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MALAYSIA

Recent Economic Developments

Prepared by a staff mission consisting of A.G. Chandavarkar
C.G. Chang, and L.G. Manison

Approved by the Asian Department

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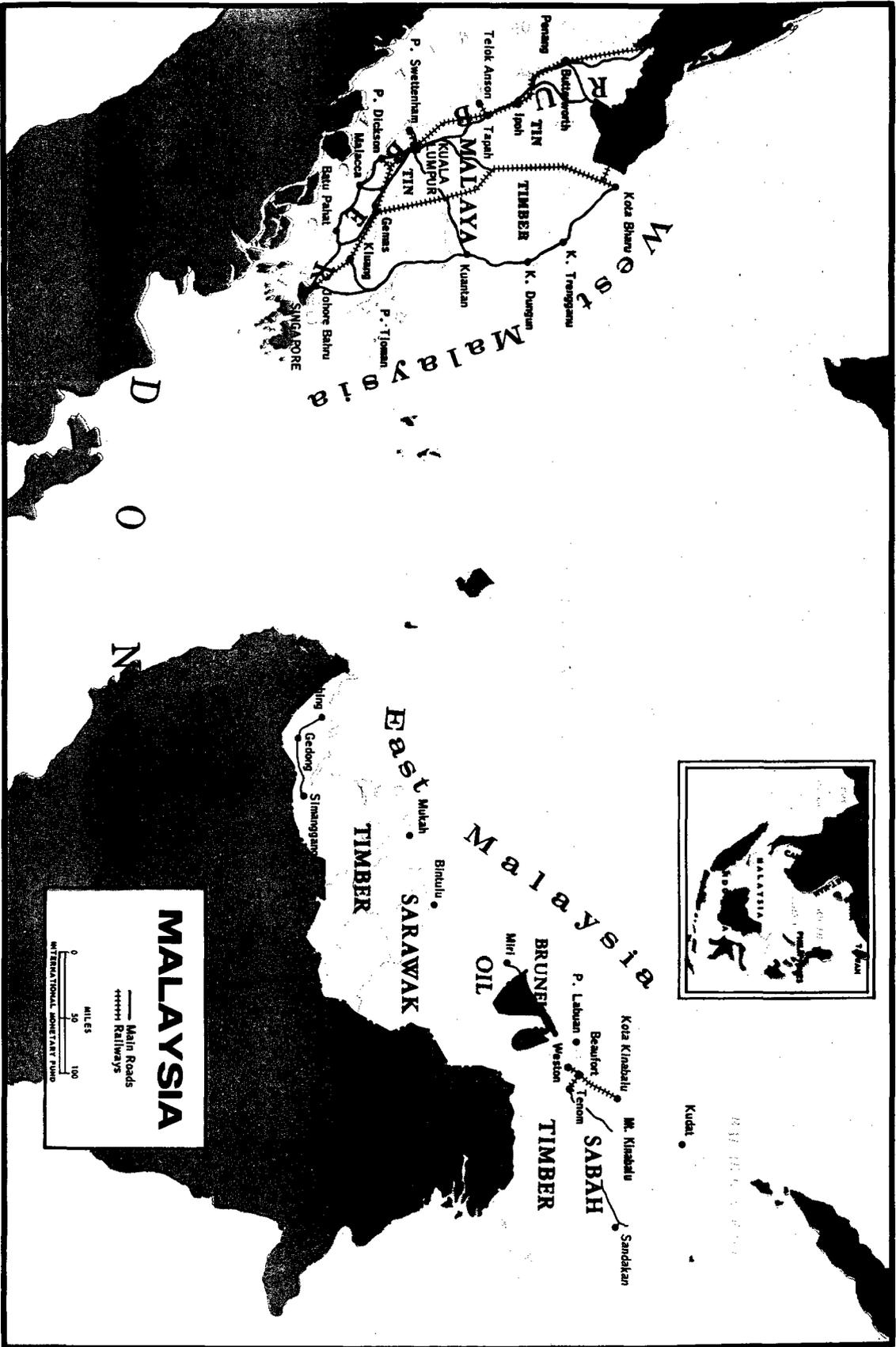
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Basic Data

Area: 128,338 sq. miles.
Population: 11.31 million (mid-1970).
 Rate of growth: 3.0 per cent (from 1966-71)
Per capita GNP: M\$1,075 (US\$382) in 1971.

	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u> ^{1/}
<u>GNP at current market prices</u> (M\$ mn.)	9,689	10,036	10,981	11,687	12,170
Annual rate of increase (per cent)	5.6	3.6	9.4	6.4	4.1
<u>Federal Government accounts</u> (M\$ mn.)					
Revenue	1,840	1,890	2,001	2,292	2,394
Expenditures (current plus development)	2,414	2,403	2,443	2,782	3,184
Overall budget deficit (-)	-574	-513	-442	-490	-790
<u>Money and credit</u> (M\$ mn.; end of period)					
Money supply	1,525	1,697	1,922	2,071	2,151
Private sector liquidity (money supply plus quasi-money)	2,825	3,265	3,764	4,169	4,705
Domestic credit (net)	978	1,472	1,548	1,996	2,459
Claims on private sector	1,295	1,605	1,761	2,173	2,515
Claims on public sector (net)	-317	-133	-213	-177	-56
<u>Interim retail price index for West Malaysia</u> (Annual average; 1967 = 100)	100.0	101.3	101.8	104.0	105.5
<u>Balance of payments</u> (SDR million)					
Exports	1,202	1,330	1,629	1,693	1,609
Imports (including nonmonetary gold)	-1,047	-1,122	-1,151	-1,362	-1,370
Trade surplus	155	208	478	331	239
Overall surplus or deficit (-)	-84	-9	172	40	60
International reserves (net); (end of period)	643	634	806	846	906
<u>IMF</u>					
Quota	SDR 186 million				
Fund holdings of Malaysian dollars (April 30, 1972)	79 per cent of quota				
Par value (July 20, 1962)	M\$3.06122 = SDR 1; M\$2.81955 = US\$1				
Net cumulative allocation of SDR	60.6 million				
Current balance of SDR (April 30, 1972)	63.1 million				
Current balance as a percentage of net cumulative allocation	104.1 per cent				

^{1/} Preliminary.



I. Developments in Demand and Supply Conditions

1. Introduction

According to preliminary estimates GNP at current market prices increased by 4.1 per cent in 1971 (Table 1). This rate of increase was lower than the 6.4 per cent increase achieved in 1970, and the 6.4 per cent growth rate attained over the decade 1961-71. It was also below the average annual rate of growth of 6.5 per cent projected under the Second Malaysia Plan (1971-75). The deceleration in economic activity in 1971 can be largely attributed to a decline in export earnings caused partly by falling world prices for Malaysia's two leading exports, rubber and tin, and to a stagnation in private investment. Both current and development expenditures by the public sector recorded large increases, which partly offset the depressive influences of the export and private investment sectors. Relative price stability continued to prevail with the new Interim Retail Price Index for West Malaysia increasing by 1.5 per cent in 1971. The current outlook suggests that there may be an improvement in Malaysia's economic performance in 1972 since rubber prices are unlikely to decline by the same magnitude as in 1971 and private investment and public expenditures are also expected to rise.

2. Developments in demand conditions

The decline in export earnings in 1971 was coupled with a lower rate of increase of 6.3 per cent in aggregate domestic expenditures, compared to an increase of 12.4 per cent in 1970. Under the impetus of the increasing role assigned to the public sector under the Second Malaysia Plan, expenditures by this sector increased by 11.6 per cent in 1971, while domestic expenditures of the private sector increased by 4.5 per cent.

In 1971, total exports declined by 2.5 per cent to M\$5,526 million, and their share in GNP fell from 48.5 per cent in 1970 to 45.4 per cent in 1971. The decline in overall exports was largely caused by lower export earnings from rubber which declined by 15.3 per cent to M\$1,460 million principally as a result of falling rubber prices. For 1971 as a whole, the unit value of rubber exports fell by 18 per cent to M\$1.05 per kg. Exports of tin and tin concentrates decreased by 10.6 per cent to M\$905.8 million, largely because of a 5 per cent fall in their unit value. There was also a marginal decline in exports of logs and wood products in 1971. However, strong gains were recorded in palm oil exports, which increased by 44 per cent to M\$379 million and petroleum exports which rose by 92 per cent to M\$390.0 million.

Total consumption expenditure rose at a slower rate in 1971, increasing by 6.6 per cent, compared to a rise of 8.3 per cent in 1970. Private consumption increased at about the same growth rate of 5.5 per cent as in 1970. The rate of increase of public consumption, however, declined from

Table 1. Malaysia: Changes in Aggregate Supply and Demand Components
at Current Prices and Related Indicators

	Per cent of GNP		Annual Percentage Changes				
	1961	1971	1968	1969	1970	1971	1961-71
Gross national product	100.0	100.0	3.6	9.4	6.4	4.1	6.4
Gross domestic expenditure	97.3	99.4	2.4	3.2	12.4	6.3	6.6
Consumption	82.4	81.5	2.9	4.8	8.3	6.6	8.7
Private	(68.5)	(61.8)	3.2	4.7	5.5	5.4	5.3
Public	(13.9)	(19.6)	2.1	5.0	18.4	10.5	10.2
Gross investment	14.9	17.9	--	-4.6	38.5	5.2	8.4
Private	(8.8)	(10.9)	-2.2	-3.5	40.1	-0.3	8.7
Public	(6.1)	(7.0)	3.7	-6.5	28.8	14.8	7.9
Exports of goods and services	54.6	45.4	10.3	19.2	2.1	-2.5	4.5
Imports of goods and services	51.9	44.8	7.8	6.0	14.3	1.8	4.9
Gross national savings	14.6	17.1	7.1	-30.4	-0.3	-5.4	8.1
Mid-year population			3.1	3.0	3.0	3.0	3.1
Per capita gross national product			1.1	6.1	2.8	0.9	3.3

Source: Department of Statistics, Malaysia.
1/ Preliminary estimates.

18.4 per cent in 1970 to 10.5 per cent in 1971. This partly reflected smaller increases in Federal Government expenditures on defense and internal security. With the more rapid rate of increase in consumption expenditures relative to GNP, the ratio of gross national savings to GNP declined from 18.8 per cent in 1970 to 17.1 per cent in 1971.

There was a substantial tapering off in the rate of increase of capital formation in 1971. Gross domestic investment rose by 5.2 per cent in 1971, compared to an increase of 38.5 per cent in 1970. Following the exceptionally large increase of 40.1 per cent, gross private investment in 1970 declined slightly in 1971. Private investment in perennial crops fell by 9.7 per cent in 1971, while there was a decline in the level of inventories (Table 2). Private investment in buildings and construction and in machinery and equipment continued to increase, but at a substantially lower rate than in 1970. Public sector development expenditures rose by 14.8 per cent in 1971, compared to an increase of 28.8 per cent in 1970. The deceleration of public investment mainly resulted from a smaller increase in buildings and construction, and a reduction in the rate of inventory stockpiling. Public investment in machinery and equipment expanded by 44.8 per cent in 1971; this large increase partly reflected the desire of the Government to increase its participation in commercial and industrial ventures as a means of promoting the creation of a Malay industrial and commercial community. Despite the less rapid increase in gross investment in 1971, the ratio of gross capital formation to GNP increased from 17.7 per cent in 1970 to 17.9 per cent in 1971, the latter being the highest level attained over the post-war period.

Reflecting the slower rate of increase in economic activity, imports of goods and services expanded by only 1.8 per cent to M\$5,449 million in 1971, compared to an increase of 14.3 per cent in 1970. In real terms, the expansion of imports was considerably less as prices of imports, especially capital goods and fuel, showed appreciable increases in 1971.

3. Developments in supply conditions

a. National economy

Malaysia's population is estimated to have increased by 3 per cent in 1970-71 to a mid-year figure in 1971 of 11.3 million. Given this population figure, per capita GNP is estimated to have increased by 0.9 per cent over the previous year to M\$1,075 (US\$382). In the decade ended 1971, per capita GNP at current prices rose by 38 per cent; at 1965 prices, the increase was about 25 per cent. The per capita GNP of Malaysia is one of the highest in Asia and is only surpassed by Japan, Hong Kong, Singapore and Brunei.

Table 2. Malaysia: Changes in Components of Gross Capital Formation, 1967-71

	Percentage of Gross Capital Formation		Annual Percentage Changes ^{1/}				
	1968	1971	1968	1969	1970	1971	1967-71
Private							
Land	0.4	0.3	--	--	--	--	--
Buildings and construction	21.6	20.5	15.0	4.3	22.8	0.9	10.4
Machinery and equipment	22.5	28.7	7.5	-1.4	71.0	3.1	16.9
Investment in perennial crops	11.9	7.7	-22.1	-4.2	2.2	-9.7	-7.0
Change in stocks	<u>5.1</u>	<u>3.6</u>	---	---	---	---	---
Subtotal	61.4	60.8	-2.2	-3.5	40.1	-0.3	7.2
Public							
Land	--	---	--	--	---	--	--
Buildings and construction	30.2	26.3	-1.6	-4.1	17.5	5.3	3.9
Machinery and equipment	7.5	11.4	-8.4	22.5	17.0	44.8	17.4
Investment in perennial crops	--	--	--	--	--	--	--
Change in stocks	<u>0.9</u>	<u>1.4</u>	---	---	---	---	---
Subtotal	38.6	39.2	3.7	-6.5	28.8	14.8	9.4
Total gross capital formation	100.0	100.0	--	-4.6	38.5	5.2	8.0

Source: Department of Statistics, Malaysia.

^{1/} Rates of changes for investment in inventories have not been calculated as information is not available on stock levels at the beginning of every calendar year.

b. Industrial origin of gross domestic product

Gross domestic product at factor cost is estimated to have increased by 4.0 per cent in 1971, following an increase of 5.8 per cent in 1970 (Appendix Table I). The falling demand for some of Malaysia's primary exports, principally rubber, was mainly responsible for the continued decline in the value of production originating in the agricultural sector in 1971. Despite increases in the production of most major crops, including rubber, agricultural and livestock production at factor cost at current prices fell by 2.4 per cent, a rate of decrease similar to that experienced in 1970. Falling overseas demand was also a major factor

contributing to the slight decline in the production of logs and forestry products in 1971. Manufacturing was the leading growth sector in 1971 and production in that sector increased by 8.6 per cent. Other sectors which recorded strong production gains in 1971 were banking, insurance and real estate, fisheries and public administration. Over the decade ended 1971, GDP originating from the manufacturing sector increased from 8.6 per cent to 13.9 per cent, while that from agriculture, forestry and fisheries declined from 38.0 per cent to 30.7 per cent.

c. Primary products

Malaysia is the world's largest producer of natural rubber, and its production in 1971 of about 1.3 million tons,^{1/} constituted about 45 per cent of the world's supply of natural rubber. There are about 4.8 million acres under rubber which accounts for about 61 per cent of the country's cultivated land. About 29 per cent of total export earnings are derived from rubber, while approximately 19 per cent of the gross domestic product is generated by the rubber industry.

After virtual stagnation in 1970, the output of rubber increased by 4.3 per cent in 1971 (Table 3 and Appendix Table II) despite the appreciable decline in average rubber prices to historically low levels in the greater part of the year, and the floods in early 1971. The increase in production largely resulted from higher yields in the estates sector. Smallholders' output rose by only 2.4 per cent to 599,000 tons, while in the estates sector it increased by 7 per cent to 657,000 tons, with output per mature acre increasing by 6.6 per cent. Replanting with high-yielding varieties of rubber trees in the 1960s has been largely responsible for the considerable productivity gains in the estates sector. In 1972, the expansion in mature acreage resulting from plantings in 1960s together with the further increases in average yields forecast from the estates sector are expected to raise natural rubber output by about 5 to 6 per cent to approximately 1.3 million tons.

In order to maintain the competitive position of natural rubber, vigorous efforts are being devoted to research and its application in order to reduce average production costs. A flat-rate replanting cess of 4.5 Malaysian cents is levied on every pound of rubber exported from Malaysia and the proceeds are used for replanting estates and smallholdings with new high-yielding seedlings. The annual targets under the Second Malaysia Plan for replanting smallholdings with high-yielding varieties are nearly double the rate achieved in 1966-70; by the end of 1975, it is expected that 90 per cent of smallholdings will have been planted with high-yielding seedlings. It is estimated that high-yielding clones produce three to four times the amount of rubber grown from unselected seedlings.

One of the most interesting research developments is the promising results obtained from the experimental use of a chemical stimulant called "ethrel," the trade name of a preparation of chloraethylphosphonic acid.

^{1/} Unless otherwise indicated, the measurement refers to long tons.

Table 3. Malaysia: Percentage Changes in Output of Selected Agricultural, Forestry and Mineral Products, 1967-71

	Annual Percentage Changes					
	1967	1968	1969	1970	1971 ^{1/}	1966-71 ^{1/}
Agriculture and forestry						
Rubber	2.1	11.7	14.3	0.1	4.3	6.4
Milled rice ^{2/}	-2.7	19.7	11.5	5.7	4.8	7.5
Palm oil	19.0	25.7	23.6	22.8	36.6	25.4
Palm kernels ^{3/}	15.2	23.2	25.1	17.9	36.4	23.5
Coconut oil ^{3/}	2.9	5.6	-8.0	9.2	4.6	2.7
Copra	-20.4	6.7	-7.6	8.7	14.0	0.3
Saw logs	11.4	18.3	4.9	8.6	3.7	9.2
Sawn timber	20.9	17.0	2.1	11.4	4.3	10.9
Minerals						
Tin-in-concentrates	4.7	4.1	-3.9	0.6	2.2	1.5
Iron ore	-7.2	-4.9	1.3	-14.7	-78.8	-12.9
Bauxite	-5.8	-11.2	34.4	6.2	-14.2	0.5
Crude oil	-5.0	363.4	122.6	93.6	282.3	132.0

Sources: Department of Statistics, Malaysia, and Department of Mines, Malaysia.

^{1/} Preliminary estimates.

^{2/} Based on conversion rate of 65 per cent from paddy to milled rice.

^{3/} Coconut oil production estimated from exports in the case of East Malaysia.

Its application to rubber trees can substantially increase yields from less productive trees and in certain cases annual yields have doubled. Further tests involving large acreages over a longer period of time are required in order to determine any detrimental side effects which may arise from its prolonged use before it can be implemented on a national scale.

In 1965, the Standard Malaysian Rubber Scheme (SMR) was introduced in order to encourage the production of technically specified grades of rubber more suited to the needs of consumers of Malaysian natural rubber. Production of SMR has increased from 698 tons in 1965 to 319,400 tons in 1971. The output of SMR, mainly in the form of heveacrumb and comminuted rubber, rose by 43 per cent in 1971 and constituted 24 per cent of total rubber production. To promote smallholder participation in the SMR scheme, the Malaysian Rubber Development Corporation was established in August 1971 to deal with the processing and marketing of smallholders' rubber through a network of factories throughout the country. Six factories

have already been established and it is expected that another 25 factories will be in operation by 1975. SMR is expected to account for about 50 per cent of total rubber output by 1975.

Rice is Malaysia's second ranking agricultural commodity in terms of land usage and labor employed. In 1971, the output of milled rice from the 1970/71 main season harvest and the 1971 off season increased by 4.8 per cent to about 1.7 million tons. Most of this increase resulted from higher paddy yields per acre which rose by over 6 per cent. Higher yields were principally due to an increase in double cropping. Output from the off-season crop increased by 22.5 per cent to 303,800 tons, mostly from an extension of irrigation facilities.

Domestic rice production provides about 83 per cent of Malaysia's rice requirements. Official policy is to achieve not more than 90 per cent self-sufficiency and to avoid accumulating wasteful surpluses which would be difficult to dispose of in the world market since Malaysia is a relatively high cost producer of paddy. The emphasis therefore is now shifted to enhancing the incomes of existing paddy farmers through programs to increase yields per acre. Irrigation and drainage facilities are being expanded in certain designated rice bowl areas, under official development schemes, while farmers outside these areas are being discouraged from growing paddy. Under the Guaranteed Minimum Price Scheme, rice farmers are guaranteed a minimum price for paddy at the farm level, which is currently M\$16 per picul of paddy; this price is reviewed annually. In recent years, processing, warehouse and marketing facilities have lagged behind the rapid growth of paddy production. In September 1971, a single integrated agency, the National Padi and Rice Authority, was established to streamline the processing and marketing functions and to coordinate the storing, milling and marketing of rice.

