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This paper provides background information to the staff report on the 1980 Article IV consultation discussions with Malaysia, which was circulated as SM/80/134 on June 6, 1980 and has been tentatively scheduled for discussion on Wednesday, July 9, 1980.

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INTERNATIONAL MONETARY FUND

MALAYSIA

Recent Economic Developments

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Approved by the Asian Department

June 16, 1980

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MALAYSIA

Basic Data 1/

Area:	127,581 square miles
Population (1979):	13.25 million
Average annual rate of growth of population (1976-80):	2.7 per cent
Per capita GNP (1979):	SDR 1,104

<u>Selected aggregates as per cent of GNP 2/</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
Gross domestic investment <u>3/</u>	24.2	22.6	24.2	26.4	26.2
Manufacturing production	16.4	17.5	18.0	19.1	19.7
Narrow money <u>4/</u>	20.1	19.4	19.7	20.7	20.0
Broad money <u>4/</u>	46.3	47.2	47.8	50.1	51.0
Federal Government revenue and grants	23.4	22.7	25.1	25.2	24.3
Federal Government expenditure and net lending	32.0	30.0	32.8	31.9	26.7
Exports of goods and services	47.1	53.8	52.2	52.9	60.6
Imports of goods and services	46.6	43.0	43.5	47.3	50.5

Annual percentage changes of selected economic indicators 2/

Gross national product (1970 prices)	2.2	10.8	7.1	7.0	8.3
Consumer price index	4.5	2.6	4.7	4.9	3.6
Federal Government revenue and grants	6.9	20.6	27.0	13.0	17.0
Federal Government expenditure and net lending	15.0	17.3	25.7	9.4	1.4
Narrow money	7.3	20.9	16.6	18.2	17.2
Broad money	14.6	27.7	16.4	17.9	23.5
Merchandise exports, f.o.b.	-9.6	47.2	11.5	14.0	40.5
Merchandise imports, f.o.b.	-10.9	14.8	14.9	21.4	29.1

Money and credit

(In billions of ringgit)

Broad money	<u>10.0</u>	<u>12.8</u>	<u>14.9</u>	<u>17.5</u>	<u>21.6</u>
Narrow money	4.3	5.3	6.1	7.2	8.5
Quasi-money	5.7	7.5	8.7	10.3	13.2
Net foreign assets	3.7	5.7	6.3	6.7	9.1
Net credit to Government <u>5/</u>	1.3	1.1	1.2	1.0	-0.7
Credit to private sector	6.1	7.5	9.0	11.6	14.6

Malaysia: Basic Data (Concluded)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
<u>Federal Government budget 6/</u>						
	<u>(In billions of ringgit)</u>					
Revenue and grants	5.1	6.1	7.8	8.8	10.3	10.9
Expenditure and net lending	6.9	8.1	10.2	11.2	11.3	15.3
Of which: capital expenditure	(1.1)	(1.3)	(1.8)	(2.0)	(2.3)	(2.9)
Financing requirement	1.8	2.0	2.4	2.4	1.0	4.4
External borrowing	0.9	0.4	0.5	0.5	0.7	0.9
Domestic borrowing	0.9	1.6	1.9	1.9	0.3	3.5
Of which: banking system	(0.2)	(--)	(0.5)	(-0.1)	(-1.1)	(0.2)
<u>Balance of payments 7/</u>						
	<u>(In billions of SDRs)</u>					
Trade balance	0.2	1.3	1.3	1.2	2.3	2.2
Exports, f.o.b.	3.0	4.5	5.2	5.9	8.2	9.7
Imports, f.o.b.	-2.8	-3.2	-3.8	-4.6	6.0	7.5
Current account balance	-0.2	0.6	0.4	0.1	0.8	0.4
Capital movements (net)	0.5	0.4	0.2	0.5	0.3	0.8
Errors and omissions	-0.2	-0.4	-0.3	-0.4	-0.5	-0.6
Overall balance	0.1	0.7	0.3	0.2	0.6	0.6
<u>Gross official reserves (end of year)</u>						
In billions of SDRs	1.3	2.2	2.4	2.6	3.2	3.9
In months of imports	5.9	8.0	7.5	6.8	6.5	6.3

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

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

2/ Data for 1979 are estimates.

3/ Includes changes in stocks.

4/ End of year.

5/ Federal and State Governments.

6/ Data for 1980 are budget estimates.

7/ Data for 1980 are staff estimates.

I. Introduction and Summary

Malaysia's economy has been characterized during the past decade by impressive rates of growth, relatively stable prices, and a strong balance of payments position. Aggregate output has increased at an average annual rate of about 8 per cent. With the exception of 1973 and 1974 when imported inflation exerted strong pressures, price increases have not exceeded 5 per cent annually. The overall balance of payments has recorded a surplus each year, leading to a gradual accumulation of international reserves; however in relation to imports, reserves have remained approximately unchanged, at the equivalent of six to seven months imports during the period. While many factors have contributed to this impressive performance, the financial policies adopted by the authorities have played a major role.

The structure of Malaysia's economy has gradually been diversified away from primary production toward manufacturing. As a share of GDP, value added in manufacturing increased from 14 per cent in 1971 to 20 per cent in 1979. The rapid development of the manufacturing sector has not only been the major source of aggregate output growth, but also the most important source of new employment creation. Over the years, manufacturing production has become increasingly export oriented. Exports of primary products have also been diversified, with palm oil, timber, and more recently, petroleum, complementing the traditional exports of rubber and tin.

