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This paper provides background information to the staff report on the 1981 Article IV consultation discussions with Malaysia, which was circulated as SM/81/119 on May 19, 1981 and has been tentatively scheduled for discussion on Monday, June 22, 1981.

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INTERNATIONAL MONETARY FUND

MALAYSIA

Recent Economic Developments

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Approved by the Asian Department

June 4, 1981

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MALAYSIA

Basic Data 1/

Area:	127,581 square miles
Population (1980):	13.60 million
Average annual rate of growth of population (1976-80):	2.7 per cent
Per capita GNP (1980):	SDR 1,288

	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
<u>Selected aggregates as per cent of GNP 2/</u>					
Gross domestic investment <u>3/</u>	22.6	24.2	26.4	26.4	30.8
Manufacturing production	17.5	18.0	19.1	20.3	21.0
Narrow money <u>4/</u>	19.4	19.7	20.6	19.9	19.8
Broad money <u>4/</u>	47.2	47.8	50.1	50.7	55.7
Federal Government revenue and grants	22.7	25.1	25.3	24.4	28.8
Federal Government expenditure and net lending	30.0	32.8	32.1	27.8	37.4
Exports of goods and services	53.8	52.2	52.9	60.5	61.9
Imports of goods and services	43.0	43.5	47.3	50.7	58.6

Annual percentage changes of selected  
economic indicators 2/

Gross national product (1970 prices)	10.8	7.1	7.0	9.2	8.2
Consumer price index	2.6	4.7	4.9	3.6	6.7
Federal Government revenue and grants	20.6	27.0	13.0	18.9	28.6
Federal Government expenditure and net lending	17.3	25.7	9.4	6.6	46.7
Narrow money	20.9	16.5	18.2	17.2	15.0
Broad money	27.7	16.4	17.9	24.1	26.7
Merchandise exports, f.o.b.	47.2	11.5	13.9	41.7	16.9
Merchandise imports, f.o.b.	14.8	14.9	21.4	30.4	33.9

Money and credit

(In billions of ringgit)

Broad money	<u>12.8</u>	<u>14.9</u>	<u>17.5</u>	<u>21.7</u>	<u>27.5</u>
Narrow money	5.3	6.1	7.2	8.5	9.8
Quasi-money	7.5	8.7	10.3	13.3	17.8
Net foreign assets	5.7	6.3	6.7	9.1	9.3
Net credit to Government <u>5/</u>	1.1	1.2	1.0	-0.7	0.5
Credit to private sector	7.5	9.0	11.6	14.6	20.2

Malaysia: Basic Data (Concluded)

	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
<u>Federal Government budget 6/</u>						
	<u>(In billions of ringgit)</u>					
Revenue and grants	6.1	7.8	8.8	10.5	13.5	15.8
Expenditure and net lending	8.1	10.2	11.2	11.9	17.4	21.6
Of which: capital expenditure	(1.3)	(1.8)	(2.0)	(2.5)	(5.0)	(6.0)
Financing requirement	2.0	2.4	2.4	1.4	4.0	5.8
External borrowing	0.4	0.5	0.5	0.7	0.3	2.5
Domestic borrowing	1.6	1.9	1.9	0.7	3.7	3.3
Of which: banking system	(--)	(0.5)	(-0.1)	(0.9)	(1.1)	(1.1)
<u>Balance of payments 7/</u>						
	<u>(In billions of SDRs)</u>					
Trade balance	1.3	1.3	1.2	2.3	1.7	1.2
Exports, f.o.b.	4.5	5.2	5.9	8.3	9.9	11.4
Imports, f.o.b.	-3.2	-3.8	-4.6	-6.0	-8.2	-10.2
Current account balance	0.6	0.4	0.1	0.8	-0.1	-1.0
Capital movements (net)	0.4	0.2	0.5	0.4	1.0	1.6
Errors and omissions	-0.4	-0.3	-0.4	-0.5	-0.5	-0.5
Overall balance	0.7	0.3	0.2	0.6	0.4	0.1
<u>Central Bank reserves (end of year)</u>						
In billions of SDRs	2.1	2.4	2.6	3.2	3.6	3.7
In months of imports	7.9	7.4	6.7	6.4	5.3	4.4

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

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

2/ Data for 1980 are estimates.

3/ Includes changes in stocks.

4/ End of year.

5/ Federal and State Governments.

6/ Data for 1981 are latest estimates.

7/ Data for 1981 are staff estimates.

## I. Introduction and Summary

This report focuses on major economic developments in the Malaysian economy during the recent past and a number of topics of current interest. For longer-term historical developments and a description of the productive and financial structures of the economy, reference may be made to previous Recent Economic Developments reports (SM/79/83 and SM/80/142). Chapters II and III provide summaries of domestic economic developments and developments relating to the external sector of the economy, respectively. Chapter IV is divided into three sections, each devoted to a selected topic. The first section reviews the Fourth Malaysia Plan in light of the objectives of the New Economic Policy (NEP), which was inaugurated in 1971, and focuses on the role of the private sector in supporting overall economic activity, characteristics of the industrial strategy and progress toward the eradication of poverty. The second section reviews recent progress in the conservation of energy and the formulation of a longer-term strategy of developing non-oil energy sources. The third section analyzes the role of the Central Bank in stabilizing the liquidity effects of balance of payments disturbances.

The Malaysian economy continued to expand in 1980 as real GDP rose by 8 per cent. The growth in output was led by the manufacturing and construction sectors; the rate of growth of imports in real terms was nearly double that of output. Domestic demand provided the main impetus to the increase in aggregate demand, reflecting the countercyclical stance of financial policies designed to offset the weakening of external demand. The growth of employment led to a slight decline in unemployment to 5.3 per cent.

Fiscal and monetary policies in 1980 aimed at offsetting the relative decline in external demand by stimulating domestic expenditures. The Government's overall deficit expanded rapidly to almost 9 per cent of GNP, with expenditure rising by about 47 per cent, and revenue increasing by about 29 per cent. The stance of monetary policy was accommodating to encourage domestic investment and economic activities of the priority sectors, and, at the same time, selectively restrictive to discourage speculation and capital flight. Partly reflecting the rapid increase in demand for loans in the wake of a slower growth of deposits, particularly in the second half of the year, the domestic money market tightened considerably toward the end of the year, with the result that interest rates on loans as well as deposits increased markedly.

The balance of payments weakened somewhat. For the first time in five years, the current account recorded a small deficit (M\$0.4 billion), mainly reflecting the weakening of export prices in the second half of the year, a strong growth in import demand, and the continued increase in net payments on services and transfers. The capital account net of errors and omissions turned from a deficit of M\$0.5 billion in 1979 to a surplus of M\$1.4 billion in 1980, resulting mainly from a large increase in direct investment and substantial capital inflows by commercial banks. Consequently, the overall balance recorded a surplus of M\$1 billion.



Foreign exchange reserves at the end of 1980 amounted to about M\$10 billion (SDR 3.6 billion), or about five months of imports, compared with the equivalent of about seven months of imports in the preceding three years. The Malaysian ringgit continued to be pegged to an undisclosed basket of currencies of Malaysia's trading partners; in terms of the basket, the ringgit depreciated by 4 per cent during 1980.

In 1981, real GDP is expected to grow at 7-8 per cent with the main support emanating from the manufacturing and construction sectors. Domestic demand will again provide the main thrust to the expansion of aggregate demand. Inflation in terms of consumer prices is forecast to be about 7 per cent. However, as external inflation is expected to abate considerably, the rate of inflation could moderate somewhat during the year.

## II. Recent Trends in the Economy

### 1. Aggregate supply and demand

#### a. Overview of developments in 1980 and prospects for 1981

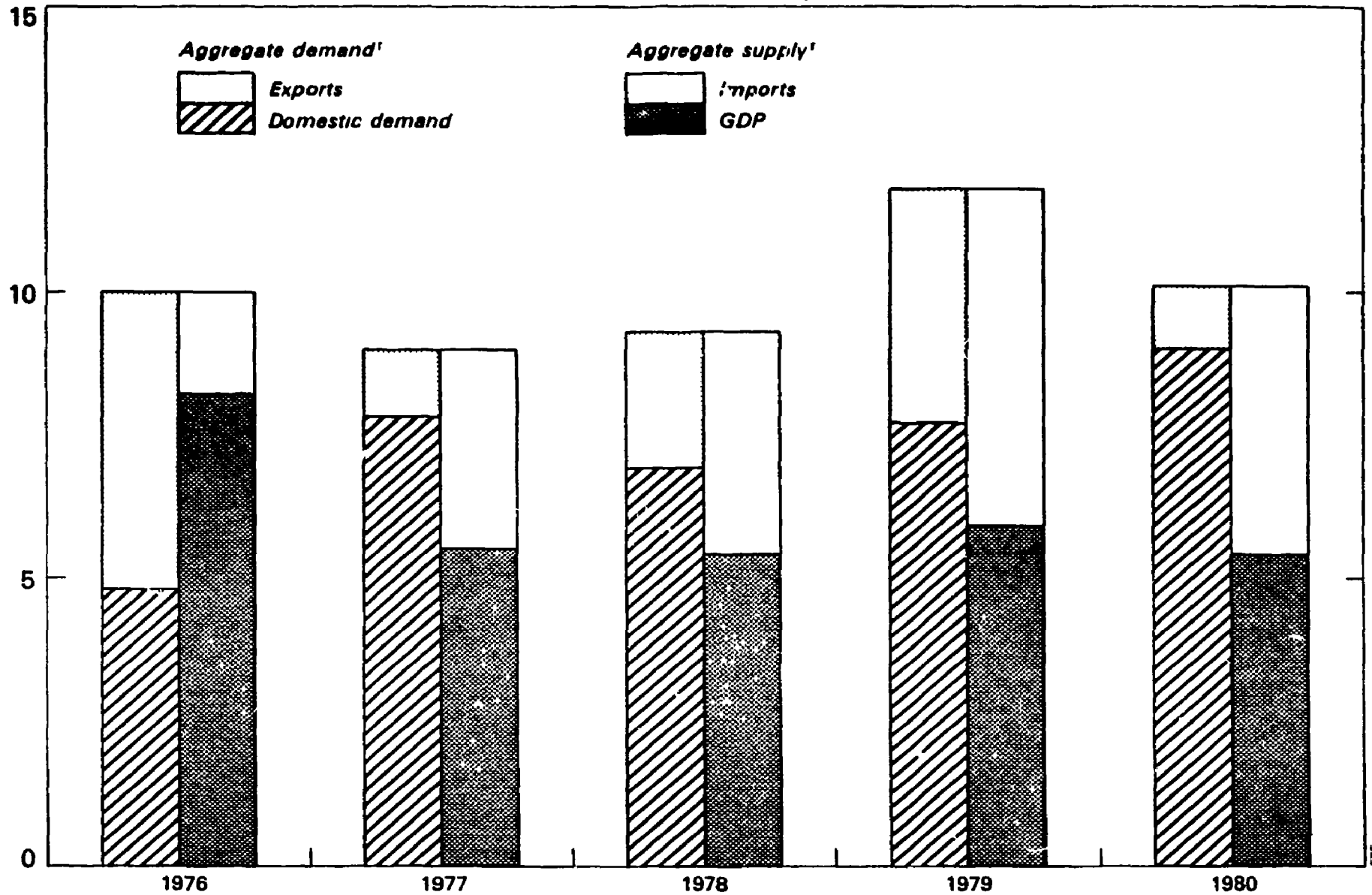
The Malaysian economy continued to expand in 1980, the fifth consecutive year of sustained growth, with real GDP rising by 8 per cent (Table 1). Value added in the agricultural sector increased by 2.5 per cent, lower than the 4 per cent growth recorded in 1979 when output had recovered from the drought conditions of the previous year. Output of both rubber and saw logs continued to decline, while palm oil and sawn timber recorded sharp increases. The growth of value added in the manufacturing sector of 11.5 per cent was attributed to further expansion of the export-oriented industries--in the first half of the year--as well as industries producing consumer durables. The rapid expansion of the construction industries continued during the year, largely in response to strong demand for residential housing and commercial buildings. The increase in value added in construction of 13 per cent made it the fastest growing sector of the economy in 1980. On the other hand, value added in the mining sector declined by 1.3 per cent, due to lower levels of output of both petroleum and tin. The growth of activities in the major service industries exceeded the overall increase in output as value added in wholesale and retail trade rose by 10 per cent and in government by 11.3 per cent; the sharp growth of government activity mostly reflected the public service salary adjustment in July and efforts to speed up the implementation of projects during the last year of the Third Malaysian Plan (TMP).

Domestic demand provided the main impetus to the expansion of aggregate demand in 1980 (Chart 1). The growth of total domestic demand accelerated to 12.8 per cent in real terms, mainly reflecting an increase of private expenditure by 13.6 per cent. Private consumption expenditure rose by 12 per cent, mostly reflecting the higher incomes generated by

# MALAYSIA

## AGGREGATE SUPPLY AND DEMAND, 1976-80

(Annual per cent change)



Source: Data provided by the Malaysian authorities

1 Shaded areas indicate contributions of the components

Table 1. Malaysia: Supply and Use of Resources at Constant 1970 Prices, 1976-80 <sup>1/</sup>  
(Percentage change over previous year)

	1976	1977	1978	1979	1980
<b>Supply of resources</b>					
GDP at market prices	<u>11.1</u>	<u>7.6</u>	<u>7.6</u>	<u>8.5</u>	<u>8.0</u>
Agriculture, forestry, and fishing	10.5	2.2	1.0	4.0	2.5
Mining and quarrying	20.6	1.3	13.0	15.0	-1.3
Manufacturing	18.5	10.6	14.0	12.0	11.5
Construction	9.0	12.2	13.0	14.0	13.0
Wholesale and retail trade	8.4	7.8	9.0	9.0	10.0
Government services	9.5	12.4	2.5	7.4	11.3
Net factor payments to abroad	21.4	25.0	24.6	-7.8	3.7
GNP at market prices	<u>10.8</u>	<u>7.1</u>	<u>7.0</u>	<u>9.2</u>	<u>8.2</u>
Imports of goods and services	<u>9.2</u>	<u>13.7</u>	<u>13.9</u>	<u>20.0</u>	<u>15.0</u>
<b>Use of resources</b>					
Domestic demand	<u>7.0</u>	<u>11.4</u>	<u>9.9</u>	<u>11.1</u>	<u>12.8</u>
Consumption expenditure	<u>6.7</u>	<u>9.5</u>	<u>10.0</u>	<u>11.6</u>	<u>12.0</u>
Private	(6.1)	(9.3)	(11.6)	(11.0)	(12.0)
Public	(8.5)	(9.8)	(5.3)	(13.5)	(12.0)
Investment expenditure <sup>3/</sup>	<u>8.2</u>	<u>17.5</u>	<u>9.7</u>	<u>9.6</u>	<u>15.2</u>
Private	(0.4)	(10.6)	(12.8)	(24.5)	(21.4)
Public	(12.6)	(17.0)	(2.6)	(10.0)	(9.7)
Exports of goods and services	<u>16.7</u>	<u>4.2</u>	<u>7.9</u>	<u>13.4</u>	<u>4.2</u>

Source: Data provided by the Malaysian authorities.

<sup>1/</sup> Revised new series compiled on the basis of the United Nations' System of National Accounts (SNA).

<sup>2/</sup> Preliminary estimate.

<sup>3/</sup> Includes change in stocks.

the increase in exports in 1979, and the public sector salary adjustment in July 1980. Private sector investment expenditure, including investment in the oil industry, rose by 21.4 per cent; excluding oil and gas-related investment, private investment rose by 17.4 per cent, compared with 12 per cent in 1979. The acceleration in the growth of non-oil investment was largely in response to the expansion of domestic demand, especially for consumer durables; in some cases investment was also undertaken to increase productivity.

Public sector consumption expenditure also expanded rapidly by 12 per cent in real terms in 1980. The increase in expenditure mostly reflected increased public sector employment and wage and salary increases for public sector employees, as well as larger outlays on socioeconomic services and defense. Public sector investment expenditure rose by 9.7 per cent in real terms; the bulk of this investment was in basic infrastructure, communications and utilities, as well as projects aimed at eradication of poverty and the restructuring of society.

Real exports grew by only 4.2 per cent in 1980, due to the slowdown in activity in industrial countries, while imports increased by 15 per cent in real terms in line with the sharp expansion of domestic demand (Table 1). The terms of trade deteriorated by 4.1 per cent as import prices rose by 19 per cent, compared with a 14 per cent rise in export prices. Real GDP adjusted for changes in the terms of trade <sup>1/</sup> rose at a rate of 5.6 per cent in 1980, compared with 15 per cent in 1979.

In 1981, the authorities expect real GDP growth to slow somewhat to 7-8 per cent; as in 1980, domestic demand will provide the main stimulus to expansion, increasing by 11 per cent in real terms, while exports are forecast to rise by 7 per cent. Private consumption is forecast to increase by only 7 per cent in real terms, as the continued weakness of commodity export prices will depress incomes, while public sector consumption expenditure is forecast to increase again by 12 per cent in real terms. Private investment is expected to increase by about 9 per cent following sharp increases in the previous two years when investment increased to meet the needs of the expanding economy, including the oil industry. However, government investment expenditure is forecast to increase sharply in 1981 to offset the weakness of external demand.

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<sup>1/</sup> The growth in real GDP adjusted for changes in the terms of trade ( $r$ ) is defined as:

$$r = \frac{Y_{t+1} (1 - a) + bX_{t+1}}{Y_t} - 1, \text{ where}$$

Y = real GDP  
X = real exports  
a = share of exports in real GDP  
b = international terms of trade  
t = time subscript

Public investment is scheduled to rise by over 35 per cent due to the launching of the Fourth Malaysia Plan, and this increase is expected to partly offset the relative weakness of other demand components. On the supply side, the weak external demand is expected to moderate the growth of agriculture and mining output; moreover, increased competition from other developing countries and the possible intensification of protectionist pressures could slow the growth of export-oriented manufactures. However, the continued strength of domestic demand in 1981 will help support manufacturers for local consumption as well as provide further stimulus to the construction sector.

b. Production

(1) Primary sector

Rubber production declined by 2.5 per cent in 1980 to 1.56 million metric tons (Appendix Table IV), the fourth consecutive year of falling output. The major contributing factors included a decline in acreage devoted to rubber, as land under rubber cultivation was converted to more profitable crops, such as palm oil and labor shortages particularly in the estate sector. The labor shortage was evidenced in the decline in yields of about 3 per cent in both the estate and smallholder sectors. Despite the steady decline in output in recent years, rubber remains Malaysia's most important agricultural crop, and Malaysia, the world's leading producer of natural rubber, accounted for about 40 per cent of global production in 1980.

In order to stimulate rubber production, the 1981 Budget provides for increased planting and replanting grants, as well as a monthly subsidy to rubber smallholders until they are able to benefit from newly planted holdings. The budget has also introduced a new system of export duties based on the gazetted prices of different grades of rubber rather than on the price of a single grade. This change is intended to provide more equitable treatment to smallholders who mostly produce the lower quality grade but pay duty on the basis of the higher quality grade. Also, in December, the Government raised the threshold price on which export duty is levied, to take account of increases in production costs.

The output of crude palm oil rose by 17.7 per cent to 2.6 million metric tons in 1980 (Appendix Table IV). The rise in output was due to a 9.4 per cent increase in harvested area and favorable weather conditions; the average yield increased by 7.6 per cent, compared with 9.2 per cent in the previous year. The total area cultivated under palm oil increased by 6.9 per cent in 1980, mainly reflecting new plantings by the various land development agencies. In line with the Government's policy to promote the processing of crude palm oil into more downstream products, production of partially and fully processed palm oil products rose by 30 per cent in 1980.

Total rice output rose by 4.1 per cent to 1.4 million metric tons in 1980 (Appendix Table IV). Domestic production was sufficient to meet about 89 per cent of the country's rice requirement in 1980, compared with 85 per cent in 1979. The increase in output reflected continued favorable weather conditions, more intensive application of fertilizers under the Government's subsidy scheme, and the use of higher yielding varieties of paddy; in the 1979/80 crop year the average yield increased by 4.6 per cent. The Government continues to emphasize self-sufficiency in rice production as a long-term goal and, accordingly, adjusted its incentives and subsidies during the year. The Government introduced a cash coupon subsidy of M\$2 per picul of paddy to replace the previous scheme whereby paddy was purchased at prices of M\$2 per picul higher than the official minimum support price; also, the minimum support price for short grain paddy was raised by about 8 per cent. In addition, the paddy subsidy was raised from M\$2 per picul to M\$10 per picul.

The production of saw logs declined by 3 per cent to 26 million cubic meters in 1980 (Appendix Table IV), compared with a decline of 5 per cent the previous year. This continued fall in output of saw logs reflected a decline of readily available timber resources in Peninsular Malaysia, and the implementation of the forest conservation policy. In contrast, the output of sawn timber rose by 6.5 per cent in 1980 to 5.7 million cubic meters, reflecting the increased domestic demand from the building and construction industry. At the current rate of exploitation--373,100 hectares a year--Malaysia's supply of prime quality logs could be depleted by 1990. To insure adequate supplies of timber for the next 15 years, the Ministry of Primary Industries has instituted a re-forestation program which is expected to be implemented by 1982 at a cost of M\$500 million. The program will concentrate on replanting trees that mature within relatively short periods.

The secular decline of tin production resumed in 1980 following a temporary reversal in the previous two years. Tin production fell by 2.5 per cent to 61,400 metric tons in 1980, compared with increases of 6.7 per cent and 0.6 per cent in 1978 and 1979, respectively. Profitability in the tin industry continues to be adversely affected by rising production costs, particularly energy, and the rapid depletion of high grade tin-bearing areas, which has compelled mines to install equipment with greater capacity to work the lower grade areas. To further assist the tin industry, the Government raised the threshold level for export duty from M\$1,200 per picul to M\$1,400 per picul. The floor and ceiling prices of the current International Tin Agreement, at M\$1,650 and M\$2,145 per picul, respectively, are not judged sufficiently attractive to encourage new investment at a level adequate to maintain output.

For the first time since 1974 the production of crude petroleum declined by 2.6 per cent in 1980 to the equivalent of 275,000 barrels per day. The decline in output was attributed to the implementation of the National Depletion Policy introduced in June. Under this policy, Petronas, the national oil company, controls the production of major fields defined as those with 400 million or more barrels of Oil Initially

In Place (OIIP). Production is limited to 1.75 per cent per annum of OIIP, and the development of any new major fields can be postponed for three to five years (see also Chapter IV, Section 2). As a result, the number of oil fields on stream remained unchanged at 14 during the year. However, despite the implementation of the National Depletion Policy, Petronas estimates that oil production will increase by about 9 per cent in 1981 to the equivalent of 300,000 barrels per day (bpd).

Petronas, through its subsidiary Petronas Carigali Sendirian Beshad, commenced drilling off the Trengganu coast. Also, Petronas signed its fifth production-sharing agreement with British Petroleum and Oceanic Exploration Corporation for exploration and development offshore Sabah. Other companies were also active during the year. Overall, three new oilfields offshore Trengganu and five new gas fields offshore Sarawak were discovered during the year.

In order to lessen dependence on imports in meeting the rising domestic demand for petroleum products, Petronas began work on two new refineries during the year. The first refinery, located in Trengganu, is scheduled to come on stream by August 1982 and have a capacity of 30,000 bpd of domestic crude oil. A second refinery, to be located in Malacca, is planned to come on stream by the end of 1985, with a capacity of 100,000 bpd using 88 per cent imported crude oil and 12 per cent domestic crude oil, with the flexibility of processing only the lighter domestic crude oil.

The Bintulu LNG project is expected to come on stream by January 1983, with planned production of 6 million metric tons of liquified natural gas per year. In order to implement the Bintulu Urea Project, a joint-venture company with Malaysia and other ASEAN countries was incorporated in October 1980, Malaysia holds a majority share of 60 per cent, while Thailand, Indonesia, and the Philippines each holds 13 per cent, and Singapore 1 per cent. The plant is scheduled to be completed in 1984 and produce 1,000 metric tons per day of ammonia, and 1,500 metric tons per day of urea, mainly for domestic consumption.

## (2) Manufacturing sector

Value added in the manufacturing sector rose by 11.5 per cent in real terms in 1980 (12 per cent in 1979) to account for 20.3 per cent of GDP. The growth of manufactured exports slowed in the second half of the year in response to slackening external demand. However, output for the domestic market was sustained by the strong demand for electrical consumer durables and transport equipment. Although the demand for construction materials remained strong, output growth was only moderate due to capacity constraints and the disincentives imposed by price controls on cement and steel rods for reinforced concrete.

c. Employment and wages

Total employment increased by 3.4 per cent in 1980 to reach 5.1 million by the end of the year (Table 2). The expansion of employment in conjunction with an increase in the labor force of 3.1 per cent resulted in a decline in the unemployment rate to 5.3 per cent. Although the rate of growth of manufacturing employment slowed to 6.4 per cent in 1980, this sector accounted for the largest number of new jobs (48,400). Other sectors which registered strong employment gains were construction (7.6 per cent) and Government (6.9 per cent). Employment in the agriculture, forestry, and fishing sectors grew by only 0.5 per cent in 1980; however, these sectors still accounted for the largest number of workers, or about 40.5 per cent of the labor force.

In 1980 a total of 281 collective wage agreements affecting about 1.4 per cent of the labor force were concluded. Most of the agreements were for three years, and average wage settlements were in the range of 10-25 per cent. On July 1, 1980 salaries and other benefits for the 710,000 public sector employees were adjusted, with increases in basic pay ranging from 6 to 28 per cent; the last adjustment was in July 1977.

2. Federal government finance

a. The 1980 Budget outturn

The 1980 Government Budget was designed to exert an expansionary impact on the economy to offset the relative decline in external demand. Moreover, since 1980 was the last year of the TMP, government expenditures, particularly capital expenditures, were increased to speed up the implementation of projects under the plan. Consequently, government expenditure rose very sharply by 47 per cent to the equivalent of 37.4 per cent of GNP (Table 3). Total revenue also grew strongly in 1980 or by 29 per cent to equal 28.8 per cent of GNP. As a result, the overall budget deficit rose to M\$4 billion in 1980, or 8.6 per cent of GNP, compared with only 3.4 per cent the previous year (Table 3).

Total revenue grew substantially by M\$3 billion in 1980 to M\$13.5 billion despite an estimated revenue loss of about M\$482 million due to new tax measures and adjustments introduced in the 1980 Budget. The good revenue performance was mainly attributable to the strong growth of the economy in 1979--the base year for 1980 income tax--and the introduction of an export tax on crude petroleum in April. Revenue from direct taxes rose by 43 per cent to about M\$5.3 billion, with receipts from oil companies more than doubling, and those from other businesses rising by 48 per cent. However, individual income tax receipts declined by 13 per cent due to revisions in the rate structure and allowances introduced in the 1980 Budget, it was estimated that changes in the tax rate for the highest bracket resulted in a revenue loss of at least M\$100 million. Revenue from indirect taxes grew by 28 per cent in 1980 to M\$7.2 billion, with the fastest growing component being import duties which rose by about 35 per cent in line with the strong growth of imports.