Oil palm is Malaysia's second most important plantation crop. It is the main crop in the agricultural diversification program and has recorded very impressive production gains in recent years. In the three years since 1968, the output of oil palm has more than doubled and in 1971, production increased by 37 per cent to 579,900 tons. Palm kernel production also rose by 36 per cent to 116,900 tons. Malaysia is now the world's largest palm oil producer and is expected to increase its share in the world's output to about 50 per cent by 1975. The total area under palm oil increased by 22 per cent in 1971. Apart from the conversion of rubber growing areas to oil palm, the substantial increase in the area planted under oil palm has resulted from the cultivation of new areas under official land development schemes, especially schemes carried out by the Federal Land Development Authority (FLDA) for the benefit of smallholders. Between 1970 and 1971, the proportion of smallholding acreage to total acreage rose from 39 per cent to 43 per cent. Favorable world prices together with the increased local industrial use of oil palm, in the form of margarine, edible oils and soap, have reinforced official efforts to promote oil palm production. In 1972, the rate of increase in the output of oil palm is expected to taper off since the unsuitability of the soil in certain areas places a limit on conversion from rubber to oil palm production.

Although it still ranks fourth among the agricultural industries, the production of coconut products has not increased significantly over the last decade. The output of copra increased at an average rate of 0.3 per cent from 1966 to 1971. Although West Malaysian estate production of copra declined in 1971, partial data indicate an appreciable increase in the production of copra from smallholders in West and East Malaysia. The output of coconut oil reached a peak of 100,000 long tons in 1962, declined to 67,000 tons in 1964 and recovered to only 79,600 tons in 1971. Over 80 per cent of the coconut palms are under smallholdings, and have passed their peak productivity.

Minor crops showed a mixed pattern in 1971. The output of maize and sago declined, the production of pineapples stagnated but considerable gains were recorded in sugarcane, tapioca, cocoa, tea and pepper. Preliminary research carried out by the Malaysian Agricultural Research and Development Institute (MARDI) has indicated that considerable scope exists for expanding the production of tapioca, cocoa and sugarcane.

In the fisheries sector, total marine fish landings are estimated to have risen by over 7 per cent to about 360,000 tons in 1971. This increase was largely due to trawler fishing, which brought in 107,800 tons of fish in 1971, compared with 84,700 tons in 1970. The introduction of trawler fishing has resulted in substantial increases in the landings of marine prawn which in turn has led to the development of an export-oriented chilled and frozen prawns industry; in 1971, such exports increased by about 64 per cent to M\$57 million.

The forestry industry is the third largest foreign exchange earner, and accounted for about 16 per cent of total export earnings in 1971. The output of logs and wood products experienced a slowdown in 1971 as a result of floods in the early part of the year and because of slackening overseas demand, particularly from Japan, in the latter part of 1971. In 1971, saw log production increased by 3.7 per cent to 10,547,000 tons, while sawn timber output, amounting to 1,946,800 tons, was 4.3 per cent higher. These increases are in sharp contrast to growth rates of 8.6 per cent for saw logs and 11.4 per cent for sawn timber achieved in 1970. The output of forestry products in East Malaysia was more adversely affected by the recession in the timber export trade; production of saw logs declined by 2.5 per cent to 5,468,000 tons and the output of sawn timber fell by 10.1 per cent to 207,100 tons. In order to reduce the dependence on the overseas demand for logs and increase the value added in exports of timber and wood products, official efforts are centered on encouraging the processing of logs into semifinished and finished products. On January 6, 1972, the export duty on saw logs from West Malaysia was raised from 10 per cent to 15 per cent so as to encourage further local processing of timber.

The mining sector recorded an overall output growth of 3.9 per cent in 1971, principally as a result of a modest increase in the production of tin-in-concentrates and a very large expansion in crude oil output.

Production of tin-in-concentrates increased by 2.2 per cent to 75,400 metric tons despite unfavorable overseas market conditions and falling productivity from lower grades of ore-bearing land. This increase was mainly attributable to an expansion of mining capacity and by the end of 1971, two additional dredges were in operation bringing the total number to 63. The value of tin output, based on the average Penang price, decreased by 3.0 per cent to M\$784.4 million in 1971. Miners are being compelled to work on progressively lower grades of ore-bearing land where higher operating costs offset to a large extent increases in productivity arising from the use of more modern capital equipment. The search for new tin reserves is now shifting to the continental shelf off the west coast of West Malaysia.

Since production from offshore fields began in 1968, petroleum production has been the fastest growing sector of the mining industry. The output of crude oil more than doubled in 1969, increased by 94 per cent in 1970, and rose by 282 per cent to 25.1 million barrels in 1971. The higher output in 1971 was derived from the Baram and West Lutong fields off the coast of Sarawak. Oil from such fields is of a low sulphur content and is in high demand from Japan. Crude oil output is projected to rise by about 30 per cent in 1972. Part of this increase is expected to be derived from a new field off the coast of Sarawak. At present, there are nine companies involved in oil exploration throughout Malaysia, mostly off the coast of East Malaysia. One of these companies, which has discovered natural gas some 90 miles offshore from Sarawak, intends to investigate the feasibility of setting up a plant to produce liquefied natural gas for export.

The year 1971 witnessed a drastic decline of 79 per cent to 935,000 tons in the output of iron ore. This resulted from the closure in late 1970 of Malaysia's two largest iron ore mines, which accounted for about 83 per cent of total production. The production of bauxite decreased by 14 per cent to 962,500 tons, due largely to the suspension of operations at the largest mine in August and September 1971 following technical difficulties in the treatment plant at that mine.

d. Manufacturing production

Manufacturing production, in terms of value added at current prices, has grown at an annual average of about 12 per cent from 1967 to 1971. The value added in manufacturing is estimated to have grown by about 9 per cent in 1971, a rate of expansion about double that of the overall economy. The Department of Statistics now compiles an Industrial Production Index for West Malaysia (1968 = 100), which covers mining, manufacturing and electricity. The subindex of manufacturing covers a total of 142 establishments classified under 15 major groups and 55 industries, which together account for 76 per cent of total value added and 75 per cent of total gross sales in 1968. The index shows that for the first ten months of 1971, total manufacturing output was 6.2 per cent higher than in the corresponding period of 1970. However, it is likely that the index slightly understates growth in the manufacturing

sector because of a time lag between actual operations of new plants and their inclusion in the index and because the weighting pattern based on value added in 1968 does not adequately reflect changes in the importance of new and more dynamic industries.

According to the index of manufacturing production for the first ten months of 1971, strong gains were recorded in the output of textiles, processed agricultural commodities, basic metals and metal products, electrical and household appliances, paper products, wood products and transport equipment (see Appendix Table III). There were modest increases in the output of chemicals and chemical products, while beverages and petroleum products showed slight declines, and the output of processed foods and rubber products stagnated. Although consumer products still constitute a major proportion of the manufacturing output, there has been a gradual shift toward the production of intermediate products and commodities based on local materials. Most prominent among these are the wood-based industries, the basic metal industries, and the industries related to construction. However, manufacturing industry is still heavily dependent on imports of raw materials and capital goods. The Government is, therefore, encouraging the setting up of agro-based industries which use local raw materials.

For over a decade, the Government has steadily promoted industrial development through a variety of measures such as provision of tax and other financial incentives to the so-called "pioneer" industries^{1/}, establishment of industrial estates, expansion of vocational training, setting up of special institutions like the Malaysian Industrial Development Finance Berhad (MIDF) to provide industrial finance, tariff protection and/or import quotas to several deserving nascent industries, etc. These measures, however, have met with limited success. Consequently, when the unemployment problem came to the forefront in the wake of the May 1969 disturbances, the Government adopted a "New Economic Policy" aimed, among other things, at a much more aggressive promotion of industrial development. This objective is essentially being sought not through any totally new measures, but rather through a more concerted and coordinated pursuit of measures already initiated. To perform this task efficiently, a high level Capital Investment Council (CIC) was set

^{1/} Companies which intend to produce goods that are not in sufficient supply to meet Malaysia's requirements or whose establishment is considered vital to the national interest can apply for pioneer status. Companies which intend to manufacture their products solely for export can also apply. Depending on the size of their capital investment pioneer industries are exempted from income tax up to five years from the day they start commercial production. The tax relief period is two years for fixed capital investment of less than M\$250,000; three years for fixed capital investment exceeding M\$250,000 but less than M\$500,000; four years for fixed capital investment of more than M\$500,000 but less than M\$1 million; and five years for fixed capital investment exceeding M\$1 million.

up under the chairmanship of the Finance Minister. The principal executive agency for the implementation of the policies laid down by the CIC is the Federal Industrial Development Authority (FIDA), established several years earlier. The FIDA also acts as the center for coordinating all industrial development in Malaysia and as the main contact for potential investors and industrialists.

In order to stimulate the growth of employment in the manufacturing sector, the Government introduced a labor utilization tax relief incentive in January 1972. Under this incentive, companies employing between 51 to 100 employees would be eligible for two years' tax exemption; 101 to 200 employees, three years' exemption; 201 to 350 employees, four years; and 351 employees and above, five years. At the same time, the electronics industry, which is highly labor-intensive and export-oriented, was declared a priority industry and special incentives were provided to promote its growth. Special tax relief for the electronics industry ranges between four and seven years, and can be increased to a maximum of ten years if other conditions relating to local content, location in a designated development area and priority products are satisfied, and if approval is granted before January 31, 1973. In 1971, 306 companies were given approval to commence manufacturing operations, involving a total proposed paid-up capital of M\$563.4 million, and employment potential of 48,700 persons, as compared with 336 companies in 1970, involving a total proposed paid-up capital of M\$477.1 million and employment potential of 50,000 persons.

e. Construction and services

Value added in the construction industry at factor cost is estimated to have increased by about 3 per cent in 1971, a considerably slower rate than that achieved in 1970. The slowdown was largely ascribed to a stagnation in private capital formation, following a 17 per cent increase in construction in 1970. With the number of licensed housing developers increasing by 51 to 271 in 1971 and a recent rise in loans for housing and other construction, it is likely that there will be an improvement in the performance of the construction industry in 1972. Preliminary estimates indicate that value added in the services sector at factor cost, which includes public utilities, rose by 6.2 per cent in 1971, compared to an increase of 7.3 per cent in 1970. About 46 per cent of Malaysia's gross domestic product originated in the services sector in 1971. Services provided by the utilities sector expanded rapidly. The number of telephones installed in West Malaysia increased by 14 per cent to 164,000. Electricity consumption increased by 6.5 per cent to 3,092 million kilowatt hours, with consumption for industrial and commercial uses (excluding mining) rising by 12.6 per cent in 1971. Output in the transportation and communications is estimated to have increased at a similar rate to that of the economy. Total tonnage carried by rail and total cargo loaded at West Malaysian ports declined in 1971. However, both freight and passengers carried by aircraft recorded large gains in 1971.

II. Prices, Wages and Employment

1. Prices

Consumer prices, as indicated by the new Interim Retail Price Index (1967 = 100), increased on average by 1.5 per cent in 1971. (Table 4 and Appendix Table IV). In the 12-month period to end-December 1971, the index increased by 2.4 per cent; the components recording the largest rises were food (4.0 per cent) and fuel and power (5.0 per cent). During the course of 1971, price increases were greatest in January (1.1 per cent) when floods disrupted supplies and in the last quarter (1.9 per cent) when the effects of higher freight rates and inflationary tendencies in supplier countries began to permeate into the domestic economy. In the first two months of 1972, the Interim Retail Price Index remained stable, largely as a result of a decline in the food component and the dampening influence of falling export prices.

The Malaysian Department of Statistics^{1/} recently undertook a study in which they found that consumer prices in Malaysia had increased at a considerably lower rate than in most other countries. The Interim Retail Price Index for West Malaysia rose at an average annual rate of 1.3 per cent over the period 1963-71, while consumer price indices in the following countries over the same period increased at the following rates: Australia (3.3 per cent), France (4.0 per cent), Germany (2.9 per cent), Japan (5.7 per cent), United Kingdom (4.9 per cent), United States (3.5 per cent), Thailand (2.1 per cent) and Singapore (1.3 per cent). The exceptionally high degree of domestic price stability in West Malaysia shown by this international comparison is in part statistical insofar as the new Interim Retail Price Index, although an improvement on the old Retail Price Index for West Malaysia, does not adequately reflect prevailing consumption patterns. The weights in the new Interim Retail Price Index are based on consumption patterns in 1967, a year in which the proportion of private consumption expenditure allocated to food was unusually high. This proportion increased from 45.5 per cent in 1963 to 46.0 per cent in 1967 and then declined to an estimated 41.5 per cent in 1971. But even allowing for the limitations of the new Interim Retail Price Index, the degree of price stability achieved in West Malaysia over the past decade could be regarded as remarkable. This price stability is partly attributable to the openness of the Malaysian economy, which has consequently enabled Malaysia to freely import goods to overcome domestic supply bottlenecks and to freely shift them from high cost to low cost suppliers. In more recent years, however, the composition of Malaysia's imports has shifted toward capital and intermediate goods (see pp. 46-47), the prices of which have generally increased at a faster rate than other import components.

Relative price stability has been helped by the maintenance of wages within the limits imposed by gains in labor productivity, and this stability in the cost of living has in turn contributed to the maintenance of good industrial relations between labor and management in Malaysia. Over the period 1965-70, labor productivity as measured by gross national product

^{1/} R. Chander, Price Stability in Malaysia, 1972.

Table Malaysia: Retail Consumer Price Indices
in West Malaysia, 1960-71

	Retail Consumer Price Index for West Malaysia (1959 = 100)		Interim Retail Consumer Price Index for West Malaysia (1967 = 100)	
	Monthly Average	Percentage change over previous year's average	Monthly Average	Percentage change over previous year's average
1960	99.8	-0.2		
1961	99.6	-0.2		
1962	99.7	0.1		
1963	102.8	3.1	95.2	
1964	102.4	-0.4	95.2	
1965	102.3	-0.1	95.9	0.7
1966	103.7	1.4	97.0	1.1
1967	108.0	4.1	100.0	3.1
1968	108.2	0.2	101.3	1.3
1969	107.1	-1.0	101.8	0.5
1970	108.6	1.4	104.0	2.2
1971	110.2	1.5	105.5	1.4

Sources: Department of Statistics, Malaysia, Monthly Statistical Bulletin of West Malaysia (various issues).

per person employed rose at the average annual rate of 3.6 per cent, while estimates from partial data indicate that money wages increased on average at a rate of less than 3 per cent per annum over the same period. At the same time, the existence of prolonged price stability has enabled savers and investors to earn a positive real rate of return on their investments and has also created a favorable climate for saving in monetary forms.

2. Wages

Comprehensive data on wages in Malaysia are not available. The level and trends in wages for different occupational groups have to be assessed from a variety of sources such as collective wage agreements, Industrial Court awards, and ad hoc studies. In recent years, initial wages of clerical and other low grade white collar workers have declined due to high unemployment and increases in the number of school graduates. On the other hand, salaries for high grade technical and managerial personnel have tended to rise with the demand for their services. It was estimated that the average increase in wage rates in 1970 was about 3 per cent with most increases falling within the range of 2.5 per cent to 5.0 per cent. In March 1972, a collective agreement was concluded between the Malaysia Agricultural Producers and the National Union of Plantation Workers. This agreement, covering approximately 180,000 estate workers, will guarantee a daily basic wage of M\$3.10 when rubber prices are equal to or below M\$0.40 cts per pound, and increase to M\$3.20 per day when prices rose above M\$0.40 cts per pound. In 1971, the Government accepted the recommendations of the Royal Commission on the Teaching Service, under which 68,600 teachers in West Malaysia became eligible for new salaries with arrears backdated to January 1, 1970. The Government has also implemented some of the recommendations of the Royal Commission on Salaries and Conditions of Service (Suffian Report) affecting 233,000 government employees. A Royal Commission (the Harun Commission) is currently reviewing the salaries of employees in statutory authorities. Industrial relations during 1971 were generally well maintained. There were 45 strikes, mainly in the estates sector, with an estimated 20,265 man days being lost.

On October 1, 1971, a new social security scheme was launched; this covers employment injury insurance and an invalid pension scheme. So far, only the Employment Injury Insurance Scheme has been implemented on a "pilot" scheme basis in the urban centers of Johore Bahru, Kuala Lumpur and Petaling Jaya, while registrations are in progress in other urban centers. Under these pilot schemes, only employees earning up to M\$500 per month and those employers engaging at least five workers are covered. The social insurance scheme provides a wide range of benefits which include invalidity pension, a disablement pension amounting to approximately 60 per cent of wages, dependents benefits in the event of the death of the injured person, funeral grants, and comprehensive medical benefits. Only the employer would be liable to contribute to the Employment Injury Scheme at the rate of about 1.2 per cent of the employee's wage per month. For the Invalidity Pension Scheme, both the employer and employee would each have to contribute an amount equal to about one half of one per cent of the employee's monthly wage.

3. Employment

In October 1971, the Department of Statistics conducted a labor force sample survey in West Malaysia. Based on preliminary data, the unemployment rate of those actively seeking work was estimated at 7.8 per cent of the total labor force. (Table 5). Total unemployment, including unemployed persons not actively seeking employment, was estimated at 9.7 per cent. For the whole of Malaysia, these figures would be somewhat lower, since East Malaysia tends to be a labor shortage area. There are indications that the rise in the rate of unemployment, experienced in the late 1960s, has been somewhat checked over the last two years. The average monthly number of registered unemployed at the labor exchanges declined from 170,134 in 1970 to 158,228 in 1971. During 1971, there appears to have been an improvement in the urban employment situation relative to that prevailing in rural areas and about 40 per cent of placements effected through the labor exchanges in 1971 were in the manufacturing sector. Largely reflecting the strong growth of manufacturing activities in the cities, total urban unemployment is estimated to have dropped from its peak of 12.7 per cent in 1969 to 11.8 per cent in 1971. In the rural areas of West Malaysia, unemployment is estimated to have increased from 8 per cent in the export boom year of 1969 to about 8.5 per cent in 1971. Employment on rubber estates is estimated to have fallen by 1.6 per cent in 1971, mainly because of considerable productivity gains partly brought about by improved, but less labor-intensive tapping techniques. The increase in employment on oil palm estates, where acreage has expanded considerably partly under the impetus of official land development schemes, has not compensated for the decline in employment on rubber estates since the oil palm industry is less labor-intensive. Employment in the mining sector fell by 5 per cent in 1971, largely as a result of the closure of two iron ore mines, while the recession in the timber export trade adversely affected employment in East Malaysia.

Several significant characteristics are discernible with respect to unemployment in Malaysia. Firstly, it is concentrated among persons of younger age groups. The October 1971 labor force survey indicated that 48.7 per cent of unemployed persons actively seeking work were in the 15-19 years age group, while a further 34.6 per cent of the unemployed were in the 20-29 years age group. Secondly, more than 91 per cent of the unemployed as revealed by the 1967/68 labor force survey had a primary and/or higher educational background. Thirdly, the young and educated unemployed are more heavily concentrated in urban areas; urban unemployed in West Malaysia in 1971 are estimated to amount to 11.8 per cent of the labor force, while the rural unemployed amounted to 8.5 per cent.

The Government's employment strategy places emphasis on both promoting the growth of employment and correcting imbalances in the employment pattern. Under the Second Malaysia Plan, deliberate efforts are being made to accelerate job opportunities in the agricultural sector through land settlement schemes. Overtime has been restricted to 32 hours per worker per month. To encourage the use of labor-intensive techniques, the payroll tax was abolished and the labor utilization tax relief incentive introduced in January 1972. The "New Economic Policy" emphasizes restructuring of the racial composition of the work force in Malaysia. Toward this end, the Ministry of Labor and Manpower has announced that the work force in firms should reflect the racial composition of the country at all levels of employment, and that this would be taken into consideration before pioneer status is granted.

