

DEVELOPMENTS IN THE MALAYSIAN ECONOMY

The Malaysian economy grew by 5.6% in the first quarter

The Malaysian economy registered a growth of 5.6% in the first quarter of 2015 (4Q 2014: 5.7%). Private sector expenditure remained the key driver of growth (9.6%; 4Q 2014: 8.3%). This contributed towards a strong domestic demand performance, which offset the negative contribution from net exports during the quarter. On a quarter-on-quarter seasonally-adjusted basis, the economy recorded a growth of 1.2% (4Q 2014: 1.8%).

Continued expansion in domestic demand

Domestic demand expanded by 7.9% in the first quarter of 2015 (4Q 2014: 5.7%), driven mainly by private sector expenditure.

Private sector activity grew by 9.6% (4Q 2014: 8.3%), following continued growth in consumption and investment activities. **Private consumption** expanded at a stronger pace of 8.8% (4Q 2014: 7.6%), supported by stable labour market conditions and higher wage growth. Furthermore, household spending was supported by flood relief efforts, in particular, during the early parts of the quarter. The front-loading of consumer purchases prior to the implementation of GST, particularly on transport, food and beverages, as well as communication, also contributed to the strong expansion in private consumption. **Private investment** expanded by 11.7% (4Q 2014: 11.1%), driven by capital spending in the export-oriented manufacturing sector and in the telecommunication and transport-related services industries.

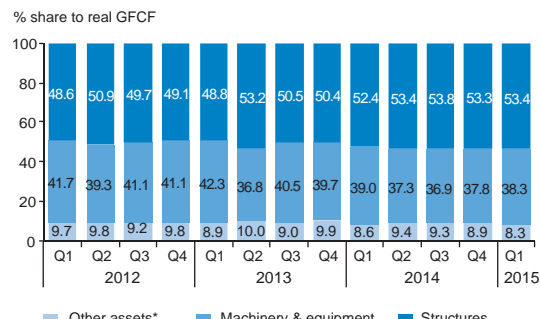
Public sector expenditure expanded by 2.5% in the first quarter (4Q 2014: 0.6%) driven mainly by higher growth in public consumption and a turnaround in public investment. **Public consumption** grew by 4.1% (4Q 2014: 2.5%), reflecting higher Federal Government spending on supplies and services amid moderate growth in emoluments. Following a rebound in spending on fixed assets by the Federal

GDP by Expenditure Components (at constant 2010 prices)

	Share 2014 (%)	2014			2015
		1Q	4Q	Year	1Q
Annual change (%)					
Aggregate Domestic Demand (excluding stocks)	91.5	7.6	5.7	5.9	7.9
Private Sector	68.5	8.9	8.3	7.9	9.6
Consumption	51.8	7.0	7.6	7.0	8.8
Investment	16.6	14.9	11.1	11.0	11.7
Public Sector	23.0	3.6	0.6	0.4	2.5
Consumption	13.6	12.2	2.5	4.4	4.1
Investment	9.5	-6.3	-1.9	-4.7	0.5
Net Exports	9.3	8.2	-4.0	12.8	-10.2
Exports of Goods and Services	76.1	7.9	1.9	5.1	-0.6
Imports of Goods and Services	66.8	7.8	2.6	4.2	1.0
GDP	100.0	6.3	5.7	6.0	5.6
GDP (q-o-q growth, seasonally adjusted)	-	1.4	1.8	-	1.2

Source: Department of Statistics, Malaysia

GFCF by Type of Assets



* Other assets include mineral exploration, research & development, etc

Source: Department of Statistics, Malaysia

Government, **public investment** turned around and grew by 0.5% (4Q 2014: -1.9%).

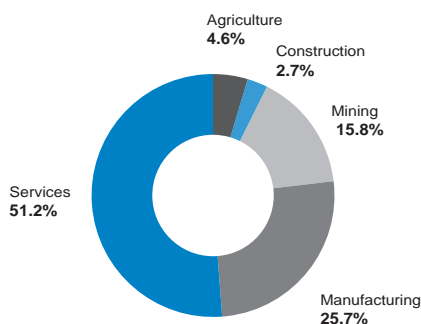
In terms of total investment, **gross fixed capital formation** expanded by 7.9% (4Q 2014: 4.3%), supported mainly by capital spending in the private sector. By type of assets, investments on structures expanded by 9.9% (4Q 2014: 10.4%), while machinery and equipment investment turned around to record a positive growth of 5.8% (4Q 2014: -0.8%).

The Broad-based Composition of Private Investment in Malaysia

Malaysia's private investment has been broad-based across the economy

Since 2010, private investment in Malaysia has registered a robust double-digit average growth rate. Investment activity in the services and manufacturing sectors were the main drivers of the strong performance, accounting for more than 75% of private investment (Figure 1). The mining sector also contributed significantly to investment growth, particularly in 2012, due to the simultaneous commencement of several major oil and gas projects under the Economic Transformation Programme (ETP) (Figure 2).

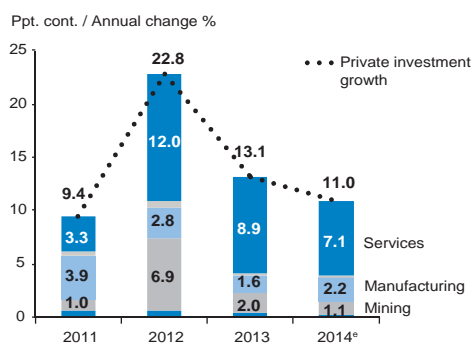
Figure 1:
Share of Private Investment by Sector (2014^e)



^e Estimate

Source: Bank Negara Malaysia estimates

Figure 2:
Contribution to Private Investment Growth (2011-2014^e)



^e Estimate

Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

Note: Figures are based on 2005 base year. The new figures based on the base year of 2010 will be released in the second half of 2015

Table 1: Recent private investment activity in Malaysia (2010-2014)

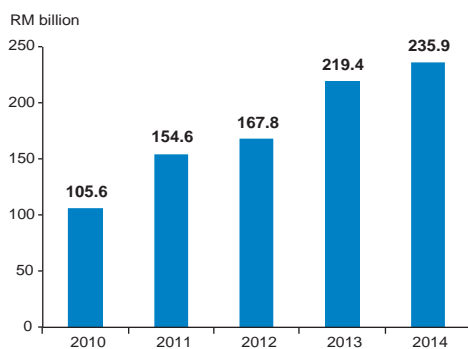
Sector	Main investment activity
Services	Tourism and retail: Theme parks, hotels and shopping malls Transport and storage: Logistics facilities, oil storage facilities Healthcare: New hospitals, upgrading of medical equipment Telecommunications: Roll-out of high-speed 3G / HSPDA / 4G LTE infrastructure
Manufacturing	Petrochemicals: Oil refineries and chemical plants Electronics and electrical: Solar, semiconductors, medical devices Automotive: Energy-efficient vehicle plants Aeronautical: Aircraft design, aircraft components
Mining	Deepwater exploration, enhanced oil recovery (EOR) and marginal oil fields
Construction	Investment in construction machinery and equipment for the building of structures
Agriculture	Replanting and new planting of palm oil and rubber, upgrading of machinery and equipment

Going forward, investment will remain resilient amidst lower oil prices, driven by the manufacturing and services sectors

Investment activity, particularly in the manufacturing and services sectors, is expected to remain robust as reflected by the record-high level of investment approvals reported by the Malaysian Investment Development Authority (MIDA) (Figure 3). Investment in the manufacturing sector will be supported by capital spending in the export-oriented industries and in new growth areas such as renewable energy (e.g. solar and energy-efficient vehicles), semiconductors and medical devices. In the services sector, spending will be channelled into higher value-added activities, such as IT services (e.g. cloud computing), education and medical tourism.