Table 2. Malaysia: Employment and Labor Force, 1971-80

	<u>1971-75</u> Annual average	1976	1977	1978	1979	<u>1980</u> Thousands of persons
<u>(Percentage change per annum)</u>						
Employment						
Agriculture, forestry, and fishing	1.5	1.6	0.7	0.7	1.3	1,999.3
Mining and quarrying	0.1	1.8	0.1	1.1	1.3	91.4
Manufacturing	8.3	11.2	7.4	9.7	7.3	630.2
Construction	12.0	5.6	7.8	8.2	7.7	211.6
Utilities	5.1	5.1	5.1	4.9	5.4	29.2
Transport, storage, and communi- cations	6.3	3.9	5.0	4.5	4.8	217.9
Wholesale and retail trade	4.9	5.0	5.0	4.6	5.0	586.7
Finance and insurance	4.4	5.4	3.7	4.0	4.4	45.7
Government services	5.5	5.4	8.0	5.1	4.3	648.6
Other services	<u>5.8</u>	<u>0.2</u>	<u>4.6</u>	<u>4.3</u>	<u>4.5</u>	<u>195.5</u>
Total employment	3.8	4.0	3.7	3.6	3.6	4,655.6
Labor force	3.2	3.5	3.6	3.5	3.5	4,956.0
<u>(As a per cent of labor force)</u>						
Unemployment rate	7.2	6.4	6.3	6.2	6.1	285.0

Source Data provided by the Malaysian authorities

Table 3. Malaysia: Summary of Federal Government Operations, 1976-81

(In millions of ringgit)

	1976	1977	1978	1979	1980 Prelim- inary estimate	1981 Latest estimate
Revenue and grants	6,138	7,794	8,806	10,466	13,461	15,782
Tax revenue	5,473	7,134	7,992	9,382	12,493	14,371
Nontax revenue	649	741	812	1,081	968	1,411
Foreign grants	10	3	4	3	--	--
Expenditure and net lending	8,114	10,201	11,164	11,898	17,449	21,600
Current expenditure	5,948	7,257	7,610	8,008	10,767	13,579
Capital expenditure	1,334	1,807	2,012	2,514	4,966	6,011
Net lending	753	1,207	1,606	1,520	1,716	2,010
Adjustment for accounts payable	43	-70	-64	-144	--	-
Overall deficit	-1,976	-2,407	-2,356	-1,432	-3,988	-5,818
Financing (net)	1,976	2,407	2,356	1,432	3,988	5,818
External	369	534	541	679	309	2,491
Project loans	243	380	357	278	333	500
Market loans	126	154	184	401	-24	1,991
Domestic	1,607	1,873	1,815	753	3,679	3,327
Banking system	7	466	-138	897	1,074	...
Central Bank	(-735)	(-49)	(147)	(405)	(951)	...
Commercial banks	(742)	(515)	(-285)	(492)	(123)	...
Employees Provident Fund	667	854	928	1,081	1,131	...
Others <sup>1/</sup>	933	533	1,025	-1,225	1,474	...
Memorandum items						
<u>Ratios to GNP (in per cent)</u>						
Total revenue	22.7	25.1	25.3	24.4	28.8	28.0
Total expenditure	30.0	32.8	32.1	27.8	37.4	38.3
Overall deficit	7.3	7.7	6.8	3.4	8.6	10.3

Source: Data provided by the Ministry of Finance.

<sup>1/</sup> Includes the timing differences in recording between the Treasury and the Central Bank, as well as changes in government assets.

in 1980. Export duties also rose substantially by 34 per cent, despite revenue losses estimated at M\$352 million due to the revisions of the commodity export tax structure in the 1980 Budget, and further losses due to a change in the method of computing export duties on rubber (Chapter II, Section b.(1) and the Annex), effective in October, and the upward adjustment of the threshold prices for computing export duty on rubber, tin, palm oil, and pepper, effective in December. The growth in export duties was the result of the introduction of an export duty on petroleum, effective in April, which raised M\$724 million, or about 5 per cent of total revenue, during the remainder of the year.

Total expenditure grew sharply by M\$5.6 billion in 1980 to M\$17.5 billion, reflecting the strong expansionary stance of the budget. Current expenditure rose by about 34 per cent to M\$10.8 billion due partly to the public service salary adjustment in July, and, partly to the expansion of the public service to increase the Government's capacity to implement development projects. The total government wage bill increased by about M\$1 billion to M\$4.7 billion in 1980, or about 43 per cent of current expenditures. Also, subsidies rose sharply in 1980 as the subsidy on paddy and petroleum products amounted to M\$661 million or more than double the level of the previous year. Capital expenditures and net lending rose by about 66 per cent in 1980, due to efforts to step-up the implementation of development projects in the final year of the TMP.

The financing of the government deficit of M\$4 billion was mostly (M\$3.7 billion) from domestic sources (Table 3). Of this amount, about M\$1.1 billion was raised through the placement of long-term securities with the banking system; no new funds were raised through Treasury bill tenders during the year. Another M\$1.1 billion was raised through the sale of government securities to the Employees' Provident Fund. Finally, another M\$1.5 billion was raised from other sources, including a drawdown of government assets. The M\$0.3 billion raised through external borrowing represented drawdowns of project loans from multilateral aid agencies and development banks, there were no drawdowns on foreign market loans during the year.

b. The 1981 Budget

The 1981 Budget strategy is again to offset the impact of weak external demand on the domestic economy, accordingly, the Budget is designed to exert an expansionary impact on aggregate demand. The latest estimates indicate an increase of about 24 per cent in total expenditures and an increase of 17 per cent in revenue; as a result, the overall deficit is estimated to increase by about M\$1.8 billion to equal M\$5.8 billion or 10.3 per cent of GNP (Table 3). Several new tax and other measures have been introduced in the 1981 Budget in order to stimulate production or reduce bottlenecks in certain sectors of the economy. A description of these measures is contained in the Annex.

Total revenue is estimated to increase by about M\$2.3 billion in 1981 to M\$15.8 billion; however, the slower growth of revenue compared with the previous year (29 per cent), together with continued strong growth of the economy, should result in a decline in the ratio of revenue to GNP to about 28 per cent (Table 3). The fastest growing revenue component is again expected to be direct taxes due to the good performance of the private sector in 1980, the base for 1981 income tax. Direct taxes are estimated to increase by 29 per cent to M\$6.8 billion. Indirect taxes are estimated to increase by only 5 per cent to M\$7.6 billion, mostly due to the sharply lower growth of import duties (4 per cent) and export taxes (5 per cent). The latest estimates envisage declines in export duties on both rubber and tin, reflecting continued depressed prices and anticipated stagnant production levels. These developments should be offset by the growth in export duties on crude petroleum, due to the full year impact of the tax and anticipated higher prices of petroleum.

Total expenditure is estimated to increase by about M\$4.2 billion in 1981 to M\$21.6 billion or about 38.3 per cent of GNP. Current expenditure is estimated to increase by 26 per cent largely due to the full year impact of the July 1980 salary adjustment, and further efforts to strengthen the administrative machinery of the Government in order to improve its capacity to implement projects under the FMP. Taking into account allocations for the launching of new projects under the FMP in March 1981, capital expenditure and net lending are estimated to increase by 20 per cent in 1981.

Unlike the previous year, a significant portion of the 1981 overall budget deficit is planned to be financed from external sources. The authorities anticipate raising M\$2.5 billion of the estimated deficit of M\$5.8 billion through foreign borrowings, of which about M\$500 million would be project loans and about M\$2 billion market borrowing (Table 3).

### 3. Monetary and price developments

#### a. Monetary developments

##### (1) Overview of policy objectives

The primary objective of monetary policy in 1980 and early 1981 was to reinforce the countercyclical nature of fiscal policy. Within this broad framework, monetary policy aimed at (1) maintaining a climate of monetary stability while meeting the liquidity requirements of the economy; (2) promoting investment in productive capacity and ensuring that bank credit was distributed to special groups, such as the Bumiputra community, and priority sectors including the agricultural sector, small-scale enterprises, and manufacturing, and (3) encouraging domestic savings while minimizing capital flight, in view of rising interest rates abroad.

These policy objectives called for monetary policy to be selectively accommodating to encourage private sector investment and the

expansion of output, on the one hand, and to be selectively restrictive to discourage speculation and hoarding, on the other. Within this framework, the monetary authorities adapted their policy instruments to changing circumstances. These instruments included open market operations, swap arrangements with commercial banks, and measures to increase reliance on market forces in determining interest rates.

In order to enhance the effectiveness of open market operations, Bank Negara actively promoted the development of greater efficiency of the financial markets. Commercial banks were allowed greater flexibility in setting their own deposit and lending rates and were less subject to previously applied limits on lending or moral suasion exercised by Bank Negara.<sup>1/</sup> As a result, interest rates were adjusted with greater flexibility. The gap between the lowest and the highest interest rates on 12-month deposits in any given month was as high as 2.75 percentage points in 1980, compared with 1 percentage point in 1979; the rate quoted with the highest frequency among the commercial banks ranged from 7-9 per cent in 1980; this rate had been relatively stable within the range of 6.5-7.0 per cent in 1979. Maximum lending rates for priority sectors and special groups continued to be fixed by Bank Negara. Bank Negara also issued its own securities (certificates of deposits), with maturities varying from 18 months to 36 months in an attempt to promote the development of an active secondary market in medium-term paper. These securities were in addition to two other money market instruments (bankers acceptances and negotiable certificates of deposits) that were introduced in 1979 and held mainly by the nonbank private sector.

Swap arrangements were also provided to commercial banks when the liquidity condition of commercial banks deteriorated and strong pressures on interest rates emerged, particularly in the second half of 1980. These facilities formed the basis for encouraging foreign bank branch offices to raise funds abroad to support their lending operations.

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<sup>1/</sup> Since October 1978, interest rates on commercial bank loans and time and savings deposits with the banking system have, in principle, been determined by market forces. The interest rates which the commercial banks offered for fixed and savings deposits and the lending rates which they charged their prime customers remained relatively stable. This was due partly to Bank Negara's policy of maintaining the maximum interest rate to be charged by the commercial banks for loans to the Bumiputra (indigenous) community, small-scale enterprises, and individuals for housing at 9 per cent per annum. Another factor was the constant injection of loanable funds into the banking system arising from the favorable balance of payments during the period 1979 to early 1980. In addition, the interest rates offered by the commercial banks were still attractive to the general public in an environment of relatively low inflation.

(2) Monetary aggregates

The year-to-year growth of narrow money declined gradually to about 15 per cent in late 1980 from over 19 per cent earlier in the year (Table 4), and was broadly in line with the increase in real income of about 7-8 per cent and the rate of inflation of about 7 per cent for the year as a whole. The deceleration of the growth of narrow money over the year was due partly to increases in interest rates on deposits and other financial assets. The year-to-year growth in quasi-money, however, accelerated through the first three quarters of 1980, reaching 35 per cent in the third quarter, compared with 29 per cent at end-1979. This rapid expansion partly reflected rising interest rates on deposits; there was a distinct shift in the portfolio choice of the private sector in favor of deposits with shorter maturities (Table 5), mainly in response to a higher rate of return on such deposits and increased uncertainty over the yields on longer-term financial assets. Further monetization of the economy and the continued repatriation of funds by the national petroleum company (Petronas) also contributed significantly. However, the growth in quasi-money slowed down somewhat toward the end of 1980 in the face of a weakening in the balance of payments. As a result, total liquidity (narrow and quasi-money) of the banking system increased by about 27 per cent during 1980. The major factors contributing to this growth were the sharp increases in net claims on the government sector and credit to the private sector. Net foreign assets of the banking system, which increased by only M\$0.2 billion in 1980, contributed little to the liquidity expansion, in sharp contrast to 1979 when they increased by M\$2.4 billion and constituted the principal source of liquidity increase.

The modest increase in net foreign assets 1980 was largely a result of a less rapid increase (M\$1 billion) in net external reserves of the Central Bank, compared with an accumulation of almost M\$1.8 billion in the previous year. Much of this expansion was largely offset by an increase of M\$0.9 billion in the net liabilities of the commercial banks, reflecting the repatriation and borrowing of funds from abroad to relieve pressures on the domestic money market, particularly in the second half of the year, and to support the banks' lending operations.

Unlike the previous year, government budgetary operations exerted an expansionary impact on liquidity in 1980. Net claims on Government increased by M\$1.2 billion during the year, compared with a decline of M\$1.7 billion during 1979. The sharp turnaround, amounting to M\$2.9 billion, reflected not only the countercyclical stance of fiscal policy in the face of a marked weakening of external demand, but also the Government's efforts to increase the implementation of investment projects during the last year of the Third Malaysia Plan, and to finance sharp increases in current expenditures, including the payment of higher wages to civil servants and disbursements on social and economic services. Credit to the private sector increased rapidly throughout 1980, both as a result of the strong surge in business and investment activity, as well as the official policy encouraging lending to priority sectors. The increase in credit was utilized mainly to finance manufacturing and construction activity, real estate development, and residential housing.

Table 4. Malaysia: Monetary Survey, 1977-80

	1977	1978	1979	1980			
				March	June	Sept.	Dec.
	(In millions of ringgit, end of the period)						
Net foreign assets	6,291	6,678	9,115	9,582	10,019	9,931	9,304
Domestic credit	10,183	12,644	13,941	15,793	17,556	18,601	20,775
Of which:							
Net claims on govern- ment	1,213	1,017	-700	-128	287	-543	543
Credit to private sector	8,970	11,627	14,641	15,921	17,269	19,144	20,232
Broad money	14,861	17,520	21,738	23,673	25,152	25,784	27,532
Of which:							
Narrow money	6,127	7,242	8,486	8,918	9,119	9,361	9,757
Quasi-money	8,734	10,278	13,252	14,755	16,043	16,423	17,775
Other liabilities (net)	1,613	1,800	1,320	1,609	2,416	2,748	2,549
	(Year-to-year percentage change)						
Net foreign assets	9.9	6.2	36.5	28.3	20.5	15.6	2.1
Domestic credit	18.3	24.2	10.3	24.5	36.3	41.9	49.0
Of which:							
Credit to private sector	20.1	29.6	25.9	32.5	38.9	43.0	38.2
Broad money	16.4	17.9	24.1	28.0	26.9	27.7	26.7
Of which:							
Narrow money	16.5	18.2	17.2	19.4	17.7	17.0	15.0
Quasi-money	16.2	17.7	28.9	33.9	32.8	34.7	34.1
Other liabilities (net)	3.4	11.6	-26.7	2.2	78.2	82.3	93.1

Source: IMF, IFS.

Table 5. Malaysia: Private Deposits with the Financial System, 1977-80

(Percentage changes)

	1977	1978	1979	1980
Total deposits <u>1/</u>	16.8	19.2	28.4	22.3
Of which: Less than one year <u>2/</u>	13.0	22.0	20.0	35.3
One year	18.9	4.6	27.7	1.8
More than one year	54.3	101.1	90.5	19.1

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

1/ Refers to demand, savings, and fixed deposits with commercial banks, finance companies, national savings banks, and others.

2/ Includes demand and savings deposits.

The combined expansionary impact on liquidity of the increases in the external sector and total domestic credit was, to a large extent, offset by sharp rises in "other" (net) liabilities of the banking system, with an increase in the latter accounting for over 17 per cent of the combined total increase in net foreign assets and domestic credit. This was in sharp contrast to an expansionary impact during 1979. The turnaround was partly accounted for by the issue of Central Bank Certificates and an increase in the reserves of the banking system.

The rate of liquidity expansion in 1981 is expected to decline gradually over the year, with the anticipated continued increase in output and the gradual deceleration in price inflation. As in 1980, the external sector is envisaged to contribute little to liquidity expansion, due mainly to the continued weakness of external demand for Malaysia's major exports. Credit to the private sector is also expected to increase at a slower rate than in the previous year, with a considerable slowdown expected in investment activity. Government budgetary operations are likely to exert a continued expansionary influence on money supply, as a significant portion of the budget deficit is expected to be financed by borrowing from the banking sector.

### (3) Bank liquidity and money markets

Money market conditions tightened considerably for most of 1980, due to a marked increase in demand for bank loans to support vigorous



economic activity, on the one hand, and a significant slowdown in the growth of bank deposits reflecting a gradual weakening of the balance of payments situation, on the other. The liquidity ratio of the commercial banks declined continuously during the 18-month period ending in the third quarter of 1980 (Chart 2), standing at 21.5 per cent at the end of September 1980, compared with 25.7 per cent at the end of 1979, before increasing to 23.2 per cent by the end of the year; the minimum required ratio has been 20 per cent since March 1979. Similarly, the primary liquid assets ratio declined for most of 1980, reaching 11 per cent at end-September 1980, against the minimum required ratio of 10 per cent in effect from March 1979.

Reflecting the tighter conditions in the money market, interest rates moved higher in the second half of 1980, from relatively stable and low levels in 1979 and early 1980. During the period of tightest monetary conditions, overnight money was transacted at an average interest rate of 7.6 per cent in August, and, 7-day money, at 11.7 per cent in October, compared with 4.7 per cent and 5.3 per cent, respectively, in January 1980. The higher interest rates in the money market were soon reflected in interest rates on deposits, bank loans, and advances. During 1980, the interest rates on time deposits (according to the most frequently quoted rates) increased by about 2-3 percentage points, reaching 8.5-9 per cent in December 1980, depending on maturity categories, while the prime rate was increased to 8.5 per cent in late 1980 from 7.5 per cent which had been in effect since 1977. Average lending rates have generally been about 2 percentage points above the prevailing prime rate in recent years (Appendix Table XVI).

In order to relieve pressures on interest rates, Bank Negara conducted open market operations and provided swap facilities with commercial banks as necessary, especially during the second half of the year. These banks in turn provided swap facilities with branch offices of foreign banks. In so doing, they provided a premium on the forward ringgit so that foreign bank branch offices could more or less compensate for the interest rate differentials against the ringgit. With this provision, these foreign banks were able to borrow abroad to support their lending activity in Malaysia. Furthermore, Bank Negara advised commercial banks to cut back on the practice of overdraft lending and cautioned them not to lend to their customers for outward arbitrage.

The pressure on the money market eased somewhat in the fourth quarter of 1980. There was a noticeable slackening in demand for loans from October onward, while bank resources increased significantly, reflecting partly the further inflows of funds from abroad and the additional issues of negotiable certificates of deposits. As a result, some interest rates, particularly interbank rates, eased slightly, and the liquidity position of the commercial banks improved somewhat during the fourth quarter.

#### (4) Credit policy

As the liquidity condition of the banking system tightened considerably for the greater part of 1979-80, the financial institutions' competition for private sector funds increased. At the same time, financial institutions became increasingly conscious of market forces in determining their allocation of credit to borrowers.

Against this background, Bank Negara had established, in August 1979, a set of guidelines on the direction of lending:

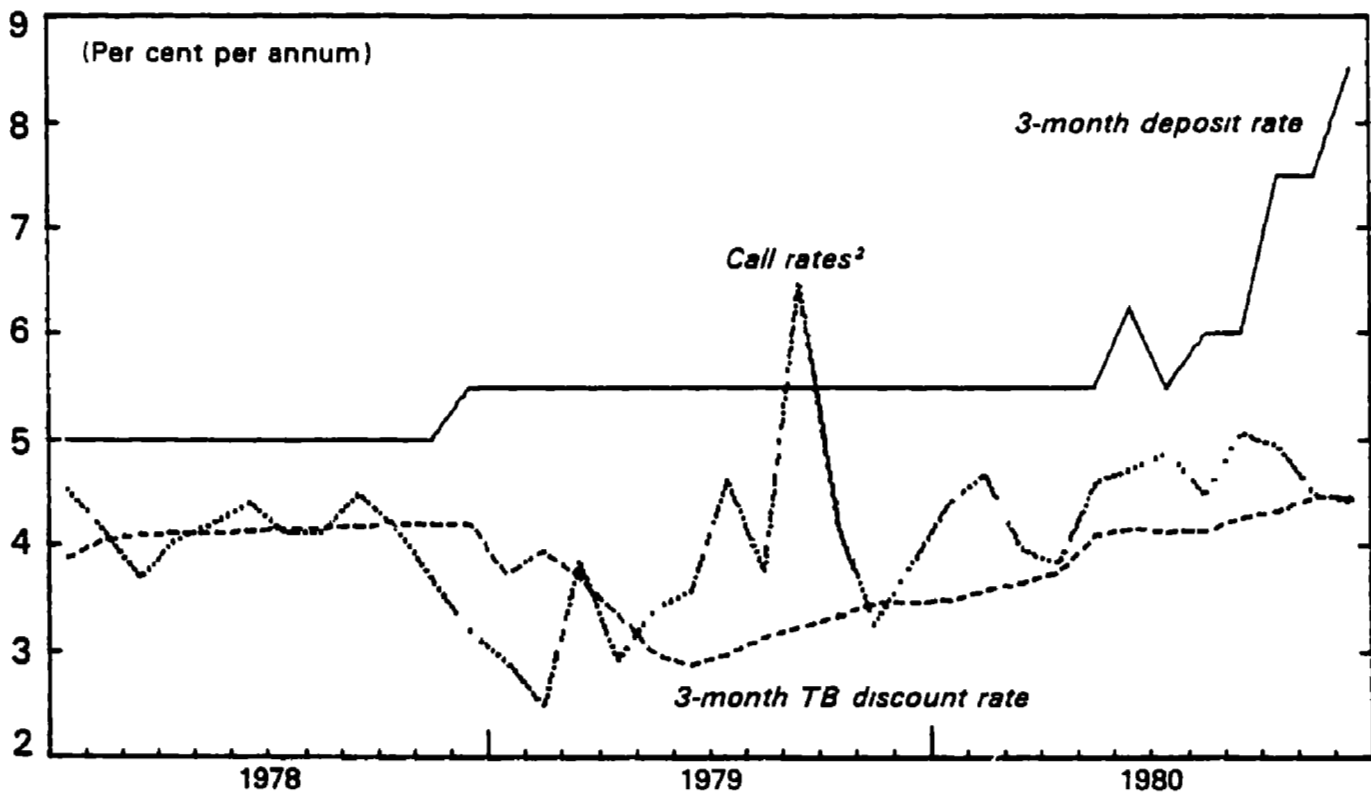
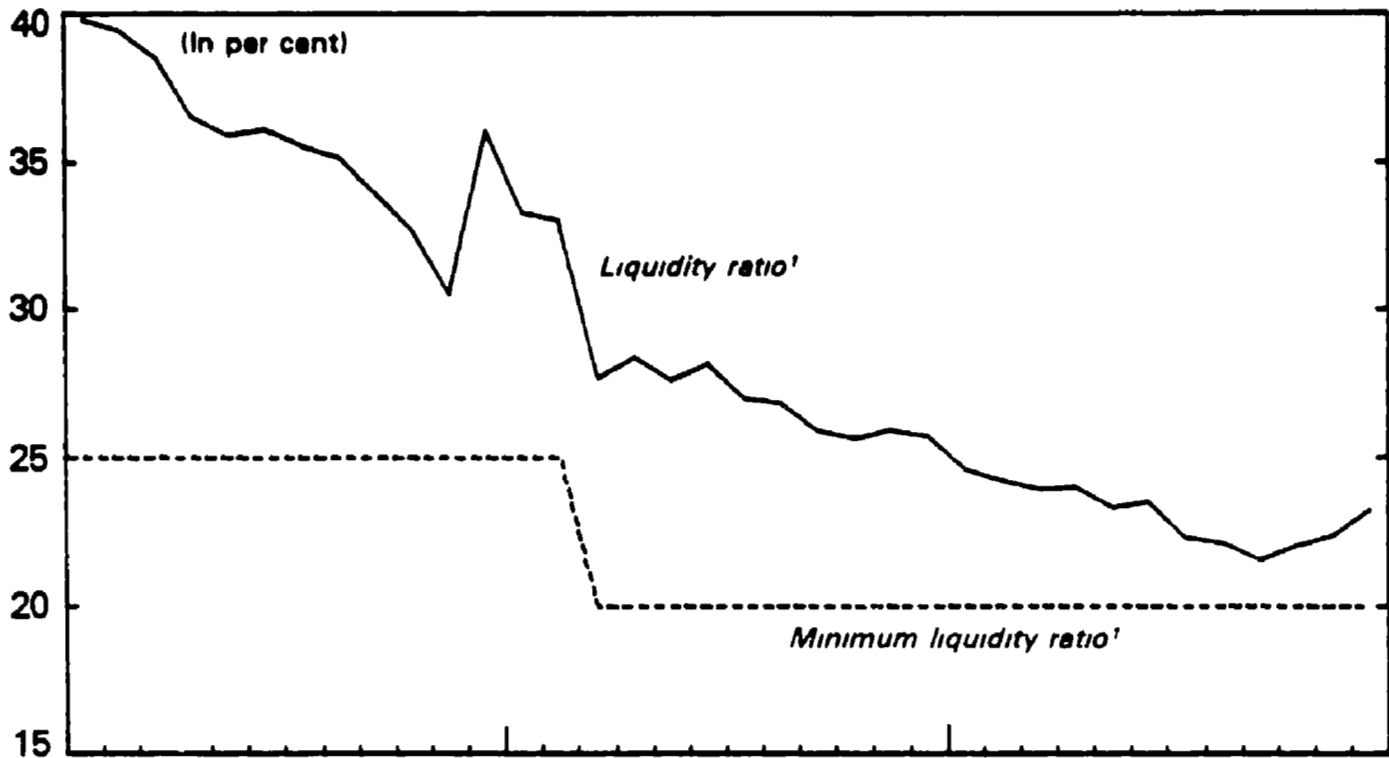
(a) The commercial banks as a whole were required to extend their credit to certain specified priority groups or sectors in such a way that the total outstanding at the end of 1980 would be at least a certain proportion of the total loans outstanding at the end of June 1979. The specified priority groups or sectors included the Bumiputra community, small-scale enterprises, agricultural food production, manufacturing, and construction of individual houses.

(b) Similarly, finance companies were also to extend loans to the specified priority sectors so as to meet the minimum requirements by end-1980, as set out by the guideline. These priority sectors consisted of the Bumiputra community, individual housing, small-scale enterprises, and the broad group of agriculture, forestry and fishing, manufacturing, and building and construction, including property development.

By the end of 1980, the commercial banks as well as the finance companies as a group had complied with all the guidelines on lending to the priority sectors, in fact, loans extended to these sectors often exceeded the minimum requirements by substantial margins (Table 6). While the overall record on lending to the priority sectors was satisfactory, the performance varied significantly among individual banks and finance companies, with some experiencing shortfalls. Institutions that failed to meet the minimum requirements by the end of 1980 were required to place with Bank Negara deposits equal to their respective shortfalls. The funds were to be placed for one year and, in turn, would be on-lent to the priority sectors through those institutions which complied with all the guidelines on lending to these sectors.

During 1980, bank loans for construction, land development, and residential housing increased rapidly, reflecting the continued strong growth in effective demand emanating from the expectation of the rising standard of living that was envisaged in the development plan. At the same time, because of administrative and technical constraints, the availability of residential land, skilled workers, and certain building materials could not be substantially increased in the short run. As a result, the prices of construction materials, land, and houses increased significantly during 1980. In order to dampen speculative demand, Bank Negara, in December 1980, issued a set of qualitative guidelines to commercial banks outlining the criteria for granting loans for construction and housing. The commercial banks were requested to provide bridging finance only to housing schemes that had already been approved by the authorities and were ready for implementation.

