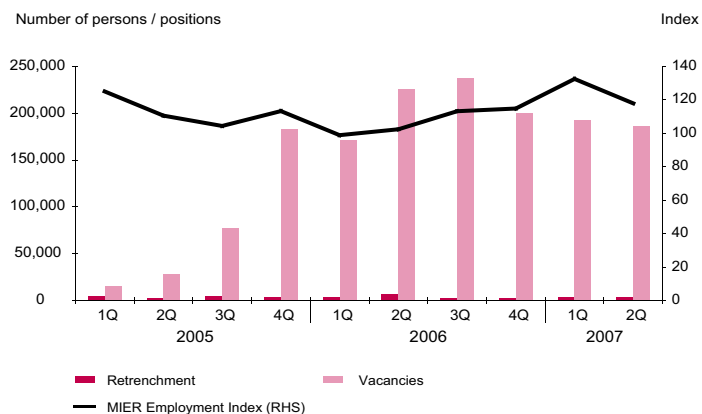
Labour market still resilient

Labour market conditions remained stable in the second quarter of 2007 with high level of job vacancies in all economic sectors. Total new vacancies in the second quarter reported via the Electronic Labour Exchange (ELX) remained high at 186,779 positions (1Q: 193,188 positions), with significant job openings in the manufacturing (32% share), services (26%) and agriculture (26%) sectors. Although most of the positions available in the ELX were mainly for lower skilled jobs such as elementary occupations (52%), total new vacancies at the graduate level posted a significant yearly increase of 78%. A large number of job openings for graduates was

Contribution to Consumer Price Inflation



Labour Market Conditions



in the services sector (54% share of total vacancies for graduates), especially in the financial and education industries. Similarly, job offers for professionals, associate professionals and technicians doubled compared with the corresponding period last year. In addition, total job placements stayed high in the second quarter.

There was a slight increase in the total number of retrenchments in the second quarter (4,202; 1Q: 4,180) affecting mainly workers in the manufacturing sector (70% share), especially in the E&E industry (40% of total retrenchments), which was hit by lower demand, high production cost and financial difficulties. The retrenchments mainly involved plant and machine operators, assemblers and general workers as well as craft and related trade workers (63%).

Labour productivity, as indicated by real sales value per employee in the manufacturing sector, fell by 1.4% in the second quarter (1Q: -3.2%), due mainly to the weak sales performance (2.3%) relative to higher employment growth (3.2%). For the second consecutive quarter, the sector's productivity performance was dragged down by the decline in labour productivity growth in the export-oriented industries (-2.8%; 1Q: -4.7%), on account of poor sales performance (0.9%). Meanwhile, real wages increased marginally by 1.4%, indicating the presence of slight wage pressures in the sector.

Moderate expansion in both exports and imports

The **trade account** recorded a surplus of RM22.5 billion in the second quarter of 2007 (1Q: RM21.1 billion). Export growth of 1.2% reflected higher agriculture and mineral exports, while the moderation in import growth to 1.7% was attributable mainly to lower growth in intermediate imports.

Gross exports rose by 1.2% in the second quarter of 2007 (1Q: 1%) mainly led by higher exports of primary commodities amidst the strong prices.

During the quarter, **agriculture exports** performed exceptionally well, driven mainly by the significant rise in palm oil exports. The

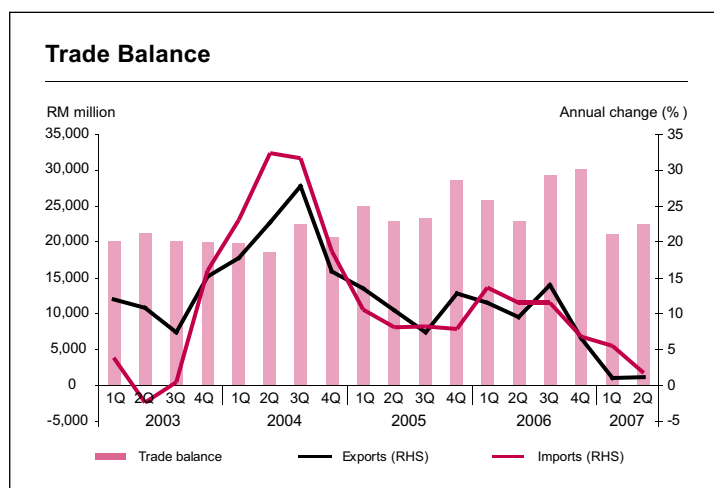
Trade Account

	2006		2007		
	2Q	1H	1Q	2Q	1H
	Annual change (%)				
Gross Exports	9.5	10.5	1.0	1.2	1.1
Manufacturing	10.0	10.3	1.4	-1.1	0.1
Agriculture	3.3	3.9	25.0	19.0	21.9
Minerals	10.1	16.6	-7.4	8.4	0.1
Gross Imports	11.5	12.6	5.5	1.7	3.5
Capital goods	7.9	16.7	-5.3	-0.5	-2.8
Intermediate goods	7.8	8.0	9.0	6.3	7.6
Consumption goods	12.8	13.4	8.9	1.3	5.0
Trade balance (RM billion)	22.9	48.6	21.1	22.5	43.6

