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To: Members of the Executive Board

From: The Secretary

Subject: Malaysia - Recent Economic Developments

This paper provides background information to the staff report on the 1983 Article IV consultation discussions with Malaysia, which has been circulated as SM/83/128 and is being proposed for Executive Board discussion on Friday, July 8, 1983.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Douglas A. Scott, ext. 72918.

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INTERNATIONAL MONETARY FUND

MALAYSIA

Recent Economic Developments

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Approved by the Asian Department

June 24, 1983

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MALAYSIA

Basic Data 1/

Area:	127,581 square miles
Population (1982):	14.1 million
Population growth rates (1978-82):	2.5 per cent per annum
Per capita GNP (1982):	US\$1,763

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
<u>Selected aggregates</u> <u>as per cent of GNP 2/</u>					
Gross domestic investment <u>3/</u>	25.8	27.7	30.3	34.7	36.4
Gross savings	26.5	32.5	29.2	24.8	23.0
Narrow money <u>4/</u>	20.9	19.6	19.6	20.0	21.4
Broad money <u>4/</u>	50.5	49.9	55.4	58.9	59.2
Federal Government revenue and grants	25.4	24.2	27.9	28.7	28.4
Federal Government expenditure and net lending	32.2	27.5	34.6	44.4	45.1
Federal Government overall deficit	6.8	3.3	6.6	15.7	16.7
Exports of goods and nonfactor services	53.3	59.8	61.5	55.0	54.7
Imports of goods and nonfactor services	47.6	50.1	58.4	61.5	63.9
Current account balance	0.9	5.3	-1.0	-10.0	-13.4
Outstanding external debt <u>4/ 5/</u>	22.0	19.4	19.1	27.9	41.0
<u>Annual percentage changes of selected</u> <u>economic indicators 2/</u>					
Gross domestic product (1970 prices)	6.7	9.3	7.8	6.7	4.6
GNP deflator	5.2	13.8	6.6	2.7	1.9
Consumer price index	5.0	3.5	6.7	9.7	5.8
Federal Government revenue and grants	13.0	18.8	33.1	13.5	4.5
Federal Government expenditure and net lending	9.4	6.6	44.5	41.6	7.5
Narrow money	18.2	17.2	15.0	12.8	13.3
Broad money	17.9	23.4	27.9	17.1	16.3
Net domestic credit	24.2	10.2	49.9	31.2	23.3
Government <u>6/</u>	-1.9	-13.6	9.0	9.1	7.9
Private <u>6/</u>	26.1	23.8	40.9	22.1	15.4
Merchandise exports, f.o.b.	13.9	41.7	17.0	-3.9	4.0
Merchandise imports, f.o.b.	21.4	30.4	33.8	15.9	9.2
Terms of trade	1.0	8.8	0.3	-3.2	-5.0

Malaysia: Basic Data (Concluded)

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
	<u>(In billions of ringgit)</u>				
<u>Federal Government budget</u>					
Revenue and grants	8.8	10.5	13.9	15.8	16.5
Of which: petroleum revenue	(0.9)	(1.0)	(2.8)	(4.6)	(5.4)
Expenditure and net lending	11.2	11.9	17.2	24.4	26.3
Of which: development expenditure	(3.6)	(4.0)	(7.3)	(11.1)	(10.4)
Financing requirement	<u>2.4</u>	<u>1.4</u>	<u>3.3</u>	<u>8.6</u>	<u>9.7</u>
External borrowing	0.5	0.7	0.3	3.4	4.8
Domestic borrowing	1.9	0.7	3.0	5.2	4.9
Of which: banking system	(-0.1)	(-1.2)	(2.0)	(1.2)	(1.7)
<u>Balance of payments</u>	<u>(In billions of U.S. dollars)</u>				
Trade balance	1.5	3.0	2.2	--	-0.6
Exports, f.o.b.	7.3	11.0	12.9	11.7	12.0
Imports, f.o.b.	-5.8	-7.9	-10.7	-11.7	-12.6
Invisibles (net)	-1.4	-1.9	-2.4	-2.3	-2.7
Current account balance	0.1	1.0	-0.2	-2.4	-3.4
Capital movements (net)	0.6	0.3	1.5	2.6	3.8
Overall balance	0.3	0.9	0.5	-0.5	-0.3
<u>Reserves and external debt ^{4/}</u>					
Gross official reserves	3.3	4.0	4.5	4.2	3.9
(In months of imports)	(6.8)	(6.4)	(5.4)	(4.4)	(3.8)
Total external debt ^{5/}	3.3	3.8	4.4	6.7	10.2
Public sector	2.5	2.8	3.1	5.0	7.1
Private sector	0.8	1.0	1.3	1.7	3.1
Debt service ratio ^{7/}	...	5.6	3.5	6.3	9.2

Sources: Data provided by the Malaysian authorities and staff estimates.

^{1/} Components may not add up to totals because of rounding.

^{2/} Data for 1982 are preliminary actuals.

^{3/} Includes changes in stocks.

^{4/} End of year.

^{5/} Debt of maturity of one year and above; includes the existing coverage of private debt.

^{6/} Rate of contribution to the increase in net domestic credit.

^{7/} Relative to exports of goods and services.

I. Introduction and Summary

This report focuses on major economic developments in the Malaysian economy, particularly during the period 1978-82. Chapter II provides summaries of domestic economic developments, with highlights of longer-term historical development of the production of major commodities. Fiscal and monetary policies and developments are discussed separately in Chapter III. Developments relating to the external sector are summarized in Chapter IV.

The pursuit of appropriate economic policies in an environment of expanding exports led to remarkable economic growth and diversification over the decade 1971-80. Real GDP grew at an annual average rate of 8 per cent, while inflation was held below 6 per cent per annum. The balance of payments consistently recorded a surplus, with the external current account, on balance, averaging a surplus of about 1 per cent of GNP. The size of the vigorously promoted manufacturing sector expanded, from 13 per cent of GNP to about 20 per cent, and became increasingly export-oriented. The development of the oil sector in the mid-1970s added a new dimension to the transformation of the economy. Petroleum emerged as an important exchange earner, rising from about 8 per cent of total exports in 1971 to about 24 per cent in 1980.

Malaysia's economic performance in 1981 was adversely affected by the pronounced economic slowdown in the industrial countries that began in mid-1980. The external position weakened and the growth of GNP declined as demand for Malaysia's exports fell. The Government sought to counter the domestic consequences of weakened external demand by stepping up expenditures. With falling revenue from non-petroleum exports, the overall budget deficit in 1981 increased to 16 per cent of GNP. Monetary expansion slowed but inflation accelerated, reflecting primarily higher import prices. The external current deficit rose to 10 per cent of GNP from 1 per cent in 1980; government and other official foreign borrowing accounted for one half of the long-term capital inflows.

Economic growth slowed in 1982 as prices of most of Malaysia's exports declined. The growth of domestic demand declined sharply, reflecting the income effect of the further deterioration in the terms of trade and the weakened public demand. Inflation eased, due to the weaker domestic demand, moderation in import price increases reflecting in part the appreciation of the ringgit, and the diversion of nontraditional tradables to the domestic market because of sluggish export demand.

The Government reduced the scale of fiscal operations during the year because of the unanticipated duration and severity of the international recession. In mid-1982, cutbacks were effected in less-essential operating and development expenditures. Nevertheless, the budget deficit increased to 17 per cent of GNP as government revenues

were adversely affected by the decline in receipts from non-oil exports and the slowdown in receipts from taxes on petroleum exports and domestic transactions. The Government, which had moved from the position of net creditor with the banking system to net debtor in 1980, borrowed heavily from banks and external sources to finance the budget deficit in 1982. Monetary expansion was somewhat faster, reflecting a smaller decline in net foreign assets. Domestic credit expansion slowed to 23 per cent because of the lower rate of credit expansion to the private sector. The domestic money market remained easy during most of 1982, partly reflecting the monetary measures implemented by the Central Bank to broaden the funding base of the banking system. Nevertheless, the Central Bank was ready to inject liquidity, primarily through foreign exchange swaps with commercial banks. Interest rates declined during the year in response to market forces, and real interest rates remained positive.

In 1982, Malaysia's balance of payments weakened further, as the current account deficit increased to 13 per cent of GNP. This resulted from a continued rise in imports, the fall in key export prices, and a larger deficit in invisibles. The capital account generated a surplus to finance most of this larger deficit. Official borrowing increased and short-term capital inflows also rose. The overall balance of payments recorded a deficit of M\$0.6 billion. Gross reserves declined by M\$0.45 billion and the authorities made use of Fund resources equivalent to M\$0.15 billion under the Buffer Stock Financing Facility. At year-end, gross external reserves, including gold holdings, stood at M\$9.4 billion (US\$3.9 billion)--equivalent to about four months of imports. Outstanding external debt increased to M\$23.9 billion in 1982, and debt service during the year rose to the equivalent of 9 per cent of exports of goods and services.

External demand is expected to firm up in 1983 in line with the recovery of the international economy already underway. Real output growth, led by most nonagricultural sectors except government services, is forecast to be marginally higher than in 1982. An increase in private consumption expenditure, resulting from higher export earnings, is likely to be offset by the decline in private investment and public sector outlays. The Government's overall budget is projected to decline. Monetary expansion is designed to be consistent with the objective of sustaining growth with relative price stability. The overall balance of payments deficit is projected to be smaller, and only a moderate decline in gross external reserves is in prospect for 1983.

II. Domestic Economic Developments

1. Aggregate demand and supply

a. Recent trends and developments in 1982

During 1976-80, the Malaysian economy sustained rapid growth in an environment of high export performance resulting from the price boom for most of its primary commodities. Real GDP grew at an average annual rate of almost 9 per cent (Table 1, Chart 1, and Appendix Table I). The value-added in agriculture and mining increased at average annual rates of over 5 per cent and 7 per cent, respectively, principally reflecting sharp increases in the output of palm oil and crude oil. The value-added in the nonagricultural sector rose at an annual average of about 10 per cent, due in large part to the strong and steady growth in manufacturing and construction. In 1981, Malaysia's economic performance was adversely affected by the slowdown in economic activity in the industrial countries that began in mid-1980, and the growth of real GDP slowed appreciably. The poorer performance, which pervaded all sectors of the economy, except government services, was most pronounced in the manufacturing sector and in the mining sector where output, principally of tin and crude oil, declined for the second consecutive year.

The expansion in both domestic and external demand supported the growth of output during 1976-80. During this period, domestic demand increased by 10 per cent annually (Appendix Tables II and III). A substantial part of the increase in private demand resulted from the steady acceleration in the rate of growth of private investment, particularly in the oil sector; the latter, with rapid increases in investment in the exploration and development of petroleum resources, accounted for about 10 per cent of total investment during this period. Public expenditure, which had increased moderately during most of this period, rose strongly in 1980, reflecting a sharp acceleration in development expenditures. External demand for Malaysia's exports remained strong, particularly in 1979 when the economy reaped windfalls from the second round of increases in oil prices. During 1976-80, the volume of exports of goods and services grew at an average annual rate of about 9 per cent. Toward the latter part of 1980, external demand weakened, and domestic demand sustained economic growth in 1981. Public sector outlays, which rose by about 15 per cent in real terms, once again provided the major stimulus to the growth of domestic demand.

Economic growth slowed to below 5 per cent in 1982 with the further deterioration in Malaysia's terms of trade due to the unanticipated prolongation of the international recession and the falling prices for most of Malaysia's export commodities. Adjusted for the terms of trade, real gross national income increased by about 3 per cent, compared with 5 per cent in 1981. The sluggishness in nonagricultural activity became more pronounced, as the sector grew by only 4 per cent, half the rate of a year earlier. Particularly severely

Table 1. Malaysia: Supply and Use of Resources at Constant
1970 Prices, 1978-83

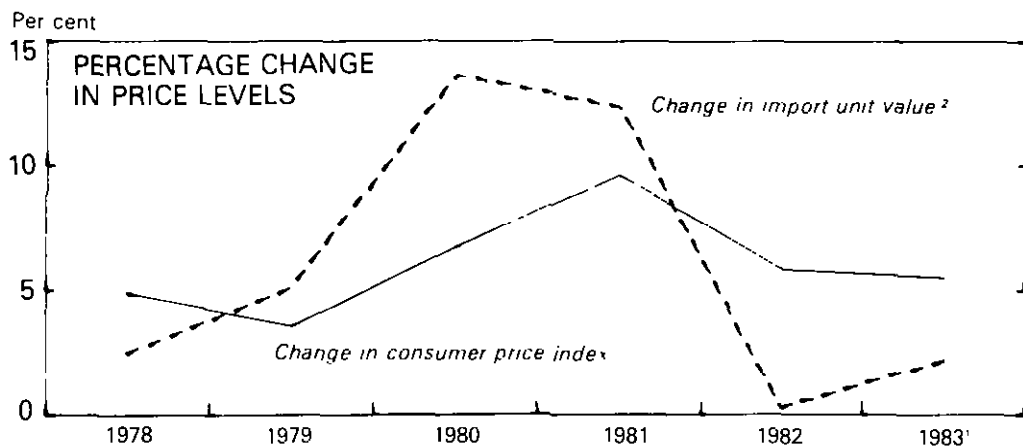
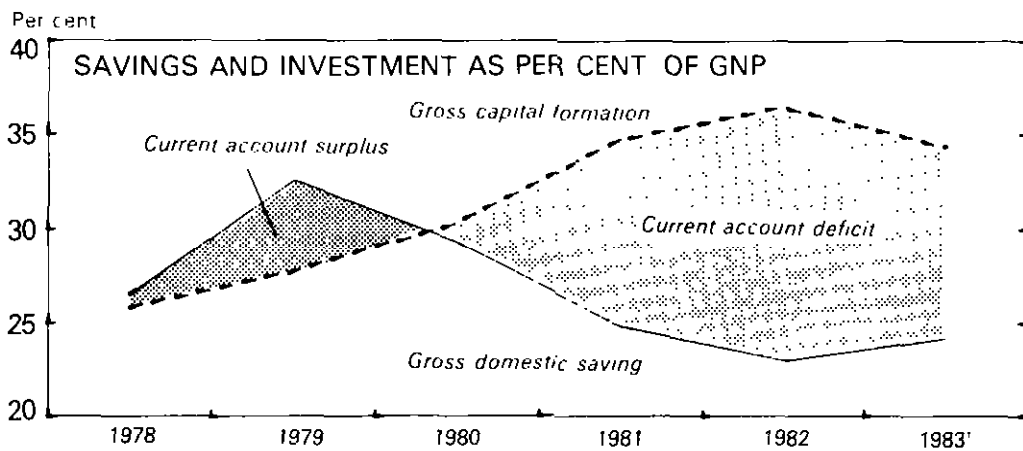
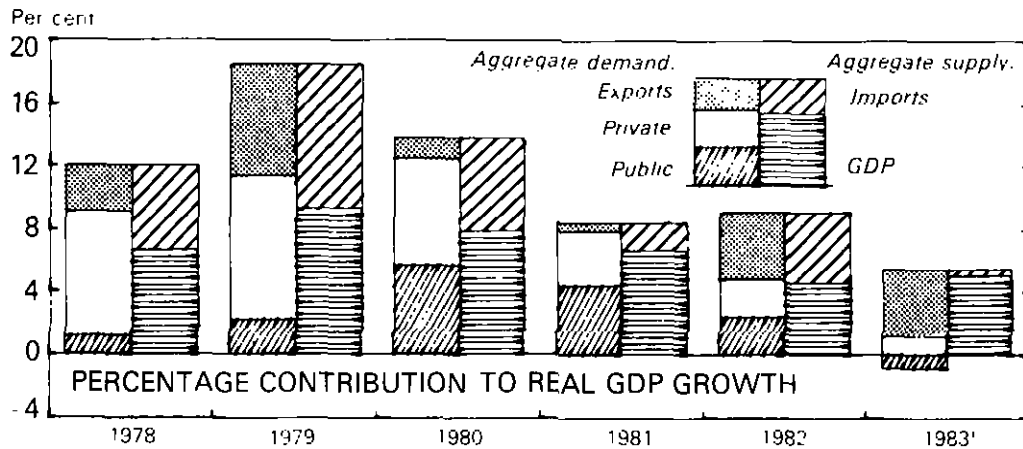
(Percentage change over previous year)

	1978	1979	1980	1981	1982	1983 Proj.
Supply of resources						
GDP at market prices	<u>6.7</u>	<u>9.3</u>	<u>7.8</u>	<u>6.7</u>	<u>4.6</u>	<u>5.0</u>
Agriculture, forestry, and fishing	1.6	8.2	3.1	3.5	6.2	2.6
Mining and quarrying	9.0	13.6	-2.2	-3.2	5.9	9.9
Manufacturing	9.3	9.5	9.0	5.7	3.4	7.0
Construction	14.9	11.8	17.7	13.0	8.0	11.0
Wholesale and retail trade	9.0	11.9	11.7	9.8	4.5	5.2
Government services	4.1	7.9	4.8	11.0	3.8	2.5
Net factor payments to abroad	16.0	4.7	-5.9	-18.5	30.9	18.5
GNP at market prices	<u>6.3</u>	<u>9.4</u>	<u>8.5</u>	<u>7.5</u>	<u>4.0</u>	<u>4.6</u>
Imports of goods and services	<u>14.0</u>	<u>20.3</u>	<u>13.1</u>	<u>3.7</u>	<u>9.7</u>	<u>1.1</u>
Use of resources						
Domestic demand	<u>9.4</u>	<u>11.8</u>	<u>13.9</u>	<u>7.5</u>	<u>3.6</u>	--
Consumption	<u>8.9</u>	<u>11.0</u>	<u>11.2</u>	<u>5.7</u>	<u>2.2</u>	<u>1.7</u>
Private	(9.9)	(11.7)	(8.4)	(4.0)	(0.8)	(2.6)
Public	(5.8)	(8.7)	(20.1)	(10.5)	(7.0)	(-0.7)
Investment expenditure <u>1/</u>	10.8	14.1	22.6	12.7	7.2	-4.3
Private	(12.4)	(17.1)	(21.3)	(6.6)	(6.4)	(-3.4)
Public	(2.1)	(7.4)	(24.8)	(22.6)	(8.4)	(-5.4)
Exports of goods and services	<u>7.0</u>	<u>17.0</u>	<u>3.0</u>	<u>1.3</u>	<u>10.6</u>	<u>10.0</u>

Source: Data provided by the Malaysian authorities.

1/ Excludes changes in stock.

CHART 1
MALAYSIA
SELECTED INDICATORS OF
MACROECONOMIC DEVELOPMENTS, 1978-83



Source: Data provided by the Malaysian authorities.
¹ Forecast.
² Based on 1980 trade weights.

affected was the manufacturing sector which grew at about 3 per cent, compared with about 6 per cent in 1981. The growth of construction activity, which continued to expand at an impressive rate in 1981, slowed appreciably as did wholesale and retail trade, transport, storage, communications, and government services. The slowdown in nonagricultural activity was partially compensated by the higher growth in agriculture and mining. The value-added in agriculture increased by 6 per cent, reflecting mainly the sharp increase in palm oil output and continued gains in timber and cocoa production. After two consecutive years of decline, mining output recovered sharply from the 1981 level because of a rise in petroleum production.

The growth of domestic demand slowed to a rate above 3 per cent in 1982, reflecting a sharp deceleration in the growth of both private and public demand. The lower growth of private demand was due to the stagnation in consumption expenditure brought on by the erosion of real incomes arising from the terms of trade deterioration. Private investment, which became sluggish from 1981, remained weak despite an increase of 17 per cent in investment in the oil sector.^{1/} Public demand, which provided a substantial impetus to the expansion of domestic demand during the first part of the year, was restrained in July 1982 because of the increasing strains in the Government's financial position. Consequently, the growth of public expenditure, principally investment expenditure and to a lesser extent consumption outlays, slowed to about 7 per cent.

Real exports of goods and nonfactor services increased by over 10 per cent in 1982. This was primarily due to larger export volumes of petroleum, palm oil, saw logs, and manufactured items. Imports of goods and nonfactor services rose by about 10 per cent.

Based on signs of a revival in the international economy, the Malaysian authorities envisage a 5 per cent increase in real GDP in 1983. The value-added in the mining and manufacturing sectors is likely to increase at a substantially higher rate than in the previous year, and construction activity is anticipated to be strong. The growth in agriculture is projected to be moderate, reflecting a leveling off of the productivity gains in palm oil. Domestic demand is to be maintained at the 1982 level, as increases in private consumption and non-oil private investment are expected to be offset by declines in oil sector investment and public sector outlays. The latter reflects continued moderation in the stance of fiscal policy.

b. Domestic savings

Domestic savings, primarily private savings, are sensitive to fluctuations in export earnings because of the openness of the Malaysian

^{1/} Investment in the oil sector is principally carried out by Petronas, the national oil company, and the three foreign subsidiaries. Although the operations of Petronas are supervised by the Government, it is treated as a private company in Malaysian statistics.

economy. During 1977-80, domestic savings increased at an annual average rate of 16 per cent, about the same pace as GNP, and averaged about 29 per cent of GNP (Table 2). Private savings fluctuated sharply because of developments in the external sector. During 1978-80, public sector savings averaged above 6 per cent of GNP.^{1/}

Domestic savings declined for two consecutive years to 23 per cent in 1982 as public sector savings also fell. In 1981, private savings stabilized and even increased marginally in 1982 as households adjusted their consumption plans to the erosion in incomes. Domestic savings are projected to increase by about 15 per cent in 1983, reflecting continuing adjustment of consumption plans by the private sector where savings are expected to increase substantially.

The Malaysian economy generated domestic savings in excess over investment, equivalent to 2.7 per cent of GDP per annum during 1976-80. Since 1980, total investment has outstripped the available domestic resources, and the overall resource gap increased to about 13 per cent in 1982 (Chart 1). Rising public sector expenditures and deficits, which increased sharply in 1981 and 1982, have been the major contributing factor. In 1983, private savings are expected to rebound to generate a surplus, amounting to about 3 per cent of GNP; however, the continued high level of public sector deficit is expected to produce an overall resource gap of some 10 per cent of GNP.

c. Production

The structure of the Malaysian economy changed during the decade 1971-80, as the relative importance of agriculture declined from about 30 per cent of GDP in 1971 to about 24 per cent in 1980 (Appendix Table I). The most significant change has been in the manufacturing sector, where value-added has increased from 14 per cent of GDP to 18 per cent,^{2/} and petroleum has emerged as a major export commodity since the mid-1970s. During the decade, the contributions of transport,

^{1/} Public sector expenditure excludes transfers to the private sector including some enterprises which are either wholly or partially owned by the Government. Such exclusions result in an overestimation of public and an underestimation of private savings, given the rate of capital formation and the balance on the external account.

^{2/} The manufacturing value-added is in 1970 constant prices. This is derived by applying the ratio of value-added to gross output in the manufacturing sector from the 1970 input-output table of the Malaysian economy to the index of manufacturing production. The weights of this index are based on 145 manufacturing items classified under 55 individual industry and 16 major groups, which accounted for 76 per cent of value-added in the manufacturing sector in 1968. To the extent such weights are not updated to reflect the fastest-growing industries like electronics and electrical machinery, which were established in the mid-1970s, the value-added in the manufacturing sector in 1970 constant prices is underestimated.

Table 2. Malaysia: Gross Capital Formation and Gross Savings, 1978-83

(As per cent of GNP)

	1978	1979	1980	1981	1982	1983	1978-81 Average
Gross capital formation <u>1/</u>	25.8	27.7	30.3	34.7	36.4	34.3	30.1
Private <u>1/</u>	16.1	18.4	19.1	20.7	21.5	20.9	18.8
Public	9.7	9.3	11.2	14.0	14.9	13.4	11.3
Gross savings	26.5	32.5	29.2	24.8	23.0	24.1	28.1
Private	21.5	28.0	19.3	19.3	20.2	22.8	21.8
Public	5.0	4.5	9.9	5.5	2.8	1.3	6.4
Resource gap (-)	0.7	4.8	-1.1	-9.9	-13.4	-10.2	-2.0
Private	5.4	9.6	0.2	-1.4	-1.3	1.9	3.0
Public	-4.7	-4.8	-1.3	-8.5	-12.1	-12.1	-4.9
Memorandum item							
Percentage of public investment financed by public savings	51.1	48.5	89.3	39.1	18.6	9.9	56.4

Source: Data provided by the Malaysian authorities.

1/ Includes changes in stocks.

storage, communications, and government service to GDP also increased. The wholesale and retail trades and other services have maintained their relative positions in the economy.

(1) Primary sector

Malaysia is the world's largest producer of natural rubber, accounting for about 42 per cent of global output in 1982. Rubber is the most important crop in Malaysia; it provides employment for about 15 per cent of the labor force and accounts for approximately half of the cultivated land. Smallholdings account for over half of production, and estates, the remainder. Rubber production, which increased by about 6 per cent annually in the 1960s, grew at an annual average rate of 3 per cent during 1970-77. The slowdown was due to the gradual aging of trees, with total rubber acreage remaining close to 2 million hectares. New planting of rubber trees was approximately offset by the conversion of existing rubber acreage to oil palm cultivation and other uses. Thus, the increase in rubber production during 1970-77 resulted from continued replanting with higher-yielding varieties, despite the declining trend in replanting and new planting of rubber acreage from 86,000 hectares in 1961 to 33,000 hectares in 1977 (Appendix Table IV). During the period 1978-81, replanting averaged only 22,000 hectares per year, somewhat less than one half the rate necessary to sustain the optimum age structure of trees. About half of the new planting and replanting was undertaken by the Rubber Industry Smallholders Development Authority (RISDA), the Federal Land Development Authority (FELDA), and the Sabah Rubber Fund Board.

During 1978-81, rubber production declined at an annual average rate of about 1 per cent, primarily reflecting the steady decline in yield (Table 3 and Appendix Table V). Labor shortages, particularly in the estate sector, which left many rubber areas untapped, were principally responsible. In 1982, the declining trend was halted as output remained at its 1981 level. The area of mature trees fell to 1.6 million hectares and the labor shortages persisted, but the continued decline in estate production was more than offset by higher smallholder yields. The outlook for 1983 is for output and yield to remain unchanged at the previous years' level; the acreage under cultivation is projected to increase marginally.