CHART 2  
MALAYSIA  
LIQUIDITY RATIO AND MONEY MARKET RATES



Source Bank Negara Malaysia *Monthly Statistical Supplement*

<sup>1</sup>Ratio applied to Commercial Banks, end of period.

Table 6. Malaysia: Compliance with Lending Guidelines  
Selected Sectors

	Minimum Requirements <u>1/</u>	Actual Perfor- mance <u>2/</u>	Share at end- Dec. 1981 <u>3/</u>
Commercial banks' lending			
Bumiputra	17.0	29.8	18.6
Small-scale enterprises	20.0	28.9	16.0
Agricultural food production	6.0	9.5	6.0
Finance companies' lending			
Bumiputra	17.0	34.7	22.1
Housing	20.0	27.2	17.3
Small-scale enterprises	28.0	47.4	30.3

Source. Bank Negara Malaysia, Annual Report, 1980.

1/ The minimum required ratio of the loans (to the priority sector) outstanding at end-1980 to the actual total outstanding at end-June 1979.

2/ The ratio of the actual loans outstanding at end-1980 to the actual total outstanding at end-June 1979.

3/ The share of the loans outstanding as per cent of total outstanding at end-1980.

In order to increase the role of small-scale enterprises in raising the productive capacity of the economy, a special loan scheme was introduced on January 1, 1981 to be implemented by the Credit Guarantee Corporation in conjunction with the commercial banks. Under the scheme, small-scale enterprises are defined as registered businesses and enterprises engaged in agriculture with net assets of up to M\$250,000; practicing professionals, individual persons who are not registered to carry on business activities (other than farmers and persons engaged in agriculture), and nonproductive businesses were excluded from the scheme. The main features of the scheme include.

(1) Loans up to M\$50,000 may be made without security and must be accepted for guarantee by the Credit Guarantee Corporation, which may guarantee 60 per cent of any approved bank loans, and would receive from a commercial bank a guarantee fee of 0.5 per cent per annum on the outstanding value of loans.

(2) A fixed rate of interest of 7.5 per cent per annum will be charged, and interest payments made by the borrower will be eligible for double deduction for income tax purposes.

(3) Commercial banks would be eligible for a tax rebate of 2 per cent per annum on loans extended under the scheme. The initial response to this scheme has been encouraging. Small-scale enterprises are expected to benefit from some reduction in their costs of carrying out their business activities while the commercial banks will be more willing to lend to these enterprises under the scheme in years ahead.

#### b. Price developments

Following a period of low rates of price increases (averaging 4 per cent per annum) in the second half of the 1970s, inflation accelerated considerably during 1980. In particular, prices of nonfood items increased sharply during the year, reaching a year-to-year increase of 11 per cent toward the end of 1980, compared with about 5-6 per cent in the second half of 1979 (Table 7 and Chart 3). The acceleration was attributable mainly to rapidly rising import prices (especially the higher costs of intermediate inputs and energy). Sharp increases in export prices in 1979 and early 1980 and the sustained growth of aggregate demand also contributed, with lags, to pressure on prices.

The increased demand for certain building materials such as cement and steel bars, in conjunction with price controls on these items led to the emergence of parallel markets. To alleviate this situation, the Government reduced the import duty on cement and raised the controlled prices of steel bars by over 11 per cent in 1980 and by about 10 per cent in early 1981. The controlled price of cement was also raised by over 20 per cent in March 1980. In addition, prices of essential items such as food and petroleum products <sup>1/</sup> were raised in order to pass on increases in costs.

Under the Control of Supplies Act of 1961 and the Price Control Order of 1977, 19 types of essential goods are listed as controlled

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<sup>1/</sup> See Chapter IV, Section 2 (Energy) for a more detailed discussion on developments in prices of petroleum products.

CHART 3  
MALAYSIA  
PRICE DEVELOPMENTS, 1972-80

(Year-to-year percentage change)

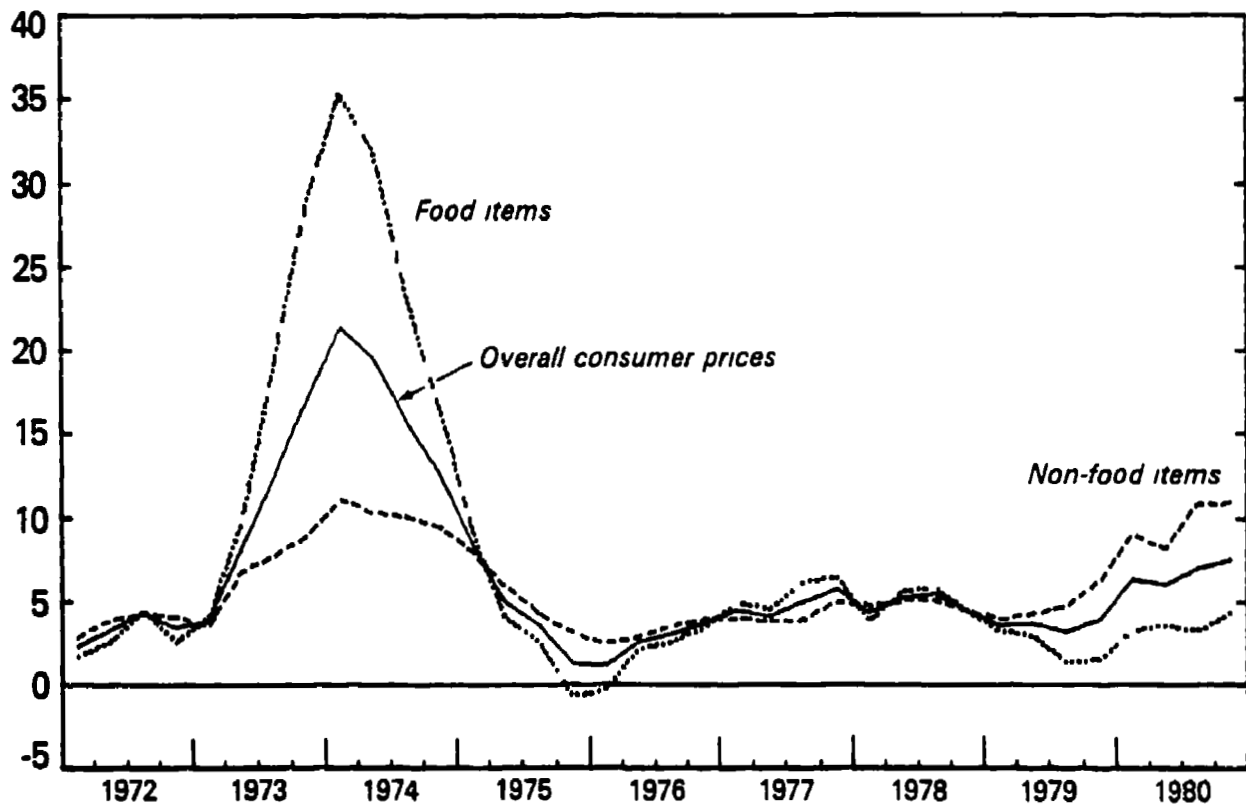
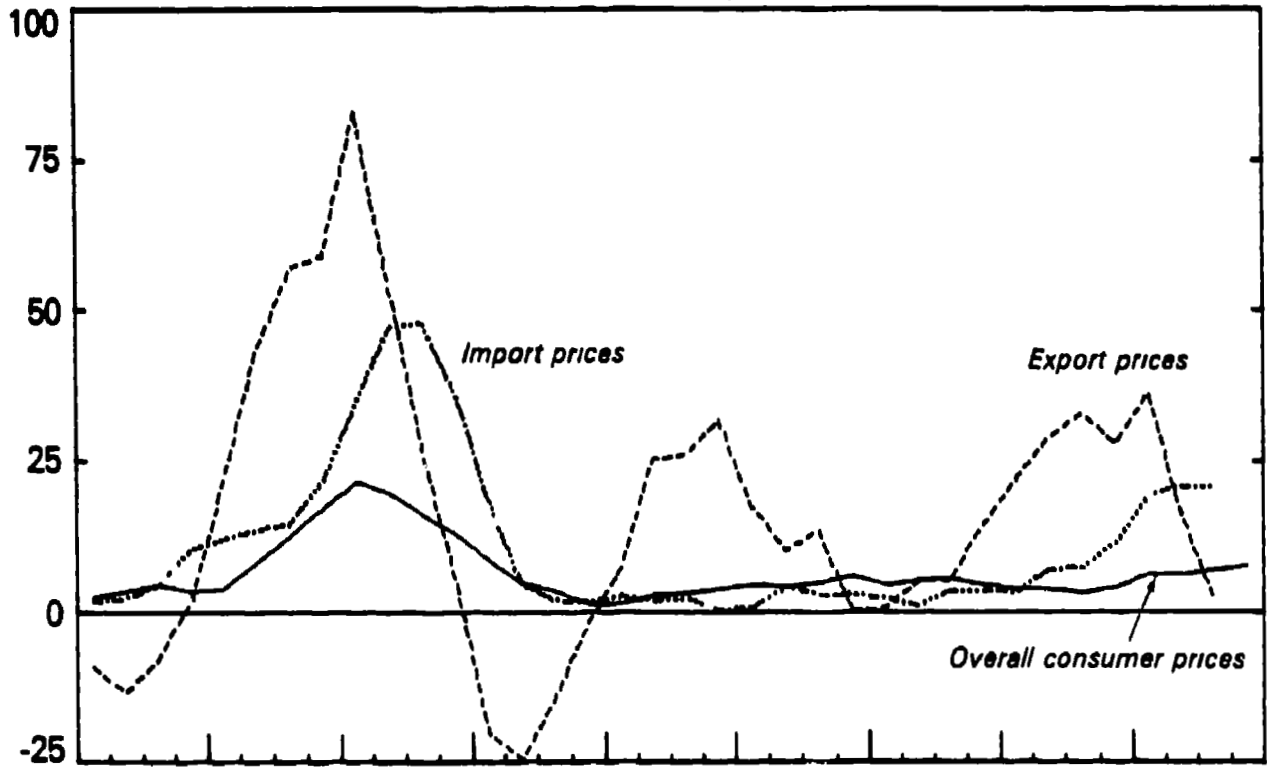


Table 7. Malaysia: Price Developments, 1976-80

(Year-to-year percentage change)

	Consumer Prices			Unit Value of Imports	Unit Value of Exports
	Total	Food items	Non-Food items		
1976	<u>2.6</u>	<u>2.0</u>	<u>3.2</u>	<u>1.6</u>	<u>22.5</u>
Qtr. 1	1.2	-0.2	2.5	2.5	7.1
Qtr. 2	2.5	2.1	2.9	1.7	25.2
Qtr. 3	3.1	2.6	3.6	2.0	25.9
Qtr. 4	3.7	3.5	3.9	0.2	31.8
1977	<u>4.7</u>	<u>5.5</u>	<u>4.2</u>	<u>2.6</u>	<u>10.2</u>
Qtr. 1	4.4	4.9	4.0	0.6	17.3
Qtr. 2	4.1	4.5	3.8	4.2	10.1
Qtr. 3	5.0	6.2	3.9	2.8	13.3
Qtr. 4	5.7	6.5	5.0	2.9	0.1
1978	<u>4.9</u>	<u>4.9</u>	<u>4.9</u>	<u>2.5</u>	<u>6.3</u>
Qtr. 1	4.3	3.8	4.8	2.1	0.5
Qtr. 2	5.3	5.6	5.0	0.9	4.9
Qtr. 3	5.5	5.8	5.1	3.4	5.2
Qtr. 4	4.5	4.4	4.5	3.5	14.5
1979	<u>3.6</u>	<u>2.3</u>	<u>4.8</u>	<u>7.2</u>	<u>27.9</u>
Qtr. 1	3.6	3.2	3.9	3.1	22.0
Qtr. 2	3.7	3.0	4.3	7.0	28.9
Qtr. 3	3.2	1.4	4.7	7.2	32.7
Qtr. 4	4.0	1.5	6.2	11.4	27.9
1980	<u>6.7</u>	<u>3.7</u>	<u>9.8</u>	<u>...</u>	<u>...</u>
Qtr. 1	6.4	3.3	9.0	19.3	36.2
Qtr. 2	6.0	3.6	8.2	20.8	16.3
Qtr. 3	7.0	3.3	10.9	20.8	2.0
Qtr. 4	7.5	4.4	11.0	...	...

Sources: Bank Negara Malaysia, Monthly Statistical Supplement, IFS Data Fund and staff estimates.

items;<sup>1/</sup> 8 of them are food items, accounting for nearly two fifths of the weight in the food index, or 18.5 per cent of the total weight in the consumer price index. With a view to mitigating the adverse effects of the price control system on the supply of certain items, the Government removed beverages from the list of controlled items with effect from January 1980 and bottled soft drinks with effect from March 1981. Other controlled prices were adjusted.

While prices were adjusted with greater flexibility to reflect market forces, some effort was made to relieve the impact of the increase in fuel costs on consumers. The subsidy for petroleum products and compensation to oil companies was increased in 1980, enabling these products to be sold at prices below their import costs. The Government also intensified its efforts to check business malpractice, hoarding, and profiteering, and to monitor the supply conditions of essential commodities, including food and construction materials.

In an effort to measure price movements more accurately, the Government is preparing a revised consumer price index and new price indices, such as a rural/urban consumer price index and a wholesale price index. The new CPI will be based on a sample survey of household expenditures covering about 2,500 households, which was started in October 1980.

### III. External Developments

#### 1. Balance of payments

##### a. Overview

In 1980, Malaysia's overall balance of payments recorded a surplus of M\$1.0 billion, compared with a record surplus of M\$1.8 billion in 1979 (Chart 4 and Table 8). This was achieved in spite of a deficit on the current account, the first in five years. The current account deficit resulted mainly from (1) a weakening in merchandise exports during the second half of 1980, reflecting the sluggishness in industrial economies, and (2) the continuation of strong growth in import demand as well as the deficit in the services and transfers account. Nevertheless, a surplus of M\$1.4 billion in the capital account (including errors and omissions) more than offset the current account deficit, resulting in an overall surplus. The level of the external reserves of Bank Negara Malaysia increased from M\$9.2 billion in 1979 to M\$10.3 billion in 1980; this level was equivalent to about five months of 1980 merchandise imports, a decline from the level of about six months in 1979.

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<sup>1/</sup> The controlled items include: sugar, condensed milk, filled milk, wheat flour, bread, milk powder, gasoline, kerosene, diesel fuel, LPG, steel bars, and cement.



CHART 4  
MALAYSIA  
BALANCE OF PAYMENTS, 1971-1980

(In billions of ringgit)

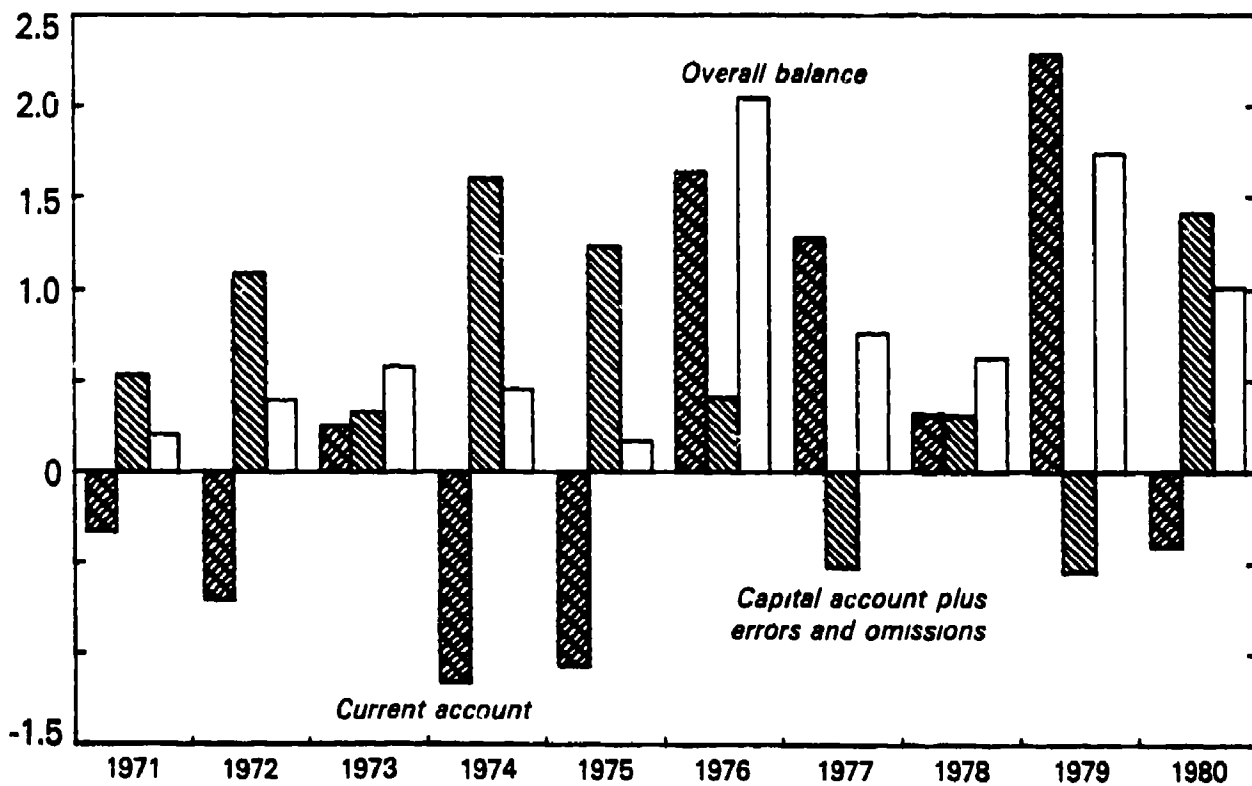
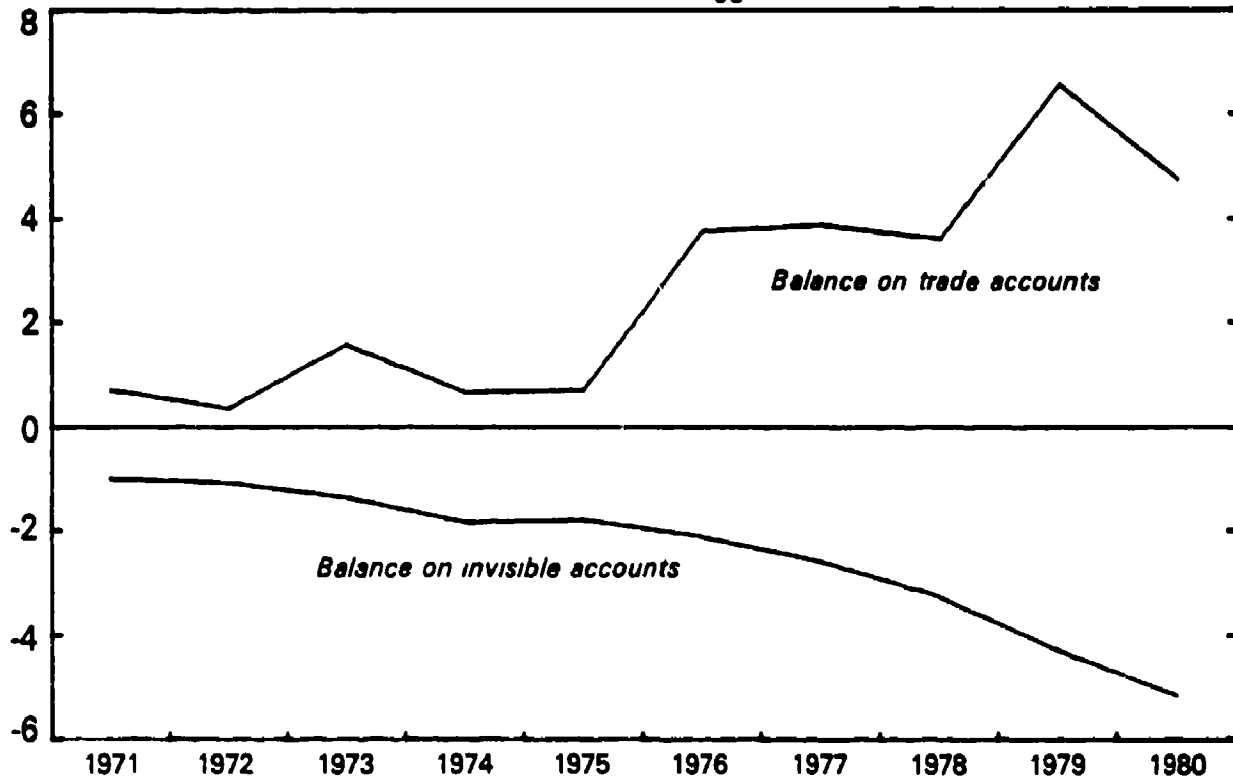


Table 8. Malaysia: Balance of Payments, 1976-80

(In millions of ringgit)

	1976	1977	1978	1979	1980 <u>5/</u>
A. Current account balance	1,855	1,278	319	2,286	-412
Goods and services (net)	1,955	1,356	401	2,405	-289
Merchandise trade (f.o.b.)					
Exports	13,329	14,861	16,925	23,977	28,029
Imports <u>1/</u>	9,567	10,990	13,338	17,397	23,289
Trade balance	3,762	3,871	3,587	6,580	4,740
Services (net)	-1,807	-2,515	-3,186	-4,175	-5,029
Transfers (net)	-100	-78	-82	-119	-123
B. Capital account balance	<u>1,231</u>	<u>464</u>	<u>1,343</u>	<u>1,083</u>	<u>2,867</u>
Private long term	<u>763</u>	<u>1,174</u>	<u>1,258</u>	<u>1,448</u>	<u>2,118</u>
Commercial loans (MAS and MISC) <u>2/</u>	154	-20	-82	87	-140
Official long term	489	590	513	712	308
Private short-term capital <u>3/</u>	-175	-1,280	-346	-1,164	581
C. Errors and omissions	-1,032	-987	-1,037	-1,580	-1,453
D. SDR allocation	--	--	--	74	76
E. Total (A through D)	2,054	755	625	1,863	1,078
F. Monetary movements					
(increase -) <u>4/</u>	<u>-2,054</u>	<u>-755</u>	<u>-625</u>	<u>-1,863</u>	<u>-1,078</u>
Reserve position in the Fund	4	9	-5	-41	-25
Holdings of SDRs	-5	116	-35	-140	-135
Central Bank gold and net foreign exchange	-2,318	-615	-585	-1,682	-918
Use of Fund credit	265	-265	--	--	--

Source: Data provided by the Malaysian authorities.

1/ Includes nonmonetary gold.

2/ National airline and shipping companies.

3/ Commercial banks, finance companies, and Petronas.

4/ Net change in Central Bank reserve.

5/ Official provisional estimates.

b. Current Account

Although the trade balance recorded a surplus of about M\$4.7 billion, it was smaller than that of the previous year (M\$6.6 billion). However, the continued strong growth of the deficit in the services and transfers account gave rise to a current account deficit of M\$412 million in 1980.

(1) Exports

In 1980, the value of gross exports increased by 16 per cent, compared with a 42 per cent growth in 1979 (Appendix Table XXII). The growth in 1980 was largely due to price increases, especially in petroleum, while the export growth in 1979 reflected increases in both prices and volume. The slackening of economic activity in major industrial countries and the consequent softening of demand for key commodity exports were largely responsible for the slower growth in 1980. The slowdown was particularly noticeable during the second half of 1980; whereas exports grew at an annual rate of 31 per cent during the first half of 1980, the growth rate declined to 4 per cent in the second half, following a significant weakening of the key commodity prices.

Crude petroleum became the most important single export item in 1980, comprising 24.3 per cent of total exports (Table 9). The value of crude petroleum exports increased by 62.6 per cent in 1980, following an increase of 87.2 per cent in 1979. While the increase in value in 1979 was a result of increases in both the volume and the price, the increase in 1980 reflected mainly an increase of 71.4 per cent in the price of Malaysian crude which moved in line with the OPEC price increases; for 1980 as a whole, the price of Malaysian crude oil averaged US\$36.2 a barrel, compared with US\$21.1 a barrel in 1979. The volume of crude oil exports declined by 5.1 per cent as a result of the implementation of the new National Oil Depletion Policy (Chapters II and IV) introduced in 1980 and an increase in local consumption of domestic crude.

Exports of natural rubber increased by 4.1 per cent in 1980, compared with an increase of 24.5 per cent in 1979. The moderate increase in 1980 was largely due to an increase in the export price by 12.3 per cent, while volume declined by 7.3 per cent. The share of rubber exports in total exports declined to 16.6 per cent, relinquishing to petroleum its traditional position as Malaysia's most important export item.

Rubber prices in the Kuala Lumpur market fluctuated widely in 1980, after reaching a record high of M\$4.06 per kg on February 13, reflecting speculative buying arising from international political instability, the price of RSS 1 grade rubber began to decline sharply in March, reaching M\$2.78 by May 21, its lowest in 1980. For the year as a whole, RSS 1 price averaged M\$3.124 per kg.

The International Rubber Agreement came into effect provisionally on October 1, 1980, pending ratification by some member countries. Malaysia

Table 9. Malaysia: Structure of Gross Exports, 1970, 1975, 78-80

(In millions of ringgit)

	1970		1975		1978		1979		1980	
	Value	Share (Per cent)	Value	Share (Per cent)	Value	Share (Per cent)	Value	Share (Per cent)	Value	Share (Per cent)
Rubber	1,724	33	2,026	22	3,601	21	4,483	19	4,667	17
Tin	1,013	20	1,206	13	2,021	12	2,316	10	2,506	9
Saw logs	643	13	669	7	1,665	10	2,877	11	2,586	9
Sawn timber	199	4	392	4	878	5	1,335	6	1,362	5
Palm oil	264	5	1,320	14	2,085	12	2,753	11	2,929	10
Petroleum	164	3	727	8	2,263	13	4,210	17	6,846	24
Manufactures	615	12	1,978	21	3,624	21	4,798	20	5,935	21
Other	<u>541</u>	<u>10</u>	<u>913</u>	<u>10</u>	<u>953</u>	<u>6</u>	<u>1,445</u>	<u>6</u>	<u>1,309</u>	<u>5</u>
Total	5,163	100	9,231	100	17,090	100	24,217	100	28,140	100

Source: Data provided by the Malaysian authorities.

and Indonesia, the largest producers, with 74 per cent of the producers' voting power, have already ratified the Agreement, among the consuming countries, a total of six countries, constituting 21 per cent of consumers' voting power, have also ratified the Agreement. Many other countries have provisionally agreed to subscribe to the Agreement. Kuala Lumpur was chosen by the International Rubber Council, the executive body of the Agreement, as the site of its headquarters. Since the Agreement in October 1980, the market price of rubber has been higher than the upper indicative price of M\$2.70. Therefore, although technically the International Rubber Council was supposed to sell rubber, it was not able to function without any stocks on hand.