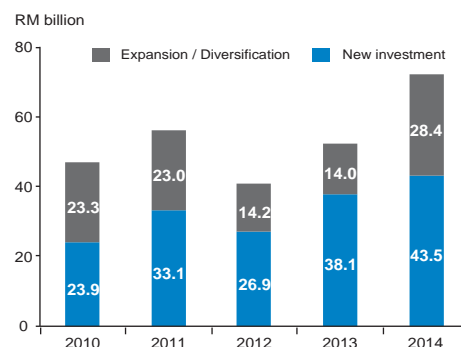
Investment by new and existing businesses in Malaysia (Figure 4) and the continued implementation of long-gestation projects (Table 2) will also support investment growth in 2015-2016.

Figure 3:
MIDA Total Investment Approvals



Source: Malaysian Investment Development Authority (MIDA)

Figure 4:
MIDA Manufacturing Investment Approvals by Purpose



Source: Malaysian Investment Development Authority (MIDA)

Table 2: Selected Long-gestation Projects

Projects	Description	Timeline
Bukit Bintang City Centre	Mixed residential and commercial development	2015-2024
Infineon Technologies	Competence Centre for Megatrend Technologies in Kulim and expansion of a Development Centre in Melaka	2014-2024
Seagate	New plant for hard drives and storage solutions	2014-2019
Dialog-Vopak Phase 2	Oil and gas storage and terminal	2014-2018
Genting refurbishment	New theme park and hotel refurbishment	2013-2016

Source: Newsflows

Additionally, the incentives announced by the Government in April 2015 to promote investment in automation and principal hub activity are also expected to lift capital spending and to attract more firms to set up their global or regional bases in Malaysia.

Continued expansion in major economic sectors

On the supply side, growth in the first quarter was supported by the major economic sectors. The services sector was underpinned by growth in all sub-sectors, particularly consumption-related sub-sectors. Growth in the manufacturing sector was supported by stronger performance in the export-oriented industries, particularly the electronics and electrical (E&E) cluster. The construction sector was supported mainly by the non-residential and residential sub-sectors, while the mining sector continued to record stronger growth amid higher crude oil production. Meanwhile, the agriculture sector contracted as a result of lower palm oil production.

The **services sector** grew by 6.4% in the first quarter (4Q 2014: 6.6%) benefitting from the higher growth in domestic demand. The wholesale and retail trade sub-sector recorded

a stronger growth of 9.8% (4Q 2014: 9.4%), in line with higher household spending ahead of the implementation of GST. Growth in the information and communication sub-sector remained robust (9.6%; 4Q 2014: 9.7%), driven mainly by strong demand for data communication services, amid higher usage of

GDP by Economic Activity (at constant 2010 prices)

	Share 2014 (%)	2014			2015
		1Q	4Q	Year	1Q
		Annual change (%)			
Agriculture	9.2	2.6	-3.7	2.1	-4.7
Mining	9.0	-0.1	9.5	3.3	9.6
Manufacturing	23.0	7.0	5.4	6.2	5.6
Construction	4.3	19.3	8.8	11.8	9.7
Services	53.5	6.7	6.6	6.5	6.4
Real GDP	100.0¹	6.3	5.7	6.0	5.6
Real GDP (q-o-q seasonally adjusted)	-	1.4	1.8	-	1.2

¹ Numbers do not add up due to rounding and exclusion of import duties component

Source: Department of Statistics, Malaysia

Performance of the Services Sector (value added at constant 2010 prices)

	Share 2014 (%)	2014			2015
		1Q	4Q	Year	1Q
		Annual change (%)			
Intermediate Services	38.4	6.1	6.1	5.9	5.7
Finance & insurance	13.7	2.7	2.4	2.3	1.9
Real estate & business services	7.9	8.2	8.3	8.0	7.6
Transport & storage	6.5	4.8	6.0	5.2	5.7
Information & communication	10.2	10.1	9.7	9.7	9.6
Final Services	61.6	7.2	6.9	7.0	6.8
Wholesale & retail trade	26.9	8.5	9.4	8.9	9.8
Food & beverages and accommodation	5.1	6.3	7.5	6.5	7.3
Utilities	4.8	3.2	3.9	3.8	3.7
Government services	16.5	7.6	4.7	6.1	3.9
Other services	8.2	5.3	4.7	4.8	4.6
Total Services	100.0¹	6.7	6.6	6.5	6.4

¹ Numbers do not add up due to rounding

Source: Department of Statistics, Malaysia

Selected Quarterly Indicators in the Services Sector

	2014			2015
	1Q	4Q	Year	1Q
	Index			
MIER Consumer Sentiments Index	96.8	83.0	94.5	72.6
MIER Retail Trade Index	86.3	92.9	99.7	85.4
MIER Tourism Market Index	115.8	107.6	108.8	100.7
Annual change (%)				
Total consumption credit outstanding	4.8	2.7	2.7	3.5
Total loans outstanding	10.2	9.3	9.3	9.2
Loans outstanding to the wholesale & retail trade, hotels & restaurants	6.4	7.5	7.5	9.4
Imports of consumption goods	15.6	2.9	5.7	4.4
Total sales of motor vehicles	1.4	3.8	1.6	5.3
Container cargo handled (Port Klang and PTP)	3.7	12.8	8.3	13.1

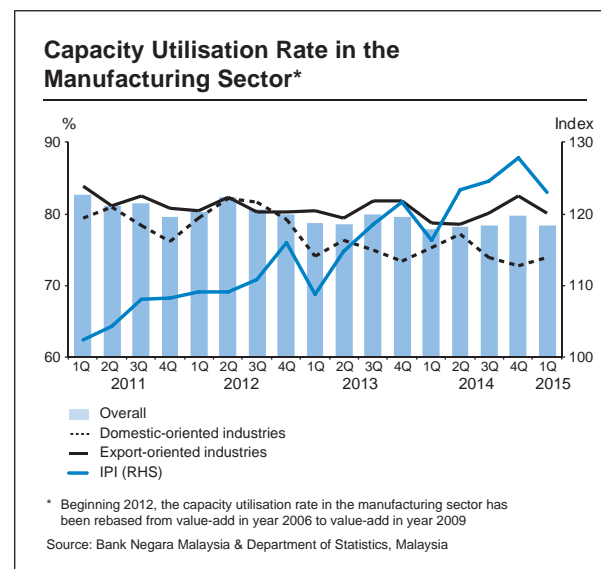
Source: Various sources

mobile devices, particularly smartphones. The real estate and business services sub-sector expanded by 7.6% (4Q 2014: 8.3%), supported mainly by the business services segment. The transport and storage sub-sector registered a more moderate growth of 5.7% (4Q 2014: 6.0%) in line with the slower trade-related activity. The finance and insurance sub-sector expanded by 1.9% (4Q 2014: 2.4%), supported by continued demand for financial services products.

The **manufacturing sector** recorded a higher growth of 5.6% in the first quarter (4Q 2014: 5.4%), supported by the stronger performance in the export-oriented industries, particularly the strong production in the electronics and electrical (E&E) cluster. This more than offsets the slight moderation in the domestic-oriented industries.

Overall capacity utilisation rate in the manufacturing sector moderated to 78.4% in the first quarter (4Q 2014: 79.8%) amid

lower capacity utilisation in the export-oriented industries (80%, 4Q 2014: 83%). However, the domestic-oriented industries recorded a higher capacity utilisation rate at 74% (4Q 2014: 73%).