Table 5. West Malaysia: Percentage Distribution of Unemployed by Age and Sex for Urban and Rural Areas^{1/}

		As Per Cent of Labor Force			As Per Cent of Total Unemployed		
		Rural	Urban	Total	Rural	Urban	Total
<u>Male</u>	15-19	18.24	23.94	20.19	14.47	9.91	24.38
	20-29	6.71	8.35	7.39	9.24	8.10	17.35
	30-44	1.46	3.15	2.12	2.41	3.35	5.76
	45-64	2.12	5.51	3.22	2.68	3.35	6.03
	<u>Total</u>	<u>5.67</u>	<u>8.09</u>	<u>6.58</u>	<u>28.80</u>	<u>24.72</u>	<u>53.52</u>
<u>Female</u>	15-19	19.68	32.34	23.88	13.40	10.92	24.31
	20-29	9.93	15.67	12.22	8.44	8.84	17.28
	30-44	1.80	5.37	2.68	2.00	1.94	3.95
	45-64	0.59	2.72	1.07	0.40	0.54	0.94
	<u>Total</u>	<u>7.31</u>	<u>15.22</u>	<u>9.73</u>	<u>24.25</u>	<u>22.24</u>	<u>46.48</u>
<u>Total</u>	15-19	18.90	27.71	21.88	27.86	20.83	48.69
	20-29	7.94	11.04	9.20	17.68	16.95	34.63
	30-44	1.60	3.71	2.32	4.42	5.29	9.71
	45-64	1.59	4.83	2.54	3.08	3.88	6.97
	<u>Total</u>	<u>6.32</u>	<u>10.40</u>	<u>7.75</u>	<u>53.05</u>	<u>46.95</u>	<u>100.00</u>

Source: Department of Statistics, Malaysia.

^{1/} Based on October 1971 survey of labor force in West Malaysia and refers to those persons actively seeking work.

III. Development Planning

1. First Malaysia Plan, 1966-70

The development expenditure targets projected under the First Malaysia Plan were not realized. The target for total development expenditures, as envisaged in the mid-term review of the Plan, was M\$11.03 billion with targets for private and public investment at M\$6.44 billion and M\$4.5 billion, respectively. Actual development expenditures (Table 6) amounted to about 85 per cent of their planned level; the public and private sectors realized about 92 per cent and 80 per cent of their investment targets, respectively. These shortfalls seem to have reflected deficiencies in planning and implementation rather than financial constraints. The actual average annual rate of growth of GNP at current prices of 6.5 per cent over the Plan period was greater than the 5.6 per cent growth rate projected by the revised Plan. The higher than projected output return on gross capital formation in the last two years of the Plan can be largely attributed to the substantial increase (19.2 per cent) in export earnings in 1969.

Table 6. Malaysia: Development Expenditures
under the First Malaysia Plan, 1966-70

(In millions of Malaysian dollars)

	Plan Targets		1966-70	Implementa- tion ^{1/}
	Original	Revised	Estimated Actual	
Public sector	<u>4,551</u>	<u>4,585</u>	<u>4,242</u>	<u>92.5</u>
Federal Government	3,910	3,620	3,162	87.3
State Governments	181	) 965	548	) 111.9
Statutory authorities	460	)	532	
Private sector	<u>5,584</u>	<u>6,449</u>	<u>5,166</u>	<u>80.1</u>
Total	10,135	11,034	9,408	85.3

Source: Economic Planning Unit, Malaysia.

^{1/} Figures refer to percentages of revised targets for the Plan period.

2. Second Malaysia Plan, 1971-75

a. Introduction

Although considerable economic growth was achieved during the First Malaysia Plan, poverty, unemployment and economic and social imbalances continued to prevail. Economic imbalances in Malaysia are reflected in the uneven distribution of income, employment, and ownership of wealth, which tend to coincide with the racial origin and place of livelihood of the population. Thus, the bulk of Malaysians of Malay origin live in rural areas and are largely engaged in paddy cultivation and other small-scale agriculture activities, where income levels are generally lower than in the rubber and oil palm estates, large tin mines, and in manufacturing and services industries which are mainly concentrated in and near urban areas. The main source of high-income employment opportunities for Malays in the urban areas is in government service. The "New Economic Policy" calls for the Government to take a more active role in attempting to correct these imbalances through placing more emphasis on the social aspects of economic development. The "New Economic Policy" aims at achieving a better distribution of income and employment among the various ethnic groups and regions through eradicating poverty irrespective of race and restructuring society to reduce and eventually eliminate the identification of race with economic function. The Second Malaysia Plan is an expression of the "New Economic Policy" and aims at developing the economically depressed rural areas and increasing the share of Malays and other indigenous people in the ownership and control of the means of production in the modern sector; such people now manage and own less than 10 per cent of the commercial and industrial enterprises in Malaysia. The Second Malaysia Plan aims at increasing their share to 30 per cent over a period of 20 years.

b. Quantitative Targets of the Plan

The Plan target for the average annual growth rate of GNP at current prices is 6.5 per cent, which more or less corresponds to the rate of growth achieved over the previous five-year period (Table 7). Under the First Malaysia Plan, per capita income rose at the annual average rate of 3.3 per cent. This rate of increase is projected to rise to 3.7 per cent over the five-year period 1971-75, i.e., an increase from about M\$1,080 to M\$1,300. The Plan envisages an annual average rate of increase of 3.2 per cent in the employed labor force and 7.8 per cent in gross capital formation. Over the Plan period, the ratio of gross investment to GNP is expected to average 17 per cent. If the Plan targets are achieved, consumption expenditures will rise at an annual average rate of 6.6 per cent, bringing average per capita consumption to about M\$1,046, including average public consumption of about M\$260.

As export earnings are projected to grow at 4.6 per cent over the Plan period, production for the domestic market is expected to expand at a more rapid rate, so that GDP at factor cost at constant prices is estimated to increase by 6.7 per cent. The sectors which are expected to

Table 7. Malaysia: Basic Targets under the Second Malaysia Plan

	Percentage of GNP			Annual Average Percent- age Change	
	1965	1970	Projected 1975	1965-70	1970-75
GNP at constant prices	100.0	97.7	98.8	5.9	6.8
GNP at current prices	100.0	100.0	100.0	6.3	6.5
Consumption	81.2	79.6	78.4	5.7	6.6
Private investment	9.0	11.4	11.6	11.2	8.8
Public investment	7.3	6.4	5.7	3.4	5.9
Total investment	16.3	17.7	17.3	8.0	7.8
Exports	49.9	48.4	43.5	5.6	4.6
Imports	47.8	45.8	41.4	5.1	5.1
Savings	17.4	18.8	18.6	8.0	6.2

Source: Second Malaysia Plan, 1971-75.

make the major contributions to the growth in GDP in West Malaysia are: manufacturing (11.7 per cent), agriculture, forestry and fisheries (8.4 per cent), construction (8.7 per cent), and utilities (8.5 per cent) (Table 8). According to projections, value added in the manufacturing, construction and utilities in West Malaysia will grow at 10.7 per cent a year in constant prices and increase its contribution to GDP from 19.2 per cent in 1970 to 23 per cent in 1975.

The population of Malaysia, estimated at 10.9 million, at the end of 1970, is expected to increase at an annual average rate of 2.8 per cent over the Plan period. The available labor force, however, is projected to increase at a faster annual average rate of 3.2 per cent, a rate of increase equal to the projected growth of employment during 1971-75 (Table 9). Consequently, the rate of unemployment is expected to remain stable over the Plan period, implying an increase in the absolute numbers of those unemployed by 46,000 to 321,000 at the end of 1975. About 596,000 are expected to be created over the Plan period, of which 125,000 will be in agriculture, 108,000 in manufacturing and the remainder in construction and services. The increase in employment in agriculture is expected to come mainly from the large-scale new planting of perennial crops under land development schemes and in estates. In the rest of the agricultural sector, the emphasis will be to reduce under-employment and increase productivity rather than to increase the level of employment.

Table 8. West Malaysia: Gross Domestic Product by Sector of Origin

(At factor cost in constant 1965 prices)

	Percentage of GDP			Average Annual Percentage Change	
	1965	1970	1975	1966-70	1971-75
Agriculture, forestry and fisheries	31.5	33.6	36.3	6.8	8.4
Rubber	13.0	13.3	15.6	5.9	7.0
Other agriculture and livestock	15.1	15.5	15.5	6.0	10.0
Forestry	1.3	1.8	1.7	13.2	4.8
Fisheries	2.1	3.0	3.0	13.3	10.0
Mining and quarrying	9.0	7.2	4.6	1.1	-2.6
Manufacturing	10.4	12.8	16.0	9.9	11.7
Construction	4.1	3.8	4.2	4.1	8.7
Utilities	2.3	2.6	2.8	8.1	8.5
Transport and communications	4.3	3.8	3.4	3.0	4.3
Wholesale and retail trade	15.3	13.7	11.9	3.2	3.7
Other services, including public administration and defense	23.1	22.5	20.8	6.7	6.7
Total	100.0	100.0	100.0	5.5	6.7

Source: Economic Planning Unit, Malaysia.

Table 9. Malaysia: Second Malaysia Plan: Increase of Employment for West Malaysia, 1971-75

	Employment ('000)		Average Annual Percentage Change		Contribution to Employment Growth (Per cent)	
	1970	1975	1966-70	1971-75	1966-70	1971-75
Agriculture	1,454	1,579	+1.5	+1.7	29.7	25.3
Mining	64	60	-0.6	-1.3	-0.6	-0.8
Manufacturing	270	378	+4.5	+7.0	15.1	21.8
Construction	103	133	+2.7	+5.2	3.7	6.1
Utilities	19	23	+3.5	+3.9	0.9	0.8
Transport and communications	110	122	+1.7	+2.1	2.6	2.4
Commerce	340	419	+3.4	+4.3	15.1	16.0
Other services	580	721	+4.6	+4.4	33.4	28.5
Total	2,940	3,435	+2.6	+3.2	100.0	100.0

Source: Economic Planning Unit, Malaysia.

c. Public sector development program

The Second Malaysia Plan calls for total public development expenditures of at least M\$6,000 million. The Plan actually includes a figure of M\$7,250 million for total public development expenditures; and the sectoral and geographical expenditure allocations in the Plan are based on this higher figure (Appendix Table V). However, the Government assumes a shortfall of about 17 per cent in expenditures; hence the lower figure of M\$6,000 million is the "minimum actual" level of development outlays. Allocations for agriculture and rural development amount to M\$1,921 million, or 26.5 per cent of total development expenditures, with about half of these expenditures being for land development programs. It is planned that at least one million acres will be opened up during the Second Plan. The most important public agency for land development is the Federal Land Development Authority (FLDA), which is responsible for opening up one quarter of this acreage. Regional master plans have been drawn up to promote land development in specially selected areas, such as Johore Tenggara and Pahang Tenggara. The bulk of the acreage opened up under the land development schemes will be for agricultural development (mainly through the planting of palm oil and rubber trees), although in all regions there will be provision for industrial development based on local raw materials and tourism. To raise productivity and incomes in economically depressed rural areas, irrigation and drainage facilities are being extended so that by 1975, about 898,000 acres of paddy will be double cropped, compared to about 336,000 acres in 1970.

An allocation of 8.5 per cent of the total development expenditures for the promotion of commercial and industrial activities represents an important departure from the 3.3 per cent allocated during the First Malaysia Plan. Over two thirds of these funds will be allocated to government institutions which have the task of training Malays and other indigenous people to participate more actively in commercial and industrial enterprises. The Federal Industrial Development Authority (FIDA) is undertaking industrial potential studies for Sabah and Sarawak. The Government is now participating directly in the setting up of business enterprises through the Council of Trust for Indigenous People (MARA), the National Corporation (PERNAS), and State Economic Development Corporations. The ownership of businesses developed by these institutions will eventually be transferred to Malays as they acquire sufficient skill and experience. The relative shares of social development, public utilities, defense and security, and general administration show declines in the public sector's development expenditure while the share for transport and communications has been increased.

d. Financing of the public sector

Assuming a minimum level of a public sector development expenditure outlay of M\$6,000 million over the five years, the overall deficit of the public sector in 1971-75 is expected to be M\$4,190 million, compared with M\$2,512 million in 1966-70 (Table 10).

Table 10. Malaysia: Financing of Public Sector Deficit, 1971-75

Source of finance	M\$ million	Per cent
Domestic nonbank borrowing	2,245	53.6
Foreign borrowing	720	17.2
Foreign grants	190	4.5
Domestic bank borrowing	1,285	30.1
Accumulation of assets	<u>-250</u>	<u>-5.4</u>
Total	4,190	100.0

Source: Economic Planning Unit, Malaysia.

The bulk of the financing is projected to originate from domestic sources, and about two thirds of total domestic nonbank borrowing is expected from the Employees Provident Fund (EPF), which is required by law to invest at least 70 per cent of its funds in Malaysian Government securities. The balance of domestic nonbank financing is expected to be derived from insurance companies, other provident, trust and social security funds, and the Post Office Savings Bank. While the bulk of the borrowing from the banking system is expected to be provided by the commercial banks, the residual financing, if any, will be covered by the Central Bank.

Foreign borrowing projected at M\$910 million is estimated to provide more than 21 per cent of public investment. Net project loans are expected to yield M\$613 million. Market loans are expected to total M\$450 million, but owing to heavy repayments, net receipts will only amount to M\$107 million. The remaining M\$190 million is expected to come from foreign grants.

e. Financing of private investment

Private investment is projected to increase at an annual average rate of 8.8 per cent and total M\$7,843 million over the period 1971-75. A major proportion of government financing of M\$742 million or 9.5 per cent of total projected private investment is in connection with land development and the planting of perennial crops. A further M\$230 million will be for investment in commercial and manufacturing activities through PERNAS, MARA, Malaysian Industrial Development Finance Berhad and State Economic Development Corporations. A target of M\$1,150 million for net foreign private investment over the Plan period has been set. Capital

depreciation allowances and retained earnings, which have accounted for about 50 per cent of private investment in recent years, are expected to provide about M\$4,000 million, while the remaining M\$1,950 million is to be financed through new equity issues and loans, the latter mainly from commercial banks and nonbanking financial institutions.

f. Plan implementation

Preliminary estimates indicate that total development expenditures of the public sector amounted to M\$1,295 million in 1971. Although such expenditures increased by 37 per cent compared to 1970, they were below the planned level of development expenditures of M\$1,450 million. Part of the increase in public sector development expenditures was for loans and transfers to institutions in the private sector for the purpose of capital formation by these institutions; such loans and transfers amounted to M\$110 million in 1971. The major expenditure shortfalls were in agriculture and rural development, and in transportation and communications. Expenditures on land development schemes amounted to M\$109 million, the same as in 1970, and were considerably below the target of M\$180 million. In 1971, much official effort was directed toward deciding the specific areas to be designated for land development, and the type of activities to be promoted within these areas, rather than in actual development of these areas. There was a 50 per cent expenditure shortfall in rubber replanting because of delays in approval and launching of new smallholder replanting schemes. Transport and communications expenditures experienced a shortfall of over 50 per cent, mainly as a result of delays in acquiring land and commencing new projects and because of a shortage of engineers in the Public Works Department.

A number of special factors hampered the implementation of the Second Malaysia Plan in 1971. The Plan was only officially approved in July 1971, and floods in early 1971 also caused the implementation of specific projects, particularly in road and bridge building programs, to lag behind schedule. In addition, teething problems were experienced in the special institutions set up to implement the "New Economic Policy."

Both the domestic and foreign borrowing targets for financing the public sector deficit were met in 1971. Domestic borrowing in 1971 was greater than anticipated owing to the higher purchases of government securities out of the Employees Provident Fund. Gross foreign loan receipts were estimated at M\$383 million, compared with M\$107 million in 1970. Owing to favorable foreign market conditions, three market loans equivalent to M\$287 million were raised through private placements, one in the United States (M\$152 million), one in Euro-dollars (M\$152 million), and one in the United Kingdom (M\$74 million).

IV. Public Finance

1. Introduction

Since the establishment of Malaysia in 1963, both the Federal and State Governments have recorded surpluses in their current budgets which, however, have been insufficient to cover the development expenditures undertaken by them. A considerable part of the resulting overall budgetary deficits have been financed by domestic nonbank borrowing, and by foreign loans and grants. In certain years, however, the Government has drawn upon its foreign exchange assets and made use of bank credit to finance a significant proportion of the deficits. The increase in the Federal Government's domestic current revenue during 1967-70 was appreciable (annual average of 9.6 per cent), being in excess of the annual average rate of GNP growth (6.4 per cent) and also in excess of the average annual increase rate of current government expenditure (7.3 per cent) in the same period. In 1971, development expenditures rose more substantially than in previous years, thus resulting in the largest overall deficit since the establishment of Malaysia (Table 11). State government revenues from their own sources and current expenditures were about one fifth of the amount of the Federal Government. They received substantial grants and also borrowed from the Federal Government to finance their development projects. Most of the statutory authorities have generally recorded operating surpluses or else relatively small current deficits. Their development programs are financed largely by their own resources, government loans, domestic bank credit and foreign borrowing.

2. Federal Government budgets

a. Fiscal situation in 1971

Overall budget position: During 1971, the Federal Government had a current account surplus of M\$122 million which was significantly smaller than the surplus of M\$182 million in 1970. Development expenditure rose by M\$240 million (36 per cent) to M\$912 million, thus resulting in an estimated overall deficit of M\$790 million which was larger than last year's overall deficit by more than 61 per cent. Aside from the substantial increase in development outlay, which was wholly financed by borrowings and foreign assistance, other factors contributed to the sharp rise in the overall deficit. Current expenditures increased by 8 per cent, while current revenues increased only by 4 per cent. Domestic nonbank borrowings amounted to over 58 per cent of the overall deficit; bank borrowings, 18 per cent; and foreign borrowings and grants, 48 per cent. As a result of the excess of borrowings, the Government's cash balances increased by nearly M\$200 million in the year.

Table 11. Malaysia: Federal Government Finances, 1968-72

(In millions of Malaysian dollars)

	1968	1969 ^{1/}	1970 ^{1/}	1971 ^{1/} Revised estimate	1972 ^{1/} Revised estimate
1. Current revenue	1,890	2,001	2,292	2,394	2,920
2. Current expenditure ^{2/}	1,795	1,882	2,110	2,272	2,909
3. Current surplus	95	119	182	122	11
4. Development expenditure	608	561	672	912	928
Direct development expenditure ^{3/}	496	461	525	648	690
Net government lending ^{4/}	112	100	147	264	238
5. Overall budgetary deficit (4-3)	-513	-442	-490	-790	-917
6. Means of financing deficit					
a. Special receipts (primarily foreign grants)	37	24	17	14	24
b. Foreign borrowing (net)	60	155	-2	368	294
c. Domestic nonbank financing (net)	191	302	301	460	
EPF	145	191	233	319	
Other sources	46	111	68	141	
d. Bank financing (net)	234	-37	75	139	
Central bank (net)	-111	-147	125	-61	
Credit to Government	-39	20	1	4	
Government deposits ^{2/} (increase -)	-72	-167	124	-65	599
Use of foreign assets ^{6/} (increase -)	70	43	25	-6	
Commercial banks (net)	275	67	-75	206	
Credits to Government	276	56	-74	213	
Government deposits (increase -)	-1	11	-1	-7	
e. Other changes ^{7/} (increase -)	-9	-2	99	-191	
Total (a through e)	513	442	490	790	917

Source: Data obtained during the 1972 consultation discussions.

^{1/} Exclude revenue and expenditure of the Telecommunications Department.

^{2/} Excluding contributions to the Development Fund and the sinking funds, direct loan redemption loan contributions, and interest payment to other government funds.

^{3/} Covers only expenditures incurred directly by the Development Fund.

^{4/} Covers government lending to statutory authorities and entities other than the Development Fund.

^{5/} Includes Treasury-IMF counter-entries.

^{6/} Use of the Government's foreign assets is included in this table under "bank financing," because the direct impact on the nation's foreign exchange holdings is of the same character as the indirect results of government borrowing from the banking system.

^{7/} Changes in Government Trust Fund balances mainly; also errors arising from timing and other causes.