Exports of crude and processed palm oil, which comprised 9.3 per cent of total exports, increased by 6.4 per cent in 1980, compared with a 32.0 per cent increase in 1979. The price of palm oil on average declined by 13.6 per cent in 1980, while the volume increased by 19.8 per cent. Major factors accounting for the continuous decline in the price of palm oil during the first three quarters of 1980 were. (1) reports of an improved world supply of edible oils due to the favorable soybean harvest in Brazil, (2) continued increases in the Malaysian production as well as stocks of palm oil, and (3) reduced world consumption, due mainly to the sluggish economic activity in major industrial countries. The price of palm oil began to recover in October due to the expected tightening of the markets for major oil seeds arising from dry weather in the United States, large imports of vegetable oil by the Soviet Union, and purchases of palm oil by India. With the continued expansion of the domestic refining capacity, the volume of processed palm oil exports increased by 33.4 per cent, while the volume of crude palm oil exports declined by 39.2 per cent in 1980.

The value of exports of saw logs and sawn timber declined by 6.3 per cent in 1980, in contrast to an increase of 65.7 per cent in 1979. The decline reflected the reduced demand associated with sluggish construction activity, particularly in the United States and Japan, and the Government's policy of conserving timber resources and promoting domestic processing. Exports of saw logs, which comprised 9.2 per cent of total exports, declined by 10.1 per cent, in contrast to an increase of 72.8 per cent in 1979, the volume fell by 9.4 per cent, and the price declined by 1 per cent in 1980. Exports of sawn timber increased by 2.0 per cent in 1980, in contrast to a 52.1 per cent increase in 1979. The increase in value was due mainly to a 9 per cent increase in the price as the volume fell by 6 per cent in 1980.

Exports of tin rose by 8 per cent to a record level of M\$2.5 billion in 1980, due mainly to a 12 per cent increase in the price of tin to a record level of M\$35,955 per ton. The sharp price increase in the first quarter of 1980 was associated with speculative buying in the face of tight supply conditions. However, after April 1980, the tin price declined continuously, except for a brief recovery in September, reflecting slackening economic activity and the decision by the United States to sell a part of its stockpile.

The negotiations to conclude the Sixth International Tin Agreement have so far been unsuccessful. The main unsettled issues are the size of the buffer stock and the use of export controls. The current Fifth Agreement expires in June 1981, but has been tentatively extended for one year in view of the delay in concluding the negotiations for the Sixth Agreement.

The growth of exports of manufactures slowed to 24 per cent in 1980, compared to 32 per cent in 1979. However, the share of manufactured exports in total exports increased slightly to 21 per cent in 1980, compared to 20 per cent in 1979. The slower growth reflected mainly slackened demand for Malaysia's manufactured exports in the major industrial countries; in particular, exports of some wood and wood products declined, and the growth of electrical machinery, appliances and electronic components, the traditional leaders of manufacturing exports, slowed down markedly (Appendix Table XXIII). However, exports of textiles, footwear, food products, chemical and petroleum products, and machinery and transport equipment, which comprise 31 per cent of total manufacturing exports, increased at faster rates than in the previous year.

## (2) Imports

In 1980, the growth of merchandise imports accelerated to 34 per cent from 30 per cent in 1979. The continued rapid growth was due to both higher volumes and prices. Import prices and volumes increased on average by 19 per cent and 14 per cent, respectively, in 1980. Although all categories of imports increased significantly in 1980 (Table 10), the sharpest growth was recorded by investment goods, which increased by 41 per cent. This figure represented higher imports of commercial vehicles, a doubling of aircraft parts, and higher imports of machinery, in particular those for mining, construction and manufacturing, due to the continued expansion of investment activity. Imports of intermediate goods also increased by 39 per cent in 1980, compared to 32 per cent in 1979. Major factors for this increase were the continued expansion of manufacturing industries, the high level of activity in construction, and the sharp increase in petroleum prices, which resulted in a 49 per cent increase in the value of crude petroleum imports despite a 10 per cent decrease in volume. Imports of consumption goods increased by 28 per cent in 1980, reflecting the continued strong growth in imports of consumer durables (37 per cent in 1979 and 40 per cent in 1980).

## (3) Services and transfers

The services and transfers account continued to record a sizable deficit, which amounted to M\$5.0 billion in 1980, a 20 per cent increase over 1979. Mainly responsible were increased net payments on freight and insurance associated with a larger volume of trade and higher freight costs, which rose by 41 per cent in 1980. The growth in net payments on investment slowed to 8 per cent in 1980 from 14 per cent in 1979,

Table 10. Malaysia: Imports According to End-Use, 1976-80 1/

(In millions of ringgit)

	1976	1977	1978	1979	1980
Consumption goods	<u>2,049</u>	<u>2,401</u>	<u>3,068</u>	<u>3,503</u>	<u>4,595</u>
Food	699	839	1,109	1,115	1,151
Beverages and tobacco	113	140	185	189	272
Consumer durables	293	398	561	775	1,072
Other	944	1,024	1,213	1,336	2,100
Investment goods	<u>3,136</u>	<u>3,532</u>	<u>4,170</u>	<u>5,112</u>	<u>7,143</u>
Machinery	966	1,126	1,380	1,691	2,421
Transport equipment <u>2/</u>	282	246	340	434	1,106
Metal products	672	776	1,050	1,485	1,954
Other	1,216	1,384	1,400	1,502	1,662
Intermediate goods	<u>4,169</u>	<u>4,931</u>	<u>6,139</u>	<u>8,165</u>	<u>11,276</u>
For manufacturing	2,272	2,717	3,700	4,799	6,473
For construction	221	218	300	420	503
For agriculture	382	454	510	753	925
Crude petroleum	696	859	929	1,262	1,869
Other	598	683	700	930	1,506
Imports for re-export	<u>368</u>	<u>301</u>	<u>313</u>	<u>381</u>	<u>406</u>
Tin ore	117	141	224	290	297
Crude natural rubber	62	78	89	92	109
Crude petroleum <u>3/</u>	<u>189</u>	<u>82</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total	9,722	11,165	13,690	17,161	23,420

Source: Data provided by the Malaysian authorities.

1/ Customs data

2/ Excludes imports of aircraft and ships.

3/ Imports of crude petroleum from Brunei for re-export.

reflecting the moderate growth in the export sector and ownership restructuring in favor of domestic residents in the rubber and tin industries in accordance with the NEP. Net transfers continued to show a small deficit.

c. Capital account and errors and omissions

The capital account surplus almost tripled to M\$2.9 billion in 1980, compared with M\$1.1 billion in 1979, mainly as a result of the large capital inflows by commercial banks and a turnaround in the private long-term capital account from a deficit in 1979 to a surplus in 1980.

Although total long-term capital inflows increased only slightly in 1980, their composition changed significantly; while inflows of official long-term capital declined by 57 per cent to M\$308 million in 1980, inflows of corporate investment increased by 50 per cent to M\$2.1 billion. The decline in long-term capital was due to the Government's increased reliance on the domestic capital market in financing its budget deficit and subsequent inactivity in foreign borrowing in view of high interest rates in the international capital markets; the entire amount of official inflows in 1980 consisted of drawings on project loans. Substantial investment in the oil industry and the LNG project accounted for much of the large increase in corporate investments. The balance on other private long-term capital, consisting mainly of commercial credit, recorded a small deficit, reflecting advance payments on ships and aircraft purchased by the national shipping and airline companies.

In 1980, the balance on private financial capital recorded a surplus of M\$0.6 billion, compared to a deficit of M\$1.2 billion in 1979. This occurred mainly as a result of significant inflows of bank funds from abroad, despite the unfavorable interest rate differential between international and domestic capital markets. Errors and omissions continued to record a large negative balance possibly reflecting the private capital outflows resulting from the unfavorable interest differential.

d. International reserves

International reserves, consisting of the gold and foreign reserve holdings of Bank Negara, increased by M\$1.1 billion to M\$10.3 billion (SDR 3.6 billion) at the end of 1980 (Appendix Table XXIV). This level of reserves was equivalent to about 5.3 months of 1980 merchandise imports, compared with 6.4 months in 1979.

2. External debt

Total public and publicly-guaranteed external debt disbursed and outstanding increased by M\$1.2 billion in 1980 (Appendix Table XXV). At the end of the year, the ratio of total public and publicly-guaranteed external debt to GNP stood at 15 per cent, the same as at the end of 1979. Borrowings from international institutions increased by about



M\$200 million, representing disbursements of project loans by the World Bank and the Asian Development Bank. Borrowings from foreign governments increased by M\$560 million, due largely to the borrowings from Japan under the Eximbank and yen credit facilities which amounted to M\$400 million. The increase in the external debt was chiefly attributable to use of supplier's credit facilities which rose from M\$0.5 billion in 1979 to M\$1.8 billion in 1980. The national shipping company accounted for M\$1.7 billion of this amount which was used toward the purchase of LNG tankers. In view of the high interest rates in international financial markets, the Government raised only one syndicated loan (US\$200 million) from the Eurodollar market for the Development Fund during 1980. This was wholly drawn down in early 1981.

Total amortization and interest payments on public and publicly-guaranteed external debt rose to M\$800 million in 1980, M\$500 million of which was interest payments (Appendix Table XXVI). The debt service ratio (defined as the ratio of interest and principal payments to exports of goods and services) declined from 2.9 per cent in 1979 to 2.6 per cent in 1980.

Amendments to the External Loans Act of 1963 and Extended Credit Act of 1966 came into force in January 1980. The amendments provided for the increase in loan limits to be revised from time to time, and on April 1, 1980, the maximum amount of loans under the External Loans Act of 1963 was raised from M\$5 billion to M\$10 billion, and under the Extended Credit Act of 1966, from M\$1.3 billion to M\$3 billion.

### 3. Exchange rate developments

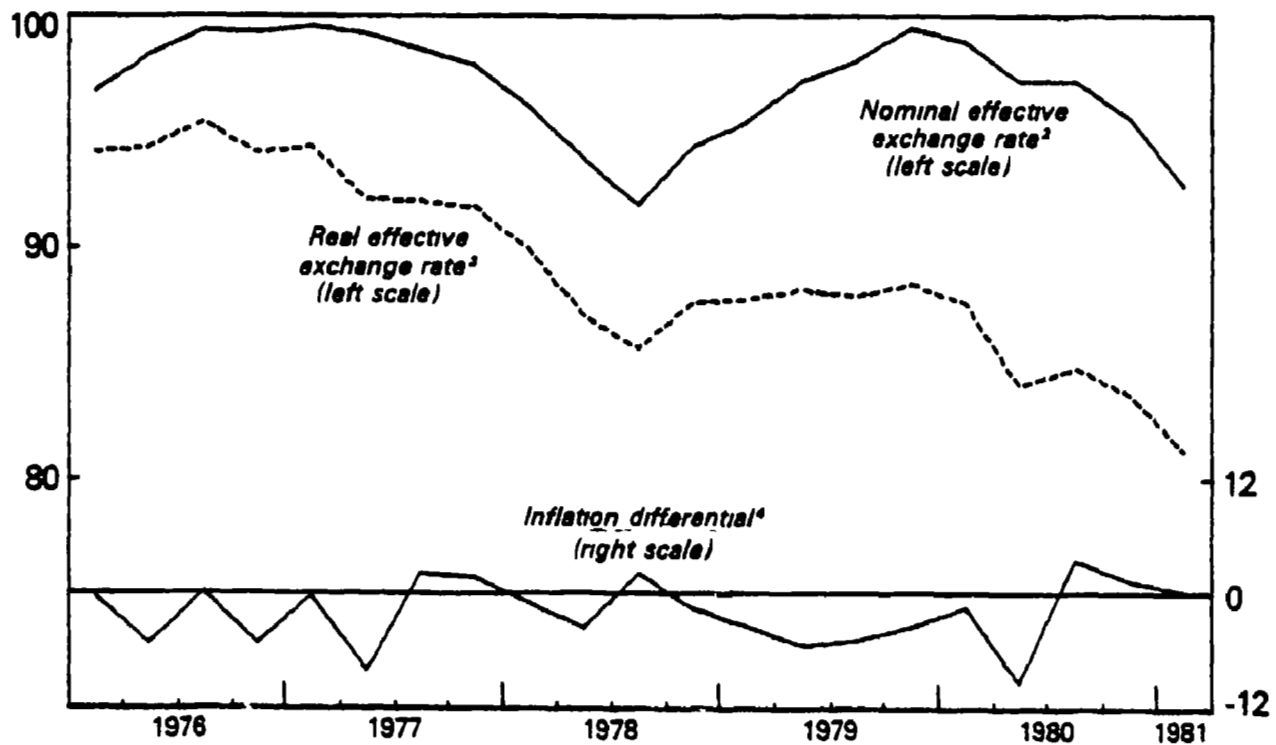
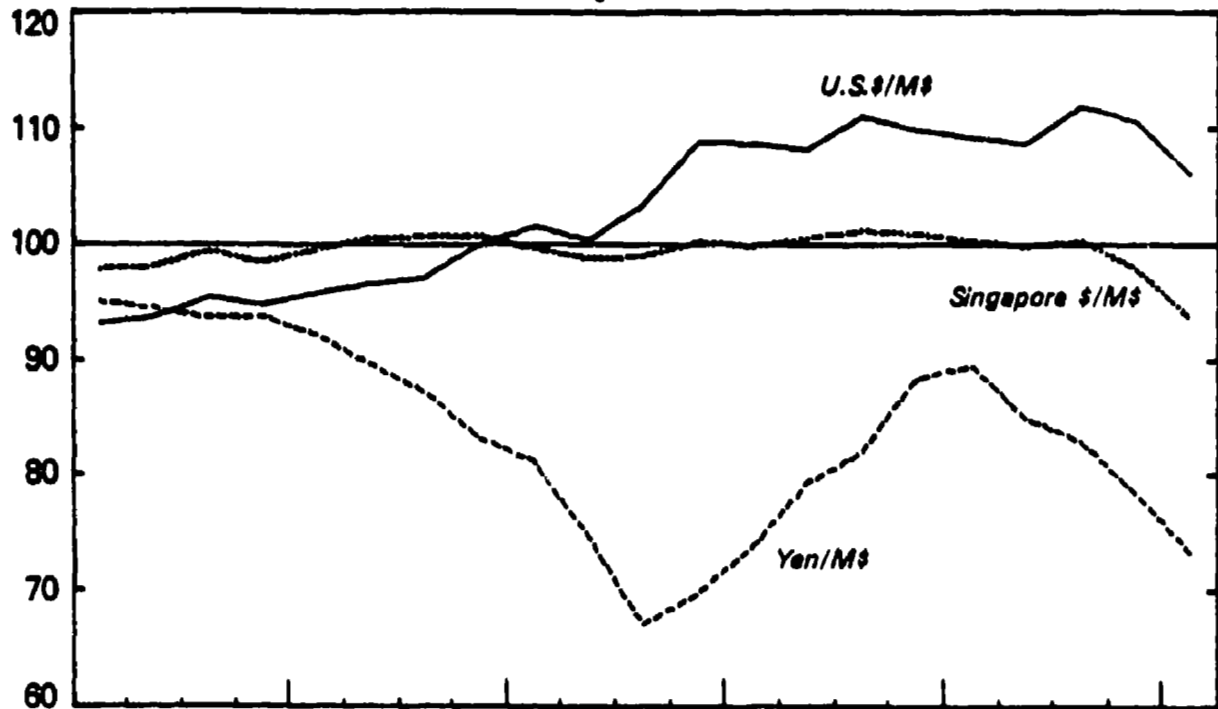
The Malaysian ringgit is pegged to an undisclosed basket of currencies of Malaysia's major trading partners. The weights are based on trade shares and the importance of currencies used in settlements. The composition of the basket has remained unchanged since September 1975, when the basket-pegging scheme was first implemented. The authorities have intervened mainly to smooth out day-to-day fluctuations and to maintain the margins of 2.25 per cent around the pegged value, occasionally, the rate has been allowed to exceed the margins for a short period of time.

#### a. Spot market developments

The ringgit appreciated against the U S dollar and depreciated against the pound sterling and the Japanese yen during most of the first three quarters of 1980 (Chart 5 and Appendix Table XXVII). Reflecting these movements in the exchange rate of the ringgit vis-a-vis other major currencies for most of the first nine-month period of 1980, the ringgit generally maintained its value in terms of the undisclosed basket with small fluctuations. However, during the last quarter of 1980, the ringgit in terms of the basket depreciated, reaching 1.4 per cent below the pegged value at the end of 1980, compared to 2.8 per cent

# CHART 5 MALAYSIA EXCHANGE RATE INDICATORS<sup>1</sup>

(Average 1975=100)



Source: IMF Data Fund and staff estimates.

<sup>1</sup>Quarterly averages.

<sup>2</sup>Calculated by the staff using the 1975 trade weights. See page footnotes.

above it at the end of 1979. This reflected mainly the continued strong demand for foreign exchange associated with strong import demand in the face of declining export earnings, as well as a widening in interest rate differentials against Malaysia. During this quarter, the ringgit not only continued to depreciate against the Japanese yen and the pound sterling, but also against the U.S dollar and the Singapore dollar.

Real effective exchange rates were calculated by the staff, using consumer price indices and the nominal exchange rates which are weighted by Malaysia's trade shares in 1975 <sup>1/</sup> (Chart 5). In the first half of 1980, the relative price level (defined as the ratio of CPI in Malaysia to the average CPI in the partner countries) was 4.2 per cent lower and the nominal effective exchange rate of the ringgit 1.8 per cent higher, than the corresponding period of 1979, resulting in a 2.5 per cent depreciation of the real effective exchange rate. In the second half of the year, the relative price was 2.1 per cent lower and the nominal effective exchange rate 2.4 per cent lower than the same period of 1979. As a result, the real effective exchange rate depreciated by 4.5 per cent between the second half of 1979 and that of 1980. For the year as a whole, the real effective exchange rate depreciated by 3.5 per cent on average, due mainly to a 3.2 per cent nominal depreciation of the ringgit. This contrasts with the experience in 1979 when the real effective exchange rate appreciated by 0.6 per cent, on average, with the appreciation of the nominal rate largely offsetting the sizable inflation differential in favor of Malaysia.

b. Forward market developments

Although there is no formal forward exchange market as such in Malaysia, customers of commercial banks have been able to obtain forward exchange cover for a period usually up to three months through swap facilities from commercial banks; these banks in turn have access to a swap facility with Bank Negara. Commercial banks usually provide swap margins in arranging a contract for forward exchange with their customers, and such margins are equivalent to forward premiums or discounts on the future ringgit (Appendix Table XXVIII).

When the domestic money market and commercial banks' liquidity position tightened considerably during the second half of 1980, Bank Negara stepped in to provide its own swap facilities to commercial banks and also encouraged local and foreign banks to bring in foreign funds through the swap facilities. Reflecting these factors, the volume of swap transactions increased substantially in 1980, compared with previous

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<sup>1/</sup> The weights used are based on the shares of trade (imports plus exports) with seven most important trading partners:

Japan	0.25	Germany	0.07
Singapore	0.22	Netherlands	0.07
United States	0.20	Australia	0.07
United Kingdom	0.11		

years. According to data on the swap margins charged by commercial banks, there was a premium on the forward ringgit for most of 1980, except the July-September period. These forward premiums only partially compensated for the unfavorable interest differential between the Euro-dollar market and the domestic interbank money market, with the result that the covered differential was always in favor of the Eurodollar market (Chart 6). This seems to imply that those banks that brought in foreign funds by utilizing the swap facility incurred losses on these transactions in 1980. Also, the banks which received foreign funds from these banks by providing forward dollars to them seem to have incurred losses from these operations since the fourth quarter of 1980, because the forward rates implicit in the swap transactions were higher than the spot exchange rate of the ringgit at the time the contracts were executed three months later.

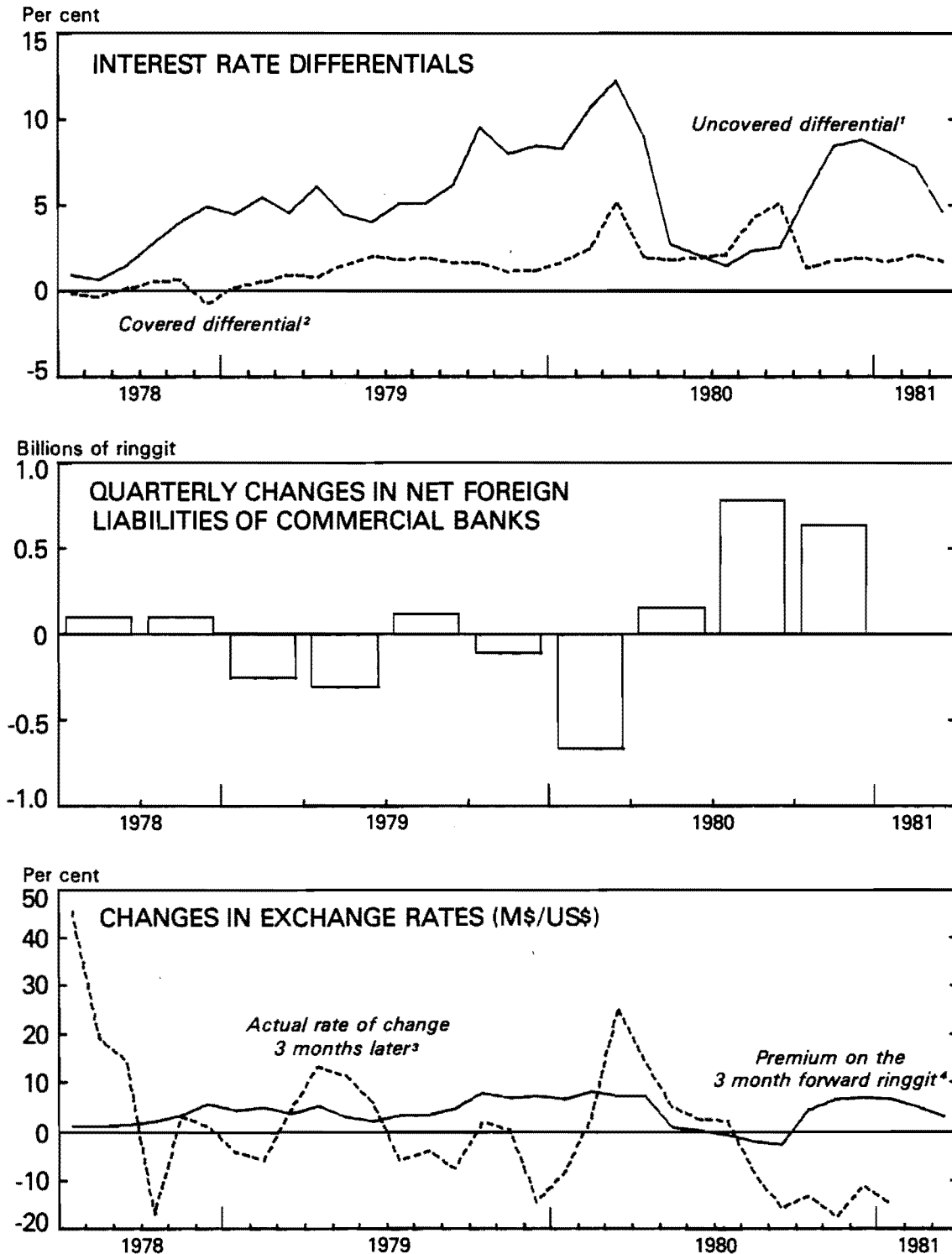
#### 4. Exchange and trade system

A detailed description of Malaysia's exchange and trade system is contained in the Annual Report of Exchange Arrangements and Exchange Restrictions. The main features and major changes in 1980 are summarized below.

Malaysia maintains an exchange system free of restrictions on payments and transfers for current international transactions. However, transactions with Israel and South Africa are prohibited. Trade and payments restrictions with Zimbabwe have been lifted. The Central Bank administers the exchange control system, but commercial banks are authorized to approve payments abroad, except for repayment of foreign loans or the payment of interest on such loans. Proceeds from exports must be received within six months from the date of export. Inward investment covered by the guidelines of the Foreign Investment Committee issued on February 20, 1974 regarding the organization of assets, mergers, and takeovers requires the approval of this committee. The proceeds of investments on resale may be repatriated freely. Malaysian residents require prior official approval for borrowing from nonresidents either in ringgit or in foreign currencies in excess of MS\$100,000. Permission is given freely for direct and portfolio investment by Malaysian residents in countries other than Israel and South Africa.

To insure adequate domestic supply, exports of certain commodities and products, which are deemed essential to the country, are controlled. Products subject to licensing include rubber, cement, scrap iron, steel bars, textiles, tiles and bricks. The preshipment financing facility introduced in 1979 and the postshipment financing facility introduced in 1977 continued to be provided by the Central Bank for the purpose of promoting exports of manufactured goods. These facilities provide export refinancing at low interest rates--the Central Bank's discount rate is 3 per cent, and commercial banks charge 4.5 per cent to exporters. As a proportion of the gross manufacturing exports, the total refinancing under these facilities increased threefold in four years, from 5 per cent in 1976 to 14 per cent in 1980.

CHART 6  
MALAYSIA  
INTEREST DIFFERENTIALS, COMMERCIAL BANKS' NET FOREIGN  
LIABILITIES AND CHANGES IN EXCHANGE RATE 1978-81



Source: IMF Data Fund, staff estimates and data provided by the Malaysian authorities.

<sup>1</sup>Three-month LIBOR on U.S. dollars minus three-month interbank rate at the end of the month.

<sup>2</sup>Uncovered differential adjusted for the forward premium on the ringgit in Malaysia:U.S. dollars calculated from the swap margins.

<sup>3</sup>"+" = appreciation and "-" = depreciation.

<sup>4</sup>"+" = premium on the ringgit and "-" = discount.

The threshold prices in the commodity export tax structure, introduced in 1979 (SM/80/142) and based on the "cost plus" approach, have been revised upward in 1980; for tin, from M\$1,200 to M\$1,400 per picul; for palm oil, M\$500 to M\$508 per ton; for rubber, M\$0.65 for high grade (RSS1) and M\$0.70 for low grade (RSS2 and RSS3) per pound, to assist smallholders who produce mostly lower grade rubber. These revisions will, in fact, lower the effective tax rates by shifting the whole tax schedules to the right.

Quantitative restrictions and licensing requirements were lifted for some items (e.g., rice vermicelli, leaf/grass meals, locks) in 1980 except those from China. The 1981 Budget contains proposals for some reductions in import duties (e.g., musical instruments, microphones, loudspeakers, amplifiers, cinematographic equipment, and weighing machinery, with an estimated revenue loss of M\$5 million), and some increases (e.g., liquors and tobacco, with an estimated revenue gain of M\$42 million).

#### IV. Selected Topics

##### 1. The Fourth Malaysia Plan

The year 1981 marks the launching of the Fourth Malaysia Plan (FMP), which seeks to further the achievement of the broad social and economic objectives of the Government as set forth in the New Economic Policy (NEP) inaugurated in 1971. The purpose of this section is to summarize the NEP, to review major developments in the 1970s, and to describe in more detail the specifics of the FMP.

