

DEVELOPMENTS IN THE MALAYSIAN ECONOMY

The economy continued on a steady growth path

Real GDP expanded by 7.3% in the fourth quarter of 2007 (3Q: 6.6%), with all economic sectors recording strong growth. The

the domestic-oriented industries in line with the sustained domestic demand conditions, and aided by the improvement in the E&E sub-sector.

Production of **export-oriented industries** recorded a higher growth due mainly to the improvement in the E&E sub-sector (5.9%; 3Q: 2.1%). The growth in the E&E industry was attributable to the strong performance in the computers and parts segment (16.4%; 3Q: -0.1%) in tandem with improved demand from the US. Resource-based industries, especially off-estate processing and petroleum products, also performed better during the quarter in line with the expansion in the upstream activities. However, growth in the chemicals and chemical products industry was subdued due mainly to the contraction in the production of industrial gas.

Quarterly GDP by Kind of Economic Activity at Year 2000 Prices¹

	2006		2007		
	4Q	Year	3Q	4Q	Year
	Annual change in (%)				
Agriculture	5.1	5.2	0.7	6.9	2.2
Mining	2.1	-0.4	2.3	3.5	3.2
Manufacturing	4.0	7.1	3.3	5.6	3.1
Construction	0.6	-0.5	4.7	4.7	4.6
Services	8.0	7.2	10.5	9.1	9.7
Real GDP (Ann. Chg.)	5.7	5.9	6.6	7.3	6.3
Real GDP (Preceding Chg.)	0.5	5.9	4.8	1.2	6.3

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

Source: Department of Statistics, Malaysia

manufacturing sector, recorded a stronger growth, with firm expansion in the domestic-oriented industries and improvement in the E&E sub-sector. Sustained domestic demand and robust business activity supported growth in the services sector. The commodities sector also showed an improved performance. Higher growth in the agriculture sector was led by the yield upcycle in crude palm oil production, while mining activity was supported by expansion in crude oil production at the new Kikeh oil field. Meanwhile, growth the construction sector was sustained, supported by implementation of projects under the Ninth Malaysia Plan.

Manufacturing sector led by domestic-oriented industries

Value-added growth in the **manufacturing sector** increased by 5.6% in the fourth quarter of 2007 (3Q: 3.3%). The growth was supported by strong expansion in

Performance in the Manufacturing Sector

	2006		2007		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Value Added (Constant Price)	4.0	7.1	3.3	5.6	3.1
Overall Production	5.3	7.5	1.9	4.9	1.9
Export-oriented industries	4.3	7.5	1.3	3.5	0.7
<i>Of which:</i>					
Electronics and electrical	1.9	7.9	2.1	5.9	-0.9
Electronics	4.5	11.8	3.9	10.4	1.5
Electrical	-5.5	-2.9	-3.9	-8.6	-8.5
Chemicals and chemical products	-0.6	3.2	0.3	-1.5	1.7
Petroleum products ¹	12.8	13.6	1.9	3.6	5.4
Textiles, wearing apparel & footwear	1.5	6.1	-5.9	-11.3	-9.7
Wood and wood products ²	9.7	3.8	0.1	-0.4	1.3
Rubber products	15.2	7.2	3.4	0.5	5.6
Off-estate processing	9.6	5.7	-0.3	12.2	-0.5
Domestic-oriented industries	9.9	7.2	4.6	11.1	6.8
<i>Of which:</i>					
Non-metallic mineral products	9.2	3.3	0.0	1.1	0.5
Iron & steel and non-ferrous metal	20.5	3.0	13.6	15.2	14.8
Food	9.7	6.7	0.1	6.7	7.2
Transport equipment	-14.0	-1.5	-0.6	17.6	-5.5
Fabricated metal products	30.1	26.5	15.0	18.5	19.2
Total Manufactured Exports	5.7	10.1	-2.0	2.9	0.3
<i>Of which:</i>					
Electronics and electrical products	1.7	6.4	-5.6	-2.2	-4.2
Chemicals and chemical products	17.6	10.7	3.2	8.8	13.7
Petroleum products	2.5	27.2	-5.7	42.7	3.6
Wood and wood products	26.8	16.7	-17.4	-23.7	-6.3
Furniture & parts	7.6	7.9	1.0	1.5	5.9
Rubber products	30.8	34.3	1.3	19.5	13.2

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** strengthened during the quarter underpinned by the better performance in the transport equipment industry as well as stronger growth in the food and beverage industries. The transport equipment industry turned around (17.6%; 3Q: -0.6%) in tandem with the stronger sales of new motor vehicles (19%; 3Q: 4.9%). Growth was also supported by the substantial increase in the production of parts and accessories for motor vehicles and engines (27.6%; 3Q: 3.9%). The growth momentum in the construction sector benefited the related building materials

industries such as iron and steel, and fabricated metal products. However, the performance of the non-metallic mineral products was affected by the slowdown in production of glass due to the shrinking cathode ray tube television market.

For the quarter as a whole, the manufacturing sector was operating at the capacity utilisation rate of 77%, with both export- and domestic-oriented industries averaging at 79% and 70% respectively.