Source: Department of Statistics, Malaysia

strong growth was caused by the double-digit increase in export prices (49.6%) to RM2,185 per tonne induced by the continued high global demand for palm oil, especially from the People's Republic of China, European Union, India and the US, amidst the declining domestic production and stocks during the quarter. The development was further reinforced by the rise in soybean oil prices due to extensive switching of the crop to corn planting in the US to fulfill domestic demand for biofuel. The decision by India, the largest edible oil market in the world, to reduce its tariff on palm oil imports to be nearly on par with the tariff on soybean imports has also been a major contributing factor to the surge in palm oil prices. **Mineral** exports also rose during the quarter driven entirely by the rise in LNG exports due to higher offtake by the major buyers, namely Korea and Japan, as well as higher prices.

Growth in **manufacturing exports** was subdued as a result of lower electronics and electrical (E&E) exports. The decline in the export earnings of electronic products (-6.7%; 1Q: -2%) was attributed to lower demand for computers and parts, particularly from the US market and falling global prices of semiconductors. Exports of electrical products were also affected by transition by some manufacturers from lower-end products such as the cathode ray tube televisions and radios to higher value added



audio-visual products. In contrast, exports of resource-based products remained strong, mainly supported by chemicals, petroleum and food products as well as furniture and parts.

Malaysia's exports to the regional countries (excluding Japan) slowed down to 0.2% (1Q: 1.3%) in line with weak external demand for E&E products. The exports share, however, remained large at 44.3%. The export performance was driven mainly by PR China, Indonesia and Korea, underpinned by the demand for resource-based products such as petroleum-related products, chemical and rubber products. In the second quarter of 2007, exports to PR China, Indonesia and Korea expanded by 18%, 18.6% and 14.1%, respectively.

Exports to the EU, led by Germany, Netherlands and Belgium, expanded by 19.9%, 21.5% and 17.8%, respectively (1Q: 21.9%, 5% and 25.9%, respectively), comprising mainly E&E products, chemical products, palm oil, as well as iron and steel products. Export growth to India strengthened by 13.9% (1Q: 7.1%), underpinned mainly by strong demand for E&E products, iron and steel products and palm oil.

Malaysia continued to source import components from Singapore, PR China,

Thailand and Hong Kong SAR. Imports from regional countries increased by 3.1% in the second quarter of 2007, reflecting mainly imports of E&E products, chemicals and chemical products, manufactures of metal and iron and steel products.

Gross imports increased, though at a more moderate pace of 1.7% (1Q: 5.5%). Imports of **intermediate goods** expanded by 6.3% (1Q: 9%) to RM87.9 billion, reflecting mainly imports of processed food and beverages for industry, as well as primary and processed industrial supplies such as metals, wood pulp and chemicals. Following continued growth in private consumption expenditure, import of **consumption goods** increased by 1.3% (1Q: 8.9%) to RM6.9 billion, driven mainly by imports of consumer durables and non-durable goods, such as electrical goods, furniture as well as medicines. The steady increase in disposable income also led to growth in imports of food and beverages for household consumption (2.6%; 1Q: 15%).

Imports of **capital goods** amounted to RM16.6 billion. Imports of capital goods, excluding one off large items expanded by 3.8% (1Q: -1.3%). Growth in imports of construction and mining equipment strengthened, spurred by continued exploration and downstream activities in the

