DEVELOPMENTS IN THE MALAYSIAN ECONOMY

The Malaysian economy strengthened further in the third quarter of 2007 led by strong performance in the services sector

The Malaysian economy strengthened further in the third quarter of 2007, with real GDP growth rising to 6.7%, led mainly by strong activities in the services sector and reinforced by sustained construction activities and a pick-up in the agriculture and manufacturing sectors. Strong domestic demand, tourism and robust business activity imparted a positive impact on the services sector, while the construction sector maintained its growth momentum underpinned by implementation of projects under the Ninth Malaysia Plan. Growth in the agriculture sector reflected an improvement in output of crude palm oil, Malaysia's key commodity, after a yield downcycle and strong performance in selected minor agriculture activities. Growth in the manufacturing sector picked up reflecting a gradual recovery in the electronics and electrical (E&E) industry and further reinforced by expansion in the domestic-oriented industries. Meanwhile, a new oil field that came into operation during the quarter contributed to the growth in the mining sector.

Quarterly GDP by Kind of Economic Activity at Year 2000 Prices[1]

	2006		2007		
	3Q	4Q	1Q	2Q	3Q
	Annual Change in (%)				
Agriculture	5.8	5.1	2.2	-0.9	0.6
Mining	0.1	2.1	-0.6	7.7	2.3
Manufacturing	7.2	4.0	2.0	1.5	3.4
Construction	-0.4	0.6	4.0	4.8	4.7
Services	7.2	8.0	9.7	9.4	10.5
Real GDP (Ann. Chg.)	**6.0**	**5.7**	**5.5**	**5.8**	**6.7**
Real GDP (Preceding Chg.)	**3.9**	**0.5**	**-1.7**	**3.0**	**4.8**

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

Source: Department of Statistics, Malaysia

Services sector the key driver of growth

The services sector expanded at a strong pace to register a double-digit growth of 10.5% in the third quarter of 2007. Growth was driven by the strong performance in intermediate services and higher growth in final services. Of significance, the two major sub-sectors, namely finance and insurance, real estate and business services, and wholesale and retail trade, accommodation and restaurant, which account for more than 50% of the services sector performed well during the quarter.

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

	Share 2006	2006		2007		
		3Q	4Q	1Q	2Q	3Q
	%	Annual change in (%)				
Intermediate Services	**42.8**	**8.9**	**9.5**	**13.4**	**11.9**	**12.5**
Transport, storage & communication	14.2	6.6	6.8	5.4	8.6	10.2
Transport & Storage	*7.0*	*5.7*	*6.7*	*5.5*	*9.3*	*13.4*
Communication	*7.2*	*7.5*	*6.8*	*5.3*	*8.0*	*7.1*
Finance, insurance, real estate & business services	28.6	10.0	10.8	17.6	13.6	13.7
Finance & Insurance	*19.8*	*9.1*	*8.8*	*13.2*	*11.0*	*8.8*
Real Estate & Business Services	*8.8*	*12.0*	*15.6*	*27.3*	*19.5*	*24.4*
Final Services	**57.2**	**6.0**	**7.0**	**6.8**	**7.5**	**9.1**
Electricity, gas & water	5.9	5.3	6.2	4.3	4.5	2.9
Wholesale & retail trade, accomodation & restaurant	26.6	6.1	6.4	8.9	11.6	14.4
Wholesale & retail trade	*22.3*	*6.1*	*6.0*	*9.1*	*11.9*	*14.9*
Accomodation & Restaurant	*4.2*	*5.7*	*9.1*	*8.1*	*10.3*	*11.6*
Government services	13.6	7.9	10.6	6.0	2.8	3.8
Other services	11.1	4.2	4.5	4.2	5.4	6.0
Total Services	**100.0**	**7.2**	**8.0**	**9.7**	**9.4**	**10.5**

Source: Department of Statistics, Malaysia

Growth in the **finance, insurance, real estate and business services** segment was broad based. The finance segment continued to be supported by the banking intermediation activity and the increased contribution from new fee-based activities such as money transmission, unit trust fund, advisory and wealth management services. Growth was also supported by the rapid expansion in Islamic finance during the quarter. Interest in the property market by foreigners as well as residents contributed to growth in the real estate activity, while the business services segment was supported by strong turnover in the capital market and contribution from new areas of growth such as IT services and professional services. As of end-September 2007, a total of 1,922 IT related companies have been granted Mutimedia Super-Corridor status (end-2006: 1,728).

Sustained strong spending by domestic consumers and increased tourist arrivals during the summer vacation underpinned the growth in the **wholesale and retail trade, accommodation and restaurant** sub-sector. The robust performance was reflected by indicators such as consumption credit, sales of new motor vehicles and tourist arrivals.

Selected Quarterly Indicators in the Services Sector

	2006		2007		
	3Q	4Q	1Q	2Q	3Q
	Percentage at end-period (%)				
Cellular phone penetration rate	81.6	72.3	77.0	78.2	80.8
Internet subscribers penetration rate	14.0	14.0	14.0	14.2	14.3
Broadband subscribers penetration rate	2.8	3.3	3.7	4.1	4.5
	Index				
MIER Consumer Sentiment Index	107.5	110.9	124.1	115.9	117.5
MIER Retail Trade Index	95.0	99.2	118.8	129.5	145.9
MIER Tourism Market Index	129.2	127.2	133.8	131.6	131.1
	Annual change (%)				
Total consumption credit outstanding	18.0	14.9	12.8	7.1	6.9
Loans outstanding to the wholesale & retail trade, hotels & restaurants	10.9	12.0	10.1	0.0	6.2
Imports of consumption goods	14.7	12.1	8.9	1.1	1.0
Total sales of motor vehicles	-9.0	-24.8	-15.5	-7.2	2.2
Container cargo handled (Port Klang and PTP)	15.9	18.7	18.5	12.2	9.7

Source: Various sources

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

Increased disposable income of civil servants amidst the salary revision and the Mega Sales Carnival supported higher spending in consumer durables.