Domestic current revenue: The revised estimated current revenue of M\$2,394 million in 1971 indicated an increase of M\$102 million which was much smaller than the increase of M\$291 million in the preceding year. More than half of the increase was due to the increase in excise tax collections, particularly from sugar and petroleum, and about one third from enhanced income tax collections. There were, however, significant decreases in revenue from export and import duties (only surtax on imports increased as a result of the increase in the rate from 2 per cent to 4 per cent). The fiscal measures for 1971 resulted in increased collections of M\$52 million from import duties and surtax and excise duties and reductions of revenue by M\$35 million from the abolition of the 2 per cent payroll tax and certain reliefs from the development tax. The reduction was effectively carried out, but the expected increase in tax collections was frustrated by the sluggish economic growth and the decline in export earnings during the year (Appendix Table VI).

Current expenditure: Current expenditure in 1971 was estimated at M\$2,272 million, an increase of 8 per cent over 1970. Expenditures were augmented by a number of supplementary budgets during the year including payments for arrears due to salary increases as from January 1, 1970 for certain government employees, a contribution of M\$23 million to the Government Rubber Trading Trust Account to expand its rubber support operations, and M\$9 million to provide relief for flood victims of January 1971 (Appendix Table VII).

Development expenditures: In 1971 development expenditures are estimated to have increased by 36 per cent to M\$912 million. This increase partly reflected the improvement in implementation, but to a greater extent, it resulted from government participation in commerce and industry. During the year, Government's equity investments amounted to M\$100 million including M\$33.5 million in Malayan Banking, M\$26 million in Malaysian Airlines System, M\$15.5 million in the Government Officers' Housing Development Company Limited, and M\$4 million in the Malaysian Rubber Development Corporation. In addition, a loan of M\$75 million was given to the National Corporation, M\$55 million to the Malaysian Industrial Development Finance, and M\$51 million to the Federal Land Development Authority for their financing of various private sector projects.

Public debt: In 1971, the Federal Government's public debt rose by M\$1,096 million (22 per cent) to M\$6,113 million at the end of 1971. The increase was much larger than the rise of M\$363 million (8 per cent) during 1970 (Appendix Table VIII). The increase of M\$1,096 million consisted mainly of M\$460 million of domestic loans with maturities from 12 to 15 years and foreign loans of M\$368 million, while Treasury bills increased by only M\$158 million. Details on the issue of the three domestic loans in 1971 and one loan in March 1972 are given in the "Government securities market" below. Three market foreign loans totaling M\$287 million (\$94 million) were raised in 1971, of which

M\$152 million (\$50 million) was through a syndicate of banks in the United States, M\$61 million (\$20 million) through a privately placed Euro-dollar loan in London, and M\$74 million (\$24 million) in the United Kingdom. Almost 60 per cent of the outstanding foreign debts of M\$1,114 million (\$395 million) resulted from market loans, and the remainder mainly from project loans from the IBRD.

b. Fiscal situation in 1972

Overall budget position: The latest estimate for 1972 indicates a current budget surplus of M\$11 million compared with an average annual surplus of M\$141 million in the three preceding years. Even though current revenues are estimated to increase by 22 per cent, current expenditures are expected to increase at the faster rate of 28 per cent. Development expenditures are estimated to increase only marginally by less than 2 per cent in 1972, but as a result of the narrowing down of the current surplus, the overall deficit would increase by M\$127 million (16 per cent) to M\$917 million during the year. However, the overall deficit/total expenditure ratio was expected to decline from 25 per cent in 1971 to 24 per cent in 1972. The Finance Minister in his budget speech on January 6, 1972, indicated that the overall deficit would be financed by domestic borrowings of M\$600 million, of which about M\$390 million would be contributed by the nonbank sector including M\$266 million from the Employees Provident Fund, M\$64 million from the savings institutions, and M\$60 million from the State Governments, public authorities and private individuals. The banking sector will finance about 23 per cent of the overall deficit, or M\$210 million. Net uses of foreign borrowings and grants were expected to amount to M\$318 million. The bulk of foreign borrowings will consist of IBRD and AsDB project loans. However, credit facilities from Japan, France and other countries will also be used; the Japanese Government has agreed to extend a new line of credit amounting to M\$300 million (¥ 36 billion) to help finance the Second Malaysia Plan.

Current revenue: The Federal Government's latest budget estimates indicate that current revenue will amount to M\$2,920 million, an increase of 22 per cent over that of the previous year. Tax revenue is expected to increase by 13 per cent to a total of M\$2,359 million, a rate of increase about double that of the projected GNP growth for 1972. The anticipated increase of M\$277 million of tax revenues will be mainly from the following categories:

	<u>Increase in M\$ million</u>
Sales tax	84
Income tax	64
Import duties	51
Export duties	31
Excise taxes	<u>21</u>
	251

With respect to existing taxes, the projected increase in collections is expected to result from a higher level of economic activity and improved tax administration, with increases in tax rates being a lesser contributory factor. However, about M\$127 million, or about 45 per cent of the expected increase in tax collections, is attributed to the introduction of new taxes and the increases in tax rates; details of the important changes are listed as follows:

(1) Sales tax: A new single stage sales tax of 5 per cent on all goods imported into or manufactured in Malaysia was imposed from March 1, 1972. Exemptions, however, are given to certain manufactured and imported goods, personal or professional services, and sales of real or intangible properties. Basic necessities such as essential foods and essential raw materials for key manufacturing industries are exempted. The tax is levied at the time of importation, and at the time the manufactured goods are sold or disposed of by the manufacturer. A preparatory period was allowed before the sales tax was actually collected. The new tax is estimated to yield about M\$84 million in 1972.

(2) Gaming tax: Taxes have been applied to promoters of gambling on the basis of sales receipts. A new gaming tax is now applied to players on the basis of the value of the lottery ticket or the amount bet in the game. The tax rate is 5 per cent subject to a minimum of 5 Malaysian cents. The new tax will yield about M\$10.4 million.

(3) Duties on malt liquors: Rates of import and excise duties on malt liquors were increased by 24 and 23 per cent, respectively. The rate of the excise duty had not been changed since 1967, and the increase in the rate of import duty was to maintain the same degree of protection in view of the increase in excise duty. Total additional revenue is estimated at about M\$5.2 million.

(4) Export duty on palm oil: The existing $7\frac{1}{2}$ per cent flat rate duty was replaced by a graduated export duty scale. Under this scale, the rate of export duty is $7\frac{1}{2}$ per cent of the export value when the price of palm oil does not exceed M\$350 per ton. The rate will graduate upward by marginal rate increases of $2\frac{1}{2}$ per cent for every subsequent rise of M\$50 per ton in the export price until the rate reaches 30 per cent. The estimated yield is M\$23.4 million in 1972. However, the additional revenue is to be shared by the Federal Government and a special Palm Oil Price Stabilization Fund.

(5) Export duty on logs: In order to encourage more domestic processing of timber, the export duty on saw logs and logs was raised from 10 per cent to 15 per cent. The additional revenue yield is estimated at about M\$2 million per annum.

(6) Harmonization of import and export duties: A number of import and export duties were still not uniform between West and East Malaysia after more than eight years following the establishment of Malaysia. The 1972 budget introduced adjustments on 13 items including sugar. As a result of the harmonization, import duty collections from these items are expected to increase by M\$600,000.

In addition to the above, the Government also obtained authority from the Parliament to increase import duties on a number of manufactured goods for the purpose of protecting domestic producers. The Government will decide on the appropriate timing for effective changes in order to ensure an adequate domestic supply of these commodities.

There were also some changes in tax rates and procedures which would entail some loss of tax revenues. These include the following:

(1) The duty formula applicable to rubber exports from West Malaysia, which has the least burdensome effect, is now extended to rubber exports from East Malaysia. The downward adjustment in duty rates would involve a loss of about M\$1.6 million in 1972.

(2) Excise duty on samsu: The excise duty on samsu, a country liquor, is revised downward from M\$30 to M\$20 per gallon. The decrease is designed to remove the incentive to "moonshining," and would result in a loss of M\$1.3 million in 1972. However, as illicit distilling is reduced, it might well result in an increase of revenue from the excise in the long run.

(3) Tax on interest paid to nonresidents: The present 40 per cent income tax levied on the net amount of interest paid to nonresidents has been reduced to 15 per cent on the gross amount from January 1, 1972 provided that the loan or indebtedness giving rise to the interest is incurred for development purposes and is approved by the Treasury. Hitherto, expenses incurred by nonresident lenders were deductible in arriving at the net interest earned, but in practice claims were seldom made because of the difficulty of proving such expenses. The relief is designed to make foreign borrowing cheaper, although it would result in a loss of revenue of M\$1.5 million per annum.

Nontax revenue is expected to increase by M\$249 million (80 per cent) in 1972, compared with the average annual increase of M\$22 million in the two preceding years, due principally to the distribution of assets and profits of the Currency Board of Malaya and North Borneo to the Federal Government amounting to M\$180 million this year. Interest receipts will also increase by M\$20 million.

Current expenditure: The latest estimated current expenditure of M\$2,909 million for 1972 will be M\$637 million (28 per cent) higher than current expenditure in 1971, due largely to upward salary adjustments. The payment of higher and retroactive salaries to civil servants entails an increase of M\$89 million in general administration outlays, and the salary revision for teachers raises such expenditure by another M\$150 million. An increase of M\$82 million is provided for the Ministry of Education for the purpose of establishing additional schools, expanding facilities for technical and vocational schools, and meeting the needs of the increase in the student population. The debt service of the Government will increase by M\$57 million. Other large increases include

new allocations to government institutions and public commercial undertakings such as the National Padi and Rice Authority and the Government Officers' Housing Loans Fund.

Development expenditure: The appropriation for development expenditure in 1972, including M\$40 million for contingencies, amounted to M\$1,334 million. However, the authorities estimate that actual expenditure will amount to M\$928 million, which will only be marginally higher than the expenditure of M\$912 million in the preceding year. According to the Budget Speech of the Minister of Finance, about 60 per cent of the development expenditure will be on items of direct economic significance, that is, expenditure that should generate additional income, 18 per cent on education and social services, 19 per cent on security and the remainder on consumption items such as general administration.

3. Fiscal position of the State Governments

The consolidated budgetary position of the State Governments in Malaysia worsened considerably in recent years with the overall deficit rising steadily from M\$29 million in 1969 to M\$51 million in 1970, and to an estimated M\$107 million in 1971 (Appendix Table IX). Current expenditures of the State Governments have increased by about 6 per cent annually, while expenditures, both current and development, have risen on average by more than 9 per cent a year. The increase in current expenditures have been due to the expansion in State Governments' administrative capacity and to the establishment of a water supply fund in two State Governments. Development projects undertaken by the State Governments are concentrated in rural areas and include animal husbandry, fishery, and land reclamation schemes.

In 1972, the budgeted overall deficit is estimated at M\$231 million, which is more than double the deficit in the preceding year. Although statutory grants to the State Governments declined as a result of the review of financial arrangements between the Federal Government and East Malaysian State Governments, total revenue estimates still indicate a rise of about 5 per cent from the stepping up of State Government collections. However, current expenditure is estimated to increase by 27 per cent, mainly due to increases in personal emoluments, and development expenditures by 9 per cent.

The overall deficits of the State Governments have been adequately met by grants and loans from the Federal Government. In fact, the State Governments have steadily built up their cash balances from 1969 to 1970. In 1972, the State Governments are expected to draw from their own resources to finance the large estimated overall deficit.

4. Financial position of the principal statutory authorities

In 1971, three statutory authorities realized a total current surplus of M\$93 million, of which M\$78 million came from the National Electricity Board, and M\$7 million each from the Penang Port Commission and the Port Swettenham Authority. Operations from four other statutory authorities resulted in a total current deficit of M\$14 million, including a deficit of more than M\$7 million from the Malayan Railway Administration, and about M\$2 million each from the Sabah Electricity Board, Sarawak Electricity Supply Corporation, and the Kuching Port Authority.

For 1972, the authorities expect the Malayan Railway Administration to produce a current surplus of about M\$3 million following years of continual deficits. However, the total current surplus of these seven statutory authorities is expected to dwindle from M\$79 million in 1971 to M\$69 million in 1972 as surpluses from the profitable agencies may decline and deficits from the other agencies may increase.

V. Money and Credit

1. Money supply

The money supply increased at a slower rate in 1971 (Table 12 and Appendix Table X). This deceleration partly reflected the slackening of overall economic growth during the year. For the first time since 1967, the rate of the increase in money supply on the year-end to year-end basis was smaller than the rate of economic growth. However, on an average end-of-month basis, and also adjusted to exclude demand deposits held by finance companies,^{1/} the rate of increase in money supply in 1971 would be larger than the rate of economic growth.

The increase of M\$79 million in the money supply in 1971 was solely generated by the expansion of M\$448 million of net bank credit to the public sector.^{2/} Bank credit to the Federal Government alone increased

^{1/} An exceptional factor in the last two years was the sizable build-up of finance companies' demand deposits with the commercial banks in 1970, and a similar sizable drawdown in 1971. These finance companies which are known in Malaysia as "borrowing companies" specialize in extending hire purchase loans.

^{2/} Adjusted to exclude proceeds of foreign market loans obtained by the Government and the transfer of Bank Negara's profit to the Government as such funds would not have any domestic monetary impact. The adjusted figures, therefore, differ from those given in Appendix Table X.

Table 12: Malaysia: Percentage Changes in the Money Supply and GNP

	GNP at current prices	Money Supply	
		December to December	Adjusted end-of-month average
1968	3.6	11.3	n.a.
1969	9.4	13.3	n.a.
1970	6.4	7.8	7.5
1971	4.1	3.8	7.1

Source: Data obtained during the 1972 consultation discussions.

by as much as M\$481 million, but it was partly offset by the contraction of bank credit of M\$33 million to State Governments. The monetary impact of other sectors was contractionary as shown below (in M\$ million):

Private sector		-129
Bank credit	(+326)	
Quasi-money	(-455)	
External sector		-119
Others		-121

The outstanding level of money supply of M\$2,151 million at the end of 1971 was equivalent to about 17.7 per cent of the gross national product in 1971. The ratio of money supply to GNP moved upward steadily from 16.9 per cent in 1968 to 17.7 per cent in 1970 and stagnated in 1971 (Appendix Table XI).

In the first quarter of 1972, money supply expanded by about M\$46 million or 2.1 per cent. The factors contributing to the expansion followed closely the pattern of 1971, that is, net bank credit to the public sector was the sole expansionary force. Bank credit to the private sector was more than offset by the increase in private quasi-money and the external sector was contractionary.

2. Monetary policy

As mentioned in the preceding section, the increase of bank credit to the private sector failed to match the expansion of private quasi-money in 1971 and thus far in 1972. The slackening in private sector borrowings from the banking system reflected the slowdown in private economic activity as evidenced by the slight drop in the gross private capital formation in 1971 in contrast to the 40 per cent rise in 1970, and a fall of 2.5 per cent in export earnings in 1971. Furthermore, the substantial increase in the liquidity of the private sector

generated by increased government spending and disbursements also reduced the credit demands of the private sector on commercial banks. Holdings of private fixed savings and other deposits increased by M\$456 million (22 per cent) in 1971, which was the highest rate of increase in any year since 1960. The private sector liquidity, defined as money supply plus private quasi-money, rose from 35.7 per cent of GNP at the end of 1970 to 38.7 per cent of GNP at the end of 1971. There was also a fall in the velocity of circulation of bank deposits in 1971 relatively to the preceding two years as shown below. It was the concern of the authorities about the high liquidity of the private sector and the banking system and the failure of the private sector to step up investment that provided the background for the acceleration of government spending in 1971 and the adoption of a number of monetary measures in 1971 and early 1972.

Velocity of Circulation, Monthly Average^{1/}

	Demand Deposits and Overdrafts	Savings Deposits
1969	1.83	0.14
1970	1.68	0.13
1971	1.63	0.12

Source: Data obtained during the 1972 consultation discussions.
^{1/} Ratio of debits to the outstanding amount at the beginning of the month.

Since there has been no intention on the part of the authorities to discourage credit expansion, and given that actual liquidity ratios have been consistently far above the minimum required by the Central Bank, the reserve requirements against bank deposits have remained unchanged in 1971 and thus far in 1972, and have not been activated as a credit control instrument.^{1/} The 5 per cent cash reserves and the 50 per cent reserves against savings deposits have always been observed. The actual monthly average liquidity ratio, as against the 20 per cent statutory requirement, moved up from 29.1 per cent in 1970 to 31 per cent in 1971, and 33.6 per cent in the first quarter of 1972 (Appendix Table XII). As the demand for loans from commercial banks slackened, banks increased their holdings of liquid investments, particularly Treasury bills and government securities which rose by M\$180 million (34 per cent) and by M\$130 million (171 per cent), respectively, from December 1970 to March 1972.

^{1/} The required minimum cash reserves, reserves against savings deposits and the liquidity ratio of banks and their required compositions were described in SM/71/168, 7/8/71, pp. 40-41.

In order to encourage commercial banks to channel more credit to priority sectors as specified in the development plan, the Government reduced the rates of interest for Treasury bills on four occasions between March 1971 and January 1972 (Appendix Table XIII). Total reductions amounted to $1\frac{1}{8}$ percentage points for Treasury bills of three months, one percentage point for bills of six months, and $\frac{7}{8}$ percentage point for bills of nine months and of one year. The prevailing Treasury bill rates range from 4 per cent for bills of three months to $4\frac{5}{8}$ per cent for bills of one year, which are lower than those in the neighboring countries. The lowering of the bill rates was also actuated by the need to discourage inflow of speculative capital as a result of international monetary uncertainties.

While short-term Treasury bill rates were reduced, the authorities have either maintained or increased the interest rates on longer-term government securities to make them more attractive, particularly to the noninstitutional and noncaptive segment of the market. Interest rates for the 3-year, 5-year and 12-15 year Federal Government securities have been maintained at $5\frac{3}{4}$ per cent, 6 per cent and $6\frac{1}{2}$ per cent, respectively, in 1971 and thus far in 1972. The interest rate for the 10-year government securities was raised from $6\frac{1}{4}$ per cent to $6\frac{1}{2}$ per cent on March 15, 1972 with the issue of the first government loan for the year. The 20-year government securities, which were discontinued in 1969, were also reintroduced in March 1972, carrying an interest rate of 7 per cent compared with rates of $6\frac{1}{4}$ per cent that prevailed during the period end-1967 to mid-1969.

With a view to stimulating demand for bank credit and to encourage private investment, the authorities reduced the minimum general lending rate of commercial banks from 8 per cent to $7\frac{1}{2}$ per cent, and the minimum preferential lending rate from $7\frac{1}{2}$ per cent to 7 per cent as of January 19, 1972 (Appendix Table XIV). The preferential rate is applicable for advances to Federal and State governments, public authorities, and for advances against municipal securities and agricultural produce. In order to maintain a reasonable interest margin for banks, the authorities also reduced on the same date, the interest rates for fixed deposits with commercial banks by $\frac{1}{2}$ percentage point for fixed deposits of 3-month, 6-month, and 9-month maturity, by $\frac{1}{4}$ percentage point for fixed deposits of 1-year, 2-year, and 3-year maturity. Previously, finance companies were allowed to pay interest on fixed deposits at one percentage point higher than that of commercial banks in all maturity categories; from January 19, 1972 the interest differential was reduced to $\frac{3}{4}$ of one percentage point.

The monetary authorities have used moral suasion to channel more bank credit to priority areas such as agriculture and manufacturing. Banks are also being encouraged to enlarge their term loans of more than one year as they are regarded as a more suitable form of medium-term financing for industrial development. The Bank Negara has also been conducting seminars for banks in order to familiarize the latter with the objectives of the authorities in regard to the direction of bank credit.

3. Central Bank operations

During 1971, net foreign assets of the Bank Negara increased by M\$217 million to the level of M\$2,381 million at the end of the year (Appendix Table XV). The increase of net foreign assets was more than accounted for by the Federal Government's foreign market borrowings of M\$286 million in that year. As currency issue stood at M\$1,145 million at the end of 1971, it was therefore more than fully covered by external reserves. ^{1/} Also as a result of crediting proceeds of foreign market loans to the government deposit account, net claims on Government decreased in 1971, in contrast to the increase in the previous year. Thus, the pattern of creation of reserve money in 1971 seemed to have returned to the same as prevailed before 1970, the expansionary effect from the increase in net foreign assets being offset by the contractionary effect from a decrease in net claims on Government. Reserve money increased by 7.5 per cent in 1971, compared with the increase of 9.6 per cent in the previous year.