Malaysia: Direction of Exports

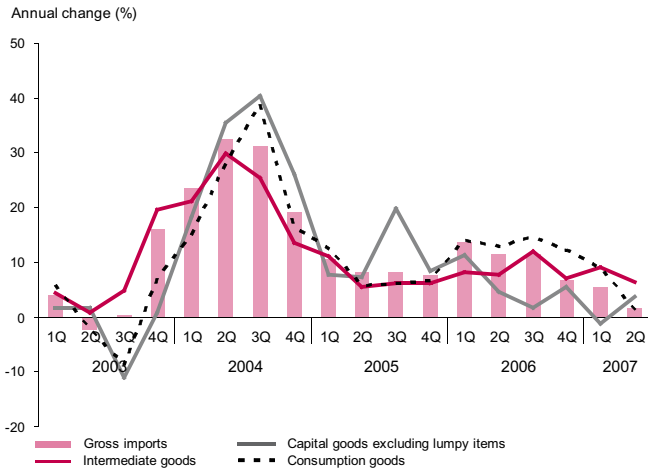
	2006		2007			2006		2007			2006		2007		
	2Q	1H	1Q	2Q	1H	2Q	1H	1Q	2Q	1H	2Q	1H	1Q	2Q	1H
	RM billion					Share of total exports (%)					Annual change (%)				
United States	28.1	52.6	23.7	22.8	46.6	19.6	18.8	17.2	15.8	16.5	4.3	8.3	-3.2	-18.7	-11.5
European Union (EU) ¹	17.6	33.7	17.7	19.4	37.1	12.3	12.1	12.8	13.4	13.1	17.5	14.1	9.7	9.6	9.6
Selected ASEAN countries ²	37.8	75.2	35.6	36.0	71.6	26.4	26.9	25.8	24.9	25.3	12.0	13.3	-4.8	-4.8	-4.8
North East Asia	26.2	51.4	27.8	28.1	55.9	18.3	18.4	20.1	19.4	19.8	8.8	8.1	10.2	7.3	8.7
People's Republic of China	9.9	18.3	11.2	11.7	22.9	6.9	6.5	8.1	8.1	8.1	20.3	12.5	34.6	18.0	25.5
Hong Kong SAR	7.3	14.8	6.3	6.6	12.9	5.1	5.3	4.6	4.5	4.6	-7.7	-1.1	-15.6	-10.2	-13.0
Chinese Taipei	4.1	7.3	3.8	4.3	8.0	2.8	2.6	2.7	2.9	2.8	7.3	7.2	15.4	4.6	9.5
Korea	4.9	11.0	6.5	5.6	12.1	3.4	3.9	4.7	3.9	4.3	18.9	15.5	5.9	14.1	9.6
India	4.1	8.1	4.2	4.7	8.9	2.9	2.9	3.1	3.2	3.2	26.1	16.7	7.1	13.9	10.5
Total exports	143.2	279.9	138.1	144.9	283.0	100.0	100.0	100.0	100.0	100.0	9.5	10.5	1.0	1.2	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

Import Growth



Significant FDI and portfolio investment inflows

On a cash basis, gross inflows of foreign direct investment (FDI) increased significantly to RM22.3 billion (1Q: RM7.3 billion) reflected the larger inflows of both the equity capital and inter-company loans from parent companies abroad. FDI in the form of equity capital were broad based, channeling mainly into services, agriculture and manufacturing sectors. In the services sector, FDI inflows were concentrated in the financing, insurance and business services sub-sectors. Inflows of FDI in agriculture sector were largely due to the acquisition of shares of a Malaysian palm oil company by a Singapore-based plantation company. In the manufacturing sector, FDI were largely into the food, petroleum-related, and chemical industries. Meanwhile, the bulk of the inter-company loans were in the form of short-term loans extended by foreign companies to their subsidiaries in Malaysia, particularly in the services sub-sectors and oil and gas sectors. The bulk of these loans were repaid during the same quarter. After adjusting for gross outflows due mainly to repayments of these short-term loans, net FDI increased significantly to RM13.6 billion (1Q: RM0.8 billion). The FDI on cash basis does not include retained earnings and investment in the form of imported machinery and equipment.

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

	2006		2007		
	2Q	1H	1Q	2Q	1H
	Annual change (%)				
CAPITAL GOODS	7.9	16.7	-5.3	-0.5	-2.8
Capital goods (except transport equipment)	2.3	8.6	-4.9	6.8	1.1
Transport equipment	50.5	92.2	-7.7	-38.6	-23.6
INTERMEDIATE GOODS	7.8	8.0	9.0	6.3	7.6
Food and beverages, mainly for industry	28.0	28.5	4.0	11.3	7.9
Industrial supplies, n.e.s.	0.9	1.0	24.1	22.2	23.1
Fuel and lubricants	40.1	30.7	8.8	-4.9	1.4
Parts and accessories of capital goods (except transport equipment)	7.2	8.2	2.8	-1.4	0.6
Parts and accessories of transport equipment	-8.3	-0.6	-18.3	8.7	-4.6
CONSUMPTION GOODS	12.8	13.4	8.9	1.3	5.0
Food and beverages, mainly for household consumption	5.4	4.4	15.0	2.6	8.7
Transport equipment, non-industrial	16.4	19.6	-12.1	2.8	-4.1
Consumer goods, n.e.s.	17.2	18.9	5.8	0.6	3.1
Durable	-7.5	10.3	0.3	34.5	15.9
Semi-durable	41.6	34.9	7.1	-20.2	-8.1
Non-durable	13.8	12.8	8.0	3.5	5.7
DUAL USE GOODS	1.0	10.9	-8.1	-6.2	-7.2
OTHERS	8.6	10.2	15.7	16.7	16.2
RETAINED IMPORTS	7.9	9.7	6.4	4.8	5.6
RE-EXPORTS	92.8	72.3	-6.9	-37.0	-23.4
GROSS IMPORTS	11.5	12.6	5.5	1.7	3.5