In the past few years, the Government has taken several measures in aid of rubber production. The 1981 and 1982 budgets provided for increased planting and replanting grants as well as a monthly subsidy to smallholders in order to stimulate production. In 1982, RISDA was responsible for 23,400 hectares of replanted and newly planted rubber acreage; also, in 1982 RISDA began purchasing rubber directly from smallholders in order to provide them an assured market at fair farmgate prices. In October 1982, the rubber export duty was reduced with a view to providing economic incentives to smallholders, and the threshold

Table 3. Malaysia: Agricultural Production, Area Under Cultivation,
and Yield Indices of Major Commodities, 1978-82

(1977 = 100)

	1978	1979	1980	1981	1982 Estimate
Production					
Rubber	99.6	98.9	96.4	96.3	96.3
Palm oil	110.7	135.7	159.7	175.1	217.6
Palm kernel oil	94.7	130.7	148.0	162.0	219.3
<i>Padi</i>	79.2	109.8	106.4	105.7	107.3
Saw logs <u>1/</u>	...	100.0	101.6	109.9	115.0
Sawn timber <u>1/</u>	...	100.0	116.0	109.9	109.5
Area under cultivation					
Rubber	99.7	99.8	100.3	99.6	99.9
Oil palm	111.0	120.2	126.4	137.1	145.1
<i>Padi</i>	83.9	100.9	97.3	95.0	102.2
Yield					
Rubber	101.3	97.8	94.3	94.1	94.5
Palm oil	96.5	105.9	113.0	114.2	130.7
Palm kernel oil	82.6	101.8	104.7	105.8	131.6
<i>Padi</i>	94.4	108.7	109.3	111.2	105.1

Source: Appendix Table V.

1/ Base year is 1979.

price was raised from M\$1.54 per kilogram to M\$1.70 to reflect higher production costs in the wake of depressed prices. Finally, the basis of export taxation was changed to encourage production of higher grades of rubber.

The Rubber Research Institute of Malaysia (RRIM) sponsors a program of research and development aimed at raising rubber yield, lowering labor intensity in rubber tapping, and reducing costs of production. Besides developing higher-yielding and faster-maturing trees, the Institute has also developed more efficient tapping techniques, as well as improved methods of processing and transporting rubber.

As part of a drive toward diversification, oil palm cultivation was vigorously promoted in the early 1960s and Malaysia has since become the world's largest producer and exporter of palm oil. The growth of output was achieved through bringing new land under cultivation; but even though oil palm is a more lucrative crop than rubber, land under rubber is generally unsuitable for oil palm and the scope for further conversion is thus limited. Over the years, a substantial part of the oil palm planting has been undertaken by the FELDA, the RISDA, and the Sabah Land Development Board. During 1978-81, planted acreage increased at an annual average rate of 8 per cent. The total area under oil palm cultivation increased at a rate below 6 per cent in 1982, reaching 1.15 million hectares, 80 per cent of which represented mature areas.

During 1978-81, the production of crude palm oil increased at an annual average rate of 15 per cent, compared with 21 per cent a year during 1970-77. In 1981, the growth of output slackened to less than 10 per cent because of unfavorable weather, particularly in the first half of the year. In 1982, crude palm oil production increased by about 24 per cent to 3.5 million tons, reflecting the introduction of new pollination techniques in 1981. The output of palm kernel oil rose by 54 per cent in 1982 to 0.9 million tons, also a reflection of higher yields from better pollination. With the normalization of the new pollination process, the output of palm oil and palm kernel oil is expected to increase at rates of above 7 per cent and below 5 per cent, respectively, in 1983.

To encourage the development of a local processing industry, the Government granted a graduated exemption schedule for export duty on processed palm oil. As a result, the number of refining and fractionating plants has grown steadily. In 1982, 185 plants, including the addition of 14 new palm oil mills in Peninsular Malaysia, were in operation with a total refining capacity of 4.7 million tons. The installed capacity exceeded the total volume of processed palm oil, which amounted to 2.9 million tons in 1982.

Rice is the third most important of the crops grown by smallholders. The Government has made substantial efforts to encourage rice production and to improve productivity in smallholdings by implementing

measures through irrigation, extension services for improved seeds and fertilizers, subsidies, and price support programs. Irrigation facilities for both single and double cropping of padi areas were expanded by some 68,000 hectares in the 1970s. The purchase price of padi under the Guaranteed Minimum Price Scheme was gradually increased from M\$16 per pikul in 1970 to M\$28 per pikul for medium-grain padi in 1979. The actual price paid was M\$2 per pikul higher than the minimum support price.

Rice production ^{1/} increased steadily in the 1960s and early 1970s, averaging about 4 per cent a year during 1961-76, reflecting completion of various irrigation projects. During 1977-81, the average annual rate shrank to 1.5 per cent, due to the impact of unfavorable weather, the conversion of land under padi cultivation to oil palm, particularly since 1979, and the shortage of labor. Despite some increase in land under cultivation, rice output in 1982 again increased by only 1.5 per cent, owing to drought conditions that affected both the main and the off-season crops.

Rice imports are necessary to meet the gap in consumption over domestic production. In 1982, 399,100 tons, about 12 per cent of domestic production, was imported by the National Padi and Rice Authority (LPN), the sole rice importer. The LPN also operates the padi price subsidy scheme which, in 1982, provided farmers with a subsidy of M\$10 per pikul of padi sold to the LPN. The LPN determines the maximum prices for rice millers, wholesalers, and retailers, which were lowered marginally in 1982 to reflect the substantial fall in world market rice prices. The retail price was also lowered and fixed at a small markup over the wholesale price.

The Government emphasizes self-sufficiency in rice production as a long-term objective and, accordingly, periodically adjusts incentives and subsidies to farmers. The 1982 budget allocated M\$90 million for the subsidy on fertilizers, with a view to reducing padi production costs.

Malaysia is one of the world's leading producers and exporters of timber. In recent years, the Government has introduced several measures to promote local processing of timber and to conserve forestry resources. Since 1978, the export of saw logs from Peninsular Malaysia has been virtually banned. In the same year, the Government of Sabah abolished the cess on logs used for local processing and raised the cess on log exports, and the royalty on local processing was reduced. To further encourage local processing, the Sabah Government imposed, effective February 1983, a royalty rate of 7 per cent of the f.o.b. value for processed timber exported from the State, compared with the 70 per cent rate for the export of unprocessed timber.

^{1/} Wet padi production accounts for about 97 per cent of total rice output.

A National Forestry Policy was adopted to conserve forestry resources. Under this policy, the average cutting area was reduced in order to ensure that forest reserves would be exploited on a sustained yield basis. As a result, the growth of saw logs output declined to an average annual rate of 1.6 per cent during 1978-81. In 1982, saw logs production increased by 4.6 per cent to 31.6 million cubic meters, mainly in response to a recovery in prices arising from the strengthening of external demand for timber, especially from Japan and Taiwan.

The Government provides incentives to encourage reafforestation through measures including the establishment of permanent forest reserve areas, reduction in the logging rate, and forest rehabilitation programs. Recently, the National Forestry Council has proposed that the rate of logging be progressively reduced to 149,000 hectares in 1983 from 176,042 hectares in 1982.

The production of sawn timber increased substantially in the 1970s, reflecting primarily the policy of encouraging local processing. During 1978-81, output growth dropped to an average annual rate of less than 1 per cent, reflecting the fall in external demand. Reduced availability of logs and depressed prices kept output unchanged in 1982. Production is expected to pick up in 1983.

Malaysia is the world's largest producer of tin, accounting for 36 per cent of total world output. Tin production reached a peak of 76,831 tons in 1972, but except for temporary increases in 1978 and 1979, production declined steadily to 59,938 tons in 1981. A major reason for this downward trend was the exhaustion of high grades of tin-bearing ores in recent years, compounded by the limited availability of such ores. Consequently, mines have been compelled to install equipment with greater capacity to work the lower-grade ores. Further, mining has become less profitable for many gravel pump mines due to increased production costs, particularly from increases in energy prices. Moreover, sharp fluctuations in tin prices, particularly since 1980, have increased uncertainty regarding future price and production prospects.

In 1982, output declined by about 13 per cent, in response to a further decline in the price of tin, export controls, and the implementation of stringent safety measures. The average cost of production for the dredges, excluding export duty, rose to M\$19.65 per kilogram, compared with M\$18.70 per kilogram in 1981, because of rising overhead costs as the mines operated below capacity. To assist the tin industry, the Government raised the threshold price level for export duty to M\$26.40 per kilogram from M\$23.15 per kilogram in 1981. Output of tin is projected to decline in 1983 by 10 per cent.

Petroleum has emerged as a major export commodity since the mid-1970s. Crude oil production increased from a negligible level in 1970 to 283,000 barrels per day in 1979. It then declined for two consecutive years, reflecting the weakening of world oil demand and

the implementation of the National Depletion Policy introduced in June 1980. Under this policy, Petronas, the national oil company, controls the production of major oilfields defined as those with 400 million or more barrels of Oil Initially In Place (OIIP). Production is limited to 1.75 per cent per annum of OIIP, and the development of any new major fields may be postponed for three to five years. The production of crude oil is governed by production-sharing contracts between Petronas and foreign oil companies. Under the terms of the contracts, 5 per cent of gross production is allocated to the State government and 5 per cent to the Federal Government as a royalty; another 20 per cent is available to the contractor for cost recovery; of the remainder, 49 per cent goes to Petronas, and 21 per cent, to contractors. Oil company profits are taxed at 45 per cent and, since 1980, oil exports have been taxed at 25 per cent.^{1/} In 1982, production of crude oil increased by over 17 per cent to 303,101 barrels per day, reflecting the need to increase export earnings in the face of falling prices of Malaysia's major primary export commodities.

Petronas, through its subsidiary Petronas Carigali Sendirian Berhad, struck oil and gas off the coast of Trengganu in September 1982, with a potential of 283,000 cubic meters of nonassociated gas per day. In November 1982, Petronas signed a production-sharing contract with a French company, covering a period of 24 years for oil and 27 years for gas. During the year, two new fields were added, increasing the total number of producing fields to 20 at the end of 1982; also, Petronas commenced operation of its first LPG bottling plant and introduced LPG as an automotive fuel.

The Bintulu LNG plant, which was commissioned in September 1982, commenced production and made its first shipment to Japan in January 29, 1983. The LNG output is expected to increase from 1.7 million tons in 1983 to 3 million tons in 1984 and to 4.5 million tons in 1985 and to reach the maximum capacity of 5 million tons in 1986. The State Government also plans to set up a methanol, sponge iron, and power plant utilizing associated gas to be located in Labuan.

(2) Manufacturing and construction

Manufacturing was the leading growth sector in the economy in the 1970s. A substantial part of this growth, estimated at above 11 per cent a year, was in the electronic and textile industries where output was directed to export markets. However, during 1981-82, value-added in manufacturing grew at an average rate of below 5 per cent, due largely to the weakening of external demand, but also reflecting a progressive decline in the growth of domestic demand, particularly in the second half of 1982. Among the industries most affected were textiles, rubber and rubber products, nonmetallic mineral products, and transport equipment industries. The decline in textile production, which is largely export-oriented, also reflected intense competition for a limited market.

^{1/} The export tax base excludes royalty and cost recovery portions of gross production.

Investment in the manufacturing sector has proceeded at a brisk pace in recent years. In 1982, investment embodying new technology in several key industries rose strongly. During the year, the Malaysian Industrial Development Agency (MIDA) approved 484 projects, with a proposed investment of M\$6.3 billion, compared with a proposed investment of M\$4.8 billion in 613 projects in 1981.

A principal aim of industrial policy is to increase the participation of Bumiputeras, and several provisions in the Industrial Coordination Act (ICA), introduced in 1975 and modified in 1978, are directed to this end. In 1982, the equity participation of Bumiputeras increased to about 58 per cent of the total proposed capital investment of M\$1.9 billion for all projects approved by the MIDA, compared with 44 per cent in 1981. The Government has also intensified efforts to disperse industrial projects in order to achieve greater balance in regional industrial development. About two thirds of the proposed capital investment in 1982 will be located in less-developed areas, compared with about one half in 1981.

The construction sector, which increased at an annual average rate of about 14 per cent during 1978-81, slowed markedly in 1982. The slowdown was chiefly related to declining activity in the public sector in the second half of the year. Nonresidential construction remained strong, offsetting a slack in private residential construction. In 1982, the Government announced a housing program aimed at sustaining the growth of activity in the private sector. The program envisages the construction of about 100,000 housing units in 1983.

2. Employment, wages, and prices

a. Employment

Employment grew rapidly in the 1970s, increasing at an annual average rate of about 4 per cent--somewhat faster than the growth of the labor force. Unemployment declined steadily from less than 8 per cent in 1970 to above 5 per cent in 1980. During this period, employment in the manufacturing sector rose by about 8 per cent a year, rising from about 11 per cent of the total employment in 1970 to about 16 per cent in 1980. There were also substantial employment gains in services, including government, with the share of the latter rising from below 12 per cent of total employment to about 14 per cent.

The employment situation weakened with the slackening of economic growth in 1981 and 1982, and total employment expanded at an annual average rate somewhat above 2 per cent (Table 4). Employment in the agricultural sector, which accounted for about 37 per cent of the total in 1982, grew by less than 1 per cent per annum; in the mining sector, it declined for the second consecutive year. While the growth of employment in manufacturing also slowed, the construction sector recorded the highest rate of growth. Although the rate of growth of

Table 4. Malaysia: Employment and the Labor Force, 1978-82

	1978	1979	1980	1981	1982	
						Thousands of persons
	<u>(Year-to-year percentage change)</u>					
Employment						
Agriculture, forestry, and fishing	4.4	1.5	-4.6	0.8	0.8	1,992
Mining and quarrying	0.7	1.2	--	-4.2	-4.7	82
Manufacturing	7.1	6.3	6.2	2.2	2.0	836
Construction	11.2	7.0	14.3	6.1	6.4	315
Transport, storage, and communications	4.7	3.9	11.2	2.9	2.8	220
Finance and insurance and commerce	9.8	4.4	4.8	5.1	4.7	774
Government services	9.3	4.4	11.5	6.1	2.8	807
Other services	<u>3.3</u>	<u>3.2</u>	<u>12.8</u>	<u>3.8</u>	<u>4.3</u>	<u>315</u>
Total employment	6.3	3.5	3.1	2.8	2.3	5,341
Labor Force	6.1	3.2	2.1	2.9	2.9	5,694
	<u>(As a per cent of labor force)</u>					
Unemployment	5.9	5.6	5.6	5.7	6.2	353

Sources: Data provided by the Malaysian authorities; and staff estimates.

employment in finance, insurance, commerce, and government services decelerated, these sectors generated the largest number of new jobs, about 52 per cent of the increase in total employment. Meanwhile, the increase in the labor force, averaging about 3 per cent a year, resulted in a steady increase in unemployment to about 6 per cent in 1982.

Shortages of labor persisted in some sectors, in particular, agriculture and construction. Workers continued to migrate from agriculture to other sectors, resulting in the idling or abandonment of marginal agricultural land. Recently, the Government implemented programs for the development of skills to meet the growing needs of industries.

b. Wages

Malaysia does not compile a wage index and available information is fragmentary. Unorganized labor constitutes the bulk of the labor force; it generally follows the wage increases of the unionized labor force.

The pressure for wage increases diminished during 1981 and 1982, reflecting the slowdown in economic activity and the resulting lower growth in the demand for labor. The number of private sector wage agreements, totaling 266 in 1982, was about the same as in the previous year. Most of these wage agreements were for three years, and average annual wage increases were in the range of 5 to 7 per cent (Table 5). Public sector salaries and other benefits have not been adjusted since July 1980.

Table 5. Malaysia: Negotiated Wage Settlements, 1980-82

(Average annual percentage increase)

	1980	1981	1982
All known settlements (coverage)	3.7-6.4	5.6-6.8	5.4-7.4
Motor vehicle assembly	3.9	6.5	4.8
Agriculture	4.8-7.7	3.2-6.8	6.6
Commercial	3.2-6.3	3.5-7.7	3.5-6.3
Services	3.2-6.3	5.1-7.7	3.5-7.7
Transport	3.2-7.7	6.6-6.8	5.1-10.5
Mining	...	8.5	8.6
Public sector	6.0-28.0	--	--

Source: Bank Negara Malaysia, Annual Reports, 1980, 1981, and 1982.

c. Prices

Inflation in the 1970s was low, but accelerated in 1980 and 1981 (Table 6, Chart 1, and Appendix Table VI). The acceleration was attributed to rising import prices, higher energy prices, and sharp increases in domestic demand.

Price performance improved markedly in 1982. The increase in consumer prices, which peaked at a rate of about 11 per cent in the second quarter of 1981, slowed to about 5 per cent at the end of 1982, owing principally to moderating increases in the prices of both food and non-food items, particularly the latter. The easing of inflation reflected weaker domestic demand, moderation in import prices, due in part to the appreciation of the ringgit, and the increase in the supply of manufactured goods to the domestic market brought on by the sluggish export demand for such items.

Malaysia maintains a price supervision system to ensure an adequate domestic supply of essential commodities and to avoid excessive price increases. Under the Control of Supplies Act of 1961 and the Price Control Order of 1977, 17 types of essential goods are listed as controlled;^{1/} of these, 8 are food items. Under this system, industries that are granted fiscal incentives or protection against imports are not allowed to increase their prices without prior approval of the Ministry of Trade and Industry. Moreover, retailers of certain scheduled items are required to label their goods indicating the price per unit to enhance competition and allow the authorities to supervise such prices. Additionally, the production and distribution of certain essential goods (including sugar, cement, flour, fuels, and fertilizers) are subject to control. Prices of many controlled items were last adjusted in 1981. Price measures in 1982 included removal of powdered milk from the list of controlled items in June, and the decision not to pass on to consumers of diesel and kerosene the recent reduction in oil prices, thus reducing substantially the subsidy on these two key petroleum products.

3. Energy

Between 1971 and 1982, Malaysia's total consumption of energy increased at an annual average rate of 8.5 per cent, compared with an annual average growth of 7.4 per cent in real GDP (Table 7). The growth of energy consumption accelerated toward the end of the period, notwithstanding price increases and conservation measures, while the growth in real GDP decelerated. As a result, the ratio of the growth of energy consumption to growth of GDP increased from 0.9 in 1971-74 to 1.1 in 1975-77, and to 1.6 in 1978-82. The growth in energy consumption partly reflected modernization efforts in the economy, as both investment and

^{1/} The controlled items include: sugar, condensed milk, filled milk, wheat flour, gasoline, kerosene, diesel fuel, LPG, steel bars, and cement.

Table 6. Malaysia: Price Developments, 1980-82 1/
(Year-to-year percentage change)

	Consumer Prices		
	Total	Food items	Non-food items
1980	<u>6.7</u>	<u>3.7</u>	<u>9.3</u>
I	6.4	3.3	9.1
II	6.1	3.6	8.3
III	6.9	3.2	10.2
IV	7.4	4.4	10.0
1981	<u>9.6</u>	<u>10.2</u>	<u>9.1</u>
I	8.4	7.6	9.1
II	10.9	10.4	11.3
III	10.2	11.5	9.1
IV	9.1	11.5	7.0
1982	<u>5.8</u>	<u>8.3</u>	<u>4.7</u>
I	7.2	10.2	5.9
II	6.0	9.2	4.6
III	4.9	8.1	3.5
IV	5.2	5.9	4.9

Sources: Bank Negara Malaysia, Monthly Statistical Supplement; and IMF, International Financial Statistics.

1/ The Government has revised the consumer price index based on a household expenditure survey in 1980. The table is based on this price index. The weights for food and non-food items are 30.2 and 69.8, respectively.

consumption became more energy-intensive.^{1/} The annual per capita consumption of energy in Malaysia in 1982 is estimated to be equivalent to about 4.6 barrels of oil--slightly above the average for developing countries, but much lower than industrial countries.^{2/}

Table 7. Malaysia: Ratio of Energy Demand Growth to GDP Growth, 1971-82

	Growth Rate of Energy Demand ^{1/} (A)		Growth Rate of GDP (1) (B)		Ratio (A/B)
1971-82	166.9	(8.5)	135.7	(7.4)	1.23
1971-74	35.1	(7.8)	40.0	(8.8)	0.88
1975-77	22.9	(7.1)	21.2	(6.6)	1.08
1978-82	60.7	(10.0)	39.0	(6.8)	1.56

Source: Data provided by the Malaysian authorities.

^{1/} Figures in parentheses are compounded annual growth rates.

Petroleum continues to be the principal energy source in Malaysia, with the share of oil in total energy ranging around 91 to 94 per cent between 1975-82 (Table 8). Despite a large natural gas endowment and a high hydropower potential, their role in meeting energy requirements has been relatively small.

Although Malaysia's crude oil production, which was over 300,000 barrels per day in 1982, is sufficient to meet the domestic demand of petroleum products of about 186,000 barrels per day, the country imports crude and petroleum products to satisfy a substantial part of its needs (Appendix Table VII), thereby permitting most domestically produced crude to be exported. This is because Malaysia's crude oil, which has a low sulphur content, fetches a premium on the world oil market. It is also light and, hence, does not produce enough fuel oil to meet the domestic demand, especially for power generation.

^{1/} The relatively low growth of energy consumption in the early 1970s may also reflect the underestimation of use of fuel wood as an important source of energy in the rural areas.

^{2/} The annual per capita consumption of energy in selected Asian countries is estimated to be 8.1 barrels of oil in Korea, 10.6 barrels in Singapore, 2.2 barrels in Thailand, 1.8 barrels in the Philippines, and 1.4 barrels in Indonesia.

Table 8. Malaysia: Demand for and Sources of Energy, 1978-82

	1978	1979	1980	1981	1982	1975-77 Average
(In barrels per day; oil equivalent)						
Oil	130,313	147,234	160,521	164,654	186,028	109,059
Hydro	3,598	4,343	5,512	7,945	8,767	3,877
Other ^{1/}	4,195	4,000	4,000	7,675	7,945	4,783
Total demand	138,106	155,577	170,033	180,274	202,740	117,719
(In per cent)						
Oil	94.4	94.6	94.4	91.3	91.8	92.6
Hydro	2.6	2.8	3.2	4.2	4.3	3.3
Other	3.0	2.6	1.4	4.5	3.9	3.9
Total demand	100.0	100.0	100.0	100.0	100.0	100.0

Source: An Introduction to Malaysia's Energy Sector, 1982, Ministry of Energy, Telecommunication, and Posts.

^{1/} Break in data occurred in 1981, reflecting improved coverage of data collection for the rise of other forms of energy, particularly fuel wood in the rural sector.

Electricity generation accounts for 29 per cent of total energy consumption, making it the largest energy-consuming sector. Electricity generation increased at an average annual growth rate of more than 10 per cent during 1970-81, slightly higher than the increase in total consumption of energy. Most of this expansion came from thermal plants using fuel oil; currently, almost 85 per cent of total electricity generation is oil-based, with hydro contributing another 15 per cent. The Government is attempting to reduce this dependence on oil through its four fuels strategy, aimed at diversifying the country's energy base. By 1985, oil-based electric power is projected to decline to 50 per cent, while hydro will account for 20 per cent; coal, 10 per cent; and gas and other sources, the remainder. A 900 MW power station is currently under construction that would use gas supplies being developed offshore Peninsular Malaysia.

Rural electrification is being emphasized by the Government as part of its socio-economic objective of providing basic amenities to the rural areas. During the last decade, 3,621 rural electricity projects costing about M\$280 million were implemented in Peninsular

Malaysia, thus doubling the number of households provided with electricity. The Government envisages that by the end of 1985 about 65 per cent of the rural households in Peninsular Malaysia will have electricity.

Although energy consumption has accelerated in recent years, the Government has devoted increasing efforts to promoting conservation. This is partly a reflection of projections that, based on current reserves and production of oil, Malaysia will become a net importer of oil by the early 1990s. Conservation is pursued through both price and nonprice policy measures. During the period when international petroleum prices were increasing, the domestic price of petroleum products was increased several times (Appendix Table VIII). However, because subsidies on essential petroleum products such as diesel and kerosene were also raised, prices of petroleum products in Malaysia remained among the lowest in Southeast Asia. More recently, reductions in the price of oil have been passed on to some extent to the consumer in the form of lower prices of certain petroleum products. However, the prices of such subsidized products as diesel, kerosene, and LPG, were not reduced, resulting in reductions of subsidy outlays on these items by M\$400 million on an annual basis. Without this change, expected petroleum subsidies had been estimated at M\$1,157 million or 4.3 per cent of total government expenditures in 1983, a considerable increase over 1976 when they accounted for only M\$16.5 million or 0.2 per cent of total government budget expenditure. Other conservation measures include a new electricity tariff structure introduced in 1980. However, rural consumers were not affected by the new rate, and some energy-intensive, domestic market-oriented manufacturing firms were given discounts on the tariff rates.

Energy conservation efforts are also underway through an advertising campaign which started in 1980 to raise public consciousness. Recently, the Government initiated a program of energy use audits in small- and medium-scale industries to identify areas for saving energy. An increase in 1983 in the road tax rate, which has a progressive rate structure according to engine size, was partly aimed at promoting conservation of fuel for automobiles.

III. Financial Policies and Developments

1. Public finance

a. Structure of the public sector

The public sector in Malaysia consists of the Federal Government, 13 State governments, several local authorities (city, municipal, and town councils), and a number of nonfinancial statutory public

authorities.^{1/} The sector is relatively large and exerts a strong influence on the economy; from 1978-79 through 1981, its total expenditure increased sharply from 37 per cent of GNP in 1978-79 to nearly 52 per cent in 1981, and it has declined only slightly since then (Appendix Table IX). The consolidated revenue of the Federal and State Governments increased from 30 per cent of GNP in 1978-79 to more than 33 per cent in 1981 and has remained at this level since. The overall deficit of the public sector reached a peak (in relation to GNP) in 1981 and declined by 2 percentage points to 17.5 per cent in 1982.