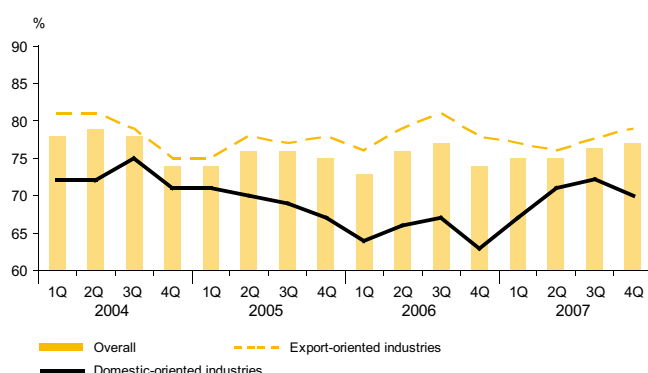
Sustained strong growth in the services sector

The services sector recorded a strong growth of 9.1% in the fourth quarter supported by both intermediate and final services. The finance, insurance, real estate and business services; and wholesale and retail trade, accommodation and restaurants sub-sectors remained the key drivers of growth, expanding at double-digit pace.

The **finance, insurance, real estate and business services** sub-sector benefited from increased lending activities and growth in fee-based income and business activity arising from the favourable performance in the equity market. During the quarter, the insurance segment also saw an improved performance, particularly the life insurance segment. Growth continued to emanate from new growth areas, namely IT services, shared services and outsourcing (SSO) and professional and consultancy services. Twelve new SSO companies were granted approval during the quarter (3Q: 5 companies) in the Multimedia Super Corridor.

Growth in the **wholesale and retail trade, accommodation and restaurant** sub-sector was driven by higher domestic consumption

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

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

	Share 2006	2006		2007		
		4Q	Year	3Q	4Q	Year
	%	Annual change in (%)				
Intermediate Services	42.8	9.5	7.6	12.6	10.1	12.0
Transport, storage & communication	14.2	6.8	6.0	10.1	9.9	8.5
Transport & storage	7.0	6.7	5.2	13.1	12.7	10.2
Communication	7.2	6.8	6.8	7.1	7.1	6.9
Finance, insurance, real estate & business services	28.6	10.8	8.4	13.9	10.2	13.7
Finance & insurance	19.8	8.8	7.7	8.8	9.8	10.7
Real estate & business services	8.8	15.6	9.9	25.1	11.0	20.6
Final Services	57.2	7.0	7.0	8.9	8.4	7.9
Electricity, gas & water	5.9	6.2	5.2	2.9	4.4	4.0
Wholesale & retail trade, accommodation & restaurant	26.6	6.4	6.9	14.5	12.5	12.0
Wholesale & retail trade	22.3	6.0	7.1	14.9	12.5	12.2
Accommodation & restaurant	4.2	9.1	6.0	12.4	12.3	10.9
Government services	13.6	10.6	9.8	3.8	4.2	4.2
Other services	11.1	4.5	4.7	4.9	5.4	5.0
Total Services	100.0	8.0	7.2	10.5	9.1	9.7

Source: Department of Statistics, Malaysia

and tourism activities as reflected by increase in tourist arrivals, imports of consumption goods and credit card spending. High tourist arrivals was in response to the Visit Malaysia Year 2007 activities, while high commodity prices and salary increment in the public sector supported higher spending amongst domestic consumers. During the quarter, the automotive trade sector picked up after a long period of subdued performance due to pent-up replacement demand as well as demand from first-time car owners following the introduction of new models.

Meanwhile, the **transport, storage and communication** sub-sector continued to perform favourably led mainly by the transportation segment owing to increased activity in the air and sea transportation segments. Expansion in the telecommunication industry reflected the strong performance in both data and voice usage as well as increased cellular subscriber base. The **utilities** sub-sector recorded a higher growth attributable to increased demand for electricity from households as well as sustained demand from the industrial and commercial sub-sectors.

Stronger performance in commodities

Output growth in both agriculture and mining sectors was stronger during the quarter. The agriculture sector expanded by 6.9% amidst a strong rebound in the production of crude palm oil, while the mining sector rose by 3.5% due to substantially higher output of crude oil.

In the **agriculture sector**, production of crude palm oil turned around to expand by 12.9%, the first quarter of positive growth after three successive quarters of contraction. The recovery was driven by a substantial rise in yields of fresh fruit bunches of 8.9% in the quarter to an average of 5.48 tonnes per hectare (4Q 2006: 5.03 tonnes per hectares). Growth in the agriculture sector was also contributed by higher output of livestock,

Selected Quarterly Indicators in the Services Sector

	2006		2007		
	4Q	1Q	2Q	3Q	4Q
	Percentage at end-period (%)				
Cellular phone penetration rate	72.3	77.0	78.2	80.8	85.1
Internet subscribers penetration rate	14.0	14.0	14.2	14.3	14.3
Broadband subscribers penetration rate	3.3	3.7	4.1	4.5	5.0
	Index				
MIER Consumer Sentiment Index	110.9	124.1	115.9	117.5	110.7
MIER Retail Trade Index	99.2	118.8	129.5	145.9	141.2
MIER Tourism Market Index	127.2	133.8	131.6	131.1	133.6
	Annual change (%)				
Total consumption credit outstanding	14.9	12.8	7.1	6.9	7.0
Loans outstanding to the wholesale & retail trade, hotels & restaurants	12.0	10.1	-0.2	6.1	7.1
Imports of consumption goods	12.1	8.9	1.1	1.2	3.6
Total sales of motor vehicles	-24.7	-15.3	-9.1	4.9	19.0
Container cargo handled (Port Klang and PTP)	18.7	18.5	12.2	9.7	14.4