Performance of the Manufacturing Sector

	Share in 2014 (%)	2014			2015
		1Q	4Q	Year	1Q
		Annual Change (%)			
Overall value Added (at constant 2010 prices)	100.0	7.0	5.4	6.2	5.6
Export-oriented industries	63.6	7.4	6.8	5.9	7.0
Domestic-oriented industries	36.4	6.3	3.1	6.9	2.8
Overall Manufacturing Production¹	100.0	6.9	5.0	6.1	5.6
Export-oriented industries	74.9	6.6	5.4	5.4	6.3
Electronics and electrical products cluster	24.2	14.6	10.2	12.1	11.3
<i>Of which:</i>					
Electronics	15.3	19.1	6.0	10.6	-0.2
Electrical products	8.9	5.4	19.7	15.4	36.9
Primary-related cluster	50.7	3.0	2.9	2.1	3.8
<i>Of which:</i>					
Chemicals and chemical products	14.3	1.1	7.9	3.6	9.9
Petroleum products	21.1	6.5	1.8	0.6	2.1
Rubber products	2.5	1.3	-0.8	-1.3	-1.3
Off-estate processing	4.5	0.8	-9.0	1.5	-12.2
Domestic-oriented industries	25.1	7.8	3.9	7.9	3.8
Construction-related cluster	11.3	3.2	3.6	4.3	6.9
<i>Of which:</i>					
Construction-related products	8.2	1.2	5.3	5.1	8.1
Fabricated metal products	3.1	6.9	0.6	2.8	4.7
Consumer-related cluster	13.8	11.8	4.2	10.9	1.4
<i>Of which:</i>					
Transport equipment	5.5	19.0	1.1	14.4	9.2
Food, beverage & tobacco products	7.3	5.7	8.3	8.9	-4.6

¹ Industrial Production Index (2010=100)

Source: Department of Statistics, Malaysia

Rebasing of the Malaysian GDP from Base Year 2005 to 2010 Prices

With effect from 1Q 2015, Malaysia's Gross Domestic Product (GDP) in constant terms is rebased to 2010 prices from 2005 prices. This rebasing exercise by the Department of Statistics, Malaysia (DOSM) also reflects the enhancement of data sources and coverage, as well as the incorporation of the latest international guidelines for statistical compilations¹. These improvements will enhance the quality and comparability of Malaysia's GDP statistics, and ensure that they better represent the current structure of the Malaysian economy.

Purpose of Rebasing Exercise

The practice of rebasing GDP is a standard exercise by statistical agencies worldwide. Other countries, including the euro area, South Korea, Singapore, PR China and Indonesia are also using 2010 as their current base year. In general, there are three key motivations to the improvements and rebasing of the GDP:

a) To reflect the recent economic developments

The rebasing of GDP is necessary to ensure that the national accounts statistics reflect the most recent underlying economic structure and relative prices in the economy. By using constant base year prices, changes in GDP in constant terms (real GDP) would reflect only changes in the volume of economic activity. However, relative prices of goods and services do change over time due to the changing demand conditions. This would result in greater allocation of resources and production towards certain economic sectors relative to other sectors. Consequently, the relative weights of the old base year prices would become less representative of the current structure of the economy. This necessitates a change in the base year such that the reference prices become more representative of the more recent economic developments.

b) To incorporate methodological improvements and industrial reclassification

In order to enhance the quality and comparability of Malaysia's GDP statistics, the rebasing exercise incorporates conceptual and methodological improvements as well as the latest industrial reclassification to the statistical compilation.

- i. There are two main conceptual and methodological changes that were carried out. First, a refined methodology will be implemented for goods for processing (GFP) (see factbox on 'Goods for Processing in Malaysia's Balance of Payments Statistics'). Secondly, the depreciation of public assets will now be based on the Perpetual Inventory Method as recommended by System of National Accounts.
- ii. In terms of industrial reclassification, selected subsectors in the manufacturing, services and mining sectors were reclassified in accordance with the latest Malaysia Standard Industrial Classifications (MSIC 2008).

c) To reconcile data from various censuses, surveys and sources

With the aim of enhancing the quality, reliability and coverage of Malaysia's national account statistics, the rebasing exercise reconciles the latest data from the various censuses, surveys and data sources. DOSM utilised detailed censuses and surveys undertaken since 2010 (including the Economic Census 2011, Supply & Use Tables 2010, Household Expenditure Survey 2009/10 and 2014, Census of Distributive Trade 2014 and other indices such as Consumer Price Index, Producer Price Index and Industrial Production Index based at 2010 prices). Moreover, more comprehensive information and data on industries were obtained from other public agencies such as the Malaysian Palm Oil Board and the Ministry of Agriculture.

¹ System of National Accounts 2008 (SNA 2008) and Balance of Payments and International Investment Position Manual, IMF, Sixth Edition (BPM6).

² GFP are items for processing by an entity which does not own the goods, and hence, does not involve a change of ownership.

Implications on GDP Figures

Following the reconciliation of new information from more recent surveys and improvement in methodologies, Malaysia's nominal GDP in 2010 increased from RM797 billion to RM821 billion (+3.0%). This increase in nominal GDP after rebasing is modest and comparable to revisions made by other countries (Table 1). Meanwhile, the nominal GDP increased from RM1,070 billion to RM1,107 billion (+3.4%) in 2014.

Table 1: Nominal GDP of selected countries (during the year of rebase)

Country	Nominal GDP Before Rebasing	Nominal GDP After Rebasing	Revision (%)
South Korea (bil won, 2010)	1,173,275 (2005=100)	1,265,308 (2010=100)	7.8
Netherlands (mil euro, 2010)	586,789 (2005=100)	631,512 (2010=100)	7.6
Philippines (bil PHP, 2000)	3,355 (1985=100)	3,581 (2000=100)	6.7
Malaysia (mil RM, 2010)	797,327 (2005=100)	821,434 (2010=100)	3.0
Singapore (bil \$S, 2010)	318 (2005=100)	322 (2010=100)	1.3
PR China (100 mil yuan, 2010)	401,202 (2005=100)	401,513 (2010=100)	0.1
India (rupee crores, 2011/12)	9,009,722 (2004-05=100)	8,832,012 (2011-12=100)	-2.0

Source: Department of Statistics, Malaysia

On the supply side, economic activity is still driven by the services and manufacturing sectors, which account for approximately three quarters of the GDP. The share of commodities sectors (agriculture and mining) increased, reflecting the higher commodity prices relative to non-commodity prices in 2010 compared with 2005 (Table 2). On the whole, growth rates of all sectors were broadly unchanged.

Table 2: Real GDP by Economic Activity

	2014 share of GDP (%) ¹		2014 growth of GDP (%)	
	2005 prices	2010 prices	2005 prices	2010 prices
Services	55.3	53.5	6.3	6.5
Manufacturing	24.6	23.0	6.2	6.2
Agriculture	6.9	9.2	2.6	2.1
Mining & Quarrying	7.9	9.0	3.1	3.3
Construction	3.9	4.3	11.6	11.8
Overall GDP	100.0	100.0	6.0	6.0

¹ Numbers may not add up due to rounding and exclusion of import duties component

Source: Department of Statistics, Malaysia

On the demand side, the shares of major components were broadly unchanged. Domestic demand, in particular private sector expenditure, remains the key driver of growth in the Malaysian economy (Table 3). Additionally, the increase in the share of net exports is due to higher commodity prices relative to non-commodity prices in 2010 compared to 2005³. Meanwhile, the growth rates of major components were relatively unchanged, except for net exports as a result of the new base year prices and treatment for goods for processing (GFP).