The **transport, storage and communication** sub-sector also recorded a double-digit growth during the quarter, led by increased revenue in the sea transportation segment due to higher oil and gas activities. Meanwhile, the increase in subscriber base and higher usage of mobile services in response to competitive pricing among the telecommunication providers supported the telecommunications industry.

Pick up in manufacturing activity

Value-added growth in the **manufacturing sector** picked up, reflecting a gradual recovery in the electronics and electrical (E&E) sector and further expansion in domestic-oriented industries.

Production of **export-oriented industries** expanded by 1.4% during the quarter (2Q: -1.6%). Growth was supported by the turnaround in the electronics and electrical sector (2.2%; 2Q:-5.8%) amidst the increased production of semiconductors (5.1%; 2Q: -0.4%), mainly to meet the demand from the non-US market, namely PR China and the European Union. In addition, the computers and parts segment which is closely linked to developments in the US market showed an improvement in the third quarter (0.2%; 2Q: -16.6%). The chemical and chemical products sector recorded a marginal growth attributable to plant maintenance in the industrial gas industry and weaker external demand for plastic products.

Performance in the Manufacturing Sector

	2006		2007		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
Value Added (at year 2000 price)	**7.2**	**4.0**	**2.0**	**1.5**	**3.4**
Overall Production	**7.1**	**5.3**	**0.7**	**0.4**	**2.0**
Export-oriented industries	**5.9**	**4.3**	**-0.2**	**-1.6**	**1.4**
Of which:					
Electronics and electrical	5.1	1.9	-5.5	-5.8	2.2
Electronics	8.8	4.5	-4.0	-4.0	4.1
Electrical	-5.5	-5.5	-10.3	-11.1	-4.0
Chemicals and chemical products	-1.8	-0.6	7.3	1.3	0.6
Petroleum products[1]	18.1	12.8	5.0	11.3	1.9
Textiles, wearing apparel & footwear	-0.8	1.5	-10.4	-11.2	-5.8
Wood and wood products[2]	4.2	9.7	1.6	4.1	0.5
Rubber products	13.5	15.2	16.9	2.7	3.7
Off-estate processing	9.7	9.6	-1.3	-12.7	-0.3
Domestic-oriented industries	**12.2**	**9.9**	**4.8**	**8.6**	**4.6**
Of which:					
Non-metallic mineral products	8.1	9.2	-2.0	10.9	-0.2
Iron & steel and non-ferrous metal	7.9	20.5	12.9	17.6	13.9
Food	14.4	9.7	16.2	7.6	0.6
Transport equipment	-2.6	-14.0	-21.9	-12.8	0.1
Fabricated metal products	36.1	30.1	21.9	22.0	14.2
Total Manufactured Exports	**14.2**	**5.7**	**1.4**	**-1.1**	**-2.1**
Of which:					
Electronics and electrical products	10.3	1.7	-2.0	-6.7	-5.7
Chemicals and chemical products	22.0	17.6	33.8	13.5	3.1
Petroleum products	32.0	2.5	-24.5	5.8	-5.9
Wood and wood products	34.3	26.8	15.3	8.2	-17.8
Furniture & parts	10.5	7.6	7.9	14.3	1.0
Rubber products	48.5	30.8	31.0	6.0	1.0

[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 **domestic-oriented industries** continued to expand (4.6%; 2Q: 8.6%) mainly supported by the iron and steel, concrete and cement products and fabricated metal products industries as these industries continued to benefit from improving domestic construction activities. Meanwhile, the transport equipment industry turned around after experiencing four consecutive quarters of decline supported by the upturn in sales of new motor vehicles due to the release of new models.

The overall capacity utilisation in the manufacturing sector remained unchanged at 75% in the third quarter of 2007, with both export- and domestic-oriented industries operating at 76% and 72% respectively (2Q: 76% and 71% respectively).

Positive contribution from the commodity sector

In the **primary commodity sector,** both the agriculture and mining sectors recorded positive growth during the quarter. The agriculture sector expanded by 0.6% (2Q: -0.9%) following the gradual improvement in crude palm oil output and favourable performance in the minor agriculture activities, while the growth in the mining sector (2.3%) was led by increased crude oil output.

In the **agriculture sector,** production of **crude palm oil** declined, at a slower rate of 0.1% (2Q: -13.3%) to total 4.52 million tonnes in the third quarter of 2007. The improvement was attributed to higher yields in Sabah, the largest producing state, with fresh fruit bunches (FFB) yields rising by 2.5% and the oil extraction rate (OER) increasing by 5.9% to 21.39% (national average: 20.2%). At the same time, output of minor agriculture activities such as **vegetables, livestock and cocoa** performed better. **Rubber** output declined during the quarter as tapping activities were disrupted by rainy weather conditions in the northern states of Peninsular Malaysia.