The Federal Government dominates the public sector. In 1982, Federal revenue accounted for 87 per cent of the consolidated Federal and State Governments' revenue, and 93 per cent of consolidated expenditure. Thus, the Federal Government's budgetary operations accounted for the largest part of the public sector's deficit. Grants and loans from the Federal Government are a major source of finance for many expenditures by State governments and nonfinancial public authorities.

The role of State governments has been relatively limited, mainly because of the constraints on their revenue-raising power imposed by the Constitution (Appendix Table X). The revenue sources assigned to the State governments are few and relatively small; their revenue is derived mostly from taxes and royalties on lands, mines, and forests, and only a few states have significant mineral resources or forest reserves.

The operations of the public authorities are closely monitored by the Federal Government. The current operations of the principal public authorities continue to show a surplus. However, because of rising investment expenditure, the overall deficits of the public authorities have increased to M\$1.9 billion, or 3 per cent of GNP in 1982 (Appendix Table XI).

b. Federal Government

(1) Trends in 1978-81

During 1978-81, government revenue increased on average by 19 per cent, with a slight acceleration in the latter half of the period (Table 9 and Appendix Table XII). As a result, revenue as a ratio to GNP increased from 25 per cent in 1978-79 to 28 per cent in 1980-81 (Chart 2). This increase was primarily due to the increasing importance of petroleum revenue, which rose in relation to GNP by 5 percentage points, reflecting the sharp increase in oil prices during this period and the introduction in 1980 of a 25 per cent

^{1/} In addition, there are a substantial number of government-owned enterprises which are influenced by the Government's policy, but are not included in the public sector.

Table 9. Malaysia: Summary of Federal Government Operations, 1978-82

	1978	1979	1980	1981	1982 Prelim. Actuals	1983 Budget
(In millions of ringgit)						
Total revenue and grants	8,808	10,466	13,926	15,806	16,516	18,503
Tax revenue	7,992	9,325	12,450	13,007	13,062	15,036
Of which: petroleum tax	770	829	2,433	3,219	3,480	3,270
Nontax revenue	812	1,081	1,472	2,798	3,448	3,460
Of which: petroleum revenue	116	160	345	1,367	1,876	1,485
Foreign grants	4	3	4	6	6	7
Total expenditure and net lending	11,164	11,898	17,238	24,414	26,253	26,979
Current expenditure	7,610	8,008	10,217	13,686	15,838	17,079
Capital expenditure	2,012	2,514	5,280	8,864	6,370	6,468
Net lending	1,606	1,520	2,051	2,271	4,045	3,432
Adjustment for accounts payable	-64	-144	-310	-407	--	--
Overall deficit	-2,356	-1,432	-3,312	-8,608	-9,737	-8,476
Financing	2,356	1,432	3,312	8,608	9,737	8,476
External	541	679	310	3,417	4,809	4,583
Project loans	357	278	335	301	351	...
Market loans	184	401	-25	2,606	4,227	...
Others	--	--	--	510	231	...
Domestic	1,373	527	3,296	4,665	5,799	3,893
Banking system	-85	-1,165	2,035	1,168	1,671	...
Central Bank	(147)	(-1,344)	(2,015)	(-300)	(855)	(...)
Commercial banks	(-232)	(179)	(20)	(1,468)	(816)	(...)
Nonbanks	1,458	1,692	1,261	3,497	4,128	(...)
Employees Provident Fund	(942)	(1,081)	(1,132)	(1,733)	(2,154)	(...)
Petronas	(--)	(--)	(--)	(1,772)	(1,900)	(...)
Other	(516)	(611)	(129)	(-8)	(74)	(...)
Discrepancy 1/	442	226	-294	526	-871	--
(As per cent of GNP)						
Total revenue and grants	25.4	24.2	27.9	28.7	28.4	29.0
Of which: non-petroleum revenue	22.8	21.9	22.3	20.4	19.2	21.6
Total expenditure and net lending	32.2	27.5	34.6	44.4	45.1	42.4
Current expenditure	21.9	18.5	20.5	24.9	27.2	26.8
Capital expenditure	5.8	5.8	10.6	16.1	10.9	10.2
Net lending	4.6	3.5	4.1	4.1	6.9	5.4
Overall deficit	6.8	3.3	6.6	15.7	16.7	13.3
External financing	1.6	1.6	0.6	5.3	8.0	7.2
Domestic financing	4.0	1.2	6.6	8.5	10.0	6.1

Source: Data provided by the Malaysian authorities.

1/ Includes float and timing differences in recording between the Treasury and the Central Bank as well as unallocable sources.

export duty on crude oil.^{1/} By contrast, the ratio to GNP of revenue from sources other than petroleum gradually declined during 1978-81. The buoyancy estimate for non-petroleum revenue for a longer period is about unity; the rate of increase was substantially lower than the annual rise in demand for public goods and services. This weak buoyancy for non-petroleum revenue has resulted from (i) the erosion of the tax base, owing to numerous exemptions, allowances, and incentives that have been granted in support of the broad objectives of growth, diversification, and equity; (ii) the decline in commodity prices after mid-1980; and (iii) the increase in the threshold prices at which taxation of primary exports commences. This latter reflects a policy of reducing reliance on the taxation of primary commodities.

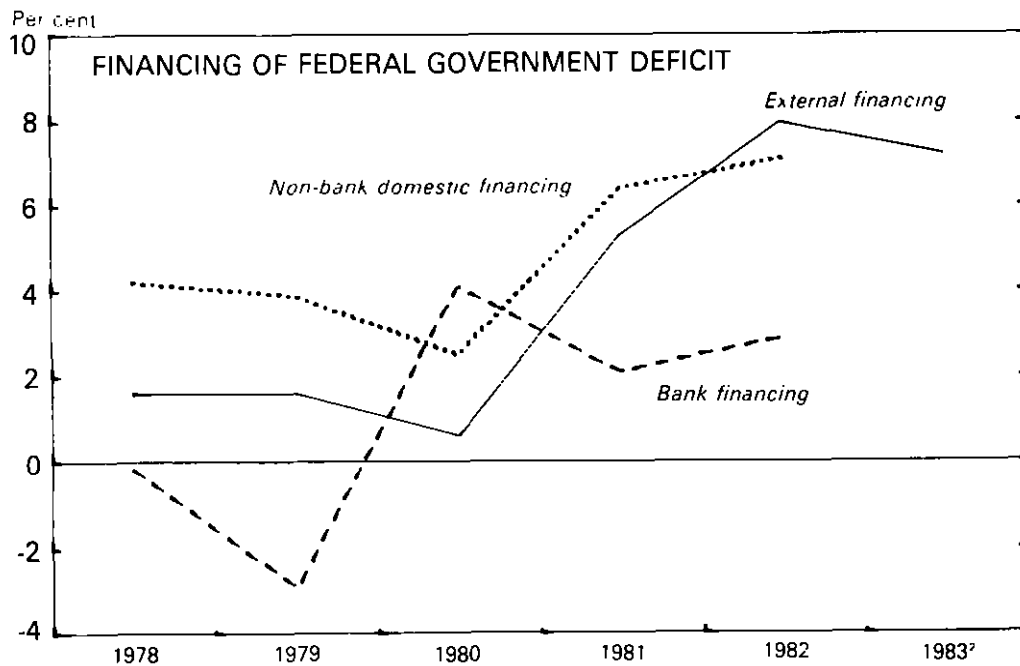
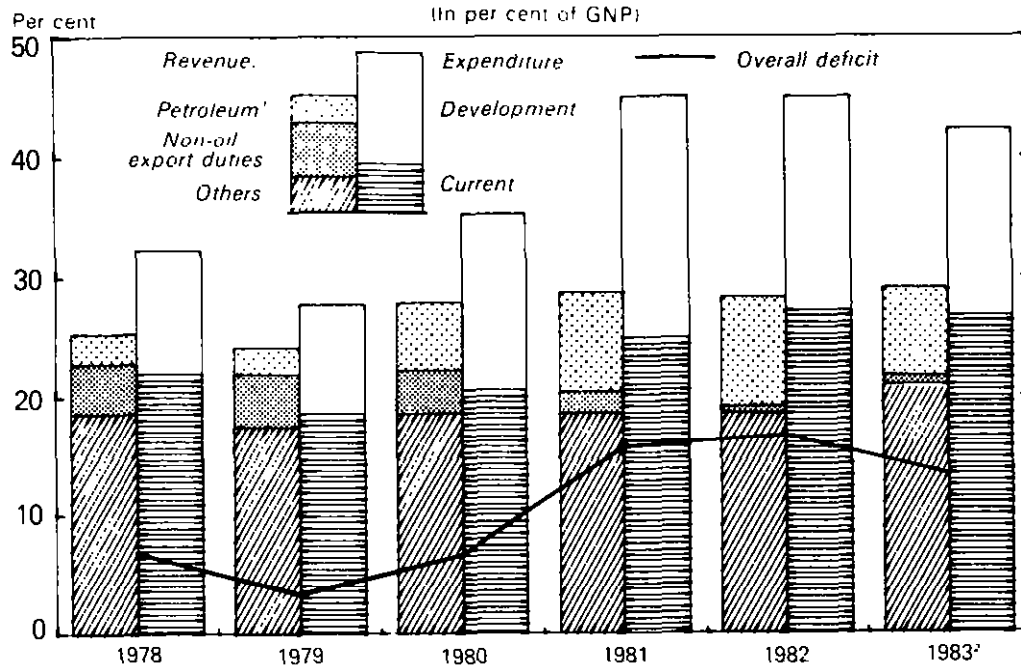
Federal Government expenditure recorded an average annual growth of 24 per cent during 1978-81, accelerating from an average 8 per cent in 1978-79 to more than 43 per cent during 1980-81 (Appendix Tables XIII and XIV). The ratio of government expenditure to GNP increased from 30 per cent in 1978-79 to 40 per cent in 1980-81. The increase during this period was particularly pronounced in development expenditures (sum of capital expenditures and net lending), which rose at an average annual rate of 66 per cent in 1980-81 following an average increase of 16 per cent in 1978-79 and whose share in the total rose from 33 per cent in 1978-79 to 44 per cent in 1980-81. The sharp increase in 1980-81 primarily reflected the Government's efforts to accelerate implementation of its development plans in the final year of the Third Malaysian Plan (TMP) (1980) and the first year of the Fourth Malaysian Plan (FMP) (1981).^{2/} The expansionary expenditure policy provided a countercyclical stimulus in the face of weakening external demand. The acceleration of the development plans was partly prompted by the rapid increase in petroleum revenue in 1979. The growth rate of current expenditures, though lower than that of development expenditures, also accelerated from 5 per cent in 1978-79 to 31 per cent in 1980-81. The increase resulted from rises in wages and salaries, interest payments, and other transfers and purchases of goods and services.

The overall deficit of the Federal Government widened substantially during 1978-81, especially in 1981, when it increased to nearly 16 per cent of GNP. The sharp rise in 1981 was primarily due to the

^{1/} Petroleum revenue includes income taxes, export duties, and royalties paid by petroleum companies, as well as dividends paid by the National Petroleum Company. Export duties on petroleum have been levied since 1980 while dividends have been paid since 1981.

^{2/} In March 1979, the mid-term review of the TMP revised upward the allocation for public development expenditures during the 1976-80 period by more than 72 per cent, implying that, on an annual basis, Federal Government development expenditure in 1979-80 would be about three times as much as in 1976-78. This was achieved by an 83 per cent rise in 1980, compared with 11.5 per cent in 1979. Moreover, the FMP, adopted in March 1981, indicated that total Federal Government development expenditure during 1981-85 would be 48 per cent more than the allocation during 1976-80.

CHART 2
MALAYSIA
FEDERAL GOVERNMENT OPERATIONS, 1978-83



Source: Data provided by the Malaysian authorities

¹Includes petroleum company tax, export duties, royalties and dividend paid by the national oil company

²Budget estimates.



substantial increase in expenditures (both development and current) in that year. Up to 1980, current expenditures of the Federal Government were fully covered by non-petroleum revenue, and the overall deficit was kept at a relatively low level. Since 1981, the overall deficit has widened not only because the growth in development expenditures has exceeded that of petroleum revenue, but also because current expenditures have increased rapidly while non-petroleum revenue has stagnated. Up to 1980, the deficit was mainly financed by domestic sources, in which the Employees Provident Fund played a major role. The substantial increase in the deficit in 1981 made it necessary for the Government to expand its external financing, primarily through market borrowing, which amounted to 30 per cent of the total deficit. The Government also drew heavily on savings accumulated by Petronas to help finance the 1981 fiscal deficit.

(2) The 1982 budget outturn

The 1982 budget was again designed to sustain a high rate of economic activity and promote the country's development efforts; however, the growth rate of expenditures was reduced substantially. The proposed budget called for an increase of 15 per cent in expenditures over the estimated expenditure of 1981, compared with the 42 per cent increase in 1981. Current expenditures were projected to increase by 27 per cent, while development expenditures were to be reduced by 4 per cent. Total revenue was projected to increase by 11 per cent, reflecting higher income tax collection and export duty projections, resulting from the expected gradual improvement in external demand. The tax measures in the 1982 budget were expected to result in a net revenue loss of M\$186 million. The overall deficit was projected to increase to M\$10 billion, or 16 per cent of GNP.

By mid-1982, however, it had become clear that revenue developments had been adversely affected by the slowdown in economic growth and depressed prices for the country's major commodities as a result of the prolonged world recession. It was estimated at that time that revenue would increase by only 4 per cent, instead of the projected 11 per cent, implying a revenue shortfall of more than M\$1.2 billion. The Government decided to reduce 1982 expenditure by M\$1.4 billion (on a disbursement basis), or 2.4 per cent of GNP at mid-year, in order to lessen the burden of financing the deficit. Much less emphasis was given to the countercyclical element of fiscal management while more emphasis was given to the maintenance of a financially prudent stance. The determination of expenditure cuts was made so as to minimize disruptions to the economy without sacrificing the economic and social objectives of the New Economic Policy (NEP). Statutory appropriations in the current expenditures (interest payments, pensions, and contributions to international organizations) were left untouched. Other current expenditures were reduced by about 12 per cent, with heavy cuts in the allocation for transport and travel. Development expenditures were also reduced. Except for projects that were essential to the objectives of the NEP, contractual project expenditures were partially postponed.

Actual Federal Government revenue in 1982 amounted to M\$16.5 billion, representing an increase of only 4.5 per cent compared with 13.5 per cent in 1981. Petroleum revenue, including petroleum company taxes, export duties, royalties, and dividends, increased by 17 per cent, while non-petroleum revenue declined by 0.5 per cent. In particular, export duties (excluding petroleum) declined by more than 60 per cent, reflecting the adverse effect on prices of the prolonged worldwide weak demand for the country's primary commodities.

Federal Government expenditure in 1982 increased by 7.5 per cent to M\$26.3 billion, compared with a 17 per cent increase projected in the original budget. Despite some cuts made by the Government at mid-year, current expenditures increased by 16 per cent, mainly as a result of increased interest payments and wages and salaries. Development expenditures were 6.5 per cent lower than the previous year's level, the first fall since 1973 when they were reduced by 0.6 per cent. Among development expenditures, transfer payments to the private sector fell markedly from their 1981 level, primarily reflecting the elimination of transfers to the National Equity Corporation (Permodalan Nasional Berhad) which had amounted to M\$2.2 billion in 1981.^{1/} Other development expenditures in 1982, consisting mainly of project spending, were nearly 10 per cent higher than the 1981 level.

The overall deficit in 1982 amounted to M\$9.7 billion, or 17 per cent of GNP, compared with a deficit of 16 per cent of GNP in 1981. Nearly half of the overall deficit was financed abroad (amounting to M\$4.8 billion, or 8 per cent of GNP). Market borrowing accounted for nearly 90 per cent of the external financing. Domestic financing increased from M\$4.7 billion to M\$5.8 billion in 1982, reflecting the increased contribution of the EPF and Petronas.

(3) The 1983 budget

The 1983 budget was formulated with the primary aim of reducing the growth of expenditures in response to the tight resource position of the Government. Expenditure control measures were aimed at reducing the pace in spending without adversely affecting productivity. Implementation of low-priority development projects and those not contributing to the enhancement of productivity was deferred. However, the authorities felt that restraint on the growth of expenditure could not go beyond a certain point without causing a reordering of basic priorities; they therefore devised a package of tax measures designed to raise additional revenues so as to lessen the dependence of the budget on domestic and foreign borrowing. The package, which

^{1/} The National Equity Corporation (PNB) is a government-owned equity holding entity established to promote Bumiputera ownership in the corporate sector. In 1982, rather than receiving transfers directly from the Government, the PNB borrowed abroad to continue its ownership purchasing operations.

was the largest set of new tax measures introduced at a single time in recent Malaysian history, was estimated to yield M\$1.2 billion (1.9 per cent of GNP) of additional revenue.

Total expenditures for 1983 were budgeted to be only 2.8 per cent higher than the preliminary actual disbursement level of 1982. Current expenditures were to increase by 7.8 per cent, primarily due to the increase in interest payments, reflecting the sharp increase in government borrowing in recent years. Development expenditures were budgeted to decline by 5 per cent from the 1982 disbursement level. While transfer payments (within development expenditure) to the private and semipublic sectors were reduced by 60 per cent, other development expenditure was budgeted to rise by 12 per cent. As a result, the share of transfer payments in development expenditure was reduced from 24 per cent in 1982 to less than 10 per cent in 1983. This change in the mix of development expenditure reflected both a shift in the methods of financing expenditures, as some of the recipient agencies began to resort to domestic and foreign borrowing on their own, and a shift in policy toward the public sector, namely, reducing the relative size of its expenditure.

Total revenue, including the effects of new tax measures, was projected to increase by 12 per cent, despite a more than 11 per cent drop in petroleum revenue. Non-petroleum revenue was expected to increase by 23 per cent, of which nearly half was due to the revenue gain resulting from the proposed tax changes. The new tax proposals included the following changes: increases in the sales tax (M\$788 million), service tax (M\$70 million), import duties on passenger cars (M\$209 million), import duties and excise duties on liquor and cigarettes (M\$199 million), and road tax on passenger cars (M\$189 million). Reduced tax receipts are expected to result from increases in the threshold prices for export duties on rubber and tin (M\$162 million), and an increase of export allowances (M\$130 million).^{1/} The bulk of the increase in other non-petroleum revenue is to be derived from taxes on company income.

When the budget for 1983 was presented, the overall deficit was projected to decline to M\$8.5 billion, or 13 per cent of GNP. As has been the case since 1981, the Government planned substantial recourse to foreign borrowing (amounting to M\$4.6 billion on a net basis), to finance its budgetary operations. The bulk of this external financing was expected to come from market borrowing. Domestic financing was expected to decline from M\$5.8 billion in 1982 to M\$3.9 billion in 1983, primarily because of the withdrawal of Petronas as a major lender to the Government. The Employees Provident Fund (EPF) was expected to continue to provide a major portion of domestic nonbank financing.

^{1/} Figures in parentheses indicate the expected increases or reductions in tax receipts for each measure.

c. Public debt

Total outstanding debt of the Federal Government rose by 31 per cent from the end of 1977 to the end of 1979; in the subsequent two years, it rose by 47 per cent (Table 10). The outstanding debt in relation to GNP rose from 47 per cent at the end of 1979 to 55 per cent at the end of 1981. The large fiscal deficit in 1982 resulted in an increase in total outstanding debt by 36 per cent in one year to M\$40.8 billion, equivalent to 70 per cent of GNP at the end of 1982.

Foreign debt, which rose substantially in 1981-82, amounted to M\$12.3 billion and accounted for 30 per cent of the total outstanding debt of the Federal Government at the end of 1982. The sharp increase in foreign debt was mostly a reflection of the increase in market borrowing by the Government; project borrowing from foreign governments and international institutions increased only modestly in the last two years. Although outstanding domestic debt rose appreciably during 1981-82, its share in the total declined from 79 per cent at the end of 1980 to 70 per cent at the end of 1982. As the nonbank sector, which consists primarily of the EPF and Petronas, provided about 75 per cent of the domestic financing in 1981-82, the outstanding debt held by these institutions accounted for 57 per cent of the total domestic debt at the end of 1982 (Appendix Table XV).

2. Monetary developments and policies

a. Structure of the financial system

Malaysia's financial system encompasses a variety of financial intermediaries. In addition to the Central Bank and commercial banks, there are several categories of financial institutions. The latter include finance companies, merchant banks, discount houses, the National Savings Bank, provident funds and insurance companies, and specialized institutions for rural, industrial, and housing credit and credit cooperatives. The nonbank financial institutions are important in mobilizing savings from the private sector and channeling them back to investors within the overall framework of credit allocation policy. At the end of 1982, the nonbank financial institutions had outstanding M\$10 billion of deposits and M\$15 billion of credit to the private sector, compared with the commercial banks' deposits of M\$32.6 billion and credit of M\$29.8 billion to the private sector.

The Bank Negara Malaysia is the monetary authority. Currency in circulation and Federal Government deposits constitute most of its liabilities. For the first time in 1982, credit extended to the Government by the Bank exceeded government deposits. The Bank's assets are heavily concentrated in foreign assets. The commercial banks engage in the customary business of accepting deposits and extending credit to the private and public sectors. The finance companies accept only non-demand deposits from the private sector and specialize in hire-purchase finance and housing loans. Merchant banks operate mainly in wholesale

Table 10. Malaysia: Outstanding Federal Government Debt, 1978-82 1/

	1978	1979	1980	1981	1982
<u>(In billions of ringgit)</u>					
Domestic debt	<u>13.4</u>	<u>15.9</u>	<u>18.3</u>	<u>22.4</u>	<u>28.5</u>
Government securities	<u>11.9</u>	<u>14.5</u>	<u>16.8</u>	<u>20.6</u>	<u>26.2</u>
Treasury bills	1.5	1.5	1.5	1.8	2.3
Foreign debt <u>2/</u>	<u>3.9</u>	<u>4.5</u>	<u>4.9</u>	<u>7.8</u>	<u>12.3</u>
Project loans	<u>2.1</u>	<u>2.3</u>	<u>2.7</u>	<u>3.0</u>	<u>3.3</u>
Market loans	1.8	2.2	2.2	4.8	9.0
Total debt	17.3	20.5	23.1	30.1	40.8
<u>(As per cent of GNP)</u>					
Domestic debt	<u>38.7</u>	<u>36.8</u>	<u>36.7</u>	<u>40.7</u>	<u>48.9</u>
Government securities	<u>34.4</u>	<u>33.4</u>	<u>33.7</u>	<u>37.4</u>	<u>45.0</u>
Treasury bills	4.3	3.4	3.0	3.3	3.9
Foreign debt	<u>11.1</u>	<u>10.5</u>	<u>9.7</u>	<u>14.1</u>	<u>21.2</u>
Project loans	<u>6.0</u>	<u>5.4</u>	<u>5.4</u>	<u>5.4</u>	<u>5.7</u>
Market loans	5.1	5.1	4.4	8.7	15.5
Total debt	49.9	47.3	46.4	54.8	70.1 <u>1/</u>
Amortization of foreign debt (in billions of ringgit)	1.4	0.2	0.2	0.2	0.5

Sources: Data provided by the Bank Negara; and staff estimates.

1/ End of period. Totals may not equal the sum of individual items due to rounding.

2/ Excludes use of Fund credit.

banking and provide specialized financial services for the corporate and public enterprises sector. The other institutions mobilize short-term funds from financial institutions, the corporate sector, and the general public for investment mostly in government and corporate securities.

b. Monetary policies and developments

The major objective of monetary policy in recent years was to promote a sustainable rate of economic growth with relative price stability. However, in the wake of adverse developments in Malaysia's external position since late 1980, the protection of the balance of payments has become another important objective. Monetary policy was thus aimed chiefly at: (1) maintaining monetary stability while providing adequate liquidity for the economy; (2) ensuring that bank credit is channeled to priority sectors, including agriculture, small-scale enterprises, and housing as well as to special groups such as the Bumiputera community at reasonable cost; and (3) encouraging the mobilization of domestic savings while minimizing capital outflows in view of higher interest rates abroad.

These objectives called for monetary policy to be selectively accommodating to encourage private investment and the growth of output and to be selectively restrictive to discourage speculation and capital outflows. Since 1980, monetary policy has been supportive of the expansionary fiscal stance by accommodating the enhanced requirements of the public sector.

The monetary authorities have relied on the control of reserve money as the main instrument of monetary management. Monetary policy instruments including reserve requirements, interest rates, discounting arrangements, and credit controls have been used to influence the availability and cost of money and credit. During 1978-81, the monetary authorities also introduced measures aimed at strengthening the financial system. These measures included a more market-oriented determination of interest rates, revision of liquidity requirements, inclusion of the merchant banks under the jurisdiction of the Banking Act, and introduction of two new financial instruments (i.e., certificates of deposit and bankers' acceptances). During 1978-81, the Central Bank kept the growth of reserve money to an annual average rate of below 15 per cent (Table 11).

Swap facilities were also provided to commercial banks when bank liquidity tightened, particularly in 1981. The swap transactions exerted a temporary impact on the balance of payments by facilitating short-term foreign borrowing by the commercial banks. These transactions consisted of a swap at spot exchange rates of foreign currency for ringgit with an agreement to unwind these transactions at a forward rate in which the ringgit was quoted at a premium. The volume of such transactions declined substantially in 1982, reflecting the easier liquidity position of banks.

Table 11. Malaysia: Factors Affecting Reserve Money, 1978-82

(In millions of ringgit)

	1978	1979	1980	1981	1982
Net foreign assets <u>1/</u>	7,404	9,247	10,316	9,805	9,338
Net claims on Government <u>1/</u>	-1,317	-2,644	-745	-290	674
Net other assets	-1,332	-1,105	-3,078	-2,351	-1,652
Reserve money	4,755	5,498	6,493	7,164	8,360
Currency outside banks	3,578	4,094	4,758	5,100	5,727
Current and deposits of banks	1,129	1,332	1,700	1,979	2,501
Other deposits of banks	48	72	35	85	132

Sources: Data provided by the Malaysian authorities; and International Monetary Fund, International Financial Statistics.