4. Operations of commercial banks

In spite of increased bank liquidity in 1971, commercial banks' loans and advances to the private sector rose by M\$326 million (14.6 per cent) to the level of M\$2,572 million, which was significantly smaller than the rise of M\$404 million (22 per cent) in 1970 (Appendix Table XVI). Loans for rubber and tin and their by-products declined by about 15 per cent, while loans for practically all other categories increased. The share of loans for the manufacturing industries reached almost 21.5 per cent of total loans in 1971, compared with a little over 19.5 per cent in 1970 and about 15 per cent in the mid-1960s. On the other hand, the share of loans for foreign and domestic trade dropped to less than 30 per cent of the total in 1971, compared with 32 per cent in 1970 and the high of over 37 per cent in the mid-1960s. The share of loans to the agricultural sector was over 10 per cent of the total in both 1970 and 1971, compared with 7 to 8 per cent in the mid-1960s (Appendix Table XVII).

While the growth of commercial banks' loans and advances slowed down, available resources to the banks increased sharply as time and savings deposits of the private sector rose by M\$437 million (21.4 per cent) in 1971. Furthermore, the growth of time deposits was mainly in respect of those with relatively longer maturities. Thus, whereas about 31 per cent of the total time deposits in 1970 had a maturity period of one year, in 1971 more than 38 per cent of time deposits were held in the one-year and above categories. The reduction of the interest rates on time deposits of banks on January 19, 1972 did not dampen the rate of the increase of such deposits. During the first quarter of 1972, time and savings deposits

^{1/} Legally, the Bank Negara is required to maintain a minimum foreign exchange cover of 80 per cent but in practice the foreign exchange cover has been maintained at well over 100 per cent since Malaysian currency was first issued in 1967. In 1971 the actual foreign exchange cover for the Malaysian currency amounted to about 170 per cent. See SM/71/168, p. 43 for the legal requirement.

again increased by M\$186 million, or at the annual rate of 30 per cent. The share of deposits with maturities of one year and longer rose to almost 41 per cent of total time deposits. Bank credit to the private sector increased by M\$129 million, and investments in Treasury bills and government securities increased by M\$98 million. The rate of increase in bank credit to the private sector still fell behind the rate of increase in banks' investment in government securities. The ratio of liquid assets to total deposits of banks rose further from 33.5 per cent at the end of 1971 to 33.9 per cent at the end of March 1972.

In response to the directives of the Central Bank to extend some credit in the form of term loans, this category of commercial bank credit doubled between 1970 and 1971 reaching 11.6 per cent of total bank credit. Loans and advances in the form of overdrafts are still an important component of bank credit. At the end of 1971, unutilized overdraft lines were about one fourth of the total credit extended by banks (Appendix Table XVIII). In order to encourage the use of discount facilities which have rarely been employed, a pilot scheme was activated involving one bank for the rediscounting of inland bills of exchange covering the purchase of paddy by rice millers. The commercial banks were given a limit of M\$1 million with which it could rediscount with Bank Negara at 5 1/2 per cent against its discount paper of 7 1/2 per cent rate of interest. So far, about 75 per cent of the rediscount limit has actually been used. The coming into full operation of two merchant banks in the next two years might encourage more use of discount facilities.

5. Money market

Money market rates eased in 1971, reflecting mainly the enforced liquidity of commercial banks, and to a lesser extent the series of downward adjustments in Treasury bill rates (see the "Monetary policy" section and Appendix Tables XIII and XIV). The call money rate, which is the rate at which the discount houses borrow from banks, declined from 4 per cent in 1970 to 3.5 per cent in 1971, calculated on an average weekly basis. The daily average rate for overnight money in interbank transactions also declined from 3.8 per cent in 1970 to 3.6 per cent in 1971.

A second discount house started operations in October 1971. Total deposits accepted by the two discount houses rose from M\$40 million at the end of 1970 to M\$70 million at the end of 1971. As a result of the higher volume of deposits, purchases of Treasury bills and government securities with a remaining life to maturity of up to three years increased by over 60 per cent to M\$491 million, and sales of securities

also rose by 40 per cent to M\$420 million in 1971. In the first quarter of 1972, the average monthly deposits of discount houses continued to rise to a high of M\$82 million. The predominant call money rate went further down to 3.2 per cent, and the rate for interbank overnight money declined to 3.3 per cent.

6. Capital market

a. Government securities market

The issue of government loans has been the most important source of finance for the development plan. In 1971, the Federal Government raised three loans amounting to M\$635 million which was about 55 per cent larger than the average annual issues of new loans of M\$410 million in 1968-70; nearly 90 per cent of the new issues of M\$635 million was with maturities of five years or more. Interest rates on these securities were maintained at the previous year's levels (5.75 per cent for three-year securities, 6 per cent for five-year securities, and 6.5 per cent for 12- to 15-year securities). About 47 per cent of the new issues was subscribed by the Employees Provident Fund, the principal holder in the "captive funds" segment of the government securities market. ^{1/} Commercial banks, which subscribed to M\$3 million or 1 per cent of new government issues in 1970, took M\$116 million or 18 per cent of the new issues in 1971. This was attributed to the increased liquidity of banks and the reduction of the Treasury bill rates. Commercial banks, insurance companies and discount houses invested mainly in the three- to five-year securities, while the Employees Provident Fund invested in the long-term securities.

In March 1972, the Federal Government raised a loan of M\$150 million, which was oversubscribed and amounted to M\$230 million. In addition to the normal three-year, five-year, and ten-year securities totaling M\$52 million, a new 20-year security carrying an interest rate of 7 per cent was issued with a total amount of M\$178 million. Of the outstanding M\$4,227 million of government securities at the end of March 1972, about 58 per cent was held by the Employees Provident Fund, 10 per cent by commercial banks, 14 per cent by the Federal and local governments and their agencies, 7 per cent by Post Office Savings Banks, 2 per cent by the Bank Negara, and the remaining 9 per cent by other provident funds, companies, and individuals (Appendix Table XIX).

b. Corporate securities market

In 1971, there were 14 new corporate issues amounting to M\$45 million. Six rights issues accounted for 67 per cent of the total amount, while six private placements took up 19 per cent and two public

^{1/} See SM/71/168 for details of the "captive funds."

issues accounted for the remaining 14 per cent of the total. The amount raised from the private sector in 1971 represented only 3.4 per cent of the estimated gross private capital formation in Malaysia, slightly higher than the 3.2 per cent estimated for 1970.

Trading of corporate shares on the Stock Exchange of Malaysia was buoyant in 1971 with the total value turnover of M\$934 million, an increase of 25 per cent over the previous year. Several improvements in the listing procedures were adopted in 1971, including the requirement for companies seeking listing to disclose more information on their business affairs and allowing private placements to be undertaken by financial institutions. The Malay Stock Exchange, which commenced operations in October 1970 and specializes in Malay company transactions for the indigenous community, had a turnover of M\$1 million with shares of five Malay companies quoted on the Exchange.

7. Other financial institutions^{1/}

a. Employees Provident Fund (EPF)

As a result of the extension of membership coverage and the removal of the contribution limit in late 1970, the number of contributors rose by 6 per cent to 2.2 million persons and the contributors' balances increased by 14 per cent to M\$2.5 billion in 1971. Total investments of the Fund also increased by 14 per cent to M\$2.5 billion, consisting of M\$2.3 billion (93 per cent) of domestic government securities, M\$69 million of loans to building societies, and local government and foreign securities and others. The Fund is not only the principal subscriber to government loans but also makes advance subscriptions before the actual issues.

b. Finance companies

In 1971, finance companies completed their first year of operation within the framework of regulatory measures prescribed by the Central Bank. Accordingly, public confidence in the finance companies strengthened and resulted in a remarkable increase in deposits with these companies. From the end of 1969 to the end of 1971, time and savings deposits with the finance companies increased by about 78 per cent, more than twice as fast as the 35 per cent increase of such deposits with the commercial banks (Appendix Table XX). Time and savings deposits with the finance companies amounted to about 16 per cent of such deposits with commercial banks in December 1969, but rose to 21 per cent by the end of 1971. During the first quarter of 1972, deposits with finance companies

See SM/71/168, pp. 50-53 for more details.

rose further by 9 per cent as against an increase of 6 per cent in time and savings deposits with commercial banks, in spite of the reduction of the interest differential (higher rates offered by finance companies) from one percentage point to three quarters of one percentage point on January 19, 1972.

The increase in finance companies' resources (deposits, capital and reserves and borrowings) has been utilized in almost equal parts for the extension of loans to customers and for deposits with commercial banks. From December 1969 to December 1971, resources of finance companies increased by about M\$278 million, while loans to customers increased by M\$155 million and deposits with banks by M\$154 million. In the first quarter of 1972, resources increased by over M\$45 million; the increase in loans of M\$27 million was somewhat faster than the increase of M\$20 million in deposits with commercial banks.

c. Other institutions

Post Office Savings Banks' deposit balances increased by M\$24 million (9 per cent) in 1971, compared with the increase of M\$14 million (5 per cent) in 1970. About 95 per cent of their total investments of M\$312 million was in government securities and the rest in sterling and Singapore securities at the end of 1971. Total assets of life insurance companies increased by about 13 per cent in 1971, compared with about 12 per cent in 1970. Of their investments of M\$194 million outstanding in September 1971, about 55 per cent was in corporate securities and 45 per cent in government securities.

The total resources of the Malaysian Industrial Development Finance Berhad (MIDF) rose by M\$61 million (62 per cent) to M\$160 million at the end of 1971. About 88 per cent of MIDF's total resources consisted of long-term borrowings from the Federal Government, the IBRD, the AsDB, and French and German financial institutions. Outstanding medium- and long-term loans increased sharply by 65 per cent in 1971, and reached M\$134 million at the end of March 1972. Credits for the non-estate rural sector have been provided by the Agricultural Bank of Malaysia, which received M\$9 million of loan capital from the Federal Government in 1971. The Bank issued paddy loans to 2,293 farmers in the 1970/71 main crop season and to 7,833 farmers in the 1971/72 main crop season. Loan operations are also being extended to tobacco producers, livestock and chicken production, and trawler fishing projects. The Council of Trust for Indigenous People (MARA) was allocated M\$38 million in grants and loans from the Federal Government to provide assistance to indigenous entrepreneurs through joint ventures, loans, training programs, and advisory services. At the end of 1971, outstanding loans amounted to M\$26 million, joint venture investments totaled M\$9 million, and investments for its own undertakings amounted to M\$34 million.

VI. External Sector

1. Balance of payments

a. Introduction

The Malaysian balance of payments recorded an overall surplus of M\$185 million in 1971 (including the allocation of SDRs equivalent to M\$61 million), which was higher compared to 1970 (M\$122 million) but perceptibly lower than the surplus of M\$527 million in 1969 (Table 13). The balance of trade deteriorated in 1971 with export proceeds declining by 3.5 per cent compared to 1970 while imports were marginally higher than in 1970. This deterioration, combined with a larger deficit on services and transfers account, produced a current account deficit (M\$95 million) for the first time since 1967, which was, however, more than compensated by a net long-term capital inflow of M\$522 million, which largely reflected receipts from Federal Government foreign market loans.

b. Merchandise exports

Merchandise exports declined by 3.5 per cent to M\$4,925 million in 1971. This compared with the 2.4 per cent increase in exports in 1970. The poor export performance in 1971 resulted from concurrent declines in the value of a number of leading exports, including especially rubber, tin, timber and iron ore. On the other hand, some exports, namely palm oil and petroleum recorded substantial increases. An analysis of the month-to-month movements in exports receipts (adjusted for seasonality) shows that export receipts tended to move upward during the early months of 1971. From about May 1971, and during the remainder of 1971, the trend was steeply downward. Preliminary data for the first two months of 1972 indicate that there has been a slight recovery in monthly export earnings.

Malaysia has traditionally relied on exports of a small number of primary products directed to a relatively small group of countries. But there has been a perceptible reduction in the degree of concentration of exports by commodities since 1960 (Table 14); the reliance on rubber and tin, in particular, have been reduced, and other exports such as palm oil, petroleum, and manufactures have expanded. On the other hand, the degree of concentration among export markets appears to have remained virtually unchanged over this period. However, this stability in the degree of export market concentration conceals a changing pattern insofar as exports to the United Kingdom, India, Indonesia and West Germany have declined in relative importance while Japan, the Netherlands, the United States and mainland China have absorbed increasing shares over the period (Appendix Table XXI). Besides diversification of exports, the other factor that has contributed to the viability of overall export performance has been the tendency, sometimes possibly fortuitous, of the fall in export earnings from one commodity in a given year being offset by gains in another export commodity.

Table 13. Malaysia: Summary of Balance of Payments, 1967-71

(In millions of Malaysian dollars)

	1967	1968	1969	1970	1971 ^{1/}
A. Goods and services (net)	124	237	862	314	78
Merchandise trade (f.o.b.)					
Exports	3,679	4,070	4,986	5,106	4,925
Imports ^{2/}	<u>-3,204</u>	<u>-3,433</u>	<u>-3,522</u>	<u>-4,169</u>	<u>-4,194</u>
Trade balance	475	637	1,464	937	731
Services (net)	-351	-400	-602	-623	-653
B. Transfer payments (net)	<u>-142</u>	<u>-143</u>	<u>-179</u>	<u>-183</u>	<u>-173</u>
Private	<u>-185</u>	<u>-180</u>	<u>-209</u>	<u>-199</u>	<u>-188</u>
Official	43	37	30	16	15
C. Nonmonetary capital (net)	58	156	293	150	522
Private long-term capital	130	93	140	160	160
Government loans	-102	63	147	-4	334
Other official capital ^{3/}	-23	-50	-13	-8	20
Statutory authorities	53	50	19	2	8
D. Errors and omissions	<u>-296</u>	<u>-277</u>	<u>-449</u>	<u>-223</u>	<u>-303</u>
E. Overall payments surplus or deficit (-) (A through D)	<u>-256</u>	<u>-27</u>	<u>527</u>	<u>58</u>	<u>124</u>
F. Allocation of SDRs				64	61
G. Total (E plus F)	<u>-256</u>	<u>-27</u>	<u>527</u>	<u>122</u>	<u>185</u>
H. Monetary movements (increase -)	256	27	-527	-122	-185
IMF accounts	-35	-4	-8	-47	36
Net foreign assets of Federal and State Governments and public authorities	192	89	102	44	24
Net foreign reserves of monetary authorities	-92	-173	-495	-31	-252
Net foreign reserves of commercial banks	191	115	-126	-16	68
Holdings of SDRs				-72	-61

Source: Department of Statistics, Malaysia.

^{1/} Department of Statistics, Malaysia.

^{2/} Includes nonmonetary gold.

^{3/} Covers mainly movements of Treasury bills issued by the Malaysian Government to commercial banks in Singapore.

Table 14. Malaysia: Concentration of Exports,^{1/} 1960-71

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971
Commodity	0.57	0.52	0.50	0.49	0.47	0.46	0.45	0.42	0.41	0.46	0.41	0.40
Country	0.33	0.33	0.32	0.33	0.33	0.34	0.35	0.35	0.34	0.33	0.33	0.33

Source: Department of Statistics, Malaysia; staff calculations.

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

Rubber exports declined by 15.3 per cent to M\$1,460 million in 1971, following a similar fall in 1970 (Table 15). Since the export boom year of 1969, the share of rubber exports in total gross exports has declined from 40.2 per cent to 29.1 per cent in 1971. The quantity of rubber exported was about 3 per cent greater in 1971 than in 1970, but unit values were some 18 per cent lower. Prices for RSS1 on the Malaysian Rubber Exchange fell from 80.36 Malaysian cents per pound in August 1969 to 40.64 Malaysian cents per pound in December 1971. In fact, the price in mid-December reached its lowest level since 1948. The average market price for 1971 as a whole was 46.18 Malaysian cents per pound, compared to 56.56 Malaysian cents per pound in 1970.

The decline in natural rubber prices in 1970 and 1971 was largely attributable to the sluggishness of demand relative to the estimated increase in the world production of natural and synthetic rubber of 4 per cent in 1970 and 3 per cent in 1971. Following an increase of about 5 per cent in 1969, world consumption of natural rubber only increased slightly above the 1969 level in 1970 and 1971. The low demand for natural rubber reflected the recession in the United States in 1970 and in the major industrial economies of Europe and Japan in 1971 together with reduced offtake from Eastern Europe. Another depressing factor in 1971 was market uncertainty over the resumption of United States official rubber stockpile sales. On July 7, 1971, the United States General Services Administration announced that it would sell 6,000 tons of stockpile rubber a month, on a negotiated basis at prices not lower than the average of the daily Rubber Trade Association price for RSS1 in the preceding month, commencing July 19. Following negotiations between the major natural rubber producing countries and the United States, it was further announced on November 2, 1971, that stockpile sales would be reduced to 4,200 tons a month as from January 1, 1972, with an annual limit of 50,000 tons. At the same time, the minimum price criterion determining the price level below which sales could not be negotiated was removed.

A number of significant developments occurred in the rubber market in 1971. A trade agreement was concluded between the National Corporation (PERNAS) and mainland China which led to the latter's additional purchase of 23,600 metric tons of rubber, thus increasing Chinese purchases to 56,900 metric tons in 1971. From August 1971 onward, the Malaysian Government intervened to support the price of natural rubber when prices were regarded as unduly low. The Government purchased rubber in 25,000-ton lots and subsequently sold portions of its stock to PERNAS for sales to mainland China and COMECON countries.

Exports of Standard Malaysian Rubber (SMR) continued to expand in 1971, and the number of countries buying SMR increased from 51 in 1970 to 56 in 1971. There was a 40.2 per cent increase in exports of SMR to 319,400 metric tons, which accounted for some 23 per cent of total rubber exports in 1971, compared with 17 per cent in 1970. Apart from promoting rubber exports through improving the technical specifications and shipping rubber in block form rather than as smoked sheets, efforts

Table 15. Malaysia: Exports of Major Commodities, 1968-71

	1968	1969	1970	1971 ^{1/}	Percentage Change 1970-71
Rubber					
Volume (1,000 tons)	1,171.6	1,354.9	1,345.4	1,390.4	3.3
Value (M\$ million)	1,353.2	2,031.1	1,723.7	1,460.4	-15.3
Unit price (M\$ per ton)	115	150	128	105	-18.0
Tin and tin-in-concentrates					
Volume (1,000 tons)	88.2	92.0	92.6	87.0	-6.0
Value (M\$ million)	829.6	939.8	1,013.3	905.8	-10.6
Unit price (M\$ per ton)	9,411	10,213	10,939	10,407	-4.9
Round timber					
Volume (1,000 tons)	5,820.2	6,188.9	6,294.9	6,171.9	-1.9
Value (M\$ million)	549.5	601.5	643.6	640.5	-0.5
Unit price (M\$ per ton)	94	97	102	104	2.0
Sawn timber					
Volume (1,000 tons)	786.9	872.1	998.4	925.8	-7.3
Value (M\$ million)	149.3	172.3	208.0	193.0	-7.3
Unit price (M\$ per ton)	190	198.0	208.0	208.0	--
Iron ore					
Volume (1,000 tons)	5,106.7	5,262.0	4,823.2	865.3	-82.1
Value (M\$ million)	110.8	115.6	107.2	20.6	-80.8
Unit price (M\$ per ton)	22	22	22	24	9.1
Palm oil					
Volume (1,000 tons)	281.4	351.1	395.6	562.9	42.3
Value (M\$ million)	124.5	153.0	264.3	379.2	43.5
Unit price (M\$ per ton)	442	436	668	674	0.9
Palm kernels					
Volume (1,000 tons)	35.0	37.2	27.6	22.0	-20.3
Value (M\$ million)	15.4	13.1	10.8	7.8	-27.8
Unit price (M\$ per ton)	440	351	391	355	-9.2
Petroleum^{2/}					
Volume (1,000 tons)	3,798.5	4,076.4	4,743.3	7,810.0	66.7
Value (M\$ million)	173.0	175.7	202.7	391.2	94.1
Unit price (M\$ per ton)	45.5	42.9	42.7	50.1	17.3
Pepper					
Volume (1,000 tons)	23.9	30.1	25.8	28.3	9.7
Value (M\$ million)	36.3	55.0	59.1	66.0	11.7
Unit price (M\$ per ton)	1,512	1,826	2,289	2,330	1.8
Copra					
Volume (1,000 tons)	18.6	18.5	15.3	31.9	108.5
Value (M\$ million)	8.6	8.4	7.1	13.9	95.8
Unit price (M\$ per ton)	465	450	460	434	-5.7
Coconut oil (crude and refined)					
Volume (1,000 tons)	42.2	29.3	46.0	42.5	-7.6
Value (M\$ million)	40.8	24.3	42.9	37.1	-13.5
Unit price (M\$ per ton)	967	829	931	873	-6.3
Pineapple, canned					
Volume (1,000 tons)	67.0	63.8	62.3	58.4	-6.3
Value (M\$ million)	48.4	44.5	43.5	40.7	-6.4
Unit price (M\$ per ton)	722	698	698	697	--
Total major exports	3,266.4	4,158.6	4,123.5	3,765.0	-8.7
Other exports	856.2	896.1	1,038.9	1,247.7	20.1
Of which:					
Manufactured goods	543.3	585.4	630.7	598.5	-5.1
Total exports	4,122.6	5,054.7	5,162.4	5,012.7	-2.9

Source: Department of Statistics, Malaysia.