Table 3: Real GDP by Expenditure

	2014 share of GDP (%) ²		2014 growth of GDP (%)	
	2005 prices	2010 prices	2005 prices	2010 prices
Aggregate domestic demand	93.1	91.5	6.0	5.9
Private sector	70.0	68.5	8.0	7.9
Consumption	52.5	51.8	7.1	7.0
Investment	17.5	16.6	11.0	11.0
Public sector	23.0	23.0	0.2	0.4
Consumption	13.2	13.6	4.4	4.4
Investment	9.8	9.5	-4.9	-4.7
Net exports of goods & services	8.0	9.3	19.7	12.8
Exports of goods & services	88.8	76.1	5.1	5.1
Imports of goods & services	80.8	66.8	3.9	4.2
Overall GDP	100.0	100.0	6.0	6.0

² Numbers may not add up due to rounding and exclusion of the changes in inventories and valuables component

Source: Department of Statistics, Malaysia

Conclusion

The estimation of Malaysia's GDP has been improved and benchmarked to the base year 2010 to reflect the latest changes in economic structure and relative prices in the economy. This exercise reflects three key enhancements:

- (i) The use of 2010 prices in the estimation of GDP at constant prices in order to better reflect current relative prices in the economy;
- (ii) Methodological enhancements and industrial reclassification to statistical compilation; and
- (iii) Wider coverage of and further enhancements to various data sources, censuses and surveys.

Following the rebase, the upward revision for Malaysia's nominal GDP is modest and is broadly in line with the experience of other countries that have recently undertaken the rebasing exercise. The revision has minimal impact on Malaysia's overall growth figures, suggesting that underlying growth momentum of the economy remains unchanged.

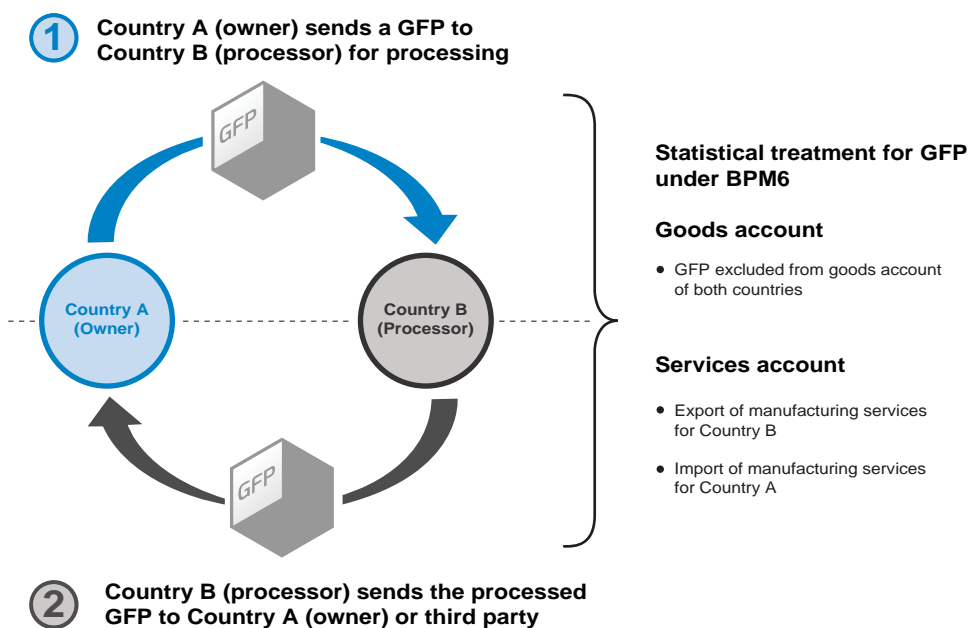
³ Both exports and imports of goods and services recorded a lower share due to the new treatment for goods for processing (GFP)

Goods for Processing in Malaysia's Balance of Payments Statistics

Goods for processing (GFP) are goods that are sent abroad by an owner to a processor for processing and subsequently returned to the owner or exported to third party, without a change of ownership. Throughout the process, the processing entity does not own either the imported inputs or the processed goods. The processing entity merely receives a processing fee from the owner of the goods for providing the processing services. Based on the survey conducted by DOSM, Malaysia is predominantly a GFP processor country.

In the past, GFP were treated as export and import transactions between a resident and non-resident in the goods account, regardless of the ownership status. With the rise of global production networks, this statistical treatment on GFP has inflated international trade statistics. In response to these concerns, both 2008 System of National Accounts (2008 SNA) and 6th edition of Balance of Payments and International Investment Position Manual (BPM6)⁴ have recommended the exclusion of GFP from the goods accounts, with only the processing fees included in the services account (Figure 1).

Figure 1:
Illustration of GFP and conceptual treatment of GFP in BOP statistics



⁴ For more information on Malaysia's migration to BPM6, please refer to "Malaysia's Balance of Payments (BOP) – Compilation of BOP Statistics in Accordance with the 6th Edition of Balance of Payments and International Investment Position Manual (BPM6) of the International Monetary Fund", published in BNM Quarterly Bulletin, First Quarter 2013.

In principle, the revised treatment would not have any impact on GDP and BOP statistics, as it involves merely a reclassification of goods transactions to services transactions. In reality, however, the complexity of international trade transactions mean that the effect of these shifts do not entirely offset, as the service charges include other costs, such as holding gains/losses and overheads, which are not attributed to the processing entity.

In the case of Malaysia, the amount of GFP removed from the goods accounts was higher than the services charges included in the services accounts in the BOP. The net result is a lower net goods and services balance in GDP. Consequently, the current account balance was also lower (Table 1).

Table 1: Current Account Balance in Malaysia, 2014

RM billion	Before incorporating GFP	After incorporating GFP	Difference
Goods balance	125.1	113.4	-11.7
Services balance	-20.5	-11.2	9.4
Goods and services	104.5	102.2	-2.3*
Primary income	-37.4	-37.3	0.1
Secondary income	-17.6	-17.6	-
Current account balance	49.5	47.3	-2.2*

* Difference in current account balance and goods and services balance differ, as there were also statistical revisions to primary income account data, which affected the overall current account balance

Source: Department of Statistics, Malaysia

References

International Monetary Fund 2011. "Balance of Payments and International Investment Position Manual (Sixth Edition)"

The **construction sector** grew by 9.7% in the first quarter (4Q 2014: 8.8%), underpinned by the expansion in non-residential and residential sub-sectors. The expansion of the non-residential sub-sector was driven by construction activity for industrial and commercial buildings. Growth in the residential sub-sector remained supported by the construction of properties in both the mass- and high-end markets. The special trade sub-sector continued to expand, reflecting activity for piling, earthworks, electrical and system installation as well as building completion and finishing works. Growth in the civil engineering sub-sector improved, supported by large infrastructure projects in the utility and transportation segments.