Source: Various sources

Performance in the Agriculture Sector

	2006		2007		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Value Added (at year 2000 prices)	5.1	5.2	0.7	6.9	2.2
Industrial Crops	4.3	4.1	-1.9	7.8	0.4
Food Crops	6.3	6.8	4.7	5.5	4.9
Production¹					
<i>Of which:</i>					
Crude palm oil	10.7	6.1	-0.1	12.9	-0.4
Crude palm kernel oil	14.7	6.1	-6.7	8.9	-2.5
Rubber	12.1	14.0	-11.0	-7.1	-6.4
Cocoa	-19.9	14.2	21.8	29.9	10.2
Fish	5.6	11.4	-2.6	4.9	0.2
Livestock	14.0	18.0	2.7	6.5	9.9
Exports (RM million)	22.1	12.5	29.9	40.2	25.0
<i>Of which:</i>					
Palm oil ('000 tonnes)	20.9	7.2	-3.0	5.6	-3.5
(RM/tonne)	14.7	6.0	63.0	57.4	53.4
(RM million)	38.6	13.7	58.2	66.2	48.1
Palm kernel oil ('000 tonnes)	15.4	-10.1	-4.4	26.7	17.7
(RM/tonne)	-9.9	-16.1	56.8	78.9	42.0
(RM million)	3.9	-24.6	49.9	126.7	67.1
Rubber ('000 tonnes)	1.4	1.3	-1.8	-9.7	-10.9
(Sen/kilogramme)	11.1	40.5	-12.5	14.0	0.0
(RM million)	12.7	42.3	-14.0	2.9	-10.9
Sawn timber ('000 cu.metres)	5.2	-9.9	-7.0	-26.5	-10.8
(RM/cu.metre)	4.1	18.8	3.4	-0.5	4.3
(RM million)	9.5	7.0	-3.8	-26.9	-6.9
Saw logs ('000 cu.metres)	-3.2	-17.1	13.0	-12.0	-2.7
(RM/cu.metre)	7.2	10.7	-4.5	-7.6	-4.0
(RM million)	3.8	-8.3	8.0	-18.7	-6.6
Cocoa beans ('000 tonnes)	-8.2	45.8	15.7	156.6	31.9
(RM/tonne)	10.1	3.7	29.7	19.1	16.0
(RM million)	1.1	51.2	50.0	205.6	53.0

¹ In '000 tonnes, except for saw logs in '000 cubic metres and livestock in numbers slaughtered (Peninsular Malaysia only)

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

particularly poultry, in response to strong domestic demand amidst the festive season during the quarter. Meanwhile, rubber output declined further (-7.1%, 3Q: -11%) as tapping activities were disrupted by prolonged rainy conditions in the northern states of Peninsular Malaysia.

In the **mining sector**, output of crude oil (including condensates) expanded strongly by 7.2% to 728,578 barrels per day (bpd). The higher growth was driven entirely by the substantial rise in crude oil output in Sabah to 123,962 bpd (4Q 2006: 79,544 bpd), on rising production capacity in the Kikeh oil field, which came into operation in August 2007. Meanwhile, natural gas production declined by 2.2% amidst the weaker external demand for LNG.

Continued momentum in the construction sector

Growth in the **construction sector** was sustained at 4.7% in the fourth quarter (3Q: 4.7%), reflecting strong activity in the **civil engineering** sub-sector amidst the implementation of projects under the Ninth Malaysia Plan. Growth was further supported by the **non-residential** segment, due to increased construction of purpose-built office space, particularly in the Klang Valley. The **residential** segment also recorded positive growth during the quarter.

Domestic demand remained strong

Domestic demand remained strong, expanding by 9.8% in the fourth quarter, driven mainly by private sector activities. The public sector remains supportive of growth whilst the fiscal consolidation programme is sustained.

Performance in the Mining Sector

	2006		2007		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Value Added (at year 2000 prices)	2.1	-0.4	2.3	3.5	3.2
Production					
<i>Of which:</i>					
Crude oil and condensates ('000 barrels)	-6.5	-5.2	4.4	7.2	4.3
Natural gas (net) (million standard cubic feet)	4.4	-0.4	-0.8	-2.2	1.4
Exports (RM million)	0.5	8.6	6.6	23.6	8.1
<i>Of which:</i>					
Crude oil and condensates ('000 tonnes)	-8.1	-8.0	-2.0	3.8	0.6
(USD/barrel)	4.2	21.3	4.6	37.7	10.1
(RM million)	-8.0	8.1	-3.2	32.4	3.5
Liquefied natural gas ('000 tonnes)	1.8	-1.9	1.6	-3.7	5.3
(RM/tonnes)	8.7	14.2	10.0	12.5	6.7
(RM million)	10.7	12.0	11.8	8.3	12.3

Source: PETRONAS
Department of Statistics, Malaysia

Construction Indicators

	2006		2007		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
New sales and advertising permits	-2.7	-17.6	10.6	-3.1	2.0
Housing approvals	-20.0	-23.2	-4.7	-6.0	-11.5
Production of construction-related materials	12.8	3.2	4.4	5.9	5.2
Loans approved for construction	73.2	12.9	38.8	27.7	55.9
Imports of construction materials and mineral products	-8.2	7.8	-2.0	58.2 ¹	13.8 ²