Source: Department of Statistics, Malaysia

oil and gas sector. Imports for machinery, generators, turbines and electric motors also expanded, attributable to increased development activity and upgrading for fuel efficiency. Meanwhile, favourable agriculture prices continued to promote capacity expansion in the sector, leading to high imports of agriculture equipment.

Overseas investment by Malaysian companies increased to RM26.9 billion (1Q: -RM24.8 billion), reflecting mainly large short-term loan extensions by non-resident controlled companies in the manufacturing sector to their related companies abroad,

arising partly from their centralised treasury operations. There were also significant outflows of equity capital due to acquisition of shares of a Singapore-based plantation company by Malaysian companies. These outflows were largely offset by inflows arising from repayment of short-term inter-company loans during the quarter. After adjusting mainly for these short-term loans, overseas investment recorded a larger net outflow of RM7.8 billion (1Q: -RM3.8 billion). The bulk of the overseas investment were by companies in the manufacturing, services and oil and gas sectors. In the manufacturing sector, overseas investment were channeled mainly into the plantation, E&E and petroleum-related industries. Meanwhile, overseas investments by the services sector were led by companies in the financing, insurance and business as well as telecommunication sub-sectors.

Portfolio investment recorded a net inflow of RM14.5 billion (1Q: RM27.4 billion,) reflecting mainly inflows in both equity and debt securities. The continued inflows of portfolio funds reflected positive investor sentiment due to stronger fundamentals and expectations of stronger corporate earnings.

External debt within prudential level

External debt of Malaysia amounted to RM181.9 billion or USD52.2 billion as at end-June 2007 (1Q: RM178.9 billion or USD51.3 billion), equivalent to 32% of GNP. The **medium and long-term external debt** was lower at RM135 billion, reflecting net repayment of external loans by both the public and private sectors. The significantly higher net loan repayment by the NFPEs (-RM2.3 billion; 1Q: -RM0.2 billion) was attributed mainly to the maturity of a USD denominated bond issued by a company in the utilities sector and prepayment of external loan by a telecommunication company. Meanwhile, the Federal Government

recorded a smaller net repayment of RM0.1 billion (1Q: -RM0.4 billion). The private sector recorded a net repayment of RM1.4 billion (1Q: +RM0.03 billion) due mainly to the maturity of a USD denominated bond issued by a finance, insurance and business services company and several prepayments of loans by companies in the oil and gas, agriculture and transportation sectors to reduce their debt exposure.

The total **short-term external debt** increased to RM46.9 billion or USD13.4 billion (1Q: RM39.4 billion), reflecting higher short-term borrowings by the banking sector. As at end-June, the short-term external debt accounted for 25.8% of total external debt and is 13.8% of the net international reserves.

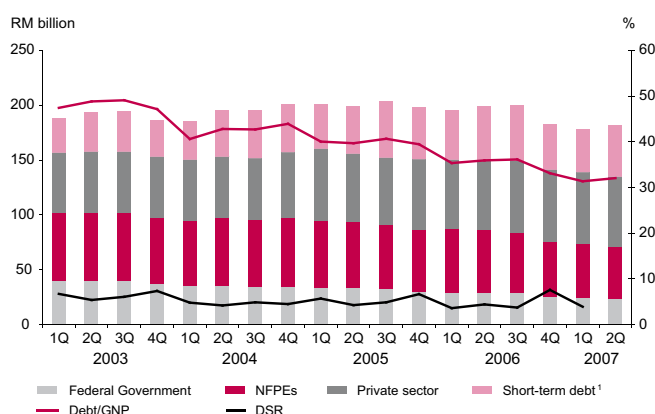
External Debt Outstanding

	2006		2007	
	2Q	1Q	2Q ^P	
	RM billion			
Medium- and long-term debt	150.1	139.5	135.0	
Public sector	86.2	73.8	70.8	
Private sector	63.8	65.7	64.2	
Short-term debt ¹	48.7	39.4	46.9	
Total external debt	198.7	178.9	181.9	
- USD billion equivalent	53.6	51.3	52.2	

