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INTERNATIONAL MONETARY FUND

MALAYSIA

Recent Economic Developments

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Approved by the Asian, Exchange and Trade Relations, and
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MALAYSIA

Basic Data

| | |
|---|----------------------|
| Area: | 128,308 square miles |
| Population (1973): | 11.7 million |
| Rate of growth of population (1973): | 2.6 per cent. |
| Gross national product (1973): | SDR 5,606.6 million |
| Per capita gross national product (1973): | SDR 474.7 |

Selected Aggregates as Per Cent of GNP

| | <u>1970</u> | <u>1971</u> | <u>1972</u> | <u>1973</u> |
|---------------------------------|-------------|-------------|-------------|-------------|
| Manufacturing production | 11.7 | 12.0 | 12.8 | 12.9 |
| Gross capital formation | 17.7 | 18.8 | 20.5 | 20.4 |
| Gross national savings | 19.2 | 16.5 | 15.8 | 21.4 |
| Money | 17.5 | 17.3 | 20.6 | 22.7 |
| Total liquidity | 35.6 | 38.1 | 43.8 | 46.1 |
| Federal Government tax revenues | 17.2 | 17.0 | 18.2 | 18.4 |
| Exports of goods and services | 48.7 | 45.6 | 40.7 | 48.7 |
| Imports of goods and services | 45.6 | 46.0 | 44.9 | 46.5 |

Annual Percentage Changes in Selected Economic Indicators

| | <u>1970</u> | <u>1971</u> | <u>1972</u> | <u>1973</u> |
|---|-------------|-------------|--------------------|-------------|
| Gross national product (constant prices) | ... | 7.3 | 5.2 | 10.0 |
| Agricultural production | -3.0 | -3.1 | 6.5 | 15.0 |
| Rice production | 5.2 | 7.0 | 1.7 | 8.1 |
| Industrial production | 7.9 | 2.0 | 8.3 | 13.9 |
| Federal Government receipts | 14.5 | 5.5 | 20.8 | 17.1 |
| Federal Government expenditures | 13.8 | 24.7 | 23.7 | 5.5 |
| Money | 8.0 | 4.3 | 28.1 | 37.6 |
| Total liquidity | 10.9 | 13.2 | 23.5 | 31.2 |
| Bank credit to Government (net) | 1.4 | 503.4 | 383.0 | 29.5 |
| Bank credit to private sector | 21.9 | 14.5 | 17.2 | 52.1 |
| Total bank credit | 11.5 | 17.0 | 20.3 | 38.4 |
| Consumer price index | 0.6 | 2.9 | 3.6 | 18.1 |
| Merchandise exports (in terms of SDRs) | 2.0 | -3.0 | -3.2 | 59.1 |
| Merchandise imports (in terms of SDRs) | 19.1 | 2.5 | 6.3 | 30.1 |
| Unit value of exports (based on annual figures) | -2.9 | -8.0 | -4.3 | 28.3 |
| Unit value of imports (based on annual figures) | 0.0 | 7.0 | 4.7 | 15.6 |
| Trade weighted effective exchange rate | ... | ... | 2.21 ^{1/} | 9.6 |

Federal Government Budget

(In millions of Malaysian dollars)

| | <u>1970</u> | <u>1971</u> | <u>1972</u> | <u>1973</u> |
|----------------------------------|-------------|-------------|-------------|-------------|
| Current revenue | 2,292 | 2,418 | 2,920 | 3,418 |
| Current expenditure | 2,182 | 2,519 | 3,189 | 3,260 |
| Foreign grants | 17 | 39 | 66 | 28 |
| Development expenditure | 600 | 949 | 1,102 | 1,265 |
| Overall deficit (-) or surplus | -473 | -1,011 | -1,305 | -1,079 |
| Deficit financing: Foreign (net) | 23 | 343 | 403 | 70 |
| Banking system | 50 | 210 | 129 | 212 |
| Other | 400 | 458 | 773 | 797 |

External Transactions and Related Items

(In millions of SDRs)

| | <u>1970</u> | <u>1971</u> | <u>1972</u> | <u>1973</u> |
|--|-------------|-------------|-------------|-------------|
| Merchandise exports | 1,668 | 1,618 | 1,567 | 2,493 |
| Merchandise imports | 1,352 | 1,386 | 1,474 | 1,917 |
| Trade balance | 316 | 232 | 93 | 576 |
| Overall balance | 40 | 60 | 50 | 28 |
| Gross official international reserves (end of period) | 824 | 910 | 947 | 1,189 |
| Gross official international reserves (as per cent of imports) | 61 | 66 | 64 | 62 |

Fund Position (August 31, 1974)

| | |
|---|--------------------------------------|
| Quota | SDR 186 million |
| Outstanding drawings | Nil |
| Fund holdings of currency | 75 per cent |
| SDR holdings as per cent of net cumulative allocation | 100 per cent |
| Exchange rate (floating); September 18, 1974 | US\$1 = M\$2.4148; SDR 1 = M\$2.8698 |

I. Economic Growth and Development

1. Overview

The quickening of the pace of economic activity in Malaysia that became evident in the second half of 1972, developed into a strong expansion in 1973 which continued into the first half of 1974. During 1971 and the first half of 1972, the economy had been adversely affected by falling primary commodity prices and sluggish private investment. An anticyclical fiscal policy succeeded in partly counteracting these adverse factors, but the main stimulus to the recent expansion came from a marked increase in overseas demand for Malaysian exports in late 1972 and 1973.

Output rose substantially in 1973 and resulted in the utilization of the excess capacity that existed in 1972. Indeed, in the construction and certain manufacturing industries, capacity limitations created supply problems. Labor conditions in the manufacturing sector tightened during 1973. The economy remained buoyant during the first half of 1974, but any substantial slackening in overseas demand for Malaysian exports in the latter part of the year would ease the situation in 1975.

For many years Malaysia enjoyed an unusual degree of price stability, but in 1973 and 1974 rising prices became a serious problem. The Consumer Price Index increased by 18 per cent during 1973, and by 7 per cent during the first six months of 1974. GNP at current prices increased by 25 per cent during 1973 (Table 1), and in real terms by about 10 per cent. Price inflation reflected external factors and a strong domestic demand supported by a large expansion in credit.

2. Developments in demand conditions

The large share of exports in GNP (49 per cent in 1973) makes the Malaysian economy particularly sensitive to fluctuations in export demand. Therefore, the increases in the prices of Malaysia's leading primary exports in 1973, together with the rapid expansion of private investment, resulted in a marked buoyancy in the Malaysian economy. During 1973 exports (valued in SDRs) grew by 59 per cent, in contrast to a 3 per cent decline in 1972. For the first time since 1969, the terms of trade in 1973 moved in Malaysia's favor. The export unit value rose by 28 per cent, while the unit value of imports increased by about 16 per cent, giving rise to an 11 per cent improvement in the terms of trade. Consequently, real national income adjusted for the change in the terms of trade increased by about 13 per cent.

In 1973 private sector fixed investment increased by about 7 per cent in real terms, in contrast to a decline of about 7 per cent over the past two years; in current prices the increase amounted to 28 per cent, as prices of imported machinery and equipment and construction costs were substantially higher. Much of the increase in private investment was concentrated in the building sector; as a result supply shortages emerged.

Table 1. Malaysia: Gross National Expenditures
at Current Prices, 1969-73

| | 1969 | 1970 | 1971 | 1972 | 1973 | 1970 | 1971 | 1972 | 1973 |
|---------------------------------|------------------------------------|--------|--------|--------|--------|-----------------------------|------|------|------|
| | (In millions of Malaysian dollars) | | | | | (Annual percentage changes) | | | |
| Consumption expenditure | 8,545 | 9,213 | 10,024 | 10,972 | 12,708 | 7.8 | 8.8 | 9.5 | 15.8 |
| Private | 6,719 | 7,151 | 7,543 | 7,975 | 9,350 | 6.4 | 5.5 | 5.7 | 17.2 |
| Public | 1,826 | 2,062 | 2,481 | 2,997 | 3,358 | 12.9 | 20.3 | 20.0 | 12.0 |
| Gross fixed capital formation | 1,559 | 1,874 | 2,166 | 2,556 | 3,152 | 20.2 | 15.6 | 18.0 | 23.3 |
| Private | 946 | 1,181 | 1,314 | 1,248 | 1,600 | 24.8 | 11.3 | -5.0 | 28.2 |
| Public | 613 | 693 | 852 | 1,308 | 1,552 | 13.1 | 22.9 | 53.5 | 18.7 |
| Gross domestic expenditures | 10,104 | 11,087 | 12,190 | 13,528 | 15,860 | 9.7 | 9.9 | 11.0 | 17.2 |
| Private | 7,665 | 8,332 | 8,857 | 9,223 | 10,950 | 8.7 | 6.3 | 4.2 | 18.7 |
| Public | 2,439 | 2,755 | 3,333 | 4,305 | 4,910 | 13.0 | 21.0 | 29.0 | 14.1 |
| Increase in inventories | 12 | 181 | 138 | 150 | 200 | | | | |
| Net trade in goods and services | 862 | 349 | -55 | -484 | 374 | | | | |
| Exports | 5,549 | 5,666 | 5,543 | 5,360 | 8,010 | 2.1 | -2.2 | -3.3 | 49.4 |
| Imports | 4,687 | 5,317 | 5,598 | 5,844 | 7,636 | 13.4 | 5.3 | 4.4 | 30.7 |
| Gross national product | 10,978 | 11,617 | 12,273 | 13,194 | 16,434 | 5.8 | 5.6 | 7.5 | 24.6 |
| Gross national savings | 2,254 | 2,221 | 2,082 | 2,064 | 3,495 | -1.5 | -6.3 | -0.9 | 69.3 |
| Per capita GNP | 1,035 | 1,070 | 1,098 | 1,148 | 1,380 | 3.4 | 4.5 | 4.6 | 20.2 |

Sources: Department of Statistics, Malaysia, and Bank Negara Malaysia.

Private consumption expenditure at current prices rose by 17 per cent, compared with a 6 per cent increase in 1972. Although most of the increase was due to higher prices, real consumption increased significantly, particularly purchases of consumer durables which recorded a sharp rise over 1972. Total public expenditure increased 14 per cent in 1973; in 1971 and 1972 they had expanded by 21 per cent and 29 per cent, respectively.

3. Developments in supply conditions

a. Industrial origin of gross domestic product

Gross domestic product at factor cost rose by 26 per cent in 1973, compared with an increase of 8 per cent in 1972 (Appendix Table I). However, at constant prices, gross domestic product increased by 9 per cent in 1973, and by 7 per cent in 1972; in 1974 it is expected to rise by 7 per cent.

The value of agricultural production rose by 47 per cent in 1973, and the value added in the forestry, hunting, and fishing sectors rose by 60 per cent. The increases were due to higher prices and output. The value of mining production rose by only 5 per cent in 1973, owing to a decline in the production of tin and a slight fall in the output of petroleum. The value of manufacturing output increased by 25 per cent and that of construction by 31 per cent in 1973.

The agricultural sector accounted for 23 per cent of GDP in 1973, compared with 20 per cent in 1972, while the share contributed by forestry, hunting, and fishing increased from 7 per cent in 1972 to 9 per cent in 1973. The contribution of manufacturing to GDP declined slightly from 15.4 per cent in 1972 to 14.9 per cent in 1973.

b. Primary sector production

Rubber cultivation accounts for approximately 60 per cent of the cultivable land and employs about 26 per cent of the labor force. In 1973, Malaysia produced 45 per cent of the world's supply of natural rubber, and 34 per cent of its export earnings were derived from rubber.

In response to strong overseas demand and higher prices, output of rubber increased by 18 per cent in 1973, in contrast to an annual average increase of 1.5 per cent in the three preceding years (Table 2). The bulk of the increase came from smallholdings whose output increased by 36 per cent; output of estates, which is much less price responsive in the short run, rose by only 3 per cent. The increase in output from the smallholding sector was attributable to an estimated 10 per cent increase in the area tapped and to more frequent tapping of trees.

During the 13-month period to January 1974, rubber prices (monthly average) increased by 135 per cent; however, during the subsequent seven

Table 2. Malaysia: Agricultural, Forestry, and Mineral Production, 1969-73

(In thousands of metric tons)

| | 1969 | 1970 | 1971 | 1972 | 1973 ^{1/} | Percentage Change 1973 Over 1972 |
|------------------------------|--------|--------|--------|--------|--------------------|-------------------------------------|
| Rubber ^{2/} | 1,268 | 1,269 | 1,319 | 1,325 | 1,566 | 18.2 |
| Milled rice | 1,034 | 1,088 | 1,164 | 1,186 | 1,281 | 8.0 |
| Oil palm products | | | | | | |
| Palm oil ^{2/} | 351 | 431 | 589 | 729 | 812 | 11.4 |
| Palm kernels ^{2/} | 78 | 92 | 126 | 151 | 167 | 10.6 |
| Copra | | | | 162 | 171 | 5.6 |
| Coconut oil | 88 | 96 | 100 | 96 | 82 | -14.6 |
| Logs ^{3/} | 13,264 | 14,404 | 14,898 | 19,052 | 21,893 | 14.9 |
| Sawn timber | 2,373 | 2,643 | 2,751 | 3,441 | 3,830 | 11.3 |
| Tin-in-concentrates | 73 | 74 | 75 | 77 | 72 | -6.5 |
| Bauxite | 1,073 | 1,139 | 978 | 1,077 | 1,143 | 6.1 |
| Iron ore | 5,234 | 4,491 | 950 | 521 | 517 | -0.7 |
| Crude oil (mn. U.S. barrels) | 3,387 | 6,559 | 25,071 | 33,867 | 33,050 | -2.4 |
| Natural gas ^{4/} | -- | -- | -- | 93,769 | 90,254 | -3.7 |

Source: Department of Statistics, Malaysia.

^{1/} Preliminary estimates.^{2/} Estimated from exports in the case of East Malaysia.^{3/} Metric tons of 50 cubic meters.^{4/} Expressed in thousand cubic meters; output commenced in 1972 following the discovery of natural gas off the coast of Sarawak in March 1971.

months they declined by more than one-third. Although it is difficult to forecast future price developments, the rise in oil prices has raised the costs of synthetic rubber, and it is unlikely that prices will decline to the low levels of 1972. In an effort to stabilize prices, the Government in July advised rubber estates and exporters to increase their stocks by 10 per cent, and in the latter part of August the Government purchased rubber directly in the market. With the prevailing price in July and August 1974 of about M\$1.60 per kilo, producers were able to make satisfactory profits.

The average yield per acre of estates continues to be much higher than that of smallholdings. In order to develop a stronger smallholding sector, the Rubber Industry Smallholders Development Authority (RISDA) was established in January 1973. The Authority's objective is to raise the productivity and income of smallholders; it assists in the replanting and new planting of rubber trees and provides credit for the purchase of inputs such as fertilizers. The Authority also makes available to smallholders the latest innovations and research findings on rubber. The Malaysian authorities are continuing their efforts to improve the competitive position of natural rubber by developing higher yielding trees with shorter gestation periods and better tapping techniques.

On August 19, 1973 the Malaysian Rubber Market separated from the Singapore market, and in September 1973 the Malaysian Rubber Exchange and Licensing Board was established. As of the beginning of April 1974, the SMR (Standard Malaysian Rubber) symbol could no longer be used by factories in Singapore. The Malaysian Government intends to make Kuala Lumpur the leading market for natural rubber within five years.

Rice is the second most important agricultural commodity in terms of land usage and labor employed. In 1973 rice production increased by 8 per cent, compared with a 2 per cent increase in 1972. The higher rate of increase was due to a larger acreage planted for the off-season crop and to improved yields from the wider use of fertilizers and high-yielding seeds. Through various irrigation projects, the area under double cropping has been increased to almost 30 per cent of the total paddy acreage. Although the guaranteed minimum price of paddy was left unchanged at M\$16 per picul, the National Paddy and Rice Authority raised its buying price to a range of M\$19 to M\$23 in November 1973, M\$19 to M\$26 in January 1974, and M\$29 to M\$31 in August 1974.

In view of the recent worldwide food shortages, the Government has raised the self-sufficiency target for rice from 90 per cent to 100 per cent; this target is expected to be met for West Malaysia by 1976, and for Malaysia as a whole by 1980. It is planned to increase the area under double cropping and to develop new areas for rice cultivation. In 1973, rice output met 82 per cent of domestic consumption requirements. In 1974 rice production is expected to rise by about 10 per cent.

Palm oil is Malaysia's second most important plantation crop and has been the main crop in the agricultural diversification program. Malaysia

is the world's largest producer and exporter of palm oil. Output increased at an average annual rate of 27 per cent during the period 1968-72, but by only 12 per cent in 1973. A drought in 1972 and early 1973 resulted in reduced production in the latter part of 1973. In 1974, output is expected to increase by 16 per cent and by 31 per cent in 1975. The area under oil palm trees is estimated to have increased by 18 per cent in 1973, compared with a 15 per cent increase in 1972; acreage will increase by a further 19 per cent in 1974, and 11 per cent in 1975. The most rapid increase in acreage occurred in the smallholder sector, including the Federal Land Development Authority (FELDA) and other public sector land schemes. This sector now accounts for about 50 per cent of the total area under oil palm, and in West Malaysia its share of total palm oil output rose from 51 per cent in 1972 to 55 per cent in 1973. Several additional palm oil processing plants were established in 1973; it is expected that most refineries will export at least 60 per cent of production. Palm oil stocks in West Malaysia declined by 21,900 tons to 51,700 tons at the end of 1973.

Under the stimulus of strongly rising prices, copra production increased by 6 per cent in 1973, in contrast to a 7 per cent decline in 1972. During the next few years, output of copra and coconut oil is expected to increase moderately, owing to a gradual increase in new plantings and the replanting of existing acreage.

The production of pineapples continued to decline because of production problems and marketing difficulties abroad. Since 1972 the Malaysian Pineapple Industry Board has been implementing a scheme aimed at replanting the entire smallholding acreage with high-yielding plants by 1977.

Other important agricultural crops include tea, cocoa, coffee, tobacco, pepper, sago, tapioca, maize, groundnuts, and sugarcane. Emphasis is being placed on expanding production of cocoa and sugarcane. Four integrated sugar projects were established recently, of which two commenced production in 1973; in that year, 18,900 metric tons of refined sugar were produced from locally cultivated sugarcane. Although it is hoped that domestic production will eventually meet four-fifths of Malaysia's consumption, progress so far has been slow. In 1973 Malaysia imported about 340,000 tons of raw sugar. The most serious problem has been the selection and cultivation of a suitable species of sugarcane that would grow well under Malaysian soil and climatic conditions. Malaysia ratified the 1969 International Sugar Agreement (1969-1973) in late 1973; the Agreement has been extended for two years from January 1, 1974 without market intervention provisions. Production of cocoa beans increased by nearly 50 per cent in 1973. The discovery of an improved variety of cocoa plant has considerably brightened prospects for further output expansion. Production of pepper was estimated to have declined by 12 per cent in 1973, because of drought and disease infestation.

Malaysia remains heavily dependent on imports for most of its food requirements, including meat, dairy products, fruits and vegetables;

the prices of these commodities rose sharply in 1973. Consequently, Government policy is now directed toward accelerating food production.

Production of timber, which had expanded rapidly in 1972, continued to increase at a high but slower rate in 1973. The rise in export prices made timber the second largest export earner, accounting for 21 per cent of total exports. Production of logs, at 21,893 cubic meters, was 15 per cent higher than in 1972; about 85 per cent of the increase originated in Sabah. The large increase in output in Sabah (30 per cent) reflected the timber boom and uncontrolled logging operations; no new concessions were issued in 1973. However, a selective ban on the export of ten popular species of logs from West Malaysia, in effect since 1972, as well as strict enforcement of the official policy of regulating the exploitation of forests, led to a decline in the rate of increase of log production in West Malaysia from 22 per cent in 1972 to about 6 per cent in 1973. To ensure that the forest sector maintains its role as a contributor to the national economy, the National Forestry Council is establishing permanent forest reserves, in which harvesting will be based on the principle of sustained yield. The Government has encouraged the growth of integrated timber-based industries as part of its policy of promoting industries that use local raw materials. However, the rapid rate of expansion in wood-processing industries in West Malaysia in the face of a controlled and moderate growth in output of logs has created difficulties in obtaining adequate log supplies. Further expansion in wood-processing industries in West Malaysia may have to rely on log supplies from East Malaysia. In that area also, emphasis is being placed on promoting a wood-processing industry.

Production of tin-in-concentrates declined by 6 per cent in 1973 to 72.3 thousand metric tons, owing to the heavy rainfall in April and May, which temporarily closed down some of the gravel pump mines, and also to the lower grade ores mined during the year. Although tin prices increased in 1973, costs of production rose considerably and reduced the profitability of gravel pump mining. Production of tin-in-concentrates is expected to decline by 3 per cent in 1974. However, in 1975 production may increase by 2 per cent, because two new dredges are expected to commence operation and certain marginal gravel pump mines will go into production due to the higher prices.

Although production of crude oil declined by 2.4 per cent in 1973 to 33.1 million barrels, or a daily rate of about 90,600 barrels, output in 1974 is expected to average about 95,000 barrels a day. Domestic consumption in 1973 was estimated at about 84,000 barrels a day. The value of exports of oil and oil products exceeded the value of oil imports for the first time in 1973; the surplus amounted to SDR 4 million. In 1975 production from fields off Sabah is expected to commence, and total production may reach 135,000 barrels per day; output in 1979 is projected at 500,000 barrels per day. A national petroleum company (Petronas) is being established, in which the ownership of petroleum reserves in Malaysia will be vested. The existing exploration and exploitation agreements will be turned into production sharing arrangements.

Recent discoveries of natural gas indicate that future production will be substantial; construction of the M\$2 billion LNG plant at Bintulu in Sarawak is expected to commence in 1975. There are plans to construct a pipeline to distribute natural gas throughout West Malaysia from the reserves off the coast of Kuantan (West Malaysia); preliminary estimates indicate that these reserves are 5 trillion cubic feet.

c. Manufacturing production

The index of manufacturing production for West Malaysia rose by 20 per cent in 1973, compared with a 12 per cent rise in 1972 (Table 3). During the first three months of 1974, production increased by 2.3 per cent and is expected to increase by 15 per cent during the whole year. Production increased in practically all industries in 1973 and most plants operated close to full capacity, in contrast to the substantial underutilization of capacity that prevailed in 1971 and 1972.

Output of textiles rose by 26 per cent in 1973, compared with 28 per cent in 1972. The continuing high rate of growth reflected the increase in the number of integrated textile mills and improved export possibilities. In response to strong demand for passenger cars and commercial vehicles, the index for the assembly of transport equipment rose sharply by nearly 50 per cent in 1973. Other industries which recorded sizeable increases in output in 1973 included wood products (11 per cent), chemicals (15 per cent), cement and concrete products (14 per cent), and iron and steel products (17 per cent). Manufacturing output continued to grow during the first three months of 1974, although production of textiles declined, partly because of difficulties in obtaining raw materials.

The Malaysian Government's industrial development policy accords priority to the following types of industries: (a) export-oriented; (b) labor-intensive; (c) industries based on local resources; and (d) industries that upgrade local skills and introduce new technology. Kuantan and Johore Bahru are likely to become industrial centers in the future.

d. Construction and services

The construction boom that started in mid-1971 accelerated during 1973; measured in 1970 prices, value added in the construction sector increased by 17 per cent. Private sector demand for housing remained strong throughout 1973; widespread speculation in property led to substantial rises in the price of land and houses in urban areas. In order to curb this speculation, the Government introduced on December 6, 1973 a capital gains tax of 50 per cent on the profits made on the disposal of land and buildings within two years of purchase, if the purchase price was more than M\$200,000. The uptrend in property prices has moderated in recent months.

Table 3. Index of Industrial Production in West Malaysia, 1969 - March 1974

(1968 = 100)

| Period ^{1/} | Specific Manufacturing Industries ^{2/} | | | | | | | | | | | | | |
|----------------------|---|--------|------------------|--------------------|-------|----------------|---------------------|----------|------------------|--------------------|--|---------------------------------------|-------------------------------|------------------------|
| | Total | Mining | Elec- tricity | Manu- facturing | Food | Bever- ages | Tobacco products | Textiles | Wood products | Rubber products | Chemicals and chemical products | Cement and concrete products | Iron and steel products | Transport equipment |
| Weights (%): | 100.0 | 31.4 | 9.2 | 59.4 | 9.8 | 2.7 | 4.3 | 1.3 | 7.1 | 3.8 | 5.7 | 4.5 | 1.6 | 1.4 |
| 1969 | 109.1 | 97.6 | 105.7 | 115.6 | 103.7 | 124.2 | 115.0 | 111.6 | 107.7 | 109.1 | 111.5 | 111.9 | 143.9 | 210.2 |
| 1970 | 117.7 | 95.5 | 115.3 | 129.0 | 115.9 | 131.0 | 119.9 | 114.6 | 125.5 | 125.3 | 118.9 | 118.2 | 139.5 | 272.5 |
| 1971 | 120.0 | 85.3 | 123.1 | 137.8 | 111.9 | 129.4 | 123.5 | 122.0 | 140.4 | 131.9 | 121.6 | 119.3 | 166.5 | 281.9 |
| 1972 | 132.2 | 85.0 | 138.8 | 156.1 | 115.4 | 135.9 | 130.6 | 156.1 | 183.7 | 139.8 | 144.2 | 129.2 | 192.2 | 268.3 |
| 1973 | 150.6 | 80.6 | 153.5 | 187.1 | 130.3 | 169.7 | 154.5 | 196.8 | 203.3 | 166.5 | 165.6 | 147.0 | 225.5 | 393.0 |
| 1972 - March | 126.3 | 82.0 | 135.1 | 149.2 | 121.3 | 140.1 | 125.3 | 154.4 | 179.1 | 142.8 | 153.5 | 104.0 | 187.8 | 259.9 |
| - June | 132.4 | 86.7 | 140.4 | 155.2 | 123.6 | 116.5 | 134.9 | 147.7 | 191.0 | 142.8 | 138.4 | 109.6 | 185.5 | 262.0 |
| - September | 136.2 | 83.2 | 143.1 | 163.2 | 111.7 | 132.8 | 127.9 | 148.0 | 209.3 | 143.7 | 139.3 | 133.8 | 206.0 | 287.9 |
| - December | 138.9 | 82.4 | 145.4 | 167.8 | 124.3 | 187.3 | 153.0 | 192.4 | 169.1 | 166.4 | 138.6 | 137.2 | 217.7 | 301.7 |
| 1973 - January | 148.4 | 97.5 | 153.7 | 174.6 | 135.1 | 188.6 | 158.8 | 198.2 | 195.0 | 155.0 | 151.0 | 134.1 | 201.8 | 376.5 |
| - February | 137.5 | 78.7 | 135.0 | 168.9 | 123.1 | 174.7 | 139.5 | 189.1 | 167.5 | 139.5 | 162.7 | 136.6 | 204.1 | 318.1 |
| - March | 141.1 | 79.3 | 152.5 | 171.9 | 131.3 | 116.6 | 147.6 | 193.4 | 202.0 | 169.2 | 157.7 | 125.5 | 212.0 | 392.1 |
| - April | 145.1 | 79.0 | 148.0 | 179.5 | 142.5 | 121.5 | 137.0 | 191.0 | 198.6 | 169.2 | 163.1 | 144.5 | 247.5 | 384.9 |
| - May | 152.3 | 79.8 | 154.5 | 190.3 | 136.3 | 177.1 | 157.9 | 195.3 | 212.8 | 177.1 | 180.3 | 145.0 | 257.8 | 403.4 |
| - June | 142.7 | 72.0 | 153.1 | 178.5 | 130.5 | 161.4 | 142.4 | 136.5 | 194.8 | 160.6 | 158.2 | 146.1 | 209.3 | 381.7 |
| - July | 155.2 | 81.4 | 159.8 | 193.4 | 131.7 | 176.0 | 155.7 | 193.7 | 225.3 | 172.1 | 167.1 | 151.1 | 234.4 | 418.1 |
| - August | 154.7 | 78.6 | 156.7 | 194.5 | 123.2 | 177.6 | 155.2 | 184.9 | 216.5 | 158.9 | 168.8 | 158.2 | 257.6 | 436.3 |
| - September | 153.4 | 78.3 | 156.1 | 192.6 | 122.6 | 161.0 | 161.4 | 190.2 | 211.8 | 151.6 | 164.3 | 148.1 | 217.1 | 388.2 |
| - October | 160.8 | 85.2 | 156.1 | 201.4 | 125.0 | 161.2 | 163.8 | 208.5 | 231.3 | 158.4 | 194.1 | 171.1 | 256.5 | 370.8 |
| - November | 157.1 | 77.8 | 157.5 | 199.0 | 129.6 | 205.2 | 167.0 | 212.3 | 202.0 | 167.0 | 166.1 | 144.6 | 177.1 | 444.2 |
| - December | 159.1 | 79.6 | 159.5 | 200.9 | 133.3 | 215.9 | 162.5 | 217.4 | 181.5 | 190.4 | 152.6 | 158.3 | 210.9 | 451.2 |
| 1974 - January | 153.7 | 77.7 | 155.6 | 193.6 | 118.5 | 174.1 | 131.1 | 151.6 | 185.0 | 119.5 | 165.7 | 142.9 | 258.2 | 409.4 |
| - February | 158.6 | 71.9 | 155.5 | 204.8 | 138.3 | 171.9 | 163.9 | 161.2 | 172.9 | 162.0 | 158.1 | 148.8 | 201.7 | 536.4 |
| - March | 162.7 | 71.2 | 170.9 | 209.4 | 136.2 | 170.6 | 164.1 | 142.2 | 194.3 | 173.9 | 155.5 | 143.7 | 253.1 | 566.5 |

Source: Department of Statistics, Malaysia.

^{1/} Annual indices are averages of monthly indices.^{2/} Weights refer to total industrial production.

The share of the services sector in GNP has remained constant over the past three years at about 45 per cent. In West Malaysia electricity consumption rose by 11 per cent in 1973, compared with an increase of 13 per cent in 1972. The tourist industry continued to grow; the number of visitors increased by about 21 per cent in 1973, and the number of hotel rooms of international standard increased by 3,000 to 10,400 at the end of 1973.

4. Development planning

a. The Mid-Term Review

The Mid-Term Review of the Second Malaysia Plan, 1971-1975,^{1/} was published in November 1973. The original Plan estimates were based on the assumption of a zero rate of inflation over the period 1971-75. Because the prices of consumer and investment goods rose appreciably during the first three years of the Plan, it is difficult to make a meaningful comparison between actual expenditures and planned outlays.

The original Plan estimate for total public sector development expenditures was M\$7,250 million. However, the Government assumed a shortfall in expenditures of about 17 per cent and projected a figure of M\$6,000 million as the "minimum actual" level of development outlays. For the period 1971-73, public sector development expenditure amounted to M\$4,854 million; after taking into account expected shortfalls, it is envisaged that during the remaining two years a sum of M\$3,947 million would be disbursed. Total public sector development expenditure for the entire Plan period would now be M\$8,801 million, or about 46.7 per cent above the original target for actual disbursements. The share of commerce and industry in total public development expenditure has been raised from 8 per cent to 13 per cent; 55.3 per cent of the expenditures on commerce and industry is allocated to finance the enlarged programs of the National Corporation (PERNAS), the Council of Trust for Indigenous People (MARA), the Urban Development Authority (UDA), and the State Economic Development Corporations (SEDCs). The activities of these institutions focus on the development of modern commercial and industrial activities in the rural areas and new growth centers in urban areas. They play an important role in expanding opportunities for participation by Malays in these sectors by providing financial and technical assistance to help them start and sustain their own business ventures. They also acquire share capital in existing and new enterprises to be held in trust for Malays until such time as they are in a position to acquire these shares on their own. An accelerated program for the development of utilities has been provided for, and in addition, expenditures on public housing and education have been increased by more than 30 per cent. To meet the increased outlays, planned foreign borrowing has been increased by 92 per cent to M\$1,383 million, and net domestic borrowing by 38 per cent to M\$4,854 million during the Plan period 1971-75.

^{1/} For details of the Second Malaysia Plan (1971-75), see SM/72/148, pp. 18-23.

During the period 1971-73, real output grew at a rate of 6.9 per cent, compared with the Plan target of 6.8 per cent. The average annual rate of growth of agricultural production was 7.5 per cent, compared with the Plan target of 8.3 per cent; the slower growth is attributed largely to the decline in commodity prices during 1971-72. Production of rubber and paddy grew less rapidly than the Plan envisaged, whereas production of logs and palm oil exceeded the target rates. In real terms, value added in manufacturing grew by 15.4 per cent annually during 1971-73, exceeding the Plan target of 12.5 per cent. Average annual growth in construction measured by value added in current prices rose by 16.1 per cent in 1971-73, compared with the Plan target of 9.4 per cent.

During 1971-73, employment increased at an annual average rate of 3.4 per cent, representing the creation of 348,000 jobs, or about 58 per cent of the original Plan target for the five-year period. Unemployment declined from 7.5 per cent in 1970 to 7.3 per cent in 1973. Agriculture's share in the new job creation was only 28 per cent. Land development programs provided 65,000 new jobs; this was partially offset by the decline in employment in the rubber estates by about 11,000 jobs. Twenty-nine per cent of new employment was in the manufacturing sector; the average annual growth rate of employment during 1971-73 in this sector was 9.5 per cent, compared with the Plan target of 7.0 per cent. The average annual growth rate of employment in construction and commerce also exceeded the Plan targets.

b. Outline Perspective Plan, 1970-90

The achievement of the objectives of the Government's New Economic Policy (NEP) launched in 1971 ^{1/} viz., (a) the eradication of poverty among all Malaysians, irrespective of race; and (b) the restructuring of Malaysian society so that the present identification of race with economic function and geographical location is reduced and eventually eliminated, has been set within a period of 20 years, or approximately one generation. The Mid-Term Review includes an "Outline Perspective Plan" for the period 1970-90, covering the output, employment and distribution objectives of the New Economic Policy. The Second Malaysia Plan marks the first five years of this period. During this Perspective Plan period, the policies, programs, and projects will be designed to: (a) generate employment opportunities at a rate sufficient to reduce current levels of unemployment; (b) increase the productivity and income of all those engaged in low productivity rural and urban occupations by increasing their access to opportunities to acquire skills, land, capital, and other necessary inputs and by eliminating underemployment; (c) reduce the existing inequitable distribution of income between income classes and races; (d) modernize rural life and improve the living conditions of the poor in urban areas through the provision of a wide range of social services, including public housing, water supplies, health services, and community facilities;

^{1/} For details see SM/72/148, p. 18.

(e) promote the creation of a commercial and industrial community among Malays so that by 1990 they will own and manage at least 30 per cent of the total commercial and industrial activities of the country. Other Malaysians would own 40 per cent of the share capital of commercial and industrial undertakings and the remaining 30 per cent would be foreign-owned. Despite the fact that the share of Malays in the total share capital of enterprises is expected to increase from under 2 per cent in 1970 to 30 per cent in 1990, the envisaged rapid growth of the economy would permit ownership of capital by other Malaysians to expand at an average annual rate of about 11 per cent, and by foreigners by about 8 per cent. Expanding investment in manufacturing would play a leading role in meeting the goals of the NEP and in generating employment, which is expected to increase by 7.5 per cent annually in this sector. By 1990 employment in manufacturing is expected to reach 22 per cent of total employment, compared with 10 per cent in 1970.

In line with the above policies, the Malaysian Government issued guidelines on February 12, 1974, regulating the acquisition of assets, mergers, and takeovers of companies and businesses in Malaysia in order to achieve a more balanced Malaysian participation in ownership and control that would conform to the objectives of the New Economic Policy. The guidelines apply to any proposed acquisition by foreign interests of any substantial fixed assets in Malaysia and to any merger or takeover of companies and businesses in Malaysia whether by Malaysian or foreign interests. The guidelines do not apply to specific projects approved by the Government. For the purpose of implementing the guidelines, a Foreign Investment Committee has been established. It will be responsible for all major matters affecting foreign investment.

II. Prices, Wages, Employment, and Population

1. Prices

In 1973 inflation became the major economic problem confronting the Malaysian authorities. Over the year, the consumer price index increased by 18 per cent, in contrast to a 4 per cent increase in 1972 and a 1 per cent average increase during the period 1961-71 (Table 4). All the components of the consumer price index recorded increases; the food component, which has a weight of 46.8 per cent, rose by 31 per cent between December 1972 and December 1973, while clothing and footwear with a weight of 4.8 per cent, rose by 28 per cent. Within the food group, rice and other cereals, meat, fish, and fruits and vegetables rose by 42 per cent, 36 per cent, 35 per cent, and 28 per cent, respectively.

Prices continued their rapid uptrend in the opening months of 1974, and in March the consumer price index was 24 per cent higher than a year earlier; however, there was some deceleration in subsequent months, and the index for June was 18 per cent higher than in June 1973. Between December 1973 and June 1974, the index showed a rise of 7 per cent.

Table 4. Malaysia: Consumer Price Index for West Malaysia, 1962-74

(1967=100)

| Period ^{1/} | Total | Food | Beverages and Tobacco | Clothing and Footwear | Rent, Fuel and Power | Furniture, Furnishings and House- hold Equip- ment | Medical Care and Health Expenses | Transport and Communi- cation | Recreation, Entertain- ment, Educa- tion and Cultural Services | Miscellaneous Goods and Services |
|----------------------|-------|-------|-----------------------------|-----------------------------|----------------------------|--|---|-------------------------------------|---|--|
| <u>Weights</u> | | | | | | | | | | |
| | 1000 | 468 | 89 | 48 | 94 | 66 | 20 | 104 | 56 | 55 |
| 1969 | 99.4 | 96.9 | 100.8 | 101.1 | 100.4 | 101.7 | 100.8 | 100.9 | 104.6 | 103.1 |
| 1970 | 101.3 | 99.1 | 102.8 | 102.3 | 101.1 | 105.7 | 101.9 | 102.8 | 106.2 | 103.3 |
| 1971 | 102.9 | 100.8 | 103.5 | 102.9 | 102.1 | 108.2 | 102.7 | 103.6 | 111.3 | 105.8 |
| 1972 | 106.2 | 103.8 | 107.3 | 105.8 | 102.9 | 113.9 | 103.1 | 106.4 | 115.4 | 112.8 |
| 1973 | 117.4 | 120.3 | 108.5 | 129.0 | 104.4 | 128.6 | 107.7 | 109.5 | 119.8 | 122.5 |
| 1972 Mar. | 105.4 | 103 | 107 | 104 | 103 | 113 | 103 | 106 | 115 | 110 |
| June | 105.5 | 102 | 108 | 106 | 103 | 115 | 103 | 106 | 115 | 113 |
| Sept. | 106.6 | 104 | 108 | 107 | 103 | 115 | 103 | 106 | 116 | 114 |
| Dec. | 108.6 | 107 | 107 | 109 | 103 | 116 | 104 | 109 | 116 | 115 |
| 1973 Jan. | 109.7 | 109 | 107 | 111 | 103 | 119 | 104 | 109 | 118 | 116 |
| Feb. | 109.9 | 108 | 107 | 114 | 103 | 120 | 104 | 109 | 119 | 118 |
| Mar. | 110.1 | 108 | 108 | 118 | 104 | 121 | 104 | 109 | 119 | 119 |
| Apr. | 111.6 | 109 | 108 | 127 | 104 | 124 | 106 | 109 | 119 | 119 |
| May | 114.5 | 114 | 109 | 129 | 104 | 126 | 107 | 109 | 119 | 122 |
| June | 115.9 | 117 | 109 | 131 | 104 | 129 | 108 | 109 | 120 | 125 |
| July | 118.0 | 120 | 109 | 133 | 104 | 130 | 109 | 110 | 120 | 125 |
| Aug. | 119.4 | 123 | 109 | 134 | 105 | 132 | 110 | 110 | 120 | 126 |
| Sept. | 121.9 | 128 | 109 | 135 | 105 | 134 | 110 | 110 | 120 | 124 |
| Oct. | 123.3 | 130 | 109 | 138 | 105 | 135 | 110 | 110 | 121 | 125 |
| Nov. | 126.6 | 137 | 109 | 139 | 106 | 136 | 110 | 110 | 121 | 125 |
| Dec. | 128.3 | 140 | 109 | 139 | 106 | 137 | 110 | 110 | 121 | 126 |
| 1974 Jan. | 129.8 | 140 | 110 | 142 | 107 | 140 | 112 | 114 | 126 | 132 |
| Feb. | 134.0 | 148 | 110 | 143 | 109 | 142 | 112 | 114 | 126 | 134 |
| Mar. | 136.5 | 152 | 110 | 144 | 110 | 146 | 113 | 115 | 126 | 139 |
| Apr. | 135.3 | 148 | 110 | 144 | 110 | 148 | 115 | 116 | 126 | 141 |
| May | 136.5 | 150 | 110 | 144 | 109 | 149 | 115 | 120 | 126 | 142 |
| June | 137.3 | 151 | 110 | 144 | 110 | 150 | 116 | 121 | 126 | 140 |

Source: Department of Statistics, Malaysia.

^{1/} Annual indices are averages of monthly indices.

The substantial increase in consumer prices was attributable to external factors and also to the strong growth of domestic demand which was financed by a large credit expansion. During the second half of 1973 and in 1974, the Government took a number of measures aimed at moderating price increases. These included both monetary and fiscal measures, the removal of certain import quotas and reductions in import duties, and measures to increase domestic output of goods in short supply.

To reduce the impact on domestic prices of rising world market prices of rice, the Government decided to subsidize imported rice on a temporary basis. The 1973 budget provided M\$13.8 million for rice subsidies, while the 1974 budget has allocated M\$65 million for this purpose. In early 1974 a campaign was launched to curb profiteering and hoarding. Provisions in the Control of Supplies Act were invoked, making it an offense for merchants to hoard 13 "controlled" commodities: 1/ sugar, salt, milk, wheat flour, cooking oil, rice, prepared or preserved fish in airtight containers, kerosene, fertilizers, cement and clinker, insecticides, formic acid, and round steel bars. An Anti-Hoarding Secretariat was established at the Ministry of Trade and Industry, and there have been a number of prosecutions under the Act. On April 21, 1974, manufacturers, wholesalers, and retailers were required to possess a license in order to transact business in the following six commodities: sugar, wheat, flour, kerosene, coconut oil, and fertilizers. Also, the Central Bank instructed commercial banks not to extend credit for financing excessive stockpiling of controlled items.

In May 1974, the National Paddy and Rice Authority fixed the ex-mill price of rice, and on June 17, the wholesale and retail price of rice. Merchants were given until June 18, 1974 to dispose of existing ungraded stocks of rice, after which they could sell only the 16 controlled grades of rice.

Malaysia has allowed domestic prices of oil products to rise to reflect the higher international price of oil; prices were raised in December 1973 and again in May of this year.

2. Wages

The sharp rise in prices during 1973 generated substantial pressure for wage increases. Although Malaysia does not compile a wage index,

1/ The increase in prices of controlled commodities requires official approval. Rice has been a controlled commodity since 1965; the other commodities were added to the list in 1972 and 1973. The permission of the Ministry of Trade and Industry is also needed for price increases for those commodities produced by industries established after 1971 that have been granted either tax incentives, import duty exemptions or protection in the form of tariffs or quantitative restrictions on imports. During 1973 and 1974 price rises for a number of such products were permitted.

available information indicates that during the past year wage increases have not been an autonomous inflationary factor; they have generally compensated for price increases that had already occurred. In October 1973, the Federal and State Governments introduced a special relief allowance for lower paid government employees: for monthly salaries of M\$300 or less the monthly allowance was \$30; for salaries ranging between \$301 and \$400 the allowance was \$20; and for salaries ranging between \$401 and \$500 the allowance was \$15. The private sector was encouraged to follow the Government's lead, and, in many instances, unionized labor obtained higher allowances than those paid by the Government. In Malaysia only about 10 per cent of the labor force is organized, but wage increases in the unorganized sector generally follow those of the organized sector. It was announced in September 1974 that public sector employees would receive a one-month salary bonus; except for the special relief allowance, public sector salary scales have remained unchanged since 1972. Man-days lost through strikes totaled 49,553 during the first six months of 1974, compared with 40,866 man-days lost during the full year of 1973. These figures suggest that pressure for larger wage increases may be building up.

Wages of workers in rubber plantations rose rapidly during 1973, because the wage rate for rubber tappers is tied to the price of rubber under the collective agreement between the National Union Plantation Workers and the Malayan Agricultural Producers Association. In 1973 the average daily wage of rubber tappers was 42 per cent higher than in 1972.

3. Employment

Although the results of the Labor Force Survey conducted in April-May of this year are not yet available, indications are that the downward trend in unemployment has continued in 1974. Unemployment is estimated to have declined to 7.3 per cent in 1973, compared with 7.5 per cent in 1970. In 1973, employment in the manufacturing sector increased by 10 per cent, half of which was accounted for by the electronics industry. Employment in the construction sector rose by 8 per cent; the increase would have been higher if more skilled labor had been available. Unemployment in urban areas declined during 1973, but continued to be substantially higher than in the rural areas. Unemployment continued to be concentrated among young persons.

Statistics collected by the Ministry of Labor and Manpower showed that the number of new job openings registered in employment exchanges increased by 42 per cent to 53,468 during 1973. Forty-eight per cent of the new openings were in the manufacturing sector. The number of unplaced registrants declined from a monthly average of 164,000 in 1972 to 161,000 in 1973, and in April 1974 it was 11 per cent lower than a year earlier.

The prospects for employment growth during 1974 and 1975 are considered good; according to the revised targets of the Second Malaysia Plan, agriculture will account for 28.2 per cent and manufacturing for 24.2 per cent of new employment during these two years. The land development program continues to be the most important means for expanding agricultural employment. In manufacturing, emphasis is being placed on the establishment and expansion of labor-intensive industries, such as textiles, electronics, wood, and rubber products, as well as the dispersal of industry to less developed areas. During 1973 a significant number of new jobs were created in the rural areas of Perlis, Kedah, Trengganu, Pahang, and Malacca.

4. Population

Although the National Family Planning Board has made progress, the low priority accorded to the Board's program, compared with other government programs, has resulted in delays in implementation. In early 1973 an enlarged five-year program was launched by the Board to extend and improve family planning in rural areas. The program is expected to cost at least M\$38 million over the five-year period.

III. Public Finance

1. Introduction

The government sector in Malaysia consists of the Federal Government, 13 state governments, a large number of municipalities, and a number of nonfinancial public enterprises. Its influence on the economy is large and has been growing over the last years; the consolidated expenditures of the Federal and State Governments plus the public authorities, expressed as a share of GNP, rose from 32 per cent in 1970 to 38 per cent in 1973. Given the federal structure of Malaysia, many revenue sources are shared between the Federal and State Governments, and loans and grants from the Federal Government constitute an important source of revenue for the State Governments and for the other public authorities. The States' own resources stood at about one fifth of Federal Government revenue in 1973. While the Federal Government may have recourse to domestic (bank and non-bank) and foreign borrowing, the State Governments rely only on their own receipts and federal grants and loans. State Governments undertake as much as one third of total government investment and finance a large part of it by grants and loans from the Federal Government.

As a group, the nonfinancial public enterprises and the four major municipalities ^{1/} that are included in the public sector analysis have

^{1/} National Electricity Board, Malayan Railway Administration, Kelang Port Authority, Penang Port Commission, Kuching Port Authority, Sarawak Electricity Supply Corporation, Sabah Electricity Board, Telecommunications Department, the City Councils of Kuala Lumpur and Penang, and the municipalities of Ipoh and Malacca.

recorded an operating surplus in each year since 1971. The development programs of these public authorities are financed by their own resources, government loans, domestic bank credit, and foreign borrowings.

2. Public sector developments

The public sector, which had exerted a strong expansionary impact in 1972 in order to counter the effects of the lower export earnings of that year, was less expansionary in 1973 (Table 5). This reflected the Government's anticyclical policy in a year of rapid growth of private sector demand. The overall deficit of the consolidated public sector amounted to M\$1,558 million in 1972, but was reduced to M\$1,272 million in 1973, and was equal to about one fifth of total public sector expenditures. In both 1972 and 1973 revenues increased by about 17 per cent, while total expenditures increased at a much lower rate in 1973 (7 per cent) than in 1972 (27 per cent). Total public sector expenditures in 1973 represented about 38 per cent of GNP. Current expenditures were restrained, and a current surplus of M\$312 million, equivalent to 7 per cent of the revenue, was achieved against a current account deficit in 1972.

Estimates for 1974 indicate that revenues are expected to grow by about 24 per cent, and total expenditures by 28 per cent. The overall public sector deficit is estimated at M\$1,847 million, or about 45 per cent higher than in 1973. About 75 per cent of the 1972 deficit and 95 per cent of the 1973 deficit was financed from domestic sources. The reliance on foreign financing was reduced from 25 per cent in 1972 to 5 per cent in 1973, but is expected to reach 10 per cent in 1974. To finance the public sector deficit, liquid assets of the Federal and State Governments were run down both in 1972 and 1973 and are expected to be reduced further in 1974.

3. Federal Government budget

a. General budget position

The overall deficit of the Federal Government amounted to M\$1,079 million in 1973, this was 17 per cent below the 1972 deficit and was equal to 23 per cent of total expenditure (Table 6). This decrease of the overall deficit was the result of a sharp increase in revenue and a drastic reduction in the rate of growth of current expenditure, which more than compensated for a 15 per cent increase in development expenditure. The current budget showed a M\$158 million surplus, against a deficit of M\$269 million in 1972.

The original 1974 budget was expected to show an overall deficit of M\$1,335 million, or 22 per cent higher than the 1973 deficit. However, as a result of continued high export prices and the fiscal measures taken in April 1974, the budget estimates have been considerably revised. The overall deficit estimated at M\$1,095 million, is approximately equal to that in 1973. Revenues are expected to increase by 24 per cent and current expenditures by 17 per cent over 1973; the current budget surplus is estimated at M\$425 million--as against M\$67 million in the original budget--while development expenditures are expected to exceed the original budget estimates by M\$126 million.

Table 5. Malaysia: Consolidated Public Sector, 1970-74

(In millions of Malaysian dollars)

| | 1970 | 1971 | 1972 | 1973 Revised Estimates | 1974 Estimates |
|---|--------------|--------------|--------------|------------------------------|-------------------|
| Government current revenue ^{1/} | 2,928 | 3,106 | 3,651 | 4,296 | 5,322 |
| Government current expenditure ^{1/ 2/} | <u>2,474</u> | <u>2,853</u> | <u>3,836</u> | <u>3,984</u> | <u>4,719</u> |
| Government current surplus or deficit (-) | 454 | 253 | -185 | 312 | 603 |
| Public authorities current surplus | <u>94</u> | <u>138</u> | <u>191</u> | <u>207</u> | <u>231</u> |
| Public sector current surplus | 548 | 391 | 6 | 519 | 834 |
| Public sector development expenditure | 946 | 1,400 | 1,564 | 1,791 | 2,681 |
| Governments | (845) | (1,215) | (1,376) | (1,516) | (2,298) |
| Public authorities | <u>(101)</u> | <u>(185)</u> | <u>(188)</u> | <u>(275)</u> | <u>(383)</u> |
| Public sector overall deficit | -398 | -1,009 | -1,558 | -1,272 | -1,847 |
| <u>Sources of financing</u> | | | | | |
| Foreign (net) | 30 | 340 | 400 | 72 | 192 |
| Domestic (net) | <u>368</u> | <u>669</u> | <u>1,158</u> | <u>1,200</u> | <u>1,655</u> |
| Total | 398 | 1,009 | 1,558 | 1,272 | 1,847 |

Source: Data provided by the Malaysian authorities.

^{1/} Federal and State Governments only.^{2/} Includes defense expenditures that, prior to 1973, used to be classified as direct development expenditures.

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Table 6. Malaysia: Federal Government Budgetary Operations, 1970-74

(In millions of Malaysian dollars)

| | 1970 | 1971 | 1972 | 1973 | 1974 Estimates |
|--------------------------------------|--------------|--------------|--------------|--------------|-------------------|
| Current revenue | 2,292 | 2,418 | 2,920 | 3,418 | 4,225 |
| Current expenditure ^{1/} | <u>2,182</u> | <u>2,519</u> | <u>3,189</u> | <u>3,260</u> | <u>3,800</u> |
| Current surplus or deficit (-) | 110 | -101 | -269 | 158 | 425 |
| Grants | 17 | 39 | 66 | 28 | 8 |
| Development expenditure | 600 | 949 | 1,102 | 1,265 | 1,528 |
| Direct development expenditure | (453) | (633) | (680) | (845) | (1,131) |
| Net government lending ^{2/} | <u>(147)</u> | <u>(316)</u> | <u>(422)</u> | <u>(420)</u> | <u>(397)</u> |
| Overall budgetary deficit (-) | -473 | -1,011 | -1,305 | -1,079 | -1,095 |
| Financing | | | | | |
| Foreign (net) ^{3/} | <u>23</u> | <u>343</u> | <u>403</u> | <u>70</u> | <u>160</u> |
| Domestic | <u>450</u> | <u>668</u> | <u>902</u> | <u>1,009</u> | <u>935</u> |
| Banking sector | <u>50</u> | <u>210</u> | <u>129</u> | <u>212</u> | <u>150</u> |
| Central bank (net) | (125) | (--) | (27) | (201) | (-50) |
| Commercial banks (net) | (-75) | (210) | (102) | (11) | (200) |
| Nonbanking sector | <u>400</u> | <u>458</u> | <u>773</u> | <u>797</u> | <u>785</u> |
| EPF | (233) | (320) | (350) | (385) | (440) |
| Other ^{4/} | <u>(167)</u> | <u>(138)</u> | <u>(423)</u> | <u>(412)</u> | <u>(345)</u> |
| Total financing | 473 | 1,011 | 1,305 | 1,079 | 1,095 |

Source: Data provided by the Malaysian authorities

^{1/} Includes defense expenditure that, prior to 1973, used to be classified as direct development expenditure.

^{2/} Includes government lending to States and statutory authorities.

^{3/} Includes changes in government's foreign assets.

^{4/} Includes changes in Trust Fund balances and errors arising from timing and other causes.

The pattern of financing of the 1973 deficit differed from that in 1972 in that a smaller part was financed through foreign borrowing (6 per cent in 1973, compared with 31 per cent in 1972); the amount financed domestically increased by M\$100 million in 1973. The sale of government securities to the nonbanking sector continued to be the most important source of financing. In 1973 the Employees Provident Fund (EPF) purchased (net) about M\$385 million, the Post Office M\$76 million, and various other nonbanking institutions M\$183 million of government securities (Appendix Table III). The financing of the 1974 deficit is again expected to rely heavily on the sale of government securities to these institutions; foreign borrowing is expected to increase to M\$160 million, but net bank borrowing would decline to M\$150 million.

b. Domestic current revenue

In 1973 current revenue was M\$3,418 million, or 17 per cent higher than in 1972; in 1974, it is expected to increase further by 24 per cent (Appendix Table IV).^{1/} This expansion largely reflected the booming economic activity and was accounted for by an increase in tax revenue. Tax revenues expressed as a percentage of GNP rose slightly from 18.2 per cent in 1972 to 18.4 per cent in 1973. Income taxes rose by 13 per cent, mainly because of the continuing improvement in tax enforcement and the collection of taxes on salary arrears paid to teachers and personnel of the armed forces in 1972. Export taxes recorded a sharp increase (85 per cent) and constituted 13 per cent of total current revenue in 1973, compared with 8 per cent in 1972. This increase was attributable to higher prices and export volume for rubber, tin, and palm oil. The sharp rise of rubber export prices activated the rubber export surcharge, which produced nearly M\$48 million in additional tax revenue. Revenues from import duties increased by 26 per cent and amounted to 22 per cent of total current receipts. However, import tax receipts did not keep pace with the surge in imports and amounted to 12.6 per cent of the latter in 1973, compared with 12.9 per cent in 1972. The substantial growth in private consumption in 1973 caused revenue from the sales tax to rise to M\$220 million, almost double the 1972 level. Excluding the distribution of assets of the former Currency Board from the 1972 figure, nontax revenues rose by 20 per cent in 1973.

Revised estimates indicate that current revenue in 1974 is expected to be 24 per cent higher than in 1973. This is due to the continuing expansion in economic activity, the introduction of several tax measures, and the inclusion, for the first time, of revenue from the federal territory of Kuala Lumpur (M\$15 million). Income taxes are expected to rise by 31 per cent, mainly because incomes realized in 1973, which serve as the base for 1974 income tax payments, had increased substantially over 1972. Owing partly to the introduction of a new export tariff for the major export products, which provides for sharper progressivity based on a sliding rate scale, export revenues are estimated

^{1/} A detailed description of the tax system is given in Annex A; investment tax incentives are summarized in Annex B.

at M\$749 million, or 74 per cent higher than in 1973. Receipts from excise duties are estimated to remain stable while revenue from import duties is expected to rise by about 15 per cent as a result of higher import prices and import volume.

Several tax measures were introduced in the 1974 budget; their revenue implications were as follows:

| | (In Malaysian dollars) |
|-----------------------|------------------------|
| Land speculation tax | 5.0 million |
| Export duty increases | 26.2 million |
| Income tax relief | -2.7 million |
| Stamp duty reduction | -0.9 million |
| Other | <u>-8.0 million</u> |
| Total | 19.6 million |

(1) Land speculation tax

To curb rising real estate prices, a 50 per cent tax was imposed on profits made on the disposal of land and buildings situated in Malaysia that were held by the seller for a period of less than two years and were sold for a value in excess of M\$200,000. Profits from the sale of principal residences and from sales of real estate by housing developers are exempted from this tax.

(2) Export duties

To encourage the domestic processing of timber, a 5 per cent export duty on sawn timber was introduced (revenue gain of M\$15 million). New duties on the export of certain food products and building materials that were in short supply may bring in an additional M\$11.2 million.

The tax changes that were expected to entail some loss of tax revenue were the following:

(3) Income tax relief

This measure reduced the discrimination between taxation of married and unmarried women--at an expected revenue loss of about M\$2 million. Tax deductions were introduced for incapacitated children (loss of M\$200,000), and incorporation expenses were made deductible for tax purposes to encourage the incorporation of small businesses (loss of M\$500,000).

(4) Stamp duty reduction

Stamp duties related to certain capital and money market transactions were reduced.

(5) Other tax changes

To help combat rising prices, the Government reduced or abolished import duties and excise taxes on certain essential products (loss of M\$7.9 million). Export taxes on iron ore were reduced from 15 per cent to 10 per cent (loss of M\$100,000).

In April 1974, the Government introduced additional fiscal measures to counteract the prevailing inflationary pressures. With respect to revenues: (i) a new surcharge at more progressive rates was imposed on rubber exports; (ii) the rates of export duty on palm oil at prices exceeding M\$800 per ton were made more progressive; and (iii) export surcharges were imposed on exports of palm oil and tin. The additional revenue yield from these tax measures in 1974 was estimated at M\$140 million.

c. Current expenditure

Current expenditures rose by about 2 per cent to M\$3,260 million in 1973, and are expected to increase by about 17 per cent in 1974 (Appendix Table V). The 1973 increase was spread over several items, with larger increases in public debt payments and expenditures on commerce and communications. Relief payments to federal government employees in the lower grades, enacted in October 1973, amounted to M\$20 million in 1973, and payments for retroactive salary increases totaled M\$40 million. The servicing of the public debt rose in 1973 by 16.0 per cent to M\$376 million, and was equal to 11.0 per cent of total current revenues. About 82 per cent of these debt service payments were interest payments on domestic debt.

In 1974 the largest increases in current expenditure are on agricultural and rural development (an increase of 72 per cent) and on special relief and other allowances budgeted for M\$200 million.

As indicated in Appendix Table VI, expenditures on wages and salaries declined by 6 per cent in 1973, owing to the fact that the corresponding amount in 1972 was inflated by the inclusion of large retroactive salary increases. In 1974, wages and salaries are expected to rise by 19 per cent and would equal 32 per cent of total current expenditures. Expenditures on services and supplies, which increased by 55 per cent in 1973, owing to sizable purchases of furniture and equipment, are expected to show little change in 1974.

d. Development expenditure

Development expenditures in 1973 increased by 15 per cent to M\$1,265 million; their growth had been limited by the inability of contractors to complete their work on schedule because of supply shortages and increased prices, and by administrative difficulties. The revised estimate for 1974 (M\$1,528 million)

is 21 per cent above actual development expenditures in 1973. The greater part of these expenditures has been budgeted for "direct" development by the Federal Government; the remainder represents lending to State Governments, statutory authorities, and public corporations.^{1/} These lending operations of the Government aim at decentralizing the development effort. In 1973 expenditures on economic services represented about two thirds of total development expenditures (Appendix Table VII); the greatest part of this amount went to agriculture and rural development and to commerce and communication (each about a quarter of total development expenditures). Social services account for about 20 per cent of the total, half of which is taken up by expenditures on education.

4. Fiscal position of the State Governments

The consolidated budgetary position of the 13 State Governments has deteriorated considerably in recent years (Appendix VIII). Overall deficits have increased from M\$52 million in 1970 to M\$309 million in 1973, or from 8 per cent to 26 per cent of total expenditures. The 1974 deficit is expected to reach M\$631 million, equal to 37 per cent of total expenditures.

Total expenditure rose by 15 per cent to M\$1,187 million in 1973, while receipts increased by 20 per cent to M\$878 million. In 1974 total expenditure is expected to be 46 per cent and total revenue 25 per cent higher than in 1973. Owing to higher timber prices and production, revenue from forest taxes rose by 54 per cent in 1973 to M\$264 million, accounting for about 30 per cent of total revenue (Appendix Table IX); in 1974, forest revenues are expected to decline to M\$210 million. Tax receipts from land and mines rose in 1973 by 44 per cent, and at M\$124 million, were about 14 per cent of total revenue; they are expected to increase further by 43 per cent in 1974. Nontax revenue is obtained from commercial undertakings, state property and miscellaneous fees and licenses; it accounted for 23 per cent of 1973 revenue. The 1974 budget provides for an increase in the duty on petroleum products imported in Sarawak, which is expected to yield an additional M\$3.4 million.

Federal Government grants to the States are expected to increase considerably in 1974, principally because they include a M\$200 million compensation payment to the Selangor State Government for the transfer of assets in the newly-established Federal Territory of Kuala Lumpur.

The rise in current expenditure (12 per cent and 27 per cent in 1973 and 1974, respectively) is attributable to increased payments for wages and salaries, owing to the expansion in the State Government's administrative machinery and higher loans to statutory authorities. The functional classification of current expenditures shows that general administration expenditures absorbed somewhat more than half of total current revenues in 1973 and are expected to absorb an even larger share in 1974 (Appendix Table X).

^{1/} The major loan recipients in 1973 were the State Governments (M\$121 million), the Federal Land Development Authority (M\$103 million), the Urban Development Authority (M\$41 million), the National Paddy and Rice Authority (M\$33 million), the Malaysian Rubber Development Corporation (M\$14 million), and MARA, the Council of Trust for Indigenous People (M\$11 million).

Development expenditures in 1973 rose by about 20 per cent over 1972 and are budgeted to increase again by 75 per cent in 1974. These increases benefited practically all categories of expenditures (Appendix Table XI).

Federal Government grants and loans contributed to the financing of about 81 per cent of the 1973 deficit and are expected to cover about 57 per cent of the 1974 deficit; changes in the State Governments' assets finance the remainder.

5. Financial position of the principal public authorities

Current revenue and current expenditure of the principal nonfinancial public enterprises and the four major municipalities rose by about 12 per cent in 1973 and are expected to rise at about the same rate in 1974 (Appendix Table XII). In 1973, a current surplus was recorded (M\$207 million), equivalent to 29 per cent of current revenue. In 1974 the current surplus is expected to amount to M\$231 million.

Development expenditure increased in 1973 by 46 per cent and is budgeted to rise by more than one third in 1974. As a result, the overall deficit is estimated at M\$68 million in 1973, and at M\$152 million in 1974; these amounts represent 9 per cent and 16 per cent of total expenditure, respectively. Government grants amounted to M\$88 million in 1973 and to M\$102 million in 1974. In the latter year, net foreign borrowing, at M\$58 million, is expected to be substantially higher than in 1973. In both years, the assets of public authorities recorded an increase.

6. Public debt

At the end of 1973, the Federal Government's total outstanding debt was M\$8,180 million, or 13 per cent higher than in 1972 (Appendix Table XIII); domestic debt accounted for about 82 per cent of the total. Despite an increase in the administrative ceiling for Treasury Bills outstanding, from M\$1,000 million to M\$1,200 million, the actual amount remained unchanged at about M\$1,000 million, and the net increase of the domestic debt was due solely to the increase in government bonds. As in 1972, the bulk of the increase in domestic debt in 1973 occurred in securities with a maturity of 16-20 years, and hence, the average maturity of the Government's domestic debt again increased. At the end of 1973, the Employees Provident Fund held about 46 per cent of the domestic debt, and the commercial banks about 20 per cent. The remainder was shared by the public sector (11 per cent), the Post Office Savings Bank (6 per cent), and various other institutions. The Treasury continues to benefit from "captive" markets for placing its securities which enables it to keep their yield below market rates; for instance, the yield on bonds with a three-year maturity was 6.5 per cent in December 1973, while the interest on deposits with one-year maturity was 8 per cent. In 1973 the external debt increased by 5 per cent and reached M\$1,468 million at the end of the plan. Only one new loan, equivalent to M\$45 million, was raised in the Netherlands capital market; the maturity was 4-7 years and the coupon rate was 6.75 per cent per annum. Repayments of market loans exceeded

the amount of this loan, and total market borrowings outstanding declined during 1973 to M\$774 million. Drawings on project loans were lower than originally anticipated, owing mainly to delays in project implementation. Repayments were M\$31 million, and the outstanding amount of project loans increased to M\$694 million.

IV. Credit and Monetary Developments

1. Money and credit

The 10-year period to 1971 was characterized by relative price stability and moderate monetary growth: consumer prices had increased, on the average, by 1 per cent, and money supply by 4 per cent. However, in the second half of 1972 a new trend became discernible, as monetary expansion and price increases began to accelerate; this uptrend gained momentum in 1973.

During 1973 bank credit to the private sector rose by 52 per cent to M\$4,586 million (Table 7); in 1972 it had increased by 17 per cent and in 1971 by 15 per cent. The sharp growth in bank credit in 1973 reflected the upsurge in economic activity; large increases were recorded in credit to the building and construction industry (117 per cent), the manufacturing sector (45 per cent), and professional and private individuals (57 per cent) (Appendix Table XIV). Net claims on Government recorded a much smaller rise in 1973 (M\$129.0 million) than in 1972 (M\$572.6 million).^{1/}

During 1973, money supply increased by 38 per cent to M\$3,735 million, and total liquidity (money plus quasi-money) by 31 per cent to M\$7,572.7 million; this compares with an increase of 24 per cent during 1972. The expansion in 1973 was associated principally with the increase in bank credit, but net foreign assets of the banking system also rose by M\$317.6 million; during 1972 net foreign assets had risen by M\$118.2 million. However, there were certain special factors that affected the growth rate of total liquidity in 1973; and the Central Bank has estimated that if adjustments were made to take account of these factors, the effective rate of growth would be reduced to between 20 per cent and 25 per cent.^{2/} From the latter half of 1972,

^{1/} This amount differs greatly from the figure shown in Table 6 for the reasons explained in footnote 1/ of Table 7.

^{2/} The special factors include: (a) The termination of the currency interchangeability with Singapore and Brunei in May 1973, which led to an increase in Malaysian currency to replace the Singapore and Brunei currencies previously circulating in Malaysia; this increase was equivalent to a 2.3 per cent rise in liquidity. (b) The termination of the currency interchangeability also led to increases in working deposit balances of nonresidents to facilitate settlements; the resulting increase in demand deposits in May and June were equal to about 1 per cent of liquidity. (c) The extension of the requirement to repatriate the foreign exchange proceeds from exports had an expansionary effect on liquidity. (d) The abnormally large increase in drawings on unutilized overdrafts in the last week of December 1973 following the credit restraints announced on December 17, 1973, was reflected in an increase in deposits estimated at more than 1 per cent of liquidity.

Table 7. Malaysia. Monetary Survey, 1971-74

(In millions of Malaysian dollars)

| | Changes During Period | | | | | | | | Outstanding on June 30, 1974 | |
|--|-----------------------|---------------------|---------|---------|---------|----------|---------|---------|------------------------------------|-----------|
| | 1971 | 1972 | 1973 | 1973 | | | | 1974 | | |
| | | | | I Qtr. | II Qtr. | III Qtr. | IV Qtr. | I Qtr. | | II Qtr. |
| Foreign assets (net) | 134.0 | 110.2 ^{1/} | 317.6 | -40.0 | 291.0 | 102.0 | -35.4 | 270.8 | 143.3 | 3,306.1 |
| Credit to private sector | 326.3 | 443.1 | 1,571.4 | 301.7 | 216.9 | 364.8 | 688.0 | 103.3 | 322.2 | 5,011.5 |
| Claims on Government (net) ^{2/} | 119.8 | 572.0 ^{1/} | 129.0 | 31.5 | -15.8 | -53.9 | 167.2 | -1.6 | -73.4 | 485.6 |
| Money | 87.9 | 595.1 | 1,019.7 | 172.1 | 245.2 | 217.8 | 384.6 | 46.4 | 1.7 | 3,783.3 |
| Currency | (60.5) | (208.7) | (448.7) | (45.9) | (99.5) | (141.8) | (161.5) | (91.0) | (34.9) | (1,844.0) |
| Demand deposits | (27.4) | (386.4) | (571.0) | (126.2) | (145.7) | (76.0) | (223.1) | (-44.6) | (-33.2) | (1,939.3) |
| Quasi-money | 455.3 | 502.2 | 781.8 | 135.5 | 229.2 | 160.1 | 257.0 | 270.9 | 194.3 | 4,302.7 |
| Total liquidity | 543.2 | 1,097.3 | 1,801.5 | 307.6 | 474.4 | 377.9 | 641.6 | 317.3 | 196.0 | 8,086.0 |
| Other items (net) | 37.5 | 36.7 | 216.5 | -14.4 | 17.7 | 35.0 | 178.2 | 55.2 | 191.1 | 717.2 |

Source: Bank Negara Malaysia

1/ The changes in foreign assets of the banking sector and in claims on government have been adjusted to take account of two special transactions which occurred in 1972. Firstly, there was a transfer to the Central Bank of receipts by the Federal Government of M\$184.8 million from the distribution of a substantial part of the foreign assets of the Board of Commissioners of Currency, Malaya and British Borneo. Secondly, the Government transferred a considerable portion of its accumulated foreign assets to the Central Bank as part of the continuing process of centralizing the country's external reserves.

2/ Refers only to Federal and State Governments

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money has been expanding at a faster rate than quasi-money; during 1973 it increased by 38 per cent, whereas quasi-money increased by only 26 per cent. This shift in liquidity preference was associated with inflationary expectations and the desire to hold larger cash balances as incomes grew; the increasing monetization of the rural sector arising from the sharp rise in exports and the prices of agricultural products also contributed to the rapid expansion in money.

Credit to the private sector rose by M\$425.5 million (9 per cent) during the first six months of 1974 and reached M\$5,012 million at the end of June; however compared with June 1973, the increase was 42 per cent. Net foreign assets of the banking system increased by M\$414.1 million, while net claims on Government declined by M\$80 million during the first half of 1974. Total liquidity rose by 7 per cent and at the end of June 1974 (M\$8,086 million) was 23 per cent higher than a year earlier; during the 12-month period to March 1974, total liquidity had increased by 30 per cent.

2. Monetary policy

In 1971 and 1972, monetary policy was directed toward creating monetary conditions that would induce a revival of economic activity. However by the end of 1972 and the opening months of 1973, there were clear indications that economic activity had picked up, and the Central Bank took successive steps indicating a shift in its policy toward restraint. The interest rates of commercial banks were raised in April 1973, August 1973, and December 1973 (Table 8). The minimum liquidity ratio that commercial banks are required to hold against deposits, other than savings deposits, was increased from 20 per cent to 25 per cent, effective August 16, 1973. Further measures were announced on December 17, 1973; they included: (a) an increase in the statutory reserves maintained with the Central Bank from 8.5 per cent to 10 per cent of total deposits to become effective on January 16, 1974; (b) an increase in the statutory reserves of borrowing companies (consumer finance companies) from 5 per cent to 7 per cent of their total deposits; and (c) a ceiling on total bank credit during the first quarter of 1974 equal to 5 per cent of credit outstanding on December 31, 1973. However, credit for productive purposes was exempted from the ceiling at the end of January 1974. A ceiling on total credit was reimposed on April 23, 1974, limiting credit expansion during the full year 1974 to 20 per cent of the December 31, 1973 level. In July, certain loans, including small loans under the Credit Guarantee Scheme and loans to government institutions approved by the Central Bank, were exempted from the ceiling; these exemptions could add about 5 percentage points to the targeted rate of credit expansion. It was also stipulated that, within the ceiling, one quarter of the increase would be allocated to loans to manufacturing industries.

As a result of successive increases commencing on April 20, 1973, the minimum lending rate of banks was increased by 2 1/2 percentage points to 10 per cent, and the maximum interest rates on 3- to 12-month deposits was

Table 8. Malaysia: Interest Rates of Commercial Banks, 1973 and 1974

(Per cent per annum)

| | Apr. 25 1973 | Apr. 26, 1973 | Date of Change | | Apr. 24 1974 | Total change in 1973 and 1974 |
|--|-----------------|------------------|-----------------|------------------|-----------------|-------------------------------------|
| | | | Aug. 1, 1973 | Dec. 18, 1973 | | |
| Maximum rates on fixed deposits by original maturity^{1/} | | | | | | |
| 1 month | 3 | 3½ | -- | 4 | 4½ | 1½ |
| 3 months | 5 | 5½ | -- | 6 | 6½ | ½ |
| 6 months | 5½ | 5 3/4 | -- | 6½ | 7 | 1 3/4 |
| 9 months | 5½ | 6 | 6½ | 7 | 8 | 2½ |
| 12 months | 5 3/4 | 6½ | 7 | 8 | 9 | 3½ |
| Maximum rates on savings deposits | | | | | | |
| | 3½ | 4½ | -- | 5½ | 6½ | 3 |
| Minimum rates on loans and advances | | | | | | |
| General rate | 7½ | 8 | -- | 9 | 10 | 2½ |
| Preferential rate | 7 | 7½ | -- | 8½ | 9½ | 2½ |

Source: Bank Negara Malaysia.

^{1/} Interest rates on fixed deposits with maturities of two years or more have not been subject to any rate ceilings since April 1973. Rates for such deposits are negotiated between depositors and banks.

increased from a range of 5 per cent to 5 3/4 per cent to a range of 6 1/2 per cent to 9 per cent. But, despite these increases, interest rates in Malaysia continue to be lower than in most other countries and, in view of the prevailing price inflation, they are negative in real terms. The Central Bank has been shifting gradually to a regime of market-determined interest rates (Appendix Table XV). On April 26, 1973 the ceilings on interest rates for fixed deposits with a maturity of two years or more held with commercial banks and borrowing companies were lifted, and on August 1, 1973 all ceilings on interest rates paid by borrowing companies on fixed deposits were removed. Also, the tap system of issuing Treasury Bills was replaced by weekly tenders on August 15, 1973; since then rates have increased to 4.8 per cent for 91-day and 5.8 per cent for 364-day Treasury Bills (Appendix Table XVI). Interest rates on Government bonds have also increased and reached 6 3/4 per cent for 3-year bonds and 8 per cent for 15-20 year bonds.

3. Capital market

The flow of new funds raised by the private sector increased by only 13 per cent in 1973, compared with 38 per cent in 1972 (Table 9). Stock market prices reached a peak in the first half of February 1973, but declined sharply thereafter, mainly because of measures taken in Malaysia and Singapore to curb excessive speculation. Bearish conditions prevailed in the Kuala Lumpur stock exchange, as was the case in most of the world's leading stock exchanges during the second half of 1973 and in 1974. An important development in 1973 was the establishment of a separate stock exchange in Malaysia. The Kuala Lumpur Stock Exchange commenced operations on July 2; it listed all shares which were formerly on the list of the joint Stock Exchange of Malaysia and Singapore.

Merchant banks have continued to expand their operations, especially as intermediaries in the money and capital markets. Two new banks were established in the third quarter of 1973 and another two in April 1974, bringing the total number to seven. Merchant banks commenced operations in Malaysia in 1971; they are, as a rule, joint ventures with foreign financial institutions. In addition to acting as intermediaries, they provide corporate financing, management services and financial investment advice.

Net funds raised by the Federal Government through domestic loan issues continued to be an important source of finance for the public sector's development program. Such funds financed 70 per cent of total development expenditure, compared with 71 per cent in 1972. As in the past, the banking system took up nearly one quarter of the increase in domestic government debt in 1973. Social security institutions and insurance companies accounted for the bulk of the remainder; the Employees Provident Fund subscribed to 43 per cent of the total loans issued.

Table 9. Malaysia: Funds Raised in the Capital Market, 1969-73

(In millions of Malaysian dollars)

| | 1969 | 1970 | 1971 | 1972 | 1973 ^{1/} |
|--|--------------|--------------|--------------|------------------|--------------------|
| Funds raised by public sector^{2/} | | | | | |
| Federal Government bonds gross issue | 430.0 | 395.0 | 635.0 | 1,045.0 | 1,153.0 |
| Less Redemption | -52.6 | -6.5 | -87.7 | -260.6 | -242.9 |
| Equals Federal Government bonds, net issue | 377.4 | 388.5 | 547.3 | 784.4 | 910.1 |
| Plus Increase in outstanding advance subscriptions | 2.9 | -- | 22.6 | 1.8 | -23.6 |
| Less Increase in Federal Government holdings | -39.2 | -58.9 | -50.7 | -- | -1.0 |
| Equals Net funds raised by Federal Government | 341.1 | 329.6 | 519.3 | 786.2 | 885.5 |
| Net funds raised by public sector | <u>341.1</u> | <u>329.6</u> | <u>519.3</u> | <u>786.2</u> | <u>885.5</u> |
| Funds raised by private sector^{3/} | | | | | |
| Ordinary shares | 75.8 | 74.8 | 45.0 | 62.0 | 76.8 |
| Public issues | 30.6 | 14.5 | 6.5 | 21.0 | 23.3 |
| Private placements | 4.0 | 14.7 | 8.5 | 5.7 | 8.3 |
| Rights issues | 41.2 | 42.6 | 30.0 | 28.2 | 37.2 |
| Inter-company placements | -- | 3.0 | -- | 7.1 | 8.0 |
| Preference shares, net issue | -- | 1.5 | -- | -- ^{4/} | -- |
| Debentures/loan stocks, net issue | -- | -- | -- | -- | 7.0 |
| Net funds raised by private sector | <u>75.8</u> | <u>76.3</u> | <u>45.0</u> | <u>62.0</u> | <u>69.8</u> |
| Total | 416.9 | 405.9 | 564.3 | 848.2 | 955.3 |

Sources: Bank Negara Malaysia and Ministry of Finance.

1/ Preliminary estimates.

2/ Exclude Treasury bills and Federal Government securities issued outside Malaysia.

3/ The full value of corporate securities offered by Malaysian incorporated companies and by foreign incorporated companies in which Malaysians were invited to participate.

4/ Although there was a rights issue of a convertible unsecured loan stock of \$9 million, the amount raised was offset by the redemption of a debenture for the same amount.

V. External Sector

1. The 1973 balance of payments

a. Summary

The 1973 balance of payments was characterized by a substantial increase in the trade surplus which more than offset the higher net payments on services and transfers; the current account showed a surplus of SDR 117 million, in contrast to a deficit of SDR 257 million in 1972 (Table 10 and Appendix Table XVIII). The improvement in the trade balance was due to higher prices for the major export commodities and to an expansion in the export volume. Exports rose by 59 per cent to SDR 2,493 million, whereas in both 1972 and in 1971 they had declined by approximately 3 per cent. Imports increased by 30 per cent to SDR 1,917 million. The surplus on capital account declined from SDR 247 million in 1972 to SDR 146 million in 1973. The inflow of nonmonetary capital (SDR 146 million) was SDR 101 million lower than in 1972, because of a decline in net borrowings by the Government and official entities. The balance of payments registered an overall surplus, as measured by monetary movements, of SDR 98 million--the sixth consecutive balance of payments surplus.

b. Merchandise exports

Owing mainly to the expansion of economic activity in industrial countries, Malaysian exports (expressed in Malaysian dollars) rose by 52 per cent in 1973 to M\$7,313 million; in 1972 and 1971 exports had declined by 3 per cent (Appendix Table XVIII-A). The unit value of exports increased by 28 per cent, in contrast to declines of 4 per cent in 1972 and 8 per cent in 1971. At the same time, the volume of exports increased by 19 per cent, a substantial improvement over the 1 per cent increase in 1972. Export earnings from agricultural commodities were 73 per cent and those from manufactured goods 58 per cent higher than in 1972. Exports to Western Europe, the United States, and Japan accounted for 52 per cent of total exports in 1973, while exports to Singapore, mainly for re-exporting, accounted for 10 per cent (Appendix Table XXII).

The value of rubber exports (M\$2,507 million) in 1973 was a record (Appendix Table XIX); the volume was 20 per cent and the unit value 61 per cent higher than in 1972. The price of RSSI rubber on the Malaysian Rubber Exchange rose rapidly and reached a peak of M\$2.66 per kilogram in January 1974, the highest price since 1960; this represented a sharp increase from the low of M\$0.84 per kilogram registered in September 1972, the lowest price in 23 years. The marked increase in the demand for rubber reflected the acceleration in economic activity in the major industrial countries, speculative or hedging purchases arising from uncertainties in the international money markets, and the doubtful prospects for synthetic rubber as a result of the oil crisis. The increase in world consumption of natural rubber in 1973 is estimated to have been slightly lower than the increase in total output, but there was an appreciable accumulation

Table 10. Malaysia: Summary of Balance of Payments, 1970-74

(In millions of SDRs)

| | 1970 | 1971 | 1972 | 1973 | 1974 Projection |
|---------------------------------|--------------|--------------|--------------|--------------|--------------------|
| Exports | 1,668 | 1,618 | 1,567 | 2,493 | 3,210 |
| Imports | <u>1,352</u> | <u>1,386</u> | <u>1,474</u> | <u>1,917</u> | <u>2,805</u> |
| Trade balance | 316 | 232 | 93 | 576 | 405 |
| Net services and transfers | <u>-347</u> | <u>-337</u> | <u>-350</u> | <u>-459</u> | <u>-560</u> |
| Current account | -31 | -105 | -257 | 117 | -155 |
| Net nonmonetary capital | 97 | 212 | 247 | 146 | 86 |
| Errors and omissions | -47 | -67 | 40 | -165 | 34 |
| Allocations of SDRs | <u>21</u> | <u>20</u> | <u>20</u> | <u>--</u> | <u>--</u> |
| Total | 40 | 60 | 50 | 98 | -34 |
| Monetary movements (increase -) | -40 | -60 | -50 | -98 | 34 |

Source: Central Bank of Malaysia

of stocks in the consuming countries in that year. Malaysia's share in total world production rose from 43 per cent in 1972 to about 45 per cent in 1973. In August 1973, the joint Malaysian-Singapore rubber market was terminated, and an autonomous rubber exchange was established in Malaysia where prices for all grades of rubber are quoted. In September 1973, the Malaysian Rubber Exchange and Licensing Board was established; its principal function is to coordinate all activities in the marketing of rubber in order to promote efficiency.

Exports of logs and sawn timber showed a large increase in 1973, making timber Malaysia's second most important export item. Exports of logs rose by 67 per cent to M\$986 million, while exports of sawn timber increased by 103 per cent to M\$558 million. Demand for timber was strong owing to the large expansion in construction activity in Japan and other industrial countries. The export unit value of logs and of sawn timber rose by 50 per cent and 61 per cent, respectively, over 1972. The increase in the export volume of logs was attributable to higher exports from Sabah which accounted for 82 per cent of the total; exports of logs from West Malaysia declined because of the ban on the export of ten popular species of logs. About 66 per cent of total log exports went to Japan and 13 per cent to Korea. Of the total exports of sawn timber, sales to the EEC and Singapore accounted for 42 per cent and 28 per cent, respectively; Australia and Japan were also important buyers.

Poor crops in some major producing countries resulted in a tight world supply of edible fats and oils in 1973. Malaysian exports of palm oil increased by 28 per cent to M\$466 million in 1973; the volume and unit price increased by 14.3 per cent and 12.3 per cent, respectively, compared with 1972. The rate of increase in the export unit value was substantially lower than the rate of increase in the London price of palm oil. The Malaysian authorities attributed this to the large volume of forward sales and certain other factors including the depreciation of the pound sterling against the Malaysian dollar and increases in freight rates. Since there was a further substantial increase in international palm oil prices during the first half of 1974, export earnings from palm oil are expected to be considerably higher this year than in 1973.

In 1973, exports of tin and tin-in-concentrates, at M\$897 million, were 3 per cent lower than in 1972; the volume of exports fell by 9 per cent to 80,200 tons, but the unit value rose by 7 per cent to M\$11,178 a ton. Tin, which traditionally had been the second largest export, dropped to third position behind timber. Tin prices were weak at the beginning of the year, (around M\$630 per picul) and the International Tin Council (ITC) imposed export controls on January 19, 1973, and the Buffer Stock Manager engaged in price support operations. However, in mid-year tin prices began to rise steeply; in December the Penang price averaged M\$853, considerably above the ceiling of the International Tin Agreement intervention range (then M\$760). Large scale sales from the ITC buffer stock were made in the second half of the year and export controls were abandoned in September. In 1974, the Penang price rose to a peak average of M\$1,303 per picul in May, but declined thereafter to average M\$1,162 in September.

The value of exports of crude oil and oil products increased by 17 per cent to M\$367 million in 1973, despite a 12 per cent decline in volume which was due to a reduction of re-exports. Malaysia raised its export price of crude oil in steps during 1973 and again on January 1, 1974, to US\$10.80 per barrel. The price was increased again on April 1, 1974, to US\$11.70 per barrel and on July 1, to US\$12.60 per barrel. Apart from imports of crude oil from Brunei for re-export, Malaysia also imports crude from Kuwait and Saudi Arabia for refining to meet domestic consumption; a large part of Malaysia's low sulphur crude is exported. Imports of crude oil and products amounted to M\$354 million in 1973, leaving an export surplus of M\$13 million.

Gross exports of manufactures recorded a substantial increase (56 per cent) in 1973 and reached M\$1,212 million, or 12 per cent of total exports (Appendix Table XX). Considerable progress has been made under Malaysia's policy of promoting the processing of local raw materials and establishing export-oriented industries. Exports of wood products, mainly plywood, rose by 60 per cent over 1972, exports of textiles, clothing, and footwear by 40 per cent, and exports of processed food, by 29 per cent. Exports of the newly established electronics industry which were negligible in 1972, amounted to M\$92 million in 1973. Approximately half of the exports of manufactured goods went to Japan, the United Kingdom, and the United States.

c. Merchandise imports

Total imports rose by 25 per cent to M\$5,625 million in 1973, compared with a 6 per cent increase in 1972. Most of the increase in 1973 is attributable to higher prices; the unit value of imports rose by 16 per cent, while volume grew by 7 per cent.

All import categories recorded large increases over 1972 as follows: consumption goods, 28 per cent; investment goods, 28 per cent; and intermediate goods, 34 per cent (Appendix Table XXI). The latter increase mainly reflected strong demand for raw materials and component parts by Malaysian industries, and also the building up of stocks by manufacturers in anticipation of higher prices and possible shortages. Among imports of investment goods the sharpest increase (60 per cent) was recorded by metal products; to ensure adequate supplies for these products, the quantitative restrictions on imports of steel bars, pig iron, and certain types of iron and steel wires were lifted in August 1973. In the consumption goods category, imports of foodstuffs, mainly rice and dairy products, registered the highest rate of growth (34 per cent).

Malaysia's imports from Japan rose by 43 per cent in 1973, and accounted for 23 per cent of total imports, compared with 20 per cent in 1972. Imports from the United States rose by 65 per cent, if the purchase of seven aircraft is excluded from the 1972 import figure; without this adjustment imports from the United States rose by 24 per cent. As a result of large purchases of rice by the Rice Authority, imports from mainland China and

and rose by 37 per cent and 36 per cent, respectively. The share of Western Europe in Malaysia's total imports declined from 25 per cent in 1972 to 24 per cent in 1973.

d. Services and transfers

The deficit in the services account increased by 38 per cent to SDRs 413 million in 1973. Investment income payments rose substantially owing to the export boom which increased sales and profits of foreign-owned companies in the rubber, timber, palm oil, and other industries. Also, payments for freight were much higher because of the sharp rise in freight rates and the larger volume of imports; the increase in such payments more than offset the increase in freight receipts from the expansion in the international operations of the Malaysian national shipping line. Net transfers abroad recorded a small decline in 1973 to SDRs 46 million.

e. Nonmonetary capital

The decline in net nonmonetary capital inflows from SDRs 247 million in 1972 to SDRs 146 million in 1973 was mainly due to the reduction of official borrowing abroad in the form of project and market loans; net borrowing by the Government and official entities declined from SDRs 163 million in 1972 to SDRs 61 million in 1973. Poor conditions on the international capital markets, particularly on the Euro-bond market, inhibited the raising of more market loans during 1973; also the net inflow of commercial credits was considerably reduced, owing to fewer imports of ships and aircraft for the national shipping and airline companies and higher loan repayments by these companies. On the other hand, the favorable economic situation in Malaysia encouraged foreign investors to increase their direct investment, including reinvestments; net private long-term capital inflows rose by SDRs 7 million to SDRs 85 million in 1973.

f. External reserves

Gross official international reserves increased by SDR 199 million to SDR 1,157 million at the end of 1973 (Appendix Table XXIII) equivalent to about seven months (60 per cent) of retained imports; at the end of 1972 reserves were equivalent to 65 per cent of imports in that year. Gross international reserves of the Central Bank were SDR 1,112 million and liabilities SDR 4 million at the end of 1973, while holdings of the Government and other official entities were SDRs 45 million. Net foreign assets of commercial banks declined by SDR 85 million during 1973 and amounted to minus SDR 75 million at the end of the year.

2. Balance of payments forecast for 1974

Official balance of payments projections for 1974 show a reversal in the goods and services balance from a surplus of SDR 163 million to a deficit of SDR 95 million. Although exports in the first quarter of 1974 were 75 per cent higher than a year earlier, the rate of growth is

expected to decelerate substantially, especially in the second half, as a result of the slowdown in economic activity in the industrial countries; for the full year 1974 exports are estimated at SDR 3,219 million, or 29 per cent higher than in 1973. Since the beginning of 1974, rubber prices have been declining, and on September 13 the price on the Malaysian Rubber Exchange (M\$1.38 per kilogram) was 48 per cent lower than the January 1974 peak average price, and 19 per cent lower than the September 1973 average price. The prices of certain other major commodities, e.g., timber and tin, have also recorded declines in recent months. Imports are projected to expand by 46 per cent to SDR 2,805 million in 1974; the substantially higher rate of increase compared with that in 1973 is attributable mainly to the expected more rapid rise in import prices. Net payments on services are expected to increase by 21 per cent to SDR 500 million, owing principally to escalating freight rates and to larger import volume. Estimated net transfer payments, at SDR 60 million, would be SDR 14 million higher than in 1973.

The net inflow of nonmonetary capital is projected to decline from SDR 146 million in 1973 to SDR 86 million in 1974. The Government does not intend to raise market loans abroad, and repayments on government loans and commercial loans contracted in earlier years by the national airline and shipping line will be higher than in 1973. However, errors and omissions are expected to shift from a debit of SDR 165 million to a credit of SDR 34 million, partly as a result of the inflow of export proceeds whose repatriation had lagged in 1973. Thus, the balance of payments is expected to show a deficit of SDR 34 million in 1974, in contrast to a surplus of SDR 98 million in 1973.

During the first five months of 1974 gross official international reserves rose by SDR 135 million to SDR 1,292 million, reflecting the favorable export developments during that period; exchange liabilities declined by SDR 2 million. During the same period net foreign assets of commercial banks increased by SDR 34 million to minus SDR 41 million. However, in the remainder of the year the Malaysian authorities expect gross official international reserves to decline, and their level at the end of 1974 will not be substantially different than a year earlier.

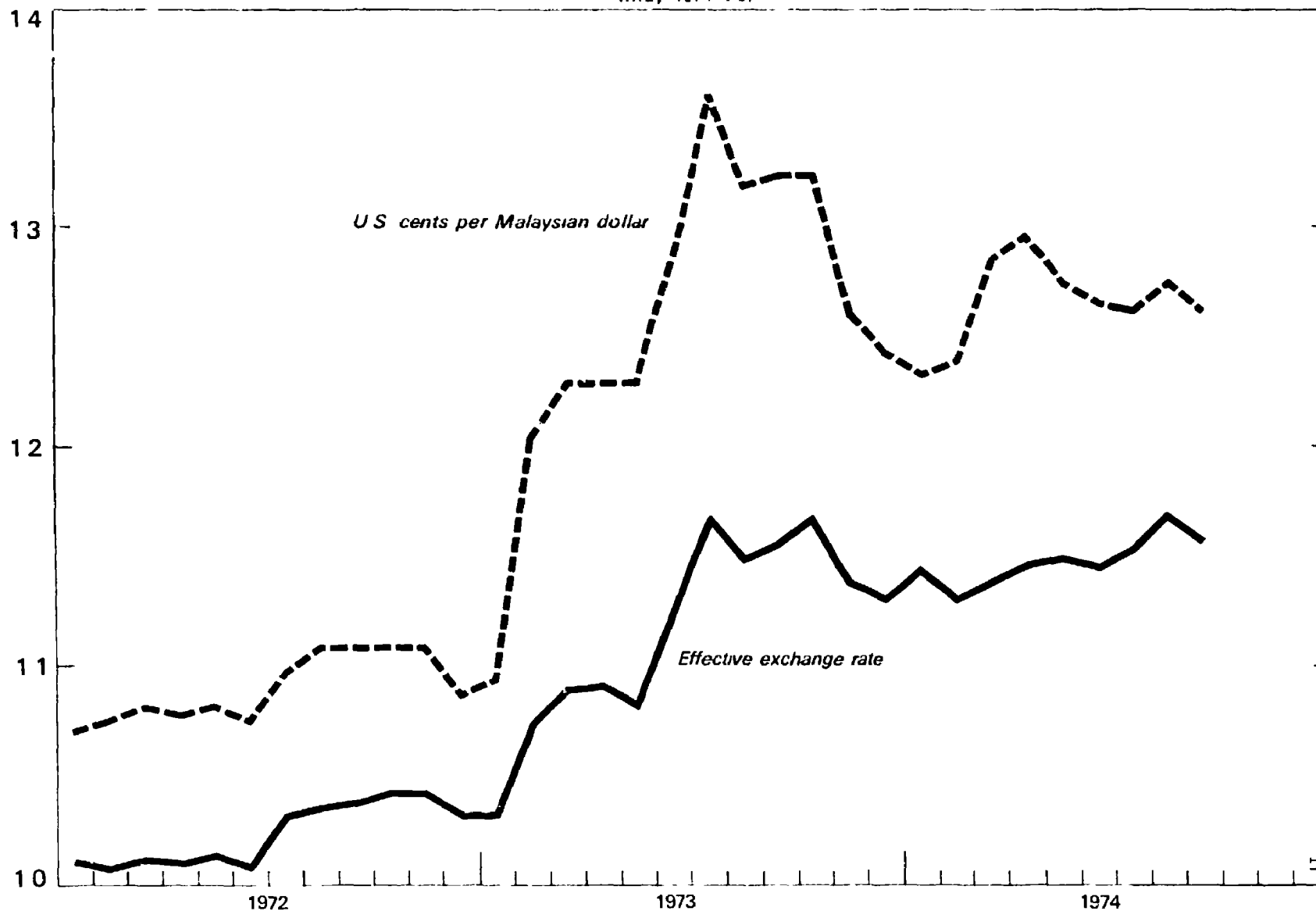
3. Exchange and trade system 1/

The par value of the Malaysian dollar has remained unchanged at 0.290299 gram of fine gold since July 20, 1962. However, on June 21, 1973 the Malaysian authorities notified the Fund that as from that date they would not intervene in the market to buy U.S. dollars at the lower margin of M\$2.4805 per U.S. dollar, and the Malaysian dollar would be allowed to float upward. The movements in the M\$/US\$ rate and in the trade-weighted effective exchange are shown in Chart 1. Since June 1973 the Malaysian dollar has appreciated by 3.5 per cent vis-a-vis the U.S. dollar, while the effective exchange rate has appreciated by 8.2 per cent; since May 1971, the effective exchange rate has appreciated by 16.8 per cent.

1/ For a detailed description of the exchange system of Malaysia see Twenty-Fifth Annual Report on Exchange Restrictions, pp. 287-290.

EXCHANGE RATE DEVELOPMENTS¹

(May 1971=10)



Source: Bank Negara Malaysia and staff calculation

¹The figures on the vertical axis should be read as index numbers. For example the figure 11 indicates a 10 per cent appreciation since May 1971

Considerable progress has been made in liberalizing imports. On August 16, 1973, 61 import items including textiles, electrical goods, and domestic utensils, were removed from the list of goods subject to quotas. In addition, import duties on a large number of items, including textiles, fertilizers, and foodstuffs were reduced in order to moderate price increases.

Table I. Malaysia: Industrial Origin of Gross Domestic Product at Factor Cost, 1969-73

(In millions of Malaysian dollars)

| | 1969 | 1970 | 1971 | 1972 | 1973 ^{1/} | Percentage Change 1973 over 1972 |
|---|-------|-------|--------|--------|--------------------|---|
| Agriculture | 2,514 | 2,323 | 2,338 | 2,271 | 3,339 | 47.0 |
| Forestry, hunting and fishing | 760 | 802 | 840 | 785 | 1,254 | 59.7 |
| Mining and quarrying | 546 | 580 | 620 | 685 | 720 | 5.1 |
| Manufacturing | 1,213 | 1,354 | 1,467 | 1,687 | 2,116 | 25.4 |
| Construction | 351 | 384 | 430 | 477 | 625 | 31.0 |
| Electricity, water and sanitary services | 240 | 254 | 270 | 300 | 343 | 14.3 |
| Other services | 4,012 | 4,254 | 4,564 | 5,143 | 5,864 | 14.0 |
| Gross domestic product at factor cost | 9,636 | 9,951 | 10,529 | 11,348 | 14,261 | 25.7 |

Source: Department of Statistics, Malaysia.

^{1/} Preliminary estimates.

Table II. Malaysia: Composition of Gross Capital Formation, 1969-73

(In millions of Malaysian dollars)

| | 1969 | 1970 | 1971 | 1972 | 1973 | Percentage Change 1973 over 1972 |
|-------------------------------|-------|-------|-------|-------|-------|-------------------------------------|
| Building and construction | 828 | 935 | 1,051 | 1,213 | 1,635 | 34.8 |
| Machinery and equipment | 536 | 743 | 913 | 1,136 | 1,312 | 15.5 |
| Investment in perennial crops | 188 | 189 | 195 | 200 | 198 | -1.0 |
| Change in inventories | 12 | 181 | 138 | 150 | 200 | 33.3 |
| Land | 7 | 7 | 7 | 7 | 7 | 0.0 |
| Total | 1,571 | 2,055 | 2,304 | 2,706 | 3,352 | 23.9 |

Sources: Department of Statistics, Malaysia, and Bank Negara Malaysia.

Table III. Malaysia: Federal Government Domestic Debt
Classified by Holder, 1969-73

(In millions of Malaysian dollars)

| | 1969 | 1970 | 1971 | 1972 | 1973 |
|-----------------------------------|------------|------------|------------|------------|------------|
| Public sector^{1/} | 423 | 511 | 581 | 647 | 707 |
| Social Security Institutions | 1,911 | 2,175 | 2,513 | 2,875 | 3,275 |
| Employees Provident Fund | (1,802) | (2,039) | (2,359) | (2,709) | (3,094) |
| Other | (109) | (136) | (154) | (166) | (181) |
| Financial Institutions | 1,333 | 1,232 | 1,469 | 1,684 | 1,942 |
| Central Bank | (173) | (129) | (125) | (176) | (281) |
| Post Office Savings Bank | (242) | (263) | (294) | (355) | (431) |
| Commercial banks | (918) | (840) | (1,050) | (1,153) | (1,230) |
| Other ^{2/} | <u>239</u> | <u>353</u> | <u>436</u> | <u>630</u> | <u>788</u> |
| Total | 3,906 | 4,271 | 4,999 | 5,836 | 6,712 |

^{1/} Comprises the Federal and State Governments and public authorities.

^{2/} Insurance companies, borrowing companies, discount houses, nominee and trustee companies, cooperative societies, and unclassified holders.

Table IV. Malaysia: Revenue of the Federal Government, 1970-74

(In millions of Malaysian dollars)

| | 1970 | 1971 | 1972 | 1973 | 1974 Revised estimates |
|--|------------|------------|------------|------------|------------------------------|
| Taxes on income | 691 | 696 | 752 | 846 | 1,109 |
| Income tax ^{1/} | <u>657</u> | <u>689</u> | <u>741</u> | <u>838</u> | <u>1,100</u> |
| Payroll tax | 34 | 7 | -- | -- | -- |
| Other | -- | -- | 11 | 8 | 9 |
| Taxes on wealth | | | | | |
| Estate duty | <u>11</u> | <u>12</u> | <u>36</u> | <u>27</u> | <u>12</u> |
| Taxes on production and consumption | | | | | |
| Excises | <u>247</u> | <u>307</u> | <u>368</u> | <u>407</u> | <u>411</u> |
| Tobacco | <u>21</u> | <u>21</u> | <u>23</u> | <u>27</u> | <u>30</u> |
| Sugar | 18 | 43 | 40 | 25 | 5 |
| Alcoholic beverages | 37 | 34 | 37 | 45 | 48 |
| Petroleum products | 118 | 143 | 188 | 193 | 165 |
| Motor vehicles | 35 | 40 | 51 | 82 | 125 |
| Others | 18 | 26 | 29 | 35 | 38 |
| Other taxes on production and expenditure | <u>229</u> | <u>254</u> | <u>420</u> | <u>563</u> | <u>667</u> |
| Sales tax | -- | -- | <u>115</u> | <u>220</u> | <u>271</u> |
| Betting and sweepstakes | 36 | 41 | 45 | 44 | 43 |
| Road transport fees and licenses | 155 | 174 | 193 | 222 | 258 |
| Petroleum royalties | ... | 6 | 23 | 25 | 45 |
| Others | 38 | 33 | 44 | 52 | 50 |
| Taxes on international trade | | | | | |
| Export duties | <u>259</u> | <u>231</u> | <u>232</u> | <u>430</u> | <u>749</u> |
| Rubber | <u>80</u> | <u>55</u> | <u>49</u> | <u>233</u> | <u>385</u> |
| Tin | 130 | 126 | 127 | 120 | 101 |
| Palm oil | 20 | 28 | 32 | 43 | 100 |
| Others | 29 | 22 | 24 | 34 | 163 |
| Import duties | <u>558</u> | <u>581</u> | <u>589</u> | <u>745</u> | <u>860</u> |
| Total tax revenue | 1,995 | 2,081 | 2,397 | 3,018 | 3,808 |
| Nontax revenue | <u>297</u> | <u>337</u> | <u>526</u> | <u>400</u> | <u>417</u> |
| Net income of Government's commercial undertakings | 50 | 55 | 63 | 82 | 90 |
| Interest receipts | 53 | 61 | 75 | 65 | 66 |
| Net profits from currency | 62 | 50 | 50 | 25 | 10 |
| Income from the Federal Territory of Kuala Lumpur | -- | -- | -- | -- | 15 |
| Others | <u>132</u> | <u>171</u> | <u>338</u> | <u>228</u> | <u>236</u> |
| Total current revenue | 2,292 | 2,418 | 2,920 | 3,418 | 4,225 |
| Increase over preceding year (per cent) | 14.5 | 5.5 | 20.7 | 17.1 | 23.7 |

Source: Data provided by the Malaysian authorities.

^{1/} Includes tin profit tax and development tax.

Table V. Malaysia: Functional Classification of Current Expenditure of the Federal Government, 1970-74

(In millions of Malaysian dollars)

| | 1970 | 1971 | 1972 | 1973 | 1974 Revised estimates |
|---|------------|------------|--------------|--------------|------------------------------|
| General administration | <u>263</u> | <u>263</u> | <u>274</u> | <u>324</u> | <u>372</u> |
| Economic services | <u>147</u> | <u>174</u> | <u>213</u> | <u>284</u> | <u>355</u> |
| Agricultural and rural development | 48 | 55 | 68 | 80 | 138 |
| Commerce and communication | 84 | 100 | 125 | 175 | 182 |
| Trade, industry, and mining | 12 | 16 | 16 | 29 | 35 |
| Other | 3 | 3 | 4 | -- | -- |
| Social services | <u>651</u> | <u>778</u> | <u>1,089</u> | <u>1,087</u> | <u>1,236</u> |
| Education | <u>477</u> | <u>536</u> | <u>798</u> | <u>772</u> | <u>880</u> |
| Public health | 155 | 209 | 234 | 257 | 294 |
| Other (labor, housing, sports, social welfare) | 19 | 33 | 49 | 58 | 62 |
| Debt service | <u>238</u> | <u>278</u> | <u>324</u> | <u>376</u> | <u>423</u> |
| Pensions and gratuities | <u>100</u> | <u>97</u> | <u>125</u> | <u>125</u> | <u>127</u> |
| Security ^{1/} | <u>566</u> | <u>732</u> | <u>895</u> | <u>835</u> | <u>904</u> |
| Defense | <u>384</u> | <u>409</u> | <u>645</u> | <u>583</u> | <u>629</u> |
| Internal security | 182 | 323 | 250 | 252 | 275 |
| Unclassified | <u>217</u> | <u>197</u> | <u>269</u> | <u>229</u> | <u>383</u> |
| Grants and loans to State Governments | 170 | 153 | 169 | 181 | 125 |
| Contribution to statutory funds ^{2/} | 39 | 44 | 99 | 22 | 55 |
| Subscriptions to international organizations | 8 | -- | 1 | 6 | 3 |
| Temporary special relief and other allowances | -- | -- | -- | 20 | 200 |
| Total | 2,182 | 2,519 | 3,189 | 3,260 | 3,800 |
| Increase over preceding year (per cent) | 12.1 | 15.3 | 26.6 | 2.2 | 16.6 |

Source: Data provided by the Malaysian authorities.

^{1/} Includes defense expenditure that, prior to 1973, used to be classified as direct development expenditure.^{2/} Excludes contribution to State Reserve Fund.

Table VI. Malaysia: Economic Classification of Current
Expenditure of the Federal Government, 1970-74

(In millions of Malaysian dollars)

| | 1970 | 1971 | 1972 | 1973 | 1974 Budget estimates |
|--------------------------|------------|------------|---------------------|------------|-----------------------------|
| Salaries and wages | 684 | 813 | 1,018 ^{1/} | 953 | 1,138 |
| Services and supplies | 403 | 431 | 483 | 747 | 740 |
| Grants and fixed charges | 983 | 1,068 | 1,410 | 1,400 | 1,516 |
| Other | <u>153</u> | <u>146</u> | <u>215</u> | <u>156</u> | <u>136</u> |
| Total ^{2/} | 2,222 | 2,458 | 3,126 | 3,256 | 3,530 |

^{1/} Includes retroactive salary increases.

^{2/} Data do not agree with the totals shown in Table III because certain defense expenditures and debt payments are not classified in a uniform way.

Table VII. Malaysia: Development Expenditures of
the Federal Government, 1972 and 1973

(In millions of Malaysian dollars)

| | 1972 | 1973 |
|-----------------------------------|--------------|-------------|
| General administration | 24 | 32 |
| Economic services | 793 | 861 |
| Agriculture and rural development | (305) | (336) |
| Commerce and communications | (309) | (329) |
| Trade, industry and mining | (177) | (195) |
| Forestry | (2) | (1) |
| Social services | 213 | 255 |
| Education | (112) | (141) |
| Public health | (27) | (44) |
| Others | (74) | (70) |
| Security | 90 | 148 |
| External | (...) | (110) |
| Internal | <u>(...)</u> | <u>(38)</u> |
| Total | 1,120 | 1,296 |

Source: Data provided by the Malaysian authorities.

Table VIII. Malaysia: Consolidated Budgetary Position of the
State Governments, 1970-74

(In millions of Malaysian dollars)

| | 1970 | 1971 | 1972 | 1973 Revised estimates | 1974 Estimates |
|--|------------|------------|------------|------------------------------|-------------------|
| Current revenue | 636 | 688 | 731 | 878 | 1,097 |
| of which: | | | | | |
| statutory grants | (175) | (166) | (195) | (182) | (398) |
| Current expenditure | <u>443</u> | <u>505</u> | <u>647</u> | <u>724</u> | <u>919</u> |
| Current surplus | 193 | 183 | 84 | 154 | 178 |
| Development expenditure | <u>245</u> | <u>266</u> | <u>387</u> | <u>463</u> | <u>809</u> |
| Overall deficit (-) | -52 | -83 | -303 | -309 | -631 |
| <u>Financing of deficit</u> | | | | | |
| Federal Government grants | 51 | 46 | 62 | 110 | 120 |
| Federal Government loans | 36 | 39 | 78 | 141 | 242 |
| Changes in State Government's assets (- increase) | -35 | -2 | 163 | 58 | 269 |

Source: Data provided by the Malaysian authorities.

Table IX. Malaysia: Consolidated Revenue Position of the
State Governments, 1972-74

(In millions of Malaysian dollars)

| | 1972 | 1973 Revised estimates | 1974 Estimates |
|--|------------|------------------------------|-------------------|
| Taxes revenue | <u>330</u> | <u>493</u> | <u>481</u> |
| Export and import taxes | 25 | 40 | 39 |
| Excise duties | 2 | 5 | 2 |
| Royalties and forest duties | 172 | 264 | 210 |
| Land and mines | 86 | 124 | 177 |
| Road transport, licences and entertainment duty | 44 | 55 | 52 |
| Other | 1 | 5 | 1 |
| Nontax revenue | <u>205</u> | <u>202</u> | <u>218</u> |
| Court fees | 29 | 32 | 37 |
| Commercial undertakings | 74 | 68 | 71 |
| Water | (63) | (45) | (61) |
| Railway | (2) | (2) | (2) |
| Other | (9) | (21) | (9) |
| Property income | 71 | 78 | 68 |
| Miscellaneous | 31 | 24 | 41 |
| Grants | <u>196</u> | <u>183</u> | <u>398</u> |
| Federal government ^{1/} | 195 | 182 | 398 |
| Foreign | 1 | 1 | -- |
| Total | 731 | 878 | 1,097 |

Source: Data provided by the Malaysian authorities.

^{1/} Statutory grants and welfare grants. The 1974 amount includes the M\$200 payment from the Federal Government to the Selangor State Government for the transfer of assets in the newly established Federal Territory of Kuala Lumpur.

Table X. Malaysia: Consolidated Current Expenditures of the
State Governments, 1972-74

(In millions of Malaysian dollars)

| | 1972 | 1973 Revised estimates | 1974 Estimates |
|--------------------------------------|-----------|------------------------------|-------------------|
| General administration | 383 | 441 | 617 |
| Economic services | 179 | 183 | 213 |
| Natural resources | (91) | (93) | (115) |
| Transport | (42) | (42) | (44) |
| Utilities (water) | (46) | (48) | (54) |
| Social services (welfare) | 9 | 10 | 11 |
| Public debt (interest and principal) | <u>38</u> | <u>42</u> | <u>40</u> |
| Total current expenditures | 608 | 676 | 881 |

Source: Data provided by the Malaysian authorities.

Table XI. Malaysia: Development Expenditures of the State Governments, 1971-74

(In millions of Malaysian dollars)

| | 1971-72 ^{1/} Average | 1973 ^{1/} Revised estimates | 1974 Estimates |
|----------------------------|----------------------------------|--|-------------------|
| Agriculture | 26 | 37 | 44 |
| Drainage and irrigation | 31 | 42 | 47 |
| Public works | 106 | 153 | 253 |
| Veterinary | 3 | 4 | 12 |
| Forestry | 4 | 7 | 8 |
| Land development | 33 | 35 | 70 |
| Low cost housing | 17 | 19 | 52 |
| Electricity to rural areas | 3 | 5 | 14 |
| Industrialization | 10 | 24 | 24 |
| Others | 80 | 102 | 240 |
| Water supply fund | <u>27</u> | <u>44</u> | <u>52</u> |
| Total | 340 | 472 | 816 |

Source: Data provided by the Malaysian authorities.

^{1/} For some states the budget estimates were used.

Table XII. Malaysia: Consolidated Budgetary Position of
the Principal Public Authorities, 1972-74^{1/}

(In millions of Malaysian dollars)

| | 1972 | 1973 Revised estimates | 1974 Estimates |
|-------------------------------------|------------|------------------------------|-------------------|
| Current account | | | |
| Revenue | 636 | 709 | 799 |
| Expenditure | <u>445</u> | <u>502</u> | <u>568</u> |
| Current surplus | 191 | 207 | 231 |
| Development expenditure | 188 | 275 | 383 |
| Overall deficit | -3 | -68 | -152 |
| Financing | | | |
| Federal and state government grants | 3 | 12 | 7 |
| Federal and state government loans | 60 | 76 | 95 |
| Net foreign borrowing | 8 | 7 | 58 |
| Change in assets (increase -) | -74 | -27 | -8 |
| Total financing | -3 | 68 | 152 |

Source: Data provided by the Malaysian authorities.

^{1/} Excludes the Federal and State Governments.

Table XIII. Malaysia: Federal Government Debt Outstanding, 1969-73

(In millions of Malaysian dollars)

| | 1969 | 1970 | 1971 | 1972 | 1973 |
|--|--------------|--------------|--------------|--------------|--------------|
| Domestic debt | <u>3,906</u> | <u>4,271</u> | <u>4,999</u> | <u>5,836</u> | <u>6,712</u> |
| Treasury bills | 815 | 792 | 950 | 999 | 990 |
| Securities | 3,091 | 3,479 | 4,049 | 4,837 | 5,722 |
| Initial maturity of less than 10 years | (454) | (509) | (622) | (630) | (824) |
| Initial maturity of more than 10 years | (2,623) | (2,956) | (3,391) | (4,170) | (4,894) |
| National defense bonds | (10) | (10) | (10) | (9) | (--) |
| Advance subscription | (4) | (4) | (26) | (28) | (4) |
| External debt | <u>748</u> | <u>746</u> | <u>1,090</u> | <u>1,395</u> | <u>1,468</u> |
| Market loans | (486) | (400) | (649) | (800) | (774) |
| Project loans | (262) | (346) | (441) | (595) | (694) |
| Total | <u>4,654</u> | <u>5,017</u> | <u>6,089</u> | <u>7,231</u> | <u>8,180</u> |

Source: Data provided by the Malaysian authorities.

XIV. Malaysia: Classification of Credit to the Private Sector
of Commercial Banks, 1969-73

(In millions of Malaysian dollars)

| Purpose or Group of Borrowers | End of | | | | |
|---|--------------|--------------|--------------|--------------|----------------|
| | 1969 | 1970 | 1971 | 1972 | 1973 |
| Statutory authorities | <u>1.2</u> | <u>4.6</u> | <u>1.7</u> | <u>8.9</u> | <u>32.2</u> |
| Agriculture | <u>193.1</u> | <u>240.3</u> | <u>278.2</u> | <u>347.5</u> | <u>406.1</u> |
| Of which: | | | | | |
| Rubber | 104.1 | 114.6 | 105.4 | 123.9 | 147.3 |
| Palm oil | 28.0 | 35.0 | 37.4 | 36.4 | 64.3 |
| Pineapples | 10.5 | 8.1 | 8.4 | 9.2 | 9.2 |
| Forestry | 39.0 | 62.7 | 105.7 | 159.8 | 158.6 |
| Mining and quarrying | <u>51.5</u> | <u>51.2</u> | <u>53.9</u> | <u>72.0</u> | <u>98.9</u> |
| Of which: | | | | | |
| Tin | 23.3 | 36.3 | 31.2 | 50.3 | 65.1 |
| Iron ore | 17.1 | 10.4 | 13.2 | 9.5 | 10.2 |
| Manufacturing | <u>345.6</u> | <u>465.6</u> | <u>569.9</u> | <u>610.3</u> | <u>883.5</u> |
| Of which: | | | | | |
| Rubber products | 44.8 | 41.7 | 32.6 | 35.6 | 62.0 |
| Tin | 32.8 | 15.1 | 8.2 | 6.6 | 15.1 |
| Rice milling | 21.2 | 27.2 | 22.8 | 16.5 | 10.5 |
| Food, drink and tobacco | 31.5 | 40.7 | 57.9 | 62.9 | 72.6 |
| Soaps and oils | 27.5 | 35.5 | 46.8 | 37.6 | 56.7 |
| Woodwork and furniture making | 5.1 | 15.1 | 19.4 | 28.7 | 26.7 |
| Printing, publishing, etc. | 13.6 | 12.5 | 15.2 | 16.7 | 32.1 |
| Metal products and machinery | 43.9 | 99.5 | 134.3 | 129.0 | 178.9 |
| Building materials | 30.6 | 39.9 | 33.8 | 32.3 | 69.7 |
| Textiles and clothing | 8.6 | 12.2 | 28.2 | 61.3 | 91.8 |
| Building and construction | <u>178.9</u> | <u>206.5</u> | <u>222.0</u> | <u>240.2</u> | <u>521.1</u> |
| General commerce | <u>729.8</u> | <u>756.1</u> | <u>793.6</u> | <u>924.9</u> | <u>1,331.5</u> |
| Import, export and wholesale trade | 658.3 | 675.0 | 695.7 | 828.8 | 1,185.7 |
| Retail trade | 71.5 | 81.1 | 97.9 | 96.1 | 145.8 |
| Professional and private individuals | <u>325.5</u> | <u>376.9</u> | <u>441.6</u> | <u>566.3</u> | <u>889.8</u> |
| Other | <u>171.5</u> | <u>258.1</u> | <u>305.8</u> | <u>376.8</u> | <u>601.4</u> |
| Of which: | | | | | |
| Transport, storage and communication | 11.9 | 17.4 | 32.8 | 32.2 | 52.0 |
| Hotels, restaurants and boarding houses | 18.2 | 29.7 | 39.1 | 60.5 | 76.1 |
| Total | 1,998.9 | 2,359.6 | 2,667.2 | 3,179.3 | 4,867.1 |

Source: Bank Negara Malaysia.

Table XV. Malaysia. Interest Rates of Commercial Banks and Borrowing Companies, 1966-April 1974^{1/}

| Date of Change or Introduction | Maturity in months of fixed deposits | | | | | | | | | | Savings Deposits | Minimum Lending Rates | |
|-----------------------------------|--------------------------------------|-------|-------|-------|-------|-------|-------|-------|--------|-----------------|--------------------------|------------------------------------|--|
| | 1 | 3 | 6 | 9 | 12 | 14 | 36 | 48 | 60 | General rate | | Preferential rate ^{2/} | |
| | Interest rates as per cent per annum | | | | | | | | | | | | |
| <u>Commercial Banks</u> | | | | | | | | | | | | | |
| 1966 Oct 1 | 4 1/2 | 5 | 5 | 5 | 5 | -- | -- | -- | -- | 3 | 7 1/2 | 7 | |
| 1967 Nov 30 | 5 | 5 1/2 | 5 3/4 | 6 | 6 | -- | -- | -- | -- | 3 | 8 | 7 1/2 | |
| 1968 May 1 | 5 | 5 1/2 | 5 3/4 | 6 | 6 | -- | -- | -- | -- | 1/ | 8 | 7 1/2 | |
| 1971 Jan. 2 | 3 | 5 1/2 | 5 3/4 | 6 | 6 | 6 1/4 | 6 3/4 | -- | -- | 3 1/2 | 8 | 7 1/2 | |
| 1972 Jan. 19 | 3 | 5 | 5 1/4 | 5 1/2 | 5 3/4 | 6 | 6 1/2 | 4/ | -- 1/2 | 3 1/2 | 7 1/2 | 7 | |
| 1973 Apr 26 | 3 1/2 | 5 1/2 | 5 3/4 | 6 | 6 1/4 | 6 1/2 | 4/ | 4/ | 4/ | 4 1/2 | 8 | 7 1/2 | |
| Aug 1 | 3 1/2 | 5 1/2 | 5 3/4 | 6 1/2 | 7 | 4/ | 4/ | 4/ | 4/ | 4 1/2 | 8 | 7 1/2 | |
| Dec 18 | 4 | 6 | 6 1/4 | 7 | 8 | 4/ | 4/ | 4/ | 4/ | 5 1/2 | 9 | 8 1/2 | |
| 1974 Apr. 24 | 4 1/2 | 6 1/2 | 7 | 8 | 9 | 4/ | 4/ | 4/ | 4/ | 6 1/2 | 10 | 9 1/2 | |
| <u>Borrowing Companies</u> | | | | | | | | | | | | | |
| 1971 Feb 1 | -- | 6 1/2 | 6 3/4 | 7 | 7 | 7 1/4 | 7 1/2 | 7 3/4 | 8 | 4 1/2 | Negotiable ^{3/} | | |
| 1972 Jan. 19 | -- | 5 3/4 | 6 | 6 1/4 | 6 1/2 | 6 3/4 | 7 1/4 | 4/ | 4/ | 4 1/2 | | | |
| 1973 Apr 26 | -- | 5 1/4 | 6 1/2 | 6 3/4 | 7 | 4/ | 4/ | 4/ | 4/ | 5 | | | |
| Aug. 1 | -- | 4/ | 4/ | 4/ | 4/ | 4/ | 4/ | 4/ | 4/ | 4/ | | | |

Source: Bank Negara Malaysia

- ^{1/} Deposit rates are maximum rates
^{2/} Includes advances against municipal securities and commodities.
^{3/} Specified hire purchase loans are subject to the provisions of the Hire Purchase Act 1967.
^{4/} Interest rates for these deposits are negotiable.

Table XVI. Malaysia: Interest Rates on Government Securities

(In per cent per annum)

A. Treasury Bill Rates

| Date of Issue ^{1/} | Original Maturity in Days | | |
|-----------------------------|---------------------------|-------|-------|
| | 91 | 182 | 364 |
| 1970 April 6 | 5 1/8 | 5 1/4 | 5 1/2 |
| 1971 March 31 | 4 7/8 | 5 | 5 1/4 |
| June 7 | 4 5/8 | 4 3/4 | 5 |
| December 28 | 4 1/4 | 4 1/2 | 4 3/4 |
| 1972 January 11 | 4 | 4 1/4 | 4 5/8 |
| June 2 | 3 3/4 | 4 | 4 3/8 |
| 1973 August | 3.655 | -- | -- |
| September | 3.721 | 3.936 | 4.533 |
| October | 3.667 | 3.935 | 4.455 |
| November | 3.693 | 3.975 | 4.439 |
| December | 3.783 | 3.923 | 4.436 |
| 1974 January | 4.110 | 4.383 | 4.495 |
| February | 3.971 | 4.504 | 4.525 |
| March | 3.880 | 4.358 | 4.551 |
| April | 4.163 | 5.050 | 5.514 |
| May | 4.730 | 5.536 | 5.596 |
| June | 4.767 | 5.611 | 5.795 |

B. Federal Government Securities

| Date of Issue | Original Maturity in Years | | | | |
|-----------------|----------------------------|-------|-------|-------|-------|
| | 3 | 5 | 10 | 12-15 | 15-20 |
| 1970 April 6 | -- | -- | -- | -- | -- |
| June 15 | 5 3/4 | 6 | 6 1/4 | 6 1/2 | -- |
| November 16 | 5 3/4 | 6 | 6 1/4 | 6 1/2 | -- |
| 1971 March 31 | -- | -- | -- | -- | -- |
| May 17 | 5 3/4 | 6 | -- | 6 1/2 | -- |
| June 7 | -- | -- | -- | -- | -- |
| October 16 | 5 3/4 | 6 | -- | 6 1/2 | -- |
| November 15 | 5 3/4 | 6 | -- | 6 1/2 | -- |
| December 28 | -- | -- | -- | -- | -- |
| 1972 January 11 | -- | -- | -- | -- | -- |
| March 15 | 5 3/4 | 6 | 6 1/2 | -- | 7 |
| June 7 | -- | -- | -- | -- | -- |
| October 15 | 5 3/4 | 6 | 6 1/2 | -- | 7 |
| November 15 | 5 3/4 | 6 | 6 1/2 | -- | 7 |
| 1973 May 21 | 6 | 6 1/4 | 6 3/4 | -- | 7 1/2 |
| September 24 | 6 1/4 | 6 1/2 | 7 | -- | 7 1/4 |
| December 20 | 6 1/2 | 6 3/4 | 7 1/4 | -- | 7 3/4 |
| 1974 April 15 | 6 3/4 | 7 | 7 1/2 | -- | 8 |

Source: Bank Negara Malaysia.

^{1/} A tender system for the issue of Treasury bills was adopted on August 15, 1973. Rates thereafter refer to the average yield of Treasury bills for the month. The 91-day bill is issued weekly, the 182-day bill fortnightly and the 364-day bill once every four weeks, while the 273-day bill was discontinued.

Table XVII. Malaysia: Commercial Bank Deposits by Type, 1966-73

(In millions of Malaysian dollars)

| End of | Demand | | Fixed | | Savings | | Total ^{1/} |
|--------|---------|----------------------|---------|----------------------|---------|----------------------|---------------------|
| | M\$ | Per cent of total | M\$ | Per cent of total | M\$ | Per cent of total | |
| 1966 | 795.0 | 40.1 | 841.9 | 42.5 | 340.2 | 17.2 | 1,982.2 |
| 1967 | 791.8 | 35.3 | 1,011.8 | 45.1 | 434.0 | 19.3 | 2,244.2 |
| 1968 | 920.4 | 34.5 | 1,259.7 | 47.2 | 483.9 | 18.1 | 2,670.1 |
| 1969 | 991.4 | 32.7 | 1,488.0 | 49.0 | 550.2 | 18.1 | 3,035.7 |
| 1970 | 1,068.1 | 31.4 | 1,729.2 | 50.9 | 594.5 | 17.5 | 3,400.2 |
| 1971 | 1,077.6 | 28.0 | 2,095.1 | 54.5 | 665.1 | 17.3 | 3,843.5 |
| 1972 | 1,485.9 | 32.1 | 2,292.2 | 49.6 | 834.9 | 18.1 | 4,621.7 |
| 1973 | 2,030.3 | 33.3 | 2,980.9 | 48.9 | 1,066.5 | 17.5 | 6,098.5 |

Source: Bank Negara Malaysia.

^{1/} Includes small amounts of other deposits.

Table XVIII. Malaysia: Balance of Payments, 1969-74

(In millions of SDRs)^{1/}

| | 1969 | 1970 | 1971 | 1972 | 1973 | 1974 Projections |
|--|-------|-------|-------|-------|-------|---------------------|
| A. Goods and services (net) | 265 | 28 | -51 | -206 | 163 | -95 |
| Merchandise trade (f.o.b.) | | | | | | |
| Exports ^{2/} | 1,636 | 1,668 | 1,618 | 1,567 | 2,493 | 3,210 |
| Imports ^{2/} | 1,134 | 1,352 | 1,386 | 1,474 | 1,917 | 2,805 |
| Trade balance | 502 | 316 | 232 | 93 | 576 | 405 |
| Services (net) | -237 | -288 | -283 | -299 | -413 | -500 |
| B. Transfers (net) | -59 | -59 | -54 | -51 | -46 | -60 |
| Private | -68 | -65 | -61 | -57 | -64 | -67 |
| Official | 9 | 6 | 7 | 6 | 18 | 7 |
| C. Nonmonetary capital (net) | 125 | 97 | 212 | 247 | 146 | 86 |
| Private long term capital | 69 | 99 | 90 | 78 | 85 | ... |
| Government | 48 | -1 | 112 | 95 | 24 | ... |
| Other official capital | 2 | -3 | 11 | 68 | 37 | ... |
| Statutory authorities | 6 | 2 | -1 | 6 | -- | ... |
| D. Errors and omissions | -159 | -47 | -67 | 40 | -165 | 34 |
| E. Total (A through D) | 172 | 19 | 40 | 30 | 98 | -34 |
| F. Allocation of SDRs | -- | 21 | 20 | 20 | -- | -- |
| G. Total (E plus F) | 172 | 40 | 60 | 50 | 98 | -34 |
| H. Monetary movements (increase -) | -172 | -40 | -60 | -50 | -98 | 34 |
| IMF General Account | -3 | -15 | 12 | -- | -7 | -- |
| Net foreign assets of Federal and State Governments and public authorities | 30 | 9 | 3 | 102 | 10 | -- |
| Net foreign reserves of monetary authorities | -159 | -5 | -78 | -127 | -191 | -- |
| Net foreign reserves of commer- cial banks | -40 | -5 | 22 | -5 | 88 | 34 |
| Holdings of SDRs | -- | -24 | -19 | -20 | 2 | -- |

Source: Department of Statistics, Malaysia.

^{1/} Valued at SDR 1 = M\$3.06122 for 1969, 1970, 1971 and 1972, at an average rate of SDR 1 = M\$2.933 for 1973, and at an average rate of SDR 1 = M\$2.9 for 1974.

^{2/} Includes nonmonetary gold.