The **agriculture sector** contracted further by 4.7% (4Q 2014: -3.7%), amid continued lower production of palm oil caused by the floods

Indicators for the Construction Sector				
	2014			2015
	1Q	4Q	Year	1Q
Annual change (%)				
Value of construction work done	21.1	9.7	12.8	15.1
Residential	33.1	18.3	22.2	19.5
Non-residential	19.9	23.5	17.1	24.3
Civil engineering	10.5	-8.0	1.2	4.2
Special Trade ¹	49.3	7.7	16.7	4.2
Housing approvals	-8.9	8.0	4.2	2.2 ³
Production ² of construction-related materials	3.2	3.6	4.3	6.9
Hydraulic cement	1.3	9.9	6.6	20.2
Other articles of concrete, cement and plaster n.e.c	36.9	27.3	32.8	20.9
Other porcelain and ceramic products	15.2	29.6	20.9	31.2
Prefabricated structural components for building or civil engineering of cement, concrete or artificial stone	2.6	-13.3	-3.8	-13.3
Capital imports (excluding lumpy items)	-3.3	8.1	1.2	11.0
Loans for the construction sector				
Approval	-32.8	24.9	0.3	21.4
Disbursement	23.3	17.8	12.7	3.2

¹ Includes special trade works such as site preparation, electrical installation and painting
² Industrial Production Index (2010=100)
³ Jan 2015

Source: Department of Statistics, Malaysia, Ministry of Urban Wellbeing, Housing and Local Government, and Bank Negara Malaysia

Performance of the Agriculture Sector					
	Share 2014 (%)	2014			2015
		1Q	4Q	Year	1Q
Annual change (%)					
Value Added (at constant 2010 prices)	9.2	2.6	-3.7	2.1	-4.7
Industrial Crops	5.8	0.6	-8.4	0.1	-11.0
Of which:					
Oil palm	4.4	2.9	-8.0	2.4	-11.7
Rubber	0.6	-11.1	-25.5	-19.2	5.0
Food Crops	3.4	7.4	6.5	1.5	4.0
Of which:					
Fishing	0.8	3.7	2.2	2.1	4.4
Livestock	1.0	8.5	8.8	7.9	4.3

Source: Department of Statistics, Malaysia

in the eastern states of Peninsular Malaysia. Meanwhile, the **mining sector** expanded further by 9.6% (4Q 2014: 9.5%) due to stronger crude oil production (690,000 barrels per day), the highest since 3Q 2008. This was driven by rising output from the new Gumusut Kakap oilfield offshore Sabah.

Performance of the Mining Sector					
	Share 2014 (%)	2014			2015
		1Q	4Q	Year	1Q
Annual change (%)					
Value Added (at constant 2010 prices)	9.0	-0.1	9.5	3.3	9.6
Production					
Of which:					
Crude oil and condensates	-	-3.6	16.2	4.3	20.4
Natural gas	-	2.2	3.1	1.6	-1.2
Other mining and support services	-	10.8	9.3	9.0	11.3

Source: Department of Statistics, Malaysia

Lower headline inflation in the first quarter

Inflation, as measured by the annual change in the Consumer Price Index (CPI), averaged significantly lower at 0.7% in the first quarter of 2015 (4Q 2014: 2.8%). The lower inflation was mainly attributed to the decline in prices in the *transport* category (1Q 2015: -7.6%, 4Q 2014: 4.8%), following the downward revision of domestic fuel prices in January and February amid lower global oil prices. Inflation in the *housing, water, electricity, gas and other fuels* category also moderated during the quarter (1Q 2015: 2.1%; 4Q 2014: 3.4%) due to the lapse in the impact of the increase in electricity tariff in January 2014, and the downward revision in electricity tariff in March 2015.

The Producer Price Index (PPI) also declined by 5.4% on an annual basis in the first quarter (4Q 2014: -2.3%) driven mainly by the lower prices of *mineral, fuels and lubricants* and *inedible crude materials* categories following the decline in global oil prices. Correspondingly, prices of commodity-related components declined by 16.7% (4Q 2014: -8.8%). Meanwhile, prices of non-commodity-related components increased at a relatively stable rate of 1.1% during the quarter (4Q 2014: 1.4%).

Consumer Price Index

Category	Weights (%) (2010=100)	4Q 2014	1Q 2015
		Annual change, %	
Total	100.0	2.8	0.7
Food and non-alcoholic beverages	30.3	2.7	2.5
Housing, water, electricity, gas and other fuels	22.6	3.4	2.1
Transport	14.9	4.8	-7.6
Others	32.2	1.5	1.6

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Stable labour market conditions

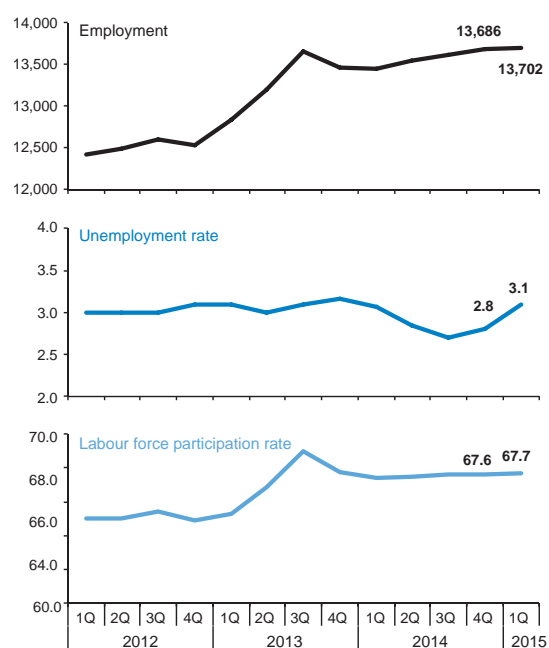
Labour market conditions remained stable during the first quarter, in line with continued expansion across major economic sectors. Labour market participation remained high at 67.7% (4Q 2014: 67.6%), and unemployment remained low, with the unemployment rate at 3.1% (4Q 2014: 2.8%). Retrenchments reported by the Ministry of Human Resources moderated to 2,789 persons (4Q 2014: 2,915 persons). During the quarter, employment was supported by job creation in the manufacturing, construction, and services sectors.

Wage growth improved during the quarter. This was reflected in the growth of aggregate real wages in the manufacturing sector (5.3%; 4Q 2014: 0.4%), which was mainly supported by expansion in wages in the export-oriented industries.

External position remained strong in the first quarter

The current account surplus increased to RM10.0 billion in the first quarter, equivalent to 3.7% of GNI (4Q 2014: RM5.7 billion or 2.1% of GNI). The higher surplus is due to a surplus in the goods account, amid lower deficits in the services and income accounts.

Labour Market Indicators



Balance of Payments¹

	2014			2015
	1Q	4Q	Year	1Q
	RM billion			
Current Account	19.5	5.7	47.3	10.0
(% of GNI)	7.5	2.1	4.4	3.7
Goods	31.2	29.4	113.4	27.5
Services	-0.5	-5.5	-11.2	-3.8
Primary income	-6.6	-13.2	-37.3	-8.5
Secondary income	-4.6	-5.0	-17.6	-5.3
Financial Account	-38.2	-26.6	-81.6	-29.7
Direct investment	-14.4	-2.5	-18.5	-1.2
Assets	-20.6	-9.9	-53.1	-9.8
Liabilities	6.1	7.5	34.6	8.6
Portfolio investment	-14.2	-20.3	-38.5	-7.9
Assets	-7.6	0.3	-28.1	-7.4
Liabilities	-6.6	-20.6	-10.4	-0.5
Financial derivatives	-1.5	0.2	-1.0	0.0
Other investment	-8.1	-4.0	-23.6	-20.6
Errors & omissions ²	1.4	9.1	-2.5	4.0
Overall Balance	-17.3	-11.5	-36.5	-15.7

Assets: (-) denotes outflows due to the acquisition of assets abroad by residents
Liabilities: (+) denotes inflows due to the incurrence of foreign liabilities
¹ In accordance with the Sixth Edition of The Balance of Payments and International Investment Position Manual (BPM6) by the International Monetary Fund (IMF)
² Includes unrealised foreign exchange revaluation gains/losses on international reserves