^{1/} Preliminary estimates.

^{2/} Crude and partly refined.

are being made to streamline the marketing and shipping, and establish more direct contacts with the industries consuming Malaysian natural rubber. In addition, Malaysia has, through participation in the Association of Natural Rubber Producing Countries and the International Rubber Study Group, encouraged cooperation among rubber producing countries in an attempt to stabilize rubber prices.

Tin exports declined by 10.6 per cent to M\$905.8 million in 1971. This decrease resulted from a 6 per cent fall in the volume of exports and from lower tin prices, which on average declined by 4.9 per cent in 1971. The lower export volume was caused by a reduction in imports of tin-in-concentrates for smelting and subsequent re-export. This decline was due to lower imports from Indonesia, caused mainly by the return to full operation of the tin processing facilities in that country following their rehabilitation. Lower tin prices in 1971 tended to reflect the recession in major industrial countries. Following an increase in the first quarter of 1971, tin prices tended to decline until the Tin Buffer Stock Manager intervened in October to support at around M\$618 per picul on the Penang market. Prices subsequently improved in November and December.

Exports of both saw logs and sawn timber declined in 1971; saw log exports decreased by 0.5 per cent to M\$40.5 million while exports of sawn timber fell by 7.3 per cent to M\$193.0 million. The decline in timber exports, particularly of lower grade logs and sawn timber, was mostly concentrated in the latter part of 1971. This was largely due to lower purchases by Japan. There were, however, no indications of a decline in the unit values of saw log and sawn timber exports in 1971.

Exports of oil palm continued to grow at a rapid rate in 1971, increasing by 43 per cent to M\$379 million, an amount which accounts for about 59 per cent of world oil palm exports. Compared with 1970, when a large part of the increase of 73 per cent in exports was due to a 53 per cent rise in average export prices, the volume of exports increased by 42 per cent in 1971 while export prices rose by 1 per cent. The increase in oil palm exports is largely attributable to intensive plantings during the past decade on land previously allocated to rubber production. The palm oil pool operated by a group of London merchants was dissolved in December 1971 and replaced by a new marketing arrangement more centered in Kuala Lumpur with greater participation by Malaysian producers.

Export earnings from crude and partly refined petroleum increased by 94.1 per cent to M\$391.2 million in 1971. This large expansion resulted from a 66.7 per cent increase in export volume to 7,810,000 tons and a rise in the f.o.b. unit value of 17.3 per cent to M\$50.1 per ton. The rise in petroleum price was in line with the world-wide increase in petroleum prices, following the agreement between Western Oil companies and members of the Organization of Petroleum Exporting Countries (OPEC) in February 1971.

Gross exports of manufactured and processed products declined by 5.1 per cent to M\$598.5 million in 1971, compared with an increase of 7.7 per cent in 1970 (Appendix Table XXII). But excluding petroleum products, exports of manufactured and processed products recorded an increase of 6.9 per cent in 1971. Exports of wood products, particularly veneer and plywood, have shown very impressive increases in recent years and in 1971 rose by 30 per cent to M\$119 million. Textiles, clothing and footwear also recorded encouraging rates of growth in 1971. Net exports of petroleum products declined by 34 per cent in 1971, principally as a result of an increase in local blending, following the establishment of a blending plant by an oil company in West Malaysia.

c. Merchandise imports

In 1971, Malaysia's merchandise imports rose by 0.6 per cent to M\$4,183 million. This increase represents a marked deceleration from the 18.7 per cent increase recorded in 1970. The slowdown seems to have been associated with the slow growth of domestic expenditures in 1971, and to some extent with the progress of import substitution. The composition of Malaysia's imports shows a discernible change with investment and intermediate goods increasing relative to consumption goods (Table 16). In 1971, imports of consumption goods declined by 7 per cent, while the investment and intermediate (excluding petroleum) goods increased by 10.3 per cent and 7.7 per cent, respectively. The decline in consumer goods partly reflected progress in import substitution, especially with respect to rice, the imports of which declined by 43 per cent to M\$73 million in 1971. The bulk of the 11 per cent increase in imports of machinery resulted from higher prices of capital goods. The substantial fall (17.9 per cent) in the import category inedible crude materials reflected lower imports of fertilizers and insecticides and other agricultural inputs which declined in reaction to lower export prices of primary products.

d. Other balance of payments components

Services and unrequited transfers: The estimated net deficit on services account totaled M\$653 million in 1971, which is the highest on record. Services receipts rose by M\$42 million to M\$602 million in 1971, owing mainly to higher income from overseas investments and increased travel receipts. Services payments increased by M\$72 million to M\$1,255 million as a result of higher freight and insurance, as well as higher remittances of profits and dividends. Freight rates on Malaysia's exports are estimated to have risen by about 10 per cent in 1971. Net transfer payments, mainly to China and India declined by M\$10 million to M\$173 million in 1971.

Nonmonetary capital: Net nonmonetary capital inflow into Malaysia increased from M\$150 million in 1970 to M\$522 million in 1971. While private long-term capital inflow was maintained at an estimated M\$160 million, net foreign long-term borrowing by the Federal Government and statutory authorities rose substantially to M\$342 million, as against net

Table 16. Malaysia: Gross Imports According to End Use, 1967-71

(In millions of Malaysian dollars)

	1967	1968	1969	1970	1971 ^{1/}	Percentage Change 1970-71 ^{1/}
Food	561.5	512.8	460.5	490.0	398.8	-18.6
Beverages and tobacco	84.6	73.2	71.1	73.7	73.0	-1.0
Consumer durables	212.7	240.1	132.9	134.2	137.8	2.7
Other consumption goods	<u>432.2</u>	<u>449.0</u>	<u>474.0</u>	<u>514.1</u>	<u>517.5</u>	<u>0.7</u>
Total consumption goods	1,291.0	1,275.1	1,138.5	1,212.0	1,127.1	-7.0
Metal products	221.0	205.4	202.5	283.1	267.3	-5.6
Transport equipment	93.4	95.6	63.8	150.7 ^{2/}	142.3	-5.6
Machinery	258.6	262.9	289.8	454.5	504.6	11.0
Other investment goods	<u>186.4</u>	<u>186.3</u>	<u>185.5</u>	<u>262.5</u>	<u>354.9</u>	<u>35.2</u>
Total investment goods	759.4	750.2	741.6	1,150.8	1,269.1	10.3
Materials for agriculture and animal husbandry	140.3	131.8	145.7	157.6	151.5	-3.9
Materials for manufacturing	432.8	501.1	725.0	892.9	994.7	11.4
Building and construction materials	87.0	81.7	73.3	83.3	75.1	-9.8
Crude petroleum	227.3	245.6	227.5	215.4	103.5	-52.0
Other intermediate goods	<u>195.3</u>	<u>196.5</u>	<u>185.2</u>	<u>223.0</u>	<u>239.1</u>	<u>7.2</u>
Total intermediate goods	1,082.7	1,156.7	1,356.7	1,572.2	1,563.9	-0.5
Total retained imports	<u>3,133.1</u>	<u>3,182.0</u>	<u>3,236.8</u>	<u>3,935.0</u>	<u>3,960.1</u>	<u>0.6</u>
Tin ore	36.7	148.4	127.2	152.5	93.0	-39.0
Crude natural rubber	40.5	46.7	73.8	43.4	29.7	-31.6
Crude petroleum	105.6	137.2	139.4	164.5	317.9	93.3
Total imports for re-export	182.8	332.3	340.4	360.4	440.6	22.3
Total retained imports and imports for re-exports	<u>3,315.9</u>	<u>3,514.3</u>	<u>3,577.2</u>	<u>4,295.4</u>	<u>4,400.7</u>	<u>2.5</u>
Total imports	<u>3,325.0</u>	<u>3,551.6</u>	<u>3,605.0</u>	<u>4,323.3</u>	<u>4,401.1</u>	<u>1.8</u>
Imports not allocated	9.1	37.3	27.8	27.9	0.4	

Source: Department of Statistics, Malaysia.

^{1/} Preliminary estimates.

^{2/} Includes aircraft purchased by Malaysia-Singapore Airlines valued at M\$54.3 million.

payments of M\$2 million in 1970. In 1971, the Federal Government floated three market loans in New York and London, amounting to the equivalent of M\$286 million. The liquidation of the Third International Tin Buffer Stock also yielded M\$62 million in receipts.

Net errors and omissions: Net errors and omissions, which have always been a debit item, increased from M\$223 million in 1970 to M\$303 million in 1971. The persistent substantial magnitude of this item is said to partly result from the openness of the economy and the existence of currency convertibility arrangements with Singapore and Brunei which makes it difficult to record all transactions. In some part it also reflects the under-recording of visible trade and short-term capital outflows. However, it is not possible to assess the relative importance of these and other factors.

2. External reserves

Net external reserves rose by SDR 60 million (M\$185 million) in 1971 and amounted to SDR 906 million (M\$2,775 million) on December 1, 1971 (Table 17). While the net holdings of foreign assets by the Central Bank rose by SDR 91 million to SDR 819 million, those of the Federal Government and its agencies declined by SDR 8 million to SDR 83 million. Net external reserves of the commercial banks also fell by SDR 22 million to SDR 5 million in 1971. At the end of March 1972, net external reserves amounted to SDR 901 million (M\$2,758 million).

Under the Sterling Guarantee Agreement, which came into effect on September 25, 1968 for an initial period of three years, the United Kingdom undertook to maintain the sterling value, in terms of the U.S. dollar, of official sterling reserves held by Malaysia in excess of 10 per cent of its total official external reserves. In return, Malaysia agreed to maintain a minimum proportion of 40 per cent of its total official external reserves in sterling. On September 25, 1971, the Agreement was renewed for a further two years with the agreed minimum proportion of official reserves to be held in sterling by Malaysia being reduced from 40 per cent to 36 per cent. But the guarantee rate remains unchanged at £1 = \$2.40.

On May 16, 1972, the Government transferred to the Central Bank SDR 59 million (M\$180 million) of foreign assets as a result of the latest distribution of the Malaya-British Borneo Currency Board's foreign assets; at the end of May 1972, the foreign assets of this entity amounted to SDR 18 million (M\$45 million).

3. External debt

During the period 1967-71, the external debt of the public sector increased steadily from M\$805 million at the end of 1966 to M\$1,493 million at the end of 1971 (Table 18). The external debt service burden as measured by the ratio of total external debt service payments to

Table 17. Malaysia: External Reserves, 1967-March 1972

(In millions of SDRs)

	1967	1968	1969	1970	1971	1972 March
	(End of period)					
A. Central Bank (net)	457	515	680	728	819	812
Foreign assets	<u>457</u>	<u>516</u>	<u>683</u>	<u>733</u>	<u>827</u>	<u>818</u>
a. Gold	31	66	63	48	58	58
b. IMF gold tranche ^{1/}	32	33	36	51	39	39
c. Foreign exchange ^{1/}	394	417	584	611	687	658
d. SDRs	--	--	--	23	43	63
Foreign exchange liabilities ^{2/}	--	-1	-3	-5	-8	-6
B. Government and agencies	168	139	105	91	83	82
a. Federal Government	<u>97</u>	<u>74</u>	<u>60</u>	<u>67</u>	<u>65</u>	<u>64</u>
b. State Governments	35	37	19)))
c. Official agencies	36	28	26	24	18	18
C. Commercial banks (net)	18	-20	21	27	5	7
Foreign assets	<u>87</u>	<u>96</u>	<u>132</u>	<u>121</u>	<u>118</u>	<u>120</u>
Foreign exchange liabilities	-69	-116	-111	-94	-113	-113
D. Total net reserves (A + B + C)	643	634	806	846	906	901

Source: Bank Negara Malaysia.

^{1/} Includes Malaysia's estimated share of the Malaya-British Borneo Currency Board's foreign assets.

^{2/} Comprises mainly the deposits of the Singapore banks (1964-March 1967) and balances held for the Monetary Authority of Singapore, beginning March 1968.

export receipts declined in 1971 as a result of lower Federal Government loan repayments: the ratio in 1971 was 2.3 per cent, compared to 3.1 per cent in 1970 and 1.4 per cent in 1966.

Table 18. Malaysia: External Debt of the Public Sector, 1967-71

(In millions of Malaysian dollars)

	1967	1968	1969	1970	1971
Outstanding balance at the end of the period	<u>867</u>	<u>1,003</u>	<u>1,119</u>	<u>1,127</u>	<u>1,493</u>
Federal Government	530	592	745	746	1,114
State Governments	35	35	29	29	24
Statutory authorities	302	376	345	352	355
Debt service during the period ^{1/}	<u>71</u>	<u>90</u>	<u>107</u>	<u>175</u>	<u>126</u>
Repayments	36	50	59	122	63
Interest and charges	35	40	48	53	63
Debt service ratio ^{2/} (per cent)	1.9	2.2	2.1	3.1	2.3

Source: Data obtained during the 1970, 1971, and 1972 consultation discussions.

^{1/} Data on external debt are not fully reconciled with the balance of payments data.

^{2/} Ratio of debt service payments to export receipts.

4. Exchange and trade regulations^{1/}

Following the realignment of major currencies in December 1971, the Malaysian Government on December 19, 1971 announced that it would maintain the gold parity of Malaysian dollar at 0.290299 gram of fine gold to one dollar. As a result, the Malaysian dollar in terms of the U.S. dollar was revalued upward from M\$3.06122 = US\$1 to M\$2.81955 = US\$1. On May 2, 1972, the Malaysian Government notified the Fund that it would avail itself of wider margins under the Executive Board Decision of December 18, 1971. However, the Malaysian authorities have

^{1/} See 22nd Annual Report on Exchange Restrictions, 1971 for details of the exchange and trade system.

continued to maintain the margin of one per cent on either side of parity. The intervention currency in the foreign exchange market of Kuala Lumpur is the pound sterling and the parity rate is £1 = M\$7.3469.

There have been no changes in the exchange control regulations since the 1971 consultation discussions of April 1971. During the last year import licensing was extended to a small number of items, including cabbages, certain man-made fibres, certain iron and steel goods and diesel engines. On the other hand, import controls on a number of items including playing cards, certain iron and steel goods and diesel engines, certain textiles and certain intermediate goods, were removed.

There has been no change in gold export and import regulations since the last consultation. In 1971, authorized dealers' imports of gold amounted to 148,446 ounces compared with 110,948 ounces in the previous year.

Table I. Malaysia: Industrial Origin of Gross Domestic Product, 1967-71

(In millions of Malaysian dollars at current factor cost)

	1967	1968	1969	1970	1971 ^{1/}	Annual Percentage Change	
						1970-71	1967-71
Agriculture, forestry and fishery	2,716	2,822	3,300	3,300	3,264	-1.1	4.7
Agriculture and livestock production	(2,048)	(2,105)	(2,539)	(2,465)	(2,405)	-2.4	4.1
Forestry and logging	(403)	(452)	(494)	(544)	(541)	-0.5	7.6
Fisheries	(265)	(265)	(267)	(291)	(318)	9.3	4.7
Mining and quarrying	530	511	552	592	622	5.1	4.1
Manufacturing	939	1,033	1,208	1,357	1,475	8.6	11.9
Construction	343	359	361	422	433	2.6	6.0
Electricity, water and sanitary services	204	224	240	253	269	6.3	7.1
Transport, storage, and communications	379	394	411	432	449	3.9	4.6
Wholesale and retail trade	1,234	1,284	1,363	1,415	1,482	4.7	4.7
Banking, insurance, and real estate	147	164	179	201	226	12.4	11.4
Ownership and dwellings	395	407	421	455	468	2.9	4.3
Public administration and defense	543	553	606	675	748	10.8	8.3
Other services	<u>941</u>	<u>986</u>	<u>1,032</u>	<u>1,133</u>	<u>1,206</u>	<u>6.4</u>	<u>6.4</u>
Total	8,371	8,737	9,673	10,235	10,642	4.0	6.2

Source: Department of Statistics, Malaysia.

^{1/} Preliminary estimates.

Table II. Malaysia: Agricultural, Forestry, and Mineral
Production, 1967-71

(In thousands of long tons)

	1967	1968	1969	1970	1971 ^{1/}
Rubber	<u>924</u>	<u>1,035</u>	<u>1,175</u>	<u>1,203</u>	<u>1,256</u>
Estate	526	563	593	618	657
Smallholder	398	472	581	585	599
Milled rice	<u>763</u>	<u>913</u>	<u>1,018</u>	<u>1,071</u>	<u>1,122</u>
Oil palm products	<u>272</u>	<u>341</u>	<u>423</u>	<u>515</u>	<u>704</u>
Palm oil	222	279	346	424	580
Palm kernels	50	62	77	91	124
Copra	186	163	147	166	189
Coconut oil	89	94	86	94	99
Round timber	7,547	8,929	9,368	10,174	10,547
Sawn timber	1,403	1,641	1,676	1,866	1,947
Tin ore (tin-in-concentrates)	72.1	75.1	72.2	72.6	74.3
Bauxite	885	786	1,056	1,121	963
Iron ore	5,350	5,085	5,151	4,420	935
Crude oil (mn. U.S. barrels)	0.33	1.52	3.39	6.56	25.07

Source: Department of Statistics, Malaysia.

^{1/} Preliminary estimates.

Table III. West Malaysia: Output of Selected Manufactured Products, 1968-71

	1968	1969	1970	1971	Percentage Change 1970-71
Good and beverages					
Sweetened condensed milk (million lbs.)	...	...	174.1	153.4	-11.9
Biscuits (thousand lbs.)	62,713	73,943	74,226	75,215	1.3
Canned pineapple (tons)	62,758	66,733	65,706	64,618	-1.7
Pineapple juice (tons)	1,003	1,335	2,643	1,463	-44.6
Prepared animal feed (thousand tons)	...	...	241.4	216.0	-10.5
Soft drinks and carbonated beverages (thousand gallons)	15,898	19,942	19,725	18,193	-7.7
Tobacco products					
Cigarettes and manufactured tobacco (thousand lbs.)	17,449	19,560	19,813	20,296	-2.4
Textiles					
Batak sarongs (thousand pieces)	...	...	2,037	1,311	-35.6
Textiles ^{1/} (thousand yards)	...	...	91,624	109,666	19.7
Wood products					
Plywood and particle board (million square feet 5 mm.)	...	...	388.4	463.2	19.3
Printing, publishing and allied industries					
Printing, publishing and allied industries ^{2/} (M\$ million)	...	...	112.2	124.3	10.8
Rubber products					
Rubber footwear (thousand pairs)	23,497	24,822	24,526	23,951	-2.3
Foam rubber mattress (thousand pieces)	124.1	153.5	226.9	166.0	-26.4
Other foam rubber (thousand lbs.)	3,003	3,321	4,286	4,308	-0.5
Tires and tubes (thousand pieces)	5,968	6,507	7,145	7,571	6.0
Rubber compound (thousand lbs.)	8,959	8,872	9,972	12,012	20.5
Rubber tubing and hose (thousand lbs.)	1,169	1,175	1,434	1,753	22.2
Rubber sheeting and matting (thousand lbs.)	5,786	4,734	5,211	5,401	3.6
Chemicals and chemical products					
Industrial chemicals ^{2/} (M\$'000)	...	...	27,221	29,842	9.6
Chemical fertilizers (thousand tons)	...	...	239.5	241.7	0.9
Refined coconut oil (tons)	...	...	18,927	22,517	19.0
Distempers and water paints (thousand lbs.)	8,973	7,341	5,893	6,581	11.7
Paints, varnishes and wood preservatives, etc. (thousand gallons)	1,961	2,250	2,535	2,730	7.7
Soap and soap compound (thousand lbs.)	69,802	73,803	67,931	69,542	2.4
Medicinal and pharmaceutical preparations ^{2/} (M\$'000)	...	...	11,888	12,628	6.2
Perfumes, cosmetics and toilet preparations (thousand lbs.)	...	...	3,438	3,413	-0.7
Nonmetallic mineral products					
Cement (thousand tons)	922.5	958.1	1,013.3	1,078.7	6.5
Tiles (thousand pieces)	16,950	19,521	19,650	19,953	1.5
Asbestos cement products ^{2/} (M\$'000)	...	...	30,131	29,485	-2.1
Basic metals and metal products					
Iron foundries and iron and steel basic shapes (tons)	...	...	80,009	74,014	-7.5
Structural shapes and complete steel structures (tons)	...	...	8,252	11,742	42.3
Other metal products ^{2/} (M\$'000)	...	...	21,379	19,452	-9.0
Bars and rods for reinforced concrete (tons)	...	...	30,531	43,950	40.0
Iron and steel drums (thousand units)	...	...	962.1	1,002.6	4.2
Tin cans and metal boxes (million units)	...	...	250.2	235.1	-6.0
Aluminum, brass, copper and pewter products^{2/} (M\$'000)					
...	...	...	10,738	13,110	22.1
Transport equipment					
Passenger cars ^{3/} (units)	...	19,970	20,998	23,638	12.6
Commercial vehicles ^{3/} (units)	...	5,044	6,942	6,723	-3.1

Source: Department of Statistics, Malaysia.