¹ October-November 2007

² January-November 2007

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

Private consumption activities continued with buoyant double-digit growth (11.1%) for the third consecutive quarter. Strong consumer spending was supported by higher disposable income due to strong commodity prices, the salary increment for civil servants and stable employment market. Almost all major consumption indicators showed an upward trend. In particular, credit card spending, sales of passenger cars, and loans approved and disbursed to household recorded robust double-digit growth during the quarter. The nationwide year-end sales also provided a further boost to consumer spending. Although the Malaysian Institute of Economic Research (MIER)'s Consumer

Sentiments Index was lower in the fourth quarter, it was still above the 100-point threshold, suggesting households' optimism on income expectations and employment prospects. This was further supported by the strong performance of the domestic equity market.

Public consumption grew by 4.4%, as expenditure on emoluments and supplies and services remained high in the quarter.

Meanwhile, **gross fixed capital formation** registered a growth of 11% (3Q: 13.5%). Major investment indicators such as loans approved to manufacturing and construction sectors as well as imports of capital goods grew strongly, indicative of sustained growth in investment activities. High capacity utilisation rates in the manufacturing sector and positive business sentiments as reflected in the MIER's Business Conditions Index which remained above the 100-point benchmark, provided added support to the rise in investment spending. Public sector investment was also higher, as the Federal Government stepped up the disbursement of development expenditure. The bulk of the spending was mainly channelled towards agriculture and rural development, improving public utilities and transport infrastructure as well as for provision of education and health services.

Inflation averaged 2.2%

The average CPI inflation in the final quarter of 2007 increased to 2.2% (3Q: 1.8%) mainly on account of higher prices in the food and non-alcoholic beverages category and to a lesser extent, in the restaurants and hotels, and miscellaneous goods and services

GDP by Expenditure Components (at constant 2000 prices)

	2006		2007		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Aggregate Domestic Demand (excluding stocks)	7.1	7.0	12.6	9.8	10.5
Consumption	6.2	6.6	12.2	9.4	10.6
<i>Private sector</i>	7.0	7.1	14.0	11.1	11.7
<i>Public sector</i>	4.1	5.0	5.3	4.4	6.4
Gross Fixed Capital Formation	9.8	7.9	13.5	11.0	10.2
Exports of Goods and Services	5.2	7.4	2.5	7.4	3.7
Imports of Goods and Services	5.0	8.6	1.9	9.6	4.1
GDP	5.7	5.9	6.6	7.3	6.3

Source: Department of Statistics, Malaysia

Consumer Sentiment and Business Confidence was Sustained



categories. Food prices rose by 3.7% (3Q: 2.7%), given higher prices for rice, bread and other cereals; meat; fish and seafood; milk, cheese and eggs; and food consumed away from home. The impact on overall inflation was, however, partly mitigated by the lower inflation in the alcoholic beverages and tobacco category following the lapse of the impact of higher excise taxes on alcoholic beverages and tobacco announced in Budget 2007. The clothing and footwear and communication categories also continued to exhibit declining prices.

Producer price inflation rose in the fourth quarter to 10% (3Q: 5.8%), driven mainly by higher prices in the commodity-related sectors, as international prices for commodities rose during the quarter. In addition, prices in the non-commodity-related sectors increased by 4.1% (3Q: 3.7%), as higher prices were recorded in the machinery and transport equipment; and chemical and related products categories.

Labour market conditions remained strong

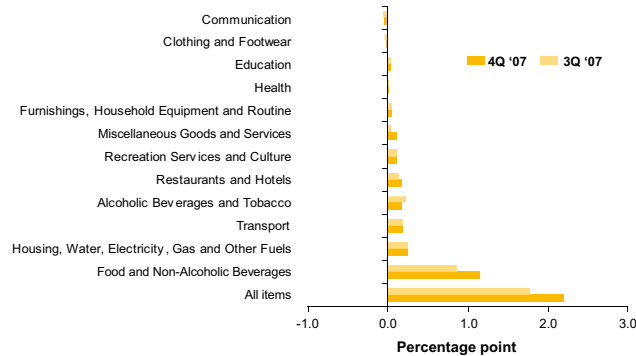
Labour market conditions

in the fourth quarter of 2007 remained favourable. Demand for workers remained strong, with total vacancies remaining high, and outpacing retrenchments. In addition, labour productivity in the manufacturing sector recovered to record a positive growth of 0.4%, after four successive quarters of negative growth. Although the MIER Employment Index moderated in the fourth quarter, it remained well above the 100-point threshold, suggesting continued optimism in income expectations and employment prospects.