##### a. The New Economic Policy

Prior to 1971, economic policies in Malaysia emphasized the acceleration of economic growth through investment in infrastructure, agriculture, and rural development. While this strategy was successful in strengthening the economy, it did not alleviate the problems arising from the fundamental social and economic imbalances in Malaysian society. The NEP, formulated to address these issues, set out the following objectives (1) the eradication of poverty irrespective of race, and (2) the restructuring of society to eliminate the identification of race with economic function. It was recognized that the transformation of the economy envisaged in the objectives of the NEP had to be achieved within the context of an expanding economy, so that no group suffered any absolute decline in economic status. As a consequence, the economic policies pursued under the aegis of the NEP have emphasized growth along with the attainment of the broader social and economic goals described above.

##### b. The Overall Perspective Plan (OPP) and the NEP

The OPP specified quantitative targets for the broad social and economic objectives of the NEP, which were to be achieved through a series of four five-year plans, commencing with the Second Malaysia Plan

in 1971. The OPP also specified the macroeconomic framework necessary for the achievement of the NEP's objectives; real output was targeted to increase by 7.9 per cent per annum over the period 1971-90 (Table 11). During the period 1971-80, the first decade of the OPP, real output increased an average of 7.8 per cent per annum, thus implying a higher increase of 8 per cent per annum over the period 1981-90 if the target is to be achieved.

The OPP envisaged a substantial reduction in poverty <sup>1/</sup> as defined by the Malaysian Government; in Peninsular Malaysia, the incidence of poverty was targeted to decline from 49.3 per cent in 1970 to 16.7 per cent in 1990. The incidence of poverty was estimated at 29.2 per cent in 1980, a substantial improvement on the targeted level of 34 per cent under the OPP. However, further reductions in poverty are expected to be less rapid because of the difficulty in raising the living standards of the poorest groups. Although there were no specific targets for the reduction of poverty in Sabah and Sarawak, measures were implemented during the decade to improve the socio-economic status of the poor.

The OPP also aimed at reducing imbalances in employment so that employment in various sectors and by occupational level would reflect the racial composition of the population. Under the OPP the share of all Malaysians in the ownership of productive capital, in particular, the Bumiputera community was to be increased. This would insure the creation of a commercial and industrial class among the Bumiputras, who, within one generation, would own and manage at least 30 per cent of the commercial and industrial activities of the country. In this regard, the target is that by 1990 Malaysians will hold about 70 per cent of the share capital of limited companies, with Bumiputras accounting for at least 30 per cent, and other Malaysians, 40 per cent.

The policies pursued during the period 1971-80 led to a substantial increase in employment for all Malaysians. In terms of job creation, employment gains were greatest in the manufacturing, construction, and government services sectors (Table 12), unemployment declined from an average of 7.2 per cent in the first five years of the decade (the period of the SMP) to 5.3 per cent in 1980 (the last year of the Third Malaysia Plan (TMP)). However, efforts to restructure the ownership of the corporate sector fell considerably short of the 1980 target of 16 per cent for the Bumiputera community (Table 13). The underachievement of the restructuring target reflected a number of factors, including the very low base of Bumiputera ownership in 1970, insufficient knowledge of savings habits, and the long start-up period for the implementation of programs to foster corporate ownership by Bumiputras and other indigenous groups.

#### c. The Fourth Malaysia Plan (FMP), 1981-85

The FMP elaborates and refines policies embodied in the previous two five-year plans to insure achievement of the objectives of the NEP.

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<sup>1/</sup> The poverty level is above the U.N. subsistence level.

Table 11. Malaysia: Supply and Use of Resources at Constant 1970 Prices, 1971-90

	Average annual growth rate (per cent)					Share of GDP (per cent)			
	1971-80	1981-85	1986-90	1981-90	1971-90	1970	1980	1985	1990
<b>Supply of Resources</b>									
GDP at market prices	<u>7.8</u>	<u>7.6</u>	<u>8.5</u>	<u>8.0</u>	<u>7.9</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Agriculture, forestry and fishing	4.3	3.0	4.0	3.5	3.9	30.8	22.3	17.8	14.4
Mining and quarrying	4.6	5.8	3.0	4.4	4.5	6.3	4.7	4.3	3.3
Manufacturing	12.5	11.0	10.8	10.9	11.7	13.4	20.3	23.9	26.6
Construction	9.6	9.0	10.0	9.5	9.5	3.9	4.4	4.8	5.2
Wholesale and retail trade	7.3	8.0	8.5	8.2	7.8	13.3	12.9	12.8	12.8
Government services	9.5	9.0	9.0	9.0	9.3	11.1	12.7	13.8	14.2
Imports of goods and services	<u>9.8</u>	<u>8.6</u>	<u>8.8</u>	<u>8.7</u>	<u>9.3</u>	<u>39.6</u>	<u>47.5</u>	<u>49.7</u>	<u>50.6</u>
<b>Use of Resources</b>									
Consumption expenditure	<u>8.4</u>	<u>7.6</u>	<u>8.2</u>	<u>7.9</u>	<u>8.1</u>	<u>75.0</u>	<u>78.2</u>	<u>78.5</u>	<u>77.6</u>
Private	<u>7.7</u>	<u>7.0</u>	<u>7.9</u>	<u>7.4</u>	<u>7.6</u>	<u>59.4</u>	<u>59.2</u>	<u>56.8</u>	<u>55.4</u>
Public	10.7	9.2	9.0	9.1	9.9	15.6	19.0	21.7	22.2
Investment expenditure	<u>12.2</u>	<u>5.2</u>	<u>10.0</u>	<u>7.6</u>	<u>9.9</u>	<u>17.9</u>	<u>27.0</u>	<u>23.7</u>	<u>25.4</u>
Private	<u>12.0</u>	<u>8.0</u>	<u>10.0</u>	<u>9.0</u>	<u>10.5</u>	<u>12.1</u>	<u>17.8</u>	<u>18.0</u>	<u>19.3</u>
Public	12.6	-1.4	10.0	4.1	8.3	5.7	9.2	5.7	6.1
Exports of goods and services	<u>7.6</u>	<u>9.7</u>	<u>8.4</u>	<u>9.1</u>	<u>8.3</u>	<u>43.8</u>	<u>42.5</u>	<u>47.3</u>	<u>47.2</u>

Sources: The Fourth Malaysia Plan and data provided by the Malaysian authorities.



Table 12. Malaysia: Employment Growth by Sector, 1971-90

	Average Annual Growth Rate					1980		1985		1990	
	1971-75	1976-80	1981-85	1986-90	1981-90	Estimated Employment ('000)	Share of Total (In per cent)	Estimated Employment ('000)	Share of Total (In per cent)	Estimated Employment ('000)	Share of Total (In per cent)
Agriculture, forestry and fishing	1.5	1.0	0.7	0.8	0.7	2,066.9	40.6	2,138.4	35.9	2,223.9	31.8
Mining and quarrying	0.1	0.8	0.5	0.3	0.4	89.6	1.7	91.9	1.5	93.1	1.3
Manufacturing	8.3	8.4	5.9	5.0	5.5	803.1	15.8	1,070.1	18.0	1,368.7	19.5
Construction	12.0	7.4	4.4	4.9	4.6	262.8	5.2	325.9	5.5	413.6	5.9
Electricity, gas and water	5.1	5.0	4.4	4.2	4.3	49.5	1.0	61.3	1.0	75.2	1.1
Transport, storage, and communication	6.3	4.3	3.0	3.3	3.2	193.2	3.8	223.6	3.8	263.4	3.8
Wholesale and retail trade	4.9	4.8	4.7	4.8	4.8	648.5	12.7	816.9	13.7	1,034.9	14.8
Finance and insurance	4.4	4.4	4.4	4.6	4.5	52.1	1.0	64.5	1.1	80.7	1.1
Government services	5.5	6.0	4.6	4.4	4.5	710.1	13.9	890.0	14.9	1,104.0	15.8
Other services	5.8	3.4	4.5	4.9	4.7	217.7	4.3	271.5	4.6	344.2	4.9
Total Employment	3.8	3.9	3.2	3.3	3.2	5,093.5	100.0	5,954.1	100.0	7,001.7	100.0
Labor force	--	--	--	--	--	5,380.0		6,259.6		7,229.6	..
Unemployment	--	--	--	--	--	286.5		305.5		227.9	.
Unemployment rate (In per cent)	7.2	5.8	--	--	--	5.3		4.9		3.2	...

Sources: The Fourth Malaysia Plan and staff calculations.

Table 13. Malaysia: Ownership and Control of the Corporate Sector, 1971-90

(In millions of ringgit)

	1971		1980 1/		1985		1990		Average Annual Growth Rate (In per cent)	
	Amount	Per Cent Share	Amount	Per Cent Share	Amount	Per Cent Share	Amount	Per Cent Share	1972-80	1981-90
Malaysia residents	<u>2,512.8</u>	<u>38.3</u>	<u>13,817.8</u>	<u>52.5</u>	<u>27,188.8</u>	<u>63.0</u>	<u>52,143.9</u>	<u>70.0</u>	<u>20.9</u>	<u>14.2</u>
Bumiputra individuals and Trust agencies	279.6	4.3	3,273.7	12.4	9,926.0	23.0	22,368.8	30.0	31.4	21.2
Bumiputra individuals	(168.7)	(2.6)	(1,128.9)	(4.3)	(1,976.1)	4.6	(3,891.4)	(5.2)	23.5	13.2
Bumiputra Trust agencies	(110.9)	(1.7)	(2,144.8)	(8.1)	(7,949.9)	18.4	(18,477.4)	(24.8)	(39.0)	24.0
Other Malaysian residents	2,233.2	34.0	10,544.1	40.1	17,262.8	40.0	29,825.1	40.0	18.8	11.0
Foreign residents	<u>4,051.3</u>	<u>61.7</u>	<u>12,505.2</u>	<u>47.5</u>	<u>15,968.0</u>	<u>37.0</u>	<u>22,368.8</u>	<u>30.0</u>	<u>13.3</u>	<u>6.0</u>
Share in Malaysian companies	2,159.3	32.9	7,128.0	27.1	9,740.5	22.6	14,539.7	19.5	14.2	7.4
Net assets of local branches	1,892.0	28.8	5,377.2	20.4	6,227.5	14.4	7,829.1	10.5	12.3	3.8
Total	<u>6,564.1</u>	<u>100.0</u>	<u>26,323.0</u>	<u>100.0</u>	<u>43,156.8</u>	<u>100.0</u>	<u>74,562.7</u>	<u>100.0</u>	<u>16.7</u>	<u>11.0</u>

Source. Fourth Malaysia Plan.

1/ Estimate.

Real output is targeted to increase by an average of 7.6 per cent per annum during the FMP period, somewhat lower than the rate achieved during the decade of the 1970s (Table 11). The manufacturing sector is to continue as the leading sector of the economy, but at a lower rate of growth of 11 per cent per annum, compared with 12.5 per cent during the 1970s; the share of manufacturing in total output is estimated to rise from about 20 per cent in 1980 to about 24 per cent in 1985. The stimulus to the expansion of the manufacturing sector is expected to come from both domestic and external sources. While the traditional export-oriented industries, such as timber products, electronics, textiles, and rubber products, will continue to grow, though at lower rates than during previous years, a number of new products which have significant demand potential, e.g., precision instruments and scientific gauges, will receive strong encouragement during the FMP period. In addition, several agro-based industries, with good potential for export and domestic demand, will receive priority treatment. Other sectors which are expected to expand rapidly during the FMP are construction (9 per cent) and government services (9 per cent).

Imports are expected to increase at an average rate of 8.6 per cent per annum in real terms during the FMP, well below the average of 9.8 per cent recorded during 1971-80. The slower growth of imports is to be achieved, in part, through import substitution in heavy industries, such as aluminum, cement and steel. In 1980 the Heavy Industries Corporation was established to promote the development of heavy industries on a long-term basis, the Corporation will seek to establish joint-ventures with foreign interests and encourage heavy industries to relocate in Malaysia.

On the demand side, private investment is expected to play a major role during the 1981-85 period, since over 72 per cent of the total projected investment of about M\$103 billion, or 27 per cent of estimated GDP, is expected to be met by the private sector. This implies a real growth of about 11 per cent per annum of private nonoil investment, however, since investment in the oil industry is anticipated to decline in real terms, the real growth of total private investment is estimated at 8 per cent. The growth of private investment is particularly significant in view of the projected real decline of 1.4 per cent per annum of public investment during this period. The objective of the Government will be to promote the role of the private sector in building the productive base of the economy, and, thereby to contribute toward achievement of the NEP objectives; as a consequence, public investment expenditure during the FMP will be used to consolidate past and existing development projects in order to strengthen their effectiveness.

Exports are expected to play a leading role, despite anticipated weak external demand and a downward trend in export prices of major commodities during the first part of the plan period. Exports are estimated to increase by 9.7 per cent per annum in real terms during the FMP, well above the real increase of 7.6 per cent recorded during 1971-80. This growth of exports will be achieved largely on the basis of the

performance of mineral and manufactured exports. Mineral exports are projected to increase by about 20 per cent per annum in current prices due to forecast increases in the prices of tin, petroleum, and copper, and in the volume of petroleum exports; the volumes of tin and copper exports are projected to decline. Also, the export of LNG from the Bintulu project, which comes on stream in 1983, is forecast to amount to M\$3.3 billion by 1985. Manufactured exports are forecast to increase by more than 24 per cent per annum in current prices during the FMP. This rapid expansion of manufactured exports will depend on Malaysia's ability to maintain her competitive position, and on the adoption of an aggressive export strategy which seeks to develop new products (see above) and new markets.

Total employment is projected to increase by an average of 3.2 per cent per annum during the FMP, with the result that unemployment is forecast to decline to 4.9 per cent in 1985 (Table 12). In order to insure adequate supplies of skilled manpower, both the Government and the private sector are expected to step up their training efforts during this period. The manufacturing sector will again be the leading sector in the generation of new employment.

In view of the openness of Malaysia's economy--exports equaled 43 per cent and imports 48 per cent of real GDP in 1980--domestic prices will be heavily influenced by the rate of international inflation during the FMP. Another factor affecting the domestic price level is the imported price of oil; although Malaysia is a net exporter of oil, it is estimated that it still will import about 70 per cent of its domestic requirements by 1985.<sup>1/</sup> Taking into account possible developments in international prices, the FMP forecasts annual price increases of 6-7 per cent during 1981-85.

The Bumiputra trust agencies, which acquire and hold share capital on behalf of the Bumiputra community, will continue to be the main vehicle to insure achievement of the goal of 30 per cent Bumiputra ownership of shares by 1990. These agencies are targeted to increase their holdings of shares from 8.1 per cent of the total in 1980 to 18.4 per cent in 1985 (Table 13). The transfer of shares from the PNB (National Trust) to Bumiputra individuals and interests began in 1981, under this scheme, Bumiputras are encouraged to purchase shares in a mutual fund. Bumiputras are guaranteed by the PNB a 10 per cent per annum return on their shares, which can only be transferred back to the PNB. The funds generated from the sale of shares to Bumiputras will be used by the PNB to acquire additional equity capital.

The FMP (1981-85), thus envisages a continuous expansion of output, with the manufacturing sector playing a leading role, manufacturers are expected to replace agriculture as the largest component of GDP by 1985

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<sup>1/</sup> Malaysia exports lighter crude to countries such as the U.S. and Japan and imports heavier crude for domestic use. See also the following section on Energy Policy.

(Table 11). The FMP also envisages a real growth in exports of almost 10 per cent per annum, a rate well above that recorded during the 1970s. In line with the projected increase of real GDP of 7.6 per cent per annum during the period of the FMP, a further increase in employment is forecast. At the same time, labor market conditions are expected to tighten further, in particular the market for skilled workers.

Furthermore, the international economic environment remains uncertain and generally unfavorable. However, it is likely that the authorities will continue to demonstrate flexibility and skill in adopting economic policies to achieve further growth and other objectives of the FMP.

## 2. Energy

Although the tightening of energy supply since 1973/74, particularly of oil, has brought about serious economic dislocations in many oil-importing countries, Malaysia has encountered no such difficulties--thanks to its indigenous oil reserves. However, these reserves are relatively small, and given the FMP's plan for further industrialization of the economy and improvement of the standard of living it has become increasingly clear to the authorities that a comprehensive long-term energy plan is needed--one that promotes not only conservation of oil, but also the development of other indigenous non-oil energy sources. This section presents a brief review of Malaysia's energy situation and its long-term outlook.

### a. Energy use

During the 1970s, Malaysia's total consumption of energy increased at an annual average rate of 8.4 per cent, compared with an average annual growth of 8 per cent in real GNP and industrial production. The total domestic use of oil has grown at 9.2 per cent per annum on average during the last decade, accounting for about 95 per cent of total energy use in 1980, compared with 87 per cent in 1970 (Table 14).<sup>1/</sup> Despite the large natural gas endowment and hydro-power potential, their role in meeting energy requirements has been relatively small. Most of the increase in energy consumption came from the industrial sector and the urban areas. The use of commercial energy in rural areas is still modest, about three fourths of the homes in the rural sector use charcoal or firewood for cooking, and one fourth use kerosene oil or electricity. The annual per capita consumption of energy is reported to be equivalent to about 4.4 barrels of oil--slightly above the average for developing countries and much lower than industrial countries.

In the next 20 years, the demand for energy is expected to grow at an annual rate of 8.2 per cent, almost the same rate as the projected GDP

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<sup>1/</sup> Oil has become increasingly important as a major source of foreign exchange earnings and government revenue, the share of petroleum exports in total exports has grown from 13 per cent in 1976 to 24 per cent in 1980. The share of oil-related revenues (income taxes on oil companies, excise taxes, petroleum royalties, and import duties) in total government revenue increased from 12 per cent in 1976 to 19 per cent in 1980.

Table 14. Malaysia: Sources of Energy 1/

(In barrels per day equivalent)

	1970	1975	1980	1990		2000	
				Scenario 1	Scenario 2	Scenario 1	Scenario 2
Oil	63,310	98,656	152,500	317,186	213,600	663,032	77,900
Hydro	1,392	1,184	5,073	13,518	35,600	30,302	282,400
Gas	--	--	--	21,795	74,760	66,747	312,100
Coal	--	--	--	--	17,800	--	77,900
Others <u>2/</u>	7,727	5,468	4,548	3,569	14,240	18,609	38,700
Total	<u>72,479</u>	<u>105,308</u>	<u>162,073</u>	<u>356,068</u>	<u>356,000</u>	<u>778,690</u>	<u>779,000</u>
Memorandum items: (in per cent)							
Share of oil	87	94	94	89	60	85	10
Share of hydro	2	1	3	4	10	4	35
Share of gas	--	--	--	6	21	9	40

Source Petronas "Gas Option for Malaysia" a paper presented at TENAGA conference, Kuala Lumpur, 1980.

1/ Assumption Scenario 1 represents the situation where minimal efforts are made to substitute oil with other indigenous energy sources. Scenario 2 represents the situation where the total hydro potential that is economically exploitable (63,600 GWH/year) is fully utilized by 2000. Projections for the growth in energy demand based on the assumption of 8.1 per cent growth in GDP during the 1980-2000 period.

2/ Includes wood and charcoal.

growth of 8.1 per cent. Considering the development of energy-intensive industries envisaged in the FMP, growth could be even higher.

b. Energy resources

Malaysia's energy resources consist of oil, natural gas, hydro-electric power, and coal as shown in Table 15 below.

Table 15. Malaysia Energy Resources

Type	Known Reserves as of 1980	Oil Equivalent in Energy Contents
Oil	1.8 billion barrels	
Unassociated gas	30 trillion standard cubic feet	5 billion barrels
Hydroelectric <u>1/</u>	Technical potential 123,000 GWH/year	194 2 million barrels/year
	Economic potential 63,600 GWH/year	
Coal	Gross 400-500 million tons	2,150-2,700 million barrels
	Economically exportable 93 million tons	500 million barrels

Source Estimates provided by the Malaysian authorities.

1/ Gross potential is estimated to be 414,000 GWH/year

The oil reserves consist of high quality low-sulphur light crude. At the current rate of production of about 30,000 barrels per day (bpd), the reserves can be expected to last about 17 years. Malaysia's reserves of natural gas are about three times larger than the known petroleum reserves. About one half of the reserves are located in an area near Sarawak, output from these fields has been earmarked for export to Japan in connection with the Bintulu liquid natural gas project.

The discovery of new oil and gas fields has continued since the first exploration in Sarawak in 1910. Since 1957, oil field discoveries have

been made largely in offshore areas. About 100,000 square miles in Malaysian territories are estimated to have hydrocarbon potential; however, only 20 per cent of this area has been tested by drilling, mainly in shallow water areas close to shore. Therefore, depending on developments in oil and gas prices and in technology, the estimates of oil and gas reserves could increase substantially in the future, as has happened in the past; for example, the estimate increased from 1.4 billion barrels in 1979 to 1.8 billion barrels in 1980.

Malaysia also has large technical hydroelectric potential, which is about three times the current energy consumption (about 162,000 barrels/day oil equivalent (bdoe) in 1980). Only about half of this technical potential is economically exploitable at present. However, the mismatch of supply and demand locations acts as a constraint on maximum utilization of this potential; while 87 per cent of the technical potential is located in Sabah and Sarawak, Peninsular Malaysia accounts for about 80 per cent of the total energy consumption. Although preliminary studies have indicated the possibility of transmitting electricity from Eastern Malaysia to Peninsular Malaysia through submarine cables, the cost and technical problems are substantial.

Malaysia's coal reserves are relatively insignificant. Coal deposits are located primarily in isolated and inaccessible areas in Sarawak. Furthermore, the coal is generally of poor quality--low calorie value, high moisture or high volatility--and coal seams are small in size.

#### c. Energy production

Production of crude oil has increased by 30 per cent a year on average during the last decade, reaching a peak of 103.3 million barrels in 1979 (Appendix Table XXIX). In 1980, production of crude oil declined by about 2 per cent, reflecting the new oil depletion policy. Petronas currently has three refineries with a total capacity of 155,000 bpd, this is insufficient to process the current domestic production (about 276,000 bpd in 1980) or consumption (about 162,000 bpd). Petronas is currently planning two additional refineries with total capacity of 190,000 bpd, which will be capable of processing both local and imported crudes.

Malaysia simultaneously exports its light crude and imports heavy crude and oil products because of the higher price of Malaysian light crude and the domestic demand pattern that requires a higher proportion of heavier products (e.g., diesel, kerosene and fuel oil). In 1980, Malaysia exported about 83 per cent of domestic crude production and met 76 per cent (46 million barrels) of its petroleum needs with imports.

Malaysia has been a net oil exporter since 1976, reflecting the increased production and exports that followed the oil price increases. However, given the current rates of production and consumption growth, the authorities forecast that Malaysia will become a net importer of oil by the late 1980s, unless new oil reserves are discovered.



Production of associated gas--a by-product of crude oil production--was estimated to be 260 million cubic feet a day in 1980. However, about 70 per cent of this was wasted by flaring, partly due to the difficulty of collecting isolated quantities of the gas. The production of un-associated gas at present is nil, despite the vast reserves. The Bintulu LNG project, a US\$1.2 billion joint venture with Japan, will produce 6 million tons of LNG a year when it is completed in 1983. Total production is scheduled to be exported to Japan.

Malaysia meets about 23 per cent of its energy requirements with electricity but the share of hydroelectric power has declined continuously during most of the last decade (Appendix Table XXX). The current share of hydro-power in total electricity generation in Malaysia (11.4 per cent in 1979) is the smallest among ASEAN countries (30 per cent in Thailand, 20 per cent in Indonesia and the Philippines). In the last decade, the increase in demand for electricity has been largely met by construction of additional oil-fired stations, except for the Temengor Hydro Project (340 MW) completed in 1979. Although the hydroelectric capacity will be more than doubled when three ongoing projects are completed during the FMP period, its share in the total capacity will remain at about 28 per cent in 1985 (Table 16). If there is no further exploitation than is currently planned, the share will be reduced to 25 per cent by 1990.

Table 16. Malaysia Power Generation Capacity by Plant Types

(In megawatts (MW))

	Oil		Hydro		Gas		Total
	MW	Per cent	MW	Per cent	MW	Per cent	
1980	<u>1,540</u>	(68)	<u>635</u>	(28)	<u>105</u>	(5)	<u>2,280</u>
Additions 1981-85	1,296		765		610		2,671
1985	<u>2,836</u>	(57)	<u>1,400</u>	(28)	<u>715</u>	(14)	<u>4,951</u>
Additions 1986-90	1,671		392		100		2,163
1990	<u>4,507</u>	(63)	<u>1,792</u>	(25)	<u>815</u>	(11)	<u>7,114</u>

Source: Data provided by the Malaysian authorities.

d. Conservation policy

Faced with the possibility of becoming a net-oil importer by the late 1980s, Malaysia has devoted increasing efforts to promoting the conservation of energy. Conservation is pursued through both price and nonprice policy measures. The price of petroleum products was increased several times in recent years in response to higher petroleum prices in the world market (Appendix Table XXXI).<sup>1/</sup> The Government recently announced its intention to continue this practice in order to make the prices reflect the true underlying scarcity. Furthermore, to promote conservation of fuel for automobiles, the Government currently has a road tax scheme with a progressive rate structure according to engine size. It also provides tax incentives for industry to replace old energy-inefficient equipment with new energy-efficient units by allowing faster depreciation.

The Government announced a public campaign program in September 1980 as the first phase of its conservation program, concentrating on visual materials, poster competitions, seminars, workshops, radio and television messages. The second phase will involve technical and legislative actions. The purposes of the publicity campaign are to: (a) increase the public's awareness of the energy situation and the finitude of reserves, the high and rising costs of oil and supply insecurities due to high reliance on imported oil; (b) point out the benefits of conservation--both to the individual or firm and to the country; and (c) encourage the more effective use of energy by demonstrating ways in which energy can be saved.

The energy conservation program also aims at prolonging the life of oil reserves. Toward this end, the Government introduced the National Depletion Policy in 1980. The major elements of the policy are: (a) Petronas controls production of the major fields--defined as fields with Oil-Initially-in-Place (OIIP) of 400 million barrels or more, (b) the production of oil is restricted to 1.7 per cent of OIIP. Even if estimates of proven reserves are raised upward (say, due to a discovery of additional reserves), the ceiling on production may not be adjusted automatically, and (c) Petronas has the discretionary power of postponing for 3-5 years the development of major fields that are discovered in the future.

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<sup>1/</sup> However, the Government also raised subsidies on essential petroleum products such as diesel and kerosene (Appendix Table XXXI). The authorities felt the increases were necessary to relieve the increased burden on low income groups of meeting the higher cost of essential fuel products (e.g., kerosene) and on the industrial sector in promoting economic growth (e.g., diesel). While the subsidy element in the market price has decreased for kerosene in recent years, it has substantially increased for diesel fuel since 1979; the ratio of subsidy to the market price was about 60 per cent for both diesel fuel and kerosene.

e. Energy outlook

In preparation for a long-term energy plan,<sup>1/</sup> a study has recently been made with two energy scenarios for the period up to 2,000 (Table 14). Under these scenarios, energy demand is assumed to grow at about the same rate as in the past decade. Scenario 1 assumes minimum substitution of oil with other indigenous energy sources, such as gas and hydro; Malaysia would have to import large quantities of oil under Scenario 1 at a considerable cost, since the price of oil is likely to be very high by 2,000. Scenario 2 assumes maximum development of the hydro-electric (economic) potential and extensive use of natural gas, which suggests that the future of Malaysia's energy situation could be relatively bright. These scenarios posit two extreme situations, the actual outcomes should be somewhere between the two.