^{1/} Excludes synthetic textile mills, knitting mills and miscellaneous primary textiles.^{2/} Sales value ex-factory.^{3/} Figures are obtained from the Malaysian Motor Vehicles Assemblers Association.

Table IV. Malaysia: Interim Retail Price Index in West Malaysia, 1967-February 1972

(1967 = 100)

Annual or Monthly Average	Total Weighted Index 1,000	Food .482	Drinks, Tobacco and Sireh .094	Clothing .050	Services and Enter- tainment .046	Rent, House Repairs, etc. .070	Sundries .059	Fuel and Power .022	Transport .106	Household Goods .050
1968	101.5	99.2	100.3	100.5	125.9	100.5	101.7	99.5	100.3	100.3
1969	101.8	99.6	100.9	101.2	126.0	101.2	102.5	99.7	100.1	98.6
1970	104.0	99.3	102.6	103.0	126.1	116.4	103.1	101.4	108.0	101.0
1971	105.5	101.2	103.0	103.8	126.9	117.4	104.8	105.9	108.6	102.4
1970 Jan.	104.6	101.0	101.3	102.0	126.0	115.8	102.0	100.0	108.0	100.7
Feb.	104.1	99.8	101.3	102.8	126.1	116.0	102.7	100.2	108.1	100.6
Mar.	103.7	98.4	103.1	102.8	126.1	116.7	103.3	101.9	108.1	100.9
Apr.	104.0	99.3	103.0	102.7	126.0	116.4	102.8	101.4	108.0	100.7
May	103.3	97.6	103.2	102.8	126.1	116.5	102.8	101.5	108.0	100.9
June	104.2	99.7	103.0	102.7	126.1	116.4	102.8	101.5	108.0	101.1
July	104.0	99.0	102.9	103.1	126.1	116.4	103.9	101.5	108.0	101.1
Aug.	103.4	97.9	102.7	103.3	126.1	116.4	103.0	101.5	108.0	101.0
Sept.	103.5	98.1	102.6	103.1	126.1	116.5	103.2	101.6	108.1	101.1
Oct.	104.0	99.2	102.6	103.2	126.2	116.4	103.2	101.6	108.0	101.1
Nov.	104.9	101.0	102.5	103.2	126.2	116.3	103.0	101.6	108.0	101.1
Dec.	104.7	100.3	102.6	103.4	126.2	116.4	103.9	102.2	108.0	101.3
1971 Jan.	105.9	102.5	103.4	104.1	126.3	116.3	104.2	104.6	108.5	101.6
Feb.	106.0	102.6	103.3	103.5	126.4	116.4	104.3	104.6	108.5	102.0
Mar.	105.6	101.8	103.4	103.5	126.4	116.5	104.3	104.6	108.5	102.0
Apr.	105.0	100.4	103.4	103.6	126.7	116.8	104.3	105.1	108.5	102.1
May	104.7	99.9	102.7	103.9	126.7	116.8	104.0	105.1	108.5	102.1
June	105.7	101.6	102.7	103.9	126.8	117.2	104.9	106.7	108.7	102.3
July	104.3	98.4	102.9	104.1	127.2	118.2	105.0	106.6	108.8	102.1
Aug.	104.4	98.7	103.0	104.3	127.1	118.1	105.1	106.6	108.7	102.3
Sept.	105.2	100.5	102.9	103.4	127.2	118.2	104.8	106.6	108.7	102.4
Oct.	105.7	101.2	103.0	103.8	127.2	118.2	105.5	106.6	108.7	103.3
Nov.	106.3	102.5	102.9	103.9	127.2	118.1	105.5	106.6	108.7	103.3
Dec.	107.2	104.3	102.9	104.1	127.2	118.1	106.1	107.3	108.7	103.3
1972 Jan.	107.4	104.4	103.3	104.3	127.3	118.0	106.2	107.6	108.7	103.6
Feb.	107.2	103.4	103.3	104.4	127.3	118.0	106.5	107.7	108.7	103.8

Sources: Department of Statistics, Malaysia, Monthly Statistical Bulletin of West Malaysia (various issues).

^{1/} Weights are based on the pattern of private consumption shown in the national Income Accounts for 1967.

Table V. Malaysia: Public Sector Development Expenditures under the First Malaysia Plan, 1966-70 and the Second Malaysia Plan, 1971-75

	1966-70		1971-75	
	M\$ Million	Per Cent	M\$ Million	Per Cent
Agricultural and rural development	<u>1,114</u>	<u>26.3</u>	<u>1,921</u>	<u>26.5</u>
Agriculture	97	2.3	149	2.1
Rubber replanting	169	4.0	269	3.7
Land development	364	8.6	909	12.5
Drainage and irrigation	343	8.1	256	3.5
Agricultural credit and marketing	30	0.7	155	2.1
Commerce and industry	<u>142</u>	<u>3.3</u>	<u>616</u>	<u>8.5</u>
PERNAS, MARA, SEDCs	61	1.4	219	3.0
Urban Development Authority	--	--	100	1.4
MIDF	16	0.4	100	1.4
Social	<u>752</u>	<u>17.7</u>	<u>1,067</u>	<u>14.7</u>
Education and training	329	7.8	537	7.4
Transport	545	12.8	1,188	16.4
Communications	203	4.8	400	5.5
Utilities	681	16.1	747	10.3
General administration	138	3.3	211	2.9
Defense and security	<u>667</u>	<u>15.7</u>	<u>1,100</u>	<u>15.2</u>
Total	4,242	100.0	7,250	100.0

Source: Economic Planning Unit, Malaysia.

Table VI. Malaysia: Revenue of the Federal Government, 1969-72

(In millions of Malaysian dollars)

	1969	1970	1971	1972
			Revised Estimate	Revised Estimate
Tax revenue	<u>1,734</u>	<u>2,006</u>	<u>2,082</u>	<u>2,359</u>
Direct taxes	<u>539</u>	<u>702</u>	<u>717</u>	<u>878</u>
Income tax ^{1/}	500	657	688	752
Estate duty	9	11	11	11
Payroll tax	30	34	7	--
Gaming tax	--	--	--	10
Sales tax	--	--	--	84
Revenue from Petroleum Agreement	--	--	11	21
Indirect taxes	<u>1,195</u>	<u>1,304</u>	<u>1,365</u>	<u>1,481</u>
Export duties	<u>279</u>	<u>259</u>	<u>231</u>	<u>262</u>
Rubber	117	79	55	59
Tin	122	130	126	124
Iron ore	14	13	3	2
Others	26	36	47	77
Import duties	<u>527</u>	<u>558</u>	<u>581</u>	<u>632</u>
Tobacco	127	131	124	132
Sugar	55	33	6	6
Textiles	32	38	41	45
Malt liquors	8	10	9	11
Spirits	28	29	22	25
Heavy fuel oil	31	34	35	36
Petroleum	38	41	46	50
Import surtax	53	65	121	132
Others	155	177	177	195
Excises	<u>182</u>	<u>249</u>	<u>307</u>	<u>328</u>
Tobacco	16	21	21	24
Sugar	--	18	43	47
Malt liquors	30	32	30	36
Spirits	4	5	5	4
Heavy fuel oil	44	41	49	51
Petroleum	76	77	94	97
Motor vehicles	--	35	40	41
Others	12	20	24	28
Road transport fees and licenses	153	166	171	181
Turnover tax	1	1	1	--
Others	53	72	75	78
Nontax revenue	<u>267</u>	<u>286</u>	<u>312</u>	<u>561</u>
Net income of Government's commercial undertakings	44	50	70	60
Interest receipts	57	53	58	78
Net profits from currency	61	62	50	233 ^{2/}
Others	103	115	134	188
Adjustments	2	6	--	2
Total	2,001	2,292	2,394	2,920

Source: Data obtained during the 1972 consultation discussions.

^{1/} Includes Tin Profit Tax and Development Tax.^{2/} Includes distribution of assets and profits of the Board of Commissioners of Currency of Malaya and North Borneo.

Table VII. Malaysia: Current Expenditure of the Federal Government, 1969-72

(In millions of Malaysian dollars)

	1969	1970	1971 (Revised estimate)	1972 (Revised estimate)
Economic services	<u>130</u>	<u>146</u>	<u>204</u>	<u>227</u>
Agricultural and rural development	<u>45</u>	<u>48</u>	<u>54</u>	<u>70</u>
Commerce and communication	<u>74</u>	<u>83</u>	<u>132</u>	<u>113</u>
Trade, industry and mining	<u>9</u>	<u>12</u>	<u>15</u>	<u>41</u>
Other	<u>2</u>	<u>3</u>	<u>3</u>	<u>3</u>
Social services	<u>595</u>	<u>651</u>	<u>744</u>	<u>847</u>
Education	<u>439</u>	<u>477</u>	<u>525</u>	<u>607</u>
Public health	<u>139</u>	<u>155</u>	<u>189</u>	<u>213</u>
Other (labor, sports, social welfare)	<u>17</u>	<u>19</u>	<u>30</u>	<u>27</u>
General administration	<u>224</u>	<u>253</u>	<u>239</u>	<u>328</u>
Debt servicing ^{1/}	<u>193</u>	<u>250</u>	<u>264</u>	<u>321</u>
Pensions and gratuities	<u>110</u>	<u>100</u>	<u>84</u>	<u>121</u>
Security	<u>418</u>	<u>496</u>	<u>553</u>	<u>627</u>
Defense	<u>259</u>	<u>314</u>	<u>358</u>	<u>406</u>
Internal security	<u>159</u>	<u>182</u>	<u>195</u>	<u>221</u>
Transfer payments	<u>211</u>	<u>214</u>	<u>184</u>	<u>263</u>
Grants and loans to State Governments	<u>187</u>	<u>167</u>	<u>158</u>	<u>165</u>
Contribution to statutory funds ^{2/}	<u>12</u>	<u>39</u>	<u>22</u>	<u>94</u>
Subscriptions to international organizations	<u>12</u>	<u>8</u>	<u>4</u>	<u>4</u>
Suffian salary revision	<u>--</u>	<u>--</u>	<u>3/</u>	<u>--</u>
Aziz salary revision	<u>--</u>	<u>--</u>	<u>--</u>	<u>150</u>
Widows and Orphans Pension Scheme refund	<u>--</u>	<u>--</u>	<u>--</u>	<u>25</u>
Total	<u>1,882</u>	<u>2,110</u>	<u>2,272</u>	<u>2,909</u>
Annual increase (Per cent)	<u>5.1</u>	<u>12.1</u>	<u>7.7</u>	<u>28.0</u>

Source: Data obtained during the 1972 consultation discussions.

^{1/} Excluding direct foreign loan repayments and sinking fund contributions, interest payment to sinking fund, Federal Government Fund, State and public authorities.^{2/} Excluding contribution to State Reserve Fund.^{3/} Estimating at about M\$50 million.

Table VIII. Malaysia: Public Debt of the Federal Government, 1967-72

(In millions of Malaysian dollars)

End of period	1967	1968	1969	1970	1971	1972 March
Domestic debt						
Treasury bills	644	779	815	792	950	998
Government securities						
2-year securities	--	--	--	--	--	--
3-year securities	54	100	152	182	204	230
5-year securities	155	225	278	303	394	383
7-year securities	24	24	24	24	24	24
10-year securities	--	--	5	13	13	23
12-15 year securities	--	--	112	437	897	898
16-20 year securities	2,108	2,351	2,506	2,506	2,481	2,659
National defense bonds	10	10	10	10	10	10
Advance subscriptions	<u>1</u>	<u>1</u>	<u>4</u>	<u>4</u>	<u>26</u>	<u>--</u>
Sub-total	2,997	3,490	3,906	4,271	4,999	5,225
External debt						
Market loans	394	394	486	400	664	664
Other loans	<u>136</u>	<u>198</u>	<u>262</u>	<u>346</u>	<u>450</u>	<u>489</u>
Sub-total	530	592	748	746	1,114	1,153
Total public debt	3,527	4,082	4,654	5,017	6,113	6,378

Source: Data obtained during the 1972 consultation discussions.

Table IX. Malaysia: Consolidated Budgetary Position
of the State Governments, 1969-72

(In millions of Malaysian dollars)

	1969	1970	1971 Revised Estimate	1972 Budget
Current budget				
Current revenue	605.1	635.7	650.6	684.7
Statutory grants	(194.8)	(174.9)	(158.0)	(165.3)
Current expenditure	415.7	442.7	470.0	595.2
Current surplus	189.4	193.0	180.6	89.5
Development expenditure	223.1	254.8	303.6	327.6
Overall deficit	28.7	51.2	107.4	230.5
Financing of deficit				
Federal Government grants	56.1	51.3	65.4	87.8
Federal Government loans	19.2	35.6	42.4	77.1
Changes in State Governments' assets (- increase)	-46.6	-35.7	-0.4	+65.6

Source: Data obtained during the 1972 consultation discussions.

Table X. **Malaysia:** Consolidated Operations of Banking System, 1967-March 1972
(In millions of Malaysian dollars)

	Outstanding amount at end of						Changes during ^{1/}						
	1967	1968	1969	1970	1971	March 1972	1967	1968	1969	1970	1971	1972	
Net foreign assets ^{2/}	1,967.1	1,940.6	2,468.1	2,524.9 ^{3/}	2,649.3 ^{3/}	2,574.3 ^{3/}		-26.5 (-1.4)	+527.5 (+27.2)	+56.8 (+2.3)	+124.4 (+4.9)	+73.2 (+2.9)	-75.0 (-2.8)
Net domestic credit	977.5	1,472.1	1,547.9	1,996.3	2,459.2	2,074.6		+494.6 (+50.1)	+75.8 (+5.1)	+448.4 (+29.0)	+462.9 (+23.2)	+78.3 (+3.9)	+327.2 (+13.3)
Claims on public sector	-317.2	-132.7	-212.9	-176.8	-56.1	141.2		+184.5 (+58.2)	-80.2 (-60.4)	+36.1 (+17.0)	+120.7 (+68.3)	-57.7 (-32.6)	+197.3 (+251.7)
Claims on private sector	1,294.7	1,604.8	1,760.8	2,173.1	2,515.3	2,309.1		+310.1 (+24.0)	+156.0 (+9.7)	+412.3 (+23.4)	+342.2 (+15.7)	+136.0 (+6.3)	+129.9 (+5.2)
Other (net)	120.5	148.2	251.9	351.8	404.0	361.2		-27.7 (-23.0)	-103.7 (-70.0)	-99.9 (-39.7)	-52.2 (-14.8)	-29.4 (-8.4)	-10.6 (-2.6)
Total monetary liabilities	2,824.1	3,264.5	3,704.1	4,109.4	4,704.5	4,291.5		+440.4 (+15.6)	+499.6 (+15.3)	+405.3 (+10.8)	+535.1 (+12.8)	+122.1 (+2.9)	+244.6 (+5.1)
Money	1,524.6	1,696.7	1,921.8	2,071.4	2,151.0	2,040.0		+172.1 (+11.3)	+225.1 (+13.3)	+149.6 (+7.8)	+79.6 (+3.8)	-31.4 (-1.5)	+45.6 (+2.1)
Quasi-money	1,299.5	1,567.8	1,842.3	2,098.0	2,553.5	2,251.5		+268.3 (+20.6)	+274.5 (+17.5)	+255.7 (+13.9)	+455.5 (+21.7)	+153.5 (+7.3)	+196.0 (+7.7)

Source: Data obtained during the 1972 consultation discussions.

1/ Figures in parenthesis are changes in percentages for the year or quarter.

2/ Original data have been adjusted to make "net foreign assets" consistent with the recorded level of Malaysia's net external reserves.

3/ Include SDRs designated.

Table XI. Malaysia: Money and Quasi-Money, 1967-72

(In millions of Malaysian dollars)

End of Period	1967	1968	1969	1970	1971	March 1972
Currency in circulation ^{1/}	772	805	970	1,039	1,099	1,137
Demand deposits ^{2/}	753	892	952	1,032	1,052	1,060
Money supply	1,525	1,697	1,922	2,071	2,151	2,197
Time and savings deposits	1,300	1,568	1,842	2,098	2,554	2,750
Total money and quasi-money	2,825	3,265	3,764	4,169	4,705	4,946
Annual growth rate of total money and quasi-money	3.3	15.6	15.3	10.2	12.8	
Money supply as a proportion of GNP ^{3/}	15.7	16.9	17.5	17.7	17.7	
Total money and quasi-money as a proportion of GNP ^{4/}	29.2	32.5	34.3	35.7	38.7	

Sources: Bank Negara Malaysia, Quarterly Economic Bulletin, March 1972, and data obtained during the 1972 consultation discussions.

^{1/} Exclude cash holdings of commercial banks and the Treasuries. Comprise both Malaysian notes and coins issued by the Central Bank since June 12, 1967, and an estimated amount of Malayan currency issued by the Board of Commissioners of Currency, Malaya and British Borneo. Malayan currency has been converted into Malaysian dollars at the rate of Malayan \$1 = Malaysian \$0.8571 since November 1967.

^{2/} Demand deposits of private individuals, business enterprises, statutory authorities and local governments.

^{3/} Year-end money supply to the gross national product at current prices for the year.

^{4/} Year-end money and quasi-money to the gross national product at current prices for the year.