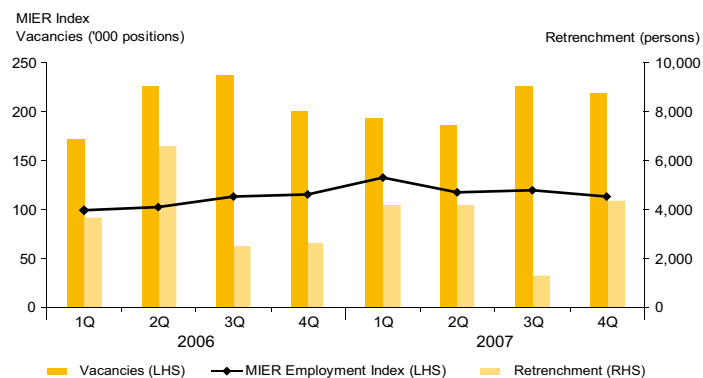
Total vacancies reported via the Electronic Labour Exchange (ELX) remained high at 219,179 positions (3Q: 226,036 positions), with significant levels of job openings reported in the manufacturing (34%), agriculture (30%) and services (24%) sectors. Vacancies advertised in the ELX were available for elementary occupations (53%) such as labourers and general workers in the manufacturing, agriculture, construction and services sectors, as well as for jobs requiring mid- to high-level skills (47%) such as managers, clerical workers, sales and service workers.

A total number of 4,345 persons were retrenched in the fourth quarter (3Q: 1,308

Contribution to Inflation



Labour Market Conditions



persons), due mainly to the manufacturing sector, in particular the E&E industries (43% of total retrenchment). The services sector accounted for another 28% of retrenchments, emanating from the distributive trade, hotels, restaurants, real estate and business services segments (17% of total retrenchment). Retrenchments during the quarter continue to affect mainly the mid- to lower-skilled workers, such as the production workers as well as sales and services workers.

Labour productivity in the manufacturing sector, as measured by real sales value per employee, increased by 0.4% in fourth quarter (3Q: -2.5%), on stronger sales growth. Labour productivity growth in the export-oriented industries remained weak but recorded a smaller contraction (-1.3%; 3Q: -4.7%) mainly due to better performance in the petroleum industry. Nevertheless, labour productivity in the

domestic-oriented industries increased further (9.2%; 3Q: 8.2%), driven by healthy sales growth (17.9%), in particular for the food, beverage, transport and construction-related industries. Meanwhile, real wages moderated to 2.1% (3Q: 4.3%) on slower hiring trends.

Stronger export and import growth

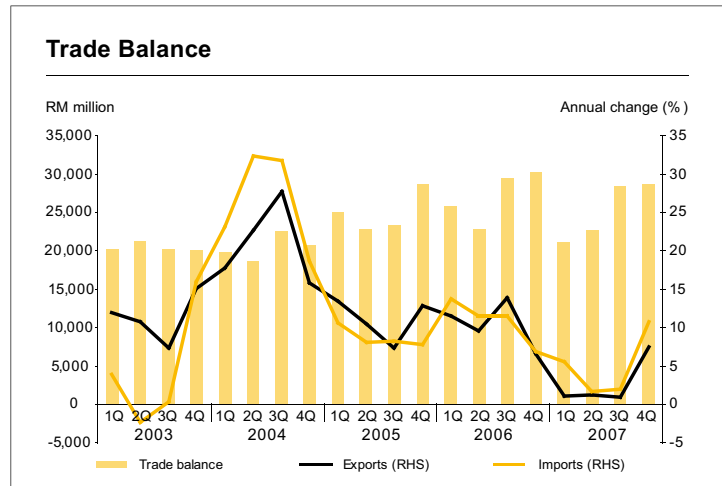
The **trade account** recorded a surplus of RM28.6 billion (3Q: RM28.3 billion). Export growth of 7.5% (3Q: 0.9%) reflected mainly higher agriculture and mineral exports while stronger import growth of 10.7% (3Q: 2%) was attributable to higher imports of intermediate and capital goods.

Gross exports strengthened by 7.5% in the fourth quarter of 2007 (3Q: 0.9%) due mainly to the marked increase in commodity exports amidst the substantial rise in commodity prices as well as the turnaround in manufactured exports.

Manufacturing exports registered a positive growth of 2.9% (3Q: -2%), driven by strong growth in selected resource-based industries, as well as the improvement in E&E exports attributable to the pick-up in demand for computers and parts from the US. Meanwhile, semiconductor exports grew at a moderate pace due to slowing demand from the European Union. Exports of resource-based products such as petroleum and rubber recorded robust performance supported by higher prices.

Growth momentum in **agriculture exports** continued to remain strong, due mainly to exceptionally strong growth in receipts from palm oil exports (66.2%) following rising prices. Palm oil prices strengthened to RM2,630 per tonne, representing an increase

of more than RM1,000 compared to the corresponding period in 2006. The rise in price was a result of stronger global demand for palm oil amidst lower supply of soybean



	2006		2007		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Gross Exports	6.6	10.3	0.9	7.5	2.7
<i>Manufacturing</i>	5.7	10.1	-2.0	2.9	0.3
<i>Agriculture</i>	22.1	12.5	29.9	40.2	25.0
<i>Minerals</i>	0.5	8.6	6.6	23.6	8.1
Gross Imports	6.8	10.8	2.0	10.7	4.9
<i>Capital goods</i>	4.1	7.4	17.5	17.7	7.3
<i>Intermediate goods</i>	7.1	8.8	-0.7	13.3	6.8
<i>Consumption goods</i>	12.1	13.4	1.2	3.6	3.6
Trade balance (RM billion)	30.2	108.2	28.3	28.6	100.5

Source: Department of Statistics, Malaysia

oil and rapeseed oil in the US and Europe, respectively. Growth was also supported by increase in exports of rubber which benefited from higher prices.

Mineral exports also expanded further during the quarter, led mainly by higher crude oil exports and to a lesser extent increased LNG exports amidst higher prices. Export price of crude oil rose to an average of USD87.34 per barrel during the quarter (3Q: USD75.40) in line with developments in the global oil markets.

Malaysia: Direction of Exports

	2006		2007			2006		2007			2006		2007		
	4Q	Year	3Q	4Q	Year	4Q	Year	3Q	4Q	Year	4Q	Year	3Q	4Q	Year
	RM billion					Share of total exports (%)					Annual change (%)				
United States	27.8	110.6	24.5	23.4	94.5	18.3	18.8	15.5	14.3	15.6	1.0	5.3	-18.6	-15.8	-14.5
European Union (EU)	21.1	74.9	20.3	20.4	77.8	13.9	12.7	12.8	12.5	12.9	20.5	19.7	0.5	-3.3	3.5
Selected ASEAN countries¹	37.5	152.5	39.6	43.1	154.3	24.7	25.9	25.0	26.4	25.5	2.2	10.7	-0.6	15.0	1.2
North East Asia	28.2	109.1	31.0	33.6	120.5	18.5	18.5	19.6	20.5	19.9	4.4	10.0	4.9	19.1	10.4
<i>People's Republic of China</i>	11.7	42.7	14.6	15.5	53.0	7.7	7.2	9.2	9.5	8.8	11.9	21.1	15.0	32.5	24.3
<i>Hong Kong SAR</i>	6.8	29.1	7.3	7.7	28.0	4.5	4.9	4.6	4.7	4.6	-12.6	-6.6	-2.1	13.1	-4.0
<i>Chinese Taipei</i>	4.1	16.0	4.2	4.2	16.5	2.7	2.7	2.7	2.6	2.7	2.8	8.3	-7.5	1.6	2.6
<i>Korea</i>	5.5	21.3	4.8	6.1	23.0	3.6	3.6	3.1	3.7	3.8	17.4	18.6	1.0	11.4	8.1
India	5.4	18.8	5.7	5.6	20.2	3.6	3.2	3.6	3.4	3.3	30.1	25.5	8.3	2.5	7.6
Total exports	152.0	589.0	158.5	163.4	605.1	100.0	100.0	100.0	100.0	100.0	6.6	10.3	0.9	7.5	2.7

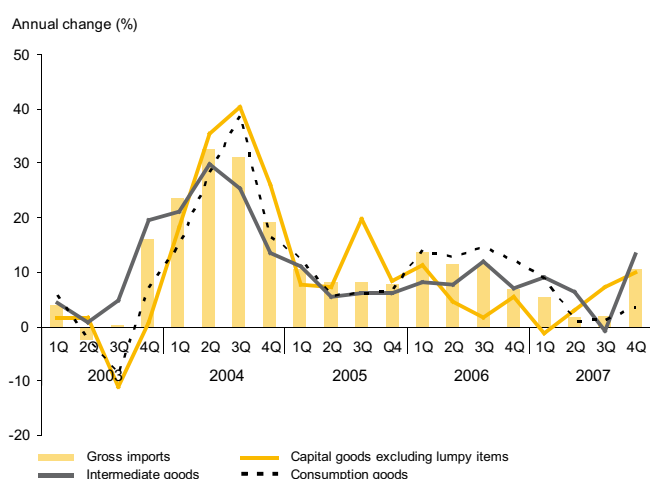
¹ Singapore, Thailand, Indonesia, Philippines, Brunei Darussalam and Vietnam

Source: Department of Statistics, Malaysia

Malaysia's exports to regional markets increased in importance. Strong economic activity in the Asian region (excluding Japan) led to higher regional exports (16.8%; 3Q: 1.8%). Exports to the ASEAN countries expanded strongly, driven mainly by higher exports of E&E products, iron and steel, minerals & fuels and plastics particularly to Singapore, Vietnam and Philippines. Export growth to the North East Asian countries strengthened, attributed mainly to higher demand for E&E products, LNG, and chemicals and chemical products. Meanwhile, exports to India comprising mainly of E&E and petroleum related products continued to grow.

Gross imports recorded a double-digit growth (10.7%; 3Q: 2%) during the quarter, reflecting growth in all major categories of imports. Of significance, imports of **capital goods** expanded by 17.7%. Excluding lumpy items, imports of capital goods strengthened by 10% (3Q: 7.4%). Infrastructure projects under the Ninth Malaysia Plan and development and production activity in the oil and gas sector spurred imports of construction and mining equipment. Capacity expansion and upgrading in the manufacturing sector led

Import Growth



to higher imports of machinery. Favourable agriculture prices continued to promote capacity expansion in the sector, leading to higher imports of agriculture equipment. Higher imports of ships reflected growing intra-regional trade and firm demand for commodity exports.

Imports of **intermediate goods** turned around to register a strong growth of 13.3% (3Q: -0.7%), reflecting imports of inputs for manufactured goods particularly in the E&E sector. Growth in the intermediate imports was also attributed to higher imports of primary and processed materials used by

the resource-based industry, such as metals and chemical products as well as fuel and lubricants. In addition, higher demand for motor vehicles supported the growth in imports of parts and accessories for transport equipment.

Consistent with continued growth in private consumption, imports of **consumption goods** expanded by 3.6%. Growth in consumption imports was mainly in food and beverages, as well as consumer goods, namely medicine, cosmetics, household furnishings and electrical goods.

interests of a local financial institution by a Hong Kong-based bank, as well as continued expansion in the wholesale and retail trade, restaurants and hotels sub-sector. In the manufacturing sector, FDI were channelled mainly into the E&E, downstream petroleum-related as well as chemical industries. Meanwhile, the bulk of the inter-company loans was in the form of short-term loans extended by foreign oil and gas companies to their subsidiaries in Malaysia and a large proportion of these loans was repaid during the same quarter. After adjusting for outflows due mainly to repayments of these short-term loans, net FDI amounted to RM3.3 billion (3Q: RM6.8 billion). The statistics for FDI on a 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		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
CAPITAL GOODS	4.1	7.4	17.5	17.7	7.3
Capital goods (except transport equipment)	4.6	5.4	10.4	10.2	5.7
Transport equipment	-0.1	23.5	95.3	78.5	17.7
INTERMEDIATE GOODS	7.1	8.8	-0.7	13.3	6.8
Food and beverages, mainly for industry	18.2	24.9	37.0	32.5	21.0
Industrial supplies, n.e.s.	19.2	11.1	8.3	15.6	17.0
Fuel and lubricants	-0.5	25.7	-20.1	32.7	2.0
Parts and accessories of capital goods (except transport equipment)	3.3	5.1	-5.6	5.7	0.4
Parts and accessories of transport equipment	-22.5	-8.7	22.0	37.2	11.3
CONSUMPTION GOODS	12.1	13.4	1.2	3.6	3.6
Food and beverages, mainly for household consumption	5.7	4.8	2.8	6.6	6.6
Transport equipment, non-industrial	45.7	9.4	55.8	1.0	9.3
Consumer goods, n.e.s.	15.1	18.8	-0.4	2.0	1.8
<i>Durables</i>	13.7	9.8	24.4	6.4	14.9
<i>Semi-durables</i>	24.5	34.6	-17.5	-7.4	-10.9
<i>Non-durables</i>	9.3	12.6	3.6	7.1	5.6
DUAL USE GOODS	-5.7	7.8	4.3	20.1	1.7
OTHERS	-3.4	-2.7	74.2	33.6	32.5
RETAINED IMPORTS	6.4	8.7	2.9	13.8	7.0
RE-EXPORTS	12.5	50.6	-11.3	-32.6	-22.4
GROSS IMPORTS	6.8	10.8	2.0	10.7	4.9

Source: Department of Statistics, Malaysia

Net inflows of FDI and portfolio investment

On a cash basis, gross inflows of **foreign direct investment (FDI)** amounted to RM12.8 billion (3Q: RM25.9 billion) reflecting mainly lower drawdown of inter-company loan from parent companies abroad. FDI in the form of equity capital remained high and was largely in the services, manufacturing, and oil and gas sectors. FDI in the services sector reflected mainly the acquisition of substantial

Gross outflows for **overseas investment** amounted to RM20.4 billion (3Q: -RM12.3 billion), reflecting mainly higher extension of short-term loans by non-resident controlled companies to their related companies abroad arising from their centralised treasury operations. These outflows were largely offset by inflows arising from repayment of short-term inter-company loans during the quarter. After adjustments for these transactions, overseas investment recorded a net outflow of RM5.1 billion (3Q: -RM7.1 billion). The bulk of the net outflows for overseas investment was effected by companies in the services, manufacturing, and oil and gas sectors. In the services sector, overseas investment were channeled mainly into the financing, insurance and business as well as utilities sub-sectors. Meanwhile, overseas investment by the manufacturing sector were led by companies in the electrical and electronics, metal products and petroleum-related industries.

Portfolio investment recorded a net inflow of RM6 billion (3Q: -RM21.9 billion) reflecting mainly net purchases of debt

securities by foreign investors which more than offset outflows due to purchases of equity securities abroad by residents. The net inflows of foreign funds reflected the shift in asset allocation to Asia.

External debt declined

As at end-2007, Malaysia's total external debt declined to RM187.4 billion (equivalent to USD56 billion) or 30.9% of GNP. The **medium and long-term external debt** increased marginally to RM133 billion (3Q: RM131.9 billion) as higher net drawdown by the private sector was partially offset by continued net repayment by the public sector and revaluation gain arising from the appreciation of ringgit against major currencies, particularly the US dollar. The Federal Government continued to register a net repayment (-RM0.9 billion; 3Q: -RM3 billion) reflecting largely the maturity of syndicated loans. During the quarter, the NFPEs recorded another net repayment (-RM0.4 billion; 3Q: -RM3 billion), attributable mainly to companies in the oil and gas as well as financial, insurance, real estate and business services sectors. The higher net drawdown of external loans by the private sector amounting to RM5.6 billion (3Q: RM4.1 billion) was effected largely by companies in the transport, storage and telecommunication, and manufacturing sectors.