3. Stabilization of liquidity effects in face of balance of payments disturbances

In the past decade, Malaysia's rate of inflation has been relatively stable and low compared with the international rate, despite the economy's openness. One of the major reasons for the relatively favorable price performance is the considerable success with which the monetary authorities have been able to control reserve money along the long-term trend path (Chart 7, top panel). They have tended to the view that controlling the level of reserve money is essential in controlling other monetary aggregates--particularly narrow money--and, thus, in affecting general economic activity. This is mainly because the multiplier for narrow money is much more stable than that for broad money (Chart 7, bottom panel). <sup>2/</sup>

One of the key elements in controlling the expansion of reserve money, to meet the economy's long-term need for liquidity, is the monetary system's ability to minimize the destabilizing influences of surpluses and deficits of the balance of payments through simultaneous changes in the Central Bank's net claims on the domestic sector. Changes in the net foreign assets (and, hence, gross foreign assets)<sup>3/</sup> of the Central Bank have been largely offset by changes in the Bank's net claims on the Government (Chart 8, top panel), with the statistical correlation between the two variables being -0.64 for the period 1970 Q1 - 1980 Q4. This relatively high correlation can, in principle, be explained by two factors.

One of these is an automatic stabilizer imbedded in the fiscal-cum-monetary system. Since a significant part of tax revenue is derived from a progressive export tax system, an increase in exports will, ceteris

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<sup>1/</sup> A comprehensive energy survey is currently being conducted which will serve as a basis for the formulation of a long-term plan, when completed in 1982.

<sup>2/</sup> For the sample period, 1970 Q1 - 1980 Q4, the coefficient of the variation for the narrow money multiplier was 0.034, while that for the broad money multiplier was 0.11.

<sup>3/</sup> The Central Bank's foreign liabilities are very small and show little fluctuations.

CHART 7  
MALAYSIA  
RESERVE MONEY AND MONEY MULTIPLIER

(In millions of ringgit)

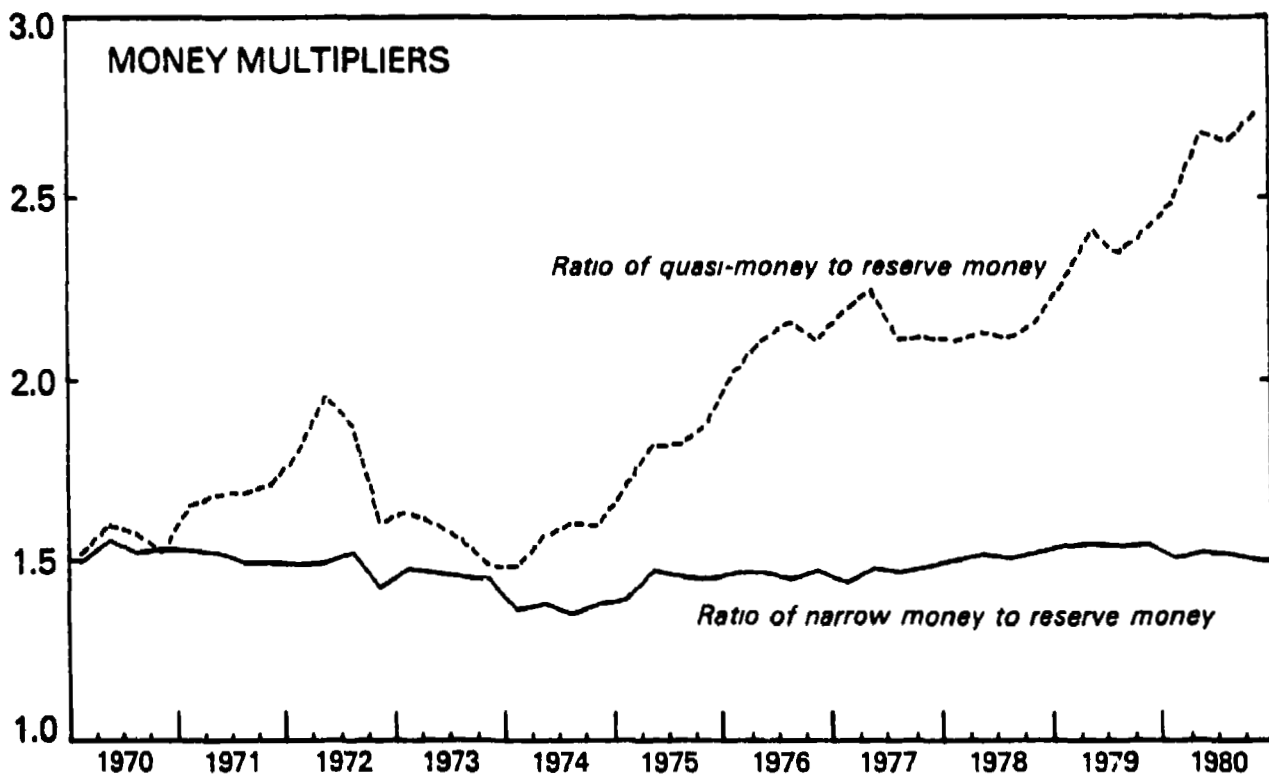
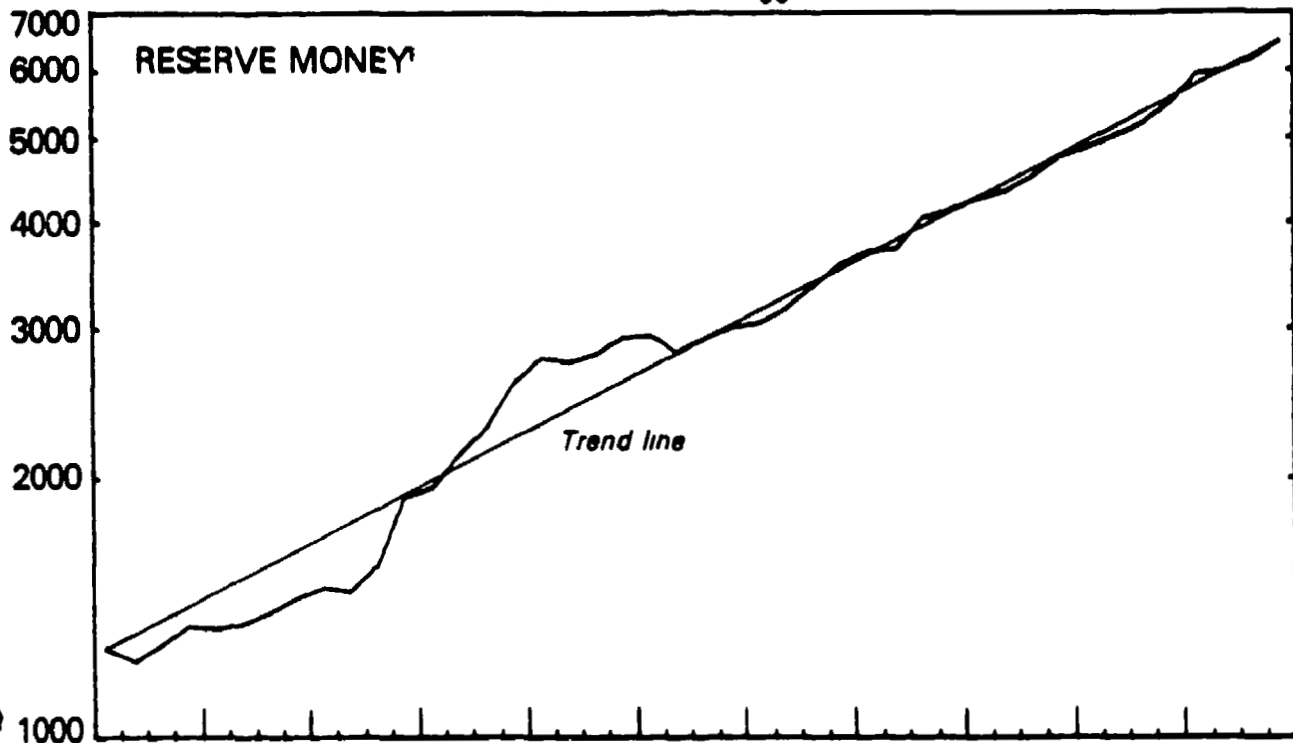
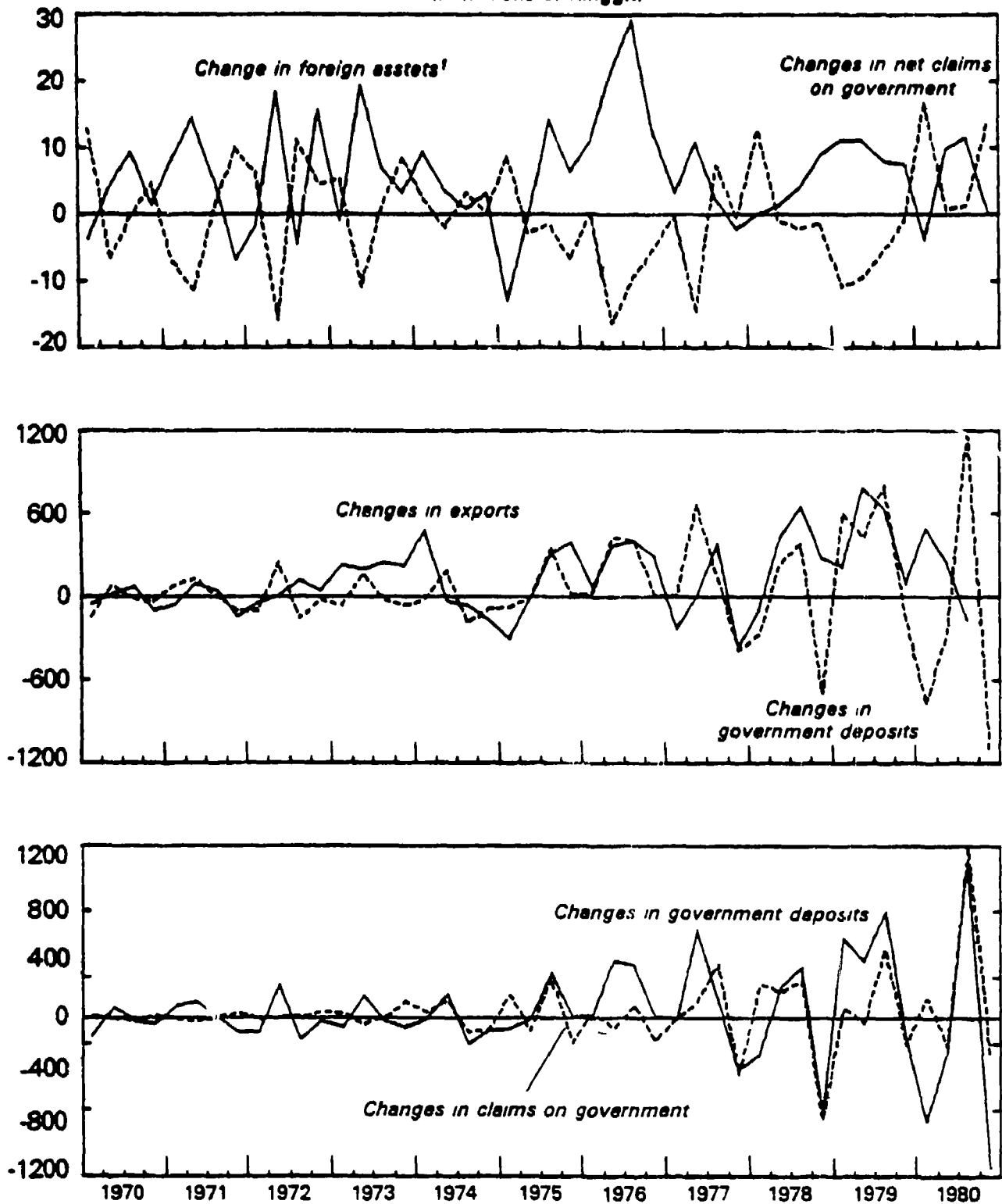


CHART 8  
MALAYSIA

FOREIGN ASSETS, GOVERNMENT DEPOSITS AND CLAIMS ON  
GOVERNMENT CENTRAL BANKING SYSTEM

(In millions of Ringgit)



Source: IFS Data Fund

1/ As a per cent of reserve money in the preceding quarter

paribus, lead to an increase in government deposits with the Central Bank 1/, and, thus to a decline in the Central Bank's net claims on the Government. This tends to partially offset the rise in the net foreign assets of the Central Bank which results from the increase in exports. The other factor is that the Central Bank employs discretionary open market operations in such a way that its net claims on the Government decline sufficiently from a trend growth path, so as to provide an offset to the increase in the net foreign assets.2/ This increase in the Government's deposits with the Central Bank would have to be greater than the increase in the Central Bank's claims on the Government, if the reserve money is to grow at a rate that the Central Bank wishes to maintain. This operation would have to be reversed when the Central Bank's net foreign assets decline. In what follows, an attempt is made to examine the observed stabilization of the liquidity effects of disturbances in the balance of payments.

The presence of the high negative correlation between changes in the Central Bank's net foreign assets and those in its net claims on the Government has already been noted. In order to analyze the extent to which this high correlation was due to the effective discretionary policy of the Central Bank, it is necessary to determine the existence of discretionary open market operations in response to an externally induced increase in government deposits. In principle, the Central Bank was able to conduct two types of open market operations (a) the Bank partially offset the contractionary effect of an increase in government deposits on reserve money by increasing its claims on the Government; and (b) the Bank reinforced the contractionary effect of the higher government deposits by reducing its gross claims on the Government. In the former case, a positive correlation would be observed between changes in government deposits and those in the Bank's claims on the Government, while in the latter case, a negative correlation would be observed.

The correlation matrix presented in Table 17 shows a positive correlation coefficient of 0.68 between changes in the Central Bank's claims on the Government and those in government deposits with the Central Bank, indicating that by and large, the Central Bank tended to partially offset the contractionary effects of the increases in government deposits 3/ by increasing its claims on the Government (Chart 8, bottom panel). This seems to reflect the Central Bank's desire to allow the gross claims on the Government and the Government deposits to increase over time.

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1/ The existence of this relationship is partly supported by a positive positive correlation coefficient of 0.2 between exports and the government deposits with the Central Bank (Table 17).

2/ This offset is additional to the one resulting from the built-in stabilizing mechanism.

3/ Increases in government deposits can arise from both balance of payments surpluses and budgetary operations.

Table 17. Malaysia: Correlation Matrix for Selected Variables

	Quarterly changes in				
	Reserve money	NFA of Central Bank	Govt. deposits with Central Bank	Central Bank's claim on Govt.	Exports
Quarterly changes in					
Reserve money	1.00				
NFA of Central Bank	0.22	1.00			
Govt. deposits with Central Bank	-0.14	0.57	1.00		
Central Bank's claims on Govt.	0.12	0.13	0.68	1.00	
Exports	0.45	0.42	0.20	0.06	1.00

Chart 9 indicates little correlation between the large deviations of government deposits and those of the claims on the Government from their respective long-run trend growth paths. The correlation coefficient between these deviations was estimated to be -0.2. This negative correlation coefficient seems to imply that the Central Bank's discretionary open market operations are not aimed at closely controlling the growth of its lending in response to changes in government deposits.

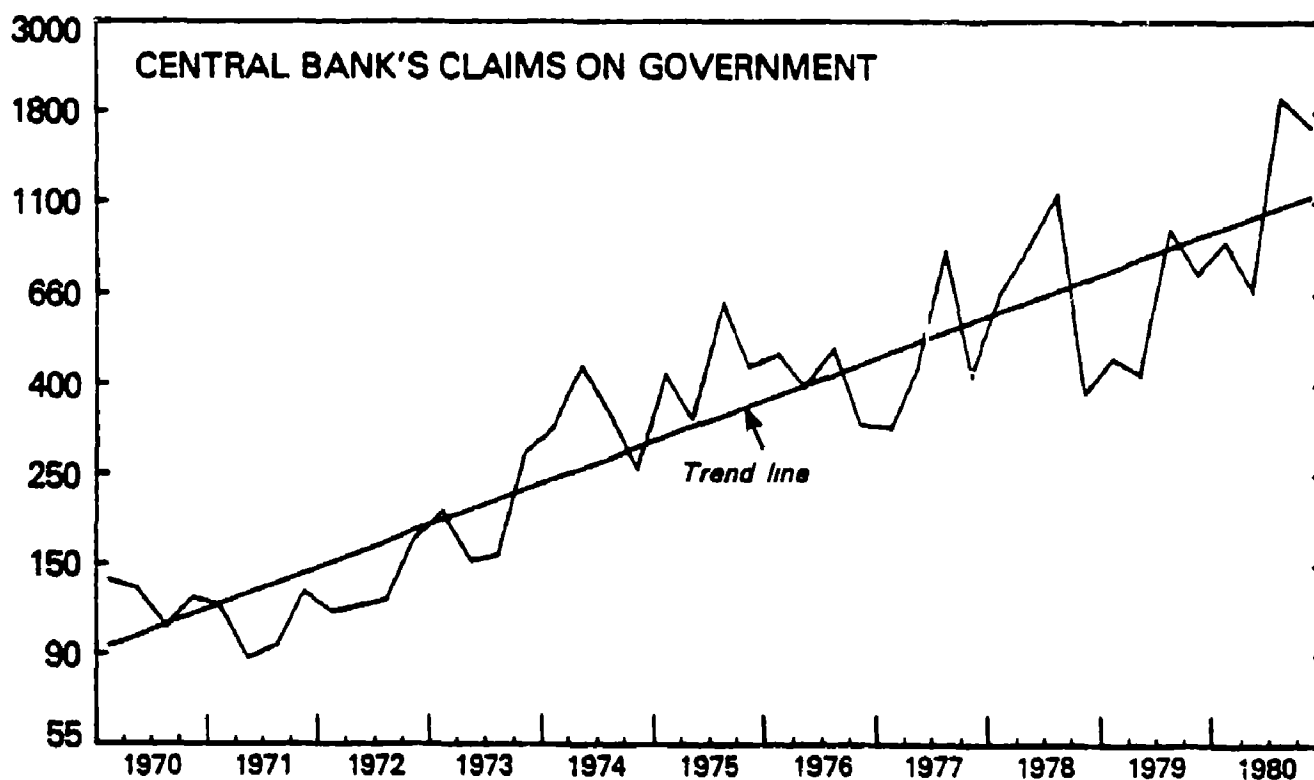
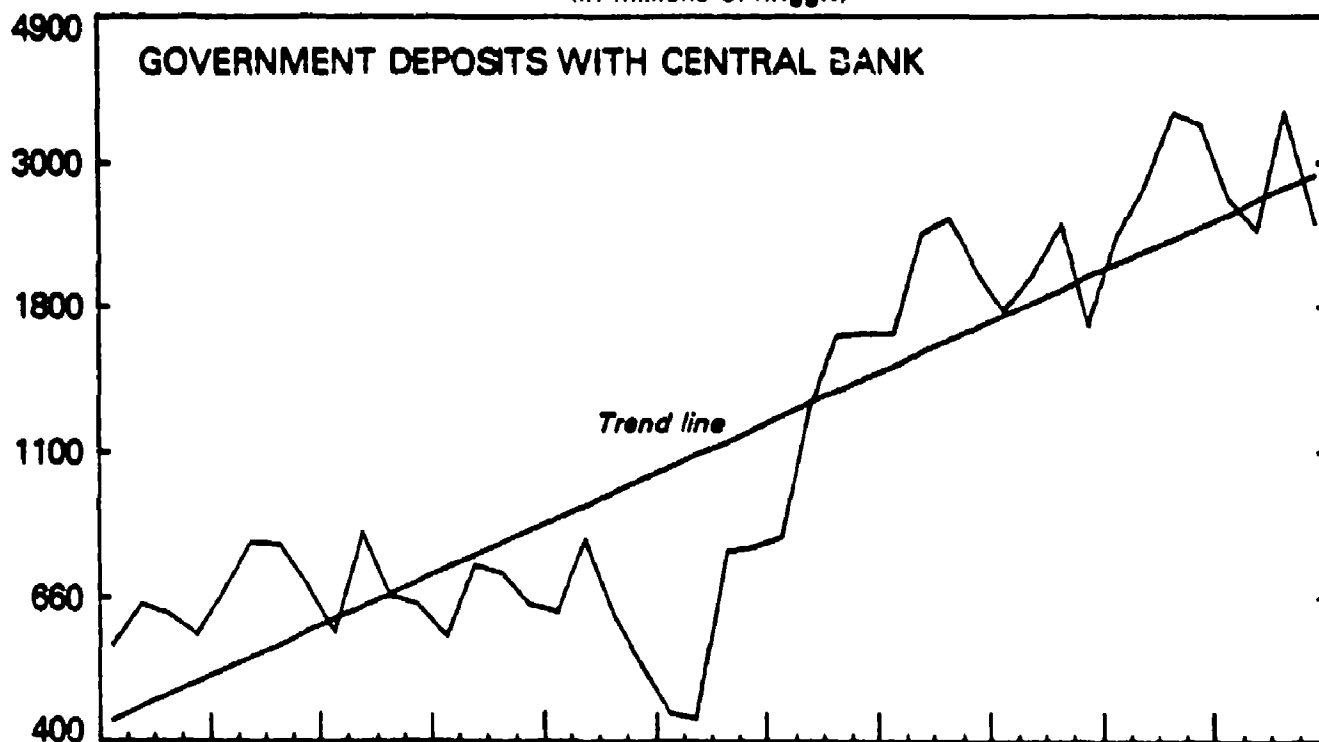
In short, the relatively high negative correlation between changes in the net foreign assets position of the Central Bank and those in its net claims on the Government was due largely to the built-in mechanism of the financial system. This mechanism, in turn, contributed to controlling the level of reserve money along the long-term trend path, and to maintaining the relatively stable and low rate of price increases in the past.

## CHART 9

## MALAYSIA

GOVERNMENT DEPOSITS AND CENTRAL BANK'S CLAIMS  
ON GOVERNMENT<sup>1</sup>, 1970-80

(In millions of ringgit)





Summary of New Measures in the 1981 Budget

The new tax measures introduced in the 1981 Budget are estimated to result in a net revenue gain of M\$26 million, this is in contrast to the impact of new measures introduced in the 1980 Budget which resulted in a net loss of M\$482 million.

1. Depreciation allowances

The method of computing depreciation allowances is to be changed from the "reducing balance" method to the straight line method based on a revised schedule of rates. The change is proposed to allow a faster method of writing off investments to be available to all industries in order to complement the accelerated depreciation allowances currently allowed only to the manufacturing and processing industries.

2. Tax exemption for homeowners

A tax exemption is granted on the rental income of a house of those who are unable to occupy their own homes due to transfers or military service. The change is proposed to bring relief to those whose net rent from their property (rent minus tax) is not sufficient to cover their rental costs in their new locations.

3. Tax exemption for seamen serving on Malaysian-registered vessels

In order to encourage Malaysian seamen to stay on Malaysian vessels and to attract Malaysian seamen serving on foreign vessels, a tax exemption is provided to seamen serving on Malaysian registered vessels.

4. Tax exemption on interest income

In order to mobilize savings, a tax exemption on interest earned from savings and fixed deposits is to be increased by raising the ceiling on deposits, interest on which is exempt, from M\$30,000 to M\$ 50,000.

5. Excess profits tax

In order to mitigate the effect of a multi-stage levy of the Excess Profits Tax (EPT) on companies' income distributed to shareholders, the dividend distributed by companies resident in Malaysia to shareholders who are companies (i.e., intercorporate dividends) is exempt from the EPT.

6. Residence test and the taxation of expatriates

The qualifications for determining the residence status of taxpayers were revised in order to take account of temporary absences and to allow expatriates to qualify more easily for residence status.

7. Real property gains tax

Foreign individuals or noncitizens are exempt from the declining rate structure of the Real Property Gains Tax and instead are subject

to a flat rate tax of 40 per cent on gains from disposal of property. The purpose of this change is to discourage investments in real property by foreigners.

8. Export tax on rubber

The gazetted value of rubber for export duty purposes is revised in order to reduce the tax burden on smallholders. Previously, export duty was calculated on the price of RSS1 grade rubber; however, since most smallholders produce the lower grade RSS3 rubber, this meant that smallholders were paying duty at a higher rate than they should have been based on the quality of rubber produced. Henceforth, export duties will be levied on groups of rubber products based on the price of a selected grade within the group.

9. Threshold price for export duty

The 1981 Budget also raises the threshold prices for export duty for rubber, tin, palm oil, and pepper, to take account of increased production costs.

10. Import surtax

In order to encourage the registration of ships in Malaysia, the import surtax of 5 per cent on ships exceeding 26 gross tons is lifted

11. Import duties

The import duty on liquor and tobacco is to be increased, while duty on selected musical instruments, microphones, loudspeakers, cinematographic equipment, and weighing machines is to be reduced.

12. Excise duty

The excise duty on locally-manufactured beer, ale and stout, and tobacco products is increased

13. Road tax

In order to conserve the use of petroleum products, the existing road tax structure pertaining to private motor vehicles is made more progressive. The higher tax applies to both petrol and diesel-powered cars.

The following measures introduced in the 1981 Budget are aimed at stimulating economic growth, reducing bottlenecks that inhibit accelerated growth, and increasing the incomes of lower income groups.

14. Subsidies and grants

The paddy subsidy is increased from M\$2 per picul to M\$10 per picul. The rubber replanting grant is raised from M\$1,200 to M\$2,200 per acre for holdings of 10 acres or less and from M\$900 to M\$1,500 per acre for holdings exceeding 10 acres; a monthly subsidy is also provided to small-holders until they are able to benefit from newly planted holdings. Replanting grants for other crops are increased from a range of M\$900-950 to a uniform rate of M\$1,500 per acre for holdings of ten acres or less, and to M\$1,200 per acre for holdings exceeding ten acres.

15. Incentives to the construction industry

As part of a three-month, on-site-training program an allowance of M\$23 per day is granted for each trainer, and the developer or contractor is given a double deduction, for income tax purposes, of all expenses incurred. The importation of construction equipment is exempted from customs duties and the initial depreciation allowance on construction equipment is raised from 20 per cent to 30 per cent.

16. Contributions to the employees Provident Fund

As of December 1, 1980 the rate of contribution to the Employees Provident Fund was raised from 13 per cent to 20 per cent of wages, of which 11 per cent is contributed by the employer and 9 per cent by the employee. Also, the rate of interest on contributions was raised from 7.25 per cent to 8.0 per cent.

17. Miscellaneous measures

Other measures included incentives for small-scale industries, reductions of stamp duties for small borrowers, and an increase in the development tax exemption limit.