Source: Department of Statistics, Malaysia

³ Based on preliminary data

Trade Account					
	Share 2014 (%)	2014			2015
		1Q	4Q	Year	1Q
		Annual change (%)			
Gross Exports	100.0	10.7	0.5	6.4	-2.5
Manufactured	76.7	12.5	1.8	7.1	0.1
E&E	33.4	12.5	5.5	8.1	6.9
Non-E&E	43.2	12.5	-0.9	6.4	-4.7
Resource based	23.6	9.2	-4.5	4.9	-12.3
Non-resource based	19.6	16.9	3.6	8.2	4.7
Commodities	22.7	5.7	-3.9	4.2	-10.4
Minerals	13.7	8.0	-0.5	6.8	-6.9
Agriculture	9.0	2.2	-8.8	0.6	-16.0
Gross Imports	100.0	5.5	4.6	5.3	0.2
Intermediate goods	59.8	4.4	12.5	7.6	3.0
Capital goods	14.1	-6.4	0.1	-2.1	8.5
Consumption goods	7.4	15.6	2.9	5.7	4.4
Re-exports and dual-use goods	18.8	15.7	-12.7	3.8	-15.0
Trade balance (RM billion)	-	26.3	21.5	83.1	21.3

Source: MATRADE and Department of Statistics, Malaysia

The trade surplus amounted to RM21.3 billion in the first quarter of 2015 (4Q 2014: RM21.5 billion). Gross exports contracted by 2.5% (4Q 2014: +0.5%), reflecting mainly a decline in the growth of commodity exports and resource-based manufactured exports, amid lower commodity prices. Gross imports moderated to a marginal growth of 0.2% (4Q 2014: +4.6%), amid a slower expansion of intermediate imports and a contraction in import for re-exports.

Manufactured export growth moderated due mainly to further contraction in non-E&E exports. The decline in non-E&E exports was mostly due to a contraction in exports of resource based products, particularly

petroleum products. Meanwhile, growth of E&E exports was supported by the continued demand for semiconductors, and growth of exports of non-resource based products was supported by the continued demand for machinery and appliances as well as optical and scientific equipment.

The contraction in commodity exports was attributable to lower prices and demand for crude palm oil and rubber. While lower prices of crude oil and LNG also weighed on commodity export during the quarter, the impact was partly offset by higher export volume of these commodities. In terms of destination, export to the US continued to record a double-digit growth, amid improvements in the US economy. By destination, exports to the region declined, reflecting mainly lower exports to PR China, Korea, Chinese Taipei and the ASEAN economies during the quarter.

Growth of gross imports moderated in the first quarter of 2015, reflecting a slower expansion of intermediate imports, as well as a contraction in imports for re-exports. Intermediate imports grew marginally, amid slower manufacturing activity. Meanwhile, re-export activity remained weak amid lower commodity prices during the quarter. Nevertheless, capital imports recorded a higher growth, supported by continued expansion in private investment. Higher import growth of consumption goods was due mainly to broad-based improvement in major consumption imports, particularly food and beverages.

Malaysia: Direction of Exports					
	Share 2014 (%)	2014			2015
		1Q	4Q	Year	1Q
		Annual change (%)			
United States	8.4	4.2	16.9	11.0	14.9
European Union (EU)	9.5	18.5	7.9	11.5	1.7
Japan	10.8	8.5	1.9	4.4	-2.5
Selected ASEAN countries¹	27.4	2.9	5.1	5.8	-2.3
North East Asia	23.8	20.1	-8.7	3.4	-7.1
People's Republic of China	12.1	15.3	-15.7	-4.8	-12.6
Hong Kong SAR	4.8	35.0	-3.9	18.5	7.2
Korea	3.7	15.5	2.5	7.1	-8.9
Chinese Taipei	3.2	28.0	4.8	14.3	-3.8
West Asia²	3.0	-0.7	-2.8	-5.7	-8.0
India	4.2	9.1	16.0	23.9	12.1
Total exports	100.0	10.7	0.5	6.4	-2.5

¹Singapore, Thailand, Indonesia, Philippines, Brunei Darussalam and Vietnam
²United Arab Emirates, Saudi Arabia, Oman, Iraq, Qatar, Kuwait, Jordan, Lebanon, Bahrain, Syria, Palestine, Yemen and Iran

Source: Department of Statistics, Malaysia

The Pricing of Malaysia's LNG Exports

Oil prices (Brent) have declined significantly from a peak of USD115 per barrel in mid-June 2014 to a low of USD57 per barrel by March 2015. Such a steep fall in oil prices have had a negative impact on the prices of other commodities, including LNG, which comprised 8.4% of Malaysia's total exports in 2014. In the past, the prices of Malaysia's LNG exports have broadly trailed oil prices with a lag of 3 to 5 months. The latest figure though, shows a decline in Malaysia's LNG prices by only 5.5%, compared to the 49% fall in oil prices since June 2014. This short article provides some explanation to this trend.

Historically, Malaysia's LNG export prices have been linked to oil prices, albeit with a lag (Figure 1). Malaysia's LNG exports are typically priced using the Japanese Crude Cocktail (JCC)¹ as a benchmark. As the JCC moves in line with other global crude benchmarks, such as Brent crude, it is a useful proxy for Malaysia's LNG pricing. The terms of the contracts are reviewed periodically every 3 to 5 years, based on a *formula-based pricing mechanism*², in line with the price trends in the LNG market.

Figure 1:
Historically, Malaysian LNG exports are priced using the JCC prices as a benchmark



Source: Staff Estimates

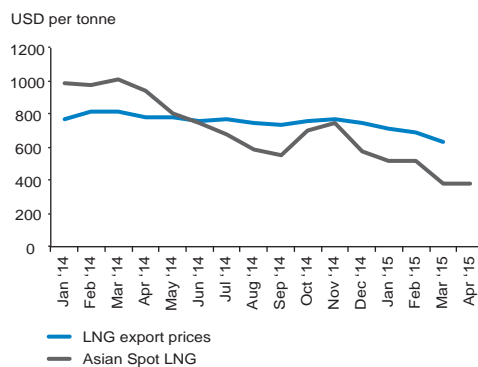
Since LNG prices are indexed to oil prices, LNG prices are expected to decline in line with the decline in oil prices. However, there are factors that may prevent Malaysia's LNG contract prices from experiencing a decline of similar magnitude:

- i) The stability of Malaysia's LNG contract prices as opposed to the volatile spot market prices (Figure 2).
- ii) The elevated demand from Japan post 2011, which led to a weaker pass through between oil and LNG prices (Figure 3). Prior to the Fukushima incident, there was a consistent price lag between oil and LNG prices of 3 months (The 3-month rolling correlation was high at 0.87). Following the Fukushima incident, the pricing lag began to vary with a variable lag of between 3 to 5 months. Of late, the correlation between LNG prices and Brent crude oil prices has weakened to just 0.4 to 0.6 (using a 3 to 5 month rolling correlation).

¹ The JCC is the average price of twenty different types of Japan's crude oil imports.