Table XIII. Malaysia: Commercial Banks' Liquidity Position^{1/}

End of Period	Domestic Liquid Assets ^{2/}										Savings deposits	Liquidity ratio ^{6/}
	Currency on hand	Balances with Central Bank ^{3/}	Net balances with other banks	Money at call	Treasury bills	Bills discounted or purchased and bills receivable ^{4/}	Federal and State Government securities ^{5/}	Other	Total	Demand fixed and other deposits		
(In millions of Malaysian dollars)												(Per cent)
1967	87.6	19.3	-3.1	31.6	437.8	68.9	140.8	76.2	859.1	1,810.2	434.0	38.3
1968	92.3	15.6	-6.4	33.1	603.9	71.1	44.5	58.3	912.4	2,186.2	483.9	41.7
1969	89.8	11.5	-10.4	36.1	613.0	67.6	68.0	--	875.6	2,485.5	550.2	35.2
1970	96.3	21.1	4.2	26.9	535.7	85.1	75.9	--	845.2	2,805.7	594.5	30.1
1971 Jan.	105.4	5.9	5.9	18.5	451.1	86.7	82.4	--	755.9	2,805.9	590.2	26.9
Feb.	93.3	13.4	5.7	19.3	515.9	78.0	80.0	--	805.6	2,873.6	590.7	28.0
Mar.	83.4	11.7	2.9	25.0	583.6	83.0	81.7	--	871.3	2,926.8	600.2	29.8
Apr.	80.8	16.6	4.4	24.7	643.5	86.7	83.0	--	939.7	2,955.5	604.4	31.8
May	82.0	17.4	5.2	17.7	648.2	86.3	107.5	--	964.3	2,980.9	608.1	32.4
June	81.6	15.5	0.9	20.0	638.1	80.6	115.4	--	960.1	3,000.7	625.5	32.0
July	82.8	8.8	4.0	12.7	630.9	80.6	123.1	--	942.9	3,017.1	626.3	31.3
Aug.	86.2	6.5	5.9	15.7	632.4	90.6	122.6	--	959.9	3,046.6	631.1	31.5
Sept.	80.3	8.7	6.8	19.0	613.9	92.0	125.7	--	946.4	3,062.9	633.5	30.9
Oct.	97.1	13.4	3.5	22.2	629.5	87.7	122.5	--	975.9	3,114.1	643.3	31.3
Nov.	108.3	8.5	7.3	29.8	652.8	85.0	139.8	--	1,031.5	3,164.2	646.0	32.6
Dec.	84.0	25.3	10.4	43.8	684.7	83.1	132.2	--	1,063.5	3,178.4	665.1	33.5
1972 Jan.	100.0	6.8	6.8	33.6	709.3	83.2	146.8	--	1,086.5	3,268.9	658.9	33.2
Feb.	129.2	18.8	7.4	39.7	697.4	82.3	145.9	--	1,120.7	3,322.7	680.3	33.7
Mar.	81.1	12.4	6.4	36.8	715.7	78.5	206.1	--	1,137.0	3,349.8	682.5	33.9

Source: Data obtained during the 1972 consultation discussions.

^{1/} With effect from the end of October 1968, commercial banks were required to maintain a statutory minimum liquidity ratio of 20 per cent against total deposits except savings deposits. Prior to this, the liquidity requirement applied to total deposit liabilities. Prior to August 1969, checks purchased payable were included as liquid assets in the computation of the minimum liquidity requirement.

^{2/} Prior to July 31, 1967, the calculation of the minimum liquidity requirement was based on the overall position of banks operating in both Malaysia and Singapore and liquid assets in Malaysia and Singapore were eligible for inclusion in the computation.

^{3/} Exclude statutory reserve held with the Central Bank.

^{4/} Bills discounted or purchased arising out of agricultural operations maturing within six months and for commercial transactions maturing within three months. Bills receivable maturing within three months.

^{5/} Exclude amount required to meet the 50 per cent ratio of Government securities and/or housing loans to savings deposits.

^{6/} Liquid assets as shown to total demand, fixed and other deposits.

Table XIII. Malaysia: Interest Rates of
Treasury Bills and Government Securities

(Per cent per annum)

A. Treasury bills

Date of Change	Three Months	Six Months	Nine Months	Twelve Months
October 1, 1966	5	5	5	5
November 20, 1967	5 1/2	5 1/2	5 1/2	5 1/2
June 10, 1968	4 1/2	4 1/2	4 1/2	5 1/2
August 1, 1968	4	4 1/2	5	5 1/2
April 6, 1970	5 1/8	5 1/4	5 3/8	5 1/2
March 31, 1971	4 7/8	5	5 1/8	5 1/4
June 7, 1971	4 5/8	4 3/4	4 7/8	5
December 28, 1971	4 1/4	4 1/2	4 5/8	4 3/4
January 11, 1972	4	4 1/4	4 1/2	4 5/8

B. Government securities

Date of Issue	3 years	5 years	7 years	10 years	12-15 years	20 years
<u>1971</u>						
May 17/June 12	5 3/4	6	--	--	6 1/2	--
Aug. 16 - 28	5 3/4	6	--	--	6 1/2	--
Nov. 15/Dec. 15	5 3/4	6	--	--	6 1/2	--
<u>1972</u>						
Mar. 15 - 31	5 3/4	6	--	6 1/2	--	7

Source: Data obtained during the 1972 consultation discussions.

Table XIV. Malaysia: Commercial Bank Interest Rates
(Per cent per annum)

Date of Change or Introduction	Fixed Deposits Periods (in months)						Savings Deposits	Dates for Advances			
	1	3	6	9	12	18		24	30	36	General	Preferential
October 1, 1966	2 1/2	5	5	5	5	--	--	--	3	7 1/2	7
November 20, 1967	3	5 1/2	5 3/4	6	6	--	--	--	3	8	7 1/2
May 1, 1968	3	5 1/2	5 3/4	6	6	--	--	--	3 1/2	8	7 1/2
January 2, 1971	3	5 1/2	5 3/4	6	6	6 1/8	6 1/4	6 3/8	3 1/2	8	7 1/2
January 19, 1972	3	5	5 1/4	5 1/2	5 3/4	--	6	--	6 1/2	3 1/2	7 1/2

Source: Data obtained during the 1972 consultation discussions.

Table XV. Malaysia: Operations of the Central Bank, 1968-March 1972
(In millions of Malaysian dollars)

	As at end of			Changes during ^{1/}			
	1968	1969	March 1971	March 1971	1970	1971	1972 First quarter
Foreign assets (net) ^{2/}	1,576	2,079	2,381	2,224	85	217	60
Foreign assets	1,579	2,089	2,532	2,358	156	287	113
Foreign liabilities ^{3/}	3	10	81	134	71	70	53
Claims on Government (net)	-394	-586	-564	-558	125	-103	87
Claims on Government	103	123	124	118	1	4	-14
Government deposits	497	709	585	692	-124	107	-101
Other items	-136	-220	-307	-281	-87	-8	31
Reserve money of which:	1,046	1,273	1,396	1,385	123	106	39
Currency outside banks	805	970	1,039	1,036	69	60	-3

Source: Data obtained during the 1972 consultation discussions.

^{1/} Sign indicates direction of impact on reserve money and not the direction of change in the item.

^{2/} Including Malaysia's share of the foreign exchange holdings of the Malaya-British Borneo Currency Board (as estimated by Malaysia).

^{3/} Include the contingent liabilities arising out of allocation of SDRs to indicate their neutral impact on money supply.

Table XVI. Malaysia: Operations of Commercial Banks, 1967-72

(In millions of Malaysian dollars)

	End of Period					March 1972
	1967	1968	1969	1970	1971	
Foreign assets (net)	56	-59	66	82	14	21
Foreign assets	267	296	405	369	361	366
Foreign liabilities	211	355	339	287	347	345
Claims on Government (net)	362	602	615	490	705	815
Claims on Government	579	854	908	833	1,045	1,144
Government deposits	217	252	293	343	340	329
Claims on private sector	1,405	1,690	1,841	2,245	2,572	2,701
Demand deposits	732	869	931	1,006	1,018	1,030
Time and savings deposits	1,289	1,542	1,806	2,043	2,480	2,666
Reserves	186	199	252	284	301	298
Other items (net)	-13	19	38	53	94	138
Total assets = total liabilities	3,016	3,644	4,080	4,460	5,042	5,217
Liquid assets ^{1/}	859	912	876	845	1,064	1,137
Actual liquidity position ^{2/}	38.3	41.7	35.2	30.1	33.5	33.9

Source: Data obtained during the 1972 consultation discussions.

^{1/} Cash, cash with Central Bank, net balances with banks and money at call, Treasury bills, Federal and State Government securities, bills discounted or purchased and bills receivable. Between the end of June 1965 and the end of September 1968, housing loans to individuals and approved financial intermediaries up to a maximum of 10 per cent of savings deposits, were allowed to be included in the computation of the 20 per cent liquidity ratio. As from August 31, 1969, checks purchased drawn on other banks in Malaysia were excluded from the definition of liquid assets.

^{2/} Prior to July 31, 1967, the calculation of the statutory minimum liquidity requirement was based on the overall position of banks operating in both Malaysia and Singapore and liquid assets in Malaysia and Singapore were eligible for inclusion in the computation. Up to the end of September 1968, commercial banks were required to maintain a minimum liquidity ratio of 20 per cent against total deposits. Effective from October 1968, the minimum liquidity ratio of 20 per cent was calculated against total deposits, excluding savings deposits.

Table XVII. Malaysia: Classification of Loans and Advances
of Commercial Banks, 1967-71

(In millions of Malaysian dollars)

	1967	1968	1969	1970	1971
Federal and State Government	<u>6.9</u>	<u>17.8</u>	<u>1.8</u>	<u>0.3</u>	<u>0.5</u>
Statutory authorities	<u>2.3</u>	<u>2.1</u>	<u>1.2</u>	<u>4.6</u>	<u>1.7</u>
Agriculture	<u>128.6</u>	<u>163.3</u>	<u>193.1</u>	<u>240.3</u>	<u>278.2</u>
Of which:					
Rubber	81.6	92.3	104.1	114.6	105.4
Palm oil	6.4	17.5	28.0	35.0	37.4
Pineapples	2.9	9.5	10.5	8.1	8.4
Forestry	33.0	35.6	39.0	62.7	105.7
Mining and quarrying	<u>47.2</u>	<u>49.3</u>	<u>51.5</u>	<u>51.2</u>	<u>53.9</u>
Of which:					
Tin	21.0	25.0	23.3	36.3	31.2
Iron ore	20.0	17.1	17.1	10.4	13.2
Manufacturing	<u>213.4</u>	<u>320.3</u>	<u>345.6</u>	<u>465.6</u>	<u>569.9</u>
Of which:					
Rubber products	25.3	31.5	44.8	41.7	32.6
Tin	8.0	27.8	32.8	15.1	8.2
Rice milling	12.3	23.8	21.2	27.2	22.8
Food, drink and tobacco	30.4	25.2	31.5	40.7	57.9
Soaps and oils	20.8	25.9	27.5	35.5	46.8
Woodwork and furniture making	5.7	6.0	5.1	15.1	19.4
Printing, publishing, etc.	5.4	8.8	13.6	12.5	15.2
Metal products and machinery	15.2	33.8	43.9	99.5	134.3
Building materials	18.7	29.9	30.6	39.9	33.8
Building and construction	<u>142.6</u>	<u>158.7</u>	<u>178.9</u>	<u>206.5</u>	<u>222.0</u>
General commerce	<u>502.0</u>	<u>622.6</u>	<u>729.8</u>	<u>756.1</u>	<u>793.6</u>
Import, export and wholesale trade ^{1/}	443.0	561.6	658.3	675.0	695.7
Retail trade	59.0	61.0	71.5	81.1	97.9
Professional and private individuals	<u>232.8</u>	<u>275.8</u>	<u>325.5</u>	<u>376.9</u>	<u>441.6</u>
Other	<u>157.1</u>	<u>153.7</u>	<u>171.5</u>	<u>258.1</u>	<u>305.8</u>
Of which:					
Transport, storage and communication	11.4	12.6	11.9	17.4	32.8
Hotels, restaurants and boarding houses	<u>13.8</u>	<u>15.7</u>	<u>18.2</u>	<u>29.7</u>	<u>39.1</u>
Total	1,432.9	1,763.6	1,998.9	2,359.6	2,667.2

Source: Data obtained during the 1972 consultation discussions.

^{1/} Include bills discounted or purchased and bills receivable and payable.

Table XVIII. Malaysia: Unutilized Credit with Commercial Banks, 1967-71^{1/}

	Total Credit Limits (1)	Total Credit Outstanding (2)	Total Unutilized Credit (3)	Ratio Unutilized Credit to Total Credit Limits (4)
	(In thousands of Malaysian dollars)			(4) = $\frac{(3)}{(1)}$ in per cent
1967				
December	864,678	625,463	239,215	27.7
1968				
March	942,027	717,126	224,901	23.9
June	932,675	721,106	211,569	22.7
September	1,017,112	758,608	258,504	25.4
December	1,029,571	811,714	217,857	21.2
1969				
March	1,078,404	826,454	251,950	23.4
June	1,092,989	842,220	250,769	22.9
September	1,135,170	867,848	267,322	23.5
December	1,221,028	923,408	297,620	24.4
1970				
March	1,315,500	1,042,415	273,085	20.8
June	1,401,923	1,100,850	301,073	21.5
September	1,416,094	1,117,962	298,132	21.1
December	1,499,261	1,175,383	323,878	21.6
1971				
March	1,638,098	1,253,834	384,264	23.5
June	1,675,872	1,268,022	407,850	24.3
September	1,724,344	1,310,636	413,708	24.0
December	1,829,817	1,342,633	487,184	26.6

Source: Data obtained during the 1972 consultation discussions.

^{1/} Accounts of loans and advances to customers in excess of M\$500,000 only.

Table XIX. Malaysia: Principal Holders of the Federal Government Domestic Debt^{1/},
1967-March 1972

(In millions of Malaysian dollars)

	1967	1968	1969	1970	1971		1972 March
					Sept.	Dec.	
Treasury bills	644	779	815	792	892	950	998
Central Bank	57	40	40	59	36	20	23
Commercial banks	440	611	625	543	623	658	725
Other ^{2/}	147	128	150	190	233	272	250
Other government securities	2,353	2,711	3,091	3,480	3,856	4,050	4,227
Government sector	311	364	436	532	588	592	602
Federal Government	(217)	(282)	(320)	(385)	(436)	(436)	(436)
State Governments	(31)	(31)	(66)	(90)	(90)	(90)	(90)
Other government agencies	(63)	(51)	(50)	(57)	(62)	(66)	(76)
Provident and Trust Funds	1,541	1,702	1,914	2,173	2,407	2,513	2,600
Employees Provident Fund	(1,470)	(1,615)	(1,807)	(2,039)	(2,258)	(2,359)	(2,446)
Teachers Provident Fund	(38)	(49)	(62)	(76)	(88)	(93)	(96)
Other	(33)	(38)	(45)	(58)	(61)	(61)	(58)
Financial sector	438	581	680	711	799	886	959
Central Bank	(86)	(63)	(84)	(65)	(60)	(109)	(88)
Commercial banks	(137)	(247)	(294)	(297)	(345)	(361)	(428)
Post Office Savings Banks	(173)	(218)	(245)	(263)	(287)	(295)	(303)
Other ^{3/}	(42)	(53)	(57)	(85)	(107)	(121)	(140)
Nonfinancial private sector	19	20	17	18	17	17	18
Foreign holders	44	44	44	46	46	42	48
Total	2,997	3,490	3,906	4,272	4,749	5,000	5,225

Source: Data obtained during the 1972 consultation discussions.

1/ Nominal value.

2/ Mainly other financial institutions and commercial firms.

3/ Including nominee and trustee companies.

Table XX. Malaysia: Consolidated Balance Sheet of
Finance Companies, 1969-72

(In millions of Malaysian dollars)

	1969	1970	1971	March 1972
Assets				
Cash	0.7	0.8	1.1	1.0
Deposits with banks	117.9	195.3	271.5	291.1
Investments	26.3	26.5	16.2	18.9
Loans	<u>236.3</u>	<u>300.8</u>	<u>390.9</u>	<u>418.4</u>
Hire purchase	105.9	131.4	181.3	187.9
Housing	24.9	25.3	29.1	32.1
Other purposes	105.5	144.1	180.5	198.4
Fixed and other assets	<u>23.8</u>	<u>18.0</u>	<u>24.4</u>	<u>23.5</u>
Total	405.0	541.4	704.1	752.9
Liabilities				
Capital and reserves	45.4	53.8	68.2	68.8
Deposits of customers other than banks	<u>320.9</u>	<u>436.5</u>	<u>570.8</u>	<u>621.3</u>
Fixed	282.3	401.5	533.0	574.3
Savings	20.0	18.4	35.3	41.9
Other	18.6	16.6	2.5	5.1
Amounts borrowed from banks	3.5	4.9	8.8	3.0
Other liabilities	<u>35.2</u>	<u>46.2</u>	<u>56.3</u>	<u>59.8</u>
Total	405.0	541.4	704.1	752.9

Source: Data obtained during the 1972 consultation discussions.

Table XXI. Malaysia: Direction of Trade, 1968-1971
(In millions of Malaysian dollars)

	Exports (f.o.b.) ^{1/}				Imports (c.i.f.) ^{1/}			
	1968	1969	1970	Per cent of total	1968	1969	1970	Per cent of total
Sterling area:	1,391	1,655	1,771	35.2	1,578	1,547	1,715	42.9
Of which:								
United Kingdom	272	275	340	6.6	493	473	580	14.6
Singapore	850	1,078	1,111	22.4	296	290	312	7.6
Australia	127	131	116	1.8	257	239	240	5.8
Hong Kong	40	54	64	1.6	83	88	93	1.9
Mainland China	76	138	66	1.1	243	244	227	4.6
Indonesia	32	48	33	0.6	189	183	207	3.3
Japan	777	930	939	18.1	476	576	751	19.5
Thailand	39	33	44	1.6	206	187	151	2.9
United States	644	754	670	12.7	221	230	367	6.7
Continental Western Europe	426	563	691	12.5	377	399	487	12.5
Of which:								
Germany, Federal Republic of	87	131	162	2.7	153	160	208	4.6
Netherlands	100	102	162	3.3	47	45	50	1.5
France	69	111	112	2.0	42	53	60	1.6
Italy	113	146	171	2.9	39	39	47	1.3
Eastern Europe	290	372	314	4.7	23	23	26	0.7
Of which:								
U.S.S.R.	222	240	212	3.0	8	10	10	0.2
Other countries	448	558	315	6.4	211	224	265	3.4
Total	4,123	5,051	5,162	100.0	3,524	3,613	4,323	100.0

Source: Department of Statistics, Malaysia.

1/ Preliminary estimates.

Table XXII. Malaysia: Gross Exports of Manufactured and Processed Products, 1966-71

(In millions of Malaysian dollars)

Item ^{1/}	1966	1967	1968	1969	1970	1971 ^{2/}	Percentage Change 1970-71 ^{2/}
Food	88.0	95.5	92.6	82.1	92.3	85.4	-7.4
Canned pineapple and juice	44.1	43.8	48.4	44.5	43.7	40.7	-6.8
Tea	7.0	5.8	5.9	4.6	4.2	3.3	-21.4
Others	36.9	45.9	38.3	33.0	44.4	41.4	-6.7
Beverages and tobacco	19.0	20.4	10.4	17.6	20.4	18.5	-9.3
Textiles, clothing and footwear	28.9	28.9	30.3	34.7	39.7	50.4	27.0
Cotton fabrics of standard type	10.1	8.9	8.7	9.4	9.2	12.8	39.1
Clothing	6.1	9.1	10.6	12.3	16.3	18.0	10.4
Others	12.7	10.9	11.0	13.0	14.2	19.6	38.0
Wood products	20.9	28.9	44.2	65.6	91.4	119.0	30.2
Veneer	6.4	2.8	5.1	5.0	7.2	12.1	68.1
Plywood	5.8	13.9	23.0	33.7	46.3	60.9	31.5
Chipwood	3.7	6.0	11.1	6.3	15.1	15.3	1.3
Wooden mouldings	--	--	--	4.8	5.7	10.5	84.2
Wooden tools, handles, brush bodies, etc.	1.7	2.0	1.7	11.8	11.3	14.5	12.8
Others	3.3	4.2	3.3	4.0	5.8	5.7	-0.2
Rubber products	11.4	10.8	11.9	14.7	16.7	18.7	12.0
Chemicals and chemical products	34.9	34.3	37.7	38.6	36.7	39.3	7.0
Petroleum products	170.5	169.5	175.2	171.3	162.2	108.9	-32.8
Nonmetallic mineral products	11.1	13.5	10.5	15.1	19.1	15.9	-16.7
Iron and steel products	5.8	5.7	6.3	12.7	12.1	7.6	-37.2
Manufactures of metal (excluding tin metal)	6.3	6.7	6.4	8.1	10.7	11.5	7.5
Machinery and transport equipment	72.5	56.5	73.5	84.5	90.1	87.5	-2.9
Others	30.3	42.4	44.3	40.4	39.3	35.8	-8.9
Total	499.6	513.1	543.3	585.4	630.7	598.5	-5.1

Source: Department of Statistics, Malaysia.

^{1/} Classified according to International Standard Industrial Classification (ISIC), United Nations, 1968.
^{2/} Preliminary estimates.

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