Table I. Malaysia: Industrial Origin of Gross Domestic Product at  
Constant 1970 Prices, 1971 and 1976-80 1/

(In millions of ringgit)

	1971	1976	1977	1978	1979	1980	Percentage Share of GDP		
							1971	1976	1980
Agriculture, livestock, forestry, and fishing	3,852	5,307	5,423	5,480	5,699	5,842	29.6	27.5	22.3
Mining and quarrying	834	955	967	1,093	1,257	1,241	6.4	5.0	4.7
Manufacturing	1,858	3,377	3,735	4,258	4,769	5,317	14.3	17.5	20.3
Construction	541	713	800	904	1,031	1,165	4.2	3.7	4.4
Electricity, gas, and water	238	400	442	189	538	592	1.8	2.1	2.3
Transport, storage, and communications	632	1,153	1,290	1,412	1,553	1,702	4.9	6.0	6.5
Wholesale and retail trade	1,717	2,405	2,592	2,825	3,080	3,388	13.2	12.5	13.0
Ownership of dwellings, banking, insurance, real estate, and business services	1,126	1,552	1,649	1,815	1,969	2,106	8.6	8.0	8.1
Government services	1,466	2,420	2,719	2,788	2,994	3,333	11.3	12.5	12.7
Other <u>2/</u>	<u>752</u>	<u>1,006</u>	<u>1,136</u>	<u>1,261</u>	<u>1,346</u>	<u>1,494</u>	<u>5.8</u>	<u>5.2</u>	<u>5.7</u>
GDP at market prices	13,016	19,288	20,753	22,325	24,236	26,180	100.0	100.0	100.0

Source: Data provided by Malaysian authorities.

1/ Revised new series compiled on the basis of the United Nations' System of National Accounts (SNA). The new series begins in 1971.

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

Table II. Malaysia: Gross National Product at Constant 1970 Prices, 1971 and 1976-80 <sup>1/</sup>

	1971	1976	1977	1978	1979	1980
(In millions of ringgit)						
Consumption expenditure	9,809	13,601	14,886	16,375	18,274	20,467
Private	(7,731)	(10,219)	(11,172)	(12,463)	(13,834)	(15,494)
Public	(2,078)	(3,382)	(3,714)	(3,912)	(4,440)	(4,973)
Investment expenditure	2,609	4,133	4,677	5,077	6,031	7,064
Private	(...)	(2,465)	(2,726)	(3,076)	(3,831)	(4,651)
Public	(...)	(1,668)	(1,951)	(2,001)	(2,200)	(2,413)
Change in stocks	-26	80	273	353	-78	-208
Exports of goods and services	5,480	8,365	8,719	9,410	10,672	11,116
Less imports of goods and services	-4,856	-6,891	-7,802	-8,890	-10,662	-12,259
Net factor payments to abroad	-349	-545	-678	-845	-957	-808
Gross national product at market prices	<u>12,667</u>	<u>18,743</u>	<u>20,075</u>	<u>21,480</u>	<u>23,457</u>	<u>25,372</u>
(Percentage rate of change over previous year)						
Consumption expenditure	. .	6.7	9.5	10.0	11.6	12.0
Private	(. .)	(6.1)	(9.3)	(11.6)	(11.0)	12.0
Public	( )	(8.5)	(9.8)	(5.3)	(13.5)	(12.0)
Investment expenditure	..	5.0	13.2	8.6	18.8	17.1
Private	(...)	(0.5)	(12.9)	(12.8)	(24.5)	(21.4)
Public	(...)	(12.6)	(13.6)	(2.6)	(9.9)	(9.7)
Exports of goods and services	.	16.5	4.2	7.9	13.4	4.2
Imports of goods and services	. .	10.6	13.2	13.9	19.9	15.0
Gross national product at market prices	...	10.8	7.1	7.0	9.2	8.2

Source: Data provided by the Malaysian authorities.

<sup>1/</sup> Revised new series compiled on the basis of the United Nations' System of National Accounts (SNA). The new series begins in 1971. Data for 1980 are preliminary estimates.

Table III. Malaysia: Gross National Product at Current Prices, 1971 and 1976-80 <sup>1/</sup>

	1971	1976	1977	1978	1979	1980
(In millions of ringgit)						
Consumption expenditure	10,081	18,895	22,043	25,198	29,034	35,028
Private	(7,911)	(14,594)	(16,655)	(19,420)	(22,323)	(26,417)
Public	(2,170)	(4,301)	(5,388)	(5,778)	(6,756)	(8,611)
Investment expenditure	2,701	6,206	7,343	8,627	11,329	15,309
Private	(1,890)	(3,701)	(4,265)	(5,208)	(7,194)	(10,125)
Public	(811)	(2,505)	(3,078)	(3,419)	(4,135)	(5,184)
Change in stocks	-13	190	332	600	-145	-415
Exports of goods and services	5,242	14,497	16,243	18,491	25,902	30,747
Less imports of goods and services	-5,056	-11,770	-13,615	-16,519	-21,700	-29,096
Net factor payments to abroad	-363	-985	-1,272	-1,571	-1,797	-1,940
Gross national product at market prices	12,392	27,033	31,074	34,826	42,834	49,633
Annual rate of change (In per cent)	...	25.1	15.0	12.1	23.0	15.9
(As per cent of GNP)						
Consumption expenditure	80.1	69.9	70.9	72.4	67.3	70.6
Private	(62.8)	(54.0)	(53.6)	(55.8)	(52.1)	(53.2)
Public	(17.2)	(15.9)	(17.3)	(16.6)	(15.7)	(17.4)
Investment expenditure	21.5	23.0	23.6	24.8	26.4	30.8
Private	15.0	(13.7)	(13.7)	(15.0)	(16.8)	(20.4)
Public	6.4	(9.3)	(9.9)	(9.8)	(9.7)	(10.4)
Exports of goods and services	41.6	53.6	52.3	53.1	60.5	61.9
Imports of goods and services	-40.2	-43.5	-43.8	-47.4	-50.7	-58.6

Source: Data provided by the Malaysian authorities.

<sup>1/</sup> Revised new series compiled on the basis of the United Nations' System of National Account (SNA). The new series begins in 1971. Data for 1980 are preliminary estimates.

Table IV. Malaysia: Production of Major Commodities, 1976-81

(In thousands of metric tons)

	1976	1977	1978	1979	1980	1981 <u>1/</u>
Rubber	1,644	1,613	1,607	1,600	1,549	1,584
Rice	1,422	1,238	980	1,358	1,414	...
Palm oil	1,390	1,612	1,786	2,186	2,574	2,844
Palm kernel	281	335	368	475	546	...
Saw logs <u>2/</u>	26,152	28,345	28,220	26,795	26,000	24,302
Sawn timber <u>2/</u>	5,336	5,792	6,220	5,364	5,715	5,874
Tin- <u>in</u> -concentrate	63.4	58.7	62.7	63.0	61.4	61.0
Crude petroleum <u>3/</u>	166	184	217	283	275	300

Source: Data provided by the Malaysian authorities.

1/ Projection.

2/ Expressed in thousand cubic meters.

3/ Expressed in thousand U.S. barrels per day.

Table V. Malaysia: Economic Classification of Federal Government  
Expenditure and Net Lending, 1976-81

(In millions of ringgit)

	1976	1977	1978	1979	1980 Preliminary estimate	1981 Latest estimate
Current expenditure	<u>5,948</u>	<u>7,257</u>	<u>7,610</u>	<u>8,008</u>	<u>10,767</u>	<u>13,579</u>
Expenditure on goods and services	3,941	4,609	4,891	4,337	6,281	8,101
Wages and salaries	(2,638)	(3,350)	(3,477)	(3,665)	(4,660)	(5,998)
Other purchases of goods and services <u>1/</u>	(1,313)	(1,259)	(1,414)	(672)	(1,621)	(2,103)
Interest payments	815	960	1,112	1,271	1,500	1,879
Subsidies and other current transfers <u>2/</u>	1,228	1,688	1,607	2,395	2,986	3,599
Transfers to state governments	(216)	(274)	(333)	(164)	(207)	(304)
Pensions	(202)	(185)	(339)	(337)	(388)	(735)
Other current transfers <u>2/</u>	(810)	(1,229)	(935)	(1,812)	(2,391)	(2,560)
Capital expenditure	1,334	1,807	2,012	2,514	4,966	6,011
Net lending	753	1,207	1,606	1,520	1,716	2,010
Adjustment for accounts payable	43	-70	-64	144	--	--
Total expenditure and net lending	8,114	10,201	11,164	11,898	17,449	21,600

Source: Data provided by the Ministry of Finance

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

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



Table VI. Malaysia: Functional Classification of Federal Government  
Expenditure and Net Lending, 1976-81

(In millions of ringgit)

	1976	1977	1978	1979	1980 Preliminary estimate	1981 Latest estimate
General public services	<u>1,187</u>	<u>1,785</u>	<u>1,557</u>	<u>1,682</u>	<u>2,048</u>	<u>3,071</u>
General administration	651	1,122	767	839	1,049	1,528
Internal security	536	663	790	843	999	1,543
Defense	1,118	1,570	1,406	1,704	2,358	3,779
Education	1,487	2,125	2,044	2,257	2,943	3,646
Health	422	670	611	666	814	1,175
Social security <u>1/</u>	187	183	373	347	388	735
Housing and community amenities	109	184	667	495	298	225
Other community and social services	116	143	180	125	373	205
Economic services	<u>1,799</u>	<u>2,119</u>	<u>2,700</u>	<u>3,050</u>	<u>6,217</u>	<u>4,584</u>
Agriculture, forestry, and rural development	626	558	939	1,082	1,700	1,967
Transport and communications	675	713	851	1,142	1,953	1,536
Other economic services <u>2/</u>	498	848	910	826	2,564	1,081
Unallocable	<u>1,646</u>	<u>1,492</u>	<u>1,690</u>	<u>1,716</u>	<u>2,010</u>	<u>4,180</u>
Public debt interest	815	960	1,112	1,221	1,500	1,879
Grants to state governments	216	274	333	164	207	304
Other	615	258	245	281	303	1,997
Adjustment for accounts payable	43	-70	-64	-144	--	--
Total expenditure and net lending	8,114	10,201	11,164	11,898	17,449	21,600

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

1/ Government pensions.

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

Table VII. Malaysia: Federal Government Revenue and Grants, 1976-81

(In millions of ringgit)

	1976	1977	1978	1979	1980 Prelim- inary estimate	1981 Latest estimate <sup>1/</sup>
Taxes on net income and profits <sup>2/</sup>	<u>2,061</u>	<u>2,791</u>	<u>3,166</u>	<u>3,674</u>	<u>5,259</u>	<u>6,774</u>
Oil production companies	(322)	(776)	(770)	(829)	(1,734)	(2,533)
Other companies	(1,170)	(1,336)	(1,620)	(1,717)	(2,543)	(3,058)
Individuals	(569)	(679)	(776)	(1,128)	(984)	1,183
Taxes on property <sup>3/</sup>	<u>42</u>	<u>75</u>	<u>81</u>	<u>41</u>	<u>78</u>	<u>53</u>
Taxes on goods and services	<u>1,287</u>	<u>1,511</u>	<u>1,815</u>	<u>2,039</u>	<u>2,337</u>	<u>2,529</u>
Sales tax	322	383	458	544	697	730
Imported goods	(161)	(180)	(206)	(245)	(314)	(329)
Domestic goods	(161)	(203)	(252)	(299)	(383)	(401)
Selective excises on goods	550	695	849	957	973	1,107
Tobacco and alcoholic beverages	(100)	(135)	(158)	(184)	(192)	(203)
Petroleum products	(289)	(342)	(387)	(348)	(333)	(398)
Motor vehicles	(122)	(164)	(202)	(243)	(316)	(345)
Other	(39)	(54)	(102)	(182)	(132)	(161)
Selective excises on services <sup>4/</sup>	124	130	156	185	226	231
Motor vehicles taxes	262	298	328	346	423	440
Other	29	5	24	7	18	21
Taxes on international trade	<u>1,997</u>	<u>2,531</u>	<u>2,788</u>	<u>3,452</u>	<u>4,628</u>	<u>4,851</u>
Import duties	977	1,141	1,325	1,513	2,036	2,120
Tobacco and alcoholic beverages	(188)	(220)	(230)	(232)	(261)	(294)
Petroleum products	(36)	(25)	(32)	(48)	(113)	(115)
Other import duties	(481)	(574)	(664)	(768)	(1,038)	(1,080)
Surtax on imports	(272)	(322)	(399)	(465)	(624)	(631)
Export duties	1,020	1,390	1,463	1,939	2,592	2,731
Rubber	(519)	(557)	(716)	(1,118)	(1,096)	1,070
Tin	(291)	(441)	(500)	(545)	(575)	(408)
Palm oil	(166)	(346)	(207)	(236)	(166)	(239)
Other	(44)	(46)	(40)	(40)	(755)	(1,014)
Other tax revenue	<u>86</u>	<u>126</u>	<u>142</u>	<u>119</u>	<u>191</u>	<u>164</u>
Total	<u>5,473</u>	<u>7,034</u>	<u>7,992</u>	<u>9,325</u>	<u>12,493</u>	<u>14,371</u>
Nontax revenue	<u>649</u>	<u>741</u>	<u>812</u>	<u>1,057</u>	<u>968</u>	<u>1,411</u>
Property income	352	366	447	580	684	1,044
Nonfinancial public enterprises	(12)	(13)	(14)	(18)	(19)	(25)
Public financial institutions	(80)	(90)	(120)	(150)	(117)	(242)
Rents and interest	(176)	(152)	(197)	(246)	(203)	(356)
Petroleum royalties	(84)	(111)	(116)	(166)	(345)	(421)
Administrative fees and charges, sale of goods, fines and forfeits	235	252	241	313	227	263
Other nontax revenue	62	123	124	164	57	104
Capital revenue	6	16	--	24	--	--
Total revenue	<u>6,128</u>	<u>7,791</u>	<u>8,804</u>	<u>10,463</u>	<u>13,461</u>	<u>15,782</u>
Foreign grants	10	3	4	3	--	--
Total revenue and grants	<u>6,138</u>	<u>7,794</u>	<u>8,808</u>	<u>10,466</u>	<u>13,461</u>	<u>15,782</u>

Source: Data provided by the Ministry of Finance.

<sup>1/</sup> Includes effects of tax measures contained in the 1981 budget.

<sup>2/</sup> Corporate and individual income tax, land speculation tax, and capital gains tax.

<sup>3/</sup> Includes death and gift taxes.

<sup>4/</sup> Comprises betting and lottery taxes, and film rental tax.

Table VIII. Malaysia: Federal Government Financing, 1976-80

(In millions of ringgit)

	1976	1977	1978	1979	Preliminary estimate 1980
Domestic financing (net)	<u>1,607</u>	<u>1,873</u>	<u>1,815</u>	<u>753</u>	<u>3,679</u>
From general government and non-financial public enterprises <u>1/</u>	-65	101	-54	26	-9
From other parts of the same level of government <u>2/</u>	(-1)	(3)	(1)	(--)	(--)
From state governments	(--)	(--)	(-1)	(--)	(-3)
From public authorities <u>3/</u>	(-64)	(98)	(-54)	(26)	(-6)
From monetary authorities	-735	-49	147	405	951
Treasury bills	(-40)	(17)	(-140)	(72)	(-47)
Long-term securities	(-86)	(78)	(103)	(283)	(998)
Change in deposits	(-873)	(120)	(184)	(50)	(--)
Other <u>4/</u>	(264)	(-264)	(--)	(--)	(--)
From deposit money banks	742	515	-285	492	123
Treasury bills	(400)	(180)	(-175)	(-29)	(-26)
Long-term securities	(401)	(356)	(-82)	(490)	(149)
Change in deposits	(-59)	(-21)	(-28)	(31)	--
Other <u>5/</u>	1,026	1,156	1,512	1,667	1,270
Employees Provident Fund	(667)	(854)	(928)	(1,081)	(1,131)
Other provident funds and insurance companies	(58)	(110)	(122)	(175)	(89)
National Savings Bank	(66)	(109)	(54)	(31)	(85)
Finance houses	(184)	(249)	(255)	(404)	(-80)
Other financial institutions	(105)	(-46)	(109)	(59)	(-18)
Other	(-4)	(7)	(-1)	(-20)	(-10)
Other Treasury bills	(-50)	(-127)	(45)	(-63)	(73)
Unidentified <u>6/</u>	639	150	495	-1,837	1,344
Foreign financing (net)	<u>369</u>	<u>534</u>	<u>541</u>	<u>679</u>	<u>309</u>
From international development institutions and government <u>7/</u>	243	380	357	278	333
Other <u>8/</u>	126	154	184	401	-24
Total financing	1,976	2,407	2,356	1,432	3,988

Source: Data provided by the Ministry of Finance.

1/ Long-term securities.2/ Trust funds within government and sinking funds.3/ Major local governments and nonfinancial public enterprises excluding social institutions.4/ Represents the domestic currency counterpart of a purchase (1976) and a repurchase (1977) under the compensatory financing facility.5/ Long-term securities except the final item, other Treasury bills.6/ Includes the timing differences in recording between the Treasury and the Central Bank as well as unidentified items.7/ Project loans.8/ Market loans.

Table IX. Malaysia: Distribution of Outstanding Federal Government  
Debt by Class of Holders, 1976-80 1/

(In millions of ringgit)

	1976	1977	1978	1979	1980
Government securities	<u>8,680.7</u>	<u>10,497.4</u>	<u>11,931.9</u>	<u>13,349.1</u>	<u>16,795.5</u>
Government	664.3	765.4	711.6	736.5	727.8
Federal government <u>2/</u>	<u>439.4</u>	<u>442.6</u>	<u>443.4</u>	<u>442.7</u>	<u>442.7</u>
State governments	12.6	12.5	11.6	11.5	8.5
Public authorities	212.3	310.3	256.6	282.3	276.6
Social security institutions	<u>5,058.5</u>	<u>6,022.0</u>	<u>7,072.3</u>	<u>8,328.2</u>	<u>9,548.5</u>
Employees Provident Fund	<u>4,587.5</u>	<u>5,441.0</u>	<u>6,369.4</u>	<u>7,450.2</u>	<u>8,581.5</u>
Other provident and trust funds	264.8	314.1	370.0	445.7	467.7
Insurance companies	206.2	266.9	332.9	432.3	499.3
Financial institutions	<u>2,892.5</u>	<u>3,638.0</u>	<u>4,077.0</u>	<u>5,343.3</u>	<u>6,478.2</u>
Central Bank	165.5	243.2	346.2	629.0	1,627.4
Commercial banks	1,533.0	1,889.0	1,806.5	2,296.5	2,445.9
National Savings Bank	644.8	753.6	807.9	838.7	924.1
Finance houses	429.0	677.9	933.2	1,336.9	1,256.5
Other financial institutions	120.2	74.3	183.2	242.2	224.3
Other	65.4	72.0	71.0	51.1	41.0
Treasury bills	<u>1,710.0</u>	<u>1,780.0</u>	<u>1,510.0</u>	<u>1,490.0</u>	<u>1,490.0</u>
Central Bank	164.7	181.4	41.9	113.9	67.4
Commercial banks	1,252.8	1,432.4	1,257.3	1,228.4	1,202.3
Other	292.5	166.2	210.8	147.7	220.3
Domestic debt	<u>10,390.7</u>	<u>12,277.4</u>	<u>13,441.9</u>	<u>15,949.1</u>	<u>18,285.5</u>
Foreign debt	<u>2,805.7</u>	<u>3,349.3</u>	<u>3,859.2</u>	<u>4,542.6</u>	<u>4,851.6</u>
From international development institutions and foreign governments <u>3/</u>	1,338.2	1,721.5	2,081.4	2,335.1	2,668.1
Other <u>4/</u>	1,467.5	1,627.8	1,777.8	2,207.5	2,183.5
Total debt	<u>13,196.4</u>	<u>15,626.7</u>	<u>17,301.1</u>	<u>20,491.7</u>	<u>23,137.1</u>

Source: Data provided by Bank Negara Malaysia.

1/ End of period.

2/ Banking funds and trust funds.

3/ Project loans.

4/ Market loans.

Table X. Malaysia. Summary of the State Government's Operations, 1976-81

(In millions of ringgit)

	1976	1977	1978	1979	Budget estimates 1980	Prelim- inary estimates 1981
Revenue and grants	<u>1,549</u>	<u>1,620</u>	<u>2,004</u>	<u>2,890</u>	<u>3,323</u>	<u>3,637</u>
Revenue	1,203	1,180	1,500	2,377	2,562	2,794
Statutory grants	277	350	410	349	502	505
Other Federal Government grants	69	90	94	164	259	338
Expenditure	<u>1,423</u>	<u>1,960</u>	<u>1,988</u>	<u>2,568</u>	<u>3,671</u>	<u>4,338</u>
Current expenditure <u>1/</u>	938	1,279	1,333	1,697	2,164	2,221
Development expenditure <u>1/</u>	485	690	655	871	1,567	2,117
Overall deficit (-)	126	-340	16	322	-348	-701
Financing (net)	<u>-126</u>	<u>340</u>	<u>-16</u>	<u>-322</u>	<u>+348</u>	<u>+701</u>
Federal Government loans	112	170	124	151	399	502
Change in assets (increase -)	-238	170	-140	-473	-51	199

Source: Data provided by the Ministry of Finance.

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

Table XI. Malaysia: Summary of the Principal Authorities' Operations, 1976-80 <sup>1/</sup>

(In millions of ringgit)

	1976	1977	1978	1979	1980 Preliminary estimates
Revenue and grants	<u>1,239</u>	<u>1,504</u>	<u>1,553</u>	<u>1,873</u>	<u>2,312</u>
Revenue	1,227	1,371	1,408	1,703	2,094
Federal and state government grants	12	133	145	170	218
Total expenditure	<u>1,398</u>	<u>1,654</u>	<u>1,940</u>	<u>2,606</u>	<u>3,366</u>
Current expenditure <sup>2/</sup>	923	1,140	1,340	1,504	1,992
Development expenditure <sup>2/</sup>	475	514	600	1,102	1,374
Overall deficit (-)	-159	-150	-387	-733	-1,054
Financing (net)	<u>159</u>	<u>150</u>	<u>387</u>	<u>733</u>	<u>1,054</u>
Foreign borrowing <sup>3/</sup>	170	94	130	141	294
Federal and state government loans <sup>4/</sup>	107	124	196	287	670
Change in assets (increase -)	-118	-68	61	305	-41

Source: Data provided by the Ministry of Finance.

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

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

<sup>3/</sup> Project loans guaranteed by the Federal Government.

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

Table XII. Malaysia: Summary of the Consolidated Public Sector, 1976-80 1/

(In millions of ringgit)

	1976	1977	1978	1979	1980 Preliminary estimates
Total revenue and grants <u>2/</u>	<u>7,341</u>	<u>8,974</u>	<u>10,308</u>	<u>14,546</u>	<u>19,096</u>
Revenue	7,331	8,971	10,304	14,543	19,096
Foreign grants	10	3	4	3	--
Total expenditure and net lending <u>2/</u>	<u>9,089</u>	<u>11,665</u>	<u>12,958</u>	<u>17,072</u>	<u>24,546</u>
Current expenditure <u>3/</u>	6,645	8,310	8,905	11,209	17,060
Direct development expenditure <u>4/</u>	1,819	2,497	2,667	4,487	5,467
Net lending <u>5/</u>	582	928	1,450	1,520	1,716
Adjustment for account payable	43	-70	-64	-144	303
Public authorities' overall deficit (-)	-159	-150	-387	-733	-1,054
Public sector overall deficit (-)	-1,907	-2,841	-3,037	-2,526	-5,450
Financing (net)	<u>1,907</u>	<u>2,841</u>	<u>3,037</u>	<u>2,526</u>	<u>5,450</u>
Foreign	578	628	671	820	603
Domestic	1,329	2,213	2,366	1,706	4,847

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

1/ Federal and state governments, and the principal public authorities (major local government and public enterprises).2/ Federal and state governments only.3/ Net of statutory grants from Federal and state governments.4/ Net of other grants from Federal to state governments.5/ Net of loans to public authorities.

Table XIII. Malaysia: Direction of Commercial Bank Lending,  
1975-80

(In millions of U.S. dollars)

	1975	1976	1977	1978	1979	1980
Lending to public sector	259.5	449.6	463.5	596.1	630.1	754.6
Lending to private sector	6,208.9	7,611.8	9,094.3	11,692.3	14,629.7	20,117.4
Agriculture	483.8	535.8	661.0	870.8	1,013.0	1,492.0
Mining and quarrying	106.7	105.7	96.3	128.1	122.6	206.9
Manufacturing	1,265.6	1,382.0	1,594.7	2,225.5	2,564.7	3,715.4
Real estate and construction	721.7	806.3	1,057.9	1,349.7	1,843.3	3,004.3
General commerce and domestic trade bills	1,355.3	1,693.3	2,064.2	2,693.1	3,822.0	5,053.4
Professionals and individuals	1,095.9	1,345.0	1,728.2	2,266.1	2,970.1	3,692.9
Foreign trade bills	366.9	479.0	514.1	586.4	573.9	612.0
Other	813.0	1,443.7	1,474.2	1,572.6	1,720.1	2,340.5
Total	<u>6,468.4</u>	<u>8,061.4</u>	<u>9,557.8</u>	<u>12,288.4</u>	<u>15,259.8</u>	<u>20,872.0</u>

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



Table XIV. Malaysia. Factors Affecting Reserve Money, 1974-80<sup>1/</sup>

(In millions of ringgit)

	1974	1975	1976	1977	1978	1979	1980
Net foreign assets	3,758	3,930	5,975	6,740	7,364	9,227	10,312
Net claims on government	-276	-347	-1,325	-1,641	-1,317	-2,644	-745
Net other items	-551	-579	-1,083	-973	-1,292	-1,085	-3,074
Reserve money	<u>2,931</u>	<u>3,004</u>	<u>3,567</u>	<u>4,126</u>	<u>4,755</u>	<u>5,498</u>	<u>6,493</u>
Currency outside banks	2,191	2,392	2,790	3,298	3,797	4,362	5,105
Deposits of banks	707	585	720	766	842	995	1,264
Other deposits	43	27	57	62	116	141	124

Source International Monetary Fund, International Financial Statistics.

<sup>1/</sup> End-year figures.

Table XV. Malaysia: Sources and Maturity of Credits to  
Private Sector, 1976-80

(In millions of U.S. dollars)

Source and Maturity <u>1/</u>	1976	1977	1978	1979	1980 <u>2/</u>
Financial sector	10,397	12,310	15,695	20,704	27,976 (73.8)
Commercial banks	6,974	8,243	10,900	14,050	19,202 (50.6)
Short-term	5,372	6,209	7,919	9,700	13,396 (35.3)
Medium-term	367	479	637	807	1,098 (2.9)
Long-term	1,235	1,555	2,344	3,543	4,708 (12.4)
Finance companies	1,166	1,516	1,973	2,631	3,551 (9.4)
Short-term	100	173	138	132	138 (0.4)
Medium-term	743	937	1,312	1,837	2,473 (6.5)
Long-term	318	406	523	662	940 (2.5)
Other financial institutions <u>3/</u>	2,257	2,551	2,822	4,023	5,223 (13.8)
Short-term	356	411	291	792	938 (2.5)
Medium-term	451	494	492	604	832 (2.2)
Long-term	1,450	1,646	2,039	2,627	3,453 (9.1)
Public sector <u>4/</u>	4,181	5,255	4,569	8,527	9,921 (26.2)
Total	<u>14,578</u>	<u>17,565</u>	<u>23,264</u>	<u>29,231</u>	<u>37,897</u> (100.0)

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

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

2/ Figures in parentheses are percentage shares.