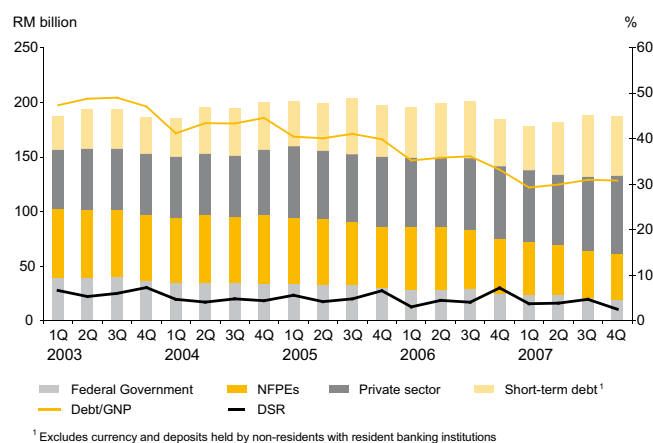
External Debt Outstanding

	2006	2007	
	4Q	3Q	4Q ^P
	RM billion		
Medium- and long-term debt	141.7	131.9	133.0
Public sector	75.4	64.2	61.4
Private sector	66.3	67.7	71.5
Short-term debt ¹	42.8	56.5	54.5
Total external debt	184.5	188.3	187.4
- USD billion equivalent	51.7	54.6	56.0

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

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

External Debt Outstanding



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

The total short-term external debt declined to RM54.5 billion (equivalent to USD16.3 billion), reflecting mainly lower short-term borrowings by the banking sector. As at end-2007, the short-term debt accounted for 29.1% of total external debt and 16.2% of the net international reserves.

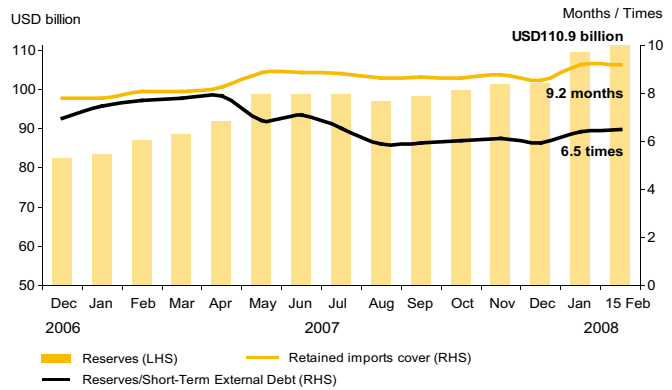
International reserves

The **international reserves** of Bank Negara Malaysia amounted to RM335.7 billion (equivalent to USD101.3 billion) as at 31 December 2007. The reserves level has taken into account the quarterly revaluation loss, following the strengthening of ringgit against the major currencies during the fourth quarter. The reserves increased to RM366.8 billion (equivalent to USD110.9 billion) as at 15 February 2008. The reserves position is sufficient to finance 9.2 months of retained imports and is 6.5 times the short-term external debt.

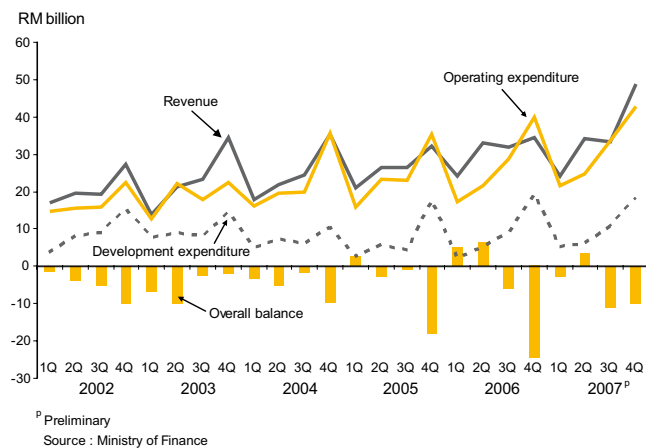
Fiscal deficit for 2007

The Federal Government's total expenditure in the fourth quarter was higher, resulting in an overall fiscal deficit of 3.2% of GDP for the year as a whole. In particular, higher development expenditure was recorded as a result of increased spending in the agriculture and public utilities sub-sectors. Meanwhile, increased revenue collection during the quarter was mainly from the higher corporate income tax collections and oil-related revenue. The fiscal deficit was funded largely from a drawdown of the realisable assets of the Government and domestic borrowings. As at end-2007, total outstanding debt of the Federal Government amounted to RM266.5 billion or 42.6% of GDP.

Net International Reserves (as at end period)



Federal Government Finance



Federal Government Finance

	2006	2007 ^P	
	4Q	3Q	4Q
	RM billion		
Revenue	34.4	33.3	48.9
% growth	6.9	4.4	42.0
Operating expenditure	40.0	33.7	42.9
% growth	12.8	17.1	7.3
Current account	-5.6	-0.4	6.0
% of GDP	-3.8	-0.3	3.7
Gross development expenditure	19.4	10.8	18.2
% growth	11.0	19.0	-6.0
Overall balance	-24.6	-11.1	-9.8
% of GDP	-16.6	-6.7	-6.1
Memo item:			
Total gross expenditure	59.4	44.5	61.1
% growth	12.2	17.5	3.0
Total Federal Government debt (as at end-period)	242.2	271.5	266.5
% of GDP	42.3	43.4	42.6
Domestic debt	217.2	250.6	247.1
% of GDP	37.9	40.1	39.5
External debt	25.0	20.9	19.4
% of GDP	4.4	3.3	3.1

^P Preliminary

Source: Ministry of Finance