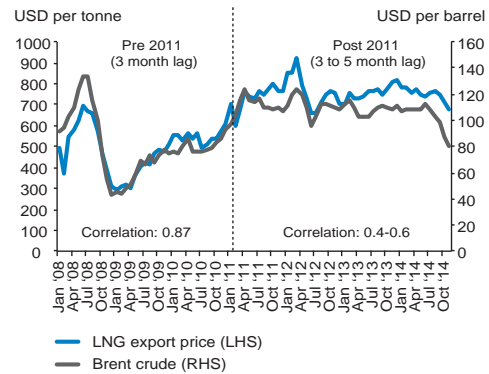
² This pricing mechanism is more applicable to LNG cargoes sold on a contractual basis. Prices are usually the result of direct and confidential negotiations between the buyer and seller, using oil prices as a benchmark. The price of Asian LNG (including Malaysian) contracts can be estimated using a linear formula: LNG price = Slope*Oil price + Constant (Source: ANZ Research).

Figure 2:
Malaysian LNG export prices is less volatile compared to Asian Spot LNG



Source: MATRADE and Platts

Figure 3:
Malaysian LNG prices remained elevated since 2011



Source: MATRADE and Bloomberg

The Fukushima incident led to the shutdown of all 48 operational nuclear plants in Japan, resulting in a surge in Japan's LNG imports to supply the country's electricity needs. Malaysia is one of the major exporters of LNG to Japan, being the nearest LNG exporter to the country.

Continued uncertainties surrounding Japan's nuclear plant restarts is expected to provide support to Malaysia's LNG prices. Over the long term, the timing and feasibility of the nuclear plant restarts hinges on the Japanese government's ability to overcome both regulatory hurdles and negative public sentiments over the usage of nuclear power.

In the near term, Malaysia's LNG prices are therefore expected to be supported by continued demand from Japan. From June 2014 to March 2015, although Brent crude prices declined³ by 49%, Malaysia's LNG prices declined by only 5.5% over the same period⁴.

Conclusion

Historically, while a close relationship existed between LNG and crude oil prices, this relationship has weakened post-Fukushima disaster, due to elevated demand from Japan. As a result, the decline of LNG prices has been less severe than expected. In addition, the contractual nature of Malaysia's LNG exports ensures price stability opposed to the more volatile LNG spot prices.

³ Brent crude prices averaged USD112 per barrel in June 2014, and declined to USD 57 per barrel by March 2015.

⁴ Malaysian LNG export prices averaged RM2,448 per tonne in June 2014, and declined to RM2,314 per tonne by March 2015.

The **services** account recorded a smaller deficit of RM3.8 billion in the first quarter (4Q 2014: -RM5.5 billion). The smaller deficit was attributable mainly to the lower deficit in the construction services account, reflecting smaller payments for engaging foreign technical services for ongoing infrastructure projects. Meanwhile, the deficits in the transportation and insurance services account were also lower, amid more moderate trade activity. During the quarter, the surplus in the travel account was sustained at RM7.2 billion, compared to the previous quarter.

The **primary income** deficit narrowed to RM8.5 billion during the quarter (4Q 2014: -RM13.2 billion), reflecting mainly a lower net payment for investment income. During the quarter, investment income accrued to Malaysian companies investing abroad was higher, particularly in the mining sector, while income from the services sector was broadly sustained. Income accrued to foreign direct investors was lower in particular companies in the manufacturing and finance and insurance sectors. Meanwhile, the higher net payment in the secondary income account (-RM5.3 billion; 4Q 2014: -RM5.0 billion) was due mainly to higher outward remittances.

The **financial account** registered a higher net outflow of RM29.7 billion in the first quarter (4Q 2014: -RM26.6 billion), mainly accounted for by larger other investment outflows.

Direct investment registered a lower net outflow of RM1.2 billion (4Q 2014: -RM2.5 billion). **Outward direct investment** recorded sustained outflows of RM9.8 billion (4Q 2014: -RM9.9 billion). Of these, **direct investment abroad (DIA)** recorded outflows of RM11.1 billion (4Q 2014: -RM12.2 billion), supported mainly by the continued investments overseas by Malaysian companies in the oil and gas industry as well as a sizable acquisition of plantation assets in the agricultural sector. Investments into the services sector abroad, in particular the finance and insurance and transportation and storage sub-sectors, also remained sizeable.

Inward direct investment registered higher inflows of RM8.6 billion (4Q 2014: +RM7.5 billion). Of these, **foreign direct investment (FDI)** recorded an inflow of RM9.9 billion (4Q 2014: +RM9.8 billion), due to higher investments into the oil and gas industry amid further reinvestments into the manufacturing sector, as well as finance and insurance and real estate services sub-sectors.

Portfolio investment recorded a smaller net outflow of RM7.9 billion (4Q 2014: -RM20.3 billion). During the quarter, non-residents continued to liquidate their holdings of equity securities and Bank Negara Monetary Notes upon maturity. However, the extent of the outflows was mostly mitigated by inflows arising from non-resident purchases of offshore debt securities issued by a public enterprise in the oil and gas sector and Malaysian Government Securities. Portfolio investment by residents turned around to register an outflow as domestic institutional investors reacquired foreign debt and equity securities.

Other investments recorded significantly larger outflow of RM20.6 billion (4Q 2014: -RM4.0 billion). This is due mainly to a turnaround in the banking sector to record a large net outflow, amid smaller net outflows in the non-bank sector. The large outflows in the banking sector mainly reflected the higher placement of interbank deposits by Malaysian banks in financial institutions abroad which is part of their centralised treasury operations. Malaysian banks also repaid maturing interbank borrowings during the quarter. Meanwhile, the repayment of trade credits to Malaysian exporters resulted in smaller outflows in the non-bank sector.

Following these developments, the overall balance of payments registered a deficit of RM15.7 billion in the first quarter (4Q 2014: -RM11.5 billion). Errors and Omissions (E&O) amounted to +RM4.0 billion, partly reflecting foreign exchange revaluation changes on international reserves.

Manageable external debt

Malaysia's external debt⁴ stood at RM768.1 billion, equivalent to USD205.1 billion or 65.9% of GDP as at end-March 2015 (end-December 2014: RM747.5 billion or USD211.8 billion, equivalent to 67.5% of GDP). In terms of the external debt profile, more than half of it was in the form of medium- to long-term maturity (54.9%). By currency, about 40% of the total external debt is denominated in ringgit, mainly in the form of non-resident holdings of ringgit-denominated debt securities and deposits. During the quarter, the rise in external debt was due mainly to the valuation effect from the depreciation of the ringgit.

Offshore borrowing increased by 7.6% to RM399.3 billion as at end-March 2015 (end-December 2014: RM371.1 billion). This reflects the valuation effect following the strengthening of most regional and major currencies against ringgit during the quarter. In USD terms, offshore borrowing only increased marginally by USD1.5 billion or by 1.4% to USD106.6 billion (end-December 2014: USD105.2 billion). Excluding foreign exchange revaluation changes, offshore borrowing increased at a more moderate pace of 2.6%, reflecting largely the net drawdown of offshore borrowing by public enterprises, namely the issuance of bonds and notes as well as a sukuk by a company in the oil and gas sector. This net drawdown was partially offset by net repayment of offshore borrowing by bank and non-bank private sector as well as the Federal Government. In general, the offshore borrowing is used mainly to finance the expansion of productive capacity and for better management of financial resources within corporate groups. These borrowings are largely hedged, either naturally through foreign currency earnings, or through the use of financial instruments.

Non-resident deposits increased by 4.2% to RM91.3 billion, equivalent to USD24.4 billion as at end-March 2015 (end-December 2014: RM87.7 billion; USD24.8 billion), mainly due to the valuation effect of foreign-currency denominated deposits. Excluding valuation effects, non-resident deposits increased

by 1.8%. Non-resident holdings of ringgit-denominated debt securities, however, declined to RM210.5 billion (end-December 2014: RM223.3 billion). The decline was largely attributed to the liquidation of Bank Negara Monetary Notes (BNMNs) by non-resident, which are instruments used by the Bank in its monetary policy operations to absorb excess liquidity from the banking system. This was partially offset by the increase in non-resident holdings of the Malaysian Government Securities and Treasury Bills.