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

4/ Government credit, mainly long-term, is extended almost entirely to statutory authorities, local governments and government-controlled enterprises.

Table XVI . Malaysia: Interest Rates of Commercial Banks, 1974-80

(In per cent per annum)

	Maximum Deposit Rates					Savings deposits	Maximum Lending Rates		Average Lending Rate <u>2/</u>
	Fixed deposits; maturity period in months						Prime	Preferential	
	1	3	6	9	12		rat	rate 1/	
1974 April 24	4.50	6.50	7.00	8.00	9.00	6.50	10.00	9.50	...
1975 February 3	4.00	6.00	6.50	7.50	8.50	6.50	9.50	9.00	...
May 2	3.50	5.50	6.00	7.00	8.00	6.00	9.00	8.50	...
August 9	3.50	5.50	6.00	6.50	7.50	5.50	8.50	8.00	...
1977 June 2	5.00	5.00	5.50	5.75	6.50	5.00	7.50	7.00	...
1978 December <u>3/</u>	5.00	5.50	5.75	6.00	6.50	5.00	7.50	7.00	9.34
1979 March	5.00	5.50	5.75	6.00	6.50	5.00	7.50	7.00	9.45
June	5.00	5.50	5.75	6.00	6.50	5.00	7.50	7.00	9.47
September	5.00	5.50	5.75	6.00	6.50	5.00	7.50	7.00	9.50
December	5.25	5.50	5.75	6.00	7.00	5.00	7.50	7.00	9.42
1980 March	5.25	5.50	5.75	6.00	7.00	5.00	7.50	7.00	9.40
June	5.50	6.25	6.50	6.75	7.00	5.00	7.50	7.00	9.31
September	6.00	6.00	6.50	6.75	7.00	5.00	7.50	7.00	9.38
December	8.50	8.50	8.50	9.00	9.00	6.00	8.50	7.00	...

Source: Data provided by the Malaysian authorities.

1/ The preferential rate applied to advances to federal and state governments and public authorities and advances against government or municipal securities and against local agricultural products.

2/ Refers to the weighted average lending rate of all the commercial banks. Only quarterly data are available.

3/ Effective October 23, 1978, all interest rates have been freed from regulation. The interest rates for this date refer to the rate quoted with the highest frequency among the banks.

Table XVII. Malaysia Commercial Banks--Liquidity and Other Requirements, 1976-80

	1976	1977	1978	1979	March	June	1980 September	December
(In millions of ringgit)								
Total liquid assets <sup>1/</sup>	3,417.4	4,104.6	4,246.0	4,786.2	4,978.3	5,245.3	4,996.1	5,502.2
Of which Primary liquid assets <sup>2/</sup>	1,842.7	2,171.5	2,338.9	2,793.5	2,454.9	2,650.2	2,546.3	2,878.6
Total deposits	10,531.0	12,261.7	14,755.1	19,141.6	21,018.1	22,105.4	22,466.5	23,312.3
Eligible liabilities <sup>3/</sup>	8,626.3	9,818.1	11,783.0	18,602.6				
Statutory reserves <sup>4/</sup>	619.3	725.2	703.7	919.4	1,024.8	1,106.3	1,150.0	1,169.3
Composition of assets against savings deposits <sup>5/</sup>								
Government securities	116.5	153.1	191.4	--	--	--	--	--
Approved housing loans	655.5	861.3	1,049.7	--	--	--	--	--
Loans under the Credit Guarantee Scheme	180.4	207.4	237.9	312.8	322.0	336.6	346.7	350.8
(In per cent)								
Liquidity ratio <sup>1/</sup>	39.6	41.8	36.0	25.7	23.9	23.5	21.5	23.2
Primary liquid assets ratio <sup>1/</sup>	21.4	22.1	19.9	12.3	11.8	11.9	11.0	12.1

Source: Bank Negara Malaysia, Monthly Statistical Supplement

1/ With effect from March 1979, commercial banks are required to maintain a minimum ratio of their eligible liabilities in Malaysian liquid assets. One half of this ratio is to be in primary liquid assets. Primary liquid assets are defined to comprise cash, balances with the Central Bank of Malaysia, net money at call with the discount houses in Malaysia, Federal Government Treasury bills, and Federal and State Government securities with maturities of 1 year or less to run. Other liquid assets, known as secondary liquid assets, comprise Federal and State Government securities with maturities of more than 1 year to run, bills discounted or purchased and bills receivable which are payable in Malaysia and rediscountable at the Central Bank of Malaysia, including bankers acceptances. The minimum primary liquid assets ratio is 10 per cent and the minimum liquidity ratio is 20 per cent. Previously, the commercial banks were also required to maintain two liquidity ratios, namely, a minimum actual liquid assets ratio of 12.5 per cent and a minimum liquidity ratio of 25 per cent against total deposits, excluding savings deposits.

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

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

4/ The statutory reserve which commercial banks are required to maintain with the Central Bank of Malaysia was reduced from 6 per cent to 5 per cent of total deposits on December 16, 1978. With effect from March 15, 1978, the statutory reserve was expressed as a ratio of eligible liabilities.

5/ The requirement against savings deposits was repealed with effect from March 1979. However, commercial banks have to continue grant at least 10 per cent of their savings deposits as loans under the Credit Guarantee Scheme. Prior to March 1979, commercial banks were required to invest at least 50 per cent of their savings deposits in Federal and State Governments securities, approved using loans and loans under the Credit Guarantee Scheme of the Credit Guarantee Corporation. Within this requirement, loans under the Credit Guarantee Scheme should comprise at least 10 per cent of savings deposits.

Table XVIII    Malaysia    Assets and Liabilities of Commercial Banks, 1972-80<sup>1/</sup>  
(In millions of ringgit)

	1972	1973	1974	1975	1976	1977	1978	1979	1980
Assets	<u>4,351</u>	<u>5,659</u>	<u>6,533</u>	<u>7,624</u>	<u>9,956</u>	<u>11,532</u>	<u>13,710</u>	<u>17,417</u>	<u>21,520</u>
Net foreign assets	29	-229	-295	-187	-253	-449	-686	-112	-1,008
Net claims on government	915	935	1,234	1,653	2,462	2,854	2,334	1,944	1,288
Claims on private sector	3,014	4,586	5,278	6,084	7,471	8,970	11,627	14,641	20,232
Claims on central banks	575	750	858	731	869	938	1,049	1,246	1,587
Net other claims (reserves)	-182	-383	-542	-657	-593	-781	-614	-302	-579
Liabilities	<u>4,350</u>	<u>5,659</u>	<u>6,533</u>	<u>7,624</u>	<u>9,956</u>	<u>11,533</u>	<u>13,710</u>	<u>17,417</u>	<u>21,520</u>
Demand deposits	1,393	1,928	1,982	2,083	2,572	2,953	3,548	4,251	4,875
Time and savings deposits	2,957	3,731	4,551	5,541	7,384	8,580	10,162	13,166	16,645

Sources    Bank Negara Malaysia, Quarterly Economic Bulletin, and Monthly Statistical Supplement.

<sup>1/</sup> End-year figures

Table XIX. Malaysia: Consumer Price Index, 1976-1980<sup>1/</sup>  
(1967 = 100)

	Weight	1976	1977	1978	1979	1980	1980			
							1st Q	2nd Q	3rd Q	4th Q
Total	100.0	147.8	154.8	162.4	168.3	179.5	175.8	176.9	181.1	184.4
Food	46.8	160.5	169.4	177.7	181.7	188.3	185.5	187.0	189.1	191.6
Beverages and tobacco	8.9	122.8	127.3	133.8	135.6	144.5	137.6	139.2	146.7	154.3
Clothing and footwear	4.8	146.9	152.6	157.9	168.1	179.5	175.5	177.5	180.7	184.4
Gross rent, fuel and power	9.4	125.6	133.3	139.9	149.1	163.5	158.6	161.7	166.1	167.5
Furniture, furnishings and household equipment	6.6	161.7	167.3	174.2	181.0	194.2	189.1	192.1	196.3	199.3
Medical care and health expenses	2.0	135.2	140.9	146.0	155.3	167.1	162.2	164.6	168.4	173.1
Transport and communication	10.4	133.3	138.1	146.3	151.5	161.8	154.8	157.4	164.5	170.5
Recreation, entertainment, education, and cultural services	5.6	130.3	132.7	135.5	138.8	144.1	143.0	143.2	143.9	1
Miscellaneous goods and services	5.5	151.3	159.4	170.2	191.7	246.0	247.1	235.3	249.3	252.3

Source: Bank Negara Malaysia, Monthly Statistical Supplement.

<sup>1/</sup> Quarterly and annual indices are simple averages of monthly indices.

Table XX. Malaysia: Direction of Trade, 1976-80 1/

(In per cent of total)

	Exports (f.o.b.)					Imports (c.i.f.) <u>2/</u>				
	1976	1977	1978	1979	1980 <u>3/</u>	1976	1977	1978	1979	1980 <u>3/</u>
ASEAN	21	19	19	20	22	14	15	14	15	16
Of which										
Singapore <u>4/</u>	18	16	16	17	19	9	9	9	10	11
Thailand	1	1	1	1	1	4	5	4	4	3
Japan	21	19	22	23	23	21	23	23	22	23
China, People's Republic of	1	2	1	2	2	4	3	4	3	2
United States	16	18	19	17	17	13	12	14	15	15
Australia	2	2	2	2	2	7	6	6	6	5
European Economic Community	21	20	18	18	17	17	17	18	17	16
Of which.										
Germany, Federal Republic of	4	4	4	4	4	6	6	6	6	6
Netherlands	7	7	6	6	6	1	1	1	1	1
United Kingdom	5	5	5	4	3	7	8	7	7	6
Other countries	18	20	19	18	17	24	24	21	22	23
Total	100	100	100	100	100	100	100	100	100	100
Total (in billions of ringgit)	13.4	15.0	17.1	24.2	28.1	9.7	1.2	13.7	17.2	23.4

Source: Data provided by the Malaysian authorities.

1/ Customs data.2/ Excludes imports of ships, aircraft, military imports, and imports for offshore installation of the petroleum industry.3/ Provisional estimates based on data for the first nine months.4/ Singapore re-exports a significant part of its imports from Malaysia.

Table XXI. Malaysia: Volume, Value and Unit Value of Major Export Commodities, 1976-80

	1976	1977	1978	1979	1980
<b>Rubber</b>					
Volume ('000 tons)	1,620	1,654	1,614	1,649	1,530
Value (M\$ million)	3,098	3,379	3,601	4,482	4,667
F.o.b. unit value (M\$ per ton)	1,912	2,044	2,231	2,720	3,050
<b>Tin and tin-in-concentrates</b>					
Volume ('000 tons)	82	67	70	72	70
Value (M\$ million)	1,524	1,704	2,022	2,316	2,506
F.o.b. unit value (M\$ per 1,000 ton)	19	26	29	32	36
<b>Saw logs</b>					
Volume ('000 cubic meter)	15,394	16,078	16,732	16,017	14,530
Value (M\$ million)	1,472	1,520	1,667	2,877	2,586
F.o.b. unit value (M\$ per cubic meter)	96	95	100	180	178
<b>Sawn timber</b>					
Volume ('000 cubic meter)	3,055	3,100	3,176	3,535	3,300
Value (M\$ million)	887	844	882	1,336	1,362
F.o.b. unit value (M\$ per cubic meter)	290	272	278	378	413
<b>Palm oil</b>					
Volume ('000 tons)	1,346	1,424	1,519	1,901	2,277
Value (M\$ million)	1,220	1,790	1,872	2,471	2,630
F.o.b. unit value (M\$ per ton)	907	1,257	1,232	1,300	1,155
<b>Petroleum (crude and partly refined)</b>					
Volume ('000 tons)	7,144	7,794	9,229	12,035	11,420
Value (M\$ million)	1,747	2,017	2,263	4,210	6,846
Unit value (M\$ per ton)	245	259	245	350	600
<b>Total major primary exports</b> (M\$ million)	9,948	11,254	12,307	17,692	20,597
(As percentage of total exports)	(74)	(75)	(72)	(73)	(73)
<b>Manufactured goods (M\$ million)</b> (As percentage of total exports)	2,472 (18)	2,648 (18)	3,622 (21)	4,797 (20)	5,935 (21)
<b>Total exports</b>	13,443	14,959	17,094	24,219	28,140

Source: Data provided by the Malaysian authorities.



Table XXII. Malaysia: Changes in Major Exports, 1976-80

(In per cent)

		1976	1977	1978	1979	1980
Rubber:	volume	11.0	2.1	-2.4	2.2	-7.7
	unit value	31.8	6.9	9.1	21.8	12.3
	value	52.9	9.1	6.6	24.4	4.1
Saw logs:	volume	81.7	4.4	4.1	-4.3	-9.2
	unit value	21.0	-1.2	5.4	80.3	-0.9
	value	119.9	3.3	9.6	72.6	-10.1
Sawn timber:	volume	61.7	1.5	2.4	11.3	-6.7
	unit value	24.3	-6.2	2.0	36.1	9.2
	value	101.0	-4.8	4.5	51.5	2.0
Palm oil:	volume	57.7	5.8	6.7	25.2	19.8
	unit value	-20.0	38.6	-2.0	5.5	-11.1
	value	-7.4	46.7	4.6	32.0	6.4
Petroleum (crude):	volume	97.7	17.1	23.3	31.5	-5.1
	unit value	7.8	6.8	-4.8	42.5	71.4
	value	113.1	25.0	17.4	87.3	62.6
Tin:	volume	4.6	-18.4	5.6	2.7	-3.3
	unit value	20.8	37.0	12.5	11.5	12.0
	value	26.4	11.8	18.7	14.5	8.2
Manufacturing		25.5	7.1	36.8	32.4	23.7
Gross exports		45.6	11.3	14.3	41.7	16.2

Source: Data provided by the Malaysian authorities.

Table XXIII. Malaysia: Structure of Gross Manufacturing Exports, 1970-80

(In millions of ringgit)

	1970		1975		1978		1979		1980	
	Value	Share (Per Cent)	Value	Share (Per Cent)	Value	Share (Per cent)	Value	Share (Per Cent)	Value	Share (Per Cent)
Food, beverages, and tobacco	112	18	270	14	279	8	356	7	457	8
Textiles, clothing, and footwear	32	5	218	11	465	13	572	12	787	13
Wood products	90	15	205	10	367	10	456	10	443	8
Rubber products	17	3	43	2	64	2	75	2	83	1
Chemicals and petroleum products	196	32	185	5	199	5	251	5	323	5
Nonmetallic mineral products	20	3	23	5	43	1	49	1	55	1
Manufacture of metal	23	4	49	3	113	3	174	4	265	4
Electrical machinery and appliances	15	2	304	15	1,569	43	2,254	47	2,790	47
Other machinery and transport equipment	70	11	269	14	265	7	280	6	313	5
Other manufactures	<u>40</u>	<u>7</u>	<u>412</u>	<u>21</u>	<u>260</u>	<u>7</u>	<u>330</u>	<u>7</u>	<u>419</u>	<u>7</u>
Total	615	100	1,978	100	3,624	100	4,798	100	5,935	100

Source: Data provided by the Malaysian authorities.

Table XXIV. Malaysia: External Reserves, 1976-80

(In millions of SDRs)

End of Period	1976	1977	1978	1979	1980
A. Central Bank (net)	2,122	2,345	2,563	3,199	3,635
Foreign assets	2,130	2,356	2,577	3,207	3,639
Of which:					
Gold and foreign exchange	(2,011)	(2,278)	(2,484)	(3,052)	(3,425)
Reserve position					
in the Fund	(54)	(52)	(54)	(68)	(116)
Special drawing rights	(65)	(26)	(39)	(87)	(98)
Foreign liabilities	-8	-11	-14	-7	-4
B. Government official holdings	37	36	36	33	36
C. Total net official reserves (A + B)	2,159	2,381	2,599	3,232	3,671
D. Commercial banks (net)	-86	-156	-239	-39	-356
Foreign assets	(382)	(359)	(353)	(588)	(669)
Foreign liabilities	(468)	(515)	(592)	(627)	(1,025)
E. Total net external reserves (C + D)	2,073	2,225	2,360	3,193	3,316
F. Central Bank holdings of foreign assets in months of imports	7.7	7.3	6.5	6.5	5.3

Source: Data Provided by the Malaysian authorities.

Table XXV. Malaysia: External Debt Outstanding  
by Lending Sector, 1978-80

(In millions of ringgit; end of period)

	1978 <u>1/</u>	1979 <u>1/</u>	1980
Total public and publicly guaranteed debt	5,892	6,517	7,678
To official creditors	<u>2,415</u>	<u>2,907</u>	<u>3,655</u>
International institutions	1,264	1,495	1,683
Governments (including Eximbanks)	1,151	1,412	1,972
To private creditors	<u>3,476</u>	<u>3,610</u>	<u>4,023</u>
Banks	2,938	3,113	2,191
Others (suppliers' credit)	538	497	1,832
Private without public guarantee	573	832	--
Banks	--	--	--
Others	--	--	--

Source: Data provided by the Malaysian authorities.

1/ Based on World Bank data.

Table XXVI. Malaysia: External Debt Service Obligations, 1979-80  
(In millions of ringgit)

	Actuals	
	1979	1980
Public debt		
Amortization	201.4	224.7
Interest	<u>366.0</u>	<u>423.7</u>
Total	567.4	648.4
Publicly guaranteed private debt		
Amortization	106.8	75.9
Interest	<u>60.6</u>	<u>77.5</u>
Total	167.4	153.4
Other private debt		
Amortization	--	--
Interest	<u>--</u>	<u>--</u>
Total	--	--
Total debt service		
Amortization	308.2	300.6
Interest	<u>426.6</u>	<u>501.2</u>
Total	734.8	801.8

Source: Data provided by the Malaysian authorities.

APPENDIX

Table XXVII. Malaysia: Exchange Rate of the Ringgit, 1979-81

(Foreign currency units per ringgit, period average)

		U.S. dollar	Japanese yen	Pound	Singapore dollar
1979	1st quarter	0.4540	91.4199	0.2252	0.9860
	2nd quarter	0.4515	98.2745	0.2170	0.9334
	3rd quarter	0.4639	101.4011	0.2078	0.9989
	4th quarter	0.4597	109.3648	0.2125	0.9965
1980	1st quarter	0.4558	110.9557	0.2023	0.9910
	2nd quarter	0.4537	105.2284	0.1986	0.9360
	3rd quarter	0.4673	102.7981	0.1963	0.9908
	4th quarter	0.4613	97.1869	0.1934	0.9670
1981	1st quarter	0.4431	91.0632	0.1913	0.9256
1980	January	0.4585	109.0999	0.2025	0.9877
	February	0.4590	112.0032	0.2004	0.9898
	March	0.4499	111.8555	0.2039	0.9955
	April	0.4375	110.0455	0.1975	0.9801
	May	0.4571	104.5280	0.1985	0.9871
	June	0.4666	101.7205	0.1996	0.9906
	July	0.4666	103.0633	0.1967	0.9865
	August	0.4644	104.2296	0.1960	0.9904
	September	0.4709	101.1693	0.1961	0.9956
	October	0.4694	98.1633	0.1943	0.9308
	November	0.4617	98.3556	0.1925	0.9665
	December	0.4529	95.0357	0.1934	0.9534
1981	January	0.4502	90.9325	0.1872	0.9367
	February	0.4409	90.7838	0.1920	0.9215
	March	0.4383	91.5195	0.1966	0.9185

Table XXVIII. Malaysia: Interbank Swap Transactions, 1978-81 1/ 2/

Period	Swap Margin (M\$0.0001 = US\$1)	Forward Premium Implicit in Swap Margin (A)	Actual Rate of Appreciation Three Months Later <u>3/</u>	Euro- dollar Interest Rate (B)	Cost of Borrowing M\$		
					Swap (B)-(A)	Interbank Money Market	Differ- ence
1978							
July	-70	1.1	48.1	8.5	7.4	7.6	-0.2
August	-65	1.0	19.5	8.6	7.6	8.0	-0.4
September	-77	1.3	14.6	9.3	8.0	7.9	+0.1
October	-120	2.2	-16.6	10.3	8.1	7.6	+0.5
November	-190	3.4	3.1	11.9	8.5	7.9	+0.6
December	-309	5.7	0.9	12.0	6.3	7.1	-0.7
1979							
January	-230	4.2	-4.3	11.0	6.8	6.6	+0.2
February	-270	4.9	-6.0	11.2	6.3	5.8	+0.5
March	-200	3.6	4.4	10.8	7.2	6.3	+0.9
April	-300	5.3	13.4	11.0	5.7	4.9	+0.8
May	-175	2.9	11.5	10.6	7.7	6.2	+1.5
June	-140	2.0	5.9	10.0	8.0	6.0	+2.0
July	-180	3.3	-6.0	11.3	8.0	6.2	+1.8
August	-180	3.2	-3.8	12.3	9.1	7.2	+1.9
September	-251	4.6	-7.5	12.9	8.3	6.7	+1.6
October	-430	7.9	1.9	15.5	7.6	6.0	+1.6
November	-375	6.9	0.5	13.9	7.0	5.9	+1.1
December	-390	7.2	-14.2	14.9	7.7	6.5	+1.2
1980							
January	-355	6.6	-8.3	14.5	7.9	6.2	+1.7
February	-435	8.2	2.7	16.9	8.7	6.3	+2.4
March	-400	7.1	26.3	19.6	12.5	7.3	+5.2
April	-400	7.1	14.1	15.6	8.5	6.6	+1.9
May	-55	0.9	4.9	9.8	8.9	7.1	+1.8
June	-15	0.2	2.5	9.4	9.2	7.3	+1.9
July	+30	-0.7	2.1	9.9	10.6	8.5	+2.1
August	+90	-1.9	-8.7	12.3	14.2	10.0	+4.2
September	+125	-2.6	-15.3	13.8	16.4	11.3	+5.1
October	-230	4.2	-12.8	14.7	10.5	9.2	+1.3
November	-355	6.6	-17.2	17.9	11.3	9.5	+1.8
December	-370	6.9	-10.8	18.2	11.3	9.4	+1.9
1981							
January	-350	6.4	-14.7	17.4	11.0	9.3	+1.7
February	-290	5.1	--	16.7	11.6	9.5	+2.1
March 19	-170	2.9	--	13.9	11.0	9.3	+1.7

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

1/ Representative three-month swap effected through foreign exchange brokers at the end

Table XXIX, Malaysia: Use of Crude Oil and  
Petroleum Products, 1977-80

(In millions of barrels)<sup>1/</sup>

	1977	1978	1979	1980
Production of crude oil	67.0	79.2	103.3	100.9
Export of crude oil <sup>2/</sup>	54.6	68.0	90.8	86.7
Retained crude oil	12.4	11.2	12.5	14.2
Imports of crude oil	27.1	30.7	31.4	30.8
Stock change and discrepancy	0.5	1.7	1.6	1.2
Input of local refineries	40.0	43.6	45.5	43.8
Refinery use and losses	0.9	0.7	0.8	0.9
Output of local refineries <sup>3/</sup>	39.1	42.9	44.7	42.9
Imports of petroleum products <sup>4/</sup>	8.4	--	11.6	14.7
Total supply of petroleum products <sup>5/</sup>	47.5	--	56.9	62.4
Domestic use of petroleum products <sup>6/</sup>	44.4	46.5	53.3	60.5
Export of petroleum products <sup>7/</sup>	0.3	--	2.1	1.8
Stock change and discrepancy	2.8	--	1.5	0.1

Source: Data provided by the Malaysian authorities.

<sup>1/</sup> To nearest 100,000 barrels.

<sup>2/</sup> It includes PETRONAS' crude processed in foreign refineries.

<sup>3/</sup> It excludes products produced by overseas refineries for PETRONAS under processing arrangements.

<sup>4/</sup> It excludes those products brought back into the country by PETRONAS from overseas refineries which processed a portion of PETRONAS' crude under processing arrangements with PETRONAS.

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

<sup>6/</sup> Domestic use is based on sales figure.

<sup>7/</sup> It excludes exports of products produced by overseas refineries for PETRONAS.



Table XXX. Malaysia: Annual Electricity Generation and Shares  
by Plant Categories, 1970-79

	Total (GWH) (Per cent change)	(Shares (In per cent))			Average Rate of Growth (Per cent)
		Oil	Hydro	Gas	
1970	3,572.77	68.2	31.8	--	
1971	3,844.82 (7.61)	70.2	29.8	--	
1972	4,263.61 (10.89)	74.3	25.7	--	
1973	4,926.99 (15.55)	76.9	23.1	--	
1974	5,368.17 (8.95)	79.0	21.0	--	
1975	5,829.96 (8.60)	83.0	17.0	--	
1976	6,240.35 (10.12)	85.9	14.1	--	
1977	7,184.24 (11.89)	88.9	11.1	--	
1978	8,006.23 (11.44)	89.6	10.4	--	
1979	8,796.18 (9.86)	85.8	11.4	2.8	1970-79. 10.55

Source: Data provided by the Malaysian authorities.

Table XXXI. Malaysia: Domestic Prices of, and Taxes and Subsidies on Petroleum Products, 1976-80

(In riggit per imperial gallon)

	1976	1977	1978	1979	1980
Gasoline regular					
Price	2.75	3.00	3.00	3.10 (1/6/79) ) 3.35 (30/8/79) )	3.82 (25/4/80) 4.40 (16/8/80)
Excise duty	1.41	1.41	1.41	1.31	1.31
Import duty	1.41	1.41	1.41	1.31	1.31
Subsidy	--	--	--	--	-- (Excise product) 0.07 (Imported product from 25/4/80)
Gasoline premium					
Price	2.75	3.00	3.00	3.10 (1/6/79) ) 3.35 (30/8/79) )	3.82 (25/6/80) 4.63 (16/8/80)
Excise	1.41	1.41	1.31	1.31	1.31
Import duty	1.41	1.31	1.31	1.31	1.31
Subsidy	--	--	--	--	-- (Excise product) 0.07 (Imported product from 25/4/80)
Kerosene					
Price	0.81	0.82	0.82	1.10 (1/6/79) ) 1.30 (30/8/79) )	1.60 (25/4/80) 1.80 (16/8/80)
Excise duty	0.01	0.01	0.01	0.01	0.01
Import duty	0.01	0.01	0.01	0.01	0.01
Subsidy	0.30 (17/2/76)	0.30 0.44 (1/9/77)	0.44	0.44 0.26 (4/6/79) 0.51 (30/8/79)	0.51 1.04 (Excise-25/4/80) 1.11 (Imported-25/4/80)
Diesel oil					
Price	1.00	1.20	1.20	1.30	1.62 (25/4/80) 1.80 (16/8/80)
Excise duty	0.01	0.01	0.01	0.01	0.01
Import duty	0.01	0.01	0.01	0.01	0.01
Subsidy (\$/IG)	--	0.05 (1/10/77)	0.05	0.05 0.46 (30/8/79)	0.46 0.86 (Excise-25/4/80) 1.07 (Imported-25/4/80)

Source. Data provided by the Malaysian authorities.

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