Performance in the Agriculture Sector

	2006		2007		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
Value Added					
(at year 2000 prices)	**5.8**	**5.1**	**2.2**	**-0.9**	**0.6**
Industrial Crops	-1.8	4.2	-0.1	-5.0	-1.8
Food Crops	4.4	6.4	5.5	5.8	4.4
Production[1]					
Of which:					
Crude palm oil	10.6	10.7	-1.4	-13.3	-0.1
Crude palm kernel oil	11.5	14.7	3.3	-13.9	-6.7
Rubber	9.4	11.2	-6.9	1.4	-10.3
Cocoa	17.8	-19.9	9.4	-10.5	21.8
Fish	7.2	10.0	5.2	2.0	4.0
Exports (RM million)	**19.7**	**22.1**	**7.7**	**17.9**	**28.2**
Of which:					
Palm oil					
('000 tonnes)	11.4	20.9	-11.8	-6.7	-6.0
(RM/tonne)	11.0	14.7	34.0	49.4	63.1
(RM million)	23.7	38.6	18.2	39.5	53.4
Palm kernel oil					
('000 tonnes)	36.2	15.4	40.9	14.3	7.5
(RM/tonne)	-15.8	-9.9	-3.9	22.3	63.4
(RM million)	14.7	3.9	35.4	39.8	75.6
Rubber					
('000 tonnes)	-4.1	1.4	-12.3	-19.6	-1.8
(Sen/kilogramme)	59.5	11.1	-0.7	2.0	-12.4
(RM million)	53.0	12.7	-12.9	-18.0	-14.0
Sawn timber					
('000 cu.metres)	-8.0	5.2	-2.1	-6.0	-11.4
(RM/cu.metre)	17.9	4.1	9.7	4.5	-1.0
(RM million)	8.4	9.5	7.4	-1.8	-12.3
Saw logs					
('000 cu.metres)	-21.7	-3.2	-8.3	-2.5	12.3
(RM/cu.metre)	7.7	7.2	-2.5	-0.9	-4.3
(RM million)	-15.6	3.8	-10.5	-3.4	7.4
Cocoa beans					
('000 tonnes)	321.3	-8.2	-13.5	42.1	15.7
(RM/tonne)	4.4	10.1	4.8	10.5	29.7
(RM million)	339.9	1.1	-9.3	57.0	50.0

[1] In '000 tonnes

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

Growth in the **mining sector** was driven by the 4.9% increase in the production of crude oil to 695,555 barrels per day. Of significance, crude oil production in Sabah rose by 15.1% as a result of the commencement of production of Malaysia's first deepwater oil field at Kikeh in mid-August 2007. Meanwhile, **natural gas** production declined marginally by 0.8% due to lower external demand from Korea, Malaysia's second largest importer of LNG.

Performance in the Mining Sector

	2006		2007		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
Value Added (at year 2000 prices)	**0.1**	**2.1**	**-0.6**	**7.7**	**2.3**
Production					
Of which:					
Crude oil and condensates ('000 barrels)	-7.5	-6.5	-1.9	-7.6	4.4
Natural gas (net) (million standard cubic feet)	3.5	4.4	1.1	8.0	-0.8
Exports (RM million)	**3.2**	**0.5**	**-5.3**	**7.5**	**7.7**
Of which:					
Crude oil and condensates					
('000 tonnes)	-11.1	-8.1	3.2	-3.1	1.7
(USD/barrel)	16.7	4.2	-5.6	3.1	3.5
(RM million)	1.0	-8.0	-8.6	-6.1	-0.7
Liquefied natural gas					
('000 tonnes)	1.8	1.8	4.5	21.0	1.6
(RM/tonnes)	13.0	8.7	-0.2	6.4	10.0
(RM million)	15.0	10.7	4.3	28.8	11.8

Source: PETRONAS
Department of Statistics, Malaysia

Construction sector maintaining high growth momentum

The construction sector maintained its growth momentum, expanding by 4.7% in 3Q 2007 (2Q: 4.8%), mainly supported by the implementation of various infrastructure projects in the **civil engineering** sub-sector under the Ninth Malaysia Plan. Growth was also supported by the **non-residential** segment reflecting construction of new retail and office space, particularly in the Klang Valley. Meanwhile, the **residential** segment was mainly supported by demand for houses in the high-end segment.

Construction Indicators

	2006		2007		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
New sales and advertising permits	-21.7	-2.7	7.7	-6.3	10.6
Housing approvals	-12.6	-20.0	-9.6	-24.8	-4.7
Production of construction-related materials	8.0	12.8	2.8	13.1	4.4
Loans approved for construction	7.3	73.2	91.3	103.8	38.8
Imports of construction materials and mineral products	38.3	-8.2	12.6	8.4	-6.0[1]

[1] July-August 2007

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

Domestic demand strengthened further

Domestic demand strengthened further in the third quarter to expand at annual growth rate of 12.6% (2Q: 10.8%), driven mainly by private sector activity. Meanwhile, the public sector continued to be supportive of growth as Federal Government increased its development expenditure.

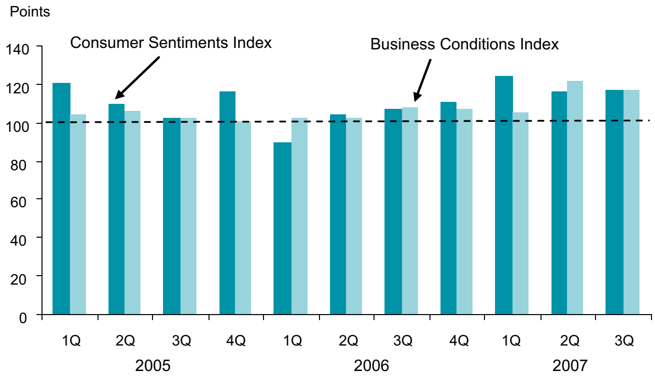
GDP by Expenditure Components (at constant 2000 prices)