1/ The net foreign assets and net claims on Government reflect the consolidation of the Treasury IMF accounts with those of Bank Negara Malaysia.

During 1978-81, the movements of monetary aggregates were substantially influenced by developments in the external sector. The growth of total liquidity fluctuated about an average rate of 21 per cent because of variations in the increase in quasi-money (Table 12 and Chart 3). The combined effect of the growth in incomes arising from the price boom for Malaysia's primary exports and the rise in domestic interest rates resulted in a sharp acceleration in the growth of quasi-money in 1979 and 1980. With the weakening of the external position, the growth of quasi-money slowed to somewhat less than 19 per cent in 1981. Throughout this period, the growth of narrow money slowed, averaging an annual rate of below 16 per cent, reflecting the slower growth of currency outside the banking system due in part to the impact of rising interest rates on bank deposits. The external sector exerted a substantial impact on the expansion of liquidity in 1978-79. However, after a marginal increase in 1980, net foreign assets exerted a sharp contractionary impact on total liquidity in 1981. As a result, the increase in net foreign assets over this four-year period amounted to only about 8 per cent of the growth of total liquidity. During most of this period, domestic credit rose strongly, averaging an annual rate of 29 per cent. The growth of credit to the private sector was rapid as business activity responded vigorously to

Table 12. Malaysia: Monetary Survey, 1978-82

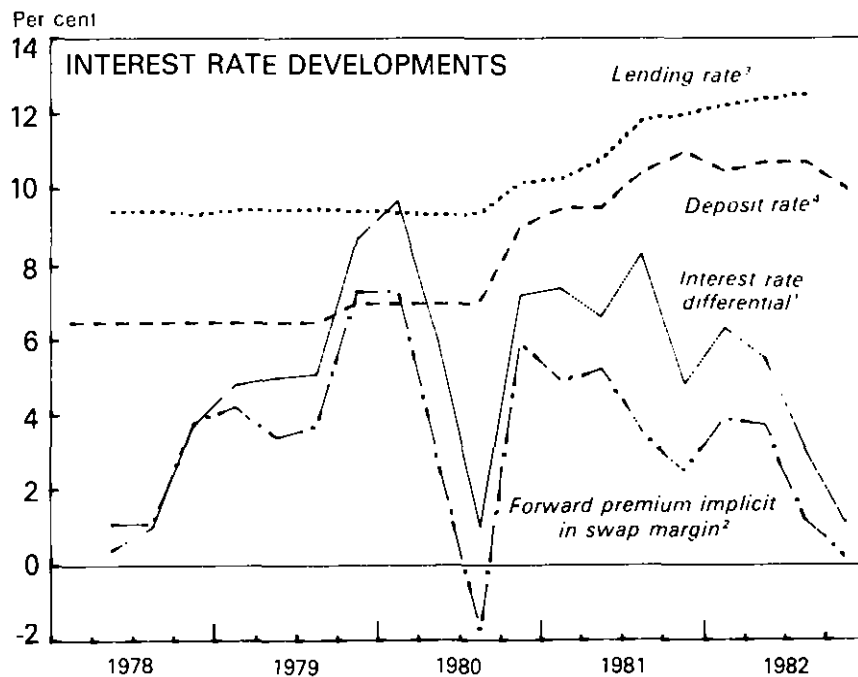
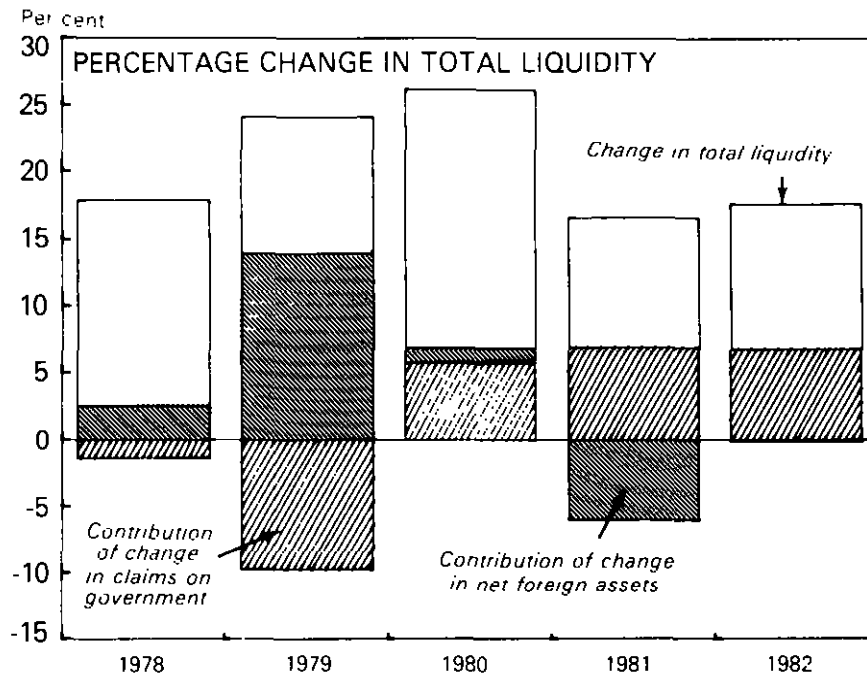
	1978	1979	1980	1981	1982	1982			
						March	June	Sept.	Dec.
(In millions of ringgit, end of the period)									
Net foreign assets	6,678	9,114	9,357	7,701	7,651	6,467	5,785	5,440	7,651
Domestic credit <u>1/</u>	12,644	13,939	20,895	27,415	33,816	30,002	31,734	33,842	33,816
Of which:									
Net claims on Government <u>2/</u>	1,017	-702	549	2,445	4,617	4,413	5,018	5,756	4,617
Credit to the private sector	11,627	14,641	20,346	24,970	29,199	25,589	26,716	28,086	29,199
Broad money	17,521	21,739	27,437	31,998	37,618	32,898	33,669	34,591	37,618
Of which:									
Narrow money	7,243	8,487	9,757	11,014	12,477	11,103	11,519	11,501	12,477
Quasi-money	10,278	13,252	17,680	20,984	25,141	21,795	22,150	23,090	25,141
Other liabilities (net)	1,799	1,314	2,815	3,118	3,849	3,571	3,850	4,691	3,849
(Year-to-year percentage change)									
Net foreign assets	6.2	36.5	2.7	-17.7	-0.7	-30.8	-36.8	-30.2	-0.7
Domestic credit	24.2	10.3	49.9	31.1	23.4	32.1	35.8	33.3	23.4
Of which:									
Credit to the private sector	29.6	25.9	39.0	22.7	16.9	19.6	17.6	16.7	16.9
Broad money	17.9	24.1	26.2	16.6	17.6	14.7	15.3	17.2	17.6
Of which:									
Narrow money	18.2	17.2	15.0	12.9	13.3	9.2	9.6	13.1	13.3
Quasi-money	17.7	28.9	33.4	18.7	19.8	17.7	18.5	19.4	19.8
Other liabilities (net) <u>1/</u>	11.6	-27.0	114.2	10.8	23.4	6.0	15.9	28.0	23.4

Source: International Monetary Fund, International Financial Statistics.

1/ Claims on other financial institutions, which are shown separately in the International Financial Statistics since 1979, have been netted out from domestic credit and other net liabilities.

2/ Includes Federal and State governments.

CHART 3
MALAYSIA
MONETARY DEVELOPMENTS, 1978-82



Sources: Data provided by the Malaysian authorities and staff estimates

¹Three month LIBOR on U.S. dollar minus three month inter bank rate, period average

²Representative three month swap effected through foreign exchange brokers, average of the end of month data

³Weighted average lending rate of all commercial banks

⁴Interest rate on one year time deposit of commercial banks, at end of period



the commodity boom in 1979-80; it slowed appreciably in 1981. During 1978-79, the impact of the budget on total liquidity was negative; the Government reduced its net bank indebtedness and emerged as a net creditor to the banking system at the end of 1979. However, fiscal operations resulted in heavy bank borrowing by the Government in 1980 and 1981.

Monetary policy in 1982 was conducted within the framework of the objectives listed above. The Central Bank had in place measures to increase capital inflows and strengthen the liquidity base of the banks. Since 1981, banks have been discouraged from financing investment-related imports from domestic resources; instead, increased use of suppliers' or buyers' credit has been encouraged. At the same time, to attract inflows of foreign capital, banks were exempted from the withholding tax of 15 per cent on interest paid to all nonresidents, and the statutory reserve requirement on such foreign currency deposits was set at zero. The Central Bank also implemented measures to broaden the capital base and strengthen the banking system. These included the introduction in January 1982 of new minimum capital adequacy ratios for the commercial banks ^{1/} and the setting of quantitative credit guidelines to discourage speculative activities. To enhance the mobilization of savings, Banks were exempted from the tax on interest earned on fixed deposits with maturity exceeding 12 months. These measures led to an improvement in the overall liquidity of the banking system in 1982. The growth of reserve money, which had declined below its trend rate in 1981, picked up as the Central Bank's claims on the Government exceeded government deposits for the first time since the Central Bank began issuing currency in 1967.

In 1982, the growth of narrow money increased somewhat to above 13 per cent. This was broadly consistent with the increase in real income of about 5 per cent and the rate of inflation of about 6 per cent for the year as a whole. The increase in narrow money was due partly to the decline in interest rates on deposits and other financial assets. Quasi-money increased by about 20 per cent, compared with less than 19 per cent in 1981, mainly because deposits picked up due to the mild recovery in export earnings during the latter part of the year. As a result, total liquidity increased by about 18 per cent, compared with 17 per cent in 1981. Net foreign assets of the banking system declined by only M\$0.05 billion, compared with the sharp decline of M\$1.7 billion in 1981 when they exerted a substantial contractionary effect on liquidity. The major factors contributing to the growth of total liquidity came from the expansion of domestic credit which slowed for the second consecutive year.

^{1/} The minimum capital adequacy ratios to be maintained by the commercial banks with free capital (shareholders' funds less investments in long-term assets) to total assets is 4 per cent for the domestic banks; the corresponding ratio for the foreign banks is 6 per cent.

The marginal decline in net foreign assets reflected the decline in net foreign assets (M\$0.47 billion) of the Monetary Authority for the second consecutive year. Most of this decline was offset by the reduction in the net liabilities of the commercial banks, particularly in the second half of the year.

Fiscal operations of the Government provided the major stimulus to the growth of domestic credit, which increased by about 23 per cent, compared with 31 per cent in 1981. Net claims on Government increased by M\$2.2 billion, compared with the increase of M\$1.9 billion in 1981. The increasing role of the banking system in financing the budget deficit caused the share of net credit to the Government to rise to about 14 per cent of total domestic credit in 1982 from below 3 per cent in 1980. The growth of credit to the private sector further slowed to about 17 per cent during the year. The increase in credit was largely absorbed by construction and residential housing activity.

The impact of the increase of domestic credit on total liquidity was partially moderated by the acceleration in the growth of other (net) liabilities of the banking system. The latter increase was mainly in the form of an increase in the paid-up capital and reserves of the domestic banks, arising from the compliance with the new capital adequacy requirements.

Overall liquidity in 1983 is expected to grow at about the same rate as in 1982, with the growth of narrow money to be limited to the range of 11 to 13 per cent. The latter is consistent with the anticipated expansion in output and the likely rate of inflation. Domestic credit expansion is envisaged to be the main source of growth of total liquidity as the external sector is projected to exert a moderate contractionary effect.

c. Interest rate policies

The structure of interest rates in Malaysia is fairly complex. In the past, the general level of interest rates was kept low by international standards, due partly to the Central Bank's policy of providing loans to priority sectors and special groups at lower rates. Maximum lending rates on such loans were fixed by the Central Bank. Also, the interest rates offered by the commercial banks were still attractive to the general public in an environment of relatively low inflation in the 1970s. Since 1978, commercial banks have been allowed to set their own deposit rates and lending rates in order to promote a more efficient allocation of resources.

Interest rates have increased in response to market forces since they were freed. In particular, interest rates on deposits, at their peak in 1981, rose to 11 per cent for one-year deposits, compared with 6.5 per cent in 1978 (Chart 3 and Appendix Table XVI). Lending rates, however, increased gradually; the average lending rate at end-September

1982 was 12.5 per cent, compared with 9.3 per cent in 1978. The prime lending rate increased only once by 1 percentage point in 1980. Maximum lending rates for priority loans remained unchanged.

The level of domestic interest rates continued to be below the prevailing international rates. Consequently, a substantial differential in favor of domestic borrowing continued to exist between domestic and international interest rates until late 1982. However, there was little recorded net capital outflow up to 1979, reflecting the low level of domestic inflation and the growing strength of the ringgit. The interest differential increased substantially as international interest rates rose sharply from late 1979. The Central Bank provided swap facilities to the commercial banks to offset the impact of this differential on capital inflows. The interest rate differential narrowed as international rates declined after mid-1982. By year-end, domestic lending rates were comparable to the international rates and the forward premium on the ringgit on swap transactions had declined sharply.

d. Commercial banks and other financial institutions

The liquidity position of the commercial banks remained easy during most of 1982 because of the lower growth in the demand for bank credit by the private sector. In the third quarter, the liquidity position of the banks tightened mildly due mainly to seasonal factors. With the accumulation of deposits associated with an improvement in export performance, bank liquidity eased in the fourth quarter. The liquidity ratio of the commercial banks fluctuated within narrow bounds and declined marginally to above 26 per cent at year-end; the minimum liquidity ratio is at 20 per cent (Appendix Table XVII).

Total deposits of the commercial banks increased by 20 per cent in 1982, compared with 26 per cent in 1981 (Appendix Table XVIII). During the year, the ratio of total deposits to demand deposits increased. This reflected a shift to new fixed deposits with longer maturities, due mainly to the relatively higher interest rates offered on such deposits as well as to the incentives provided by the exemption of taxes on interest earned on such deposits. The increase in fixed deposits accounted for the bulk of the increase in quasi-money in 1982.

Net foreign liabilities of the commercial banks declined by M\$0.56 billion in 1982. This was due both to a slower growth of external borrowing by the banks to fund their lending operations and the increase in their foreign assets resulting from the larger volume of their balances placed with banks abroad. Claims on the private sector increased by 16 per cent (M\$4.2 billion), compared with about 22 per cent (M\$4.6 billion) in 1982. Claims on the Government increased for the second consecutive year by M\$1.2 billion, accounting for 22 per cent of the growth of bank credit in 1982.

The commercial banks were required to extend credit to certain specified priority sectors or groups in such a way that the total loans outstanding at the end of 1982 would equal a specified proportion of the total loans outstanding at the end of 1981. The specified sectors or groups included the Bumiputera community, small-scale enterprises, agricultural food production, and construction of individual houses. Similarly, finance companies were also required to channel a specified proportion of their credit to the priority sectors.

The commercial banks and finance companies as a group complied with all the guidelines on lending to the priority sectors in 1982; in fact, loans extended to these sectors exceeded the minimum requirements by substantial margins (Appendix Table XIX). Nevertheless, actual performance varied among individual banks and finance companies, with some banks unable to meet the prescribed minimum targets. Credit extended to the Bumiputera community in all sectors of the economy increased, with the largest share of new credit going to real estate and construction sectors. Overall bank lending followed the same pattern during the year (Appendix Table XX). The increasing share of commercial bank lending in this direction continued to shift the term structure of loans in favor of long-term maturities (Appendix Table XXI).

IV. External Developments

1. Overall balance of payments developments

Malaysia's balance of payments developments have been characterized in recent years by substantial reversals in the trends of the trade account, current account, and overall balance. The trade account balance declined from a surplus of 15.2 per cent of GNP (M\$6.6 billion) in 1979 to a deficit of 2.5 per cent of GNP (M\$1.4 billion) in 1982, mainly due to a rapid increase in imports, together with a marked slowdown in export growth (Table 13). Most of the increase in the trade deficit in 1982 was attributable to the decline in export prices and the high growth of imports in volume terms (Table 14). The deficit in the services account increased at an annual rate of 18.5 per cent during 1979-82; this was due to increasing payments on freight and insurance, and net investment income. Reflecting these developments in the trade and services accounts, the current account surplus, which peaked at 5.3 per cent of GNP (M\$2.3 billion) in 1979, declined steadily to a deficit equivalent to 13.4 per cent of GNP in 1982 (Chart 4).

Steadily rising net inflows of long-term capital tended to more than offset the current account deficit, and the overall balance showed a surplus in each year during 1978-80. Subsequently, however, the overall balance was in deficit by M\$1.0 billion and M\$0.6 billion in 1981 and 1982, respectively. Malaysia's total outstanding external debt remained stable at about 20 per cent of GNP during 1978-80, but due to large capital inflows to finance the increasing current account deficit

Table 13. Malaysia: Balance of Payments, 1978-83

(In millions of ringgit)

	1978	1979	1980	1981 <u>1/</u>	1982 <u>1/</u>	1983 Proj.
Trade account	<u>3,587</u>	<u>6,580</u>	<u>4,776</u>	<u>-29</u>	<u>-1,432</u>	<u>528</u>
Exports (f.o.b.)	16,925	23,977	28,060	26,964	28,054	30,893
Imports (f.o.b.)	13,338	17,397	23,284	26,993	29,486	30,365
Services account (net)	<u>-3,186</u>	<u>-4,175</u>	<u>-5,176</u>	<u>-5,343</u>	<u>-6,290</u>	<u>-6,895</u>
Freight and insurance	-1,072	-1,362	-1,934	-2,040	-2,180	...
Other transportation	110	70	-11	-19	-24	...
Travel	-308	-455	-521	-623	-671	...
Investment income <u>2/</u>	-1,571	-1,797	-1,954	-1,782	-2,338	...
Other services	-345	-631	-756	-879	-1,077	...
Transfers (net)	-82	-119	-123	-105	-103	-78
Current account	<u>319</u>	<u>2,286</u>	<u>-523</u>	<u>-5,477</u>	<u>-7,825</u>	<u>-6,445</u>
Capital account: long-term	<u>1,689</u>	<u>2,247</u>	<u>2,299</u>	<u>5,849</u>	<u>7,836</u>	<u>7,496</u>
Official	513	712	310	2,915	4,379	...
Private: direct investment	858	928	1,275))))
private borrowings	400	520	854)	2,833)	3,095)	...
other	-82	87	-140	101	362	...
Capital account: short-term	<u>-349</u>	<u>-1,579</u>	<u>939</u>	<u>86</u>	<u>933</u>	<u>-63</u>
Domestic financial sector	237	-989	1,253	643	-557	...
Other	-586	-590	-314	-557	1,490	...
Errors and omissions	-1,034	-1,165	-1,713	-1,551	-1,560	...
SDR allocation (net)	...	74	76	73	--	--
Overall balance	<u>625</u>	<u>1,863</u>	<u>1,078</u>	<u>-1,020</u>	<u>-616</u>	<u>-318</u>
Financing	<u>-625</u>	<u>-1,863</u>	<u>-1,078</u>	<u>1,020</u>	<u>616</u>	<u>318</u>
Change in assets (increase -)	-625	-1,863	-1,078	510	464	...
Change in liabilities	510		
Net use of Fund credit	(510)	(152)	(...)

Source: Data provided by the Malaysian authorities.

1/ Four LNG tankers acquired in 1981, and one acquired in 1982, by the Malaysian National Shipping Company at a cost of about M\$1.8 billion are not included in trade and investment data.

2/ Includes interest payments on foreign debt.

Table 14. Malaysia: Decomposition of the Changes in the
Balance of Trade, 1978-82

(Changes from previous year in billions of ringgit)

	1978	1979	1980	1981	1982
Contribution to trade balance of:					
Exports	<u>2.1</u>	<u>7.1</u>	<u>4.1</u>	<u>-1.1</u>	<u>1.1</u>
Due to volume <u>1/</u>	0.5	2.9	0.5	-1.8	2.9
Due to price <u>2/</u>	1.5	3.5	3.5	0.8	-1.6
Due to secondary effects <u>3/</u>	0.1	0.6	0.1	-0.1	-0.2
Imports	<u>-2.3</u>	<u>-4.1</u>	<u>-5.9</u>	<u>-3.7</u>	<u>-2.5</u>
Due to volume <u>1/</u>	-1.2	-2.3	-3.0	-2.1	-2.8
Due to price <u>2/</u>	-1.0	-1.5	-2.5	-1.4	0.3
Due to secondary effects <u>3/</u>	-0.1	-0.3	-0.4	-0.1	--
Change in trade balance	<u>-0.3</u>	<u>3.0</u>	<u>-1.8</u>	<u>-4.8</u>	<u>-1.4</u>

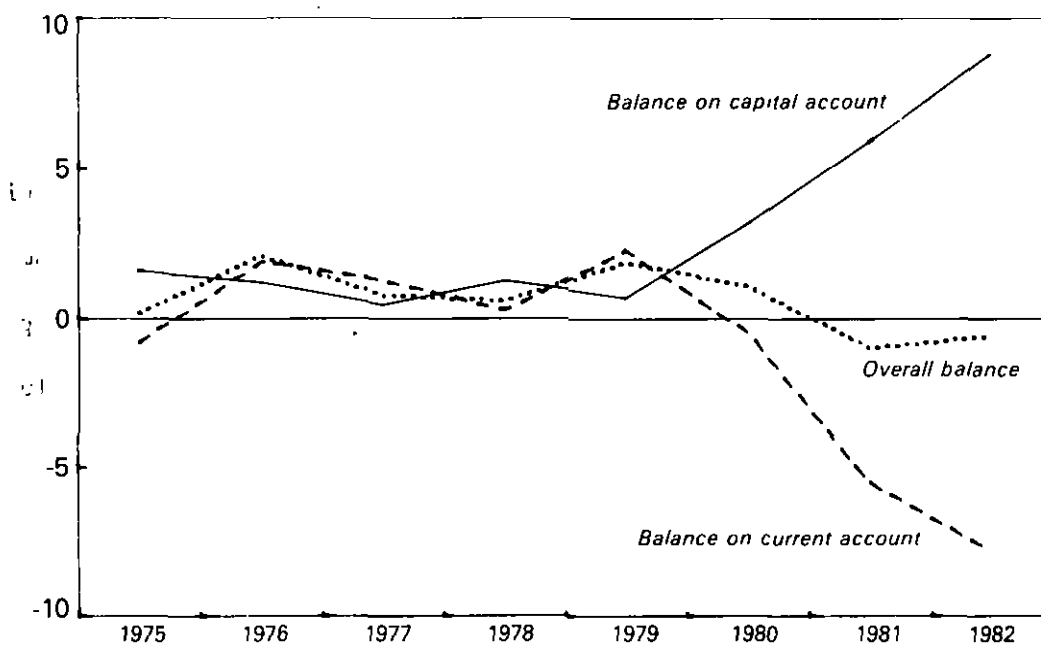
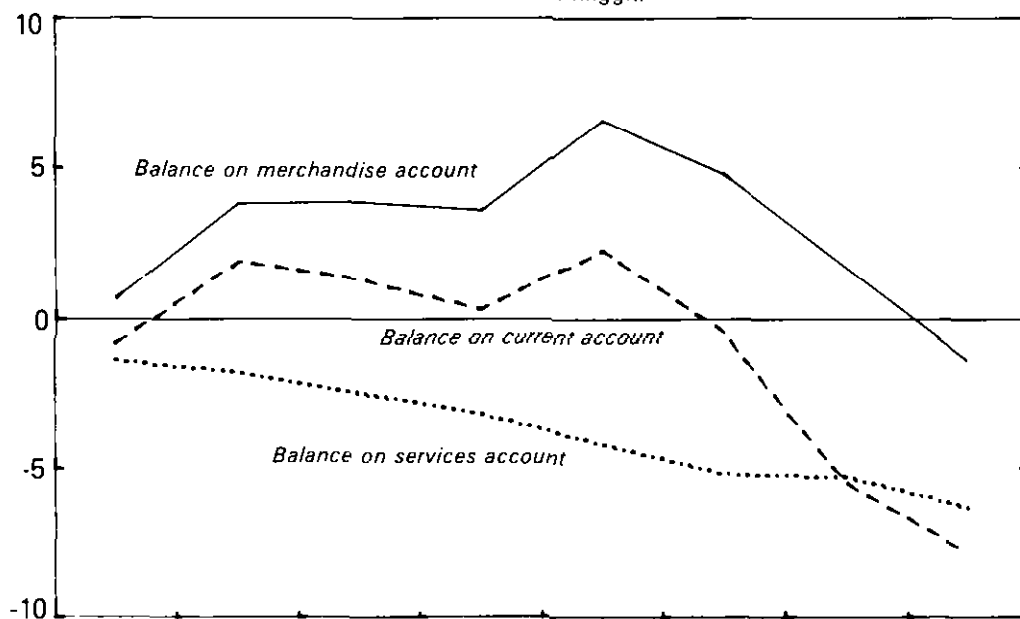
Source: Staff calculations based on data supplied by the Malaysian authorities.

1/ The change in value that would have occurred had export and import volumes changed as they did, but all prices remaining unchanged.

2/ The change in the value that would have occurred had export and import prices changed as they did, holding quantities unchanged.

3/ Shows the joint effects on value due to simultaneous changes in the volume and prices of exports and imports.

CHART 4
MALAYSIA
BALANCE OF PAYMENTS, 1975-82
(In billions of ringgit)



Source: Data provided by the Malaysian authorities.



in the following years, total outstanding external debt increased to 41 per cent of GNP at the end of 1982. External debt servicing increased sharply, but still remained low (9 per cent) relative to current account earnings in 1982. The level of external reserves of Bank Negara increased from M\$7.4 billion in 1978 to M\$10.3 billion at the end of 1980, and then declined to M\$9.3 billion by the end of 1982; this level was equivalent to about four months of 1982 merchandise imports, a decline from about 6.8 months of imports in 1978.