The share of short-term external debt declined to 45.1% of the total external debt (end-December 2014: 48.6%) due mainly to the lower non-resident holdings of BNMNs. The short-term external debt remained manageable with reserves coverage of 1.1 times. About two-third of the short-term external debt is held by the banking sector and reflect largely their centralised foreign currency liquidity management with offshore subsidiaries and branches.

Outstanding External Debt

	2014		2015
	end-Mar	end-Dec	end-Mar
	RM billion		
Offshore borrowing ¹	328.2	371.1	399.3
<i>USD billion equivalent</i>	99.6	105.2	106.6
<i>Medium- and long-term</i>	199.5	211.4	242.3
Public sector	97.9	93.1	117.3
Private sector	101.6	118.3	125.0
<i>Short-term</i>	128.7	159.7	157.0
NR holdings of dom. debt securities	231.4	223.3	210.5
<i>Medium- and long-term</i>	156.3	162.4	168.6
<i>Short-term</i>	75.1	60.9	41.9
NR deposits	77.6	87.7	91.3
Others ²	65.4	65.5	67.0
<i>Medium- and long-term</i>	10.7	10.5	10.9
<i>Short-term</i>	54.7	55.0	56.1
Total external debt	702.6	747.5	768.1
<i>USD billion equivalent</i>	213.3	211.8	205.1
External Debt (Previous definition)			
Total debt/GDP (%)	29.7	33.5	34.3
Short-term debt ³ /Total debt (%)	39.2	43.0	39.3
Reserves/Short-term debt ³ (times)	3.3	2.5	2.5 ⁵
External Debt (Redefined)			
Total debt/GDP (%)	63.5	67.5	65.9
Short-term debt ⁴ /Total debt (%)	47.8	48.6	45.1
Reserves/Short-term debt ⁴ (times)	1.3	1.1	1.1 ⁵

¹ Equivalent to the external debt as previously defined, comprised mainly foreign currency loans raised, and bonds and notes issued offshore.

² Comprise trade credits, IMF allocation of SDRs and miscellaneous.

³ Equivalent to short-term offshore borrowing.

⁴ Short-term offshore borrowing, NR holdings of short-term domestic debt securities, NR deposits and other short-term debt.

⁵ Based on international reserves as at 30 April 2015.

Note: NR refers to non-resident

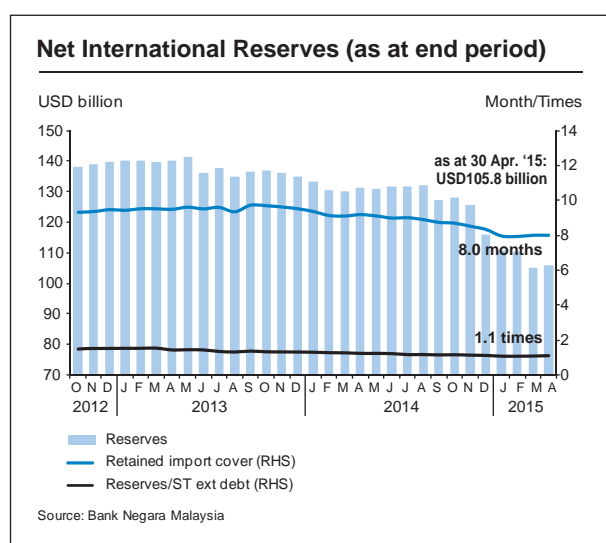
Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

⁴ This refers to the external debt as redefined, effective from the first quarter of 2014. Apart from the offshore borrowing covered under the previous definition, the redefined external debt also includes non-resident holdings of ringgit debt securities, non resident deposits with the banking system and other debt liabilities to non-residents. For more information, please refer to the box article entitled 'The Redefinition of External Debt' in the Quarterly Bulletin on Economic and Financial Developments in the Malaysian Economy in the First Quarter of 2014.

International reserves remained ample

The international reserves of BNM amounted to RM389.7 billion (equivalent to USD105.1 billion) as at 31 March 2015. This reserve level has taken into account the quarterly adjustment for foreign exchange revaluation changes.

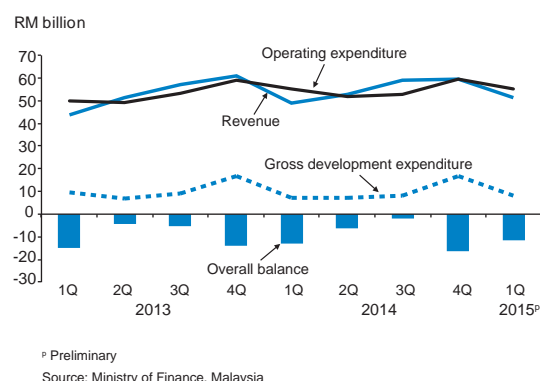
As at 30 April 2015, the reserves position amounted to RM392.4 billion (equivalent to USD105.8 billion), sufficient to finance 8.0 months of retained imports and is 1.1 times the short-term external debt.



Lower Government deficit as the growth of operating expenditure moderated

In the first quarter of 2015, Federal Government recorded a fiscal deficit of -4.2% of GDP (4Q 2014: -5.7% of GDP). This was due to the moderation in the growth of Government expenditure to 1.8%, which was accounted mostly by the lower spending on subsidy. Consequently, the operating expenditure grew only by 0.4% (4Q 2014: 1.6%). Development expenditure expanded by 13.2%, disbursed mainly for education and public amenities. Government revenue increased at a sustained pace of 4.8% (4Q 2014: -2.3%). As at end-March 2015, total outstanding debt of the Federal Government amounted to RM596.8 billion or 51.2% of the estimated 2015 GDP.

Federal Government Finance



Federal Government Finance^P

	2014			2015
	1Q	4Q	Year	1Q
	RM billion			
Revenue	49.2	59.6	220.6	51.5
% annual growth	12.4	-2.3	3.4	4.8
Operating expenditure	55.2	59.7	219.6	55.4
% annual growth	10.6	1.6	3.9	0.4
Current account	-6.0	-0.1	1.0	-3.9
% of GDP	-2.3	0.0	0.1	-1.4
Net development expenditure	7.0	16.4	38.4	7.9
% annual growth	-20.9	2.1	-5.5	13.2
Overall balance	-13.0	-16.5	-37.4	-11.8
% of GDP	-4.9	-5.7	-3.4	-4.2
Memo item:				
Total net expenditure	62.2	76.1	258.0	63.3
% annual growth	5.9	1.7	2.4	1.8
Total Federal Government debt (as at end-period)	560.6	582.8	582.8	596.8
% of GDP	50.7	52.7	52.7	51.2
Domestic debt	398.4	414.7	414.7	418.9
% of GDP	36.0	37.5	37.5	35.9
External debt	162.1	168.2	168.2	177.9
% of GDP	14.7	15.2	15.2	15.3
Non-resident holdings of RM-denominated Federal Government debt	145.7	151.4	151.4	160.2
% of GDP	13.2	13.7	13.7	13.7
Offshore borrowing	16.5	16.8	16.8	17.6
% of GDP	1.5	1.5	1.5	1.5

^P Preliminary

Note: Beginning first quarter of 2015, GDP has been rebased from base year 2005 to base year 2010

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia