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INTERNATIONAL MONETARY FUND

MALAYSIA

Recent Economic Developments

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Approved by the Asian and the Fiscal Affairs Departments

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Contents

Contents | Page

Text Statistical Tables

Appendix Tables

Contents | Page

Charts

Annex

MALAYSIA

Basic Data

Area:	128,370 square miles
Population (1975):	12.2 million
Annual rate of growth of population (1975):	2.7 per cent
Gross national product (1975):	SDR 7,457 million (M$21,747 million)
Per capita gross national product (1975):	SDR 609 (M$1,775)

Selected Aggregates as Percentages of GNP

	1972	1973	1974	1975
Manufacturing production (constant prices)	11.7	12.3	13.0	12.8
Gross capital formation (constant prices)	19.6	20.2	24.5	18.5
Gross national savings	18.2	25.3	25.5	22.8
Money	19.9	21.4	19.1	20.0
Broad money	42.3	43.4	41.1	46.0
Federal Government tax revenues	17.4	17.2	20.2	20.8
Exports of goods and services	38.8	45.8	52.0	46.7
Imports of goods and services	42.8	43.6	55.1	47.8

Annual Percentage Changes in Selected Economic Indicators

	1972	1973	1974	1975
Gross national product (constant prices)	6.1	11.9	8.4	2.5
Agricultural production	5.4	12.1	5.0	-1.0
Rice production	0.9	7.0	6.4	-3.0
Rubber production	--	18.3	-1.1	-4.6
Industrial production	10.2	13.9	11.3	--
Federal Government revenue and grants	21.5	14.7	40.7	5.5
Federal Government expenditure and net lending	23.7	3.6	39.2	12.7
Money	28.1	37.6	8.5	7.3
Broad money (money plus quasi-money)	23.5	31.2	15.3	14.6
Bank credit to Government (net)	192.0	29.5	69.5	36.3
Bank credit to private sector	17.2	52.1	15.1	15.3
Domestic credit	26.8	49.3	21.0	18.5
Consumer price index	3.6	18.1	12.0	1.1
Merchandise exports (in SDRs)	-3.5	60.3	38.4	-9.7
Merchandise imports (in SDRs)	3.6	36.0	64.6	-13.5
Unit value of exports (annual average)	-4.6	28.3	34.6	-13.1
Unit value of imports (annual average)	4.7	15.7	41.3	6.0
Trade-weighted effective exchange rate	2.7	7.6	5.7	-5.8

(In millions of Malaysian ringgit)

Federal Government Budget

	1972	1973	1974	1975	1976
Total revenue and grants	2,986	3,426	4,819	5,082	5,413
Total expenditure and net lending	4,291	4,447	6,191	6,980	7,983
Overall deficit (-) or surplus	-1,305	-1,021	-1,372	-1,898	-2,570
Financing (net): Foreign	306	69	223	891	1,000
Banking system	130	213	385	200)	
Other	869	739	764	807)	1,570

Fund Position (October 31, 1976)

Quota:	SDR 186 million
Fund holdings of Malaysian ringgit:	121.1 per cent of quota
SDR holdings as per cent of allocation:	108.1 per cent
Exchange rate (October 29):	US$1 = M$2.537, SDR 1 = M$2.929

I. Introduction and Summary

Malaysia has an export-oriented economy with a plural society. Its population of about 12 million comprises approximately 55 per cent Malays and other indigenous people (Bumiputras), 35 per cent Chinese, and 10 per cent Indian, and other minorities. Its per capita income of about SDR 609 (in 1975) places the country in the upper range among developing countries. Malaysia's exports are equivalent to about half of GNP. Despite increasing diversification, more than 80 per cent of exports still consist of primary commodities; of total exports in 1975, rubber accounted for 22 per cent; palm oil, 14 per cent; tin, 13 per cent; timber, 12 per cent; and petroleum and petroleum products, 9 per cent.

The Malaysian economy has made good progress in recovering from the 1974/75 recession, and the preliminary forecast for 1976 indicates a 7 per cent rise in real GNP against a real rate of growth of only 2.5 per cent in 1975. The rate of increase in consumer prices was 3 per cent in the 12 months ended July 1976, and domestic inflation is no longer considered a major problem. The achievement of relative stability is attributable to a number of factors, including the slackening of external and domestic demand pressures, pursuit of appropriate demand manangement and exchange rate policies, more stable import prices, and improvement in the domestic food supply.

The major policy concern in 1975 and 1976 was to revive the economy without generating fresh inflationary pressures. Credit policy was eased through abolition of the ceilings on credit expansion and lowering of statutory reserve ratios as well as bank lending rates. However, credit to the private sector began to revive only from around the third quarter of 1975, and for the year as a whole, increased by 15 per cent. During the first half of 1976, credit rose by 9 per cent, or at an annual rate of 20 per cent. Broad money expanded by 15 per cent in 1975 and 13 per cent during January-June 1976, or an annual rate of 28 per cent. On October 1, 1976, the authorities' latest guidelines for channeling new credit to priority sectors were put into effect.

In keeping with the direction of macroeconomic policy, the overall Federal Government budget deficit was increased to about 9 per cent of GNP in 1975, compared with under 7 per cent in the previous year. This reflected a continued expansion of expenditure and net lending at about its long-term trend rate in the face of a sharp fall in the rate of revenue increase. The authorities relied to a greater extent than in the past on foreign borrowing to finance the budget deficit. Revised estimates of the Federal budget for 1976 indicate that the financing pattern would be similar to 1975, but the overall deficit is projected to widen further to about 11 per cent of GNP.

During the Second Malaysia Plan (1971-75), gross domestic product in real terms increased at an average annual rate of 7.4 per cent, as compared with the original growth target of 6.8 per cent and the revised target in the mid-term review of 7.8 per cent. The shortfall in performance was due largely to the adverse impact of the worldwide recession in 1975, when GDP in real terms rose by only 3.5 per cent. The substantial increases in exports and public expenditures provided the main sources of growth and employment during 1971-75. During the Plan period, the size of the public sector relative to GNP expanded sharply in response to the pressing need to create the infrastructure for the New Economic Policy. Industrial policies were governed by the need to diversify output and exports and to expand employment and ownership opportunities for the indigenous people.

The Third Malaysia Plan (1976-80), announced on July 1, 1976, aims at a real growth target of 8.5 per cent and at the eradication of poverty, as well as ethnic and regional economic disparities. The Plan envisages an increase in total investment of about 50 per cent over the level of the Second Plan, of which about two thirds would be in the private sector. The role of the public sector would be more supportive, emphasizing the development of human resources, the restructuring of ownership, and the maintenance of a congenial economic climate for the private sector. The overall Federal Government deficit during the Third Plan is expected to be around 9 per cent of GNP, compared with 8 per cent in the Second Plan.

There was a sharp turnaround in Malaysia's overall balance of payments from a surplus of SDR 199 million in 1974 to a deficit of SDR 247 million in 1975, despite a considerable reduction in the current account deficit. This outturn reflected primarily a reduction in non-monetary capital inflows and a very substantial turnaround in net errors and omissions which returned to its traditional negative position. The deficit was financed by net official market borrowings of SDR 217 million and a fall in net reserves of SDR 30 million. For 1976, the official projections indicate that an increase in imports is expected during the second half of 1976 in the wake of the recovery of private expenditures. The latest official projections show a balance of payments deficit of about SDR 94 million. However, during the first nine months of 1976, gross reserves increased by SDR 703 million to SDR 2,005 million, which is equal to about seven months' imports at the 1976 level. The bulk of the increase reflected receipts from official market loans, as well as the inflow of oil payments, part of which may be returned to the foreign oil companies when a final production-sharing agreement is signed before the close of 1976.

The Malaysian ringgit is pegged to an undisclosed composite of currencies of Malaysia's major trading partners, and the weighting also reflects the importance of currencies in settlement. The trade-weighted effective exchange rate of the Malaysian ringgit calculated by the staff depreciated by 6 per cent in 1975, but appreciated by 4 per cent in the first nine months of 1976.

II. Internal Economic Developments

1. Aggregate demand conditions

The Malaysian economy slowed down markedly in 1975, primarily as a result of the recession in the major industrial countries which led to a decline in the demand for Malaysia's principal exports, rubber, tin, and timber in 1974. This, in turn, caused a slackening in domestic economic activity, which was particularly pronounced in the first half of 1975, and was not fully offset by the recovery in the second half. Consequently, real GNP increased by only 2.5 per cent, compared with over 8 per cent in 1974 (Table 1).

The export-led economic recovery that began in the second half of 1975 has continued in 1976. There has been a substantial rise in agricultural production, mainly as a result of increases in rubber and timber, and in export-oriented manufacturing industries like textiles and wood products. For 1976 as a whole, real private consumption and investment are forecast to increase by 6 per cent and 5 per cent, respectively, and real GNP, by nearly 7 per cent.

Table 1. Malaysia: Gross National Product at Constant Prices, 1972-76

(Annual percentage change)

Items 1/	1972	1973	1974	1975	1976 2/
Private expenditures	0.8	8.4	9.4	-2.6	6.0
Consumption	1.6	8.3	6.8	-2.3	6.2
Investment	-3.1	8.8	22.3	-3.6	5.0
Public expenditures	16.8	5.3	11.5	12.1	4.3
Consumption	6.6	7.2	6.2	14.1	3.5
Investment	45.1	1.3	22.9	8.5	6.0
Exports of goods and nonfactor services	2.4	18.6	2.1	2.1	10.1
Imports of goods and nonfactor services	0.6	10.2	13.2	-16.0	13.0
Gross national product	6.1	11.9	8.4	2.5	6.9

Source: Third Malaysia Plan, 1976-80.

1/ Changes in stocks and factor incomes are not included.
2/ Forecast.

2. Aggregate supply conditions

Real gross domestic product at factor cost increased by 3.5 per cent in 1975, compared with 6.7 per cent in 1974, and an average annual compound growth rate of 7.4 per cent during the Second Malaysia Plan (Appendix Table III). The growth in value added declined in all sectors during 1975, except for (i) mining, where the increase in oil production offset a further decline in tin; and (ii) public administration and defense. The manufacturing sector, which had grown particularly rapidly in 1974, was virtually stagnant in 1975, due in part to depressed domestic demand. But the construction sector was able to achieve a 5 per cent increase in value added because of the strong demand for low-priced housing.

3. Production

a. Primary sector

Agricultural output (including forestry, and fishing) declined by 1 per cent in 1975, compared with a 5 per cent increase in 1974. Production of most major commodities declined except for oil palm products, which continued to rise because of increased acreage and higher yields.

Rubber production, which accounts for more than a quarter of the labor force in Malaysia and nearly two thirds of cultivated land in Peninsular Malaysia, has grown in recent years because of the progressive replanting with higher-yielding varieties. By 1975, these varieties covered more than two thirds of smallholder acreage and over 90 per cent of the estates. But the yields per acre on small holdings are still about 55 per cent of estate yields.

The principal problem facing natural rubber is the large fluctuations in price, given the inelastic supply and demand conditions, and the shifts in demand emanating from the business cycles in the industrial countries. The supply elasticities of rubber tend to be rather low, in the range of zero to 0.4 per cent.1/ In the short run, since the stock of mature trees is fixed, only the yield per acre of mature trees can be changed, whereas in the long run it takes about seven years for new trees to become productive.

The supply response to price changes varies considerably between the estates and the smallholder sector. Long-term supply contracts and the considerable costs of temporary adjustments of the labor force hamper the short-run responsiveness of the estates to price changes. Estates also traditionally aim at maximizing long-term returns and therefore tend to maintain output in the face of temporarily low prices. In contrast, smallholders have a much higher ratio of variable to fixed costs and a higher proportion of older trees, which therefore facilitates increased tapping rates when prices are high. These factors account for the higher short-term price elasticities for smallholders (estimated at between 0.12 and 0.36) relative to estates (close to zero).

1/ Cf., Jere R. Behrman, "An Econometric Study of the World Rubber Market 1950-80" Discussion Paper No. 85 (Economics Department, University of Pennsylvania, Philadelphia, July 1968); and C.S. Chow, "Some Aspects of Price Elasticities of Rubber Production in Malaysia," International Rubber Conference Proceedings, 1975, Kuala Lumpur.

There has been, however, some disagreement concerning the effect of technical progress on short-run elasticities of smallholders. It is argued, on the one hand, that with the increase in the acreage of high-yield trees, their response would become more inelastic. However, some recent findings suggest that smallholder elasticity has tended to increase further in recent years, perhaps because of increased labor mobility in the smallholder sector, and the cultivation of more subsidiary crops due to the modernization of agricultural practices, especially on land development schemes.

The total production of rubber fell by 5 per cent to 1,478 thousand tons in 1975, compared with a decline of 1 per cent in 1974. This reflected the combined efforts of Government and industry to arrest a further decline in rubber prices under the Natural Rubber Price Stabilization Program. But with the improved demand for rubber, the measures introduced on November 28, 1974 to restrict supply were gradually withdrawn. From July 1975, the use of chemical yield stimulants was permitted, and in December the limit on the number of tapping days was abolished. In January 1976, all remaining requirements on stock holdings were withdrawn, and government purchases from smallholders ceased in February 1976. The demand for natural rubber improved further, and by mid-1976 market prices had reached M$2.20 per kilogram, due to reports of possible purchases by Mainland China. When these purchases did not materialize, the price declined to about M$2.00 per kilogram by mid-July and has remained around that level since.

Oil palm has been the major crop planted by the Federal Land Development Authority (FELDA) during the past five years. Of the total oil palm acreage in 1975, about 40 per cent was on government land development schemes, with that of FELDA accounting for about one third. The 20 per cent increase in output in 1975 was due mainly to the increase in mature acreage. New plantings continued in 1975, with 83,000 hectares being developed compared with 78,000 hectares in 1974; the major portion of the area planted in 1975 was by FELDA and other government agencies. However, a gradual decline in the rate of new planting is projected for the next few years.

Malaysia's third most important agricultural crop is rice which is grown entirely by smallholders, 77 per cent of whom were below the poverty line in 1975. In 1975 output declined slightly, due to the reduced use of fertilizer because of shortages in supply as well as higher prices, but is expected to increase by 5 per cent in 1976, due to higher yields and, to a lesser extent, increased acreage. Malaysian production amounted to 90 per cent of domestic consumption in 1975. Although self-sufficiency remains the Government's objective, the policy is being applied flexibly, because it is recognized that Malaysia is a high-cost producer, and that during the Third Plan (1976-80) international prices may well be below domestic prices.

The demand for timber was seriously affected by the recession in industrial countries, and the associated fall in construction activity. Output of forestry products declined for the second consecutive year in 1975, but with the revival of export demand, the timber industry is expected to recover during 1976. The output of logs is forecast to increase by 20 per cent during 1976.

The decline in 1975 of the landings of marine fish in Peninsular Malaysia (84 per cent of total landings) was attributed to the depletion of fishing grounds in the Straits of Malacca. Peninsular Malaysia, therefore, has now become a net importer of marine fish. In Sabah and Sarawak, landings increased substantially, due in part to the deep-sea fishing project started in mid-1975.

Production of tin continued to decline in 1975, due to lower prices and higher costs of inputs, as well as to poorer quality tin-bearing land being mined. During 1975, 1 dredge mine and 122 gravel-pump mines closed down, but with the higher prices now prevailing, the number of mines under operation is expected to increase and during 1977 may recover to 1974 levels. Consequently, only a modest increase of 3 per cent in production is expected in 1976.

Production of crude oil increased by about 20 per cent in 1975 to average nearly 100,000 barrels per day, due to new wells coming into production. Further increases in production have since occurred, and in July 1976 production was about 170,000 barrels per day; it is expected to average 162,000 barrels per day in 1976, and between 300,000 and 400,000 barrels per day by 1980.

The oil companies in Malaysia had originally operated on a concession system, but in July 1974 the national oil company (Petronas) was established, which has vested in it the ownership rights of all Malaysia's oil and natural gas reserves. Production-sharing agreements were to replace the concession system, but negotiations with the oil companies were delayed by an Amendment to the Petroleum Development Act in April 1975 that provided for oil companies to sell, if required, management shares to Petronas.1/ However, this provision has not been invoked. An interim agreement was signed in late 1975, under which the oil companies were allowed to retain 7.5 per cent of the gross proceeds of sales of all petroleum produced plus an undisclosed amount for development purposes. Negotiations for a final agreement on the production-sharing arrangements are expected to be completed by the end of 1976.

b. Manufacturing production

Due to the weakening in domestic and foreign demand, manufacturing output stagnated in 1975, compared with a 15 per cent increase in 1974 and an 11 per cent average annual increase during 1971-75 (Appendix Table V). For the sector as a whole, output declined from the fourth quarter of 1974 until the middle of 1975 after which there was a recovery, and by the fourth quarter of 1975 output was 7 per cent higher than in the corresponding period a year earlier. However, performance of different industries varied considerably. For textiles, wood products, and food industries, output declined in the early part of 1974, but recovered early in 1975. In contrast, output of industries such as transport equipment and metal products was sustained during 1974, but fell in 1975 due to weak demand and to inventory reductions. Overall output is expected to increase by 15 per cent in 1976 due to increased demand, which could be met both from a reduction in the substantial surplus capacity at the end of 1975 and from new capacity.

1/ This is discussed in more detail in SM/75/290, 12/12/75, p. 8.

4. Employment

Because of recessionary conditions during the first half of 1975, unemployment increased from an estimated 5 per cent in 1974 to 7 per cent in 1975. Although only partial data are available, the employment situation appears to have improved by mid-1975, and this trend has continued in the first half of 1976. Surveys of six labor-intensive industries that are particularly sensitive to the business cycle (electronics, textiles, plywood, sawmills, veneer products, and automobile assembly) show that employment in these industries began to increase after March 1975.

During the Second Plan (1971-75) period, employment grew by 3.3 per cent per annum, compared with a 3.2 per cent per annum growth in the labor force. Four sectors accounted for nearly 90 per cent of the increase in jobs during this period, with agriculture accounting for 26 per cent, services 24 per cent, wholesale and retail trades 20 per cent, and manufacturing 18 per cent. At 6.6 per cent per annum, the rate of employment growth was highest in the manufacturing sector. The increase in unemployment to about 7 per cent of the labor force in 1975, against 5 per cent in 1974, would have been higher but for moral suasion by the Government to prevent lay-offs of workers.

5. Wages

Pressure from organized labor for wage increases to compensate for the higher cost of living, which had been fairly widespread in 1973-74, abated considerably in 1975 because of retrenchment in the earlier part of 1975 and the improvement in the domestic price situation. In addition, the signing of the Code of Industrial Harmony in February 1975 by the trade unions, employees, and the Ministry of Labor and Manpower helped promote better industrial relations. Although this code is not legally binding, it has encouraged continuous consultation between labor and management. Industrial peace in 1975 was reflected both in the decline of 56 per cent in the number of man-days lost through strikes and fewer wage agreements concluded. Although there is no formal incomes policy in Malaysia, the Government does monitor private sector wages and conditions of employment.

One of the pressing issues in incomes policies in Malaysia is the disparity between public and private sector wage and salary structures. The Ibrahim Ali Salary Commission, established January 1, 1975, has recommended that public sector salaries be made more competitive with the private sector. But because of the costs involved in such an adjustment, the Government is still studying the Commission's Report and its full implications.

Partial data indicate that wages in the manufacturing sector may have risen by 5 to 10 per cent in 1975 for clerical and unskilled workers, and by 10 to 20 per cent for professional and skilled workers. But wages in the agricultural sector were less buoyant. Rubber estate wages are in part tied to the price of rubber, and it was estimated that a rubber tapper's daily wage declined by 18 per cent in 1975 as a result of lower prices.

Major wage agreements in 1976 have included: (i) the rubber industry and oil palm estates, with an average increase in wages of close to 12 per cent for about 200,000 employees; and (ii) the banking sector, with an average increase in wages of close to about 20 per cent, for about 12,000 employees. The second agreement may be indicative of further wage increases, since wage settlements in the banking industry usually tend to set a pattern for the service sector as a whole.

III. Demand Management Policies

1. Prices, prospects, and policies

Inflation was the principal economic problem in 1973 and early 1974, but by mid-1974 the rate of increase in consumer prices had began to decline (Chart 1). During 1975, the price level was virtually stable, although the average level for 1975 as a whole was 4.5 per cent higher than in 1974 (Appendix Table VI). Price stability in 1975 was due to the decline in the food component of the price index during the first part of 1975, and its subsequent relative stability. Developments in food prices reflect both improved domestic supplies and also the decline in international grain prices, especially rice, during 1975. This was reflected in the stabilization of the retail price of domestic rice within a narrow band below the maximum specified prices and a substantial reduction in the retail price of the best quality Thai rice during the first half of 1975. The retail price of wheat flour (an imported item) fell by 20 per cent during the same period. As a result, bread prices declined. For example, the price of the standard 11-ounce loaf was reduced by about 10 per cent in 1975. Prices of meats stabilized during 1975, and the price of fats and oils fell by 22 per cent, reflecting the lower level of international prices. The food component has a weight of 47 per cent in the total index, and developments in food prices more than offset the continued increase in certain other items, especially services. Movements in the service component of the price index reflect in part wage movements, and their continued increase in 1975 is due to wages catching up with the earlier inflation.

Toward the end of 1975, and during the first half of 1976, a slight upward trend in the price level became discernible, due in part to further increases in the services component. Medical care and health expenses rose by 8 per cent in January 1976, and increases in domestic petroleum prices contributed to the increase in the transport and communications item. However, food prices have continued to remain relatively stable, the decline in cereals, meats, oils and fats reflecting the continued decline in the food component of the import price index. The increase in the average price index for the year as a whole is expected to be about 5 per cent, but the actual outturn may be even lower, depending on the behavior of import prices.

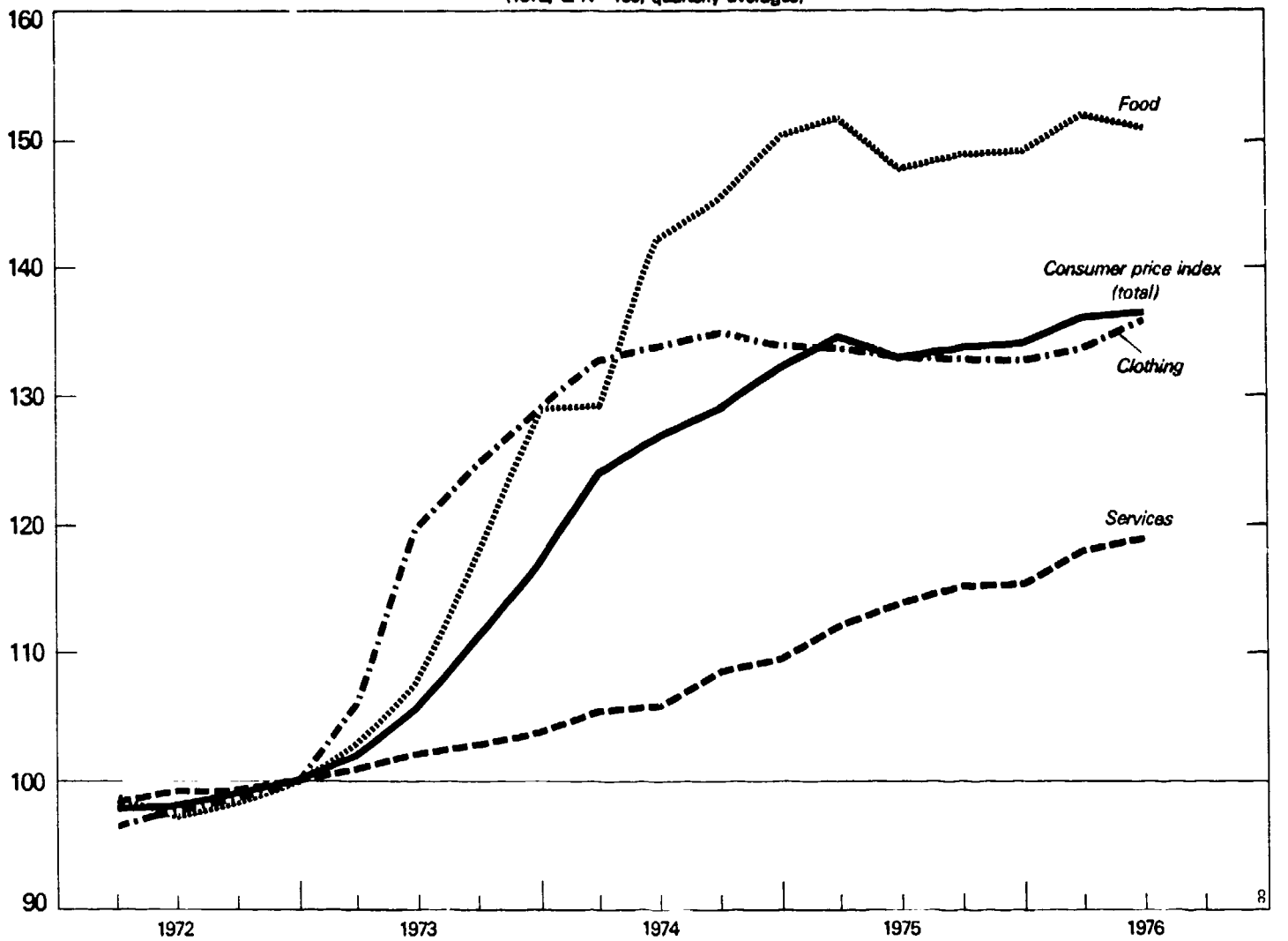
The achievement of relative price stability in Malaysia was attributable to a number of factors. External demand pressures abated during 1974, and through the effect on incomes, domestic demand was also reduced by the end of the year. Demand management, as well as exchange rate policies, was used

CHART 1

MALAYSIA

CONSUMER PRICE INDEX

(1972, Q IV=100, quarterly averages)



to control inflationary pressures during 1973/74. However, the movement of import prices has had a major effect on Malaysia's price level, both during the earlier phase of rapid inflation and during the recent period of more stable import prices.

The authorities have also taken a number of measures to ensure the supply of essential commodities, including foodstuffs, and to limit the severity of price increases of commodities such as rice, bread and kerosene.1/ The measures, under the Control of Supplies Act of 1961, included adding commodities to the list of essential commodities for which maximum selling prices could be set; 19 types of commodities are currently so designated. Other major measures were a subsidy on imported rice in 1974 and 1975, a reduction in import tariffs for certain commodities, and restrictions on the export of certain commodities in short supply domestically. Permission of the Ministry of Trade and Industry is also needed for price increases for those commodities produced by industries established after 1971 which have been granted either tax incentives, import duty exemptions, or protection in the form of tariffs or quantitative restrictions on imports.

The precise effect of price controls on the consumer price index has not been determined by the authorities, but it cannot be insignificant, since items which are important in the index, such as rice, flour, cooking oil and kerosene, are controlled. Increases in the retail price of kerosene have been limited by the removal of duties, and, more recently, by subsidizing kerosene sales from increased duties on petroleum. The system of controlled maximum prices is one of price supervision, rather than price fixing, and was designed in part to ensure adequate supply of essential commodities, especially foodstuffs.

2. Monetary developments and policy, 1975/76

a. Monetary aggregates and policy measures

The major instruments of monetary policy in Malaysia have been the variation of statutory reserve ratios and the minimum loan and maximum deposit rates of interest. The Central Bank also sets a statutory liquid assets ratio for commercial banks, but this ratio has been changed only infrequently. Although interest rates have been changed frequently, the changes have usually been quite small, and their impact on monetary aggregates is therefore difficult to determine. However, the regulation of the cash reserve ratio has had a more direct effect on the Bank's ability to create credit for any given monetary base, and raising it during 1973/74 helped to tighten credit. Although the Central Bank now has the power to issue its own securities, open market operations have not been fully developed as a monetary policy instrument, because of the lack of a wide and active secondary securities market.

The slowdown in the economy in late 1974 was accompanied by a decline in the rate of monetary expansion, which continued through the first half of 1975 (Table 2 and Chart 2). At the beginning of 1975, although the authorities wished to relax credit policy, they proceeded cautiously to avoid a resurgence of inflationary pressures. Credit policy was eased between

1/ Further details are given in SM/75/290, 12/12/75, pp. 10 and 11.

Table 2. Malaysia: Monetary Survey, 1972-76

(In millions of Malaysian ringgit)

	Changes During Period										Outstanding as of June 31, 1976
					1975				1976		
	1972	1973	1974	1975	I Qtr.	II Qtr.	III Qtr.	IV Qtr.	I Qtr.	II Qtr.	
Foreign assets (net)	403.8	317.6	399.8	268.6	-227.4	-49.1	333.6	211.5	241.7	540.4	4,342.5
Credit to private sector	443.1	1,571.4	691.7	798.9	74.4	154.6	311.8	258.1	400.1	173.1	6,649.8
Claims on Government (net)1/	287.1	129.0	392.9	354.4	462.0	33.0	-137.8	-2.8	78.2	-115.0	1,276.1
Money	595.1	1,019.7	320.1	293.5	46.9	54.3	95.0	97.3	117.6	175.8	4,642.2
Currency	(208.7)	(448.7)	(311.6)	(209.3)	(24.9)	(-2.4)	(113.6)	(73.2)	(72.3)	(54.8)	(2,366.7)
Demand deposits	(386.4)	(571.0)	(8.5)	(84.7)	(22.0)	(56.7)	(-18.6)	(24.1)	(44.7)	(121.0)	(2,275.5)
Quasi money	502.2	781.8	836.6	978.5	366.1	99.6	190.6	322.2	553.2	456.3	6,662.1
Broad Money	1,097.3	1,801.5	1,156.7	1,272.0	413.0	153.9	285.6	419.5	670.8	632.1	11,304.3
Other items (net)	36.7	216.5	327.7	149.9	-104.0	-15.4	222.0	47.3	49.2	-33.6	964.1

Source: Bank Negara Malaysia.

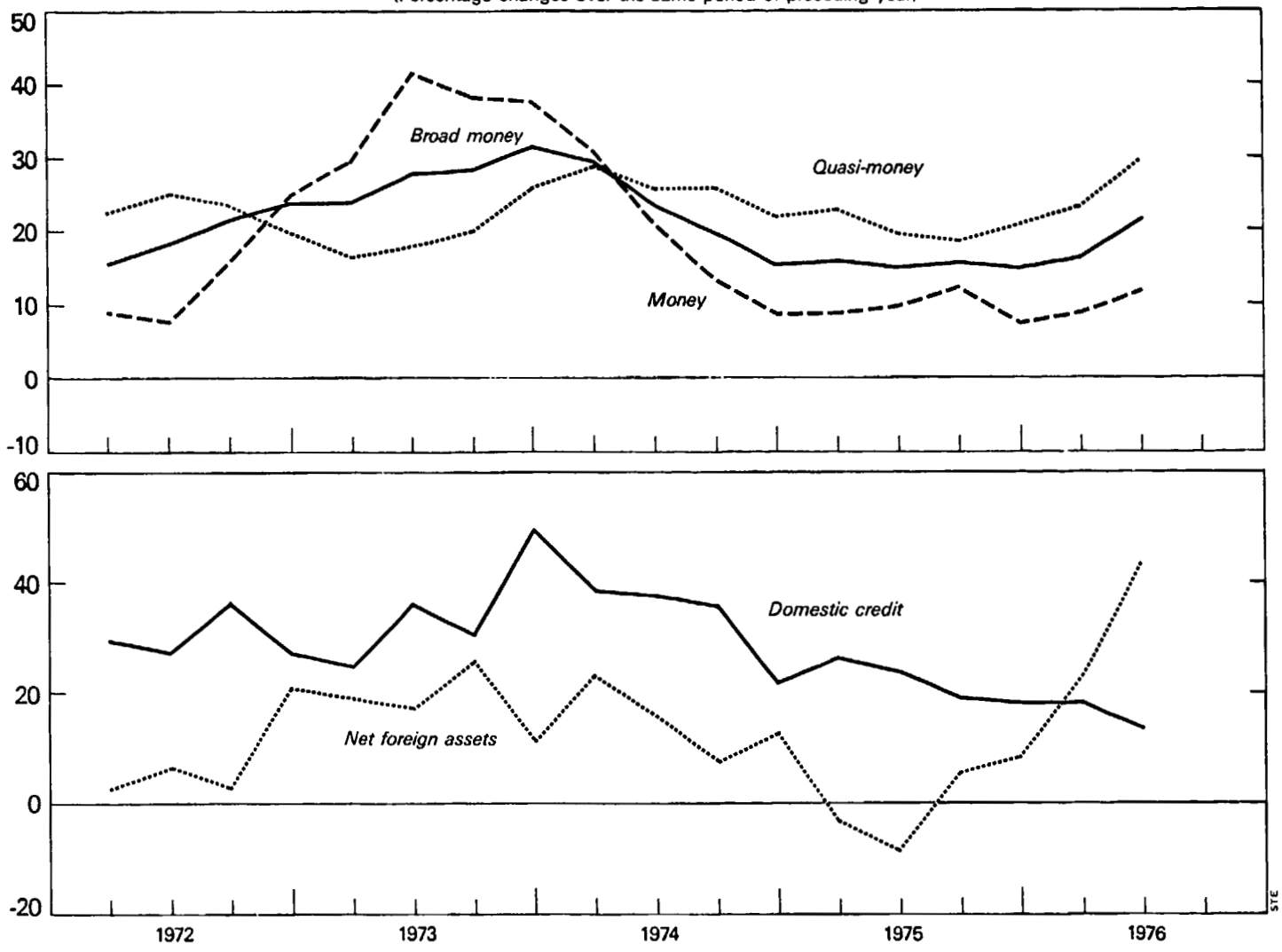
1/ Refers only to Federal and State Governments.

CHART 2

MALAYSIA

CHANGES IN MONETARY AGGREGATES

(Percentage changes over the same period of preceding year)



February 1975 and February 1976. The ceilings on credit expansion were abolished in February 1975, the required ratio of statutory reserves of commercial banks was reduced from 10 to 8 1/2 percentage points in February 1975, to 7 percentage points in May 1975 and to 6 percentage points in February 1976, and the maximum deposit and minimum lending rates were reduced by up to 1 1/2 percentage points between February 1975 and February 1976 (Appendix Table VIII).

Although the reductions in the required ratio of reserves increased the availability of loanable funds, the effects of the recession held back the demand for private credit during the first part of 1975. Therefore, bank liquidity remained at a high level, and money market interest rates at a low level. The impact of the reduction in the required reserve ratio is reflected in the increase in the ratio of the money supply to the monetary base, from 1.36 during the last quarter of 1974 to 1.44 in the fourth quarter of 1975.

For 1975 as a whole, the main determinants of money supply and liquidity were expansionary, due largely to the financing needs of the Government. During the first half of 1975, increased net domestic credit to the Government offset the contractionary effect of the balance of payment deficits, while in the second half the proceeds of official foreign market loans, amounting to M$633 million net resulted in an increase in net foreign assets and allowed for some reduction in Central Bank net lending to the Government. Credit to the private sector began to recover during the second half of 1975, and for the year as a whole increased by 15 per cent.

During the first half of 1976, money supply increased by 7 per cent, or at an annual rate of 14 per cent, while credit to the private sector grew by 9 per cent. The elasticity for the demand for money has been estimated to be close to unity, and therefore the growth in the money supply is consistent with the expected real growth rate of 7 per cent, a rate of inflation of about 4 per cent, and a monetization factor of 1 to 2 per cent. Quasi-money increased by 18 per cent during this period, or at an annual rate of 39 per cent, which is well in excess of what would be projected using the income elasticity for broad money estimated to be close to 1.7. But a large portion of the increase is due to the deposit in domestic banks of Petronas oil receipts. These funds have largely been used by commercial banks for the purchase of government securities. The Government in turn deposited the proceeds at the Central Bank, and this is reflected in the large decline in net claims on the Government by the Central Bank.

During 1975, commercial bank credit to the private sector increased by 15 per cent (Appendix Table IX). When relaxing its credit policy, the Central Bank directed that, at least one half of new loans extended in 1975 were to be channeled to priority sectors consisting of the Bumiputra community, manufacturing industry, and house purchases by individuals. Fifty-seven per cent of the M$893 million increase in loans in 1975 was channeled into these priority sectors--of which 29 per cent to Bumiputras, 23 per cent to manufacturing, and 11 per cent for housing (of which nearly 7 percentage points were also included in the 29 per cent to Bumiputras). In addition, small loans under the Credit Guarantee Corporation continued to be required to be equal to at least 10 per cent of savings deposits, and at the end of 1975 were 12 per cent of such deposits.

The authorities have recently announced further guidelines, effective October 1, 1976, for channeling new credit to priority sectors of the new loans and advances, including trade bills, of commercial banks, a minimum of (i) 20 per cent to Bumiputras and Bumiputra-controlled companies; (ii) 10 per cent to such priority sectors as agricultural food production; (iii) 25 per cent for manufacturing; and (iv) 10 per cent for individual housing loans.

A maximum interest rate of 10 per cent is prescribed for new loans by commercial banks to (i) Bumiputras, where such loans are not covered by the Credit Guarantee Corporation, and each loan is less than M$500,000; (ii) small-scale enterprises, where such loans are not covered by the Credit Guarantee Corporation, and each loan is less than M$200,000 for the Bumiputra community and M$150,000 for other communities; and (iii) individuals for the purchase of homes where the cost is less than M$200,000.

For borrowing companies, a minimum of (i) 20 per cent to Bumiputra individuals and Bumiputra-controlled companies; (ii) 25 per cent to priority sectors, such as individuals housing; and (iii) 30 per cent for agriculture, forestry and fishery, manufacturing, and building and construction. For borrowing companies a maximum interest rate of 10 per cent, effective January 2, 1977, is prescribed for housing loans. Although guidelines have not been set for merchant banks, they are expected to follow similar lending patterns.

b. Interest rates and capital market

The interest rate structure in Malaysia has been characterized by relative flexibility, albeit in a narrow range, in the banking sector. In contrast, the rates on government securities have been comparatively stable. The rates of return (free of tax) on holdings of the Employees Provident Fund are declared on an annual basis (6.6 per cent for the year ended 1975). Real rates of interest in the economy have become positive, in line with the decline in the rate of inflation, in contrast to 1972-74 when they had become negative because of rapid inflation (Table 3). However, the levels of the positive real rates of interest have to be viewed in terms of the overall supply of savings in relation to the demand. One index of the opportunity cost of capital in the economy is the shadow rate of interest which, according to the unpublished estimates of the Economic Planning Unit, is for Malaysia in the range of 10 to 15 per cent.

To a large extent, the ability of the government sector to raise funds at relatively stable rates of interest reflects its access to the so-called captive market represented by institutional investors, such as the Employees Provident Fund (EPF), social security, and financial institutions, including banks and insurance companies, which are required to statutorily invest a minimum proportion (70 per cent in the case of the EPF) of their assets in government securities. This tends to confer monopolistic powers of borrowing on the Government in the capital market in respect of these sectors. Thus, of the net domestic government borrowings of M$909 million (48 per cent of the Federal Government deficit compared with 52 per cent in 1974) in 1975, the EPF accounted for about 53 per cent, commercial banks 25 per cent, and other financial institutions, 15 per cent, while the balance was mostly taken up by insurance companies and social security institutions.

Table 3. Malaysia: Real[1/] Rates of Interest, 1971-75

End of Period	Inflation During Following 12 Months	Deposit Rates: Commercial bank fixed deposits	Deposit Rates: Savings Deposits: Commercial bank	Deposit Rates: Savings Deposits: National Savings Bank	Long-Term Government Securities	Minimum Lending Rates: Prime rate	Minimum Lending Rates: Preferential rate
1971	3.5	2.5 (6)	-- (3 1/2)	0.5 (4)	3.0 (6 1/2)	4.5 (8)	4.0 (7 1/2)
1972	18.2	-12.5 (5 3/4)	-14.7 (3 1/2)	-14.2 (4)	-11.2 (7)	-10.7 (7 1/2)	-11.2 (7)
1973	12.0	-4.0 (8)	-6.5 (5 1/2)	-7.5 (4 1/2)	-4.3 (7 3/4)	-3.0 (9)	-3.5 (8 1/2)
1974	1.1	7.9 (9)	5.4 (6 1/2)	5.4 (6 1/2)	6.9 (8)	8.9 (10)	8.4 (9 1/2)
1975[2/]	3.1	4.4 (7 1/2)	2.4 (5 1/2)	3.4 (6 1/2)	4.9 (8)	5.4 (8 1/2)	4.9 (8)

Source: Staff calculations using Department of Statistics and Bank Negara Malaysia data.

1/ Nominal rate minus percentage increase in consumer price index during corresponding 12 months of following year. Nominal rates are given in parentheses.

2/ For 1975, inflation rate is that during first seven months of 1976 expressed at an annual rate.

Because of the sluggishness of private investment, the net funds raised by the private sector from the capital market were 11 per cent lower than in 1974, and during the first quarter of 1976 no new funds were raised at all (Appendix Table X). It is, however, not possible to draw any inferences from the behavior of the private capital market about the possible "crowding-out" of private borrowers by government borrowing. For one thing, fixed interest private borrowing through debentures has never been a popular feature of the Malaysian capital market. For another, there have been far more influential factors at work, notably the uncertainties affecting private investment in the past few years.

In common with many other stock exchanges, share prices in the Kuala Lumpur stock exchange recovered strongly in the first quarter of 1975 in anticipation of an early recovery in the industrial countries. Accompanying the increase in share prices, the volume of share-trading also increased during the first quarter of 1975, but activity during the rest of the year remained subdued. In early 1976, the stock market staged another recovery with both increased share values and an increased turnover. However, share prices subsequently declined, and stock exchange conditions have since been relatively quiet.

3. Public finance

a. Structure of the public sector

General government in Malaysia is composed of central, state and local government subsectors. Since the Federal Government covers virtually the whole of the Central Government, the analysis in this report pertaining to the Central Government will be confined to the Federal Government.1/ In addition, summary financial data are available for the 13 State Governments. However, the only information relating to local authorities (city, municipal, and town councils) is for the four largest councils, and then only in summary form aggregated with the major nonfinancial public enterprises.2/ There are many other nonfinancial public enterprises, and while it is not possible to gauge accurately the scope of their operations, these enterprises form a significant segment of the industrial sector.

The government sector in Malaysia is relatively large and, consequently, has a strong influence on the economy. As an indication of this sector's size and importance, the combined revenue of the Federal and State Governments

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1/ The only decentralized federal agencies are the small Social Security Organization and the Federal Land Development Authority (FELDA). Total revenue of the Social Security Organization reached only M$18 million in 1974 (the latest year for which data are available), and the operations of FELDA are for the most part funded by the Federal Government.

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

reached M$5.8 billion (Appendix Table XVI), or about 27 per cent of GNP in 1975,1/ while total expenditure and net lending was M$7.9 billion (36 per cent of GNP). While no estimate is available of local government revenue, it would appear to be relatively small considering that revenue from Kuala Lumpur, the largest city (included in the Federal Government from February 1, 1974), was only M$18 million in 1975.

The overall deficit of the Federal and State Governments is generally only slightly larger than the Federal Government's deficit, since the Federal Government provides the bulk of the financing at the State level. In 1975, for example, the combined deficit was M$157 million more than the Federal deficit of M$1,898 million. Including the deficit of the available public authorities (Appendix Table XVIII), the public sector overall deficit in 1975 was 12 per cent of GNP, or M$2.5 billion. However, even for the non-financial public enterprises, the Federal Government is a major source of finance.

Of the general government subsectors, the Federal Government is financially by far the largest. Federal revenue in 1975 was almost M$5.1 billion, or close to 90 per cent of Federal and State Government total revenue. In addition, there are sizable transfers (both grant and loan) from the Federal Government to the other levels of government and the nonfinancial public enterprises. Moreover, Federal control is exercised over other borrowings of the subordinate levels of government and of nonfinancial public enterprises. The Federal Government is, therefore, effectively in control of fiscal policy. For these reasons, this report focuses on the Federal Government's finances.

Federal Government finances are controlled through a single budget utilizing program budgeting techniques with a separate current (or ordinary) budget and a development budget. Expenditure under the development budget is made from a Development Fund, and all proceeds from borrowing must legally be credited to this Fund. Revenue accounting is on a cash basis. With expenditure, checks issued during the fiscal year, but cashed in the thirteenth month, are included in the accounts of the year of issue. All unused appropriations lapse at the end of the fiscal year.

b. The Federal Government

(i) Recent developments

Movements in the major fiscal aggregates of the Federal Government have varied considerably over the business cycle of the last few years, both as regards the year-to-year changes, and relative to the level of overall output. These shifts have for the most part reflected policy reactions to the export-induced slowdown in activity in 1972 and 1975-1976, and the boom years 1973 and 1974. For example, while total revenue and grants averaged about 22 per cent of GNP during the period from 1972 through 1975, a low point of 20 per cent was recorded in 1972 with a peak of 24 per cent in 1975. Similarly, total expenditure and net lending averaged 30 per cent of GNP over the same years, but varied from 26 per cent (1973) to 32 per cent (1975). Thus, in terms of the overall balance, the outcome has been a generally countercyclical policy.

1/ The fiscal year corresponds to the calendar year.

Overall, the growth in revenue and grants in the period up to 1975 averaged 19 per cent per annum, or well above the long-term trend of 10 per cent to 12 per cent. This outturn was largely influenced by the sharp advance of 40 per cent in 1974. The average rise in expenditure and net lending over the 1972 to 1975 period was slightly less, at about 18 per cent, but here too, a very sharp advance in 1974 strongly influenced the average. Within this aggregate, the increase in capital expenditure and net lending has been noticeably faster than the increase in current expenditure. Both capital expenditure and net lending have risen on average by about 25 per cent each year, whereas the increase in current expenditure has been about 15 per cent. These developments reflect the authorities' efforts to achieve the New Economic Policy (NEP) objectives of growth, income redistribution, and financial stability in a period of rapid changes in the external economic environment.

Given the NEP objectives, a central feature of the Federal Government's fiscal operations over the period under review has been the use of the overall budget deficit and its financing for the purpose of domestic economic stabilization. In line with this policy, the overall deficit was allowed to rise sharply in 1972 (a period of downturn in the export sector and below trend growth domestically), to almost 10 per cent of GNP (Table 4). Similarly, during the commodity boom of 1973 and 1974, the overall deficit was contracted to around 6 per cent of GNP. However, in the recession year of 1975, the deficit was again increased (to M$1.9 billion or almost 9 per cent of GNP), and is expected to reach almost 11 per cent of GNP in 1976 (M$2.6 billion).

While the reduction in the overall deficit in 1973 resulted in the main from a slowdown of growth in expenditure and net lending to less than 4 per cent, the increase in 1975 derives more from a revenue increase of less than 6 per cent, which is well below trend, combined with a 13 per cent advance in expenditure and net lending. The 1975 pattern is expected to be repeated in 1976. In 1974, at the height of the boom, both revenue and expenditure rose by about 40 per cent. The revenue increase resulted from the buoyancy in the domestic economy and high world prices for the taxed export commodities. The increase in expenditure and net lending resulted mainly from substantially larger outlays for current goods and services, capital expenditure, and net lending, along with subsidies to limit the domestic impact of higher prices for certain essential commodities.

In financing the deficits, net foreign borrowing has generally been proportionally larger in years when stabilization objectives required an expansionary policy. This policy has been purposely followed in large measure to gain the maximum expansionary impact, while at the same time augmenting the real resources available to the economy. This was particularly evident in 1975, when foreign financing reached almost M$900 million, or 47 per cent of the overall financing requirement (Appendix Table XIV). In contrast, during the previous two years of the commodity price boom, foreign financing was well under 20 per cent of the deficit. Domestic financing has come primarily from the Employees Provident Fund, which is required by law to hold at least 70 per cent of its assets in government securities. Between 1972 and 1975, about 38 per cent of the domestic financing (28 per cent of total financing) came from this source. Recourse to the banking system, on a net basis, has averaged only 17 per cent of the total financing

Table 4. Malaysia: Summary of Federal Government Operations, 1972-76

(In millions of Malaysian ringgit)

	1972	1973	1974	1975 Prel. Actual	1976 Budget Estimate	1976 Revised Estimate
Total revenue and grants	2,986	3,426	4,819	5,082	5,248	5,413
Total revenue	2,977	3,414	4,814	5,076	5,238	5,403
Foreign grants	9	12	5	6	10	10
Total expenditure and net lending	4,291	4,447	6,191	6,980	7,273	7,983
Current expenditure	3,211	3,261	4,259	4,877	5,073	5,482
Capital expenditure	658	840	1,187	1,276	1,610	1,781
Net lending	422	347	745	827	590	720
Overall deficit (-)	-1,305	-1,021	-1,372	-1,898	-2,025	-2,570
Financing (net)						
Foreign	306	69	223	891	785	1,000
International development institutions and foreign govt.	154	95	123	259	...	500
Other	152	-26	99	633	...	500
Domestic	999	952	1,149	1,007	1,240	1,570
General government and non-financial public enterprises	57	76	6	24	...	...
Banking system	130	213	385	180	...	...
of which: securities	(153)	(233)	(304)	(560)	(420)	(420)
Employees' Provident Fund	350	385	358	478	500	680
Other 3/	275	183	166	139	...	...
Unidentified	187	95	234	186	...	...

Source: Appendix Tables XI, XII, and XIV.

1/ Project loans.
2/ Market borrowings.
3/ Other financial intermediaries and the nonfinancial private sector.
4/ Includes differences in recording between the Treasury and Bank Negara, as well as unidentified items.

requirement, as the sale of securities to the banks has been partly offset by a buildup in deposits. In general, the level of bank financing over the review period has been determined in the context of the desired targets for the major financial aggregates.

(ii) The revised position for 1976

At the time when the 1976 budget was presented, the economic outlook was considered to be broadly favorable for a gradual recovery, although there was uncertainty over its timing and strength.1/ Partly for this reason, a flexible approach was adopted toward expenditure. In particular, the development budget (comprising most of the capital expenditure, net lending, and some military items) was considered an interim budget, and allowed only for the continuation of existing projects. New proposals were to await the completion of the Third Malaysia Plan (1976-80) (eventually finalized in July 1976), at which time supplementary estimates were to be tabled. Additionally, no appropriations were made for new civil service posts, the "thirteenth month" bonus to the civil service, subsidies on essential commodities, and expected additional defense and security expenditure. Within this framework, the planned overall deficit was M$2,025 million, or slightly larger than the outturn for 1975 as foreseen at the time. Thus, the policy stance was clearly expansionary.

The revised budget estimates for 1976, which include the full allowance for expenditure from the Development Fund, now anticipate a deficit of M$2,570 million (11 per cent of GNP), of which M$1 billion (39 per cent) will be financed abroad. The increase in the deficit reflects concern over the slower than expected pace of economic recovery, and thus the need for a greater degree of stimulus. Total revenue and grants are estimated at M$5,413 million, an increase of M$165 million from the initial estimate and over 6 per cent higher than the 1975 outcome. Most of this increase comes from higher export duty collections. Receipts from rubber and tin duties are placed significantly higher than expected because of improved international prices. However, this gain is partly offset by reduced revenue from the export duty on palm oil, the price of which has not recovered as anticipated.

Total expenditure and net lending is now placed at M$7,983 million, a rise of M$710 million. At this level, total expenditure and net lending would be 14 per cent higher than in 1975 and equivalent to one third of projected GNP. Of this increase, M$417 million results from the supplementary expenditure and net lending from the Development Fund.2/ Other increases result from the payment of the "thirteenth month" bonus (M$150 million), the expansion of the military and police, along with pay adjustments (M$117 million), and subsidies on rice and kerosene (M$47 million). In all, current expenditure (including increased outlays for defense equipment shown in the development budget) is now projected to be over M$400 million higher than originally budgeted; capital expenditure, M$170 million higher; and net lending, M$130 million higher. On a functional basis, the increases in expenditure and net lending are mostly for

1/ For a discussion of the budget, see SM/75/290, 12/12/75, pp. 19-20.
2/ The supplementary authorization allows for a M$1.3 billion increase; however, it is expected that only M$710 million will actually be spent in 1976.

economic services (M$400 million), particularly mining, utilities, trade and industry, followed by general public services and defense.

(iii) Revenue

The bulk of Federal Government revenue in Malaysia is derived from income taxes (about 30 per cent), domestic sales and excise taxes (23 per cent), and international trade taxes (32 per cent). Other tax revenue comprises only about 2 per cent of total receipts, while nontax revenue averaged about 13 per cent in the five years up to 1976 (Appendix Table XI). Total revenue over the same time span averaged about 22 per cent of GNP, rising only marginally during the period. This reflects the rise in revenue from income and export taxes in relation to GNP, while revenue from the other major taxes declined. In all, therefore, the buoyancy of the revenue system is close to unity, and the tax system about 1.2.

Although income taxes are levied on a flat-rate basis for companies and a progressive rate structure for individuals,1/ the buoyancy of these taxes in relation to GNP has averaged 1.6 in the 1972-76 period, essentially similar to the buoyancy estimated for the 1960s for the income taxes of West Malaysia.2/ Since only minor discretionary changes have been made to income taxes in the period since 1972, the underlying elasticity is probably not greatly different from the overall buoyancy.

After rising at about 50 per cent per year in 1974 and 1975, income taxes are expected to decline in 1976 by about 9 per cent to M$1,770 million. This reflects the impact of the 1975 recession on personal and company incomes, which are estimated to have fallen from the 1974 level.3/ However, even with this fall, income tax receipts have risen by an average of 24 per cent each year since 1972, to reach about 9 per cent of GNP in 1976, compared with 5 per cent in 1972 and 1973.

Domestic sales and excise taxes include a general ad valorem sales tax and a wide range of specific excises on goods, services, and motor transport license fees. Combined, these taxes make up about 5 per cent of GNP. Revenue from the sales tax, which was introduced in 1972, has increased by an average of 27 per cent per year since its introduction probably because of progressive improvements in administration as experience with this tax developed. The sales tax is expected to yield M$300 million in 1976. In contrast, revenue from the specific excises on goods and motor vehicle transport licenses has risen by less than 8 per cent per year since 1972. In part, this results from the specific nature of these taxes, but some have also been reduced to limit the inflationary impact of price increases. Overall domestic sales and excise taxes are

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1/ The structure of these taxes is shown in the Tax Summary (Annex). A distinction between personal and company income taxes cannot be drawn, since statistics are not compiled separately for these categories. However, personal income taxes are normally around 20 per cent of total income tax.

2/ See Nurun M. Choudry, "A Study of the West Malaysian Income Tax System", Staff Papers, July 1975, pp. 494-509. In this study the buoyancy was estimated as 1.7, with income tax elasticity 1.4.

3/ Income taxes are collected on the basis of the previous year's assessed income.

expected to increase by 6 per cent in 1976, to reach M$1,160 million. Despite the relatively high buoyancy of the sales tax, for the group as a whole, the buoyancy has averaged only 0.8 since 1972, reflecting an average growth in revenue from these taxes of 12 per cent per year.

Movements in revenue from international trade taxes have followed quite closely the recent trade cycle; rising sharply in 1973 and 1974 to reach M$1,836 million. A sizable fall in trade tax revenue was recorded in 1975 with a partial recovery projected for 1976 to M$1,759 million. This cycle has been more pronounced with export tax receipts than with import taxes. Thus, while a fall in import duties of 10 per cent was recorded in 1975, a 20 per cent increase is expected in 1976. In comparison, the fall in export tax revenue was 34 per cent in 1975, while a 28 per cent recovery is projected for this year. Nonetheless, for the five years since 1972, the average annual growth recorded for import duty receipts was 13 per cent, and for export duties, 37 per cent. In the latest year, import duty revenue is expected to reach M$960 million and export duties, M$800 million.

In part, the lesser amplitude of the swings in import duty revenue is partly attributable to smaller year-to-year changes in imports than in exports. However, the effective tax rate in relation to total imports, which fell to 9 per cent in 1974 from 12 per cent in the preceding years, rose to almost 9 1/2 in 1975 and 1976, thereby partially offsetting the changes in import levels. The decline in the effective tax rate results in the main from a shift in the composition of imports away from the revenue-providing consumer goods to the nontaxed, or lesser taxed, intermediate imports; over the period from 1972 to 1975, imports of consumption goods fell from 26 per cent of total imports to only 20 per cent, while the proportion of intermediate imports rose by 6 percentage points. Further, as part of the anti-inflation policy, taxes on some basic commodities were either suspended or not collected from 1974. It is estimated that the combined duty and domestic sales and excise tax foregone in 1975 on account of these exemptions was M$195 million. The improvement in revenue collection, as a proportion of imports in 1976, results largely from an increase in the import duty surcharge from 4 per cent to 5 per cent of the value of imports.

While import duty revenue as a proportion of total imports has declined since 1972, receipts from export duties have risen sharply in relation to both total exports and exports of the major taxed commodities. Export duties were below 5 per cent of total exports, and less than 7 per cent of major commodity exports in 1972. In 1975, these revenues peaked at 9 per cent and 13 per cent, respectively, and have since declined to 7 per cent of total exports and 12 per cent of commodity exports. For the most part, these changes reflect the sharply higher commodity prices received in 1973 and 1974 combined with the price-progressive structure of most export taxes. Although export prices have declined sharply in the post-1974 years, they have not fallen (in current price terms) to the pre-1973 levels, and hence the tax yield has remained relatively high.

Since export tax revenues move in response to foreign trade stimuli and import duties depend upon GNP movements only indirectly, it is not surprising that in the recent turbulent period, the tax buoyancies with respect to GNP for these taxes have been very unstable, particularly for export

tax revenue. For the 1972-76 period as a whole, the total trade tax buoyancy has averaged 1.4, while that for import duties averaged 0.9, and for export duties 2.4. As with income tax revenue, therefore, movement in revenue from the trade taxes has automatically contributed to stabilization policy and, currently, export taxes in particular are viewed by the authorities as being equally important for their role in domestic stabilization as for the tax revenue yielded.

Nontax revenue exhibited little growth between 1972 and the revised estimates for 1976, being approximately M$600 million in both years. This is largely because nontax revenue was enlarged in 1972 by a M$185 million payment as Malaysia's share of the proceeds from the former joint Currency Board. If this receipt is excluded, an underlying trend growth of 10 per cent over the four-year period results. On average, more than half of nontax revenue has been derived from property income, particularly rents and interest, along with profits from nonfinancial public enterprises. However, petroleum royalties, which are currently quite small, are expected to increase substantially in the period ahead as production of petroleum expands.

(iv) Expenditure and net lending

While total expenditure and net lending has averaged 30 per cent of GNP over the 1972-76 period, it was about 32 per cent in the years of downturn and 27 per cent in the boom years, 1973 and 1974 (Appendix Table XII). Thus, although the major stabilizing force of fiscal policy has come from the built-in revenue movements, expenditure policy has been supportive of the stabilization objective. In 1975 and 1976, for example, the rise in total expenditure and net lending is about the long-term growth rates of around 13 per cent.

On the basis of the economic classification, the composition of total expenditure and net lending has changed moderately over the review period. Capital expenditures have been increasing at 28 per cent each year, or almost double the rate of the advance in current expenditure. Net lending had exhibited the same trend as capital expenditure up to 1975. However, a fall in net lending is expected for 1976, which would reduce the overall average growth rate to about 14 per cent. The faster growth in capital expenditure and net lending (which is largely destined for the State Governments and the nonfinancial public enterprises to finance capital expenditure), reflects the priorities of the NEP. In all, current expenditure is now M$5,482 million, or about 69 per cent of total expenditure and net lending, compared with 75 per cent in 1972. Over the same period, capital expenditure has risen from 15 per cent of the total to above 22 per cent, while net lending has varied between 9 per cent and 12 per cent. However, this trend may be reversed in the period ahead, since public sector salaries may well be revised upward to restore competitiveness with the private sector. There has been no realignment of public sector salaries for several years, and pressure is building for a sizable upward adjustment. In addition, difficulties are being encountered in implementing development projects, which, if not corrected, could well slow the pace of capital expenditure and net lending to the State Governments.

Within current expenditure, the major reduction, as a proportion of total expenditure and net lending, has been expenditure on goods and services, particularly wage and salary payments, which have fallen steadily from 37 per cent to 28 per cent of the total since 1972. The annual growth rate in wages and salary payments has been 9 per cent, although the underlying growth is probably higher, since the 1972 level of wages and salaries is inflated by a retroactive salary increase paid in that year. Apart from other current transfers, the remaining current payments have increased at about the overall current expenditure trend of 14 per cent. Other current transfers, which have increased by about 40 per cent per year since 1972 to reach an estimated M$830 million in 1976, were derived as a residual and may include unidentified expenditure on current goods and services. In addition, other current transfers include subsidy payments, which were increased sharply as part of the anti-inflation program in 1974, and are estimated to have totaled M$165 million in 1975.

On a functional basis (Appendix Table XIII), the change in composition of expenditure and net lending is less pronounced. As a proportion of total expenditure and net lending, there has been an increase during the review period in expenditure on general public services (particularly for general administration) and economic services of about 3 percentage points each. Offsetting these increases, expenditure on defense, education, and government pensions has declined as a proportion of the total. In terms of annual average growth rates, expenditure on housing and amenities has increased the fastest (34 per cent) followed by general administration (26 per cent). In all, expenditure on economic services is the largest category of expenditure (25 per cent), totaling M$1,862 million in 1975. Education is the next largest (20 per cent, or M$1,362 million in 1975), followed by general public services and defense at about 15 per cent each. Interest on the public debt is currently a little more than 9 per cent of total expenditure and net lending (M$684 million in 1975).

(v) Public debt

As a consequence of the larger fiscal deficits for stabilization purposes in 1972 and 1975-76, the public debt has expanded rapidly over the review period and will probably reach M$13.7 billion (or more than double the 1971 level, Appendix Table XV) by the end of 1976. This implies an average growth in the public debt of 18 per cent each year, a little in excess of the overall growth in GNP of 14 per cent. With the greater emphasis in recent years on foreign financing during periods of economic downturn, outstanding foreign debt has been increasing much faster than domestic debt, despite a M$170 million reduction resulting from revaluation adjustments in 1973. In total, foreign debt was M$2.4 billion at the end of 1975 (22 per cent of the total debt) and is expected to rise to M$3.5 billion by the close of this year. Of this debt, market borrowing at the end of 1975 was about 55 per cent, and project borrowing (international agencies and foreign governments), the balance. Domestic debt has risen at a slower pace, from M$5.5 billion at the end of 1971 to M$8.8 billion at the end of 1975, with a further increase to about M$10.3 billion expected by the end of 1976.

The major source of domestic financing has continued to be the "captive" funds which are legally required to hold a large minimum proportion of their

assets in Federal securities. In this way, the Federal Government has been able to pay below-market rates of interest for a large proportion of the domestic financing. For example, three-year government securities are currently yielding 6 3/4 per cent, and 15- to 20-year securities, 8 per cent at the end of 1975. In contrast, the commercial bank prime lending rate was 8 1/2 per cent in the same period. The most important of the captive funds is the Employees Provident Fund, which at the end of 1975 held M$3.9 billion, or about 45 per cent of all domestic debt (35 per cent of total debt). The EPF continues to provide about 40 per cent of the annual domestic financing requirement. Other captive funds and the National Savings Bank held almost M$800 million (9 per cent of domestic debt) at the end of 1975.

Debt holdings of the banking system, at one quarter of domestic debt, are relatively small, although they have doubled since 1971. However, this has in part been offset by a sizable increase in deposits with the banks over the period. Other debt holders include the other financial intermediaries (about 10 per cent of domestic debt), nonfinancial public enterprises, and the Federal Government, itself. Federal Government holdings are mostly in the form of sinking funds and trust funds under the Government's control.

IV. Development Planning--the Second and Third Malaysia Plans

1. Review of the Second Malaysia Plan

a. Overall developments

The original growth objectives of the Second Malaysia Plan (SMP) (1971-75) were to increase GDP in real terms by 6.8 per cent per annum, compared with the growth rate of about 6 per cent achieved during the 1960s. To attain this increase, investment targets initially established for the SMP period provided for only a modest increase in the ratio of gross investment to GNP, from 16.3 per cent in 1970 to 17.3 per cent in 1975, with the ratio of public investment to GNP remaining unchanged over the period. However, during the 1973 Mid-Term Plan Review, when the New Economic Policy was more fully incorporated in the Plan, many features of the Plan were revised. In particular, the overall Plan target for average growth in real GDP was raised to 7.8 per cent, and public sector expenditure targets were increased by 29 per cent to a revised allocation of M$9,350 million.

Despite the recession in 1974/75, the average growth in real GDP during 1971-75 was 7.4 per cent per annum, and per capita real income grew only 4.2 per cent per annum, thus exceeding the original SMP target of 3.7 per cent. Although exports provided a large boost for the economy in 1973 and 1974, a major development during the SMP was the growth in public sector expenditures. The growth in private expenditures was less pronounced being affected by depressed exports in 1971/72 and in 1974/75.

During the SMP period, the public sector as a whole sharply expanded the scope of its activities. As measured in the national accounts, public expenditure rose from an average of 24 per cent of GNP in the whole of the First Plan period to 29 per cent during the Second Plan period (Table 5). On the basis of the two five-year periods, this increase was concentrated on fixed investment, which advanced by 4 percentage points to 10 per cent of GNP in the Second Plan. The balance of the increase was accounted for by consumption expenditure, which averaged 19 per cent of GNP in the 1971-75 period. In 1975, public expenditure as a whole was M$7,263 million, fully one third of GNP. These developments reflect the sharp 22 per cent average annual growth in public expenditure over the SMP period.

Despite the achievements of the Second Plan, the economy is still highly dependent on the export of primary products. However, in real terms, the secondary sector grew more rapidly than the primary sector, accounting for 29 per cent of GDP in 1975 compared with 25 per cent in 1970. The share of the tertiary sector remained at 36 per cent of GDP.

The major developments in the agricultural sector were (i) the threefold increase in palm oil production, reflecting palm oil's role as the major commodity in Malaysia's export diversification scheme, and (ii) the 20 per cent increase in rice production, due to the nearly two thirds increase in the area double-cropped as a result of the investments in irrigation during the 1960s. Between 1970 and 1975 the area double-cropped increased from 33 per cent of the total rice acreage to 56 per cent.

Although manufacturing largely stagnated in 1975 due to the recession, between 1970 and 1974 the value added in manufacturing increased by 66 per cent, and manufacturing provided about one out of every four new jobs. The emphasis in the growth of manufacturing has been toward exports, a marked change from the 1960s, when it had been largely on import substitution. Thus, 61 per cent of the growth in the value added in the manufacturing sector between 1970 and 1975 was accounted for by exports, and this was concentrated in four industries: wood products, textiles and clothing, rubber products, and electronic components and assembly. The bulk of the growth in the construction sector originated from public expenditures.

There was some improvement in the employment situation, with unemployment dropping from 7.4 per cent in 1970 to 7.0 per cent by 1975. But the gains made by the rural poor during 1970-75 were related in large part to investments in the 1960s (land development, replanting, irrigation), while the Second Plan programs for increasing rural income and employment levels will have their major impact in the Third Plan and beyond. The major emphasis of the Government's agricultural programs was on land development and settlement, and about 1 million acres were developed during 1971-75, compared with 494,000 acres during the First Plan. Although the number of households settled during the Second Plan was equal to 23 per cent of the increase in the total number of rural households, it was equal to nearly twice the increase in the number of rural households in poverty.

Table 5. Malaysia: Macro Aggregates for the Three Development Plans

	Absolute Amount (M$ million)			In Per Cent of GNP		
	First Plan 1966-70	Second Plan 1971-75	Third Plan 1976-80 1/	First Plan 1966-70	Second Plan 1971-75	Third Plan 1976-80 1/
Consumption	41,372	67,102	119,742	80.6	77.5	75.3
Private	32,375	50,404	84,053	63.1	58.2	52.9
Public	8,997	16,698	35,689	17.5	19.3	22.4
Investment	7,988	20,627	44,193	15.6	23.8	27.8
Private	4,834	12,240	26,785	9.5	14.1	16.8
Public	3,154	8,387	17,408	6.1	9.7	11.0
Change in stocks	408	-145	-240	0.8	0.2	0.2
Exports of goods and services	24,350	39,974	80,443	47.4	46.2	50.6
Imports of goods and services	22,727	41,182	85,143	44.3	47.6	53.6
Net transfers	-751	-710	-450	1.5	0.8	0.3
Deficit on current account	872	-1,918	-5,161	1.7	2.2	3.2
Long-term capital	1,958	4,936	9,450	3.8	5.7	5.9
Public	1,035	2,313	5,800	2.0	2.7	3.6
Private	923	2,623	3,650	1.8	3.0	2.3
Errors and omissions including short-term capital	-2,067	-1,227	-2,450	-4.0	-1.4	-1.5
Overall surplus	763	1,791	1,839	1.5	2.1	1.2
Allocation of SDRs	64	121	--	0.1	0.1	--
Net change in reserves	699	1,912	1,839	1.4	2.2	1.2

Sources: Third Malaysia Plan and Bank Negara Malaysia.
1/ Projected.

b. Public finance 1/

The size of the public sector relative to GNP expanded sharply during the SMP, largely in response to the shift in objectives set forth in the NEP. Public investment (as measured in the national accounts) led this expansion, accounting for 60 per cent of the increase in public expenditure. This increase resulted mainly from the need to create the physical infrastructure underpinning the NEP. Thus, while public consumption expenditure also advanced during the Second Plan, it was not the major vehicle for implementing the NEP policies.

While the increase in government operations was met in part by increasing revenue, most of it (as measured in the fiscal accounts 2/) was met by borrowing. The increase in revenue has been from both discretionary measures, in the form of new taxes (e.g., the sales tax introduced in 1972), or increases in existing taxes, and from the built-in elasticity of the tax system. Taking the two Plan periods as a whole, Federal and State Government revenue rose by only 2 per cent of GNP from the First to the Second Plan, whereas the overall public sector deficit more than doubled, rising from 5 per cent to 9 per cent of GNP (Appendix Table XIX). This increase is partly a reflection of the three recession years (1971, 1972 and 1975) included in the SMP period. However, in addition to domestic stabilization there has also been a general move toward increased borrowing as a means of financing the expanded development program.

The Federal Government was responsible for much of the increase in the relative size of the overall public sector during the SMP. The increase in Federal Government revenue and grants, for example, accounts for the entire increase in Federal and State Government revenues as a proportion of GNP. Similarly, the bulk of the increase in expenditure and net lending relative to GNP during the Second Plan is also accounted for by the Federal Government (Table 6). However, most of Federal Government net lending is to the State Governments and the nonfinancial public enterprises to assist in the capital expenditure programs. Thus, while the Federal Government provided most of the resources behind the expansion in the public sector relative to the whole economy, it has had a less dominant role in the pattern of final expenditure.

Within this overall framework there appears to have been a shift in the distribution of public sector expenditure from the First to the Second Development Plan.3/ In large measure, this shift reflects the change in priorities in the New Economic Policy. However, a constraining influence

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1/ For a detailed analysis of public finance during most of the Second Plan period, see Chapter III.

2/ While the national accounts data are useful for establishing in broad terms the relative importance of the public sector in the economy, the more detailed fiscal accounts (which differ in both coverage and timing) are used in discussing public sector developments.

3/ The only expenditure data available on a functional basis for the public sector as a whole are for expenditure under the "development" budget, which includes much of capital expenditure, net lending, and the purchase of defense equipment, but excludes some capital items as well as other current expenditure.

Table 6. Malaysia: Summary of Federal Government Operations During the Three Development Plans

	First Plan 1966-70	Second Plan 1971-75	Third Plan 1976-80 1/	First Plan 1966-70	Second Plan 1971-75	Third Plan 1976-80 1/
	(In billions of Malaysian ringgit)			(In per cent of GNP)		
Revenue and grants	10.1	18.8	37.0	19.6	21.7	23.2
Expenditure and net lending	12.5	25.4	51.2	24.3	29.3	32.2
"Current" expenditure 2/	9.3	18.0	37.4	18.1	20.7	23.5
"Development" expenditure 2/ (including net lending)	3.2	7.4	13.8	6.2	8.5	8.7
Overall deficit (-)	-2.4	-6.6	-14.2	-4.7	-7.6	-8.9
Financing (net)						
Foreign	0.3	1.8	...	0.6	2.1	...
Domestic	2.1	4.8	...	4.1	5.5	...

Sources: Third Malaysia Plan, 1976-80; The Treasury, Economic Report, 1975/76, Malaysia, Table 5.2

1/ Projected.
2/ On the basis of Current and Development Budget classifications. Purchase of defense equipment is shown in the Development Budget.

has been the public sector's implementation capability, particularly for those projects with a high social priority at the state level, or requiring close supervision (e.g., the improvement of small-scale agricultural production and incomes). An additional constraint has been the time lag involved in completing ongoing projects already started at the time the NEP was announced. For these reasons, infrastructure expenditure targets (e.g., roads and electricity) were for the most part met, while only limited progress was achieved in poverty eradication and the restructuring of society.

On the basis of the planned public development expenditure, the major shift in emphasis between the First and Second Plans was in favor of economic service expenditure and away from the social services and defense. This shift was further emphasized with the new targets set at the mid-term review and is broadly indicative of the actual outturn as shown in the development budget. Within the economic services category, commerce and industry, transportation, and communications were given priority, while expenditure on utilities and agriculture was to be reduced as a proportion of total development expenditure. However, the reduction in agriculture resulted from the downgrading of drainage and irrigation (mostly for rice production, which is already close to domestic self-sufficiency) and rubber replanting. The allocation (and actual expenditure) for land clearance and settlement schemes was sharply increased.

The much expanded level of expenditure on commerce and industry (from 3 per cent of development expenditure to 16 per cent) resulted in the main from the acquisition of equity in some major industries to be held in trust for the Bumiputra people (to meet the ownership restructuring objective). In addition, the activities of many nonfinancial public sector corporations were expanded to enable them to establish new enterprises. The higher expenditure on transport and communications largely resulted from infrastructure projects (e.g., road, telecommunications, and port development).

2. Industrial policy

a. Introduction

Industrial policies in Malaysia have been shaped by the need to diversify output and exports, while providing expanded employment and ownership opportunities. During the 1970s, the second of the two factors has increased in importance, and the mix of industrial policies changed accordingly.

The Second Plan period coincided with a shift in the relative importance of import substitution and exports as sources of growth for the manufacturing sector. During the 1960s, manufacturing growth was based mainly on import substitution within the Malaysian customs union (Peninsular Malaysia, Sabah, and Sarawak), but in the 1970s there was a shift to export-oriented growth. Thus, whereas in the 1960s, the leading sectors of manufacturing growth were the food and tobacco industries, rubber processing, chemicals, and wood processing, in the 1970s, the major growth was in wood processing and electronic assembly. Associated with industrial growth in the 1970s was a decline in the output per worker as employment rates grew faster than output, which was perhaps most noticeable in the electrical machinery sector where there was a shift from domestic market-oriented activities toward

assembly activities. But even excluding this sector, there is evidence that the shift toward capital-intensive industries of the 1960s was reversed in the 1970s.

b. Industrial incentives

Industrial policies began with the Pioneer Industries Ordinance of 1958, the main feature of which was the exemption from company income tax for up to five years, for companies manufacturing products new to Malaysia, or where existing production was insufficient. Moderate tariff protection also began to be regularly granted to new industries where necessary. Import quotas, usually on a temporary basis, were also available for newly established pioneer companies.

The 1958 Ordinance was superseded by the Industrial Incentive Act of 1968, which, in addition to raising the minimum level of capital expenditure required for incentives and lengthening the period of tax exemption, introduced additional tax holidays based on location, type of product, use of local raw materials, and proportion of output exported. Since 1968, the granting of tariffs and temporary import quotas as an incentive has also tended to grow. In 1971, the 1968 Act was amended to provide an alternative concession based on the number of workers employed (Labor Utilization Relief). Government policies have also been directed at providing an adequate infrastructure for industrial growth, and in addition to traditional projects, such as communications and power, the construction of industrial estates, including free-trade zones, has become an important instrument of industrial policy.

During the 1960s, average levels of effective protection tended to increase, and behind these barriers import substitution industries grew. However, the levels of protection are not excessive, and overall capital utilization has been satisfactory, at about 75 per cent in 1972, although falling to 50 per cent in the recession in 1975. The fiscal incentives system favors large capital-intensive investments and the Labor Utilization Relief incentive has not been sufficiently strong to counteract this. However, the labor intensive nature of many of the export-oriented industries that grew rapidly in the 1970s provided some offsetting influences to the earlier trend towards capital-intensive production.

Special fiscal incentives for exports were introduced in the 1968 Investment Incentives Act (see Tax Summary). They were relatively modest, but in recent years the Government has made the pioneer incentives available for export-oriented industries, and there has been some move away from giving fiscal incentives to import-substituting projects, and limiting them to tariff protection.

c. Restructuring

The second goal of industrial policy has been concerned with increasing the participation by Bumiputras in the industrial sector. The measures include education and training programs, selective credit and loan policies, and government creation and holding of equity in trust for Bumiputras. Administrative measures have also increased Bumiputra ownership through

joint ventures and the number of Bumiputras employed at all levels through "affirmative action" type programs, required to be adopted by new firms. Much of the expansion in the manufacturing sector in the 1970s has been by new companies, and since the bulk of these have availed themselves of fiscal incentives, they have, therefore, been required to follow policies in line with the restructuring goals.

Partially as a result of government policy, progress was made in restructuring employment in the manufacturing sector, with the Malay share of employment in this sector having increased from 29 per cent in 1970 to 33 per cent in 1975. But for pioneer industries, the overall gain was quite pronounced with Malay employment growing by 33 per cent per annum, and by 1974, Malays accounted for 50 per cent of total employment. In pioneer industries, the employment of Malays in "white collar" jobs increased from 17 per cent in 1971 to 22 per cent in 1974.

In April 1975, the Industrial Coordination Act (ICA) was passed giving legal sanction to the previous de facto administrative controls governing the entry of new companies and extending them to existing manufacturing by requiring a license for each specific manufacturing activity in which a company engages. However, firms employing less than 25 full-time employees, or less than M$250,000 shareholders' capital, can be exempted from the Act. The Act became effective on May 1, 1976, and firms have been given one year to apply for licenses. The granting of licenses will be automatic for existing firms; they will then be requested to submit a timetable for their compliance with the employment and ownership goals of the New Economic Policy. The timetable will be discussed with the Ministry of Trade and Industry, and when an agreed plan is finalized, it will then be enforced by the Ministry. The authorities intend to amend the ICA to allow for an appeal procedure if no agreement is reached, but in any event an appeal to the courts is implicit in the Malaysian Consitution. The Ministry has indicated that the requirements for meeting the restructuring goals will be applied flexibly, and allowance made for firms for whom compliance will be more difficult and will take longer.

The impact of the ICA will be mainly on domestically owned business and the older foreign-owned businesses such as rubber estates, because in recent years new foreign-owned companies have been required to achieve certain levels of Malay employment and were in many cases established as joint ventures. The New Economic Policy had originally aimed at achieving restructuring through new firms, and the ICA generated fears in the local business community that the Government intended to alter the employment and ownership structure of existing firms. This has had some effect on the investment plans of local businessmen, as well as those foreign investors who had earlier been disturbed by the 1975 amendment to the Petroleum Development Act.

During the past year, the Government has tried to explain its investment policies, and has begun a dialogue with the business community. At the end of November 1975, the Minister of Trade and Industry announced guidelines for foreign equity participation for new firms as follows:

(i) Import substitution industries: 100 per cent Malaysian ownership, but where local technology is not sufficiently developed or available, up to 30 per cent foreign equity is allowed;

(ii) Export-oriented industries using substantially imported components and parts: 51 to 70 per cent foreign-owned if more than 80 per cent of production is exported, and 100 per cent foreign ownership if 100 per cent of production is exported.

(iii) Export-oriented industries using nondepleting domestic resources: 30 to 55 per cent foreign-owned.

(iv) Export-oriented industries using depleting domestic resources, up to 30 per cent foreign equity participation (up to 45 per cent initially, provided it is reduced within a specified period);

Existing foreign firms set up without approval and those approved prior to 1972 are required to submit plans to achieve 70 per cent Malaysian ownership with at least 30 per cent Bumiputra ownership by 1990. For companies approved after January 1, 1972, the condition of approval would not be changed, but any expansion involving additional investment would be subject to the guidelines for equity participation under the NEP. The Ministry of Trade and Industry has also set up a Ministerial Committee to assist in reducing bureaucratic burdens for foreign investors.

3. The Third Malaysia Plan

a. Macroeconomic framework

The favorable prospects for Malaysia's exports, together with the growth in the productive capacity of the economy, have led the authorities to project an average rate of real growth of GDP of 8.5 per cent for the Third Plan period (Appendix Table III). Agricultural output is expected to grow at 6 per cent, largely as a result of the maturing of the earlier rubber and oil palm plantings on land development schemes and the replanting with high-yielding varieties of rubber trees. Forest products are also expected to sustain a higher rate of growth due to the favorable price forecast for timber. Although tin mining is expected to stagnate, a substantial increase in petroleum production is expected, and recent estimates indicate a possible fourfold increase in output from 1975 to 1980. However, the fastest growing sector in the economy is expected to be the manufacturing sector, which is expected to increase its share of GDP from 14 per cent in 1975 to 17 per cent in 1980. The construction sector too is expected to continue its rapid growth, and in addition to traditional infrastructure projects, such as roads, ports, and power, low-cost housing is expected to be an important item.

The Third Plan period is expected to be one of sustained growth of exports, both in volume and value terms, with the modest decline in palm oil prices being offset by increases in other commodity prices. The sustained growth in GDP is expected to generate an average growth of real private investment of 10 per cent per year, compared with 7 per cent during 1971-75, and for the Third Plan private investment is expected to average 17 per cent of GNP, compared with 14 per cent during 1971-75. Private consumption

is forecast as continuing to decline as a proportion of income. Although public sector consumption is expected to increase faster than GNP, public sector investment may grow slower than income, due to the need to strengthen the implementation capacity of the public sector, as well as for increased security expenditure.

The growth in income will generate a 8 per cent annual real growth in imports, compared with 5 per cent growth during 1971-74 and despite the favorable prospects for exports, the current account deficit will average 3 per cent of GNP during 1976-80, compared with 2 per cent during 1971-75. The deficit will be financed by a reduced inflow of reserves of only 1 per cent of GNP, compared with 2 per cent during 1971-75. A higher inflow of official capital is planned, and this will offset the reduction in long-term private capital as a percentage of GNP. External public debt service ratio is, therefore, expected to rise from close to 3 per cent in 1975 to about 7 per cent in 1980.

b. Public finance prospects

While the relative size of the public sector will continue to increase during the Third Plan (TMP), it will be at a somewhat reduced rate. As measured by the national accounts, public sector expenditure during the TMP is projected to average one third of GNP, compared with 29 per cent in the SMP, with consumption expenditure rising a further 3 percentage points of GNP to 22 per cent. Investment expenditure, which was 10 per cent of GNP in the SMP period, is planned to be 11 per cent during the Third Plan.

On an annual basis, Plan projections of the national accounts show that by 1980, public sector expenditure will be 35 per cent of GNP (M$13.8 billion), compared with 33 per cent in 1975. Consumption expenditure is expected to fully account for this increase, rising by 2.4 percentage points of GNP to over 24 per cent (M$9.5 billion). Public investment as a proportion of GNP is expected to fall slightly from the 1975 level of 11.6 per cent to 11.1 per cent.

This reversal of the relative size of marginal increments of public consumption and investment expenditure from the Second Plan reflects the view that the basic investment needed for the New Economic Policy has been achieved in the Second Plan. Therefore, the emphasis will be more on private investment per se in the Third Plan, while the public sector consolidates the gains of the Second Plan. Thus, the role of the public sector is to be more supportive by emphasizing the development of human resources, the eradication of poverty, the restructuring of ownership, and the maintenance of a favorable economic climate in the private sector. Expenditure in these areas is by definition classified more as consumption than investment, but is no less important in overall development strategy.

While no indication is available of the planned pattern of consumption (or current) expenditure, public sector expenditure allocations under the Development Budget (fiscal accounts basis) suggest that on the capital and net lending side, outlays on agriculture and social services will be of increased importance. In agriculture, rubber replanting (for smallholders), drainage and irrigation, and fisheries are singled out for particular attention, whereas in the social services, education and housing will receive the greatest increase in allocations. Other sectors with above average increases

in allocations include electricity and telecommunications. But the emphasis placed upon transport, along with commerce and industry, in the Second Plan will be reduced. In the case of industry, this is partly because the acquisition of existing assets and concerns is expected to be lower.

The overall pattern of financing the public sector during the TMP, evident during the Second Plan, will be continued, albeit at a a slower rate of advance. Thus, as a proportion of GNP, revenue and grants (fiscal accounts basis) are not expected to rise as rapidly as expenditure and net lending. Consequently, the overall public deficit is expected to rise further to 10.6 per cent of GNP in 1976-80, compared with 9.1 per cent during the Second Plan, with a higher proportion of this deficit being financed abroad (Appendix Table XIX). As with the Second Plan, the bulk of the increase (in terms of GNP) in revenue, expenditure, and the overall deficit is accounted for by the Federal Government. Net of Federal assistance, State Governments are projected to reduce their deficit slightly as a proportion of GNP, while the overall deficit of the public authorities (major local governments and nonfinancial public enterprises) will offset this reduction.

Federal Government revenue and grants in the Third Plan period are expected to almost double, and reach M$37 billion for the five years as a whole. Revenue and grants at this level would be equivalent to 23 per cent of projected GNP, a rise of 1.5 percentage points in comparison with the Second Plan. This projection is based upon the existing tax structure and, therefore, reflects the underlying elasticity of the revenue system. No new revenue sources are assumed in these projections, since the authorities believe that the major sources of revenue have already been tapped.

While expenditure and net lending are projected to increase only slightly faster than revenue, with the increase as a proportion of GNP less than half that of the Second Plan, nonetheless, a sizable increase in the overall deficit emerges. In all, the overall Federal Government deficit during the Third Plan is expected to be 8.9 per cent of GNP, in comparison with 7.6 per cent in the Second Plan. Moreover, the increase in expenditure may well be understated. In the assumptions behind the expenditure estimates, no allowance has been made for increasing public service pay scales, yet a 5 per cent increase in prices is assumed, and there is currently pressure for a sizable salary increase. Additionally, defense equipment purchases are expected to exceed allocations in the Plan by 1978. It appears likely, therefore, that the trend toward increasing deficits will continue possibly faster than indicated in the Plan, with the average for the 1976-80 period, as a proportion of GNP, at a level previously reached only during periods of recession.

V. External Sector

1. The balance of payments in 1975

There was a sharp turnaround in Malaysia's overall balance of payments, from a surplus of SDR 199 million in 1974 to a deficit of SDR 247 million in 1975, despite the considerable reduction in the current account deficit from SDR 273 million in 1974 to SDR 119 million (Table 7). This outturn reflected

Table 7. Malaysia: Balance of Payments, 1973-76 1/

(In millions of SDRs)2/

	1973	1974	1975	1976 3/
Exports, f.o.b.	2,493	3,451	3,115	3,821
Imports, f.o.b. 4/	1,946	3,203	2,771	3,326
Trade balance	547	248	344	495
Services (net)	-411	-473	-420	-648
Transfers (net)	-52	-	-43	-48
Current account balance	84	-273	-119	-201
Nonmonetary capital (net)	205	372	247	124
Official (excluding bank loans)	40	84	67	149
Private	165	288	180	179
Petronas holding of foreign assets	--	--	--	-204
Financial institutions 5/	87	35	-35	17
Net errors and omissions 6/	-152	65	-340	-34
Allocation of SDRs	--	--	--	--
Overall balance	224	199	-247	-94
Financing (increase in assets -)				
Net Central Bank reserves	-225	-210	30	-76
Government foreign assets	10	1	--	--
Official bank loans (net)	-9	10	217	170

Sources: Department of Statistics and Bank Negara Malaysia.

1/ Changes in Treasury cash balances and all nonproject government foreign market loans are treated as "financing" items.
2/ Valued at SDR 1 = M$3.0612 for 1972, SDR 1 = M$2.9127 for 1973, SDR 1 = M$2.8945 for 1974, SDR 1 = M$2.9162 for 1975, and SDR 1 = M$2.9374 for 1976.
3/ As estimated by the authorities.
4/ Includes nonmonetary gold.
5/ Commercial banks, borrowing companies, and merchant banks.
6/ Including unrecorded capital items.

primarily the position on capital account, which showed a reduction in non-monetary capital inflows, due to lower private sector inflows, and a very substantial turnaround in net errors and omissions to a traditional negative position. The latter development was probably due in part to a reversal of short-term capital movements associated with trade financing. The deficits on service and transfer accounts showed little change. The trade balance improved, because the decline of 10 per cent in the value of exports, resulting from lower prices for rubber, tin, and timber, was more than offset by a 14 per cent drop in the value of imports due to the slowdown in domestic economic activity. There was, however, a serious deterioration by 18 per cent in the external terms of trade, compared with an average annual decline of about 5 per cent during 1970-74.

The overall deficit in 1975 was financed by a reduction in gross Central Bank reserves of SDR 20 million, a small increase in Central Bank foreign liabilities, and net official borrowings from foreign banks of SDR 217 million. Official borrowings were designed to prevent a larger decline in official reserves, which had already been reduced below their historical relationship with imports. At end-1975, gross Central Bank reserves were SDR 1,302 million. This was sufficient to cover five months' imports (f.o.b.) at the rate expected in 1976, considerably below the average reserve coverage of approximately seven months' imports during the preceding five years.

2. Merchandise trade

Malaysia has traditionally maintained a surplus on the merchandise account and a deficit on the services and transfers accounts. During the second half of the 1960s, the current account was frequently in surplus, but with the accelerated development expenditures and adverse movements in the terms of trade, there has been a deficit every year in the 1970s except for 1973.

a. Exports

The value of Malaysia's gross exports (expressed in Malaysian ringgit) declined by 10 per cent in 1975, but an increase of 25 per cent is forecast for 1976, due to higher prices and volumes of all major export commodities, except palm oil (Appendix Table XX and Chart 3).

Malaysia has been able to achieve a continued reduction in the degree of concentration of exports by commodity during the past 15 years (Table 8); the reliance on rubber and tin has been reduced, and other primary products such as palm oil, timber, and, more recently, petroleum, as well as manufactured exports, have expanded. However, the degree of concentration among export markets, which in any case is bound to be higher than in respect of commodity groups, has changed very little during the past ten years, with more than half of total exports going to the OECD countries (Appendix Table XXII).

Together with most other industrial raw materials, demand for natural rubber was adversely affected by the world recession in 1974/75, and the value of Malaysia's exports declined by nearly 30 per cent. Demand for natural rubber was particularly weak because of the impact of higher oil prices on the demand for automobile tires, the largest component of the demand for natural

Table 8. Malaysia: Concentration of Exports,[1/] 1961-75

	1961	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
By:											
Commodity groups	0.62	0.50	0.49	0.48	0.51	0.48	0.45	0.43	0.47	0.43	0.42
Markets	--	0.36	0.35	0.34	0.34	0.33	0.33	0.34	0.34	0.33	0.32

Sources: Staff calculations based on data from Department of Statistics, Malaysia, and IFS.

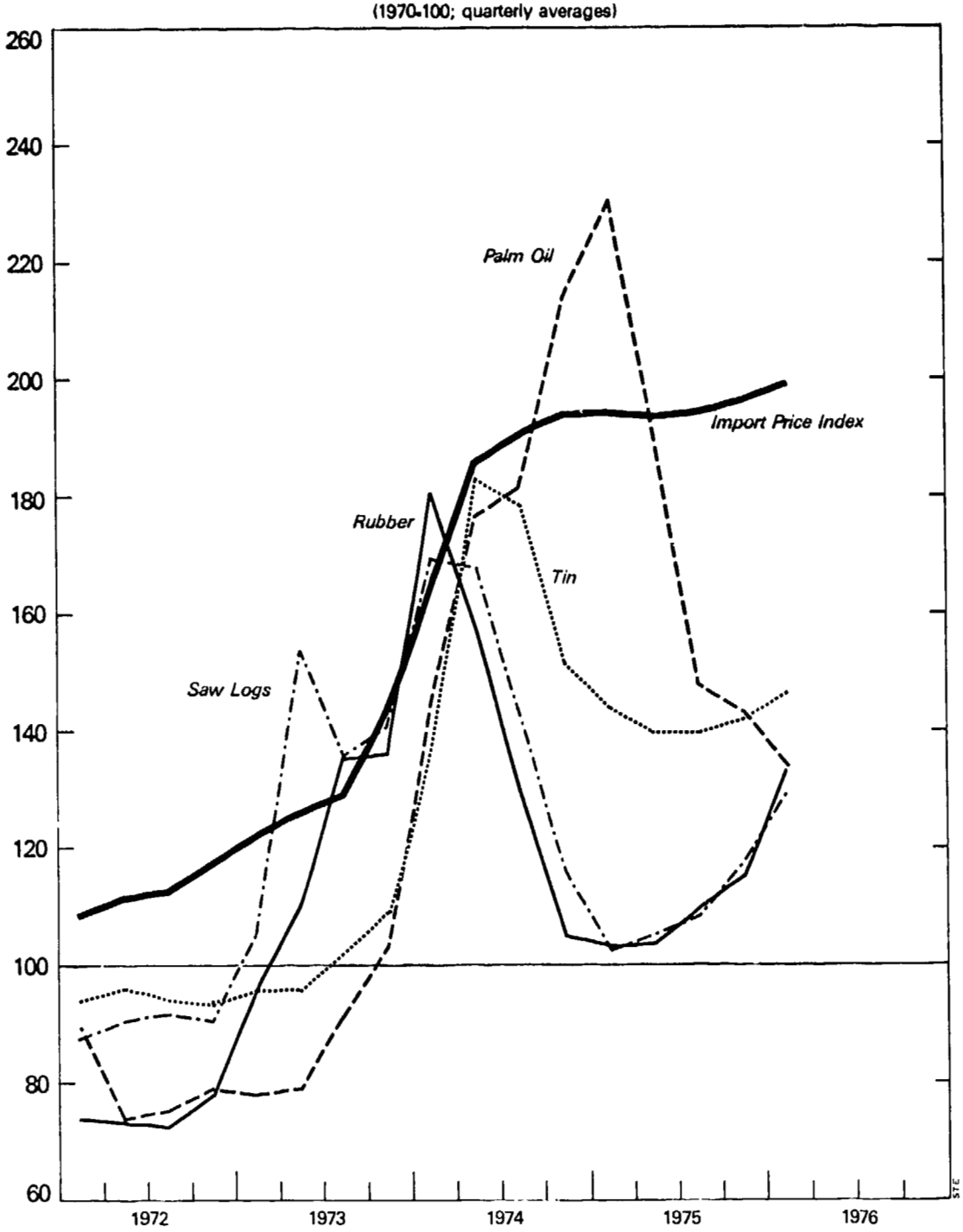
1/ Concentration for any period is measured as $\sum_{i=1}^{n} \sqrt{\left(\frac{X_i}{X}\right)^2}$ where X_i is the value of the country's exports to country i or exports of commodity i during the period, and X is the total value of the country's exports in that period.

CHART 3

MALAYSIA

INDEX OF EXPORT UNIT VALUES OF RUBBER, TIN, PALM OIL AND SAW LOGS, AND IMPORT PRICE INDEX 1972:I-1976:I

(1970=100; quarterly averages)



rubber. Towards the end of 1975, demand began to improve, and the stabilization measures introduced at the end of 1974 were progressively withdrawn. Demand for natural rubber has continued to improve during the first half of 1976; during the first four months of 1976, the average unit price was 26 per cent higher than the average for 1975. For 1976 as a whole, a 30 per cent increase in average unit prices is expected. At its present level, the market price of rubber is only about 25 per cent below the peak reached during the 1973/74 boom.

As the world's largest producer of natural rubber (accounting for about 45 per cent of world production), Malaysia has taken a leading role in the negotiations for an agreement to stabilize natural rubber prices. If the draft agreement is approved by the Ministerial Meeting of the Association of Natural Rubber Producing Countries in November 1976, the Agreement could become operational early in 1977. The draft agreement proposes the establishment of an International Natural Rubber Council. The stabilization scheme will consist of a buffer stock and supply rationalization measures, but the price range for buffer stock operations has not yet been decided. When member countries are required to take supply rationalization measures, the choice of particular measures will be up to each country. Malaysia would probably use its recent six-point program, including the prohibition of the use of chemicals to stimulate yields, enforced stock accumulation, and government purchases of rubber. However, given the present buoyant trend in demand for natural rubber, no reduction in supplies or production is likely to be required in the near future.

The demand for timber was seriously affected by the economic recession in industrial countries, particularly Japan and the United States, and both volume and unit value of exports declined sharply in late 1974 and early 1975. Malaysia's earnings in 1975 were 28 per cent lower than in 1974. However, demand began to recover in the second half of 1975, and this has continued in 1976. For 1976 as a whole, a 24 per cent increase in the value of timber exports is expected on account of both higher prices and volume. A further improvement in volume and prices is forecast for 1977.

More than two thirds of the world's exports of tropical hardwood comes from Southeast Asia, with Malaysia's exports second only to those of Indonesia. In order to strengthen the competitiveness of Malaysian timber in overseas markets, the Malaysian Timber Board introduced measures, effective March 1, 1976. Contracts made between saw millers and exporters or with importers are now required to be deposited within 14 days of signing. Log exports from Sabah are subject to an annual quota established by the Southeast Asian Lumber Producers Association (a private association that does not include the rest of Malaysia); the figures are not yet available for the 1976 quota.

Oil palm has been the major crop in Malaysia's program of export diversification. As a result of large investments, production of palm oil has increased significantly since the early 1960s, and Malaysia's share in world output increased from 8 per cent in 1960 to over 40 per cent in 1975. Despite declining prices, output and exports have continued to increase because of the maturing of earlier plantings, and a continued growth in output is forecast for some years to come. Palm oil prices and, hence, export unit values declined

from their peaks in late 1974 and early 1975, due to an improvement in the supplies of other oils and fats. The continued growth in world supplies of fats and oils, together with the relative low-income elasticities for fats and oils in major markets, indicates that future price trends are likely to be less favorable for palm oil than for Malaysia's other major exports.

The demand for tin was also seriously affected by the recession in industrial countries, and in an effort to arrest the decline in prices, the International Tin Council (ITC) imposed export controls in April 1975. The Tin Council also called up the balance of members' contributions in May 1975, of which the Malaysian share was equivalent to SDR 11.4 million or 45 per cent of the total. Demand began to recover toward the end of 1975 and this improvement has continued in 1976, resulting in the lifting of export controls in June 1976. The price of tin moved above the ITC ceiling price of M$1,100 in May 1976 and has remained high since then. The value of Malaysia's exports of tin is expected to increase by 19 per cent in 1976, due mainly to higher prices.

The Fifth International Tin Agreement came into effect in July 1976. It specifies that 20,000 tons are to be contributed compulsorily by producer countries, and allows for voluntary contributions by consumer countries of up to an additional 20,000 tons. Malaysia's total contribution to the Fifth Agreement is equivalent to SDR 47 million, of which three eights was called up in July 1976.

The value of petroleum exports rose by 1975, reflecting mainly the increase in production. A 90 per cent increase in the value of exports is forecast for 1976.

Gross exports of manufactured goods, which had risen sharply in 1973 and 1974, continued to increase during 1975, but as in 1974, a large part of the change was due to price increases. All major categories of manufactured exports increased except for wood and petroleum products (Appendix Table XX). The success of the Government's industrialization and export diversification policy is evidenced by the increase in the share of manufacturing goods in total exports from 15 per cent in 1972 to 17 per cent in 1974, and to 23 per cent in 1975, when primary exports were particularly depressed. The Central Bank announced in September 1976 that it would shortly begin to rediscount at preferential rates bills of exchange for the export of manufactured goods.

b. Imports

The slowdown in domestic expenditures and the reduction in inventories resulted in a decline in import volume of about 20 per cent in 1975; measured in Malaysian ringgit the decline in value was 14 per cent. The decline in imports was particularly pronounced in the first half of 1975. During the second half of the year, imports began to recover somewhat, although they remained lower than a year earlier. During the first six months of 1976, the value of gross imports was only 11 per cent higher than a year earlier, but with the continued economic recovery in Malaysia, further increases are expected in 1976. For 1976 as a whole, an increase of close to 20 per cent in the value of imports is expected.

The changing composition of Malaysia's imports in recent years has reflected the increased share of total expenditures on investment, although part of the increase has been due to increased prices of investment goods. All three major categories of imports declined in 1975, with both consumption and investment goods declining by close to 20 per cent (Appendix Table XXIV). Generally, the decline reflected the depressed level of private expenditure in 1975. The lower level of imports of consumer durables was due to the slower rate of income growth and a sharp rundown of inventories by importers.

The most important suppliers of Malaysian imports continued to be Japan (21 per cent), the European Economic Community (20 per cent), and the United States (11 per cent)(Appendix Table XXII). Of the major countries of supply, imports from Germany and Japan declined substantially in 1975, while those from the United States and the United Kingdom declined less than the rate of the overall decline.

3. Services, transfers, and capital

The two major items in the services account, freight and insurance and investment income, are normally both negative, the former due to the volume of Malaysia's trade and its reliance on foreign shipping, and the latter, to the large foreign investment in Malaysia. In all, the deficit on services was slightly reduced in 1975, partly because the size of the freight and insurance deficit was reduced by 20 per cent in 1975, due to lower volume of imports and the continued expansion of Malaysia's national shipping line. However, despite the economic recession, gross investment income payments declined by only 2 per cent in 1975. The increased volume of merchandise trade, as well as the higher earnings of foreign-owned companies forecast for 1976, are expected to lead to a larger services deficit.

The net inflow of private capital, which rose in 1974 as the result of investment in copper mining and the petroleum industry, declined in 1975 because of the depressed investment climate. Although official project loan receipts increased in 1975, this was offset by subscripions to international bodies. Commercial banks also reduced their foreign liabilities in 1975, due to increased financing of foreign trade bills reflecting the revival of exports in the latter part of 1975.

In 1975, net errors and omissions (including private short-term capital transactions) returned to its traditional negative position. Little information is available about this item, but the movement to a positive position in 1974 and its return to a negative position in 1975 is due in part to a reversal of short-term capital movements associated with trade financing. The size of the negative errors and omissions item was partly influenced by reported delays in repatriating export proceeds during the second half of 1975. The other elements of this item, which contribute to its traditional negative sign, are: (i) the underestimation of service payments; (ii) current payments to Singapore; (iii) underestimation of transfers; and (iv) unrecorded capital outflows.

4. International reserves

During 1975, gross international reserves declined by SDR 20 million to SDR 1,302 million and were sufficient to cover about five months of imports at the rate expected in 1976 (Appendix Table XXIII); at the end of 1974, reserves coverage was sufficient to cover nearly six months of realized 1975 imports. Foreign liabilities of the Central Bank amounted to SDR 4 million, while commercial banks had net foreign liabilities of SDR 62 million, a decline of SDR 42 million from a year earlier. Gross official reserves increased by SDR 703 million during the first nine months of 1976, due in part to official borrowing from foreign banks, as well as the inflow of funds from the proceeds from crude oil, part of which is on a temporary basis pending the finalization of production-sharing agreements with foreign oil companies.

5. Balance of payments forecast for 1976

For 1976, the authorities forecast a further overall balance of payments deficit. Exports are expected to increase by 23 per cent and imports by 20 per cent; the estimated value of imports in 1976 would, however, be only slightly above that of 1974. The deficit on current account is expected to widen to SDR 201 million. The prospects for pivate capital are somewhat uncertain, but a decrease in nonmonetary capital inflow to SDR 124 million is forecast, due in part to Petronas holding part of its accumulated profits as foreign assets. Net official project loan receipts are expected to more than double. Taking account of the expected negative level of net errors and omissions, the overall deficit is forecast to be SDR 94 million.

6. Exchange and trade system 1/

The Malaysian ringgit is pegged to an undisclosed composite of currencies of Malaysia's major trading partners, and the weighting reflects the trading shares, as well as the importance of currencies in settlement. The composition of the basket has remained unaltered since the last consultation discussions. The authorities intervene to maintain margins of 2.25 per cent, but occasionally and for relatively short periods of time, the rate has been allowed to exceed margins, as for instance during mid-1976, when substantial sales of foreign exchange by oil companies to acquire ringgit for local expenditure induced abnornal market conditions. The trade-weighted effective exchange rate computed by the staff fell by 7 per cent in 1975, but appreciated by 4 per cent during the first nine months of 1976 (Chart 4). Against the U.S. dollar, the Malaysian ringgit depreciated by 11 per cent in 1975, but has appreciated by 3 per cent during the first nine months of 1976.

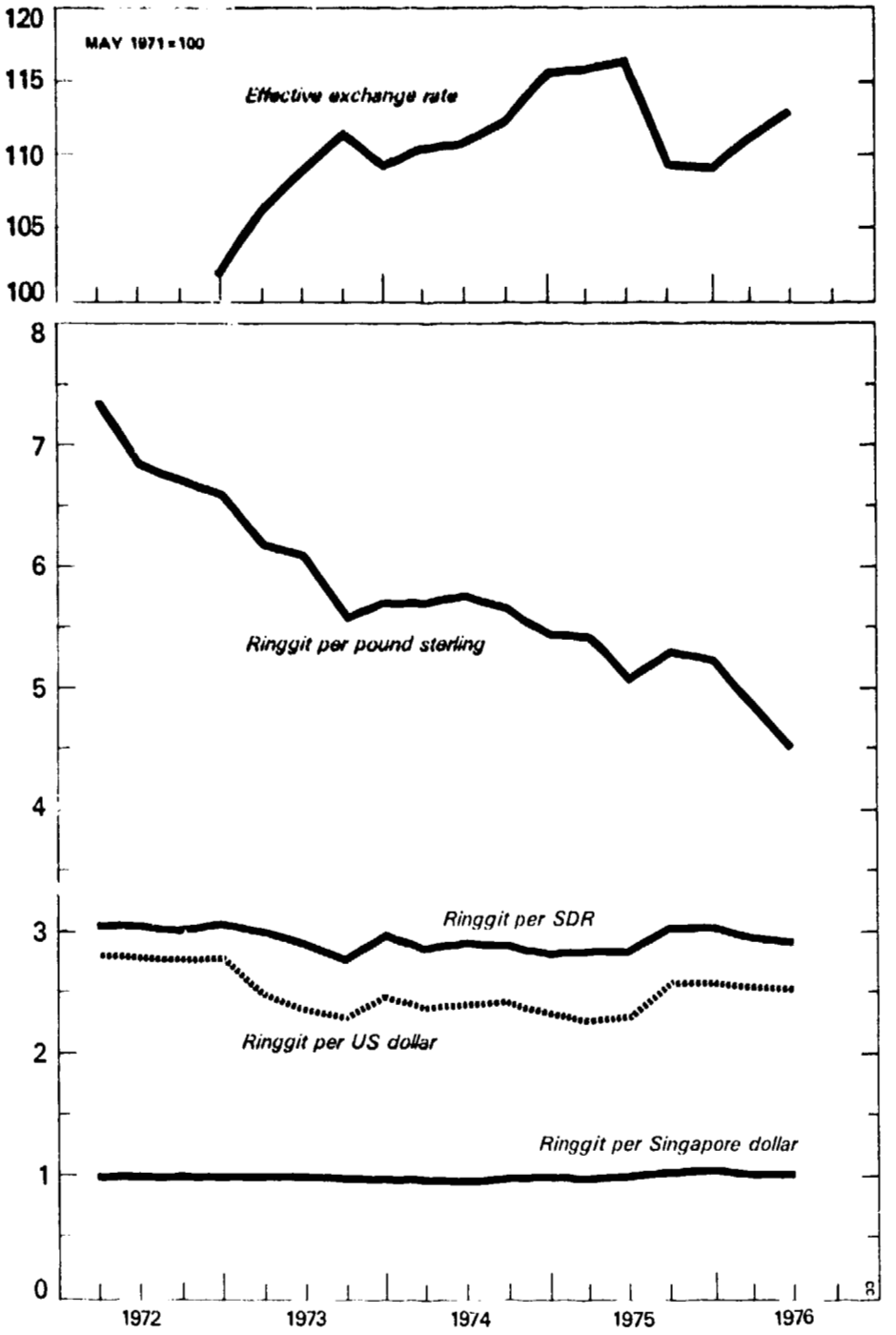
Since the last consultation discussions, no import restrictions have been introduced for balance of payments purposes, but several items have been made subject to quantitative import restrictions for protective purposes; these items include certain motor vehicle parts, sodium hydroxide,

1/ For a description of the exchange and trade system of Malaysia as at the end of 1975, see 27th Annual Report on Exchange Restrictions, pp. 303-306.

CHART 4

MALAYSIA

EXCHANGE RATE



Source: IFS, and Fund's Asian Department.

some processed foods, industrial chemicals, and steel drums. However, the import quota for textiles, imposed in Januay 1974, was lifted in September 1976. Import duties on a wide range of nonessential goods were raised in the 1976 budget. Export restrictions, which are mainly imposed on items for which domestic supply is inadequate, have not been increased in the period under review.

The forward exchange market in Malaysia provides cover for traders usually for periods up to three months, and rarely exceeds six months. The average cost of forward cover is 1/2 per cent per annum for one to two months. The currencies used in the forward market are mostly U.S. dollars and pounds sterling. The market is reported to be working satisfactorily in terms of degree of competition and volume of transactions, and is increasingly popular with traders. The Central Bank does not participate in the forward market, since it is felt its operations should be left to private banks and dealers.

There have been no changes in exchange control regulations since December 1975, nor in the controls on the import and export of gold. Current payments continue to be unrestricted. No exchange control measures have been introduced to regulate inflows or outflows of short-term capital.

Table 1. Malaysia: Gross National Product at Constant Prices, 1972-80[1/]

(In millions of Malaysian ringgit)

	1972	1973	1974	1975	1976[2/]	1980[2/]	Average Annual Growth Rate 1971-75	Average Annual Growth Rate 1976-80	Annual Growth Rate 1974	Annual Growth Rate 1975	Annual Growth Rate 1976
Consumption	10,361	11,198	11,941	12,106	12,773	17,651	5.0	7.8	6.6	1.4	5.5
Private	7,998	8,664	9,250	9,036	9,597	12,331	3.8	6.4	6.8	-2.3	6.2
Public	2,363	2,534	2,691	3,070	3,176	5,320	9.0	11.6	6.2	14.1	3.5
Investment	2,764	2,920	3,578	3,622	3,820	5,423	11.0	8.4	22.5	1.2	5.5
Private	1,609	1,750	2,140	2,062	2,166	3,315	7.2	9.9	22.3	-3.6	5.0
Public	1,155	1,170	1,438	1,560	1,654	2,108	17.6	6.2	22.9	8.5	6.0
Change in stocks	-55	+195	+515	-442	-78	-712	--	--	--	--	--
Exports of goods and nonfactor services	5,776	6,855	7,002	7,151	7,873	10,704	5.9	8.4	2.1	2.1	10.1
Imports of goods and nonfactor services	4,671	5,148	5,829	4,899	5,536	7,245	0.4	8.1	13.2	-16.0	13.0
Gross domestic product at market prices	14,175	16,020	17,207	17,538	18,852	26,233	7.0	8.4	7.2	1.9	7.5
Net factor payments abroad	382	583	473	393	530	857	--	--	--	--	--
Gross national product at market prices	13,793	15,437	16,734	17,146	18,322	25,376	7.1	8.2	8.4	2.5	6.9

Source: Third Malaysia Plan, 1976-80.

1/ At 1970 prices.
2/ Forecast.

Table II. Malaysia: Gross National Product at Current Prices, 1972-76

(In millions of Malaysian ringgit)

	1972	1973	1974	1975	1976 1/	Percentage Rate of Change 1972	1973	1974	1975	1976	In Per Cent of GNP 1972	1973	1974	1975	1976
Consumption	11,158	13,023	15,822	16,797	18,295	8.3	16.7	21.5	6.2	8.9	81.8	74.7	74.5	77.2	76.3
Private	8,381	9,901	12,011	12,052	13,238	4.0	18.1	21.3	0.3	9.8	61.4	56.8	56.6	55.4	55.2
Public	2,777	3,122	3,811	4,745	5,057	23.8	12.4	22.1	24.5	6.6	20.4	17.9	17.9	21.8	21.1
Investment	3,087	3,795	5,380	5,838	6,447	22.2	22.9	41.8	8.5	10.4	22.6	21.8	25.3	26.8	26.9
Private	1,779	2,243	3,223	3,320	3,672	6.2	26.0	43.7	3.0	10.6	13.0	12.9	15.2	15.2	15.3
Public	1,308	1,552	2,157	2,518	2,775	53.5	18.7	39.0	16.7	10.2	9.6	8.9	10.1	11.6	11.6
Change in stocks	-63	+228	+683	-667	-125	--	--	--	--	--	-0.5	1.3	3.2	-3.1	-0.5
Exports of goods and non-factor services	5,083	7,738	10,651	9,835	11,339	-2.4	52.2	37.6	-7.3	15.3	37.3	44.4	50.2	45.2	47.3
Imports of goods and non-factor services	5,246	6,682	10,702	9,506	11,284	4.1	27.4	60.2	-11.3	18.7	38.5	38.3	50.4	43.7	47.0
Gross domestic product at market prices	14,019	18,102	21,834	22,297	24,672	9.0	29.1	20.3	2.1	10.7	102.8	103.8	102.8	102.5	102.8
Net factor payments abroad	378	659	600	550	680	--	--	--	--	--	2.8	3.8	2.8	2.5	2.8
Gross national product at market prices	13,641	17,443	21,234	21,747	23,992	9.1	27.9	21.7	2.9	10.3	100.0	100.0	100.0	100.0	100.0

Source: Third Malaysia Plan, 1976-80.

1/ Forecast.

Table III. Malaysia: Industrial Origin of Gross Domestic Product at Factor Cost, 1972-80[1/]

(In millions of Malaysian ringgit)

	1972	1973	1974	1975	Growth Rate 1975	Average Annual Growth Rate 1971-75	Average Annual Growth Rate 1976-80	Percentage Share of GDP 1970	Percentage Share of GDP 1975	Percentage Share of GDP 1980
Agriculture[2/]	3,720	4,241	4,518	4,563	1.0	5.9	6.0	32.1	29.8	26.5
Mining and quarrying	701	666	619	612	-1.1	--	5.7	5.7	4.0	3.5
Manufacturing	1,610	1,904	2,175	2,197	1.0	10.9	12.0	12.2	14.4	16.8
Construction	569	631	677	711	5.0	8.1	8.9	4.5	4.6	4.7
Electricity, water, and sanitary services	301	339	372	401	7.8	10.4	9.2	2.3	2.6	2.7
Transport, storage, and communications	764	901	1,036	1,098	6.0	12.6	8.3	5.7	7.2	7.1
Wholesale and retail trade	1,586	1,824	2,006	2,086	4.0	7.9	8.4	13.3	13.6	13.5
Ownership of dwellings, banking, insurance, and real estate	928	1,008	1,063	1,109	4.3	5.8	8.4	7.8	7.2	7.2
Public administration and defence	979	1,018	1,090	1,199	10.0	8.6	9.6	7.4	7.8	8.2
Other services	1,001	1,081	1,189	1,237	4.1	7.2	9.5	8.2	8.1	8.4
Statistical discrepancy	+190	+254	+52	+102						
Gross domestic product	12,349	13,867	14,797	15,315	3.5	7.4	8.5			

Source: Third Malaysia Plan, 1976-80.

1/ In 1970 prices.
2/ Includes forestry and fishing.

Table IV. . Malaysia: Production of Major Commodities, 1972-76

(In thousands of metric tons)

	1972	1973	1974	1975	1976 1/	Annual Percentage Change 1972	1973	1974	1975	1976
Rubber	1,325	1,567	1,549	1,478	1,600	--	18.3	-1.1	-4.6	8.2
Rice	1,186	1,269	1,350	1,310	1,376	0.9	7.0	6.4	-3.0	5.0
Oil palm products										
Palm oil	726	810	1,041	1,254	1,455	23.3	11.6	28.6	20.5	16.0
Palm kernels	152	168	215	258	--	20.6	10.5	28.0	20.0	--
Copra	23	21	22	14	--	-4.2	-8.7	4.8	-36.4	--
Coconut oil	96	82	70	79	--	-4.0	-14.6	-14.6	12.9	--
Marine fish	361	449	493	456	--	-1.7	24.5	9.9	-7.7	--
Saw logs 2/	16,976	19,065	18,019	15,241	18,300	14.0	12.3	-5.5	-15.4	20.1
Sawn timber 2/	3,441	3,792	3,732	3,701	4,650	25.1	10.2	-1.6	-0.8	25.6
Tin-in-concentrates	77	72	68	64	66	--	-6.5	-5.6	-5.9	3.1
Bauxite	1,077	1,143	948	704	--	10.1	6.1	-17.1	-25.7	--
Iron ore	528	517	431	348	--	-44.4	-2.1	-7.0	-27.7	--
Crude oil (million U.S. barrels)	33,867	33,050	29,541	35,771	59,130	35.1	-2.5	-10.6	21.1	65.3
Natural gas 2/ 3/	93,769	90,254	78,293	95,967	--	--	-3.7	-13.3	22.6	--

Source: Department of Statistics, Malaysia.

1/ Forecast
2/ Expressed in thousand cubic meters.
3/ The natural gas presently produced is associated with the production of crude oil.

Table V. Malaysia: Index of Industrial Production, Peninsular Malaysia, 1972-76

(1968 = 100)

Period[2/]	Total	Mining	Electricity	Manufacturing	Selected Specific Manufacturing Industries[1/]						
					Food	Textiles	Wood products	Rubber products	Cement and concrete products	Iron and steel products	Transport equipment
Weights (per cent)	100.0	31.4	9.2	59.4	9.8	1.3	7.1	3.8	4.5	1.5	1.4
1972	132.2	85.0	138.8	156.1	115.4	156.1	183.7	139.8	129.2	192.2	268.3
1973	150.6	80.6	153.5	187.1	130.3	196.8	203.3	166.5	147.0	225.5	393.0
1974	167.6	75.4	170.0	215.8	128.5	141.0	185.9	161.7	154.6	237.5	531.4
1975	167.7	70.7	184.9	216.0	136.2	213.8	190.7	164.1	161.3	227.5	412.0
1975 I Qtr.	152.4	72.6	175.9	191.0	124.3	156.2	124.2	128.6	148.2	215.1	338.2
II Qtr.	165.6	69.3	184.0	212.8	134.5	186.2	210.3	167.2	167.0	197.4	421.5
III Qtr.	174.3	68.8	189.4	227.7	151.8	219.6	235.1	172.7	159.8	237.1	435.4
IV Qtr.	178.5	72.3	190.5	232.7	134.2	293.4	191.2	187.9	170.1	260.4	453.0
1976 January	173.8	71.9	186.2	225.6	130.3	256.5	157.8	150.9	159.2	132.8	374.7
February	175.8	62.5	186.9	234.0	127.2	289.8	175.8	159.9	152.1	197.4	332.5
Percentage change over corresponding period of previous year											
1972	10.1	-0.4	12.8	13.3	3.1	28.0	30.8	6.0	8.3	15.4	-4.8
1973	13.9	-5.2	10.6	19.9	12.9	26.1	10.7	19.1	13.8	17.3	46.5
1974	11.3	-6.5	11.1	15.3	-1.4	-28.4	-8.6	-2.9	5.2	23.6	35.2
1975	--	-6.2	8.8	0.1	6.0	8.6	2.3	1.5	4.3	-4.2	-22.5
1975 I Qtr.	-3.8	-1.6	9.5	-5.8	-5.1	3.0	-32.0	-15.3	2.1	-9.5	-32.9
II Qtr.	-2.5	-8.3	8.9	-3.1	1.7	28.1	5.2	-1.4	5.2	-20.0	-30.0
III Qtr.	0.9	-7.7	7.9	1.5	25.7	54.6	20.6	3.5	2.6	-1.5	-26.3
IV Qtr.	5.6	-6.8	8.9	7.4	3.4	134.7	15.3	18.3	7.1	15.7	5.6
1976 January	13.4	-6.0	2.6	19.1	-0.2	68.4	41.9	21.5	13.6	-32.3	15.0
February	18.1	-8.4	15.0	24.6	5.0	90.2	50.8	34.5	-2.6	-5.0	9.7
Percentage change over previous period (expressed as an annual rate)											
1975 I Qtr.	-34.0	-23.4	2.1	-39.5	-18.9	143.8	-68.6	-57.1	-24.1	-16.6	-61.3
II Qtr.	39.4	-17.0	19.7	54.0	37.1	101.9	722.0	185.7	61.2	-29.1	141.3
III Qtr.	22.7	-2.9	12.3	31.1	62.3	93.5	56.2	13.8	-16.2	108.1	13.9
IV Qtr.	10.0	22.0	2.3	9.1	-38.9	218.6	-56.3	39.5	28.4	45.5	17.2

Source: Department of Statistics, Malaysia.

1/ Weights refer to total industrial production.
2/ Annual and quarterly indices are averages of monthly indices.

Table VI. Malaysia: Consumer Price Index for Peninsular Malaysia, 1972-76

Periods[1/] (Weights)	Total (1000)	Food (468)	Beverages and Tobacco (89)	Clothing and Footwear (48)	Rent Fuel and Power (04)	Furniture, Furnishings and Household Equipment (66)	Medical Care and Health Expenses (20)	Transport and Communications (104)	Recreation and Entertainment (36)	Miscellaneous Goods and Services (95)
					Value of Index (1967 = 100)					
1972	106.2	103.8	107.3	105.8	102.9	113.9	103.1	106.4	116	112.3
1973	117.4	120.3	108.5	129.0	104.4	128.6	107.7	109.5	120	122.[illegible]
1974	137.8	151.4	110.6	144.2	111.6	150.5	116.4	119.7	127	140.4
1975	144.0	157.3	121.3	103.3	118.8	157.8	122.4	127.0	130	147.9
1975 March	143.6	157	122	144	117	158	122	125	129	148
June	143.0	155	122	143	120	157	123	128	130	147
September	144.6	158	122	143	120	158	123	128	130	148
December	145.3	159	122	143	120	158	123	128	130	148
1976 January	147.0	162	122	143	122	159	132	129	130	151
February	146.1	159	122	144	123	160	134	131	130	150
March	146.2	159	122	145	123	160	134	133	130	150
April	145.9	158	122	146	123	161	134	133	130	151
May	146.5	159	122	147	123	161	135	134	130	151
June	147.9	160	122	147	128	162	135	134	130	151
July	147.9	160	123	148	128	162	136	134	130	152
				Percentage Change over Corresponding Period of Previous Year						
1972	3.2	3.0	3.7	5.6	0.8	5.3	0.4	2.7	4.0	6.6
1973	10.5	15.9	1.1	21.9	1.5	12.9	4.5	2.9	3.7	8.6
1974	17.4	25.9	1.9	11.8	6.9	17.0	8.1	9.3	5.9	14.6
1975	4.5	3.9	9.7	-0.6	6.5	4.9	5.2	6.1	2.0	5.3
1975 June	4.2	2.6	10.9	-0.7	9.1	4.7	6.0	5.8	2.8	5.0
September	3.4	2.6	10.9	-1.4	5.3	2.6	3.4	4.1	1.3	4.2
December	1.1	-1.2	8.0	-0.7	5.3	0.6	2.5	4.1	1.1	0.7
1976 March	2.1	1.3	0.0	0.7	5.1	1.3	9.8	6.4	0.3	1.4
June	3.4	3.2	0.0	2.8	6.7	3.2	9.8	4.7	0.6	2.7
July	3.3	3.0	0.5	3.4	6.5	3.2	10.7	4.6	0.5	2.4
				Percentage Change During Three-Month Period (expressed as annual rate)						
1975 June	-1.7	-0.5	0.0	-2.7	10.7	-2.[illegible]	3.3	10.0	0.6	-2.7
September	4.6	8.0	0.0	0.0	0.0	2.6	0.0	0.0	-0.3	2.7
December	2.0	2.6	0.0	0.0	0.0	0.0	0.0	0.0	0.6	0.0
1976 March	2.5	0.0	0.0	5.7	10.4	5.2	40.9	16.6	0.6	5.5
June	4.7	2.5	0.0	5.6	17.3	5.1	3.0	3.0	1.5	2.7

Source: Department of Statistics, Malaysia.

1/ Annual indices are averages of monthly indices.

Table VII. Malaysia: Central Bank Transactions in Government Securities,[1/] 1972-75

(In millions of Malaysian ringgit)

	1972	1973	1974	1975	As a Percentage of 1972	1973	1974	1975
					Total Purchases			
Purchases, etc.								
Purchases from Government	99.0	195.2	500.6	705.8	10.8	30.8	22.6	22.6
New issues	7.4	112.1	317.8	216.2	0.8	17.7	14.3	6.9
Purchases/rediscounting	810.5	326.3	1,397.5	2,196.1	88.4	51.5	63.1	70.4
Of which:								
Commercial banks	(416.7)	(265.4)	(855.4)	(1,004.0)	(45.4)	(41.9)	(38.6)	(32.2)
Discount houses	(199.5)	(35.9)	(514.4)	(1,134.5)	(21.8)	(5.7)	(23.2)	(36.4)
Brokers	(0.2)	(1.4)	(9.8)	(3.4)	(--)	(0.2)	(0.4)	(0.1)
Employees Provident Fund	(142.7)	(--)	(--)	(--)	(15.6)	(--)	(--)	(--)
Total	916.9	633.6	2,215.9	3,118.1	100.0	100.0	100.0	100.0
(Annual percentage change)	(16.2)	(-30.9)	(249.7)	(40.7)				
					Total Sales			
Sales, etc.								
Redemption	415.6	229.9	538.3	673.5	47.6	43.9	24.0	23.1
Sales	457.0	294.0	1,702.9	2,246.6	52.4	56.1	76.0	76.9
Of which:								
Commercial banks	(283.7)	(118.1)	(873.0)	(1,053.8)	(32.5)	(22.5)	(39.0)	(36.1)
Discount houses	(133.9)	(162.4)	(757.1)	(1,067.2)	(15.3)	(31.0)	(33.8)	(36.5)
Brokers	(11.9)	(6.2)	(6.2)	(8.9)	(1.4)	(1.2)	(0.3)	(0.3)
Total	872.6	523.9	2,241.2	2,920.1	100.0	100.0	100.0	100.0
(Annual percentage change)	(11.1)	(-40.0)	(327.8)	(30.3)				
Net purchases during year	44.3	109.7	-25.3	198.0				

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

1/ Including Treasury bills.

Table VIII. Malaysia: Nominal Interest Rates of Commercial Banks, Borrowing Companies, and the National Savings Bank, 1972-76[1/]

Date of Change or Introduction			Maturity in Months of Fixed Deposits: 1	3	6	9	12	24	Savings Deposits	Minimum Lending Rates: Prime Rate	Preferential Rate [2/]
			Interest rates as per cent per annum								
			Commerical Banks								
1971	January	2	3	5½	5 3/4	6	6	6¼	3½	8	7½
1972	January	19	3	5	5¼	5½	5 3/4	6	3½	7½	7
1973	April	26	3½	5½	5 3/4	6	6¼	6½	4½	8	7½
	August	1	3½	5½	5 3/4	6½	7	4/	4½	8	7½
	December	18	4	6	6¼	7	8	4/	5½	9	8½
1974	April	24	4½	6½	7	8	9	4/	6½	10	9½
1975	February	3	4	6	6¼	7½	8½	4/	6½	9½	9
	May	7	3½	5½	6	7	8	4/	6	9	8½
	August	8	3½	5½	6	6½	7½	4/	5½	8½	8
			Borrowing Companies								
1971	February	1	--	6½	6¼	7	7	7¼	4½		
1972	January	19	--	5 3/4	6	6¼	6½	6 3/4	4½	Negotiable[3/]	
1973	April	26	--	6¼	6½	6 3/4	7	4/	5		
	August	1	--	4/	4/	4/	4/	4/	4/		
			National Savings Bank[5/]								
			The interest rate on deposits was increased from 4 per cent to 4½ per cent on January 1, 1973, to 5½ per cent on January 1, 1974 and to 6½ per cent on May 1, 1974.								

Source: Bank Negara Malaysia.

1/ Deposit rates are maximum rates.

2/ Applied to credit to Government and statutory authorities.

3/ Specified hire purchase loans are subject to the provisions of the Hire Purchase Act, 1967.

4/ Rates are negotiable.

5/ Known as the Post Office Savings Bank before December 1, 1974.

Table IX. Malaysia: Direction of Commercial Bank Lending, 1972-76

(In millions of Malaysian ringgit)

	Changes During Period					Changes During Period as Percent of Total Change			Outstanding March 31, 1976	Distribution of Total Lending on March 31, 1976
	1972	1973	1974	1975	1976 1st Qtr.	1973	1974	1975		
Agriculture	69.3	58.6	10.4	67.3	10.1	3.5	1.5	7.5	493.9	7.3
Of which:										
Rubber	(18.5)	(23.4)	(-37.5)	(23.9)	(-14.4)	(1.4)	(-5.2)	(2.6)	(119.3)	(1.8)
Palm oil	(-3.1)	(27.9(	(-12.4)	(22.6)	(9.4)	(1.7)	(-1.8)	(2.5)	(83.9)	(1.2)
Forestry	(54.1)	(-1.2)	(57.7)	(1.3)	(2.1)	(-0.1)	(8.1)	(0.1)	(219.7)	(3.2)
Mining and quarrying	18.1	26.9	-1.0	8.9	6.1	1.6	-0.1	1.0	112.8	1.7
Manufacturing	40.4	273.2	173.5	208.6	50.2	16.2	24.5	23.4	1,315.8	19.4
Of which:										
Rubber products	(3.0)	(26.4)	(-17.6)	(31.5)	(1.0)	(1.6)	(-2.5)	(3.5)	(76.9)	(1.1)
Rice milling	(-6.3)	(-6.0)	(11.1)	(-5.8)	(20.6)	(-0.4)	(1.6)	(-0.6)	(36.5)	(0.5)
Food and tobacco	(5.0)	(9.7)	(10.0)	(35.4)	(-13.6)	(0.6)	(1.4)	(4.0)	(104.5)	(1.5)
Soaps and oils	(-9.2)	(19.1)	(-27.4)	(13.9)	(19.9)	(1.1)	(-3.9)	(1.6)	(63.1)	(0.9)
Textiles and clothing	(33.1)	(30.5)	(58.9)	(37.0)	(8.2)	(1.8)	(8.3)	(4.1)	(195.9)	(2.9)
Metal products	(-5.3)	(49.9)	(24.7)	(25.5)	(-6.8)	(3.0)	(3.5)	(2.9)	(222.3)	(3.3)
Building materials	(-1.6)	(37.5)	(21.5)	(17.6)	(5.1)	(2.2)	(3.0)	(2.0)	(113.9)	(1.7)
Building and construction	18.2	303.3	79.9	93.0	20.9	18.0	11.3	10.4	742.6	10.9
General commerce	88.2	241.5	145.7	68.4	28.3	14.3	20.6	7.7	1,033.5	15.2
Professional and individuals	214.7	339.1	46.4	144.0	80.8	20.1	6.5	16.1	1,181.2	17.4
Other	31.3	351.8	201.1	230.3	39.3	20.8	28.4	25.8	1,564.8	23.0
Total lending to private sector	480.2	1,594.4	656.0	820.5	235.7	94.5	92.6	91.9	6,444.6	94.8
Lending to Government	31.9	93.4	52.5	72.3	93.0	5.5	7.4	8.1	352.5	5.2
Total lending	512.1	1,687.8	708.5	892.8	328.7	100.0	100.0	100.0	6,797.1	100.0

Source: Bank Negara Malaysia.

Table X. Malaysia: Funds Raised in the Capital Market, 1972-1st Quarter 1976

(In millions of Malaysian ringgit)

	1972	1973	1974	1975	1976 1 Qtr.	Percentage Change 1972	1973	1974	1975	Components Expressed as Percentage of Total 1972	1973	1974	1975
Funds raised by the Federal Government 1/													
Federal Government, bonds gross issues	1,045.0	1,153.0	950.0	1,092.0	605.0	64.6	10.3	-17.6	14.8	123.2	120.7	118.4	110.8
Less Redemption	-260.6	-242.9	-229.5	-175.7	-160.0	197.1	-6.8	-5.5	-23.4	-30.7	-25.4	-28.6	-17.8
Equals Federal Government bonds, net issue	784.4	910.1	720.5	916.3	445.0	43.3	16.0	-20.8	27.2	92.5	95.3	89.8	93.0
Plus Increase in outstanding advance subscriptions	1.8	-23.6	[illegible].6	-6.0	-207.0					0.2	-2.5	0.2	-0.6
Less Increase in Federal Government holdings	--	-1.0	-5.1	-1.0	+1.6					--	-0.1	-0.6	-0.1
Equals Net funds raised by the Federal Government	786.2	885.5	717.0	909.3	239.6	51.4	12.6	-19.0	26.8	92.7	92.7	89.3	92.3
Funds raised by private sector 2/													
Ordinary shares	62.0	76.8	85.6	27.7	--	37.8	23.9	11.5	-67.6	7.3	8.0	10.7	2.8
Public issues	(21.0)	(23.3)	(32.0)	(18.2)	(--)	(223.1)	(11.1)	(37.3)	(-58.8)	(2.5)	(2.4)	(4.0)	(1.3)
Private placements	(5.7)	(8.3)	(4.1)	(--)	(--)	(-32.9)	(45.6)	(50.6)	(-100.0)	(0.7)	(0.9)	(0.5)	(--)
Rights issues	(28.2)	(37.2)	(49.5)	(9.5)	(--)	(-6.0)	(31.9)	(33.1)	(-80.8)	(3.3)	(3.9)	(6.2)	(1.0)
Intercompany placements	(7.1)	(8.0)	(--)	(--)	(--)					(0.8)	(0.8)	(--)	(--)
Preference shares, net issue	--	--	--	--	--					--	--	--	--
Debentures/loan stocks, net issue	-- 3/	-7.0	--	48.3	--					--	-0.7	--	4.9
Net funds raised by private sector	62.0	69.8	85.6	76.0	--	37.8	12.6	22.6	-11.2	7.3	7.3	10.7	7.7
Total	848.2	955.3	802.6	985.3	239.6	50.3	12.6	-16.0	22.8	100.0	100.0	100.0	100.0

Sources: Bank Negara Malaysia and Ministry of Finance.

1/ Excludes Treasury bills and Federal Government securities issued outside Malaysia.

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

3/ 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.

Table XI. Malaysia: Federal Government Revenue and Grants, 1972-76

(In millions of Malaysian ringgit)

	1972	1973	1974	1975 Prel. Actual	1976 Budget Est.	1976 Revised Est.
1. Taxes on net income and profits 1/	741	830	1,303	1,[illegible]27	1,760	1,770
3. Employers' payroll tax	2	1	--	--	--	--
4. Taxes on property 2/	36	29	30	13	12	19
5. Taxes on goods and services	725	893	1,036	1,096	1,145	1,160
5.1 Sales tax	115	220	297	272	300	300
5.2 Selective excises on goods	368	407	412	450	495	495
Tobacco and alcoholic beverages	(60)	(71)	(86)	(90)	(99)	(99)
Petroleum products	(188)	(136)	(154)	(183)	(205)	(205)
Motor vehicles	(51)	(82)	(114)	(111)	(120)	(120)
Other	(69)	(117)	(89)	(66)	(71)	(71)
5.4 Selective excises on services 3/	49	54	84	100	95	107
5.5 Motor vehicle taxes	193	212	212	274	258	258
6. Taxes on international trade and transactions	821	1,183	1,836	1,425	1,624	1,759
6.1 Import duties	589	746	893	800	959	959
Tobacco and alcoholic beverages	(147)	(153)	(169)	(197)	(199)	(199)
Petroleum products	(83)	(99)	(86)	(75)	(83)	(83)
Other import duties	(241)	(338)	(417)	(343)	(427)	(427)
Surtax on imports	(117)	(156)	(221)	(185)	(250)	(250)
6.2 Export duties	232	437	943	625	665	800
Rubber	(40)	(233)	(384)	(121)	(150)	(423)
Tin	(127)	(130)	(271)	(195)	(188)	(239)
Palm oil	(32)	(50)	(228)	(262)	(208)	(109)
Other	(24)	(24)	(61)	(27)	(29)	(29)
7. Other tax revenue 4/	51	71	78	53	51	82
Total tax revenue	2,376	3,007	4,283	4,514	4,629	4,789
8. Nontax revenue	601	408	531	562	609	614
8.2 Property income	406	296	230	328	301	321
Nonfinancial public enterprises	(63)	(77)	(68)	(84)	(90)	(90)
Public financial institutions	(235) 5/	(25)	(10)	(50)	(50)	(50)
Rents and interest	(85)	(79)	(106)	(116)	(111)	(111)
Petroleum royalties	(23)	(25)	(46)	(78)	(50)	(70)
8.3 Administrative fees and charges, sale of goods, fines and forfeits	80	93	137	146	162	162
8.6 Other nontax revenue 6/	115	109	164	88	146 7/	131 7/
Total revenue	2,977	3,414	4,814	5,076	5,238	5,403
Foreign grants	9	12	5	6	10 7/	10 7/
Total revenue and grants	2,986	3,426	4,819	5,082	5,248	5,413

Sources: Bank Negara Malaysia and data provided by the Malaysian authorities.

1/ Corporate and individual income tax, land speculation tax, and capital gains tax.
2/ Includes death and gift taxes.
3/ Comprises betting and lottery taxes, and film rental tax.
4/ Includes local government revenue from Kuala Lumpur since the city became a Federal Territory (February 1, 1974).
5/ Includes M$185 million from the distribution of the residual sterling assets of the Currency Board.
6/ Includes, inter alia, proceeds from the liquidation of Malaysia-Singapore Airlines, "special receipts", and receipts from government agencies.
7/ Partly estimated.

Table XII. Malaysia: Economic Classification of Federal Government Expenditure and Net Lending, 1972-76

(In millions of Malaysian ringgit)

	1972	1973	1974	1975 Prel. Actual	1976 Budget Est.	1976 Revised Est.
Current expenditure	3,211	3,261	4,259	4,877	5,073	5,482
Expenditure on goods and services	2,218	2,142	2,756	2,952	2,972	3,266
Wages and salaries 1/	(1,592) 2/	(1,563)	(1,911)	(2,055)	(2,102)	(2,250)
Other purchases of goods and services 3/	(626)	(579)	(845)	(897)	(870)	(1,016)
Interest payments	382	468	544	684	728	728
Subsidies and other current transfers	509	592	820	1,173	1,155	1,270
Transfers to State Governments	(190)	(175)	(212)	(252)	(259)	(269)
Pensions	(114)	(128)	(139)	(149)	(168)	(168)
Other current transfers 4/	(205)	(289)	(469)	(772)	(728)	(833)
Unallocable 5/	102	59	139	68	218	218
Capital expenditure	658	840	1,187	1,276	1,610	1,781
Net lending	422	347	745	827	590	720
Total expenditure and net lending	4,291	4,447	6,191	6,980	7,273	7,983

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

1/ Includes bloc-voted wage and salary payments (e.g., education).
2/ Includes retroactive salary income.
3/ Estimated. Includes defense expenditures shown in the development budget and excludes capital expenditure shown in the current budget.
4/ Derived as a residual and may include some bloc-voted expenditure on goods and services.
5/ Contributions to funds.

Table XIII. Malaysia: Functional Classification of Federal Government Expenditure and Net Lending, 1972-76

(In millions of Malaysian ringgit)

	1972	1973	1974	1975 Prel. Actual	1976 Budget Estimate 1/	1976 Revised Estimate
General public services	544	616	850	1,046	1,008	1,218
General administration	266	326	460	609	529	664
Internal security	278	290	390	437	479	554
Defense	707	724	955	1,010	1,027	1,070
Education	910	947	1,238	1,362	1,469	1,489
Health	256	292	355	408	476	457
Social security 2/	114	128	139	149	168	168
Housing and community amenities 3/	67	56	157	140	343	216
Economic services	1,019	983	1,603	1,862	1,578	2,118
Agriculture, forestry and rural development	367	399	598	597	642	750
Transport and communications	391	344	514	741	700	760
Other economic services 4/	261	240	490	524	236	608
Unallocable	674	702	895	1,004	1,205	1,248
Public debt interest	382	468	544	684	728	728
Grants to state governments	190	175	212	252	259	269
Contributions to Statutory Funds	102	59	139	68	218 5/	251 5/
Total expenditure and net lending	4,291	4,447	6,191	6,980	7,273	7,983

Sources: Budget speeches and data provided by the Malaysian authorities.

1/ Includes initial budget estimates for the development budget which were provisional.
2/ Government pensions.
3/ Includes housing, labor and welfare, and recreation.
4/ Includes mining utilities, trade, and industry.
5/ Includes M$200 million for contingency purposes.

Table XIV. Malaysia: Federal Government Financing, 1972-75

(In millions of Malaysian ringgit)

	1972	1973	1974	1975
Domestic financing (net)	999	952	1,149	1,007
From general government and nonfinancial public enterprises 1/	57	76	6	24
From other parts of the same level of government 2/	(--)	(1)	(5)	(1)
From State Governments	(-19)	(-12)	(-19)	(-24)
From public authorities 3/	(75)	(87)	(20)	(47)
From monetary authorities	27	201	80	-184
Treasury bills	(23)	(24)	(-24)	(161)
Long-term securities	(21)	(86)	(-2)	(37)
Change in deposits	(-17)	(91)	(106)	(-382)
From deposit money banks	103	12	305	364
Treasury bills	(-53)	(-5)	(87)	(132)
Long-term securities	(163)	(128)	(243)	(238)
Change in deposits	(-7)	(-111)	(-25)	(-6)
Other	625	568	524	617
Employees Provident Fund 1/	(350)	(385)	(358)	(478)
National Savings Bank 1/	(60)	(76)	(100)	(46)
Teachers Provident Fund 1/	(7)	(4)	(2)	(-3)
Other provident funds, private trust funds, and social security 1/	(5)	(11)	(10)	(14)
Other Treasury bills 4/	(80)	(-28)	(47)	(7)
Long-term securities 4/	(123)	(120)	(7)	(75)
Unidentified 5/	187	95	234	186
Foreign financing (net)	306	69	223	891
From international development institutions and governments 6/	154	95	193	259
Other 7/	152	-26	29	633
Total financing	1,305	1,021	1,372	1,898

Sources: Bank Negara Malaysia and data provided by the Malaysian authorities.

1/ Long-term securities.
2/ Trust funds within government and sinking funds.
3/ Major local governments and nonfinancial public enterprises.
4/ Insurance companies, other financial intermediaries and the nonfinancial private sector.
5/ Includes the timing differences in recording between the Treasury and Bank Negara, as well as unidentified items.
6/ Project loans.
7/ Market loans.

Table XV. Malaysia: Distribution of Outstanding Federal Government Debt by Class of Holder, 1971-75 1/

(In millions of Malaysian ringgit)

	1971	1972	1973	1974	1975
Domestic debt	4,999	5,835	6,711	7,544	8,755
Federal Government 2/	433	433	434	439	440
Other levels of government 3/	133	190	265	266	289
Monetary authorities	129	173	283	258	456
Deposit money banks	1,053	1,163	1,285	1,614	1,985
Other financial institutions	3,251	3,876	4,444	4,967	5,585
Employees' Provident Fund	(2,359)	(2,709)	(3,094)	(3,452)	(3,930)
Other social security funds	(154)	(166)	(181)	(192)	(204)
National Savings Bank	(295)	(355)	(431)	(531)	(577)
Insurance companies and other financial intermediaries	(443)	(646)	(738)	(792)	(874)
Foreign debt	1,090	1,395	1,295	1,520	2,411
From international development institutions & foreign governments 5/	441	595	614	811	1,069
Other 6/	649	800	681	709	1,342
Total debt	6,089	7,231	8,007	9,064	11,166

Source: Data provided by the Malaysian authorities.

1/ End of period.
2/ Sinking Funds and Trust Funds.
3/ State government, and public authorities.
4/ Includes small holdings of the nonfinancial private sector.
5/ Project loans.
6/ Market loans.

Table XVI. Malaysia: Summary of the Consolidated Public Sector, 1972-76[1/]

(In millions of Malaysian ringgit)

	1972	1973	1974	1975 Revised Estimate	1976 Revised Estimate
Total revenue and grants[2/]	3,535	4,177	5,612	5,808	6,230
Revenue	3,526	4,165	5,607	5,802	6,220
Foreign grants	9	12	5	6	10
Total expenditure and net lending[2/3/]	4,971	5,200	7,038	7,863	8,800
Current expenditure[4/]	3,525	3,881	5,013	5,771	6,235
Direct development expenditure[5/]	1,134	1,045	1,555	1,526	2,488
Net lending [6/]	312	274	470	566	77
Public authorities overall deficit(-)	-107	-87	-259	-463	-528
Public sector overall deficit (-)	-1,543	-1,110	-1,685	-2,518	-3,098
Financing (net)					
Foreign	381	118	295	1,060	1,170
Domestic	1,162	993	1,391	1,458	1,928

Source: Data provided by the Malaysian authorities.

1/ Federal and State Governments, and the principal public authorities (major local governments and public enterprises).
2/ Federal and State Governments only.
3/ On the basis of current and development budget classifiations.
4/ Net of statutory grants from Federal to State Governments.
5/ Net of other grants from Federal to State Governments.
6/ Net of loans to public authorities.

Table XVII. Malaysia: Summary of the State Governments' Operations, 1972-76

(In millions of Malaysian ringgit)

	1972	1973	1974 Revised Estimate	1975 Revised Estimate	1976 Budget Estimate
Revenue and grants	801	995	1,090	1,095	1,260
Revenue	549	751	793	726	817
Statutory grants	190	175	212	252	269
Other federal government grants	62	69	85	117	174
Total expenditure	1,042	1,070	1,419	1,513	1,903
Current expenditure 1/	647	715	910	943	921
Development expenditure 1/	395	355	509	570	982
Overall deficit (-)	-241	-75	-329	-418	-643
Financing (net)					
Federal government loans	78	52	214	170	404
Change in assets (increase -)	163	24	116	248	239

Source: Data provided by the Malaysian authorities.
1/ On the basis of current and development budget classifications.

Table XVIII. Malaysia: Summary of the Principal Public Authorities' Operations, 1972-76 1/

(In millions of Malaysian ringgit)

	1972	1973	1974	1975 Revised Estimate	1976 Budget Estimate
Revenue and grants	634	734	858	980	1,174
Revenue	634	734	857	979	1,162
Federal and state government grants	--	--	1	1	12
Total expenditure	740	821	1,116	1,442	1,701
Current expenditure 2/	495	555	709	853	930
Development expenditure 2/	245	266	407	589	771
Overall deficit (-)	-107	-87	-259	-463	-528
Financing (net)					
Foreign borrowing 3/	75	49	72	169	170
Federal and state government loans	32	21	61	91	239
Change in assets (increase -)	--	17	126	203	119

Source: Data provided by the Malaysian authorities.

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

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

3/ Project loans guaranteed by the Federal Government.

Table XIX. Malaysia: Summary of the Consolidated Public Sector Operations During the Three Development Plans 1/

	First Plan 1966-70	Second Plan 1971-75	Third Plan 1976-80 2/	First Plan 1966-70	Second Plan 1971-75	Third Plan 1976-80 2/
	(In billions of Malaysian ringgit)			(In per cent of GNP)		
Revenue and grants 3/	12.0	22.1	43.3	23.4	25.5	27.2
Expenditure and net lending 3/ 4/	14.1	29.0	57.7	27.4	33.5	36.3
"Current" expenditure 5/	10.4	20.9	42.5	20.2	24.2	26.7
"Development" expenditure 6/ (including net lending)	3.7	8.1	15.2	7.2	9.4	9.6
Public authorities overall deficit (-)	-0.2	-0.9	-2.5	-0.5	-1.1	-1.5
Public sector overall deficit (-)	-2.3	-7.9	-16.9	-4.5	-9.1	-10.6
Financing (net)						
Foreign	0.5	2.2	5.8	0.9	2.5	3.6
Domestic	1.8	5.7	11.1	3.6	6.6	7.0
Addendum:						
Total "development" expenditure 7/	4.4	9.8	18.6	8.6	11.3	11.7
Gross National Product	51.3	86.6	159.0			

Sources: Third Malaysia Plan, 1976-80; The Treasury, Economic Report, 1975/76, Malaysia; and Appendix Tables 5.1.

1/ Federal and State Governments, and the principal public authorities.

2/ Projected.

3/ Federal and State Governments only.

4/ On the basis of Current and Development Budget classifications. Purchase of defense equipment is shown in the Development Budget.

5/ Net of statutory grants from Federal to State governments.

6/ Net of other grants from Federal to State Governments, and of loans to public authorities.

7/ Includes Federal, State and public authority "development" expenditure.

Table XX. Malaysia: Gross Exports of Major Commodities, 1972-76

	1972	1973	1974	1975	1976 1/	Annual Growth Rate 1975	Annual Growth Rate 1976	Export Values as Percentages of Total Exports 1975
Rubber								
Volume ('000 tons)	1,365.0	1,638.8	1,570.1	1,459.6	1,610	-7.0	10.3	
Value (M$ million)	1,298.3	2,507.2	2,887.7	2,025.5	2,898	-28.9	43.1	22
F.o.b. unit value (in M cts. per kg.)	95.1	153.0	183.9	138.8	180	-24.5	29.7	
Tin and tin-in-concentrates								
Volume ('000 tons)	89.6	81.5	85.7	77.9	80.5	-9.1	4.0	
Value (M$ million)	924.1	896.9	1,515.0	1,206.1	1,435	-20.4	19.0	13
F.o.b. unit value (M$ per ton)	10,311.2	11,000.6	17,675.4	15,475.0	17,825	-12.4	15.2	
Saw logs								
Volume ('000 cubic meters)	9,118.5	10,122.4	9,553.1	8,473.0	9,000	-11.3	6.2	
Value (M$ million)	592.5	987.0	1,032.8	669.5	837	-35.2	25.0	7
F.o.b. unit value (M$ per cubic meter)	65.0	97.5	108.1	79.0	93	-26.9	17.7	
Sawn timber								
Volume ('000 cubic meters)	1,798.6	2,229.8	1,998.3	1,889.6	2,000	-5.4	5.8	
Value (M$ million)	287.7	574.4	507.3	441.5	540	-13.0	22.3	4
F.o.b. (M$ per cubic meter)	160.0	257.6	253.9	233.7	270	-8.0	15.5	
Palm oil								
Volume ('000 tons)	697.1	797.8	901.2	1,162.8	1,330	29.0	14.4	
Value (M$ million)	362.7	466.5	1,085.6	1,317.5	1,104	21.4	-16.2	14
F.o.b. unit value (M$ per ton)	520.3	584.7	1,204.5	1,133.0	830	-5.9	-26.7	
Petroleum (crude and partly refined)								
Volume ('000 tons)	4,255.3	3,834.6	3,167.8	3,763.2	6,593	18.8	75.2	
Value (M$ million)	222.9	268.7	678.1	852.8	1,635	25.8	91.7	9
Unit value (M$ per ton)	52.4	70.1	214.1	226.0	248	5.8	9.4	
Total major exports (M$ million)	3,688.1	5,700.7	7,706.5	6,512.9	8,449	-15.5	29.7	
(As percentage of total gross exports)	(76)	(77)	(76)	(71)	(73)			71
Manufactured goods (M$ million)	711.0	1,122.0	1,703.0	2,078.3	2,390	22.0	15.0	
(As percentage of total gross exports)	(15)	(15)	(17)	(23)	(21)			21
Total gross exports	4,854.2	7,373.4	10,194.8	9,218.4	11,554	-9.6	25.3	

Sources: Department of Statistics and Bank Negara Malaysia.

1/ Forecast.

Table XXI. Malaysia: Net Exports of Manufactured Goods, 1972-75

(In millions of Malaysian ringgit)

	1972	1973	1974	1975	1975 As percentage of Total	1975 Annual Percentage Change
Food and beverages and tobacco	113	141	163	227	12.9	39.3
Textiles and footwear	77	113	157	209	11.9	33.1
Wood products	168	274	250	197	11.2	-21.2
Rubber products	20	21	32	41	2.3	28.1
Iron and steel products	13	5	11	11	0.6	--
Machinery and transport equipment	23	70	297	433	24.7	45.8
Nonmetallic mineral products	13	15	19	21	1.2	10.5
Petroleum products	92	102	150	105	6.0	-30.0
Other (electronics, etc.)	89	240	408	509	29.0	24.8
Total	608	981	1,487	1,753	100.0	17.9

Source: Department of Statistics, Malaysia.

Table XXII. Malaysia: Direction of Trade, 1973-75

(In millions of Malaysian ringgit)

	Exports (f.o.b.)			Imports (c.i.f.) 1/			1975 As Percentage of Total		1975 Annual Percentage Change	
	1973	1974	1975 2/	1973	1974	1975 2/	Exports	Imports	Exports	Imports
Singapore 3/	1,707	2,208	1,881	467	824	722	20.4	8.4	-14.8	-12.4
Australia	151	220	180	424	710	663	2.0	7.7	-18.2	-6.6
Hong Kong	109	123	106	112	161	157	1.1	1.8	-13.8	-2.5
People's Rep. of China	201	211	128	368	503	357	1.4	4.1	-39.3	-29.0
Indonesia	38	52	63	149	230	190	0.7	2.2	21.2	-17.4
Japan	1,336	1,719	1,321	1,449	2,276	1,831	14.3	21.2	-23.2	-19.6
Thailand	35	95	139	266	352	339	1.5	3.9	46.3	-3.7
United States	799	1,430	1,487	516	997	920	16.1	10.7	4.0	-7.7
European Economic Community	1,615	2,164	2,135	1,286	2,133	1,762	23.2	20.4	-1.3	-17.4
Of which:										
Germany, Fed. Rep. of	280	396	397	331	626	436	4.3	5.1	0.3	-30.4
Netherlands 3/	274	559	770	76	105	77	8.4	0.9	37.7	-26.7
France	182	204	142	102	182	172	1.5	2.0	-30.4	-5.5
Italy	203	234	163	85	152	123	1.8	1.4	-30.3	-19.1
United Kingdom	584	674	554	621	949	871	6.0	10.1	-17.8	-8.2
Eastern Europe	386	643	434	36	56	35	4.7	0.4	-32.5	-37.5
Of which: U.S.S.R.	254	421	243	17	10	13	2.6	0.2	-42.3	-30.0
Other countries	996	1,330	1,344	997	1,799	1,642	14.6	19.5	1.1	-8.7
Total	7,373	10,195	9,218	6,070	10,041	8,618	100.0	100.0	-9.6	-14.2

Source: Department of Statistics, Malaysia.

1/ Excludes military weapons and ammunition.
2/ Provisional.
3/ Some of these exports are re-exported, in part to OECD countries.

Table XXIII. Malaysia: Gross Imports According to End Use, 1972-75

(In millions of Malaysian ringgit)

	1972	1973	1974	1975	1975 As Per Cent of Total	1975 Annual Percentage Change
Consumption goods	1,220	1,560	2,211	1,747	20.2	-21.0
Food	445	631	901	642	7.4	-28.7
Beverages and tobacco	82	92	99	85	1.0	-14.1
Consumer durables	200	244	393	260	3.0	-33.8
Other	493	593	818	760	8.8	-7.1
Investment goods	1,539	1,978	3,402	2,740	31.8	-19.5
Machinery	534	690	1,274	950	11.0	-25.4
Transport equipment 1/	354	280	306	250	2.9	-18.3
Metal products	305	512	857	550	6.4	-35.8
Other	346	496	965	990	11.5	2.6
Intermediate goods	1,716	2,292	3,822	3,726	43.2	-2.5
For manufacturing	1,053	1,513	2,269	2,017	23.4	-11.1
For construction	121	146	242	170	2.0	-29.8
For agriculture	164	205	366	330	3.8	-9.8
Crude petroleum	110	119	421	665	7.7	58.0
Other	268	309	524	544	6.3	3.8
Imports for re-export	220	239	437	405	4.7	-7.3
Tin ore	117	103	231	265	3.1	14.7
Crude natural rubber	27	61	58	40	0.5	-31.0
Crude petroleum 2/	76	75	149	100	1.2	-32.9
Miscellaneous	--	--	19	--	--	--
Total	4,695	6,069	9,891	8,618	100.0	-12.9

Source: Bank Negara Malaysia.

1/ Includes aircraft and ships.
2/ Imports of crude petroleum from Brunei for re-export.

Table XXIV. Malaysia: External Reserves, 1972-September 1976

(In millions of SDRs)

End of Period	1972	1973	1974	1975	1976 June	1976 Sept.
A. Central Bank (net)	903	1,108	1,329	1,298	...	...
Foreign assets	904	1,112	1,331	1,302	1,687	2,005
Gold	(58)	(58)	(63)	(58)	(58)	(...)
Reserve position in the Fund	(39)	(47)	(50)	(54)	(54)	(54)
Foreign exchange	(743)	(947)	(1,156)	(1,128)	(1,509)	(1,885)1/
Special drawing rights	(63)	(61)	(62)	(62)	(66)	(66)
Foreign exchange liabilities2/	-1	-4	-2	-4	...	...
B. Other official holdings	54	45	47	46	38	...
Federal Government	32	29	30	34 3/	...	...
State Governments and official agencies	22	16	17	12 3/	...	...
C. Total net official reserves (A + B)	957	1,153	1,376	1,344	1,727	...
D. Commercial banks (net)	10	-75	-104	-62	-139	...
Foreign assets	151	195	205	220	...	...
Foreign exchange liabilities	-141	-270	-309	-282	...	...
E. Total net external reserves (C + D)	967	1,078	1,272	1,282	1,588	...

Sources: Bank Negara Malaysia, and IFS.

1/ Data from Bank Negara Malaysia's Statement of Assets and Liabilities include gold.
2/ Until 1976, they comprised mainly balances held for the Monetary Authority of Singapore, vostro accounts, and accounts of international financial organizations.
3/ Estimate.

Malaysia: Summary of Tax System, 1976

(All amounts in Malaysian ringgit)

Tax	Nature of Tax	Exemptions and Deductions	Rates
A. Central Government			
1. Taxes on net income and profits			
1.1 Taxes on companies, corporations and enterprises			
1.11 Income tax on corporate entities (Supplementary Income Tax Act, 1967, plus Amendments).	This is an annual tax on the taxable income from all sources in Malaysia (apart from income derived from petroleum production--see 1.14, below) and income received from outside Malaysia for a resident company, and on income derived from Malaysia in the case of nonresident companies. Tax is levied for the preceding year of assessment ending on December 31. Where the accounts of the business are usually made up to some day other than December 31, income from that source will be computed on the gains or profits of the accounting year ending on that day in the assessment year. Taxes at 15 per cent are withheld and credited against the recipient's ultimate liability for the relevant year of assessment, on interest income derived from Malaysia and paid to a person having no business activity in Malaysia or who is outside the country at the time of payment. Resident companies may withhold tax on dividends at the current corporation tax rate. Special rules apply for determining the profits assessable in Malaysia of resident and nonresident insurance companies, trusts, beneficiaries, executors, shipping companies and airlines. In a partnership the main partner is required to make a return of the partnership income, but each partner is assessed individually on his share of the income. Income of a nonresident partner is assessable in the name of the partnership or of any resident partner or agent, and the tax may be recovered from the assets of the partnership.	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 or recapture are also allowed. Interest, paid on money 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 official emoluments, disability pensions, unemployment benefits, incomes of friendly societies, etc., but not the dividends, interest, bonus, salaries, or wages paid out of these incomes. Various tax incentives are granted, such as export allowance, accelerated depreciation allowance, investment tax credit, and various exemptions granted to specified "pioneer" companies (see 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.

Tax	Nature of Tax	Exemptions and Deductions	Rates
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 M$3,000 are exempt as are incomes below M$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.	Tax is assessed at 5 per cent of development income. A minimum tax of M$100 is payable by persons other than individuals. For companies, a minimum tax is payable as follows: M$100 if paid up capital is M$50,000 or less M$250 if paid up capital is between M$50,000 and M$100,000 M$500 if paid up capital is more than M$100,000.
1.13 Tin profits tax (Supplementary Income Tax Amendment Act, 1967).	A supplementary income tax is levied on total taxable income derived from tin mining operations in Malaysia when tin profits exceed M$10,000 and the price of tin ore sold exceeds M$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 setoff of losses), and donations and gifts to approved institutions are deductible. No deductions are allowed for personal relief.	Tax is charged at the rate of 10 per cent of taxable income. However, the amount of the tax cannot exceed the amount by which the tin profit is above M$10,000.
1.14 Petroleum tax.	A tax, in lieu of the income tax, is levied annually on the chargeable income derived by any company from the search for, or the production and sale of, crude petroleum or related products. Included under this tax are profits from incidental operations (e.g., oil drilling), along with profits from the transportation of these products within Malaysia. However, profits from refining or the sale of refined products are taxed as part of normal corporate income (see 1.11, above). 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 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 tax chargeable if the amount of tax calculated is less than it would have been if the sale price of the crude oil was the "tax reference price." The amount of difference is charged as supplementary tax.

Tax	Nature of Tax	Exemptions and Deductions	Rates
1.15 Timber profits tax (Income Tax Amendment Act, 1969).	A supplementary income tax is levied annually on taxable income derived from timber extraction including all premiums, rents, and tributes receivable as a result of the extraction of timber from a forest in Malaysia. Also subject to this tax is income from the granting or assignment of any rights, privileges, etc., for the extraction of such timber. However, the processing, milling, or manufacturing of the timber is not included. 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 setoff 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.	Tax is chargeable at the rate of 10 per cent on taxable timber profits that do not exceed 10 per cent of gross timber income. A rate of 20 per cent is payable on the balance of taxable timber profits.
1.16 Excess profits tax (1975 Budget Speech).	This tax is levied on that portion of the chargeable income of any company or person deemed to be excess profits. For companies (not including a nonresident company operating in Malaysia), profits in excess of M$200,000 or 25 per cent of shareholders' funds, whichever is the greater, are deemed to be excess profits. For persons, this tax is levied on income exceeding M$75,000. Companies that are exempt from income tax (petroleum companies) and those that pay supplementary income tax (tin mining and timber extraction companies) are exempt from excess profits tax.	Assessable income up to M$200,000 or 25 per cent of shareholders' funds, whichever is the greater is exempt. For branches of nonresident companies the exemption is a fixed amount of M$200,000, and for individuals M$75,000.	Tax is levied at 5 per cent of assessable income above exemption limits.
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 by 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, above). 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	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--M$2,000, (b) wife allowance--M$1,000 (if living with husband), (c) child allowance--first child M$750, second and third children--M$500 each, fourth and fifth--M$300 (maximum M$2,350). A 10 per cent earned income allowance is provided subject to a maximum of M$1,000. The allowance of a married woman's earned income is 10 per cent of her income up to a maximum of M$1,000, if her income exceeds M$5,000. If her income is less than M$5,000 the earned	<u>Taxable Income (Malaysian ringgit)</u> / <u>Marginal Tax Rate (per cent)</u> 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 — 25 20,001 to 25,000 — 30 25,001 to 35,000 — 35 35,001 to 50,000 — 40 50,001 to 75,000 — 50 Over 75,000 — 55 <u>Nonresidents</u> are generally subject to a flat 40 per cent in Malaysia unless double tax treaties exist. Interest,

Tax	Nature of Tax	Exemptions and Deductions	Rates
1.2 (continued).	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 had taken place. The income of Hindu joint families is assessed in the name of its manager who is liable for payment. Married women can opt for a separate assessment of income earned from employment. Other income is assessed jointly with the husband's income.	income relief is limited to 90 per cent of her earned income up to a maximum of M$500. Where a married woman opts for separate assessment, the maximum personal allowance is M$2,000--with the allowance proportionately apportioned between earned and unearned income. A deduction of M$300 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. Employees' Provident Fund and life assurance premiums are exempt to a maximum of M$3,000.	royalties, and public entertainers' fees derived by nonresidents are taxed at 15 per cent on gross.
2. Social security contributions			
Data not available.			
3. Payroll taxes (other than social security contributions).			
None.			
4. Taxes on property			
4.1 Real property gains tax (1976 Budget Speech).	A tax is levied on gains derived from a disposal of real property, i.e., land and buildings situated in Malaysia and any interest, option or other right in or over such land.	An exemption is granted for disposal of property if the sale value is less than M$50,000. Gains from the sale of a private residence, gains accruing to the Government, a state government or a local authority and gains in respect of the disposal before the date of coming into force of this Act are exempted.	Tax is levied on the gains (selling price less purchase price) at the rate of; 50 per cent if the property is disposed of within the first or second year after the date of its acquisition; 40 per cent within the third year; 30 per cent within the fourth year; 20 per cent within the fifth year; 10 per cent within the sixth year or thereafter.
4.3 Death and gift taxes			
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.	The first M$50,000 of the estate value is exempt.	Rates vary from 7 1/2 per cent on estates ranging between M$50,000 and M$100,000 to 60 per cent on estates exceeding M$6,000,000.

Tax	Nature of Tax	Exemptions and Deductions	Rates
5. Taxes on goods and services			
5.1 General sales taxes (Sales Tax Act, 1972).	This 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. Tax is levied on the sale value of goods.	Manufacturers with gross sales below M$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 Selective excises	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 spiritous 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 M$1.00 per pound Malt liquors M$20.00 per gallon Petrol M$1.30 per gallon Diesel fuel M$0.20 per gallon Locally assembled motor vehicles are taxed according to value, e.g.: Value of Vehicle (Malaysian ringgit) / Marginal Tax Rate (per cent) 0 - 7,000 / 25 7,001 - 10,000 / 30 10,001 - 13,000 / 35 13,001 - 16,000 / 40 16,001 - 20,000 / 45 20,001 - 25,000 / 50 Above 25,000 / 55
5.3 Selective tax on services (1975 Budget Speech).	This tax is levied on all charges in respect of any other prescribed services, and all sales of prescribed goods made by any prescribed establishment. For the purposes of this tax, the services which will be taxed are confined to accommodation, food, entertainment and other services provided by such establishments. The establishments concerned will be responsible for charging and collecting the tax.	None.	Service tax is charged at the rate of 5 per cent on services provided in hotels and similar establishments, such as motels and rest houses.

Tax	Nature of Tax	Exemptions and Deductions	Rates
5.5 Motor vehicle taxes	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 is paid when a car is purchased. From January 1, 1976 new buses will be allowed to remain in service for a maximum of 12 years.	All new buses registered from January 1, 1976 are exempt from seat tax.	Rates of tax are: Private passenger cars Engine capacity (In cc.) / Marginal Tax Rate (Malaysian ringgit per cc.) 0 - 1,000: 0.13 1,001 - 1,500: 0.14 1,501 - 2,000: 0.15 2,001 - 2,500: 0.16 2,501 - 3,000: 0.17 Over 3,000: 0.18 Taxis and hire cars M$0.12 per cc. for petrol engines M$0.44 per cc. for diesel engines Motorcycles: M$50 per annum. Buses: M$10-M$15 per month for petrol engines; M$80-M$220 per month for diesel engines. In addition a seating capacity tax of M$8 per seat per month for buses registered prior to January 1, 1976. Monthly seat tax reduces at the rate of M$2 per year and is to be phased out in 1980. Goods vehicles: According to maximum permissible laden weight and type of fuel used; amounts varying between M$1,036 and M$7,000 per annum.
5.6 Other			
5.61 Entertainment tax.	A tax is levied on public entertainment varying with the type of entertainment and the price of admission.	None.	Various.
5.62 Film hire duty.	This tax is 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.

Tax	Nature of Tax	Exemptions and Deductions	Rates
6. Taxes on international trade			
6.1 Taxes on imports			
6.11 Customs duties.	Customs duty is mostly ad valorem, although some specific taxes are charged 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 rates vary from zero to 70 per cent. Examples of specific rates are: Petrol M$1.4 per gallon Cigarettes M$12.5 per lb. Wine between M$15 to M$18 per gallon. A 5 per cent surcharge is levied on most imported products.
6.2 Taxes on exports			
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 M$0.60 per pound, and small research and replanting cesses charged.	None.	Price per pound (Malaysian sen) / Rate of tax Up to 60: 4 per cent 60 to 80: 0.10625P-8.775* 80 to 100: 0.4P-25.750* Over 100: $0.25X^2+3.375X+14.25$ (*Where P is the appropriate gazetted price per pound and $X = \frac{P-100}{10}$) A surcharge is levied when P is above 60 sen. Price / Rate of Tax 60 to 70 sen: 1/8 sen to 2 sen 70 sen to M$1.30: 2-13 sen Over M$1.30: 10 per cent The research and replanting cess, in combination, is 5 1/2 sen per pound.
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.	Tin ores and concentrates Price Per Picul / Rates Up to M$338.37 1/2: 2.4+0.12 (P-41) M$338.27 1/2 - M$400: 44.04+0.31 (P-388) Above M$400: 47.76+0.12 (P-400) (Where P is the price of tin). A surcharge is charged at an initial rate of 0.08 P-56 when the price is more than M$700 per picul but not more than M$800 per picul. This rate varies up to 0.2P-182 when the price exceeds M$1,300 per picul. A research cess of M$1.1 per picul is also charged.

Tax	Nature of Tax	Exemptions and Deductions	Rates
6.22 (continued).			In combination, typical tax rates (per picul) are: Price of Tin Metal — Total Duty and Cess 1,000 — 150.86 1,200 — 204.86 1,400 — 266.86 1,550 — 314.86
6.23 Palm oil (Prime Minister's Speech, April 1974).	A tax on the gazetted value per ton of palm oil.	None.	Price (Malaysian ringgit) — Rate (per cent) Up to 350 — 7 1/2 On next 50 — 10 " " 50 — 12 1/2 " " 50 — 15 " " 50 — 17 1/2 " " 50 — 20 " " 50 — 22 1/2 " " 50 — 25 700 to 800 — 30 801 to 1,500 — 30 plus 5 per cent on every increment of M$100. Above 1,500 — Marginal rate (increased by 15 per cent).
6.24 Pepper.	Duty is levied in Sabah and Sarawak at differing rates on white and black pepper.	None.	On white unground pepper at marginal rates varying from nil on first M$55, and 5 per cent on next M$70 to 15 per cent on M$175-M$265 and 50 per cent on balance over M$265. On black, unground, ground, and N.E.S. pepper from nil on first M$40 and 5 per cent on next M$50 to 15 per cent on M$119-M$184 and 50 per cent on the balance over M$184.
6.25 Hemp.	Tax levied in Sabah and Sarawak based on the price per ton.	None.	The tax rate is 5 per cent when price is M$1,000 per ton or less. If price exceeds M$1,000 per ton duty is calculated according to the formula 50 + 1/5 (P-1000) where P is price per ton.
6.26 Iron ore.	A tax is levied on iron ore sold for export. (Revenue shared between state and central governments.)	None.	Tax is levied at 10 per cent on the value of exports.
6.27 Timber (Budget Speech, 1974).	A tax is imposed on exports of both saw logs and sawn timber.	None.	Tax is levied at the following rates: Saw logs — 15 per cent Sawn timber — 5 per cent

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) is imposed.	None.	The rate of tax is 5 per cent.
6.29 Food.	A tax on the export of live animals for food, fresh and freshly preserved fish, birds' eggs, animal feeding stuff, and fresh fruits is levied.	Live poultry, bananas, and pineapple.	The rate of tax is 5 per cent.
B. State Governments			
4. Taxes on property			
4.1 Real estate taxes	An annual state tax is levied, in some cases, on the capital value of property, and in others, on the ratable 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 M$12,000 are exempt.	Tax rates vary from 11 per cent to 34 per cent generally, but may be as low as 1 per cent.
7. Other taxes			
7.2 Stamp taxes	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. Some stamp duties also attract specific rates.	Certain instruments are exempted under the Stamp Duty Ordinance, 1949.	Stamp duty rates include: Contracts, notes: M$0.50 where value does not exceed M$1,000 and M$1.00 where value exceeds M$1,000. Securities: M$2 on first M$1,000 and M$2.50 for each additional M$500. A graduated rate applies to the sale of property other than shares, stocks, or securities. M$1 per M$100 when value of property transferred is below M$100,000. M$2 per M$100 for property values above M$100,000. M$1 for every share certificate. M$1 duty on certain insurance policies.

Sources: 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). Malaysia, Budget Speeches, various years.

Malaysia: Summary of Tax System, 1976

TAX INCENTIVES

(All amounts in Malaysian ringgit)

A. Incentives for specified projects

1. Pioneer industries

Pioneer status incentives are available to enterprises that establish an industrial or commercial activity that is currently not carried out on a commercial scale in Malaysia, and that presents favorable prospects of further development and/or exports.

a. Tax holiday

Depending on the amount of capital invested, a tax holiday is available for a specified period.

Capital Invested	Years of Tax Holiday
Less than M$250,000	2
M$250,000 - M$499,999	3
M$500,000 - M$999,999	4
M$1,000,000 or above	5

This tax holiday period may be prolonged by 1 year for each of the following reasons: if the company (a) is established in an area qualifying for location incentives (see A.3, below); (b) produces in marketable quantities any priority manufactured products; and (c) incorporates in its products the required percentage of Malaysian content.

b. Capital allowances

Normal capital allowances (e.g., depreciation) can be notionally calculated and carried forward as a deduction into the post-pioneer period.

c. Dividends

Are tax free in hands of shareholders of companies receiving tax-free dividends from pioneer companies.

2. Labor utilization projects

Labor utilization incentives in the form of tax holidays are available to new industries (or for the expansion of existing industry) dependent upon the employment created. The objective of this incentive is to encourage employment, and to provide a balance with capital utilization incentives. An industry can qualify for either capital incentives (A.1, above) or labor utilization incentives, but not both.

Tax holiday

Depending on the employment created, a tax holiday is available for the specified period.

Employment Created	Years of Tax Holiday
51 to 150 workers	2
151 workers to 250	3
251 workers to 350	4
351 workers or above	5

One additional year of tax holiday may be granted for each of the following reasons: if the company (a) is established in a region qualifying for location incentives (see A.3, below); (b) produces a priority product; and (c) incorporates in its product the required percentage of Malaysian content.

3. Projects located in locational incentive areas

Industries locating production facilities in specified areas qualify for tax holidays on a more generous scale than in A.1 or A.2 above, dependent upon either the capital employed or the labor employment created. There are ten qualifying areas, which have been selected on the basis of the current level of industrial or economic development, the prospects for future industrial growth, and whether the area has been selected as a center for future growth.

Tax holiday

The tax holiday granted depends on either the capital, or the labor, employed in the new plant established.

Capital Invested/Labor Employed	Years of Tax Holiday
Less than M$250,000 in capital, or less than 101 workers	5
M$250,000-M$499,999 in capital, or 101-200 workers	6
M$500,000-M$999,999 in capital, or 201-350 workers	7
M$1,000,000 or more in capital, or greater than 350 workers	8

Malaysia: Summary of Tax System, 1976 (continued)

TAX INCENTIVES

(All amounts in Malaysian ringgit)

3 (continued).

In addition, an extra year of relief may be granted for producing a priority product, and for meeting Malaysian content requirements. Thus, a maximum of ten years tax relief is available. Priority products are determined on the basis of the utilization of domestic raw materials, exports generated, technology introduced, employment created, and other industrial development which would be stimulated. Product categories so determined are manufactured wood products, rubber products, chemicals, agricultural implements, iron and steel milling, and steel castings and ferro-alloys.
Domestic content requirements to qualify for an extra year of tax relief include; the final product to be 50 per cent by value of domestic raw materials; or, 50 per cent by value of parts or components declared as priority products.

4. Hotel industry
Any company that desires to establish an hotel in any of four designated regions of the country qualifies for tax relief.

Taxable income is reduced by between 15 per cent and 30 per cent, depending on the region in which the hotel operates.

B. Investment credit
A tax credit related to the amount of investment made is given to projects that are not considered suitable for pioneer status.

A tax credit of not less than 25 per cent of the capital expenditure incurred on a factory, plant, or machinery for the approved project is given. An additional 5 per cent is granted for each of the three following conditions fulfilled:
- the factory is set in a development area
- the factory produces a priority product
- the factory incorporates the required percentage of Malaysian content in its production process.

The capital expenditure must be incurred within five years from the beginning of the basis period for which the project is approved. The tax relief equals the amount of credit and credit can be carried forward in case of loss or insufficiency of income until fully utilized against subsequent profits.

C. Export incentives
A range of incentives are available for manufacturers who wish to export their products.

1. Deductions for promotion overseas
Expenses incurred by an approved company for export promotion are allowed as a deduction. Such expenses are (a) advertising expenses paid to persons not resident in Malaysia; (b) supply of free samples overseas; (c) export market research; (d) preparation for overseas tenders; (e) negotiations and conclusions of contracts overseas; (f) supply of technical information overseas.

Pioneer companies that incur such expenditures during their tax relief period can carry them forward and the aggregate will be allowed deductions in the post-tax relief period.

2. Accelerated depreciation
Accelerated depreciation is allowed for companies that export at least 20 per cent of their output with respect to capital expenditures incurred for modernization. The accelerated rate is 40 per cent per annum, so that 90 per cent of the initial outlay will be written off in 5 years (instead of the 20 or more years under the normal rate of depreciation allowances).

Malaysia: Summary of Tax System, 1976 (concluded)

TAX INCENTIVES

(All amounts in Malaysian ringgit)

C (continued).	3. Export allowances These are related to the increase in exports compared to average exports of the previous five years. A percentage share of this excess is granted as export allowance and deducted from income for the purpose of calculating the tax for liability. This share is 8 per cent in respect of gross income derived from the exports of products which incorporate Malaysian material and components of not less than 50 per cent; otherwise it is 5 per cent.
D. Exemptions from import duties and import protection.	Tariff exemptions and protection measures are granted to individual producers or to the producers of specified products. They are available to pioneer industries and to other producers. The stated intention of the Government is to grant tariff exemptions and protection only to those firms that "need" them. In determining the need, consideration is given as to whether the firms benefit from exemption of the income tax under the Investment Code. Tariff protection and exemptions must periodically be examined to assess their "need."

Sources: Investment Incentive Act, 1969 (Kuala Lumpur, 1958). Amendments 1969, 1971, 1974. Information provided by the Malaysian authorities.

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