During 1979, Malaysia's economy continued to expand rapidly, primarily due to an upsurge of external demand which also provided support for maintenance of a rapid expansion in private investment expenditure. Growth of real GDP accelerated to nearly 9 per cent, mainly on the strength of the recovery of agricultural production, after a year of drought, and continued high levels of activity in the construction and manufacturing sectors. The employment situation improved, with the rate of unemployment declining slightly to nearly 6 per cent. The rate of inflation, as measured by the consumer price index, was 4 per cent.

The balance of payments strengthened significantly in 1979 to record an overall surplus of M\$1.8 billion--three times the level of 1978. The improved payments position was due mainly to buoyant export earnings, resulting from substantial increases in both the price and volume of major export commodities. Despite an acceleration in the growth of imports, both the trade and current account registered record surpluses. In the capital account, net inflows of long-term capital were moderately higher than in 1978, because of increased net inflows of both official capital and foreign corporate investment. Against the resulting surplus in the basic balance of M\$4.4 billion, however, there were significant offsets in the form of larger private short-term capital outflows, mainly associated with increased foreign asset holdings of the commercial banks and the state oil company, and sizable errors and omissions. Gross official international reserves amounted to SDR 3.2 billion at the end of 1979, equivalent to 6.5 months of imports. The Malaysian ringgit is pegged to an undisclosed basket of

currencies of the country's major trading partners. In terms of the trade-weighted effective exchange rate computed by the staff, the ringgit appreciated by about 6 per cent during 1979. While it remained virtually unchanged against the U.S. dollar, the intervention currency, the ringgit appreciated against most other major currencies, especially the yen.

Domestic financial policies during the year were responsive to the unexpectedly large stimulus from the export sector and the resulting gradual strengthening of aggregate domestic demand. Monetary policy limited the expansion of money supply (M1) to 17 per cent, the outcome being in the 16-18 per cent range, which had been set as consistent with the objective of noninflationary growth. The rate of expansion in credit to the private sector was slowed, and longer-term maturities for time and savings deposits were encouraged. The achievement of the monetary target for the year in the face of an unexpectedly large surplus in the balance of payments was facilitated by the budgetary operations of the Government. These operations resulted in a sizable surplus vis-a-vis the central bank, and provided a partial offset to the increase in official foreign reserves so as to maintain the expansion of reserve money within an appropriate range. A sharp increase in export tax revenues, limited growth in expenditure, and substantial nonbank borrowing all contributed to the large accumulation of deposit balances at the central bank.

For 1980 the economic outlook continues to be favorable, despite the slowdown in economic activity in the major industrial countries. Real GNP growth is forecast to be 7 per cent, and inflation is to be contained at around 5 per cent. The continued strength in primary commodity prices, particularly rubber and crude oil, should minimize the impact of generally weakened external demand on the balance of payments; a deterioration in the terms of trade is not expected. Export growth would be moderate, but both the current account and overall balance of payments are expected to remain in surplus. In this context, financial policies were framed with the objective of sustaining noninflationary growth by stimulating domestic demand; they include a large tax cut, stepped up public investment, and pursuit of an accommodating, yet cautious, monetary policy.

II. Aggregate Supply and Demand Developments

1. Longer-term developments

During the past decade, Malaysia's development effort concentrated on implementing the New Economic Policy (NEP) which was designed to achieve national unity through eradicating poverty and restructuring society. The first objective involved reducing the overall incidence of poverty from 49 per cent of all households to 34 per cent during the course of the decade. Since poverty was concentrated in the agricultural sector, namely smallholder rubber and paddy farming, public investments were directed toward improving the productivity of the small farmer and providing basic needs to the poor. The second goal was to make the Malaysian economy more representative of the ethnic composition of the Malaysian people. In order to eliminate the long established identification of Malays and other indigenuous groups (the bumiputras) with smallholder agriculture and the Chinese

and Indians with commerce and industry, bumiputras were to be provided with increased opportunities for employment and management and ownership of assets. To achieve these objectives, a series of five-year plans, the Second and Third Malaysian Plan, covering the period 1971-80, were formulated.

The distributional goals of the NEP were to be realized in the context of rapid growth and a restructuring of the economy. In such an environment, the need to redistribute existing income, employment, and assets could be minimized; instead, a greater proportion of the growth of income, modern sector employment, and asset ownership would be channeled to the bumiputras. Hence, while the non-bumiputras would experience declines in their relative shares in the economy, their absolute position would increase. In essence, the economy was to grow at a sufficient pace to yield benefits to all. In this regard, Malaysia's economic performance has contributed to the realization of the goals of the NEP.

From 1971-79, Malaysia's real gross domestic product (GDP) grew at an annual average rate of 8 per cent. The achievement of rapid economic growth in the context of relatively stable prices was largely attributable to the authorities' successful supply and demand management policies.

a. Supply

On the supply side, important changes in the structure of the economy were brought about by promotion of the manufacturing sector and production diversification in the primary sector. During the past decade, the importance of the manufacturing sector increased relative to the primary sector, and crude petroleum and palm oil emerged as new major products in the primary sector (Appendix Table I).