The external imbalance is expected to ease in 1983; the trade balance is expected to register a modest surplus due to slower import growth and a moderate increase in exports. Reflecting this improved trade performance, the current account deficit is projected to decline to about 10 per cent of GNP, despite the expected widening of the deficit in invisibles. Nonmonetary capital inflow is expected to decline to M\$7.4 billion, with net official foreign borrowing showing a small increase to M\$4.5 billion. The overall balance is projected to show a somewhat smaller deficit in 1983, compared with the preceding two years.

2. Merchandise trade

a. Exports

Earnings from merchandise exports increased at an annual rate of 24 per cent during 1978-80, reflecting rising world prices for primary commodities, rapid expansion of manufacturing exports, and the sharp increase in the price of crude oil during 1979-80. About half of the value of exports in recent years was accounted for by five major commodities: rubber, tin, saw logs, sawn timber, and palm oil; the remaining half was mostly attributable to petroleum and manufacturing exports. The slackening of economic activity in major industrial countries and a surge in supply in selected commodity markets (e.g., vegetable oil) were the principal factors causing exports of non-oil primary products to decline by 10.5 per cent and 6.4 per cent, respectively, in 1981 and 1982. Growth in the value of petroleum exports slowed appreciably after 1980, reflecting fluctuations in both volume and price, but the earnings from manufactured products maintained their steady growth despite the weak external conditions.

Natural rubber accounted for more than 30 per cent of Malaysia's non-oil primary exports until 1981, but declined to 23 per cent in 1982. Although Malaysia was still the largest producer and exporter of natural rubber in the world, the position of rubber in export earnings slipped to fourth place in 1982, after petroleum, saw logs, and palm oil. Volume and unit value declined by 9.7 per cent and 36.4 per cent, respectively, during 1981-82 from the peak levels attained in the second quarter of 1980 (Table 15); this reflected the sharp downturn in foreign demand due to a decline in the sales of motor vehicles and tires in major industrial countries and voluntary export restraint in 1982.

Table 15. Malaysia: Volume, Value, and Unit Value
of Major Export Commodities, 1978-82

	1978	1979	1980	1981	1982
Rubber					
Volume ('000 tons)	1,614	1,650	1,526	1,485	1,378
Value (M\$ million)	3,601	4,482	4,617	3,713	2,655
F.o.b. unit value (M\$ per ton)	2,231	2,716	3,026	2,501	1,926
Tin and tin concentrates					
Volume ('000 tons)	70	72	70	66	49
Value (M\$ million)	2,021	2,316	2,506	2,138	1,484
F.o.b. unit value (M\$ per kg.)	29	32	36	32	30
Saw logs					
Volume ('000 m ³)	16,732	16,017	15,152	15,822	19,373
Value (M\$ million)	1,665	2,877	2,622	2,474	3,393
F.o.b. unit value (M\$ per m ³)	100	180	173	156	175
Sawn timber					
Volume ('000 m ³)	3,176	3,535	3,306	3,031	3,193
Value (M\$ million)	878	1,336	1,352	1,120	1,184
F.o.b. unit value (M\$ per m ³)	278	378	409	370	371
Palm oil					
Volume ('000 tons)	1,519	1,901	2,260	2,492	2,861
Value (M\$ million)	1,872	2,471	2,604	2,824	2,776
F.o.b. unit value (M\$ per ton)	1,232	1,300	1,152	1,133	970
Petroleum					
Volume ('000 tons)	9,229	12,035	11,221	10,152	11,783
Value (M\$ million)	2,263	4,209	6,687	6,918	7,578
F.o.b. unit value (M\$ per ton)	245	350	596	681	643
Manufactured goods	3,610	4,832	6,106	6,411	7,611
Of which: Electrical machinery and appliances	1,568	2,252	2,841	3,010	3,766
Clothing, textiles and footwear	464	575	802	785	795
Other exports (M\$ million)	1,015	1,454	1,566	1,366	1,373
Total exports (M\$ million)	16,925	23,977	28,060	26,964	28,054

Source: Data provided by the Malaysian authorities.

The International Natural Rubber Agreement (INRA) came into effect on April 15, 1982, after two extensions of the deadline for ratification. Seven producing countries and 26 consuming nations, accounting for 91 per cent and 85 per cent, respectively, of total global exports and imports of rubber, comprise the membership of the International Natural Rubber Organization (INRO). At the Council Session of INRO in May 1982, the INRA buffer stock price range was revised downward in accordance with the Articles of Agreement, as the average Daily Market Indicator Price for a six-month period fell below the lower intervention price of the buffer stock price range. Malaysia accepted a voluntary cutback in exports of 129,000 tons to supplement the buffer stock operations of the INRA.^{1/} Despite two successive call-ups of MS200 million each to finance additional buffer stock purchases and promote stability in the rubber market, the prices remained weak; for 1982 as a whole, RSS1-type rubber averaged M\$2.01 per kilogram, 22 per cent lower than the average price of M\$2.58 per kilogram in 1981. Whenever the five-day average Daily Market Indicator Price fell below the "may-buy" level of M\$1.77 per kilogram, the INRO intervened to stabilize rubber prices. Prices might have weakened even further without the buffer stock purchases by INRO, which reached about 280,000 tons by the end of 1982.

Exports of saw logs and sawn timber increased markedly (27.4 per cent) in 1982, following two consecutive years of decline resulting from the reduced demand associated with the sluggish construction activity in the United States and Japan. The turnaround in 1982 mainly reflected a sharp increase (22.4 per cent) in the volume and moderate recovery in the price (12.2 per cent) of saw logs. Strengthened efforts to conserve forest resources by the major tropical hardwood producing countries led to lower supply and higher prices for tropical hardwoods, despite the slack in building and construction activities in the major industrial countries during 1982. Japan remained the largest buyer of saw logs from Malaysia, accounting for more than 57 per cent of the total export volume (1982). The exports of sawn timber were mainly directed to markets in Singapore, the European Economic Community, and West Asia.

Export earnings from crude and processed palm oil, which had increased at an annual average rate of 12.1 per cent during 1978-81, declined by about 2 per cent in 1982, the first such decline in recent years. The drop in earnings was entirely due to the deterioration in export prices (14.4 per cent) which more than offset the increase in export volume (14.8 per cent). The sharp increase in export volume is traceable to increased output (24.3 per cent) due to favorable weather conditions, increases in the mature area under palm cultivation, and the positive effects of weevil pollination. Prices were

^{1/} The total cutback in exports was 250,000 tons; other countries also participated in this arrangement, with Indonesia and Thailand withholding 70,000 and 36,000 tons, respectively, and the other members accounting for the balance.

continuously lower than those prevailing in 1981, due to a sharp increase in output, an increase in the soybean oil supply from the United States, and the expectation of a higher global stock of vegetable oils which caused trading to be thin in the Rotterdam market. Most of the palm oil was exported in processed form due to continued restrictions on the export of crude palm oil; the share of processed palm oil increased by 2 per cent in 1982, to about 96 per cent of total palm oil exports. The bulk of the exports of processed palm oil was in the form of refined palm oil (40 per cent) and palm olein (37 per cent) in 1982, about the same as in the previous year. Singapore and India continued to be major importers of Malaysia's processed palm oil, accounting, respectively, for 20 per cent and 15 per cent of the total exports; Pakistan and the Soviet Union, the other two major buyers, followed with shares of about 10 per cent each.

Exports of tin and tin concentrates declined by 31 per cent in 1982, compared with a decline of about 15 per cent in the previous year due to lower prices and volume. The sharp decline in volume (26 per cent) in 1982 was attributable to the export control measures imposed on the producing member countries by the International Tin Council (ITC), which, in turn, reflected weakness in global demand. Prices remained weak during 1981-82, due mainly to relatively higher levels of commercial stocks, reduced overseas demand, and continued sales from the United States GSA stockpile. Prices fell to the floor price of the International Tin Agreement's buffer stock price range (M\$29.15 per kilogram), and a further decline was averted through the operations of the ITC buffer stock. To correct the oversupply position of tin in the world markets, the ITC first imposed a 15 per cent export cutback, followed by a more severe one of 36 per cent for the two successive export control periods, each of three-months duration, in 1982. Malaysia's share of the cutback amounted to about 28,000 tons, which corresponds to the 26 per cent reduction in the volume of exports from Malaysia in 1982. The generally tightened supply situation following the supply restraint by the producing members of the ITC, purchases by the Buffer Stock Manager, and reduced GSA sales since August contributed to an upward movement of prices to M\$30.91 per kilogram in September. This modest improvement did not last long, and tin prices continued to remain around the floor price of the buffer stock price range during the fourth quarter of 1982; for the year as a whole, the price was M\$30.09 per kilogram, or about 7 per cent lower than the corresponding average price recorded in 1981.

Except for the European Economic Community, exports of tin metal to all destinations declined significantly in 1982; Malaysia's tin exports to the Netherlands increased by more than 9 per cent, accounting for more than 54 per cent of its total tin exports. Exports to Japan, the United States, and the Soviet Union declined by about 28 per cent, 91 per cent, and 37 per cent, respectively, reflecting lower demand, the periodic emergence of discounts in prices on the London Metal Exchange over the Penang price, and the substitution of cheaper tin from the GSA stockpile.

The Sixth International Tin Agreement (ITA) provisionally came into effect on July 1, 1982, to succeed the Fifth ITA which expired on June 30, 1982. Six producing countries, accounting for more than 82 per cent of global tin production, and 17 consuming countries, accounting for more than 51 per cent of global consumption, are members of the Sixth ITA. Bolivia and the United States are not members of the Sixth ITA, and, consequently, the size of the normal buffer stock has been reduced to 19,666 tons from the previously agreed level of 30,000 tons. However, the agreement provided for an additional 20,000 tons of supplementary buffer stock, making the total size about the same as it was under the Fifth ITA (i.e., 40,000 tons).

Earnings from crude petroleum continued to increase steadily in both absolute and relative terms in 1982, due mainly to increases in volume (16.1 per cent) which offset a small reduction in prices (5.6 per cent). The depressed global oil situation led Petronas to reduce crude oil prices twice; for 1982 as a whole, the price declined to US\$36.31 per barrel from the average price of US\$38.98 per barrel in 1981. Singapore and Japan continued to be the major markets for Malaysian crude, accounting, respectively, for about 48 per cent and 29 per cent of total exports. The shares of Japan and the United States declined sharply in 1982, but this was offset by substantially higher exports to Singapore, Thailand, and Australia.

Manufactured exports grew at an impressive rate of 18.7 per cent to M\$7.6 billion in 1982, compared with 5 per cent in 1981 (Appendix Table XXII). This increase was mainly attributable to an upsurge in the export of electrical appliances and parts (27.4 per cent), machinery and transport equipment (54 per cent), and chemical and petroleum products (31.5 per cent); moderate increases in a broad range of other manufactures were also reported, except for small declines in food (7.2 per cent), wood products (9.5 per cent), and manufactures of metals (4.2 per cent). The sharp rise in the export of electronic goods in 1982, despite the prolonged and severe world recession, was due mainly to a rise in export volume and a mix of more technologically sophisticated components and products commanding higher unit values. The share of electrical appliances and parts accounted for about half of total manufacturing exports, compared with 46 per cent in 1981. Textiles, clothing, and footwear, comprising the second largest manufacturing export group, grew by only 1.4 per cent in 1982, from a decline of 2.2 per cent in the previous year; stagnation in this category of exports was attributable to the restrictive quotas in the major importing countries and competition from other producing countries in the region.

As non-oil primary exports declined for the second consecutive year in 1982, manufactured exports increased their share to 27 per cent of the total exports from 23.8 per cent in 1981. The share of petroleum exports in the total also registered a gain to 27 per cent in 1982 from 25.6 per cent in 1981, due mainly to increased volume.

b. Imports

During 1978-80, payments for merchandise imports increased at an average annual rate of 28.5 per cent, of which about 20 per cent may be attributed to volume and the remainder to price changes (Tables 13 and 14). In 1981, the growth of imports decelerated to 16 per cent; about 9 per cent of this was attributable to volume, and the remaining 6.5 per cent, to price increases in terms of ringgit. The growth of import payments further slowed to 9.2 per cent in 1982; the persistent and severe world recession and the decline in petroleum prices caused import prices to fall by about 1 per cent; thus, the increase in import payments was attributable to the growth in volume.

All major categories of imports rose in value in 1982; consumption and intermediate goods increased by 4 per cent each, compared with increases of 21 per cent and 14 per cent, respectively, in 1981 (Appendix Table XXIII). Imports of investment goods rose by 20 per cent, with imports of transport equipment recording the sharpest growth (65.5 per cent).^{1/} The slowdown in imports of consumption goods reflected mainly the weaker private demand arising from the slowdown in the growth of gross disposable income. All categories of imports of intermediate goods recorded higher levels in 1982, with the exception of petroleum and agriculture; growth in the import of construction materials accelerated to 41 per cent in 1982 from 32 per cent in the previous year, in response to the continued high level of activity in the housing and construction industry. Imports of agricultural inputs declined by about 20 per cent in 1982, due largely to lower imports of fertilizer, feedstuff for animals and poultry, and live animals for breeding purposes. Crude petroleum imports fell by 30 per cent in 1982, compared with an increase of 11 per cent in 1981; this reflected declines in both volume (27 per cent) and import prices (2 per cent). The decline in the volume of crude petroleum imports was partly attributable to substitution of imported crude by its domestic counterpart due to a reduction in premium that Malaysian crude fetched in the international market.

c. Terms of trade

The terms of trade improved by 9.2 per cent during 1978-80, primarily on account of increases in the prices of rubber, palm oil, saw logs and timber, tin, and petroleum (Appendix Table XXIV). Aggregate export unit values increased about 39 per cent during the same period, as the price cycle associated with Malaysia's primary exports reached

^{1/} If imports of commercial aircraft and ships by the national airline and shipping companies are excluded, transport equipment imports would register an increase of about 38 per cent in 1982.

its peak in the first half of 1980.^{1/} The price boom associated with most non-oil primary commodities came to an end in the second half of 1980, and the terms of trade started to deteriorate with 1980 as the base; during 1981-82, the decline amounted to about 8 per cent (Chart 5 and Annex I).

d. Direction of trade

Appendix Table XXV shows the geographical distribution of Malaysia's exports and imports. Exports to ASEAN countries increased steadily in recent years, from about 19 per cent of total exports in 1977 to about 30 per cent in 1982. Singapore is the most important export market for Malaysia, accounting for about 25 per cent of its total exports in 1982. The share of total exports to the EEC and the United States declined from 20 per cent and 18 per cent in 1977 to 15 per cent and 12 per cent, respectively, in 1982; the shares of Japan, the U.S.S.R., and other countries remained unchanged. Sources of imports registered moderate changes; the import shares of Japan, Singapore, and the United States increased during 1977-82, while the shares of other countries, including Australia and India, declined moderately.

3. Services and transfers

Malaysia's balance of payments has been characterized by a large and increasing deficit in the services account; net payments on services remained relatively stable at about M\$5.2 billion during 1980-81, but rose to M\$6.3 billion (about 18 per cent) in 1982. This was attributable largely to higher net payments on investment income, freight and insurance, travel, and other services. Despite reduced investment income payments in the form of profits and dividends that have resulted from the ongoing restructuring of ownership and sluggish export earnings, investment income payments increased by about 11 per cent to M\$4 billion in 1982. This was due mainly to an increase in interest payments on foreign debts of the public and private sectors. In proportion to the moderate rise in imports, net freight and insurance payments rose about 7 per cent; net payments on other services (e.g., contract and professional charges for feasibility studies, surveys and projects, agency fees, travel, education, etc.) increased by 22.5 per cent. In an effort to slow down the growth of net payments on services, the authorities have formed a "Committee on Invisibles." Following the recommendations of the Committee, steps were underway to increase Malaysia's shipping capacity to transport 25 per cent of the total

^{1/} The terms of trade indices with 1980 trade shares as weights are estimates; these differ significantly from the official index based on 1970 weights (Table 1, Annex I). The terms of trade indices based on 1970 weights show a decline of about 26 per cent during 1981-82. Because the composition of trade has undergone dramatic shifts since 1970, a reweighing and rebasing is essential for the usefulness of the indices (Annex I).

volume of external trade within the next five years. Travel is another area in which the Government is making efforts to increase net earnings by developing the tourist industry, with a view to attracting tourists from countries in the region. However, significant results from these intensified efforts are not expected before 1985. Total transfers (net) have shown little change in recent years and continued to show a small deficit in 1982.

4. Capital account

a. Long-term capital

The net inflow of long-term capital continued to increase rapidly in 1982, expanding by nearly 34 per cent to a record M\$7.8 billion (13.5 per cent of GNP).^{1/} In 1982, net official borrowing contributed about 56 per cent to the increased flow of long-term capital, and the corresponding share was about 50 per cent in 1981. Net official capital inflow increased by more than 50 per cent to M\$4.4 billion, mainly to finance the ongoing development programs in an environment of constrained domestic resources. Net private long-term direct investment and borrowings, mainly with respect to oil and gas-related industries, increased at an annual average of 31 per cent during 1979-81, but slowed to 9 per cent in 1982; this partly reflected completion of large investment projects in the petroleum sector. Other private capital, primarily consisting of commercial credits, recorded a net inflow of about M\$0.4 billion, reflecting foreign financing of aircraft and ships acquired by the Malaysian national airline and shipping company.

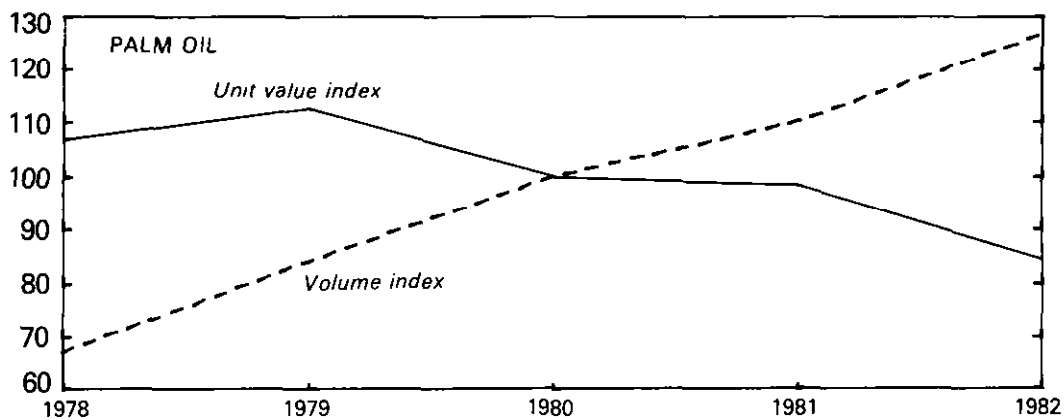
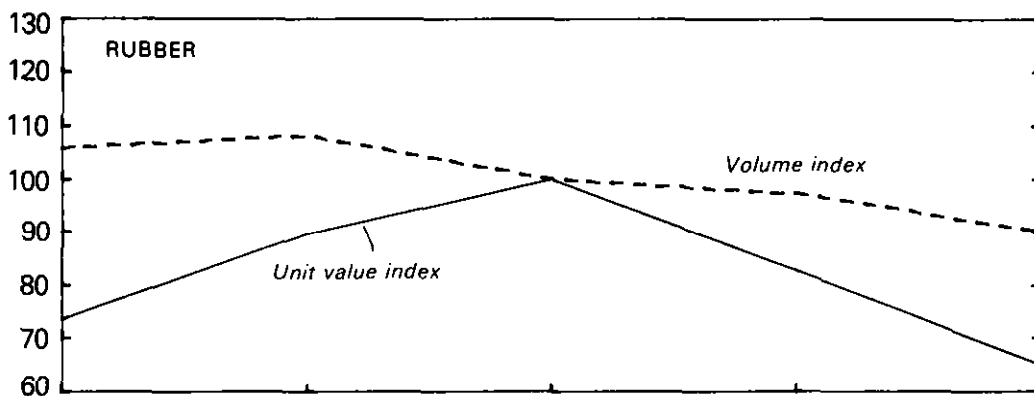
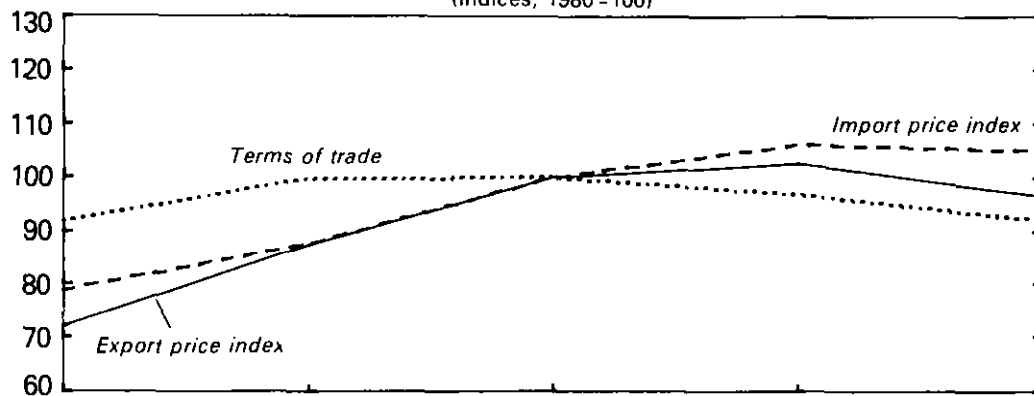
b. Short-term capital account

The domestic financial sector decreased its net liability position vis-a-vis the foreign financial sector by about M\$0.6 billion in 1982, following an increase of equivalent magnitude in 1981. Net external liabilities of the commercial banks increased by M\$1.0 billion between January to August 1982; thereafter, they started to decline. Most of this decline was attributable to a sharp buildup of external assets in December, due mainly to the placement of funds with banks abroad. The large surplus in other short-term capital (M\$1.5 billion) in 1982 represented the inflow of Petronas' foreign assets for purchase of government securities.

^{1/} Financing of the five LNG tankers purchased by the Malaysian Shipping Company at a cost of M\$1.8 billion during 1981-82 is not shown in the capital account to make it consistent with the exclusion of the tankers from import payments. The debt incurred in the purchase of these tankers (about 80 per cent of total cost) was guaranteed by the Government and appears in external debt statistics; interest payments on this external debt have been taken into account.

CHART 5
MALAYSIA
TRENDS IN TERMS OF TRADE, AND UNIT VALUE
AND VOLUME OF MAJOR EXPORTS, 1978-82

(Indices; 1980 = 100)



Sources: Data provided by the Malaysian authorities and staff estimates.



5. International reserves

Gross international reserves, consisting of gold and foreign exchange holdings of the Central Bank, decreased from SDR 3.8 billion at the end of 1981, to about SDR 3.7 billion at the end of 1982 (Table 16). In terms of ringgit, gross international reserves declined by about M\$0.5 billion, the difference being attributable to the appreciation of the ringgit vis-a-vis the SDR by 2 per cent over the same period. Malaysia's use of IMF resources under the compensatory financing facility in 1981 amounted to the equivalent of SDR 190 million, and liabilities to the Fund increased to SDR 248 million at end-1982 due to purchases (SDR 59 million) under the buffer stock facility. Reflecting these developments, the monetary authorities' net foreign assets declined to SDR 3.6 billion and SDR 3.4 billion at the end of 1981 and 1982, respectively.^{1/} Gross official reserves increased at a slower rate relative to the growth of import payments during 1978-81, causing official foreign assets to decline from 6.8 months of imports in 1978, to about 4.4 months in 1981. Gross international reserves declined (about SDR 0.1 billion) in 1982, and in combination with a moderate growth in imports, the end-of-year reserves were equivalent to about 4 months of imports.

6. External debt

Reflecting large volumes of capital inflows to finance the deteriorating current account balance since 1981, total external debt outstanding increased from US\$4.4 billion at the end of 1980 to US\$10.2 billion at the end of 1982 (or from 19 per cent to 41 per cent of GNP) (Table 17).^{2/} External debt of the Federal Government accumulated at an annual rate of 18 per cent during 1978-80 and sharply increased to an annual average rate of 56 per cent during 1981-82, in response to increased government deficits. Publicly guaranteed debt of the state enterprises increased at a moderate rate of 11 per cent during 1978-80 and accelerated to an average of 38 per cent in the following two years (1981-82). Developments in private sector debt followed similar trends. About 54 per cent of the total debt outstanding at the end of 1982 was held by the Federal Government; another 16 per cent was held by state enterprises with government guarantee, and the rest represented obligations of the private sector, including state enterprises without a government guarantee.

Publicly guaranteed debt (including Federal Government) consisted of project loans from multilateral financial institutions and, on a bilateral basis, from foreign governments, market loans from international

^{1/} The monetary authorities' total foreign assets (net) consist of net foreign assets of the Central Bank, government, and other official holdings (net).

^{2/} This excludes liabilities of the commercial banks, which increased at an annual average of 22 per cent during 1978-82 to US\$1.7 billion at the end of 1982.

Table 16. Malaysia: International Reserves and Related Foreign Assets (Net), 1978-82

(In millions of SDRs; end of period)

	1978	1979	1980	1981	1982
Central Bank (net)	<u>2,563</u>	<u>3,199</u>	<u>3,636</u>	<u>3,752</u>	<u>3,644</u>
Foreign assets	<u>2,577</u>	<u>3,207</u>	<u>3,639</u>	<u>3,756</u>	<u>3,647</u>
Of which:					
Gold and foreign exchange	(2,484)	(3,052)	(3,425)	(3,514)	(3,412)
Reserve position in IMF	(54)	(68)	(116)	(116)	(117)
SDRs	(39)	(87)	(98)	(126)	(118)
Foreign liabilities	14	8	3	4	3
Government and other official reserves (net)	<u>43</u>	<u>33</u>	<u>36</u>	<u>-155</u>	<u>-218</u>
Foreign assets	<u>43</u>	<u>33</u>	<u>36</u>	<u>35</u>	<u>30</u>
Foreign liabilities	-	-	-	190	248
Of which: Use of Fund credit	(--)	(--)	(--)	(190)	(248)
Monetary authorities total foreign assets (net)	<u>2,606</u>	<u>3,232</u>	<u>3,672</u>	<u>3,597</u>	<u>3,426</u>
Commercial banks (net)	-239	105	-356	-610	-404
Foreign assets	(353)	(728)	(669)	(770)	(1,128)
Foreign liabilities	(592)	(623)	(1,025)	(1,380)	(1,532)
Memorandum items:					
Gold (in millions of fine troy ounces)	1.89	2.13	2.32	2.33	2.33
Gold (national valuation)	66	74	82	82	82
Gross international reserves in terms of months of imports	6.8	6.4	5.4	4.4	3.8

Sources: Data provided by the Malaysian authorities; and IMF, International Financial Statistics.

Table 17. Malaysia: External Debt, 1978-82

(In millions of U.S. dollars) 1/

	1978	1979	1980	1981	1982
Total outstanding debt	3,302.0	3,844.8	4,374.8	6,658.0	10,214.0
Publicly guaranteed	2,488.5	2,846.8	3,103.3	4,911.0	7,139.0
By lender					
Bilateral	(497.6)	(504.1)	(575.4)	(760.5) 2/	(796.5) 2/
Multilateral	(573.2)	(658.4)	(744.9)	(848.5) 2/	(947.5) 2/
Financial institutions	(1,406.7)	(1,623.8)	(1,711.6)	(3,242.0) 2/	(5,078.0) 2/
Suppliers' credit	(11.1)	(60.5)	(71.3)	(60.0) 2/	(317.0) 2/
By debtor					
Central government	(1,666.0)	(2,074.0)	(2,233.0)	(3,630.0)	(5,493.0)
State enterprises	(822.5)	(772.8)	(870.2)	(1,281.0)	(1,646.0)
Private without public guarantee 3/	813.5	998.0	1,271.5	1,747.0	3,075.0
Total debt servicing	...	696.8	535.0	874.0	1,312.0
Publicly guaranteed	842.3	548.8	325.9	520.0	784.0
Amortization	697.8	371.9	118.3	179.0	298.0
Government	(601.9) 4/	(85.9)	(84.5)	(87.0)	(195.0)
State enterprises	(95.9)	(286.0)	(33.8)	(92.0)	(103.0)
Interest	144.5	176.9	207.6	341.0	486.0
Government	(114.4)	(142.1)	(171.8)	(262.0)	(399.0)
State enterprises	(30.1)	(34.8)	(35.8)	(79.0)	(87.0)
Private nonguaranteed	...	148.0	209.0	354.0	528.0
Amortization	...	101.0	167.0	247.0	296.0
Interest payments	...	47.0	42.0	107.0	232.0
(In per cent)					
<u>Ratio to GNP</u>					
Total outstanding debt	22.0	19.4	19.1	27.9	41.0
Central Government	11.1	10.5	9.7	15.2	22.0
State enterprises	5.5	3.9	3.8	5.4	6.6
Private sector	5.4	5.0	5.5	7.3	12.3
<u>Ratio to current account earnings</u>					
Total debt services	...	5.6	3.5	6.3	9.2
Central Government	8.5	1.8	1.7	2.5	4.1
State enterprises	1.5	2.6	0.5	1.2	1.3
Private sector	...	1.2	1.4	2.5	3.7

Sources: Data provided by the Malaysian authorities; Debt Reporting System, IBRD; and staff estimates.

1/ Outstanding external debt of original maturity of one year and over.

2/ Estimates.

3/ Includes the borrowings of some state enterprises without government guarantee.

4/ Includes prepayments in 1978.

capital markets, and relatively smaller amounts of suppliers' credit. About 15 per cent of the total publicly guaranteed debt outstanding at end-1981 was in the form of bilateral loans, with Japan accounting for about 73 per cent, followed by the United Kingdom and the Federal Republic of Germany, accounting for 11 per cent and 7 per cent, respectively. Multilateral loans constituted about 17 per cent of the total publicly guaranteed debt outstanding; the IBRD and the Asian Development Bank (ADB) were the main creditors. The remainder was raised on the international capital market in the form of syndicated loans. In 1982, project loans from the IBRD and ADB increased by US\$99 million, and market loans increased by about US\$1.8 billion. During the year, the Malaysian Government signed agreements for three major syndicated loans with a ten-year maturity period and a grace period of five years. The largest syndicated loan was signed in August 1982, amounting to US\$1.1 billion; this consisted of two tranches--US\$660 million was pegged to LIBOR at a margin of 0.375 per cent above LIBOR, and US\$440 million was pegged to the United States prime commercial lending rate with a margin of 0.125 per cent above the prime rate.

Amortization and interest payments on outstanding publicly guaranteed and private debts increased by about 51 per cent in 1982, from US\$874 million in 1981 to US\$1,312 million; total debt servicing as a per cent of exports of goods and services increased from 6.3 per cent in 1981 to 9.2 per cent in 1982. Reflecting the recent increases in the level of outstanding external debt, interest payments increased by 62 per cent to US\$0.7 billion in 1982, and accounted for 55 per cent of total debt service. Malaysia's relatively low level of debt servicing can be traced to the fact that through 1980 much of the external borrowing was contracted at fixed interest rates with relatively longer maturities. Grace periods on borrowings from commercial sources since 1980 have also helped moderate the current impact of debt servicing.

V. Exchange and Trade System

1. Exchange rate developments

The external value of the Malaysian ringgit is determined on the basis of an undisclosed basket of currencies of Malaysia's major trading partners. The weights are based on trade shares and the importance of currencies used in settlements. The composition of the basket has remained unchanged since September 1975, when the basket-pegging scheme was first introduced. The exchange rate of the ringgit in terms of the U.S. dollar, the intervention currency, is determined in the foreign exchange market, and the authorities intervene to smooth out the day-to-day fluctuations of the ringgit-U.S. dollar rate. The commercial banks are free to determine and quote exchange rates for all currencies and are permitted to deal forward in all currencies.

a. Spot market developments

The ringgit depreciated against the U.S. dollar and appreciated against the deutsche mark, pound sterling, and the Japanese yen during most of 1982 (Appendix Table XXVI). The ringgit weakened steadily against the U.S. dollar during most of 1982, but recovered in the latter part of the year to register a depreciation of 4.2 per cent for the year as a whole. This depreciation was due mainly to the general strength of the U.S. dollar relative to other currencies and the relatively strong commercial demand for the U.S. dollar in the Kuala Lumpur foreign exchange market. The ringgit appreciated against the Japanese yen (9.9 per cent), pound sterling (8.8 per cent), and deutsche mark (6.5 per cent), and remained relatively stable in relation to the Singapore dollar in 1982, on a period average basis.

Developments in various effective exchange rate indices are presented in Appendix Tables XXVII and XXVIII. All real effective exchange rate indices depreciated during 1975-80, but have appreciated since then through the end of 1982. Nevertheless, compared with the average level of 1975-77, all indices show a net depreciation at the end of 1982. The index measuring Malaysia's competitiveness vis-a-vis regional competitors, which depreciated by 16 per cent between 1975-77 and the end of 1980, appreciated by 7 per cent between then and the end of 1982 (Chart 6); nevertheless, it was still 7 per cent more depreciated than the average level of 1975-77; for the various other trade-weighted indices, the net depreciation was approximately the same.

b. Forward market developments

There is no formal forward exchange market in Malaysia, but customers of the commercial banks are able to obtain forward exchange cover generally for a period not longer than three months through swap facilities from commercial banks; these banks in turn have access to a swap facility with Bank Negara. Forward premiums or discounts on future ringgit are equivalent to the swap margins provided by the commercial banks in arranging contracts for forward exchange with their customers. The interbank market in forward exchange showed much greater activity in 1982, especially during the first half, than in 1981. This was attributable to the rising level of imports during the first half of 1982 and the continued interbank swaps by the commercial banks to generate fresh ringgit funds for their liquidity requirements. Exporters of petroleum, rubber, tin, and palm oil, and an increasing number of importers were the main users of the forward exchange market. Most of the transactions were in ringgit for the U.S. dollar, reflecting its predominance in Malaysia's external trade and financial settlements. According to data on the swap margins charged by the commercial banks, the ringgit continued to be quoted at a premium forward in terms of the U.S. dollar during most of 1982, except toward the end of 1982 and early 1983, when it was traded at par or at a discount forward in terms of the U.S. dollar (Appendix Table XXIX). This was mainly because of interest rate differentials; Eurodollar interest rates were generally

higher than the effective interest rate in the ringgit deposit market for most of 1982, and the difference was gradually eliminated toward the end of 1982 and in the first quarter of 1983.

Forward exchange rates continued to be freely determined by the commercial banks in their transactions with customers, and there was no change in the modus operandi of the forward exchange market in 1982. To ensure the equivalence of the effective cost of borrowing ringgit by swap transactions and in the interbank money market, and to tide the commercial banks over the tight money market conditions, Bank Negara continued to provide swap facilities.

2. Trade system ^{1/}

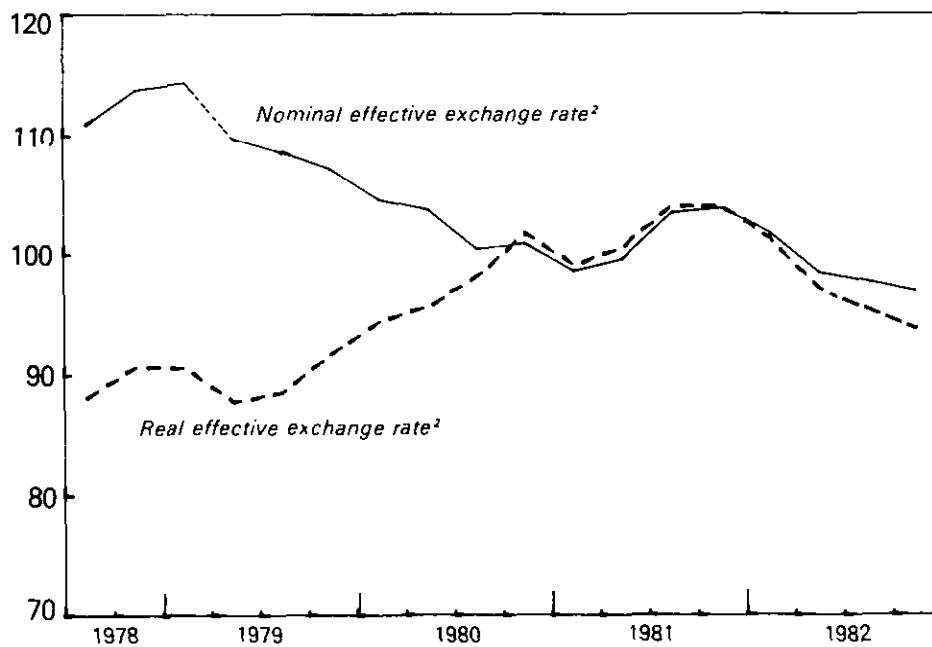
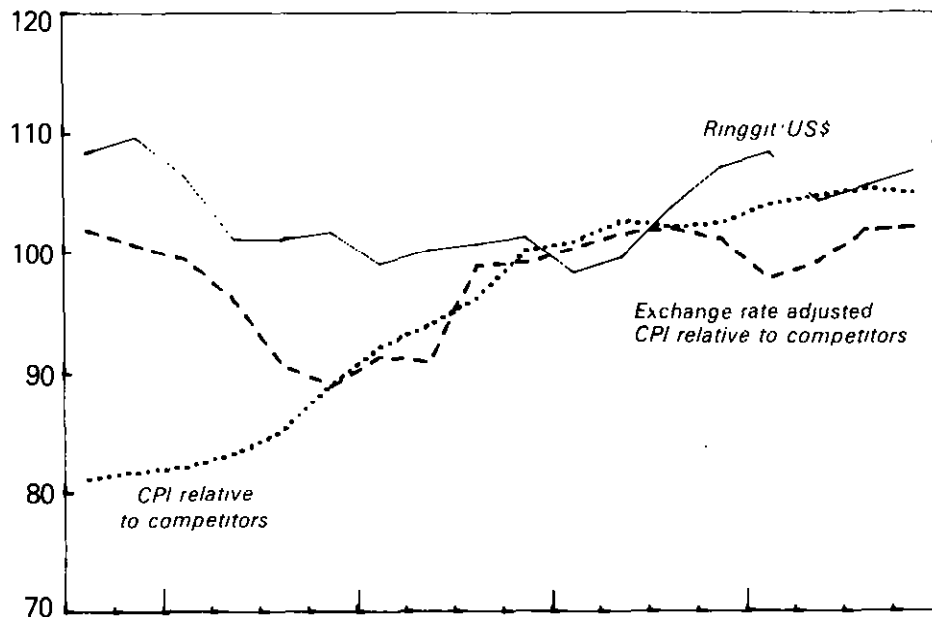
Malaysia continues to have an exchange system free of restrictions on payments and transfers in respect of current international transactions. However, transactions with Israel and South Africa are prohibited. The Central Bank administers the exchange control system, but commercial banks are authorized to approve payments abroad up to the equivalent of M\$2 million to nonresidents. Payments in excess of M\$2 million require specific permission from the Controller of Foreign Exchange, and as long as payments are legitimately due and payable, such permission is readily given. Proceeds from exports must be repatriated to Malaysia in a specified currency, or in ringgit obtained from the sale of the specified currency to an authorized bank in Malaysia, in accordance with the time of payment specified in the commercial contract, which must not exceed six months from the date of export. Foreign borrowings of the equivalent of M\$100,000 or more by residents require specific permission, and for loans raised on reasonable terms and used for productive purposes in Malaysia, such permission is readily given. The authorized commercial and merchants banks in Malaysia are permitted to borrow or accept deposits from nonresidents in foreign currency.

Tariffs and import controls of the various parts of Malaysia have been fully unified. Depending on the nature and the origin of goods, specific licenses are required for certain imports for reasons of health, security, or public policy. Imports of motor vehicles are subject to specific licensing with quantitative restrictions as a measure to protect local industries. Raw materials and machinery for the manufacturing sector are eligible for duty exemptions as follows: (a) raw materials are subject to a reduced rate of import duty of 2 to 3 per cent; (b) industries may be further exempted from this reduced import duty if they comply with the New Economic Policy recommendations on equity participation, management, and employment structure; (c) all duties on imported machinery and equipment which is unavailable locally and used directly in manufacturing were abolished, replacing the system

^{1/} IMF, Annual Report on Exchange Arrangements and Exchange Restrictions, 1982 contains detailed surveys of Malaysia's exchange and trade system.

CHART 6
MALAYSIA
DEVELOPMENTS IN RELATIVE PRICES AND
EXCHANGE RATE INDICES¹, 1978 - 82

(1980 = 100)



Sources: Data provided by the Malaysian authorities, IMF, *International Financial Statistics* and staff estimates.

¹Indices calculated using period average quarterly data; reduction indicates appreciation

²Via vis competitors



of case-by-case exemption; and (d) import duty drawbacks may be claimed by any manufacturer provided that evidence of export performance and importation of raw material is submitted.

To ensure adequate domestic supply, exports of cement, scrap iron, steel bars, formic acid, wheat flour, rice bran, and sugar are subject to licensing. Also subject to licensing are exports of all textiles, certain confectionary items, tiles, fish meal, bricks, "dollar-area goods," and other goods as specified in the Customs Prohibition of Export Orders, 1978.

3. Changes during 1982

March 6. Authorization was granted for commercial banks and merchant banks to lend in foreign currency to residents and accept foreign deposits in foreign currency from nonresidents.

May 24. The limits of M\$10,000 on the importation and M\$5,000 on the exportation of Malaysian currency notes were abolished for the convenience of travellers.

October 22. Among the new tax proposals in the 1983 budget were increases in import duties on cars, and import and excise duties on liquor, tobacco and cigarettes, and the abolition of all duties on perfumes, selected cosmetics, cine-cameras, projectors, sound equipment, and computers. The budget also proposed to extend export incentives in the form of an export allowance and double deductions on expenses for export promotion to manufacturers and traders who export locally manufactured goods. Exports of a number of products (e.g., sugar confectionary, chocolate, fruit juice, glass bottles, wire rope, etc.) have been liberalized by removing export licensing and the export duty of 5 per cent; the export duty on coconuts and copra (15 per cent) was also abolished.

Malaysia: 1983 Article IV Consultation

Calculation of Export and Import Price Indices and Terms
of Trade Based on 1980 Trade Shares as Weights

The volume and price indices of exports and imports and the terms of trade index shown in Chapter IV.2.c. differ significantly from the corresponding indices provided by the Department of Statistics (DOS), Malaysia, based on 1970 weights. Since the composition of trade has undergone significant shifts on the basis of the same Standard Industrial Trade Classification (SITC), in which the component prices are reported, a reweighting and rebasing to a new base is desirable if the indices are used for analytical purposes.

The export and import price indices for nine commodity sections based on SITC are obtained from the DOS; the values of gross exports and imports by the same commodity classification are obtained for the base year 1980 from the Quarterly Economic Bulletin of Bank Negara.^{1/} All price indices are converted into 1980 base and adjusted for exchange rate variations by deflating with the index of exchange rate (M\$ per unit of US\$, with 1980 as the base year). The resultant U.S. dollar price indices for the component commodity groups are then weighted by their respective shares in 1980 to derive the new set of aggregate export and import price indices (Table 1).

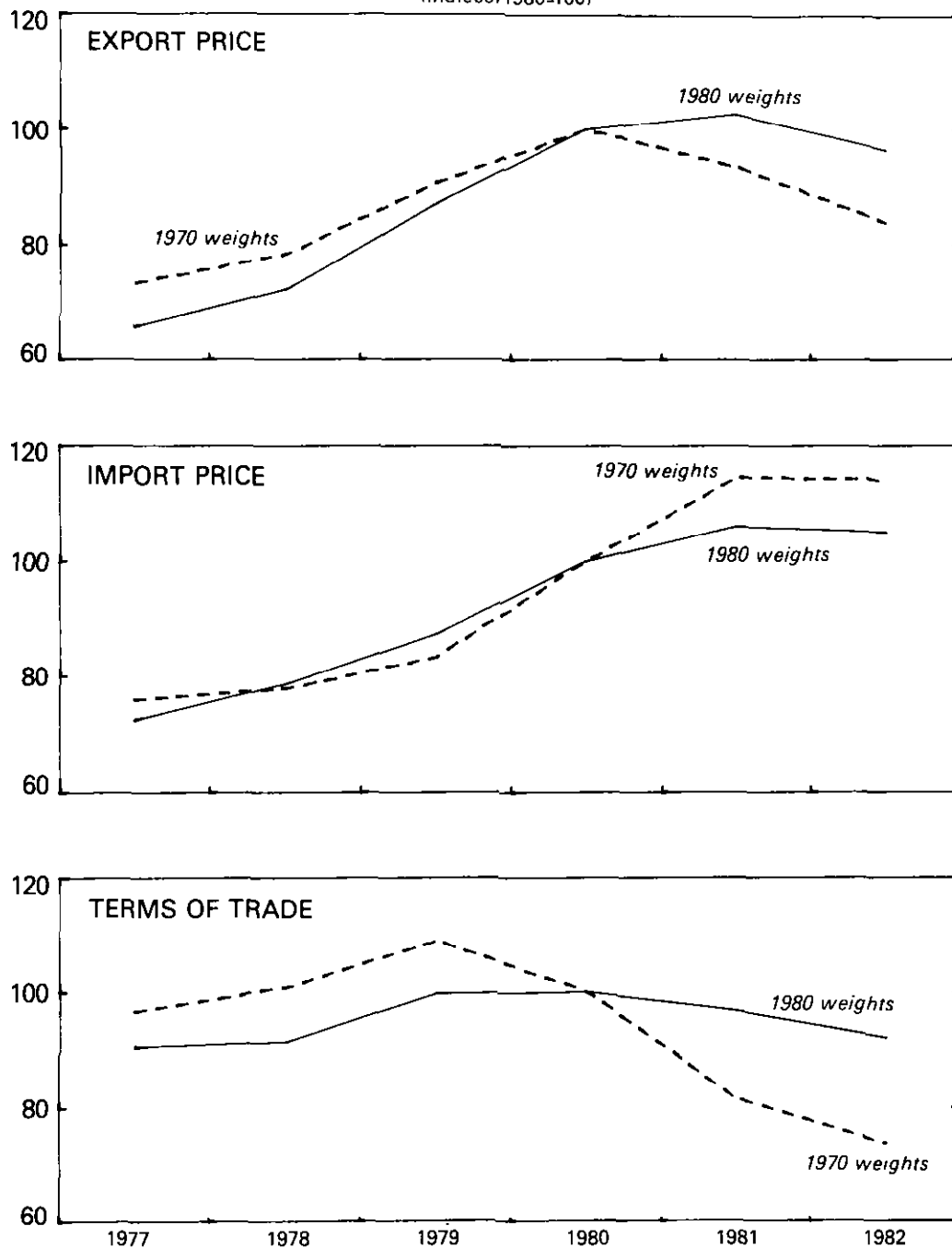
A comparison of Appendix Table XXIV and Table 2 shows that the indices based on 1970 import and export compositions are more sensitive to the developments in the primary product prices which have higher weights. During the period of favorable primary commodity prices (1977-80), all the indices based on 1970 weights tended to be biased upwards, and when the prices fell after 1980, all tended to be biased downwards (Chart 1). The trade indices based on 1980 shares take into account the structural shifts that took place in favor of manufacturing and mineral fuel exports during the 1970s and are relatively less sensitive to the changing non-oil primary commodity prices.

The adjustments described above and reported in Appendix Table XXIV take care of the biases due to variations in weights among the nine commodity groups; but by using the DOS price indices for each component commodity group, it is implicitly assumed that product composition within each subgroup has remained unchanged or the relative commodity prices within each group have not changed much, allowing it

^{1/} The nine commodity groups based on the SITC are: food and live animals, beverages and tobacco, crude materials (inedible), mineral fuels, animal and vegetable oils and fats, chemicals, manufactured goods classified by material, machinery and transport equipment, and miscellaneous manufactured articles. These items constituted more than 99 per cent of total exports and imports in 1980.

CHART 1
MALAYSIA
EXPORT AND IMPORT PRICE INDICES AND
TERMS OF TRADE; 1977 - 1982

(Indices: 1980=100)



Sources: Data provided by the Malaysian authorities and staff estimates.

to be treated as a single composite commodity.^{1/} This problem could commodity prices within each group have not changed much, allowing it be eliminated when the DOS component price indices are replaced by new sets of indices obtained from recent census or sample surveys.

Table 1. Malaysia: Weights of Various Commodity Groups
Used in the Export and Import Price Indices

	<u>Exports</u>		<u>Imports</u>	
	1970	1980	1970	1980
Food	5.8	3.6	19.4	10.5
Beverages and tobacco	1.2	0.1	2.0	1.0
Crude material (inedible)	50.0	32.5	9.2	4.5
Mineral fuel	1.3	24.6	6.6	15.3
Animal and vegetable oils and fats	6.9	11.2	0.6	0.1
Chemicals	1.4	0.6	8.4	8.7
Manufactured goods (classified by material)	28.5	13.2	20.2	16.6
Machinery and transport equipment	2.3	11.6	28.6	39.1
Manufactured articles	1.6	2.6	5.0	4.2

Sources: Data provided by the Malaysian authorities; and staff estimates.

^{1/} The latter assertion is based on the Hicks-Leontief composite commodity theorem, discussed in Arrow, K.J. and F.H. Hahn, General Competitive Analysis, Holden Day, San Francisco (1971), pp. 6-8.

Table 2. Malaysia: Exports, Imports, and Terms of Trade, With
Weights Based on 1970 Product Composition, 1977-82 1/

(1980 = 100)

	1977	1978	1979	1980	1981	1982
<hr/>						
Merchandise exports						
Value	53.1	60.3	85.4	100.0	96.1	100.0
Volume	72.4	76.9	94.2	100.0	102.7	119.0
Unit value	73.3	78.4	90.7	100.0	93.6	84.0
Merchandise imports						
Value	47.2	57.3	74.7	100.0	115.9	126.6
Volume	62.2	73.7	89.6	100.0	101.2	111.1
Unit value	75.9	77.8	83.4	100.0	114.5	114.0
External terms of trade	96.6	100.8	108.8	100.0	81.7	73.7
<hr/>						

Source: Data provided by the Malaysian authorities.

1/ The indices are simply converted to 1980 base to make them comparable with the corresponding indices in Appendix Table XXIV.

Table 1. Malaysia: Industrial Origin of Gross Domestic Product at Constant 1970 Prices, 1971 and 1978-82 ^{1/}

(In millions of ringgit)

	1971	1978	1979	1980	1981	1982	As Per Cent of GDP		
							1971	1978	1982
Agriculture, livestock, forestry, and fishing	3,852	5,610	6,068	6,255	6,474	6,875	29.6	25.2	23.5
Mining and quarrying	834	1,054	1,197	1,171	1,134	1,201	6.4	4.7	4.1
Manufacturing	1,858	4,081	4,470	4,874	5,152	5,327	14.3	18.3	18.2
Construction	541	919	1,027	1,209	1,366	1,475	4.2	4.1	5.0
Electricity, gas, and water	238	499	557	605	643	669	1.8	2.2	2.3
Transport, storage, and communications	632	1,415	1,549	1,803	1,974	2,070	4.9	6.4	7.1
Wholesale and retail trade	1,717	2,824	3,161	3,530	3,876	4,050	13.2	12.7	13.8
Ownership of dwellings, banking, insurance, real estate, and business services	1,126	1,823	1,946	2,041	2,149	2,245	8.6	8.2	7.7
Government services	1,466	2,831	3,055	3,202	3,554	3,689	11.3	12.7	12.6
Other ^{2/}	<u>752</u>	<u>1,208</u>	<u>1,294</u>	<u>1,538</u>	<u>1,658</u>	<u>1,677</u>	<u>5.8</u>	<u>5.4</u>	<u>5.7</u>
GDP at market prices	13,016	22,264	24,324	26,228	27,980	29,278	100.0	100.0	100.0

Source: Data provided by Malaysian authorities.

^{1/} Figures for 1971-80 are preliminary series based on the System of National Accounts compiled by the Statistics Department. Figures for 1981-82 are Bank Negara's estimates.

^{2/} Includes other services and import duties less imputed bank service charges.

Table II. Malaysia: Gross National Product at Constant 1970 Prices, 1971 and 1978-82 ^{1/}

	1971	1978	1979	1980	1981	1982
(In millions of ringgit)						
Consumption expenditure	9,809	16,329	18,126	20,153	21,291	21,814
Private	(7,731)	(12,398)	(13,853)	(15,022)	(15,623)	(15,748)
Public	(2,078)	(3,931)	(4,273)	(5,131)	(5,668)	(6,066)
Investment expenditure	2,609	5,119	5,798	7,107	8,009	8,587
Private	(...)	(3,101)	(3,630)	(4,402)	(4,694)	(4,995)
Public	(...)	(2,018)	(2,168)	(2,705)	(3,315)	(3,592)
Change in stocks	-26	349	394	75	100	332
Exports of goods and services	5,480	9,377	10,966	11,293	11,438	12,648
Less imports of goods and services	-4,856	-8,910	-10,960	-12,400	-12,858	-14,103
Net factor payments to abroad	-349	-847	-908	-831	-677	-886
Gross national product at market prices	<u>12,667</u>	<u>21,417</u>	<u>23,416</u>	<u>25,397</u>	<u>27,303</u>	<u>28,392</u>
(Percentage rate of change over previous year)						
Consumption expenditure	6.3	8.9	11.0	11.2	5.7	2.5
Private	(5.8)	(9.9)	(11.7)	(8.4)	(4.0)	(0.8)
Public	(8.4)	(5.8)	(8.7)	(20.1)	(10.5)	(7.0)
Investment expenditure	18.8	8.1	13.3	22.6	12.7	7.2
Private	(...)	(12.4)	(17.1)	(21.3)	(6.6)	(6.4)
Public	(...)	(2.1)	(7.4)	(24.8)	(22.6)	(8.4)
Exports of goods and services	1.6	7.0	17.0	3.0	1.3	10.6
Imports of goods and services	-0.3	14.5	23.0	13.1	3.7	9.7
Gross national product at market prices	6.0	6.3	9.3	8.5	7.5	4.0

Source: Data provided by the Malaysian authorities.

^{1/} Data from 1971-80 are preliminary series based on the System of National Accounts (SNA) compiled by the Department of Statistics. Data for 1981 and 1982 are Bank Negara's estimates.

Table III. Malaysia: Gross National Product at Current Prices, 1971-82 ^{1/}

	1971	1978	1979	1980	1981	1982
	(In millions of ringgit)					
Consumption expenditure	10,081	25,252	28,881	35,194	41,267	44,745
Private	(7,911)	(19,466)	(22,406)	(26,383)	(30,106)	(32,110)
Public	(2,170)	(5,786)	(6,425)	(8,811)	(11,161)	(12,635)
Investment expenditure	2,701	8,477	10,836	14,897	19,058	21,010
Private	(1,890)	(5,117)	(6,789)	(9,348)	(11,317)	(12,344)
Public	(811)	(3,360)	(4,047)	(5,549)	(7,741)	(8,666)
Change in stocks	-13	571	1,164	-193	50	199
Exports of goods and services	5,242	18,491	25,902	30,694	30,253	31,847
Less imports of goods and services	-5,056	-16,519	-21,700	-29,140	-33,843	-37,231
Net factor payments to abroad	-363	-1,571	-1,797	-1,954	-1,782	-2,338
Gross national product at market prices	12,592	34,701	43,286	49,884	55,003	58,232
Annual rate of change (In per cent)	...	11.7	24.7	15.2	10.3	5.9
	(As per cent of GNP)					
Consumption expenditure	80.1	72.8	66.7	70.6	75.0	76.8
Private	(62.8)	(56.1)	(51.8)	(52.9)	(54.7)	(55.1)
Public	(17.2)	(16.7)	(14.9)	(17.9)	(20.3)	(21.7)
Investment expenditure	21.5	24.4	25.0	29.9	34.7	36.1
Private	15.0	(14.7)	(15.7)	(18.7)	(20.6)	(21.2)
Public	6.4	(9.7)	(9.3)	(11.1)	(14.1)	(14.9)
Exports of goods and services	41.6	53.3	59.8	61.5	55.0	54.7
Imports of goods and services	-40.2	-47.6	-50.1	-58.4	-61.5	63.9

Source: Data provided by the Malaysian authorities.

^{1/} Data for 1971-79 are preliminary series based on the System of National Account (SNA) compiled by the Department of Statistics. Data for 1980-83 are Bank Negara's estimates.

Table IV. Malaysia: Acreage of New Planted and Replanted Rubber
in Peninsular Malaysia, 1961-81

(In thousands of hectares)

Year	Estates		Smallholdings		Total	
	Newly planted	Re- planted	Newly planted	Re- planted ^{1/}	Newly planted	Re- planted
1961	7.2	28.5	27.3	23.2	34.5	51.7
1962	4.0	25.5	33.4	28.0	37.4	53.5
1963	3.5	23.8	40.6	33.8	44.1	57.6
1964	2.5	23.8	23.3	32.3	25.8	56.1
1965	2.0	21.5	16.1	37.0	18.1	58.5
1966	1.3	20.2	10.9	20.2	12.2	10.2
1967	1.0	11.3	8.8	30.5	9.8	41.8
1968	0.2	5.3	5.7	15.8	5.9	21.1
1969	0.9	9.7	6.3	15.1	7.2	24.8
1970	1.2	14.1	11.0	21.5	12.2	35.6
1971	2.4	12.1	12.4	23.3	14.8	35.4
1972	2.2	8.0	9.5	23.4	11.7	31.4
1973	2.3	9.7	12.6	28.6	14.9	38.3
1974	1.9	12.2	5.5	23.6	7.4	35.8
1975	2.6	11.2	10.9	21.1	13.5	32.3
1976	1.2	8.5	9.0	14.3	10.2	22.8
1977	2.1	7.4	10.6	12.9	12.7	20.3
1978	0.6	7.2	20.6	13.3	21.2	20.5
1979	1.4	5.4	11.3	14.2	12.7	19.6
1980	0.4	7.1	11.5	15.3	11.9	22.4
1981	2.0	6.1	20.2	20.2	22.2	26.3

Sources: Rubber Statistics Handbook Malaysia, Department of Statistics, Malaysia; and Malaysian Rubber Research and Development Board.

^{1/} 1960-79 refers to those smallholdings receiving assistance from Risa only.

^{2/} Felda schemes only.

Table V. Malaysia: Production of Major Commodities, 1978-82

	1978	1979	1980	1981	1982
<hr/>					
Agricultural production and yields	(In thousands of metric tons)				
Production of major commodities					
Rubber	1,582.0	1,570.0	1,530.0	1,529.0	1,529.0
Padi	1,508.0	2,090.0	2,025.0	2,013.0	2,043.0
Palm oil	1,786.0	2,188.0	2,576.0	2,825.0	3,510.0
Palm kernel oil	142.0	196.0	222.0	243.0	329.0
Saw logs <u>1/</u>	28,220.0	27,481.0	27,917.0	30,213.0	31,600.0
Sawn timber <u>1/</u>	5,220.0	5,364.0	6,224.0	5,895.0	5,872.0
Area under cultivation	(In thousands of hectares)				
Rubber	2,012.0	2,015.0	2,024.0	2,010.0	2,017.0
Padi	625.0	752.0	725.0	708.0	761.0
Oil palm	879.0	952.0	1,001.0	1,086.0	1,149.0
Yields	(In kilogram per mature hectare)				
Rubber	1,007.0	972.0	937.0	935.0	939.0
Padi	2,413.0	2,779.0	2,793.0	2,843.0	2,685.0
Palm oil	2,853.0	3,129.0	3,341.0	3,376.0	3,862.0
Palm kernel oil	227.0	280.0	288.0	291.0	362.0
Mining	(In thousands of metric tons)				
Tin-in-concentrate	62.7	63.0	61.4	59.9	52.3
Crude petroleum <u>2/</u>	79.2	103.3	100.9	94.2	110.6

Source: Data provided by the Malaysian authorities.

1/ Expressed in thousand cubic meters.

2/ Expressed in million barrels.

Table VI. Malaysia: Consumer Price Index, 1978-82 ^{1/}

(1980 = 100)

	Weight	1978	1979	1980	1981	1982	1982			
							1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
Total	100.0	90.5	93.7	100.0	109.7	116.1	114.3	115.4	116.8	117.8
Food	30.2	94.4	96.5	100.0	111.4	120.6	118.3	120.7	122.2	121.2
Beverages and tobacco	4.9	92.6	93.8	100.0	113.9	121.5	115.2	117.8	118.8	134.1
Clothing and footwear	4.6	88.0	93.7	100.0	109.5	114.1	112.8	113.5	114.5	115.8
Gross rent, fuel and power	18.1	85.6	91.2	100.0	109.9	116.8	115.4	115.4	118.3	118.3
Furniture, furnishings, and household equipment	5.9	89.7	93.2	100.0	106.4	109.6	108.6	109.2	109.8	110.6
Medical care and health expenses	1.3	87.4	93.0	100.0	109.0	114.4	111.9	113.1	113.9	118.6
Transport and communication	16.6	90.4	93.6	100.0	107.9	111.5	110.5	110.8	111.3	113.3
Recreation, entertainment, education, and cultural services	6.9	94.0	96.3	100.0	105.5	108.1	107.8	108.2	108.5	108.0
Miscellaneous goods and services	11.5	69.2	77.9	100.0	109.1	111.7	110.6	110.5	111.8	113.8

Sources: Bank Negara Malaysia, Monthly Statistical Supplement; and data provided by the Malaysian authorities.

^{1/} Quarterly and annual indices are simple averages of monthly indices. In 1982, the base year for the price indices was changed from 1967 to 1980. Price indices for various consumption categories for 1978 and 1979 have been transformed to the new base by dividing the 1967-based price indices by respective price indices for 1980.

Table VII. Malaysia: Energy Consumption, 1978-82

(In millions of barrels) 1/

	1978	1979	1980	1981	1982
Petroleum and products					
Production of crude oil	79.2	103.3	100.9	94.2	110.6
Export of crude oil 2/	68.0	90.8	86.7	76.9	91.6
Retained crude oil	11.2	12.5	14.2	17.3	19.0
Imports of crude oil	30.7	31.4	30.8	26.4	19.8
Stock change and discrepancy	1.7	1.6	1.2	0.5	0.7
Input of local refineries	43.6	45.5	43.8	43.2	39.5
Less: Refinery use and losses	0.7	0.8	0.9	2.9	2.2
Output of local refineries 3/	42.9	44.7	42.9	40.3	37.3
Imports of petroleum products 4/	--	11.6	14.7	16.1	30.3
Total supply of petroleum products 5/	--	56.9	62.4	61.8	...
Domestic use of petroleum products 6/	46.5	53.3	60.5	60.1	67.9
Exports of petroleum products 7/	--	2.1	1.8	1.6	3.3
Stock change and discrepancy	--	1.5	0.1	0.1	...

Source: Data provided by the Malaysian authorities.

1/ To nearest 100,000 barrels.

2/ Includes Petronas' crude processed in foreign refineries.

3/ Excludes products produced by overseas refineries for Petronas under processing arrangements.

4/ Excludes those products brought back into the country by Petronas from overseas refineries which processed a portion of Petronas' crude under processing arrangements with Petronas.

5/ Total supply includes products produced by overseas refineries under processing arrangements with Petronas and brought back for domestic consumption.

6/ Domestic use is based on sales figures.

7/ Excludes exports of products produced by overseas refineries for Petronas.

Table VIII. Malaysia: Domestic Prices of and Taxes on Petroleum Products, 1976-82

(In ringgit per imperial gallon)

	1976	1977	1978	1979	1980	1981	1982
Gasoline regular							
Price	2.75	3.00	3.00	3.35	4.40	4.64	4.64
Excise duty	1.41	1.41	1.41	1.31	1.31	1.11	1.64
Import duty	1.41	1.41	1.41	1.31	1.31	1.11	1.64
Gasoline premium							
Price	2.75	3.00	3.00	3.35	4.63	4.90	4.90
Excise duty	1.41	1.41	1.31	1.31	1.31	1.11	1.64
Import duty	1.41	1.31	1.31	1.31	1.31	1.11	1.64
Kerosene							
Price	0.81	0.82	0.82	1.30	1.80	2.10	2.10
Excise duty	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Import duty	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Diesel oil							
Price	1.00	1.20	1.20	1.30	1.80	2.10	2.10
Excise duty	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Import duty	0.01	0.01	0.01	0.01	0.01	0.01	0.01

Source: Data provided by the Malaysian authorities.

Table IX. Malaysia: Summary of the Consolidated Public Sector, 1978-83 1/

(In millions of ringgit)

	1978	1979	1980	1981	1982 Prelim. Actuals	1983 Budget
Total revenue and grants	<u>10,308</u>	<u>12,843</u>	<u>16,517</u>	<u>18,295</u>	<u>19,092</u>	<u>21,241</u>
Revenue	<u>10,304</u>	<u>12,840</u>	<u>16,513</u>	<u>18,289</u>	<u>19,086</u>	<u>21,234</u>
Foreign grants	4	3	4	6	6	7
Total expenditure and net lending <u>2/</u>	<u>12,785</u>	<u>15,664</u>	<u>22,428</u>	<u>28,402</u>	<u>28,392</u>	<u>28,994</u>
Current expenditure <u>3/</u>	<u>8,964</u>	<u>11,388</u>	<u>15,255</u>	<u>17,282</u>	<u>17,484</u>	<u>18,961</u>
Direct development expenditure <u>4/</u>	2,780	3,384	6,102	10,395	7,901	8,285
Net lending <u>5/</u>	1,105	1,036	1,381	1,132	3,007	1,748
Adjustment for account payable	-64	-144	-310	-407	--	--
Public authorities' overall deficit (-)	-191	-446	-384	-600	-893	-1,225
Public sector overall deficit (-)	-2,668	-3,267	-6,295	-10,707	-10,193	-8,978
Financing (net)	<u>2,668</u>	<u>3,267</u>	<u>6,295</u>	<u>10,707</u>	<u>10,193</u>	<u>8,978</u>
Foreign	544	687	336	2,948	4,713	4,045
Domestic	2,124	2,580	5,959	7,759	5,480	4,933
Memorandum item:	(In per cent of GNP)					
Total revenue and grants	29.7	29.7	33.1	33.3	32.8	33.4
Total expenditure and net lending <u>2/</u>	36.8	36.2	45.0	51.6	48.8	45.6
Overall deficit	7.7	7.5	12.6	19.5	17.5	14.1

Sources: Data provided by the Ministry of Finance; and staff estimates.

1/ Federal and State Governments, and the principal public authorities (major local government and public enterprises).

2/ Federal and State Governments only.

3/ Net of statutory grants from Federal and State Governments.

4/ Net of other grants from Federal to State Governments.

5/ Net of loans to public authorities.

Table X. Malaysia: Summary of the State Governments' Operations, 1978-83

(In millions of ringgit)

	1978	1979	1980	1981	1982 Prelim. Actual	1983 Budget
Revenue and grants	<u>2,004</u>	<u>2,890</u>	<u>3,444</u>	<u>3,473</u>	<u>3,878</u>	<u>4,038</u>
Revenue	1,500	2,377	2,591	2,489	2,576	2,738
Statutory grants	410	349	580	620	891	868
Other Federal Government grants	94	164	273	364	411	432
Expenditure	<u>1,988</u>	<u>2,568</u>	<u>3,568</u>	<u>4,543</u>	<u>5,195</u>	<u>5,874</u>
Current expenditure <u>1/</u>	1,333	1,697	2,218	2,216	2,537	2,750
Development expenditure <u>1/</u>	655	871	1,350	2,327	2,658	3,104
Overall deficit (-)	16	322	-124	-1,070	-1,317	-1,816
Financing (net)	<u>-16</u>	<u>-322</u>	<u>124</u>	<u>1,070</u>	<u>1,317</u>	<u>1,816</u>
Federal Government loans	124	151	255	432	716	1,317
Change in assets (increase -)	-140	-473	-131	638	609	499

Source: Data provided by the Ministry of Finance.

1/ On the basis of current and development budget classifications.

Table XI. Malaysia: Summary of the Principal Authorities' Operations, 1978-83 1/

(In millions of ringgit)

	1978	1979	1980	1981	1982 Prelim. Actual	1983 Budget
Revenue and grants	<u>1,553</u>	<u>1,873</u>	<u>2,312</u>	<u>3,743</u>	<u>4,267</u>	<u>4,864</u>
Revenue	1,408	1,703	2,094	3,286	3,959	4,443
Federal and State Government grants	145	170	218	457	308	421
Total expenditure	<u>1,940</u>	<u>2,606</u>	<u>3,366</u>	<u>5,482</u>	<u>6,198</u>	<u>7,311</u>
Current expenditure <u>2/</u>	1,340	1,504	1,992	3,013	3,121	3,381
Development expenditure <u>2/</u>	600	1,102	1,374	2,469	3,078	3,930
Overall deficit (-)	-387	-733	-1,054	-1,739	-1,931	-2,447
Financing (net)	<u>387</u>	<u>733</u>	<u>1,054</u>	<u>1,739</u>	<u>1,931</u>	<u>2,447</u>
Foreign borrowing <u>3/</u>	3	8	26	39	135	230
Federal and State Government loans <u>4/</u>	196	287	670	1,139	1,038	1,222
Changes in assets (increase -)	188	438	358	561	758	995

Source: Data provided by the Ministry of Finance.

1/ Only the major local governments and nonfinancial public enterprises are included. Local governments are: the municipalities of Ipoh and Malacca, and the city councils of Penang and Kuala Lumpur. Since February 1, 1974, Kuala Lumpur has been a Federal Territory and is included in the Federal Government. The major public enterprises included are: the National Electricity Board; Malayan Railways; Kelang Port Authority; Penang Port Commission; Sabah Electricity Board; Kuching Port Authority; Sarawak Electricity Supply Corporation; and the Telecommunications Department.

2/ On the basis of current and development budget classifications.

3/ Project loans guaranteed by the Federal Government.

4/ Includes Federal Government equity contributions of M\$111 million in 1979.

Table XII. Malaysia: Federal Government Revenue and Grants, 1978-83

(In millions of ringgit)

	1978	1979	1980	1981	1982 Preliminary Actual	1983 Budget ^{1/}
Total tax revenue	7,992	9,325	12,450	13,002	13,062	15,036
Taxes on net income and profits ^{2/}	3,166	3,674	5,240	5,819	6,071	6,642
Oil production companies	(770)	(829)	(1,736)	(1,978)	(2,091)	(2,088)
Other companies	(1,620)	(1,717)	(2,521)	(2,754)	(2,634)	(3,181)
Individuals	(776)	(1,128)	(983)	(1,087)	(1,346)	(1,373)
Taxes on property ^{3/}	81	41	73	86	95	103
Taxes on goods and services	1,815	2,039	2,327	2,420	2,620	4,068
Sales tax	(458)	(544)	(696)	(730)	(792)	(1,655)
Imported goods	206	245	345	325	346	737
Domestic goods	252	299	351	405	446	918
Selective excises on goods	(849)	(957)	(973)	(967)	(1,024)	(1,168)
Tobacco and alcoholic						
beverages	158	184	189	227	247	253
Petroleum products	387	348	330	276	305	290
Motor vehicles	202	243	316	344	409	417
Other	102	182	138	120	63	208
Selective excises on services ^{4/}	(156)	(185)	(237)	(278)	(309)	(439)
Motor vehicles tax	(328)	(346)	(390)	(408)	(455)	(696)
Other	(24)	(7)	(31)	(37)	(40)	(110)
Taxes on international trade	2,788	3,452	4,628	4,470	4,040	3,903
Import duties	(1,325)	(1,513)	(2,061)	(2,245)	(2,286)	(2,463)
Tobacco and alcoholic						
beverages	230	232	259	324	358	405
Petroleum products	32	48	150	174	233	185
Other import duties	664	768	1,029	1,148	1,237	1,376
Surtax on imports	399	465	623	599	458	497
Export duties	(1,463)	(1,939)	(2,567)	(2,225)	(1,762)	(1,483)
Rubber	716	1,118	1,098	514	110	128
Petroleum	--	--	697	1,241	1,389	1,182
Tin	500	545	575	298	159	26
Palm oil	207	236	166	148	73	116
Other	40	40	31	24	31	31
Other tax revenue	142	119	182	207	228	320
Nontax revenue	812	1,057	1,281	2,440	2,945	2,808
Property income	447	580	833	1,935	2,453	2,127
Nonfinancial public enterprises	(14)	(18)	(16)	(20)	(25)	(30)
Public financial institutions	(120)	(150)	(180)	(220)	(220)	(227)
Rent and interest	(197)	(246)	(292)	(328)	(333)	(435)
Dividends paid by Petronas	--	--	--	950	1,450	950
Petroleum royalties	(116)	(166)	(345)	(417)	(425)	(485)
Administrative fees and charges,						
sale of goods, fines and forfeits	241	313	287	321	319	422
Other nontax revenue	124	164	161	184	173	259
Nonrevenue receipt	--	--	191	358	503	652
Capital revenue	--	24	--	--	--	--
Total revenue	8,804	10,463	13,922	15,800	16,510	18,496
Foreign grants	4	3	4	6	6	7
Total revenue and grants	8,808	10,466	13,926	15,806	16,516	18,503

Source: Data provided by the Ministry of Finance.

^{1/} Includes effects of tax measures contained in the 1983 budget.^{2/} Corporate and individual income tax, land speculation tax, and capital gains tax.^{3/} Includes death and gift taxes.^{4/} Comprises betting and lottery taxes, and film rental tax.

Table XIII. Malaysia: Economic Classification of Federal Government
Expenditure and Net Lending, 1978-83

(In millions of ringgit)

	1978	1979	1980	1981 Actual	1982 Preliminary Actual	1983 Budget
Current expenditure	<u>7,610</u>	<u>8,008</u>	<u>10,217</u>	<u>13,686</u>	<u>15,838</u>	<u>17,079</u>
Expenditure on goods and services	4,891	4,337	5,777	7,951	8,686	8,618
Wages and salaries	(3,477)	(3,665)	(4,292)	(5,582)	(6,088)	(6,400)
Other purchases of goods and services <u>1/</u>	(1,414)	(672)	(1,485)	(2,369)	(2,598)	(2,218)
Interest payments	1,112	1,271	1,547	2,046	2,782	3,930
Subsidies and other current transfers <u>2/</u>	1,607	2,395	2,893	3,689	4,370	4,531
Transfers to State Governments	(333)	(164)	(355)	(407)	(522)	(496)
Pensions	(339)	(337)	(531)	(573)	(650)	(730)
Other current transfers	(935)	(1,812)	(2,007)	(2,709)	(3,198)	(3,305)
Capital expenditure	<u>2,012</u>	<u>2,514</u>	<u>5,280</u>	<u>8,864</u>	<u>6,370</u>	<u>6,468</u>
Net lending	<u>1,606</u>	<u>1,520</u>	<u>2,051</u>	<u>2,271</u>	<u>4,045</u>	<u>3,432</u>
Adjustment for accounts payable	<u>-64</u>	<u>-144</u>	<u>-130</u>	<u>-407</u>	<u>--</u>	<u>--</u>
Total expenditure and net lending	11,164	11,898	17,238	24,414	26,253	26,979

Source: Data provided by the Ministry of Finance.

1/ Estimated. Includes defense expenditures shown in the development budget and excludes capital expenditure shown in the current budget.

2/ Derived as residual. Includes contributions to statutory funds and may include bloc-voted expenditure not classified above.

Table XIV. Malaysia: Functional Classification of Federal Government
Expenditure and Net Lending, 1978-83

(In millions of ringgit)

	1978	1979	1980	1981 Actual	1982 Prelim. Actual	1983 Budget
General services	<u>6,838</u>	<u>7,276</u>	<u>9,612</u>	<u>13,491</u>	<u>14,668</u>	<u>14,441</u>
General public services	1,557	1,682	2,371	3,062	3,306	3,370
General administration	(767)	(839)	(1,237)	(1,702)	(1,952)	(1,850)
Internal security	(790)	(843)	(1,134)	(1,360)	(1,354)	(1,520)
Defense	1,406	1,704	2,255	3,333	3,557	3,658
Education	2,044	2,257	2,786	3,517	3,727	4,080
Health	611	666	773	973	1,027	1,036
Social security <u>1/</u>	373	347	531	573	650	730
Housing and community amenities	667	495	330	1,663	2,008	990
Other community and social services	180	125	566	370	393	577
Economic services	<u>2,700</u>	<u>3,050</u>	<u>5,642</u>	<u>8,120</u>	<u>7,512</u>	<u>7,169</u>
Agriculture, forestry and rural development	939	1,082	1,329	2,004	2,043	1,971
Transport and communications	851	1,142	1,663	1,820	2,783	2,614
Other economic services <u>2/</u>	910	826	2,650	4,296	2,686	2,584
Unallocable	<u>1,690</u>	<u>1,716</u>	<u>2,294</u>	<u>3,210</u>	<u>4,073</u>	<u>5,369</u>
Public debt interest	1,112	1,271	1,547	2,046	2,782	3,930
Grants to State Governments	333	164	355	407	522	496
Other	245	281	392	757	769	943
Adjustment for accounts payable	<u>-64</u>	<u>-144</u>	<u>-310</u>	<u>-407</u>	<u>--</u>	<u>--</u>
Total expenditure and net lending	11,164	11,898	17,238	24,414	26,253	26,979

Source: Data provided by the Ministry of Finance.

1/ Government pensions.

2/ Includes general administration, regulations and research; mining, manufacture and construction; utilities; and other economic services.

Table XV. Malaysia: Distribution of Outstanding Federal Government
Debt by Class of Holders, 1978-82 1/

(In millions of ringgit)

	1978	1979	1980	1981	1982
Domestic debt	13,441.9	15,949.1	18,285.5	22,376.4	28,460.4
Government securities	<u>11,931.9</u>	<u>13,349.1</u>	<u>16,795.5</u>	<u>20,586.4</u>	<u>26,170.4</u>
Government	711.6	736.5	727.8	520.7	435.9
Federal Government <u>2/</u>	(443.4)	(442.7)	(442.7)	(427.9)	(431.1)
State Governments	(11.6)	(11.5)	(11.5)	(2.4)	(--)
Public authorities	(256.6)	(282.3)	(273.6)	(90.4)	(4.8)
Social security institutions	7,072.3	8,328.2	9,550.7	11,470.6	13,805.9
Employees Provident Fund	(6,369.4)	(7,450.2)	(8,581.7)	(10,314.6)	(12,468.8)
Other provident and trust funds	(370.0)	(445.7)	(467.8)	(547.9)	(656.5)
Insurance companies	(332.9)	(432.3)	(501.2)	(607.8)	(680.6)
Financial institutions	4,077.0	5,343.3	6,476.0	6,781.6	8,222.6
Central Bank	(346.2)	(629.0)	(1,627.4)	(560.7)	(1,802.6)
Commercial banks	(1,806.5)	(2,296.5)	(2,445.9)	(3,818.1)	(3,942.8)
National Savings Bank	(807.9)	(838.7)	(924.1)	(857.0)	(879.9)
Finance houses	(933.2)	(1,336.9)	(1,256.5)	(1,286.7)	(1,462.3)
Other financial institutions	(183.2)	(242.2)	(222.1)	(277.1)	(135.0)
Other	71.0	51.1	41.0	1,813.5 <u>3/</u>	3,706.0 <u>3/</u>
Treasury bills	<u>1,510.0</u>	<u>1,490.0</u>	<u>1,490.0</u>	<u>1,790.0</u>	<u>2,290.0</u>
Central Bank	41.9	113.9	67.4	157.0	217.1
Commercial banks	1,257.3	1,228.4	1,202.3	1,401.5	1,930.9
Other	210.8	147.7	220.3	231.5	142.0
Foreign debt	3,859.2	4,542.6	4,860.6	7,767.7	12,345.7
From international development institutions and foreign governments <u>4/</u>	2,081.4	2,335.1	2,669.7	2,970.8	3,321.9
Other <u>5/</u>	1,777.8	2,207.5	2,190.9	4,796.9	9,023.8
Total debt	17,301.1	20,491.7	23,146.1	30,144.1	40,806.1

Source: Data provided by Bank Negara Malaysia.

1/ End of period.

2/ Banking funds and trust funds.

3/ The bulk of it represents holdings by Petronas.

4/ Project loans.

5/ Market loans.

Table XVI. Malaysia: Interest Rates of Commercial Banks, 1977-83

(In per cent per annum)

Effective Date	Fixed Deposits; Maturity Periods in Months					Savings Deposits	Minimum Lending Rates		Average Lending Rate <u>2/</u>
	1	3	6	9	12		Prime rate	Prefer- ential rate <u>1/</u>	
1977									
June 2	3.00	5.00	5.50	5.75	6.50	5.0	7.50	7.00	...
1978									
October 23 ^{3/}	3.00	5.00	5.50	5.75	6.50	5.0	7.50	7.00	9.34
1979									
December	5.25	5.50	5.75	6.00	7.00	5.00	7.50	7.00	9.42
1980									
December	8.50	8.50	8.50	9.00	9.00	6.00	8.50	7.00	10.17
1981									
March	8.50	8.75/9.25	9.00	9.25	9.50	6.00	8.50	7.00	10.29
June	9.00	10.00	9.50	9.50	9.50	6.00	8.50	7.00	10.81
September	10.50/11.50	10.50	10.50	10.50	10.50	7.00	8.50	7.00	11.85
December	9.00	10.00	10.50	10.50	11.00	7.00	8.50	7.00	12.00
1982									
February	9.00	9.50/10.10	10.00	10.00/10.25	10.50	7.00	8.50	7.00	...
March	9.00	10.00	10.00	10.00	10.50	6.50	8.50	7.00	12.24
June	9.00	9.50	10.00	10.25	10.50/10.75/11	6.50	8.50	7.00	12.40
September	9.00	10.00	10.00	10.25	10.75	6.50	8.50	7.00	12.53
December	8.00	9.00	9.25	9.50	10.00	6.50	8.50	7.00	...
1983									
February	8.00	8.25/7.5	9.00/7.75	8.50	10.00	6.50	8.50	7.00	...
March 19	7.00	7.5	8.25	8.50	8.25	6.50	8.50	7.00	...

Source: Data provided by the Malaysian authorities.

1/ The preferential rate applied to advances to Federal and State governments and public authorities and advances against government or municipal securities, and against agricultural products.

2/ Refers to the weighted average lending rate of all the commercial banks.

3/ Effective October 23, 1978, all interest rates have been freed from regulation.

Table XVII. Malaysia: Commercial Banks--Liquidity and Statutory Reserve Requirements, 1978-82

	1978	1979	1980	1981	1982			
					March	June	September	December
(In millions of ringgit)								
Total liquid assets <u>1/</u>	4,246.0	4,749.7	5,484.3	7,428.1	7,714.6	7,947.1	7,696.2	8,347.7
Of which: Primary liquid assets <u>2/</u>	2,338.9	2,293.5	2,870.2	3,420.7	4,172.6	3,806.5	3,614.2	3,812.6
Eligible liabilities <u>3/</u>	11,783.0	18,387.0	23,387.3	27,489.7	28,356.5	29,350.8	29,777.9	31,620.5
Statutory reserves <u>4/</u>	703.9	919.4	1,169.4	1,374.5	1,417.8	1,467.6	1,488.9	1,581.0
(In per cent)								
Liquidity ratio	36.0	25.8	23.4	27.0	27.2	27.2	25.9	26.4
Primary liquid assets ratio	19.9	12.5	12.3	12.4	14.7	13.0	12.2	12.1

Source: Bank Negara Malaysia, Monthly Statistical Supplement.

^{1/} With effect from March 1979, commercial banks are required to maintain a minimum ratio of their eligible liabilities in Malaysian liquid assets. One half of this ratio is to be in primary liquid assets. Primary liquid assets are defined to comprise cash, balances with the Central Bank of Malaysia, net money at call with the discount houses in Malaysia, Federal Government Treasury bills, and Federal and State Government securities with maturities of 1 year or less to run. Other liquid assets, known as secondary liquid assets, comprise Federal and State Government securities with maturities of more than 1 year to run, bills discounted or purchased and bills receivable which are payable in Malaysia and rediscountable at the Central Bank of Malaysia, including bankers' acceptances. The minimum primary liquid assets ratio is 10 per cent and the minimum liquidity ratio is 20 per cent. Liquidity requirements against foreign liabilities, which are also eligible liabilities, have been set at zero since October 1981.

^{2/} Data prior to March 1979 refer to actual liquid assets.

^{3/} Comprise total deposits, net amounts due to other commercial banks, the finance companies, and the merchant banks, negotiable certificates of deposits and instruments discounted/rediscounted under repurchase agreements. Data prior to March 1979 refer to total deposits, excluding savings deposits.

^{4/} The statutory reserve which commercial banks are required to maintain with the Central Bank of Malaysia was reduced from 6 per cent to 5 per cent of total deposits on December 16, 1978. With effect from March 15, 1979, the statutory reserve was expressed as a ratio of eligible liabilities. Statutory reserve requirements against foreign liabilities, which are also eligible liabilities, have been set at zero since October 1981.

Table XVIII. Malaysia: Assets and Liabilities of Commercial Banks, 1978-82

(In millions of ringgit; end of period)

	1978	1979	1980	1981	1982	1982			
						March	June	Sept.	Dec.
Claims	<u>13,710</u>	<u>17,441</u>	<u>21,503</u>	<u>27,075</u>	<u>32,622</u>	<u>27,847</u>	<u>28,807</u>	<u>29,699</u>	<u>32,622</u>
Net foreign assets	-686	304	-1,008	-1,592	-1,035	-1,528	-2,174	-2,470	-1,035
Net claims on Government <u>1/</u>	2,334	1,902	1,294	2,736	3,971	4,380	4,662	5,530	3,971
Claims on private sector <u>2/</u>	11,627	15,341	21,007	25,590	29,759	26,181	27,349	28,635	29,759
Claims on Central Bank	1,049	979	1,240	1,440	1,920	1,480	1,513	1,539	1,920
Net other claims	-614	-1,085	-1,030	-1,099	-1,993	-2,666	-2,543	-3,535	-1,993
Deposit liabilities	<u>13,710</u>	<u>17,441</u>	<u>21,503</u>	<u>27,075</u>	<u>32,662</u>	<u>27,847</u>	<u>28,807</u>	<u>29,699</u>	<u>32,622</u>
Demand deposits	3,548	4,252	4,875	5,714	6,479	5,665	6,031	5,838	6,479
Time and saving deposits	10,162	12,989	15,697	19,576	24,206	20,910	20,858	21,964	24,206
Negotiable certificates of deposits <u>3/</u>	--	200	931	1,785	1,937	1,272	1,918	1,897	1,937

Sources: Bank Negara Malaysia, Quarterly Economic Bulletin; Annual Report; and Statement of Accounts.

1/ Includes loans and advances to the Federal Government only.

2/ Excludes claims on finance companies and merchant banks.

3/ Introduced since 1979.

Table XIX. Malaysia: Compliance with Lending Guidelines, 1981-82

(In per cent)

	Guidelines Expiring Dec. 31, 1981		Guidelines Expiring Dec. 31, 1982		Share of Commercial Banks' Out- standing Loans at End Dec. 1982
	Minimum required ^{1/}	Actual performance ^{2/}	Minimum required ^{3/}	Actual performance ^{4/}	
<hr/>					
Commercial banks					
Loans to/for					
Bumiputera community	17.0	25.0	18.0	27.5	23.7
Small-scale enterprises	12.0	13.7	12.0	12.6	10.8
Of which:					
Loans under the					
Special Loan Scheme	5.0	4.8	5.0 ^{1/}	3.4	2.4
Agricultural food production	8.0 ^{4/}	11.1	10.0 ^{6/}	12.3	5.4
Housing	10.0	13.4	10.0	13.7	11.8
 Finance companies					
Loans to/for					
Bumiputera community	20.0	29.6	20.0	29.2	23.4
Small-scale enterprises	25.0	31.6	25.0	27.7	22.2
Housing	20.0	23.3	20.0	23.4	18.2

Sources: Bank Negara Malaysia, Annual Report, various issues.

^{1/} The minimum required ratio of commercial banks' loans (to the priority sector) outstanding at end-1981 to total commercial banks' loans outstanding at end-1980.

^{2/} The actual ratio of commercial banks' loans outstanding at end-December 1981 to total commercial banks' loans outstanding at end-December 1980.

^{3/} The minimum required ratio pertaining to end-December 1982.

^{4/} The actual ratio of commercial banks' loans (to the priority sector) outstanding at end-December 1982 to total commercial banks' loans.

^{5/} Commercial banks' loans (to the priority sector) outstanding at end-1982 to total commercial banks' loans outstanding at end-1982.

^{6/} Refers to per cent of total loans outstanding as at end of June 1979.

Table XX. Malaysia: Direction of Commercial Bank Lending, 1978-82

(In millions of ringgit) 1/

	1978	1979	1980	1981	1982
Agriculture	870.8 (7.1)	1,013.0 (6.6)	1,648.4 (7.9)	1,910.2 (7.5)	2,134.4 (7.2)
Mining and quarrying	128.1 (1.0)	122.6 (0.8)	210.5 (1.0)	276.5 (1.1)	494.5 (1.7)
Manufacturing	2,225.5 (18.1)	2,564.7 (16.8)	4,693.8 (22.3)	5,947.1 (23.3)	6,190.0 (20.8)
Electricity	n.a. (26.7)	n.a. (28.8)	278.9 (22.1)	169.6 (21.9)	6,137.2 (20.7)
General commerce	3,279.5 (26.7)	4,395.9 (28.8)	4,644.2 (22.1)	5,594.3 (21.9)	6,137.2 (20.7)
Building and construction	789.3 (6.4)	1,074.0 (7.0)	1,406.6 (6.7)	1,643.2 (6.4)	1,859.7 (6.3)
Real estate	560.4 (10.0)	769.3 (10.8)	1,710.2 (10.6)	2,755.2 (11.0)	3,660.0 (11.8)
Individual housing loans	1,229.4 (10.0)	1,648.8 (10.8)	2,232.4 (10.6)	2,811.4 (11.0)	3,497.8 (11.8)
Transport, storage and communication	205.2 (1.7)	337.3 (2.2)	400.1 (1.9)	623.7 (2.4)	715.2 (2.4)
Other 2/	3,000.2 (1.7)	3,334.2 (21.9)	3,806.0 (18.1)	3,790.2 (14.9)	4,832.7 (16.3)
Total 3/	12,288.4	15,259.8	21,031.1	25,521.4	29,665.2

Source: Bank Negara, Monthly Statistical Supplement, various issues.

1/ Figures in parentheses are percentage shares.

2/ Data up to 1979 include loans to the Federal and State Governments; from 1980 such loans have been reclassified according to economic activity.

3/ Totals may not add up due to rounding.

Table XXI. Malaysia: Source and Maturity of Credit Outstanding to the Private Sector, 1978-82

(In millions of ringgit)

Source and Maturity <u>1/</u>	1978	1979	1980	1981 <u>2/</u>	1982 <u>2/</u>
Financial sector	15,695	21,299	29,115	36,176 (76.0)	42,451 (74.5)
Commercial banks	10,900	14,660	20,109	23,868 (50.2)	27,388 (48.0)
Short-term	7,919	10,220	13,798	15,434 (32.4)	16,596 (29.1)
Medium-term	637	838	1,168	1,510 (3.2)	1,993 (3.5)
Long-term	2,344	3,602	5,143	6,924 (14.6)	8,799 (15.4)
Finance companies	1,973	2,631	3,551	4,560 (9.6)	5,677 (10.0)
Short-term	138	132	138	232 (0.5)	321 (0.6)
Medium-term	1,312	1,837	2,473	3,024 (6.4)	3,669 (6.4)
Long-term	523	662	940	1,304 (2.7)	1,687 (3.0)
Other financial institutions <u>3/</u>	2,822	4,008	5,455	7,748 (16.2)	9,386 (16.5)
Short-term	291	819	1,111	1,881 (3.9)	1,952 (3.4)
Medium-term	492	766	1,067	1,378 (2.9)	1,630 (2.9)
Long-term	2,039	2,423	3,277	4,489 (9.4)	5,804 (10.2)
Public sector <u>4/</u>	7,569	7,400	9,085	11,399 (24.0)	14,545 (25.5)
Total	23,264	28,699	38,200	47,575 (100.0)	56,996 (100.0)

(As per cent of total credit outstanding)

Financial sector	67.5	74.2	76.2	76.0	74.5
Commercial banks	46.9	51.1	52.6	50.2	48.0
Of which: short-term	(34.1)	(35.6)	(36.1)	(32.4)	(29.1)
Finance companies	8.5	9.2	9.3	9.6	10.0
Of which: medium-term	(5.6)	(6.4)	(6.5)	(6.4)	(6.4)
Other financial institutions	12.1	14.0	14.3	16.2	16.5
Of which: long-term	(8.8)	(8.4)	(8.6)	(9.4)	(10.2)
Public sector	32.5	25.8	24.8	24.0	25.5
Total	100.0	100.0	100.0	100.0	100.0

Source: Bank Negara Malaysia, Annual Report and Statement of Accounts, various issues.

1/ Breakdown by original maturity as follows: short-term is up to one year; medium-term, more than one year to four years; and long-term, over four years.

2/ Figures in parentheses are percentage shares.

3/ Includes merchant banks, housing credit institutions, industrial development finance institutions, urban credit institutions, rural credit institutions, insurance companies, provident funds, unit trusts, Pilgrims Management and Fund Board, National Savings Bank, and MARA Unit Trusts Limited.

4/ Government credit, mainly long-term, is extended to statutory authorities, local governments, and government-controlled enterprises and as housing loans to government officers.

Table XXII. Malaysia: Structure of Manufactured Exports, 1975, 1979-82

(In millions of ringgit)

	1975		1979		1980		1981		1982	
	Value	Share (Per Cent)	Value	Share (Per Cent)	Value	Share (Per cent)	Value	Share (Per Cent)	Value	Share (Per Cent)
Food, beverages, and tobacco	270	14	352	7	476	8	600	10	557	7
Textiles, clothing, and footwear	218	11	575	12	802	13	784	12	795	10
Wood products	205	10	472	10	471	8	473	7	428	6
Rubber products	43	2	75	1	84	1	83	1	92	1
Chemicals and petroleum products	185	5	265	5	358	6	419	7	551	7
Nonmetallic mineral products	23	5	49	1	60	1	52	1	69	1
Manufacture of metal	49	3	175	4	251	4	212	3	203	3
Electrical machinery and appliances	304	15	2,219	46	2,799	46	2,956	46	3,766	50
Other machinery and transport equipment	269	14	319	7	370	6	493	8	759	10
Other manufactures	<u>412</u>	<u>21</u>	<u>331</u>	<u>7</u>	<u>435</u>	<u>7</u>	<u>339</u>	<u>5</u>	<u>391</u>	<u>5</u>
Total	1,978	100	4,832	100	6,106	100	6,411	100	7,611	100

Source: Data provided by the Malaysian authorities.

Table XXIII. Malaysia: Structure of Gross Imports, 1978-82 1/

(In millions of ringgit) 2/

	1978 <u>1/</u>	1979 <u>1/</u>	1980 <u>1/</u>	1981 <u>1/</u>	1982 <u>3/</u>
Consumption goods	3,035 (22)	3,428 (20)	4,325 (18)	5,226 (20)	5,422 (19)
Food	1,092	1,070	1,177	1,613	1,735
Beverages and tobacco	183	193	241	292	294
Consumer durables	596	750	992	1,124	1,150
Other	1,164	1,415	1,915	2,197	2,243
Investment goods	4,043 (30)	5,129 (30)	7,031 (30)	7,709 (29)	9,257 (32)
Machinery	1,374	1,781	2,578	3,126	3,564
Transport equipment	354	640	920	892	1,476
Metal products	948	1,331	1,767	1,732	2,071
Other	1,367	1,377	1,766	1,959	2,146
Intermediate goods	6,254 (46)	8,223 (48)	11,689 (50)	13,363 (50)	13,928 (48)
For manufacturing	3,781	4,859	6,670	7,277	7,846
For construction	288	392	580	763	1,075
For agriculture	517	705	893	815	655
Crude petroleum	929	1,274	1,890	2,094	1,463
Other	739	993	1,656	2,414	2,889
Imports for re-export	314 (2)	381 (2)	406 (2)	377 (1)	396 (1)
Tin ore	224	290	297	309	358
Crude natural rubber	90	91	109	68	38
Total	13,646	17,161	23,451	26,675	29,003

Source: Data provided by the Malaysian authorities.

1/ Customs data.

2/ Figures in parentheses represent shares.

3/ Estimates.

Table XXIV. Malaysia: Exports, Imports, and Terms of Trade, 1977-82

(1980 = 100)

	1977	1978	1979	1980	1981	1982
<hr/>						
Merchandise exports						
Value	46.8	56.7	85.0	100.0	90.8	93.2
Volume	71.3	78.6	97.5	100.0	88.4	96.5
Export price	65.6	72.1	87.2	100.0	102.7	96.6
Merchandise imports						
Value	41.7	53.8	74.3	100.0	109.5	118.0
Volume	57.7	68.4	84.9	100.0	103.2	112.4
Import price	72.3	78.7	87.5	100.0	106.1	105.0
External terms of trade	90.7	91.6	99.7	100.0	96.8	92.0
<hr/>						

Sources: Data provided by the Malaysian authorities and staff estimates.

Table XXV. Malaysia: Direction of Trade, 1977-82

(Percentage shares)

	Exports				Imports			
	1977	1979	1981	1982	1977	1979	1981	1982
ASEAN countries	18.9	20.1	26.6	30.1	14.6	14.6	17.9	19.9
of which:								
Singapore	(15.9)	(17.4)	(22.8)	(25.1)	(8.4)	(9.2)	(13.1)	(14.4)
Japan	20.4	23.4	21.2	20.3	23.4	22.3	24.4	25.1
India	2.6	2.1	2.5	1.9	1.3	1.1	0.7	0.6
Australia	1.7	1.8	1.7	1.9	6.1	6.1	5.5	4.6
EEC	19.7	17.7	15.2	14.8	17.4	17.4	13.9	12.1
U.S.	18.2	17.3	13.1	11.6	12.3	15.0	14.6	17.7
U.S.S.R.	2.0	2.3	2.2	2.0	0.2	0.1	0.2	0.2
Other	<u>16.5</u>	<u>15.3</u>	<u>17.5</u>	<u>17.4</u>	<u>24.7</u>	<u>23.4</u>	<u>22.8</u>	<u>19.8</u>
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Data provided by the Malaysian authorities.

Table XXVI. Malaysia: Exchange Rate of the Ringgit, 1978-83

(Ringgit per unit of foreign currency; period average)

		U.S. dollar	Singapore dollar	Deutsche mark	British pound	100 Japanese yen
1978		2.3160	1.0185	1.1530	4.4411	1.1006
1979		2.1884	1.0063	1.1940	4.6348	0.9987
1980		2.1769	1.0167	1.1976	5.0590	0.9601
1981	I	2.2569	1.0805	1.0816	5.2076	1.0979
	II	2.3313	1.0924	1.0244	4.8436	1.0597
	III	2.3602	1.0939	0.9702	4.3327	1.0178
	IV	2.2681	1.0955	1.0104	4.2704	1.0095
1982	I	2.2986	1.0967	0.9798	4.2441	0.9844
	II	2.3235	1.0964	0.9771	4.1344	0.9517
	III	2.3571	1.0926	0.9500	4.0662	0.9105
	IV	2.3624	1.0800	0.9445	3.8950	0.9097
1983	I	2.2835	1.0989	0.9484	3.4965	0.9687

Source: IMF, International Financial Statistics.

Table XXVII. Malaysia: Indices of Effective Exchange Rates
(EER), 1977-82 1/

(1980 = 100)

	Average 1975-77	1978	1979	1980	1981	1982
Trade weighted						
Nominal EER	96	102	99	100	101	93
Real EER	82	88	91	100	97	88
Import weighted						
Nominal EER	96	103	99	100	101	92
Real EER	82	88	92	100	97	88
Export weighted						
Nominal EER	96	102	99	100	101	93
Real EER	81	88	91	100	97	87
Exchange rate relative to the competitors <u>2/</u>						
Nominal	111	112	106	100	102	96
Real	86	89	93	100	102	93

Sources: Data provided by the Malaysian authorities; International Financial Statistics, IMF; and staff estimates.

1/ An index value below 100 implies appreciation of the nominal/real exchange rate index relative to the base year; indices calculated using period average data.

2/ Exchange rate index of Malaysian ringgit relative to the composite currencies of its competitors; weights are based on each competitor country's exports to the rest of the world.

Table XXVIII. Malaysia: Exchange Rate Adjusted Levels of CPI
in Competitor Countries, 1975-82 1/

(1980 = 100)

	1975	1976	1977	1978	1979	1980	1981	1982
Indonesia	72	87	96	98	85	100	111	117
Korea	57	66	73	83	98	100	111	109
Philippines	60	62	68	73	87	100	107	108
Singapore	77	72	75	85	92	100	112	115
Thailand	63	65	70	77	84	100	105	105
Unweighted average	66	70	76	83	89	100	109	111
Malaysia	73	71	77	86	94	100	104	108
Unweighted average/ Malaysia <u>2/</u>	90	99	99	97	95	100	105	103

Sources: Data provided by the Malaysian authorities; IMF, International Financial Statistics; and staff estimates.

1/ The consumer price index divided by the index of the cost in local currency of the U.S. dollar; the rate of change in the index over the years indicates gain/loss in competitiveness.

2/ Unweighted average index of Malaysia's competitors divided by Malaysia's index; an increase indicates increase in Malaysia's competitiveness relative to its regional competitors.

Table XXIX. Malaysia: Interbank Swap Transactions, 1982-83 ^{1/}

Period	Swap Margin ^{2/} (M\$0.0001 per US\$1)	Forward Premium Implicit in Swap Margin (% p.a.)	Eurodollar Interest Rate (% p.a.)	Cost of Borrowing M\$ Through		
				Swap	money market	Difference
				(% p.a.)	(% p.a.)	(% p.a.)
1982						
January	-165	3.0	15.1	12.3	8.8	3.5
February	-290	5.1	16.8	11.6	9.1	2.5
March	-207	3.6	15.6	12.1	9.6	2.5
April	-220	3.9	15.0	11.3	9.5	1.8
May	-105	1.8	14.5	12.8	9.9	2.9
June	-295	5.1	16.7	11.8	9.3	2.5
July	-195	3.4	14.9	11.7	9.5	2.2
August	+15	-0.3	10.8	11.2	9.5	1.7
September	-28	0.5	11.5	11.2	9.4	1.8
October	-35	0.6	10.1	9.6	8.2	1.4
November	-25	0.4	9.9	9.6	8.4	1.2
December	+20	-0.3	9.6	10.1	8.5	1.6
1983						
January	-5	0.1	9.3	9.3	7.9	1.4
February	+5	-0.1	8.9	9.1	7.9	1.2
March 15	-45	0.8	9.2	8.5	6.8	1.7

Sources: Data provided by the Malaysian authorities; and staff calculations.

^{1/} Representative three-month swap effected through foreign exchange brokers at the end of the month.

^{2/} Ringgit per US\$10,000, over a three-month period.