Table XVIII-A. Malaysia: Balance of Payments, 1969-74

(In millions of Malaysian dollars)

| | 1969 | 1970 | 1971 | 1972 | 1973 | 1974 Projections |
|--|-------|-------|-------|-------|--------|---------------------|
| A. Goods and services (net) | 812 | 84 | -154 | -630 | 477 | -275 |
| Merchandise trade (f.o.b.) | | | | | | |
| Exports ^{1/} | 5,007 | 5,105 | 4,955 | 4,796 | 7,313 | 9,310 |
| Imports ^{2/} | 3,470 | 4,139 | 4,243 | 4,512 | 5,625 | 8,135 |
| Trade balance | 1,537 | 966 | 712 | 284 | 1,688 | 1,175 |
| Services (net) | -725 | -882 | -866 | -914 | -1,211 | -1,450 |
| B. Transfers (net) | -180 | -180 | -164 | -157 | -135 | -175 |
| Private | -209 | -199 | -188 | -175 | -187 | -195 |
| Official | 29 | 19 | 24 | 19 | 52 | 20 |
| C. Nonmonetary capital (net) | 383 | 297 | 648 | 755 | 428 | 249 |
| Private long-term capital | 212 | 302 | 276 | 240 | 250 | ... |
| Government | 147 | -4 | 344 | 290 | 69 | ... |
| Other official capital | 6 | -9 | 33 | 208 | 108 | ... |
| Statutory authorities | 30 | 8 | -5 | 17 | 1 | ... |
| D. Errors and omissions | -487 | -144 | -206 | 124 | -482 | 100 |
| E. Total (A through D) | 528 | 57 | 124 | 92 | 288 | -101 |
| F. Allocation of SDRs | -- | 64 | 61 | 61 | -- | -- |
| G. Total (E plus F) | 528 | 121 | 185 | 152 | 288 | -101 |
| H. Monetary movements (increase -) | -528 | -121 | -185 | -152 | -288 | 101 |
| IMF General Account | -8 | -47 | 36 | -- | -22 | -- |
| Net foreign assets of Federal and State Governments and public authorities | 92 | 28 | 10 | 313 | 30 | -- |
| Net foreign reserves of monetary authorities | -486 | -14 | -238 | -389 | -562 | 1 |
| Net foreign reserves of commer- cial banks | -126 | -16 | 68 | -15 | 259 | 100 |
| Holdings of SDRs | -- | -72 | -61 | -61 | 7 | -- |

Source: Department of Statistics, Malaysia.

^{1/} Includes nonmonetary gold.

Table XIX. Malaysia: Exports of Major Commodities, 1969-'73 and I Qtr. 1974

| | 1969 | 1970 | 1971 | 1972 | 1973 ^{1/} | I Qtr. 1974 ^{1/} |
|--|----------|----------|----------|----------|--------------------|------------------------------|
| Rubber | | | | | | |
| Volume ('000 tons) | 1,333.1 | 1,324.1 | 1,368.4 | 1,343.5 | 1,612.5 | 423.6 |
| Value (M\$ million) | 2,031.5 | 1,723.8 | 1,460.4 | 1,298.3 | 2,507.2 | 992.7 |
| f.o.b. unit value (in M cts. per pound) | 68.0 | 58.1 | 47.6 | 43.1 | 62.4 | 104.6 |
| Tin and tin-in-concentrates | | | | | | |
| Volume ('000 tons) | 90.4 | 91.0 | 85.6 | 88.2 | 80.2 | 21.8 |
| Value (M\$ million) | 939.8 | 1,013.3 | 905.9 | 924.1 | 897.0 | 332.5 |
| f.o.b. unit value (M\$ per ton) | 10,395.0 | 11,135.0 | 10,582.0 | 10,477.0 | 11,184.0 | 15,252.0 |
| Logs | | | | | | |
| Volume ('000 tons) | 6,146.3 | 6,288.0 | 6,177.9 | 6,431.7 | 7,142.1 | 1,710.8 |
| Value (M\$ million) | 601.5 | 642.7 | 640.5 | 590.3 | 866.4 | 295.8 |
| f.o.b. unit value (M\$ per ton of 50 cubic feet) | 98.0 | 102.0 | 104.0 | 92.0 | 132.0 | 173.0 |
| Sawn timber | | | | | | |
| Volume ('000 tons) | 845.5 | 960.8 | 922.0 | 1,203.4 | 1,516.2 | 323.4 |
| Value (M\$ million) | 165.0 | 201.0 | 191.7 | 275.3 | 555.0 | 123.2 |
| f.o.b. unit value (M\$ per ton of 50 cubic feet) | 195.0 | 209.0 | 209.0 | 229.0 | 362.0 | 381.0 |
| Iron ore | | | | | | |
| Volume ('000 tons) | 5,220.9 | 4,778.4 | 865.3 | 338.7 | 220.3 | 2.1 |
| Value (M\$ million) | 114.6 | 106.5 | 20.5 | 8.5 | 4.7 | 0.1 |
| f.o.b. unit value (M\$ per ton) | 22.0 | 22.0 | 24.0 | 25.0 | 21.0 | 37.0 |
| Palm oil | | | | | | |
| Volume ('000 tons) | 348.9 | 393.8 | 564.3 | 606.0 | 784.3 | 172.5 |
| Value (M\$ million) | 151.8 | 263.1 | 380.4 | 362.6 | 465.6 | 167.0 |
| f.o.b. unit value (M\$ per ton) | 435.0 | 668.0 | 674.0 | 599.0 | 594.0 | 962.0 |
| Pepper | | | | | | |
| Volume ('000 tons) | 30.3 | 25.9 | 28.2 | 27.4 | 23.6 | 2.8 |
| Value (M\$ million) | 55.4 | 59.1 | 65.6 | 61.0 | 69.1 | 14.0 |
| f.o.b. unit value (M\$ per ton) | 1,828.0 | 2,282.0 | 2,318.0 | 2,230.0 | 2,907.0 | 3,716.0 |
| Coconut oil (crude and refined) | | | | | | |
| Volume ('000 tons) | 28.9 | 47.5 | 42.6 | 26.9 | 30.4 | 6.5 |
| Value (M\$ million) | 24.3 | 42.5 | 37.1 | 16.6 | 31.9 | 13.6 |
| f.o.b. unit value (M\$ per ton) | 841.0 | 895.0 | 871.0 | 617.0 | 1,051.0 | 2,095.0 |
| Pineapple (canned) | | | | | | |
| Volume ('000 tons) | 64.3 | 62.2 | 57.8 | 57.9 | 52.8 | 12.4 |
| Value (M\$ million) | 44.6 | 43.4 | 40.6 | 41.2 | 38.5 | 10.9 |
| f.o.b. unit value (M\$ per ton) | 694.0 | 698.0 | 701.0 | 712.0 | 728.8 | 881.4 |
| Petroleum (crude and partly refined) | | | | | | |
| Volume ('000 tons) | 4,076.4 | 4,743.3 | 7,807.1 | 4,173.1 | 3,774.0 | 855.3 |
| Value (M\$ million) | 175.7 | 202.7 | 389.7 | 222.5 | 268.8 | 166.3 |
| Petroleum products | | | | | | |
| Volume ('000 tons) | 2,789.3 | 2,790.1 | 1,538.7 | 1,357.8 | 1,082.4 | 169.7 |
| Value (M\$ million) | 162.6 | 155.9 | 106.3 | 93.1 | 98.1 | 41.8 |
| Total major exports | 4,466.8 | 4,454.0 | 4,238.6 | 3,893.5 | 5,925.3 | 2,157.9 |
| Other exports | 584.7 | 709.1 | 777.4 | 960.5 | 1,446.9 | 494.9 |
| Total exports | 5,051.5 | 5,163.1 | 5,016.0 | 4,854.0 | 7,372.2 | 2,652.8 |

Source: Department of Statistics, Malaysia.

^{1/} Provisional.

Table XX. Malaysia: Gross Exports of Manufactured and Processed Products, 1969-73

(In millions of Malaysian dollars)

| Item ^{1/} | 1969 | 1970 | 1971 | 1972 | 1973 ^{2/} |
|---|--------|--------|--------|--------|--------------------|
| Food | 82.1 | 92.3 | 85.0 | 99.7 | 128.8 |
| Canned pineapple and juice | (44.5) | (43.7) | (40.7) | (46.7) | (43.5) |
| Tea | (4.6) | (4.2) | (3.1) | (2.2) | (1.7) |
| Other | (33.0) | (44.4) | (41.2) | (50.8) | (81.6) |
| Beverages and tobacco | 17.6 | 20.4 | 22.4 | 27.0 | 21.2 |
| Textiles, clothing, and footwear | 34.7 | 39.7 | 56.7 | 90.0 | 126.4 |
| Cotton fabrics of standard type | (9.4) | (9.2) | (17.3) | (25.8) | (41.9) |
| Clothing | (12.3) | (16.3) | (18.2) | (29.9) | (50.2) |
| Other | (13.0) | (14.2) | (21.2) | (34.3) | (34.3) |
| Wood products | 63.9 | 89.7 | 117.1 | 168.2 | 268.4 |
| Veneer | (5.0) | (7.2) | (13.3) | (13.5) | (22.8) |
| Plywood | (33.7) | (46.3) | (58.5) | (85.8) | (156.5) |
| Chipwood | (6.3) | (15.1) | (15.3) | (26.2) | (31.8) |
| Wooden mouldings | (5.1) | (6.9) | (11.3) | (21.4) | (31.6) |
| Wooden tools, handles, brush bodies, etc. | (11.8) | (11.3) | (15.0) | (16.4) | (22.4) |
| Other | (2.0) | (2.9) | (3.7) | (4.9) | (3.7) |
| Rubber products | 14.7 | 16.7 | 18.8 | 20.7 | 20.9 |
| Chemicals and chemical products | 40.4 | 36.7 | 39.0 | 46.8 | 69.6 |
| Petroleum products | 171.3 | 162.2 | 113.1 | 95.9 | 115.9 |
| Nonmetallic mineral products | 15.1 | 20.1 | 16.2 | 14.6 | 14.5 |
| Iron and steel products | 12.7 | 12.1 | 8.7 | 15.3 | 6.9 |
| Manufactures of metal (excluding tin metal) | 8.1 | 10.7 | 12.2 | 12.4 | 18.0 |
| Machinery and transport equipment ^{3/} | 84.5 | 90.1 | 86.0 | 92.8 | 160.8 |
| Other | 39.9 | 41.4 | 37.7 | 35.8 | 170.2 |
| Total | 585.0 | 632.1 | 612.9 | 719.2 | 1,121.6 |

Source: Department of Statistics, Malaysia.

^{1/} Classified according to Standard International Trade Classification (SITC), United Nations, 1968.^{2/} Preliminary.^{3/} A large part of this item consists of re-exports.

Table XXI. Malaysia: Gross Imports According to End Use, 1969-73

(In millions of Malaysian dollars)

| Item | 1969 | 1970 | 1971 | 1972 | 1973 |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|
| Consumption goods | <u>1,172</u> | <u>1,225</u> | <u>1,174</u> | <u>1,198</u> | <u>1,539</u> |
| Food | 487 | 496 | 437 | 443 | 593 |
| Beverages and tobacco | 70 | 73 | 76 | 82 | 101 |
| Consumer durables | 134 | 134 | 126 | 139 | 183 |
| Other | 481 | 522 | 535 | 534 | 662 |
| Investment goods | <u>724</u> | <u>1,131</u> | <u>1,249</u> | <u>1,546</u> | <u>1,972</u> |
| Machinery | 290 | 451 | 524 | 546 | 648 |
| Transport equipment ^{1/} | 63 | 157 | 119 | 347 | 287 |
| Metal products | 200 | 285 | 283 | 311 | 499 |
| Other | 171 | 238 | 323 | 342 | 538 |
| Intermediate goods | <u>1,353</u> | <u>1,601</u> | <u>1,565</u> | <u>1,718</u> | <u>2,303</u> |
| For manufacturing | 722 | 918 | 979 | 1,061 | 1,512 |
| For construction | 74 | 88 | 79 | 120 | 152 |
| For agriculture | 144 | 158 | 151 | 165 | 193 |
| Crude petroleum | 228 | 215 | 115 | 103 | 119 |
| Other | 185 | 222 | 241 | 269 | 327 |
| Imports for re-export | <u>340</u> | <u>360</u> | <u>433</u> | <u>220</u> | <u>239</u> |
| Tin ore | 127 | 153 | 102 | 117 | 104 |
| Crude natural rubber | 74 | 43 | 29 | 27 | 62 |
| Crude petroleum ^{2/} | 139 | 164 | 302 | 76 | 73 |
| Miscellaneous | <u>16</u> | <u>23</u> | <u>13</u> | <u>13</u> | <u>--</u> |
| Total | 3,605 | 4,340 | 4,434 | 4,695 | 6,053 |

Source: Bank Negara Malaysia.

^{1/} Includes aircraft and ships.

^{2/} Imports of crude petroleum from Brunei for re-export.

Table XXII. Malaysia: Direction of Trade, 1969-73 and I Qtr. 1974

(In millions of Malaysian dollars)

| | Exports (f.o.b.) | | | | | | Imports (c.i.f.) ^{1/} | | | | | |
|------------------------------|------------------|-------|-------|-------|--------------------|------------------------------|--------------------------------|-------|-------|-------|--------------------|------------------------------|
| | 1969 | 1970 | 1971 | 1972 | 1973 ^{2/} | I Qtr. 1974 ^{2/} | 1969 | 1970 | 1971 | 1972 | 1973 ^{2/} | I Qtr. 1974 ^{2/} |
| United Kingdom | 176 | 242 | 328 | 441 | 583 | 147 | 466 | 578 | 619 | | | |
| Japan | 1,077 | 1,117 | 1,177 | 1,141 | 1,215 | 611 | 1,204 | 1,210 | 1,141 | | | |
| India | 21 | 17 | 22 | 29 | 151 | 51 | 132 | 244 | 1 | | | |
| Other Asia | | | | 37 | 111 | 13 | 0 | 94 | | | | |
| Latin America | | | | | | | | 244 | | | | |
| Australia | | 4 | 24 | 13 | 1,154 | 427 | 573 | 741 | | | | |
| East and South-East Asia | 75 | 4 | 25 | 30 | 7 | 6 | 186 | 152 | 112 | 112 | | |
| United States | 745 | 71 | 637 | 670 | 798 | 307 | 220 | 368 | 100 | 401 | 01 | 01 |
| Continental Western Europe | 564 | 211 | 628 | 742 | 1,093 | 1141 | 97 | 491 | 41 | | | |
| Germany, Federal Republic of | 131 | 162 | 137 | 153 | 280 | 117 | 159 | 209 | 204 | 20 | 327 | 121 |
| Netherlands | 102 | 163 | 166 | 249 | 274 | 124 | 45 | 50 | 61 | | | |
| France | 113 | 112 | 100 | 96 | 182 | 76 | 53 | 61 | 70 | | 101 | |
| Italy | 146 | 171 | 147 | 144 | 202 | 65 | 39 | 48 | 50 | 50 | 11 | 28 |
| Eastern Europe | 372 | 314 | 237 | 173 | 403 | 168 | 3 | 21 | | | | 11 |
| of which: | | | | | | | | | | | | |
| U.S.S.R. | 240 | 212 | 152 | 103 | 254 | 103 | 10 | 11 | 11 | 17 | 17 | 2 |
| Other countries | 555 | 618 | 671 | 483 | 710 | 247 | 225 | 336 | 320 | 390 | 460 | 2114 |
| Total | 5,052 | 5,163 | 5,017 | 4,854 | 7,372 | 2,653 | 3,582 | 4,288 | 4,416 | 4,542 | 5,391 | 2,104 |

Source: Department of Statistics, Malaysia.

^{1/} Excludes military weapons and ammunition.^{2/} Provisional.

Table XXIII. Malaysia: External Reserves, 1970-May 1974

(In millions of SDRs)

| End of period | 1970 | 1971 | 1972 | 1973 | May ^{1/} 1974 |
|--|------------|-------------|-------------|--------------|---------------------------|
| A. Central Bank (net) | <u>659</u> | <u>746</u> | <u>903</u> | <u>1,108</u> | <u>1,245</u> |
| Foreign assets | 664 | 754 | 904 | 1,112 | 1,247 |
| Gold | 48 | 58 | 58 | 58 | 58 |
| Reserve position in the Fund | 51 | 39 | 39 | 47 | 47 |
| Foreign exchange | 542 | 613 | 743 | 947 | 1,082 |
| Special drawing rights | 23 | 44 | 63 | 61 | 61 |
| Foreign exchange liabilities ^{2/} | -5 | -8 | -1 | -4 | -2 |
| B. Other official holdings | <u>160</u> | <u>156</u> | <u>54</u> | <u>45</u> | <u>45</u> |
| Federal Government | 121 | 127 | 32 | 29 | 29 |
| State Governments and official agencies | <u>39</u> | <u>29</u> | <u>22</u> | <u>16</u> | <u>16</u> |
| C. Total net official reserves (A + B) | 819 | 902 | 957 | 1,153 | 1,290 |
| D. Commercial banks (net) | 27 | 5 | 10 | -75 | -41 |
| Foreign assets | 121 | 118 | 151 | 195 | 227 |
| Foreign exchange liabilities | <u>-94</u> | <u>-113</u> | <u>-141</u> | <u>-270</u> | <u>-263</u> |
| E. Total net external reserves (C + D) | 846 | 907 | 967 | 1,078 | 1,249 |

Sources: Bank Negara Malaysia, and IFS.

1/ According to preliminary data for July 31, 1974, Central Bank gross reserves amounted to SDR 1,256 million.

2/ Comprise mainly balances held for the Monetary Authority of Singapore, vostro accounts and the operating accounts of international financial organizations.

Malaysia Summary of Tax System, 1974

(All amounts in Malaysian dollars)

| Tax | Nature of Tax | Exemptions and Deductions | Rates |
|---|---|---|---|
| A Central Government | | | |
| 1 Taxes on net income and profits | | | |
| 1.1 New tax on corporate entities (Supplementary income tax Act 1967 plus Amendments) | It is an annual tax on the taxable income from all sources in Malaysia and income received from outside Malaysia, of a resident company and on income derived from Malaysia in the case of nonresident companies. Tax is levied for the preceding year of assessment commencing on 1 January or where the assessment year is usually adjusted to some day other than December 31, the statutory income from the source will be computed on the basis of the 12 months ending on the day on which the assessment year commences. The tax is levied on the net income after deducting prescribed expenditures incurred wholly in the production of gross income, losses brought forward from an earlier period, and contributions to approved public institutions are deductible from gross income. Depreciation allowances on equipment are also allowed. Interest paid on loans borrowed and employed in producing income, and royalties are deductible if, when paid to a nonresident, the tax payable has been deducted. Exemptions are granted to certain financial institutions, including banks, and to certain benefits, incomes, including salaries, honoraria, and all of these incomes. Exemption incentives are granted to a capital allowance on depreciable plant and equipment, in the form of credit, and various exemptions granted to the first 10 years companies (see the investment incentives). | All companies are taxed on their retained earnings at 40 per cent. Companies may withhold dividend taxes at the rate of 40 per cent. | |
| 1.12 Development tax (supplementary income tax Act, 1967 plus Amendments) | A tax (in addition to income tax) annually levied on development income which is defined as income from any trade, business, profession, vocation, and the leasing of property situated in Malaysia. | For individuals without a partnership development source incomes not exceeding \$3,000 are exempt as are incomes below \$2,000 earned by individuals with a partnership development source. Business and property losses incurred previously, and not already allowed, may be deducted, as may a proportion of charitable donations, gifts, etc. Incomes from employment, interest, and dividends are exempt. | 5 per cent of development income. A minimum tax of \$100 is payable by persons other than individuals. For companies, a minimum tax is payable as follows: \$100 if paid up capital is up to \$50,000 \$250 if paid up capital is between \$50,000 and \$100,000 \$500 if paid up capital is more than \$100,000 |

Malaysia: Summary of Tax System, 1974 (continued)

(All amounts in Malaysian dollars)

| Tax | Nature of Tax | Exemptions and Deductions | Rates | | | | | | | | | | | | | | | | | | | | | | |
|--|---|--|---|----------------|------------------------------|---------------|---|----------------|---|----------------|----|-----------------|----|------------------|----|------------------|----|------------------|----|------------------|----|------------------|----|-------------|----|
| 1.13 Tin profits tax (Supplementary Income Tax Amendment Act, 1967). | A supplementary income tax levied on total taxable income derived from tin mining operations in Malaysia. Intended as an excess profits tax. Applies only when tin profits exceed \$10,000 and the price of tin ore sold exceeds \$100 per picul (133 1/3 lbs.). | Expenses and allowances admissible for income tax and attributable to tin mining operations (without carry-forward of unused allowances for capital expenditure or set-off of losses), and donations and gifts to approved institutions are deductible. No deductions are allowed for personal relief. | 10 per cent. The amounts of the tax cannot exceed the amount by which the tin profit is above \$10,000. | | | | | | | | | | | | | | | | | | | | | | |
| 1.14 Petroleum tax | A tax, in lieu of the income tax, levied annually on the chargeable income derived by any company engaged in searching for, and obtaining, in Malaysia, mineral oil, related hydrocarbons, natural gas and casinghead petroleum spirit, by drilling, mining, etc., all incidental operations, and the transportation within Malaysia and sale of these products, but not refining or dealings with refined products. The tax is levied on the basis of the preceding accounting or calendar year. This tax replaces the normal income tax. | Deductions are granted for normal business expenses. An initial allowance for capital expenditures on exploration is allowed at between 10 per cent and 20 per cent. A minimum annual allowance of 5 per cent is granted. Certain allowances and charges are also made for "qualifying capital expenditure" on industrial buildings and machinery and plants. Deductions may also be claimed for the amount by which admissible deductions from gross income from petroleum operations exceed that income in the previous year, and also for charitable gifts to approved institutions or organizations. | The "assessable tax" is 55 per cent of the chargeable income. The tax chargeable is "assessable tax" reduced by (a) royalties on crude oil won in the basis period and shown to have been consumed in Malaysia and royalties on other chargeable petroleum, (b) the market value of crude oil delivered to the Government in lieu of royalties, (c) taxes, other than petroleum income tax, paid to the Government, and (d) relevant import and export duties. There is also a supplementary chargeable tax if the amount of tax as calculated above is less than it would be if the sale price of crude oil exported, or delivered in, but not refined in Malaysia, and the market value of crude oil exported otherwise than on sale were taken to be the "tax reference price rates," the amount of difference is charged as supplementary tax. | | | | | | | | | | | | | | | | | | | | | | |
| 1.15 Timber profits tax (Income Tax Amendment Act, 1969). | A supplementary income tax levied annually on taxable income including all premiums, rents, and tributes receivable as a result of the extracting of timber from a forest in Malaysia or the granting or assignment of any rights, privileges, etc., for the extraction of such timber, but not the processing, sawing, milling, or manufacturing of the timber. A partnership is assessable as an individual and all partners are jointly and separately liable to tax. | Expenses and allowances--inclusive of license fees paid to the state governments--attributable to timber operations may be deducted, without any carry-forward of unused allowances for capital expenditure or set-off of losses. Charitable donations and gifts are allowed in the proportion that gross income from timber operations bears to total gross income. A deduction of 10 per cent of gross income from timber operations is allowed. | 10 per cent on taxable timber profits that do not exceed 10 per cent of gross timber income, 20 per cent on the balance (if any). | | | | | | | | | | | | | | | | | | | | | | |
| 1.2 Tax on individuals (Income Tax Act, 1967). | An individual is taxable on the same sources of income as a company as well as on gains or profits from any profession, vocation, or employment, pensions, or annuities, and the net value of land and improvements used as owner, or occupied rent free. However, exemption is accorded to one residence of the individual. The residence status of an individual determines claims for personal relief and benefits of graduated rates. Members of partnerships are assessed individually (see 1.1). Dividends when taxable in the shareholders hands are grossed by an addition for tax at the rate at which tax was deductible at the date of payment, and tax credit is given for the withheld tax. If no taxes were withheld from the dividends by the distributing company, the dividend is grossed-up as if withholding has taken place. The income of Hindu joint families is assessed in the name of its manager who is liable for payment. | Where individuals are engaged in trade, business, profession, or vocation, the same deductions as for companies are allowed. Personal allowances calculated on the basis of the preceding year of assessment are allowed. (a) Personal allowance--\$2,000, (b) wife allowance--\$1,000 (if living with husband), (c) child allowance--first child \$750, second and third children--\$500 each, fourth and fifth--\$500 (maximum \$2,350). A 10 per cent earned income allowance is provided subject to a maximum of \$1,000. The allowance of a married woman's earned income is 10 per cent of her income up to a maximum of \$1,000, if her income exceeds \$5,000. If her income is less than \$5,000 the earned income relief is limited to 90 per cent of her earned income up to a maximum of \$500. A deduction of \$400 is also allowed for the maintenance of a child who is not able to receive full time education by reason of physical or mental disability. Various allowances are made for reasons of education. A certain life assurance allowance (maximum \$3,000) is also available. | <table><tr><th>Taxable income</th><th>Marginal tax rate (per cent)</th></tr><tr><td>Up to \$2,500</td><td>6</td></tr><tr><td>2,501 to 5,000</td><td>9</td></tr><tr><td>5,001 to 7,500</td><td>12</td></tr><tr><td>7,501 to 10,000</td><td>15</td></tr><tr><td>10,001 to 15,000</td><td>20</td></tr><tr><td>15,001 to 20,000</td><td>23</td></tr><tr><td>20,001 to 25,000</td><td>25</td></tr><tr><td>25,001 to 35,000</td><td>30</td></tr><tr><td>35,001 to 50,000</td><td>40</td></tr><tr><td>over 50,000</td><td>50</td></tr></table> <p>A 10 per cent discount or rebate is allowed against the first \$50,000 in Sabah and Sarawak. The lower rates of taxation in East Malaysia are gradually increased to the level of those of West Malaysia. Nonresidents are generally subject to a flat 40 per cent in Malaysia unless double tax treaties exist. Interest, royalties, and public entertainers' fees derived by nonresidents are taxed at 15 per cent on gross.</p> | Taxable income | Marginal tax rate (per cent) | Up to \$2,500 | 6 | 2,501 to 5,000 | 9 | 5,001 to 7,500 | 12 | 7,501 to 10,000 | 15 | 10,001 to 15,000 | 20 | 15,001 to 20,000 | 23 | 20,001 to 25,000 | 25 | 25,001 to 35,000 | 30 | 35,001 to 50,000 | 40 | over 50,000 | 50 |
| Taxable income | Marginal tax rate (per cent) | | | | | | | | | | | | | | | | | | | | | | | | |
| Up to \$2,500 | 6 | | | | | | | | | | | | | | | | | | | | | | | | |
| 2,501 to 5,000 | 9 | | | | | | | | | | | | | | | | | | | | | | | | |
| 5,001 to 7,500 | 12 | | | | | | | | | | | | | | | | | | | | | | | | |
| 7,501 to 10,000 | 15 | | | | | | | | | | | | | | | | | | | | | | | | |
| 10,001 to 15,000 | 20 | | | | | | | | | | | | | | | | | | | | | | | | |
| 15,001 to 20,000 | 23 | | | | | | | | | | | | | | | | | | | | | | | | |
| 20,001 to 25,000 | 25 | | | | | | | | | | | | | | | | | | | | | | | | |
| 25,001 to 35,000 | 30 | | | | | | | | | | | | | | | | | | | | | | | | |
| 35,001 to 50,000 | 40 | | | | | | | | | | | | | | | | | | | | | | | | |
| over 50,000 | 50 | | | | | | | | | | | | | | | | | | | | | | | | |

Malaysia: Summary of Tax System, 1974 (continued)

(All amounts in Malaysian dollars)

| Tax | Nature of Tax | Exemptions and Deductions | Rates |
|---|--|--|--|
| 2. <u>Social security contributions</u> | | | |
| | Data not available. | | |
| 3. <u>Payroll taxes (other than social security contributions).</u> | | | |
| | None. | | |
| 4. <u>Taxes on property</u> | | | |
| 4.1 <u>Land speculation tax</u> (1974 Budget Speech) | A tax levied on gains of residents and non-residents accruing from the disposal of land and buildings situated in Malaysia and held for less than 2 years. This tax was introduced to curb rising real estate prices. | Exemption is granted to property of which the disposal price is less than \$200,000. The profits from the sale of a principal residence, and profits from a sale of real estate by genuine housing developers are exempted. | 50 per cent. |
| 4.3 <u>Death and gift taxes</u> | | | |
| 4.31 Estate duty | Estate duty is levied at progressive rates. Interest is charged at rates ranging from 3 per cent to 12 per cent on overdue estate duties. Gifts made five years from date of death pay the amount of the estate duty that would have been due if the gift was included in the estate. | First \$25,000. | Rates vary from 5 per cent on estates ranging between \$25,000 and \$50,000 to 50 per cent on estates exceeding \$2,000,000. |
| 5. <u>Taxes on goods and services</u> | | | |
| 5.1 <u>General sales taxes</u> (Sales Tax Act, 1972) | It is an ad valorem single stage tax levied on imported goods paid by the importer at the time of customs clearance, and on domestically manufactured goods when the goods are sold, and payable monthly. Tax is levied on the sale value of goods. In December 1972 the tax on certain luxury items, such as ethyl alcohol, spirits, tobacco, perfumes, jewelry, etc., was increased. | Manufacturers with gross sales below \$20,000 are exempt. Primary commodities, foodstuffs and basic necessities are exempt. In all a total of 624 out of 1,124 groups of items are exempted from sales tax. Government agencies and certain other specified organizations, such as cooperatives, trade unions, etc., do not pay the tax. Goods traded between East and West Malaysia, and all exports are exempted from sales tax. | 5 per cent on sales of goods and services and on imports; 10 per cent on cigarettes, cigars, alcoholic beverages, perfumes, and jewelry. |
| 5.2 <u>Selective excises</u> | Excise duties are levied on certain light electrical equipment such as televisions, refrigerators, electric accumulators, smoothing irons, electric rice cookers, tobacco and cigarettes, beer, stout, and spirituous and malt liquors, and motor vehicles manufactured in Malaysia. Petroleum products other than kerosene and diesel are taxed. | None. | Rates for East and West Malaysia are the same except for liquor, matches, and petroleum products. For West Malaysia some of these rates are: Cigarettes \$1 per pound Malt liquors \$20 per gallon Petrol \$1.30 per gallon Diesel fuel \$0.20 per gallon 10 per cent on electrical equipment or a fixed amount, whichever is higher. |

Malaysia: Summary of Tax System, 1974 (continued)

(All amounts in Malaysian dollars)

| Tax | Nature of Tax | Exemptions and Deductions | Rates | | | | | | | | | | | | | | | | | | |
|--|--|---|---|-----------------|-------------|----------------|------------|----------------|-----------------|-----------------|--------------|----------------|-------------------------------------|-------|-------------|----------------|---------------------|--------------------|------------|-------------|-------------|
| 5.5 <u>Motor vehicle taxes</u> | The annual road user tax on passenger cars and taxis/hire cars, and the monthly tax on stage buses are based on engine capacity and the type of fuel used. Goods vehicles are taxed on the basis of maximum permissible laden weight and the type of fuel used. Motorcycles are taxed at a flat rate per annum. Also an ad valorem registration fee paid when the car is bought. | None. | Private passenger cars and taxis: 12 cents per cc. for petrol engines (minimum \$40) 44 cents per cc. for diesel engines (minimum \$160) Motorcycles: \$40 per annum Buses: \$10-\$15 for petrol engines) \$80-\$220 for diesel engines) plus a seating capacity tax of \$10 per seat per month. Goods vehicles: According to maximum permissible laden weight and type of fuel used; amounts varying between \$1,036 and \$7,000 per annum. | | | | | | | | | | | | | | | | | | |
| 5.6 <u>Other</u> | | | | | | | | | | | | | | | | | | | | | |
| 5.61 Entertainment tax | A tax on public entertainment varying with the type of entertainment and the price of admission. | None. | Various. | | | | | | | | | | | | | | | | | | |
| 5.62 Film hire duty | Levied on the producer's share of film rentals charged to exhibitors. | Receipts from sale and hire of accessories and receipts from advertising materials. | 15 per cent. | | | | | | | | | | | | | | | | | | |
| 6. <u>Taxes on international trade</u> | | | | | | | | | | | | | | | | | | | | | |
| 6.1 <u>Taxes on imports</u> | | | | | | | | | | | | | | | | | | | | | |
| 6.11 Customs duties | Mostly ad valorem taxes and some specific taxes on a number of commodities. | Malaysia has signed trade agreements with Australia (1968) and New Zealand (1961). These agreements specify for particular products, maximum rates of import duties and preference margins. Various exemptions are allowed in accordance with Industrial Incentives Policies (see Investment Incentives). | Ad valorem rate from 0 per cent to 70 per cent. Specific rate: e.g., Petrol \$1.4 per gallon Cigarettes \$12.5 per lb. Wine between \$15 to \$18 per gallon. A 4 per cent or 10 per cent surcharge is levied on most imported products. | | | | | | | | | | | | | | | | | | |
| 6.2 <u>Taxes on exports</u> | | | | | | | | | | | | | | | | | | | | | |
| 6.21 Rubber (Prime Minister's Speech, April 1974). | An export duty is levied on rubber based on the gazetted price of rubber per pound. In addition to the export duty an export surcharge is levied when the gazetted price is above 60 cents per pound. | None. | <table><tr><th>Price per pound</th><th>Rate of tax</th></tr><tr><td>Up to 60 cents</td><td>4 per cent</td></tr><tr><td>60 to 80 cents</td><td>0.10625P-8.775*</td></tr><tr><td>80 to 100 cents</td><td>0.4P-25.750*</td></tr><tr><td>over 100 cents</td><td>0.25X² + 3.375 X +14.25</td></tr></table> (*Where P is the appropriate gazetted price per pound and X = $\frac{P-100}{10}$) A surcharge is levied when P is above 60 cents <table><tr><th>Price</th><th>Rate of tax</th></tr><tr><td>60 to 70 cents</td><td>1/8 cent to 2 cents</td></tr><tr><td>70 cents to \$1.30</td><td>2-13 cents</td></tr><tr><td>Over \$1.30</td><td>10 per cent</td></tr></table> | Price per pound | Rate of tax | Up to 60 cents | 4 per cent | 60 to 80 cents | 0.10625P-8.775* | 80 to 100 cents | 0.4P-25.750* | over 100 cents | 0.25X ² + 3.375 X +14.25 | Price | Rate of tax | 60 to 70 cents | 1/8 cent to 2 cents | 70 cents to \$1.30 | 2-13 cents | Over \$1.30 | 10 per cent |
| Price per pound | Rate of tax | | | | | | | | | | | | | | | | | | | | |
| Up to 60 cents | 4 per cent | | | | | | | | | | | | | | | | | | | | |
| 60 to 80 cents | 0.10625P-8.775* | | | | | | | | | | | | | | | | | | | | |
| 80 to 100 cents | 0.4P-25.750* | | | | | | | | | | | | | | | | | | | | |
| over 100 cents | 0.25X ² + 3.375 X +14.25 | | | | | | | | | | | | | | | | | | | | |
| Price | Rate of tax | | | | | | | | | | | | | | | | | | | | |
| 60 to 70 cents | 1/8 cent to 2 cents | | | | | | | | | | | | | | | | | | | | |
| 70 cents to \$1.30 | 2-13 cents | | | | | | | | | | | | | | | | | | | | |
| Over \$1.30 | 10 per cent | | | | | | | | | | | | | | | | | | | | |

Malaysia: Summary of Tax System, 1974 (continued)

(All amounts in Malaysian dollars)

| Tax | Nature of Tax | Exemptions and Deductions | Rates |
|---|--|---------------------------|--|
| 6.22 Tin (Prime Minister's Speech, April 1974) | The tax which is levied only in West Malaysia on tin ores and concentrates is calculated according to different formulae which are applied depending on the price per picul (133 1/3 lbs.). Tin slag and hardhead of tin are taxed at the rate prescribed for ores and concentrates unless accompanied by a certificate of assay in which case duty is levied at the rate for unwrought tin, on the estimated amount of tin in the consignment. Unwrought tin is taxed at the rate for tin ores and concentrates if the commodity was smelted or manufactured in West Malaysia. Revenues are shared between state and central governments. | None. | <p><u>Tin ores and concentrates</u></p> <p>Price per picul Rates</p> <p>Up to \$338.37 1/2 2.440.12 (P-41)</p> <p>\$338.27 1/2 - \$400 44.04+0.31 (P-388)</p> <p>Above \$400 47.76+0.12 (P-400)</p> <p>(Where P is the price of tin)</p> <p>Surcharge is charged at an initial rate of 0.09 P-56 when the price is more than \$700 per picul but not more than \$800 per picul to rate of 0.2P-182 when the price exceeds \$1,300 per picul.</p> |
| Petroleum (Prime Minister's Speech, April 1974) | A tax on the gazzetted value per ton of petroleum. | None. | <p>Price per ton Rates</p> <p>On first \$50 0.00</p> <p>" " 50 12 1/2</p> <p>" " 50 15</p> <p>" " 50 17 1/2</p> <p>" " 50 20</p> <p>" " 50 22 1/2</p> <p>" " 50 25</p> <p>\$700 to \$800 30</p> <p>\$801 to \$1,000 30 plus 5 per cent on every increment of \$100.</p> <p>Above \$1,500 Marginal rate (increased by 15 per cent).</p> |
| 6.24 Pepper | Duty levied in Sabah and Sarawak at differing rates on white and black pepper. | None. | <p>On white unground pepper at marginal rates varying from nil on first \$55, and 5 per cent on next \$70 to 15 per cent on \$175-\$265 and 50 per cent on balance over \$265.</p> <p>On black, unground, ground, and N.E.S. pepper from nil on first \$40 and 5 per cent on next \$50 to 15 per cent on \$119-\$184 and 50 per cent on the balance over \$184.</p> |
| 6.25 Hemp etc. | Tax levied in Sabah and Sarawak based on the price per ton. | None. | <p>5 per cent when price is \$1,000 per ton or less. If price exceeds \$1,000 per ton duty is calculated according to the formula $50 + 1/5 (P-1000)$ where P is price per ton.</p> |
| 6.26 Iron ore | A tax levied on iron ore sold for export. (Revenue shared between state and central governments.) | None. | 10 per cent. |
| 6.27 Timber (Budget Speech, 1974.) | Imposed on saw logs and sawn timber. | None. | <p>Saw logs: 15 per cent</p> <p>Sawn timber 5 per cent</p> |

Malaysia: Summary of Tax System, 1974 (continued)

(All amounts in Malaysian dollars)

| Tax | Nature of Tax | Exemptions and Deductions | Rates |
|--|---|---|--|
| 6.28 Building materials (Budget Speech, 1974) | A duty on the sale for export of certain specified building materials, cement, asbestos cement and asphalt articles, tiles, bricks, etc. | None. | 5 per cent. |
| 6.29 Food | A tax on live animals for food, fresh and freshly preserved fish, bird's eggs, animal feeding stuff, and fresh fruits. | Live poultry, bananas, and pineapple. | 5 per cent. |
| B. State Governments | | | |
| 4. Taxes on property | | | |
| 4.1 <u>Real estate taxes</u> | An annual state tax levied, in some cases, on the capital value of property, and in others, on the rateable value. Unimproved land is taxed on the estimated market value of assessment with 10 per cent of this value the actual amount upon which the tax is assessed. Mining lands are taxed by the acre at varying rates for leasing. | In Sabah, land and improvements, the net annual value of which does not exceed \$12,000 are exempt. | Vary from 11 per cent to 34 per cent generally but may be as low as 1 per cent. |
| 7. Other taxes | | | |
| 7.2 <u>Stamp taxes</u> | Stamp duties are imposed ad valorem on certain written documents varying according to the nature of the documents and values referred to. The duties are a nominal amount when transfers of property or securities are made between corporations for reasons of reconstruction. Stamp duties also attract specific rates. | Certain instruments are exempted under the Stamp Duty Ordinance, 1949. | Contracts, notes: \$0.50 where value does not exceed \$1,000 and \$1.00 where value exceeds \$1,000. Securities: \$2 on first \$1,000 and \$2.50 for each additional \$500. A graduated rate applies to the sale of property other than shares, stocks, or securities. \$1 per \$100 when value of property transferred is below \$100,000. \$2 per \$100 for property values above \$100,000. \$1 for every share certificate. \$1 duty on certain insurance policies. |

Source: Malaysia, Income Tax (Amendment) Act, 1967, plus Amendments (Kuala Lumpur: Government Printer, 1967). Malaysia, Annual Report of the Department of Inland Revenue (Kuala Lumpur, 1971).

Had the Central Bank not raised the statutory cash reserve ratio from 3.5 to 5.0 per cent, the multiplier in December 1969 would have taken the value of 1.61 instead of 1.55, and the money supply would have been 3.9 per cent higher (assuming no changes in the other parameters). Similarly in December 1972, the money supply would have been 9.2 per cent larger had the statutory cash reserve ratio not been raised to 8.5 per cent, and in June 1974, without the increase in statutory reserve, the money supply would have been 3.7 per cent higher.

2. The liquidity multiplier

During the period 1965-72 the liquidity multiplier showed similar but more pronounced movements than the money multiplier (Table 2). It increased from 2.42 in 1965 to 3.12 in 1968, fluctuated somewhat for three years, and then declined to 2.79 at the end of 1973. The ratio of currency to private sector deposits with commercial banks (C/D) declined from 0.53 in 1965 to 0.29 in 1972. Such a decline reflects the general development of the economy as well as the growth of the financial sector; between 1965 and 1973 the number of bank offices grew by 33 per cent from 277 to 369. Since 1968 the affect on the multiplier of the decline in the currency to deposit ratio has been offset by the increase in the statutory cash reserve ratio, even though banks did show a tendency to reduce their excess reserves ratio.

The impact of the increase in statutory cash reserve requirements in 1969, 1972, and 1974 on the liquidity multiplier can again be approximately estimated. In 1969 the liquidity multiplier would have taken the value of 3.14 instead of 3.02, and liquidity would have been 3.9 per cent higher in the absence of the change in the statutory reserve requirement. In 1972 liquidity would have been 8.8 per cent higher had the Central Bank not increased reserve requirements from 5.0 per cent to 8.5 per cent, and in June 1974 liquidity would have been 3.5 per cent higher if reserve requirements had remained unchanged.

Appendix to Annex C

The monetary base is equal to the net foreign and domestic assets of the monetary authorities. That the multipliers are determined by the interaction of the portfolio decisions of commercial banks and the nonbank public can be seen by solving the following model of the monetary sector for the multipliers.

$$\begin{aligned} \text{Narrow money} \quad M &= C + D_1 + E \\ \text{Liquidity} \quad L &= M + D_2 + T \\ \text{Monetary base} \quad B &= C + R + F \\ \text{Liquidity base} \quad BL &= C + R + F \\ \text{Reserves} \quad R &= R^r + R^e \\ \text{Statutory reserves} \quad R^r &= k (D_1 + D_2 + G) \end{aligned}$$

where

$$\begin{aligned} C &= \text{Currency} \\ D_1 &= \text{Private sector demand deposits with commercial banks} \\ D_2 &= \text{Private sector time deposits with commercial banks} \\ E &= \text{Nonbank private sector demand deposits with the Central Bank} \\ T &= \text{Nonbank private sector time deposits with the Central Bank} \\ F &= \text{Total nonbank private sector deposits with the Central Bank (F=E+T)} \\ R &= \text{Commercial bank reserves} \\ R^r &= \text{Statutory reserves} \\ R^e &= \text{Excess reserves} \\ G &= \text{Government deposits with commercial banks} \\ k &= \text{Statutory cash reserve ratio} \end{aligned}$$

Solving the above model for the money multiplier gives

$$m = \frac{1 + C/D_1 + E/D_1}{\{k + R^e/(D_1 + D_2 + G)\} \{1 + D_2/D_1 + G/D_1\} + C/D_1 + E/D_1} \quad (1)$$

and for the liquidity multiplier

$$1 = \frac{1 + C/(D_1 + D_2) + F/(D_1 + D_2)}{(k + R^e/(D_1 + D_2 + G))\{1 + G/(D_1 + D_2)\} + C/(D_1 + D_2) + F/(D_1 + D_2)} \quad (2)$$

The formulae are complicated by the existence of nonbank private sector deposits with the Central Bank and government deposits with commercial banks. In the absence of such deposits, the expressions for the multiplier reduce to the standard formulae.

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