Manufacturing output expanded steadily during the 1970s and was the leading growth sector in the economy. Value added in manufacturing increased at an annual average rate of 13 per cent, compared to 5 per cent in the primary sector (agriculture, livestock, forestry, fishing, mining, and quarrying). As a result, between 1971-79, the share of the manufacturing sector in GDP rose from 14 per cent to 20 per cent, while that of the primary sector decreased from 36 per cent to 29 per cent. In the same period, the services sector grew slightly. The decline in the relative share of the primary sector could be attributed mainly to the decreased importance of rubber in aggregate output.

In contrast to the 1960s when the expansion of manufacturing production was oriented toward import substitution, the expansion became increasingly more export oriented during the 1970s. The export of manufactured goods increased from 12 per cent of total exports in 1971 to 21 per cent in 1979. Within the manufacturing sector, textiles experienced the fastest increase in output, with an annual average growth rate of 16 per cent from 1971-79. Electrical machinery and appliances and the processing of estate-type agricultural products--specifically palm oil--recorded the second highest

growth rates at around 13 per cent per year. These were followed by import-competing industries including transport equipment and basic metal and metal products, which grew at an annual average rate of 10 per cent. In contrast, the growth rates of such agricultural-based products as rubber, food, and tobacco were relatively low.

Within the primary sector, diversification was achieved by the development of a new export commodity--palm oil--and the exploitation of petroleum resources. Palm oil production was promoted to reduce the dependence of exports on natural rubber, the price of which declined continuously during the 1960s. Palm oil production rose at an annual average rate of 18 per cent during 1971-79. Starting from negligible levels of output at the beginning of the decade, Malaysia has become the world's leading producer of palm oil, accounting for nearly half of global output in 1979. The dramatic rise in palm oil production was facilitated by soil and climatic conditions which favored oil palm cultivation and the availability of managerial knowledge in estate plantations. Apart from palm oil, the other important aspect of diversification of primary activities was the development of the petroleum sector. The production of crude petroleum more than quadrupled between 1971-79. The most rapid increase occurred since 1975, when the production-sharing arrangements between the national oil company, Petronas, and the multinational oil companies, Shell and Esso, were finalized.

b. Demand

On the demand side, economic expansion during the past decade was maintained by strong growth in all the principal demand components (Appendix Tables II and III). When private domestic and foreign demand were adversely affected by the global recession in the mid-1970s, public sector demand provided the counter-cyclical offset to sustain the growth in output.

During 1971-79, aggregate domestic demand, in real terms, rose at an annual average rate of 9 per cent, with total investment demand expanding at an even faster rate of 11 per cent per year. In particular, public investment constituted the most buoyant source of domestic demand throughout the period, reflecting the active role of the public sector under the NEP. Public investment, which grew at an annual average rate of 14 per cent, was directed primarily toward agricultural and rural development as well as infrastructure programs in transportation, communication, and utilities.

Private investment experienced sharp cyclical fluctuations during the 1970s. It rose rapidly in the earlier part of the decade, declined substantially in the mid-1970s, and has advanced steadily since then. The significant reduction in private investment in 1975 and 1976 was attributed to the combined influences of the international recession, the excess capacity created in the manufacturing sector by large investments in the early 1970s, and initial uncertainties in the business community caused by the Industrial Coordination Act. With the gradual exhaustion of capacity and improvements in the investment climate, private investment has since recovered, although

the level of investment in 1979, in real terms, was only marginally higher than that prevailing in 1974. On the average, private investment rose at an annual rate of 8 per cent from 1971 to 1979.

Total consumption demand grew at an annual average rate of about 8 per cent in real terms. Public consumption rose by 10 per cent per year, reflecting increases in salary and staffing of government jobs, as well as additional expenditures in support of the various development programs. Private consumption demand kept pace with the growth in real GDP, increasing at an annual average rate of 8 per cent.

Export demand provided an important stimulus to economic expansion. The growth of exports reflected the increasing volumes of newly-introduced export products such as manufactured goods, crude petroleum, and palm oil. The exports of goods and services rose, in real terms, at an annual average rate of 9 per cent during 1971-79. The volume of imports of goods and services also rose rapidly at an annual average rate of 10 per cent. This growth reflected the increased demand for intermediate and investment goods.

During the 1970s, the rapid growth in nominal output has outpaced the rise in total consumption, thereby providing increased domestic savings to finance additional capital formation. In current prices, GDP rose at an annual average rate of 17 per cent while total consumption increased at a rate of 14 per cent. Gross national savings as a ratio of GNP rose from 19 per cent in 1971 to 32 per cent in 1979. In relation to investment, savings rose faster during the latter half of the decade, resulting in Malaysia's position as a net exporter of capital (Chart 1).

c. Real GDP adjusted for changes in the terms of trade

Malaysia's dependence on foreign trade has increased during the 1970s, with increases in both the shares of exports and imports in GNP. An important aspect of the high degree of openness of the economy was that changes in the international terms of trade have significant effects on real income by affecting the international purchasing power of Malaysia's exports. The terms of trade improved at an annual average rate of 4 per cent during 1971-79. Hence real GDP adjusted for changes in the international purchasing power of exports rose at an annual average rate of 10 per cent, compared to 8 per cent for unadjusted real GDP.^{1/} The improvements in the

^{1/} The growth in real GDP adjusted for changes in the terms of trade (r) is defined as:

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

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

terms of trade have contributed to Malaysia's growth and development by enlarging the basis for savings and the capacity to import (Chart 2).

d. Poverty eradication

As noted at the outset, poverty eradication was one of the principal objectives of the NEP. During the past decade, Malaysia has made some progress in eradicating poverty. The overall incidence of poverty (defined as the share of households having to spend two thirds or more of their income on food) declined from 49 per cent in 1970 to 37 per cent in 1978; the target is to reduce the overall incidence of poverty to 34 per cent by 1980. Among agricultural households, the incidence of poverty has declined from 68 per cent to 55 per cent, and among nonagricultural households, from 28 per cent to 22 per cent. Nevertheless, income of poor agricultural households is estimated to have increased at an annual average rate of about 2-3 per cent; and their income is estimated to be about 60 per cent of the level required to provide for minimum nutritionally adequate diet and other essential needs.