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

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

External Debt Outstanding



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

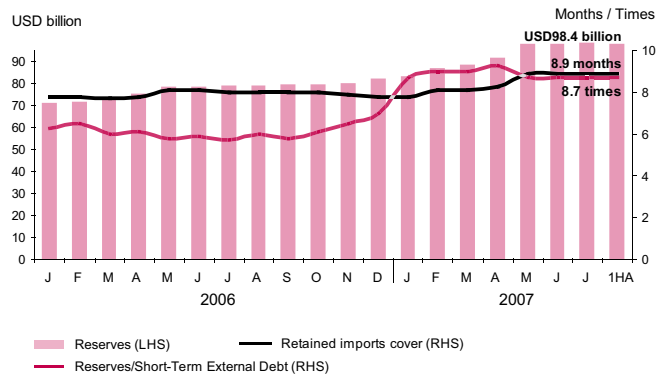
International reserves

The international reserves of Bank Negara Malaysia amounted to RM339.8 billion or equivalent to USD98.4 billion as at end-June 2007. The reserves level has taken into account the quarterly revaluation gain, following the strengthening of the major currencies against ringgit during the quarter. The reserves amounted to RM339.7 billion or equivalent to USD98.4 billion as at 15 August 2007. The reserves position is sufficient to finance 8.9 months of retained imports and is 8.7 times the short-term external debt.

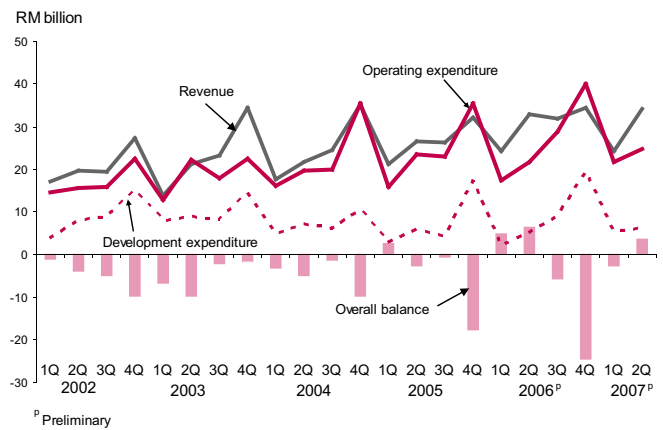
Federal Government finance registered a surplus

Total gross expenditures in the second quarter of 2007 rose at an annual pace of 15.7% (1Q: 38.7%), attributed mainly to prompt Government disbursements and scheduled implementations of developmental projects. Revenue grew modestly in the second quarter, as the Government stepped up collection efforts. The Federal Government's financial position recorded an overall surplus of RM3.6 billion or 2.4% of GDP, compared to a fiscal surplus of 4.6% of GDP for the same period last year. During the quarter, funds were raised entirely from domestic sources. By end-June 2007, the Federal Government total outstanding debt stood at RM260 billion or 42.6% of the estimated GDP.

Net International Reserves (as at end period)



Federal Government Finance



Federal Government Finance^P

	2006		2007		
	2Q	1H	1Q	2Q	1H
	RM billion				
Revenue	33.0	57.3	24.2	34.2	58.4
% growth	24.2	19.9	0.1	3.5	2.0
Operating expenditure	21.6	38.9	21.7	24.8	46.5
% growth	-7.7	-1.0	25.2	14.7	19.4
Current account	11.4	18.3	2.5	9.4	11.9
% of GDP	8.2	6.7	1.8	6.3	4.1
Gross development expenditure	5.2	7.4	5.3	6.2	11.6
% growth	-12.2	-15.6	148.4	19.6	57.0
Overall balance	6.4	11.3	-2.6	3.6	1.0
% of GDP	4.6	4.1	-1.8	2.4	0.3
Memo item:					
Total gross expenditure	26.8	46.3	27.0	31.0	58.0
% growth	-8.6	-3.6	38.7	15.7	25.4
Total Federal Government debt (as at end-period)	240.2	240.2	250.0	260.1	260.1
% of GDP	42.0	42.0	40.9	42.6	42.6
Domestic debt	211.1	211.1	225.9	236.3	236.3
% of GDP	36.9	36.9	37.0	38.7	38.7
External debt	29.1	29.1	24.1	23.8	23.8
% of GDP	5.1	5.1	3.9	3.9	3.9

^P Preliminary