	2006		2007		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
Aggregate Domestic Demand (excluding stocks)	6.4	7.1	8.7	10.8	12.6
Consumption	7.6	6.2	8.3	12.6	12.2
Private sector	*7.0*	*7.0*	*8.6*	*13.1*	*14.0*
Public sector	*9.9*	*4.1*	*7.1*	*10.2*	*5.3*
Gross Fixed Capital Formation	3.5	9.8	9.9	6.6	13.5
Exports of Goods and Services	11.9	5.2	1.9	3.0	1.2
Imports of Goods and Services	8.7	5.0	3.5	1.4	1.2
GDP	**6.0**	**5.7**	**5.5**	**5.8**	**6.7**

Source: Department of Statistics, Malaysia

Private consumption expenditure registered a strong growth of 14% following rising disposable income supported by stable labour market conditions and strong commodity prices. The annual nationwide Mega Sales Carnival from mid-June to early September also encouraged higher household expenditure. Major consumption indicators, such as sales of passenger cars, consumer spending on credit cards and loans disbursed for consumption purposes, remained on a positive growth trend reflecting sustained expansion in private consumption activities. The Malaysian Institute of Economic Research (MIER)'s Consumer Sentiments Index, which rose to 117.5 points in 3Q 2007 (2Q: 115.9 points) suggested that households are optimistic on income and employment prospects.

Consumer Sentiment Improved, while Business Confidence was Sustained



Meanwhile, **public consumption** increased by 5.3% in the third quarter (2Q:10.2%) due to higher expenditure for emoluments, defence and supplies and services.

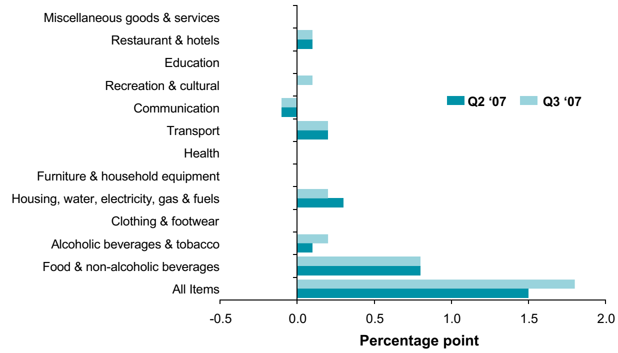
Gross fixed capital formation registered a strong growth of 13.5% in the third quarter (2Q: 6.6%) indicating a significant investment by both the private and public sectors. Business Conditions Index (BCI) compiled by the MIER remained above 100-point level since early 2005. The favourable BCI reading reflected sustained optimism in the corporate sector as underlying business activity continues to expand with the execution of more Ninth Malaysia Plan projects. Capital expenditure was mainly for machinery and equipment. Private investment indicators, namely loans approved and disbursed to manufacturing and construction sectors, trended firmly upwards, suggesting greater momentum in capital spending by the private sector.

Investment activities by the public sector in the third quarter continued to be supported by the Federal Government as evident in the higher disbursement for development expenditure. Substantial capital spending was channelled towards high-multiplier impact economic activities in the form of projects for upgrading and construction of infrastructure to improve the transportation system, construction-related activities as well as improving the provisions for education services and the enhancement of the public utility facilities.

Inflation averaged at 1.8%

The average CPI inflation in the third quarter increased to 1.8% (2Q: 1.5%). The rise in consumer prices during the quarter was driven by higher prices in the food and non-alcoholic beverages category, and to a lesser extent, the alcoholic beverages and tobacco and restaurants and hotels categories. Domestic food price inflation was higher at 2.7% during the quarter (2Q: 2.6%), reflecting the higher prices of vegetables and meat and food consumed away from home. Meanwhile, the contribution of the alcoholic beverages and tobacco sector to CPI inflation was higher due to an increase in the excise duty imposed on cigarettes by the Government. Price increases were also observed in the restaurants and hotels sector on account of higher prices of refreshments. Meanwhile, the high number of tourist arrivals, in line with the Visit Malaysia Year 2007, resulted in higher hotel occupancy and contributed to increases in hotel room charges.

Contribution to Consumer Price Inflation



Source: Department of Statistics, Malaysia. Effective from January 2006, the base reference period for the CPI series is year 2005 = 100

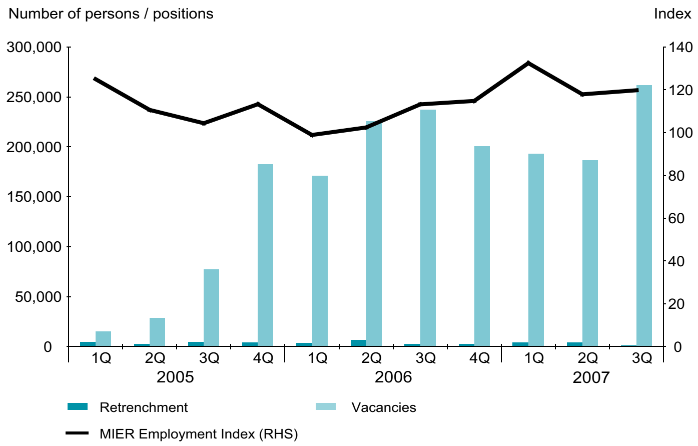
Producer price inflation rose in the third quarter to 3.5% (2Q: 2.7%), as prices in the commodity-related components rose at an average rate of 10.2% (2Q: 7.2%), in line with higher global commodity prices. The price inflation of the non-commodity-related sector, meanwhile, remained broadly unchanged at 1.1% during the period.

Labour market conditions remained healthy

In the third quarter of 2007, the **labour market** continued to be resilient, with total new vacancies remaining high, while retrenchments declined further. In addition, the MIER Employment index was up by 1.9 points to 119.8, indicating an improvement in the employment conditions from the previous quarter.

Total new vacancies in the third quarter as reported via the Electronic Labour Exchange (ELX) increased to 226,036 positions (2Q: 186,779 positions), with openings mainly in the manufacturing (33% share), agriculture (32%) and services (24%) sectors. Most of the positions available were for elementary occupations[1] (56%). Meanwhile, job openings for graduates increased further

Labour Market Conditions



[1] Elementary occupations consist of maids, security guards, cleaners, construction workers, drivers and attendants

to 16,454 positions (2Q: 13,840 positions). These jobs were mainly in the services sector (78% share), in particular, finance, education services as well as other community, social and personal services segments. In addition, total job placements rose in the third quarter.

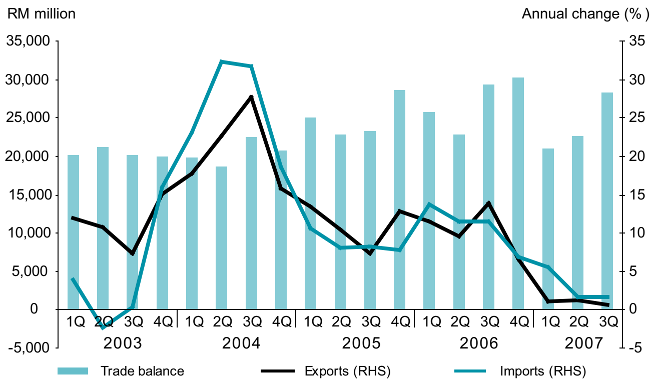
Meanwhile, retrenchments during the quarter were lower (1,308 persons; 2Q: 4,202 persons). About 50% of the laid off workers were from the manufacturing sector, especially workers from the E&E and food, beverage and tobacco industries (altogether 24% of total retrenchments), followed by the services sector (44%). In the services sector, the affected workers were mainly from the distributive trade and real estate and business services industries (29% of total retrenchments). Reduction in demand, high production cost, unmarketable products and consolidation in the corporate sector were among the main reasons cited by employers for retrenchments.

Labour productivity in the manufacturing sector, as indicated by real sales value per employee, contracted by 3.5% (2Q: -1.4%). The decline in labour productivity was due to the continued sluggish sales performance (-0.9%; 2Q: 2.4%). Despite a better outturn in the domestic-oriented industries (6.6%; 2Q: 4.8%), the overall sector's productivity performance was affected by the export-oriented industries whose productivity performance declined further (-5.5%; 2Q: -2.9%). Meanwhile, real wages for the overall sector increased by 3.8% indicating the presence of slight wage pressures in the sector.

Moderate expansion in both exports and imports

Supported by buoyant agriculture exports, the **trade account** recorded a larger surplus of RM28.2 billion in the third quarter of 2007 (2Q: RM22.6 billion). Exports expanded by 0.6% (2Q: 1.3%), while import growth was sustained at 1.7%.

Trade Balance



Gross exports rose marginally by 0.6% in the third quarter (2Q: 1.3%) as the robust growth in agricultural and mineral exports was partially offset by the decline in exports of manufactured goods.

Manufacturing exports declined by 2.1% (2Q: -1.1%) due mainly to a decline in exports of electronics and electrical products (E&E) and selected resourced-based industries, such as wood products and petroleum products. While there was an improvement in demand for E&E, the continued decline in prices affected the value of exports of E&E products during the quarter.
In the resource-based products, wood products declined due to lower demand from Japan.

Agriculture exports continued on an upward trend during the quarter, rising by 28.2% (2Q: 17.9%), driven mainly by strong receipts from palm oil exports. Proceeds from palm oil strengthened by 53.4% during the quarter due entirely to record high prices of RM2,599 per tonne, an increase of 63.1% or about RM1,000 per tonne higher compared with the corresponding period in 2006 (RM1,594 per tonne). The strong price performance was a result of rising global demand for palm oil amidst lower production in the two major palm oil producing countries, namely Malaysia and Indonesia, in addition to the lower supply of soybean oil and rapeseed oil in the United States and Europe, respectively. Meanwhile, rubber exports declined by 14% due mainly to declining prices amidst the slower global demand.

Trade Account

	2006		2007		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
Gross Exports	**13.9**	**6.6**	**1.0**	**1.3**	**0.6**
Manufacturing	*14.2*	*5.7*	*1.4*	*-1.1*	*-2.1*
Agriculture	*19.7*	*22.1*	*7.7*	*17.9*	*28.2*
Minerals	*3.2*	*0.5*	*-5.3*	*7.5*	*7.7*
Gross Imports	**11.5**	**6.8**	**5.5**	**1.7**	**1.7**
Capital goods	*-4.6*	*4.1*	*-5.3*	*-1.1*	*17.3*
Intermediate goods	*12.0*	*7.1*	*9.0*	*6.5*	*-1.0*
Consumption goods	*14.7*	*12.1*	*8.9*	*1.1*	*1.0*
Trade balance (RM billion)	**29.4**	**30.2**	**21.1**	**22.6**	**28.2**

Source: Department of Statistics, Malaysia

Mineral exports expanded further by 7.7% during the quarter, as exports of liquefied natural gas (LNG) rose by 11.8%, supported by the 10% rise in prices to a record high of RM1,226 per tonne. Meanwhile, crude oil exports declined marginally by 0.7%.

Strong economic activity in PR China and Vietnam led to the strong demand for Malaysian products. Exports to PR China and Vietnam increased by 13.6% and 77.6% respectively. The export growth was underpinned by demand for E&E, optical and scientific equipment and iron and steel products as well as primary commodities, particularly refined petroleum products and palm oil.

Exports to the European Union (EU) countries increased by 0.2%, led by Germany (12.8%) and the Netherlands (4.5%). Growth was underpinned by exports of palm oil, optical and scientific equipment and chemicals and chemical products. Exports to India increased by 7.5%, supported by E&E and chemicals and chemical products and palm oil. Exports to West Asia continued to expand by 30.1%, spurred by exports of E&E, optical and scientific equipment and palm oil.

Meanwhile, import components continued to be sourced from PR China, Thailand and Indonesia. Imports from regional countries grew by 3%, comprising mainly E&E and chemicals and chemical products.

Growth of **gross imports** was sustained at 1.7%, reflecting the increase in investment and consumer spending. Of significance, imports of **capital goods** expanded by 17.3%. Imports of capital goods excluding lumpy items increased by 7.2%. Capacity expansion

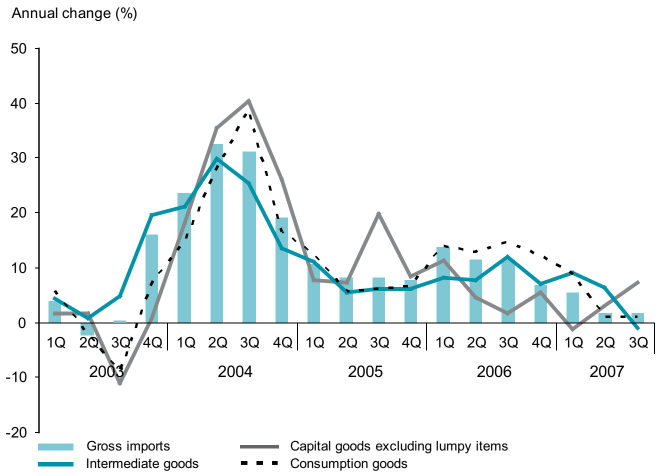
Malaysia: Direction of Exports

	2006		2007			2006		2007			2006		2007		
	3Q	4Q	1Q	2Q	3Q	3Q	4Q	1Q	2Q	3Q	3Q	4Q	1Q	2Q	3Q
	RM billion					Share of total exports (%)					Annual change (%)				
United States	**30.1**	**27.8**	**23.7**	**22.8**	**24.5**	**19.2**	**18.3**	**17.2**	**15.8**	**15.5**	**4.2**	**1.0**	**-3.2**	**-18.7**	**-18.7**
European Union (EU)[1]	**20.2**	**21.1**	**17.7**	**19.4**	**20.2**	**12.8**	**13.9**	**12.8**	**13.4**	**12.8**	**29.9**	**20.5**	**9.7**	**9.6**	**0.2**
Selected ASEAN countries[2]	**39.9**	**37.5**	**35.6**	**36.0**	**39.6**	**25.4**	**24.7**	**25.8**	**24.8**	**25.0**	**14.5**	**2.2**	**-4.8**	**-4.8**	**-0.7**
North East Asia	**29.5**	**28.2**	**27.8**	**28.1**	**30.8**	**18.8**	**18.5**	**20.1**	**19.4**	**19.5**	**20.1**	**4.4**	**10.2**	**7.4**	**4.2**
People's Republic of China	*12.7*	*11.7*	*11.2*	*11.7*	*14.4*	*8.1*	*7.7*	*8.1*	*8.1*	*9.1*	*48.9*	*11.9*	*34.6*	*18.0*	*13.6*
Hong Kong SAR	*7.5*	*6.8*	*6.3*	*6.6*	*7.3*	*4.8*	*4.5*	*4.6*	*4.5*	*4.6*	*-10.8*	*-12.6*	*-15.6*	*-10.2*	*-2.4*
Korea	*4.8*	*5.5*	*6.5*	*5.6*	*4.8*	*3.1*	*3.6*	*4.7*	*3.9*	*3.1*	*28.1*	*17.4*	*5.9*	*14.3*	*0.9*
India	**5.3**	**5.4**	**4.2**	**4.7**	**5.7**	**3.4**	**3.6**	**3.1**	**3.2**	**3.6**	**36.2**	**30.1**	**7.1**	**13.9**	**7.5**
Total exports	**157.1**	**152.0**	**138.1**	**145.0**	**158.1**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**13.9**	**6.6**	**1.0**	**1.3**	**0.6**

[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



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

	2006		2007		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
CAPITAL GOODS	**-4.6**	**4.1**	**-5.3**	**-1.1**	**17.3**
Capital goods (except transport equipment)	0.8	4.6	-4.9	6.1	10.2
Transport equipment	-39.9	-0.1	-7.7	-38.7	94.7
INTERMEDIATE GOODS	**12.0**	**7.1**	**9.0**	**6.5**	**-1.0**
Food and beverages, mainly for industry	24.8	18.2	4.0	11.3	36.8
Industrial supplies, n.e.s.	22.8	19.2	24.1	22.1	7.7
Fuel and lubricants	45.6	-0.5	8.8	-4.7	-19.8
Parts and accessories of capital goods (except transport equipment)	1.6	3.3	2.8	-1.1	-5.9
Parts and accessories of transport equipment	-10.2	-22.5	-18.3	9.4	21.6
CONSUMPTION GOODS	**14.7**	**12.1**	**8.9**	**1.1**	**1.0**
Food and beverages, mainly for household consumption	4.5	5.7	15.0	2.7	2.1
Transport equipment, non-industrial	-35.0	45.7	-12.1	3.0	54.2
Consumer goods, n.e.s.	22.4	15.1	5.8	0.2	-0.3
Durables	*4.4*	*13.7*	*0.3*	*33.6*	*24.0*
Semi-durables	*44.4*	*24.5*	*7.1*	*-21.2*	*-17.1*
Non-durables	*15.8*	*9.3*	*8.0*	*3.7*	*3.6*
DUAL USE GOODS	**14.8**	**-5.7**	**-8.1**	**-6.2**	**4.1**
OTHERS	**-25.1**	**-3.4**	**15.7**	**16.5**	**73.7**
RETAINED IMPORTS	**9.0**	**6.4**	**6.4**	**4.8**	**2.6**
RE-EXPORTS	**63.3**	**12.5**	**-6.9**	**-36.7**	**-11.9**
GROSS IMPORTS	**11.5**	**6.8**	**5.5**	**1.7**	**1.7**

Source: Department of Statistics, Malaysia

in the manufacturing sector and upgrading for fuel efficiency led to strong growth of imports of machinery as well as imports of generators, turbines and electric motors. Increased exploration activities in the oil and gas industry led to higher imports of construction and mining equipment.

Imports of **intermediate goods** declined in line with the slowdown in exports of E&E. Lower intermediate imports reflected lower imports of electronics and parts of telecommunication products. Nevertheless, imports of primary materials for the food and beverages industry continued to grow in line with strong consumer spending. Meanwhile, imports of parts and accessories for transport equipment expanded due to higher domestic demand for motor vehicles.

During the quarter, imports of **consumption goods** increased by 1% to RM7.4 billion. In line with higher demand due to festivities, imports of food and beverages for household consumption were higher. Other consumption imports that increased included transport equipment and durables such as furniture.

Continued inflows of FDI

On a cash basis, gross inflows of **foreign direct investment (FDI)** increased to RM25.9 billion in the third quarter (2Q: RM22.3 billion) reflecting higher drawdown of inter-company loans amid continued inflows of equity capital. FDI in the form of equity capital was directed mainly into the services, manufacturing and oil and gas sectors. FDI in the services sector reflected primarily the acquisition of interests and the increased foreign participation in the finance, insurance, real estate and business services sub-sector, as well as continued expansion in the restaurants, hotels, wholesale and retail trade sub-sector. In the manufacturing sector, FDI were mainly for acquisitions in the chemical-related industry as well as investments in the downstream petroleum-related as well as electrical and electronics industries. Meanwhile, the inflows of inter-company loans reflected largely the extension of short-term loans by foreign MNCs in the oil and gas sector to their subsidiaries in Malaysia arising from their centralized treasury operations. 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 amounted to RM6.8 billion (2Q: RM13.6 billion). It should be noted that FDI on cash basis does not include retained earnings and investment in the form of imported machinery and equipment.

Gross outflows for **overseas investment** amounted to RM12.1 billion (2Q: -RM27.7 billion), reflecting mainly investment in the form of equity capital, while extension of short-term loans to related companies abroad moderated. The overseas investments during the quarter were effected mainly by companies in the services, manufacturing and oil and gas sectors. Overseas investment in the services sector was led by companies in the finance, insurance and business sub-sector and the restaurants, hotels, wholesale and retail trade sub-sector. Meanwhile, investment abroad in the manufacturing sector was led by companies in the electrical and eletronics, metal products and wood-related industries. After adjusting for gross inflows due mainly to the repayments of short-term loan from related companies abroad, overseas investment recorded a net outflow of RM6.9 billion (2Q: -RM8.5 billion).

Portfolio investment registered a net outflow of RM22.3 billion during the quarter (2Q: +RM14.3 billion), on account of net liquidation of both equity and debt securities by foreign investors. The net outflow in July and August reflected the cautious sentiment of investors following concerns over the US sub-prime mortgage problems and the spillover among the financial institutions. Inflows, however, resumed in September and October.

Modest increase in external debt

Malaysia's total external debt amounted to RM189 billion or USD54.8 billion as at end-September 2007 (2Q: RM182 billion or USD52.2 billion), equivalent to 31.1% of GNP. The **medium and long-term external debt** was lower at RM132.8 billion, reflecting net repayment of external loans by the public sector. The larger net repayment by the Federal Government (-RM3 billion; 2Q: -RM0.1 billion) was attributable to the maturity of the sovereign Global Sukuk of USD600 million on 1 July 2007. The higher net repayment of RM2.5 billion (2Q: -RM2.3 billion) by the NFPEs reflected mainly prepayments by companies in the manufacturing, oil and gas and agriculture sectors to reduce debt exposure and some scheduled principal loan repayments. Meanwhile, the private sector recorded a net drawdown of RM4.3 billion (2Q: -RM1.1 billion), reflecting higher drawdown of external loans while repayment declined. The drawdown of loans by the private sector was effected largely by companies in the manufacturing, transportation and non-bank financial sectors.

External Debt Outstanding

	2006	2007	
	3Q	2Q	3Q[p]
	RM billion		
Medium- and long-term debt	149.3	134.1	132.8
Public sector	83.7	70.0	64.8
Private sector	65.6	64.1	68.1
Short-term debt[1]	50.8	47.9	56.2
Total external debt	200.1	182.0	189.0
- USD billion equivalent	53.8	52.2	54.8

[1] Excludes currency and deposits held by non-residents with resident banking institutions
[p] Preliminary

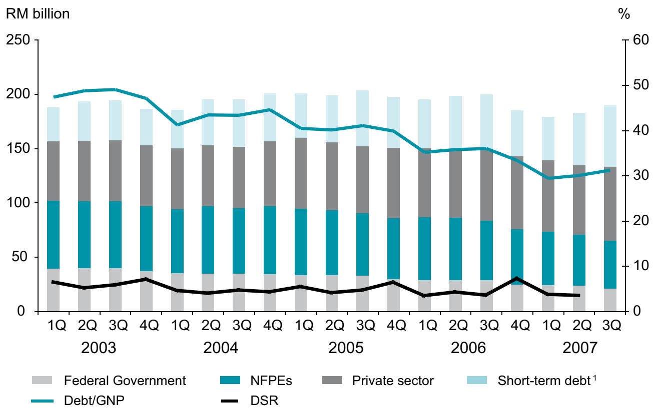
Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

The total **short-term external debt** increased to RM56.2 billion or USD16.3 billion (2Q: RM47.9 billion), attributed largely to higher borrowings by the banking sector due to treasury operation. As at end-September 2007, the short-term external debt accounted for 29.7% of total external debt and is 16.8% of the net international reserves.

International reserves

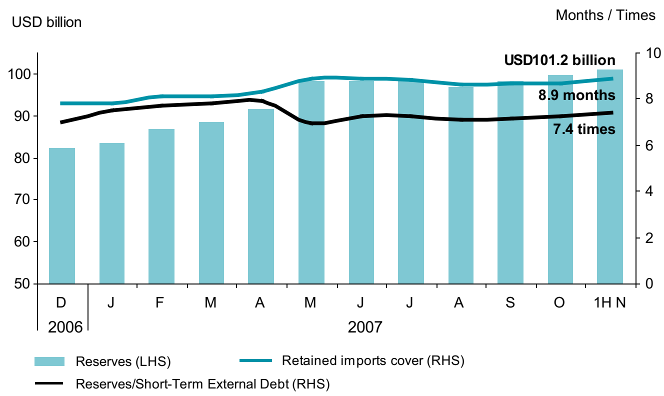
The international reserves of Bank Negara Malaysia amounted to RM335.4 billion (equivalent to USD98.2 billion) as at 28 September 2007. The reserves level as at 28 September 2007 has taken into account the quarterly revaluation gain, following the strengthening of the major currencies against ringgit during the third quarter. The reserves increased to RM345.3 billion (equivalent to USD101.2 billion) as at 15 November 2007. The reserves position is sufficient to finance 8.9 months of retained imports and is 7.4 times the short-term external debt.

External Debt Outstanding



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

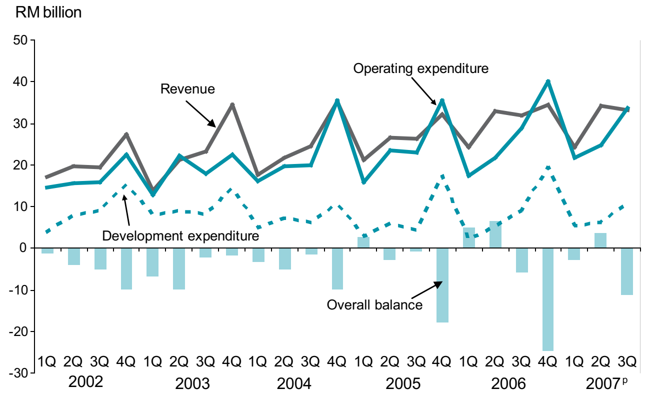
Net International Reserves (as at end period)



Larger fiscal deficit

The Federal Government's total gross expenditure rose at an annual pace of 17.5% (2Q: 15.7%), resulting in an overall fiscal deficit of 6.9% of GDP in the third quarter. In particular, the rise in emoluments due to the increase in the civil servant wages and pensions, coupled with higher allocations under Cost of Living Allowance (COLA) in July 2007, resulted in the higher operating expenditure in the third quarter. The deficit continued to be financed mainly by domestic borrowings. By end-September 2007, the Federal Government's total outstanding debt stood at RM271.5 billion or 43.4% of the GDP.

Federal Government Finance



P Preliminary
Source : Ministry of Finance

Federal Government Finance

	2006		2007P		
	3Q	4Q	1Q	2Q	3Q
	RM billion				
Revenue	31.9	34.4	24.2	34.2	33.3
% growth	*20.8*	*6.9*	*0.1*	*3.5*	*4.4*
Operating expenditure	28.8	40.0	21.7	24.8	33.7
% growth	*25.2*	*12.8*	*25.2*	*14.7*	*17.1*
Current account	**3.1**	**-5.6**	**2.5**	**9.4**	**-0.4**
% of GDP	***2.1***	***-3.8***	***1.8***	***6.1***	***-0.3***
Gross development expenditure	9.1	19.4	5.3	6.2	10.8
% growth	*108.1*	*11.0*	*148.4*	*19.6*	*19.0*
Overall balance	**-5.8**	**-24.6**	**-2.6**	**3.6**	**-11.1**
% of GDP	***-3.9***	***-16.6***	***-1.8***	***2.3***	***-6.9***
Memo item:					
Total gross expenditure	37.8	59.4	27.0	31.0	44.5
% growth	*38.4*	*12.2*	*38.7*	*15.7*	*17.5*
Total Federal Government debt					
(as at end-period)	245.8	242.2	250.0	260.1	271.5
% of GDP	*42.9*	*42.3*	*40.0*	*41.6*	*43.4*
Domestic debt	216.9	217.2	225.9	236.3	250.6
% of GDP	*37.9*	*37.9*	*36.1*	*37.8*	*40.1*
External debt	28.9	25.0	24.1	23.8	20.9
% of GDP	*5.0*	*4.4*	*3.9*	*3.8*	*3.3*

P Preliminary

Source: Ministry of Finance