2. Recent developments, 1979-80

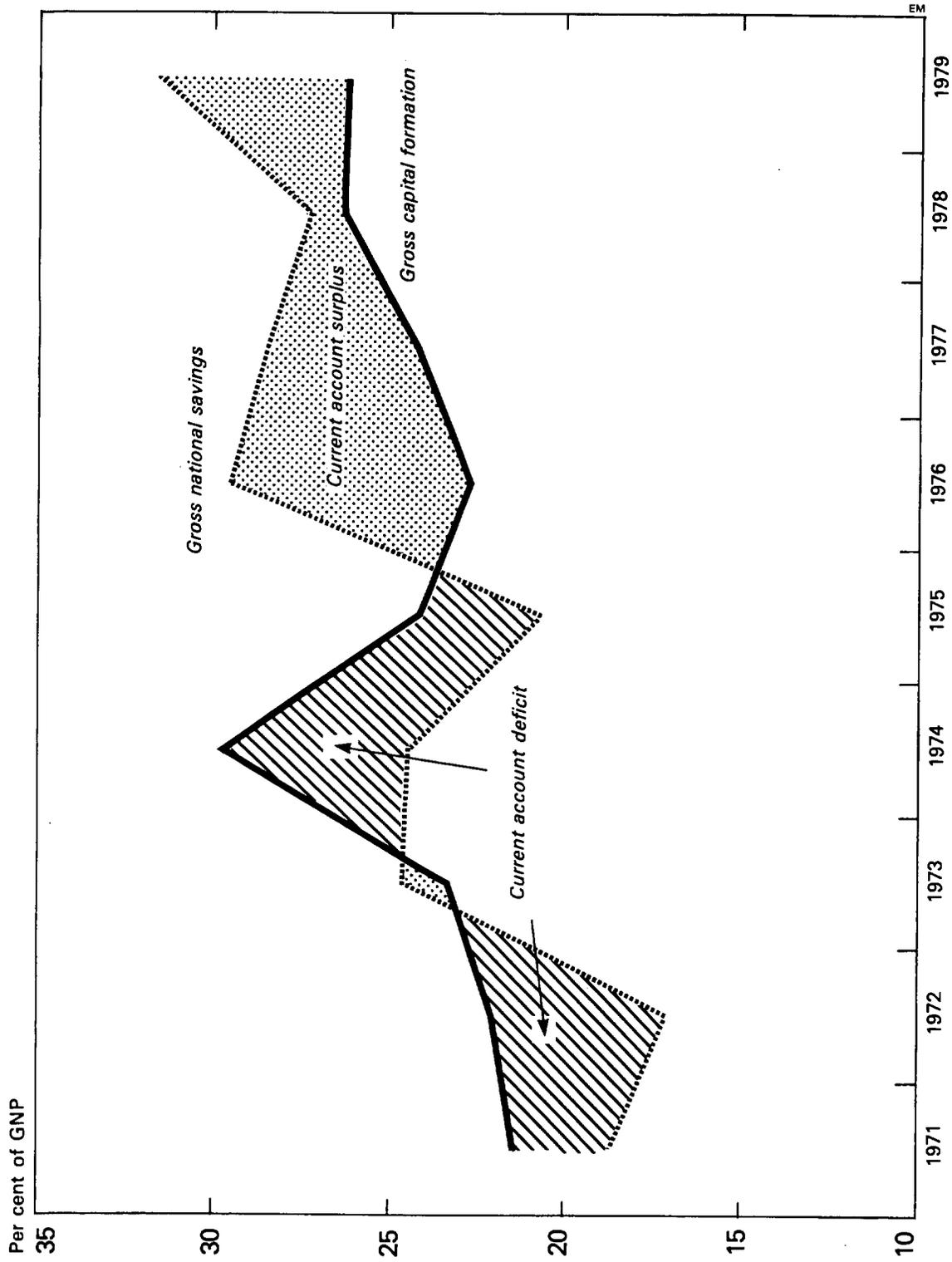
a. Overview

During 1979, the Malaysian economy continued to expand rapidly, achieving a growth rate in real GDP of 9 per cent (Table 1). The agricultural sector recovered from the adverse effects of the drought in the previous two years. Improved weather and high international commodity prices led to a 4 per cent growth of agricultural output compared to a 1 per cent growth in 1978. Of particular significance was the strong recovery in the production of palm oil and rice, which expanded by 23 per cent and 9 per cent, respectively. The growth of value added in the mining sector accelerated to 15 per cent largely reflecting the rapid expansion of petroleum production. Rapid output growth in the manufacturing sector was sustained. Value added of the manufacturing sector rose by 12 per cent mainly on account of rapid growth in the export-oriented industries as well as industries producing consumer durables and building and construction materials. The construction sector advanced steadily, with output growing by 14 per cent because of continuing high demand for residential housing. Activities in the services industries also kept pace with the overall growth of the economy.

On the demand side, the export sector provided the main stimulus to economic expansion in 1979 (Table 1). The exceptionally strong growth in exports, which rose 12 per cent in real terms, reflected the increases in most major commodities and manufactures. Import demand also accelerated to 18 per cent in real terms, on account of significant increases in the imports of intermediate and investment goods.

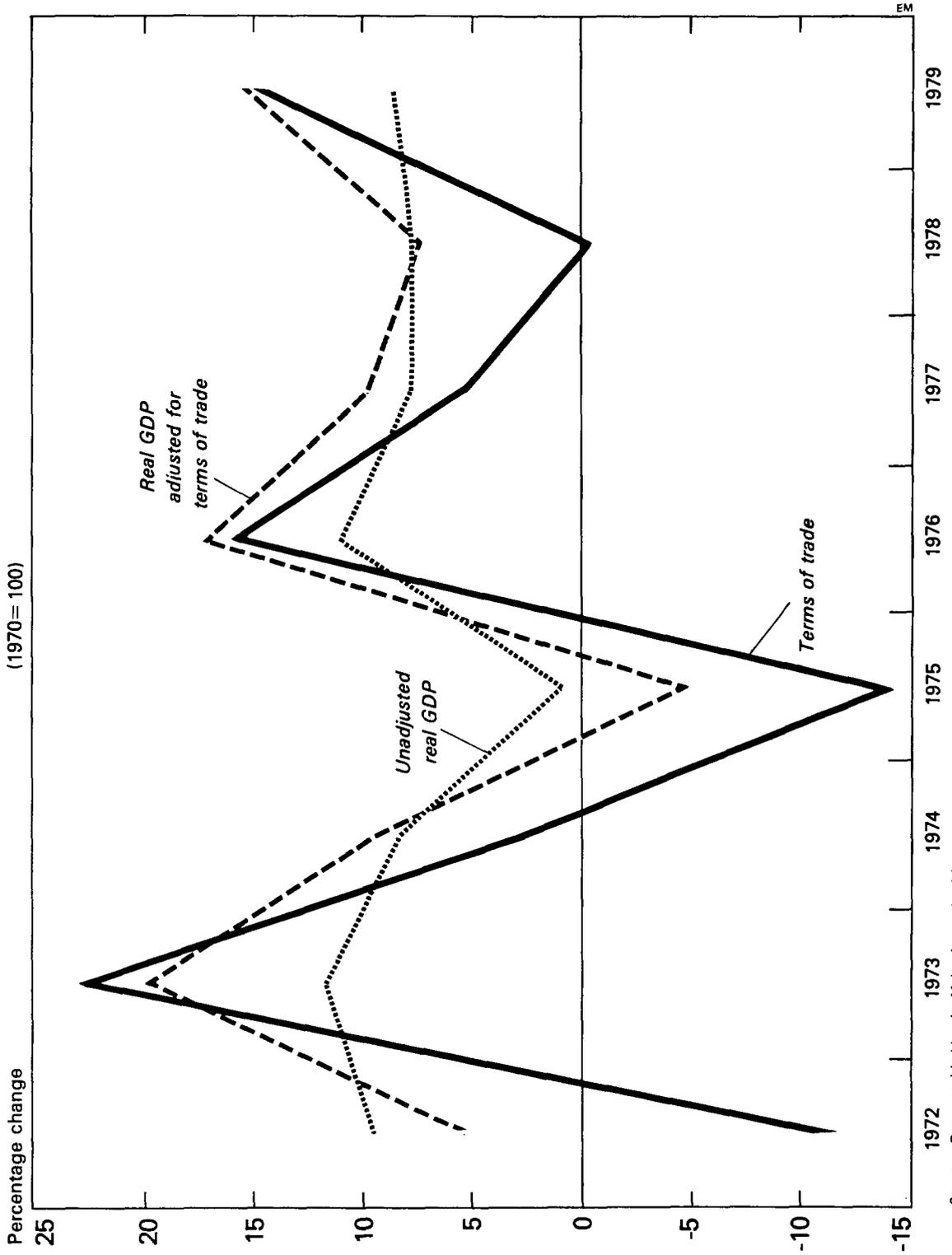
In real terms, aggregate domestic demand rose by 11 per cent, about the same rate as in the previous year. Private sector demand, which accounted

CHART 1
MALAYSIA
SAVINGS AND INVESTMENT



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

CHART 2
MALAYSIA
TERMS OF TRADE AND REAL GROSS DOMESTIC PRODUCT
(1970=100)



Source: Data provided by the Malaysian authorities.

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Table 1. Malaysia: Supply and Use of Resources at Constant 1970 Prices, 1975-79 1/
(Percentage change over previous year)

	1975	1976	1977	1978	1979 2/
Supply of resources					
GDP at market prices	0.8	11.1	7.6	7.6	8.5
Agriculture, forestry, and fishing	-3.0	10.5	2.2	1.0	4.0
Mining and quarrying	-0.5	20.6	1.3	13.0	13.0
Manufacturing	3.0	18.5	10.6	14.0	12.0
Construction	-10.3	9.0	12.2	13.0	14.0
Wholesale and retail trade	0.3	8.4	7.8	9.0	9.5
Government services	7.2	9.5	12.4	2.5	6.1
Net factor payments to abroad	-34.2	21.4	25.0	10.1	9.3
GNP at market prices	2.2	10.8	7.1	7.0	8.3
Imports of goods and services	-17.1	9.2	13.7	13.9	18.3
Use of resources					
Consumption expenditure	0.9	6.7	9.5	10.0	11.0
Private	(-0.9)	(6.1)	(9.3)	(11.6)	(11.0)
Public	(6.8)	(8.5)	(9.8)	(5.3)	(11.1)
Investment expenditure	-7.4	5.0	13.2	8.6	14.0
Private	(-19.5)	(0.4)	(10.6)	(12.8)	(13.2)
Public	(23.0)	(12.6)	(17.0)	(2.6)	(15.1)
Exports of goods and services	-3.0	16.7	3.9	7.9	12.1

Source: Data provided by the Malaysian authorities.

1/ Revised new series compiled on the basis of the United Nations' System of National Accounts (SNA).
2/ Preliminary estimate.

for 72 per cent of aggregate domestic demand, supported the expansion in aggregate output. Private consumption rose by 11 per cent, reflecting the rapid increase in income generated by the buoyant export sector. Private investment expenditures, including those undertaken by the petroleum industry, increased by 13 per cent. The bulk of the increase in private investment was in machinery and equipment; investments in building and construction were also significantly higher. Oil sector investments, were for the expansion of production facilities in the fields off the Trengganu coast and in offshore Sabah and Sarawak. Public sector demand also contributed to maintaining the growth momentum in the economy. Public investment rose by 15 per cent in 1979 compared with 3 per cent in 1978. Most of the increase was for the improvement of utilities, transport, and communications, and for agricultural and rural development. Public consumption expenditure also rose considerably, by 11 per cent, compared with 5 per cent in 1978, principally a result of higher operating expenditures of the Federal Government.

In 1980, the authorities project real GDP growth to slow to 7 per cent due to the anticipated slowdown of economic activity in the major industrial countries. However, the adverse impact of the external environment on Malaysia is likely to be minimized by the limit to any potential downturn in primary commodity prices; in particular the prices for rubber, crude petroleum, and tropical timber are expected to remain strong. Nevertheless, in contrast to 1979, domestic rather than external demand is expected to provide much of the stimulus to overall economic growth. The rapid growth of private consumption expenditures in 1979 is expected to be sustained in 1980 due to the lagged income effects of the buoyant export earnings in 1979. Private investment expenditure, especially in construction, is projected to accelerate in response to increased consumer spending. In addition, the public sector is expected to provide an expansionary stimulus to aggregate demand, particularly in increased public investment outlays to complete the development projects of the Third Malaysian Plan. On the supply side, the weak external demand is expected to moderate output growth in the agriculture and mining sectors where a larger proportion of production is destined for export. However, the high growth rate in the manufacturing and construction sectors is expected to be sustained, supported mainly by domestic demand.

b. Production

(1) Primary sector

Rubber production fell by 1 per cent to 1.6 million metric tons in 1979 (Appendix Table IV). In spite of the decline in the relative importance of rubber in aggregate output, it remained the single most important crop planted in Malaysia, accounting for 36 per cent of total agricultural output, utilizing about half of the total cultivated land, and employing nearly a fourth of the labor force. Malaysia is the world's leading producer of natural rubber, accounting for about 42 per cent of global production in 1979.

Although rubber prices have risen substantially in recent years, rubber output has been stagnant. The reduction in output in 1979 represented the third consecutive year of decline in production; no significant increase is envisaged in the next five years, despite the favorable outlook for rubber prices. There are three constraints to the growth of rubber output. First, the estate acreage under rubber cultivation has declined as rubber land has been converted to oil palm and cocoa. Oil palm cultivation is relatively more attractive due to the shorter gestation period of the trees. However, the scope for further conversion is limited because of unsuitable soil conditions and the new tax incentives designed to promote rubber production. The second constraint is labor shortages created by the migration of labor to other agricultural sectors and to the urban areas. This problem is particularly acute in the smallholders sector, where younger workers prefer to leave the farms for the lifestyle in the cities. The third constraint is the absence of any significant replanting in recent years. The last major replanting effort was completed in the late 1960s and early 1970s, and many trees are past their peak productive years. There was no significant replanting in 1979.

In 1979, three major events occurred which will favorably affect the future growth of rubber production. They were: the finalization of the Dynamic Production Policy (DPP), a revision of the export tax structure on rubber, and the completion of negotiations for the International Rubber Agreement. First, the DPP involved the formulation and planned implementation of various strategies to promote rubber production. These measures included continued reinvestments, large new investments in land development, accelerated diffusion of production technologies, and intensified research and development activities. Second, the new export duty structure for rubber, by lowering the duty, raised the general profitability of rubber production. Finally, the signing of the International Rubber Agreement induced greater confidence on the part of the rubber producers with respect to the maintenance of stable prices.

The production of palm oil, which had been dampened by drought in the previous three years, recovered strongly in 1979. Favorable weather and increased acreage under cultivation resulted in a 23 per cent increase in palm oil output which reached 2.2 million metric tons in 1979. Although palm oil is a relatively new agricultural product in Malaysia, the pattern of its use has already undergone significant change. Instead of mainly exporting crude palm oil, the Government has encouraged further domestic processing. Hence, local consumption of crude palm oil has increased substantially. In 1979, 72 per cent of the domestic production was processed by local palm oil refineries. The increase in the production of processed palm oil is reflected in a radical change in the composition of exports of palm oil products. Since the beginning of large-scale domestic processing in 1975, the share of processed palm oil in total palm oil exports increased to about 70 per cent in 1979.

After two years of successive decline, the production of rice also recovered strongly following improved weather. Rice output had declined by 22 per cent in the 1977/78 crop year due to severe drought. In the 1978/79 crop year, it rose by 19 per cent to 1.2 million metric tons.

This level of production was sufficient to meet about 83 per cent of the domestic requirement, compared with 67 per cent in the previous year. Rice is the third most important agricultural crop in Malaysia in terms of acreage under cultivation.

For strategic and social welfare reasons, the Government has emphasized self-sufficiency in rice as one of the targets of the Third Malaysian Plan. Since Malaysia is a relatively high cost producer of rice, the use of guaranteed minimum price and subsidies on the imports of fertilizers have been utilized to encourage rice production. Effective January 5, 1979, the minimum support price for paddy was raised by M\$2 per picul (about 8 per cent). Further, since July 1979, the Government has provided subsidies for paddy farmers in the form of fertilizer and pesticide assistance valued at M\$60 per acre of rice cultivated, with a maximum qualifying size of six acres per farmer.

As a result of the Government's forestry conservation policy and the depletion of timber resources after two decades of intensive exploitation, the production of saw logs declined by 6 per cent in 1979 to 26.7 million cubic meters, following a fall of 1 per cent in the previous year. Output of sawn timber rose by 2 per cent to 5.3 million cubic meters, compared to a decline of 10 per cent in 1978. It is estimated that at the present rate of harvesting, forest resources will be exhausted in about 30 years in Sabah and 10 years in Peninsular Malaysia. The rapid depletion of forest resources has been a cause of major concern to the Government, and it has instituted a variety of conservation measures. These have included controls on the rate of harvesting, forest land set aside for rehabilitation and reforestation, the development of improved silvicultural techniques, and the promotion of research on the potential utilization of varieties not currently in popular use. Tax incentives were also introduced in the 1980 budget to encourage reforestation.

In spite of high prices, tin production increased by less than 1 per cent in 1979, compared to 7 per cent in 1978. Tin production, which had declined for five consecutive years beginning in 1973, is expected to remain stagnant in the near future.

The stagnation in output is caused largely by the limited availability of tin-bearing lands and the rising cost of fuel. The National Mining Code has been instituted to streamline the procedures governing prospecting, alienation, issue and renewal of leases, and conversion of mining land. With respect to rising production costs, revisions to the price of diesel oil in June and August 1979, resulted in lowered fuel costs (by about 7 per cent) for tin producers; diesel fuel constitutes about 28 per cent of the costs of production. In addition, the Government has revised the tin export duty structure in the 1980 budget to take into account rising production costs.

Petroleum production continued to expand rapidly in 1979, rising by 31 per cent to reach 283,000 barrels per day, following an 18 per cent increase in 1978. Two additional offshore fields came onstream toward the

end of the year--the Temana field off the coast of Sarawak and the South Furious field off Sabah--bringing the total number of oil fields in production to 14.

In developing the petroleum sector, the authorities have attempted to balance the need to conserve a depletable resource against the need to produce petroleum to provide revenues to finance development. Since Malaysia has a well-diversified economy and is therefore not dependent upon oil revenue, there has been no need to push oil production to the maximum. Furthermore, in order to minimize the waste of associated natural gas, which must be flared at present, production is reduced at wells where the gas-to-oil ratio is high. The desire to attain an optimal rate of oil production has led to a policy of oil production conservation. In 1980, the production of crude petroleum is expected to decline by 1 per cent to 280,000 barrels per day.

In August 1979, on-site preparation for a LNG project began in Sarawak. The project is a joint venture between Petronas (65 per cent participation) and two foreign companies (35 per cent). The LNG plant, projected to be fully operational in 1986, would produce 6 million metric tons of LNG per year. The output will be sold under long-term contracts for 20 years to Japanese public utility companies.

(2) Manufacturing sector

The manufacturing sector continued as the leading growth sector in the economy in 1979. Value added in manufacturing rose by 12 per cent, compared with 14 per cent in 1978. The steady expansion of the manufacturing sector reflected higher domestic and export demand. The growth in construction activity led to rapid expansion of the building materials industries where output of products such as cement, iron, and steel rose in excess of 20 per cent. Other high growth industries included the export-oriented industries producing textiles and electrical machinery and equipment (both at 15 per cent).

The impetus for the future expansion of the manufacturing sector is expected to come from both exporting and import-competing industries. In the recent past, the growth of the manufacturing sector was propelled by the expansion of the export-oriented, labor-intensive industries producing such technologically standardized products as electronics, textiles, and footwear. However, the scope for further expansion of these industries is limited as comparative advantage in these products shifts in favor of countries at a lower level of industrialization. Hence, in designing Malaysia's industrial development strategy for the 1980s, the authorities intend to promote export-oriented industries which are intensive users of Malaysia's major agricultural products such as rubber, palm oil, and timber, as well as capital-intensive industries which utilize domestic gas and oil resources, such as steel, aluminum smelting, and petroleum refining.

c. Employment and wages

Total employment grew by 3.6 per cent in 1979, approximately the same rate as in 1978 (Table 2). The major source of new employment was the manufacturing sector, which accounted for 27 per cent of all new jobs created in 1979. In addition, construction, utilities, and the government sectors also contributed to job creation in 1979. Although labor absorption in the agriculture, forestry, and fishing sectors was low, these sectors still dominated the employment structure, providing jobs for 43 per cent of the total employed labor force in 1979. As a result of the expansion in job creation, the unemployment rate declined slightly to 6.1 per cent in 1979.

Malaysia does not compile a wage index. In the unionized labor market, a total of 257 collective bargaining agreements, covering 4 per cent of total employment, were signed in 1979. The collective agreements provided improved pay and benefits-in-kind to employees and generally covered a period of three years. The overall average increase in contracted wages was about 16 per cent. The average wage increase granted in the major sectors were: agriculture (19-23 per cent), manufacturing (15 per cent), commerce (11 per cent), transport (16 per cent), services (13 per cent), and mining (17 per cent).

III. Government Finance

1. Structure of the public sector

The public sector in Malaysia consists of the Federal Government, 13 state governments, several local authorities (city, municipal and town councils), and a number of nonfinancial public enterprises.^{1/} The sector is relatively large and exerts a strong influence on the economy. Preliminary estimates indicate that the consolidated revenue of the Federal and State Governments totaled M\$12.4 billion in 1979, or about 29 per cent of GNP, and total expenditure and net lending was M\$14.0 billion, or about 33 per cent of GNP (Appendix Table V). Including the deficit of local governments and public enterprises for which data are available, the public sector's overall deficit was estimated at M\$2.6 billion, or about 6 per cent of GNP.

The Federal Government dominates the public sector. Federal revenue in 1979 was estimated to account for 83 per cent of total Federal state revenue, and the bulk of the public sector's deficit has been accounted for by the Federal Government's budgetary operations. Furthermore, grants

^{1/} The fiscal year corresponds to the calendar year. Data for the state governments are available only in summary form (Appendix Table VI), and data for local authorities are confined to three major municipalities and are aggregated with the major nonfinancial public enterprises (Appendix Table VII).

Table 2. Malaysia: Employment and Labor Force, 1971-79

	Percentage Change Per Annum				1979 Thousands of persons
	1971-75 Annual average	1976	1977	1978	
Employment					
Agriculture, forestry and fishing	1.5	1.6	0.7	0.7	1,999.3
Mining and quarrying	0.1	1.8	0.1	1.1	91.4
Manufacturing	8.3	11.2	7.4	9.7	630.2
Construction	12.0	5.6	7.8	8.2	211.6
Utilities	5.1	5.1	5.1	4.9	29.2
Transport, storage, and communi- cations	6.3	3.9	5.9	4.5	217.9
Wholesale and retail trade	4.9	5.0	5.0	4.6	586.7
Finance and insurance	4.4	5.4	3.7	4.0	45.2
Government services	5.5	5.4	8.0	5.1	648.6
Other services	5.8	0.2	4.6	4.3	195.5
Total employment	3.8	4.0	3.7	3.6	4,655.6
Labor force	3.2	3.5	3.6	3.5	4,956.0
Unemployment rate (as per cent of labor force)	7.2	6.4	6.3	6.2	300.4

Source: Data provided by the Malaysian authorities.

and loans from the Federal Government are a major source of finance for many expenditures by other levels of Government and nonfinancial public enterprises. Federal control is also exercised over the borrowings of these public sector entities.

The role of the state governments has been relatively limited, mainly because of the constraints on their revenue-raising power imposed by the Constitution. The revenue sources assigned to the state governments are few and relatively small, being derived mostly from taxes and royalties on lands, mines, and forests. Revenue derived from these sources is limited in most states, since only a few of them have significant mineral resources or forest reserves. The rest of state governments' revenue is derived mostly from entertainment duties and certain fees and charges. The operations of the public authorities are closely monitored by the Federal Government, and some of the major public authorities are under the control of the Ministry of Public Enterprises which was established in 1977. In 1979, the operations of the principal public authorities continued to show a current account surplus.

2. The Federal Government

a. Fiscal trends during 1975-79

The major fiscal aggregates of the Federal Government have varied over the years, both in absolute terms and relative to GNP (Table 3 and Chart 3). These movements reflected autonomous changes in economic conditions as well as policy reactions to the business cycle. In recent years, however, the Government has sought to orient expenditure policy toward attaining the social and economic objectives of the New Economic Policy through increased public investment programs. Accordingly, fiscal policy emphasis has sought to steadily expand public investment for long-term considerations of growth and social and economic equity. For demand management purposes, under this approach, fiscal policy would concentrate on countercyclical tax policies, rather than action on the expenditure side.

During the period 1975-79, revenue and grants grew at an annual rate of 19 per cent, exceeding the average growth in GNP by about 1 percentage point. The increase in revenues was significantly influenced by collections of export taxes which rose 33 per cent per annum. Expenditures and net lending grew by 17 per cent per annum through 1978, but because of a decline in net lending in 1979, there was an average increase of only 13 per cent for the period. Reflecting these trends, the overall deficits tended to rise in absolute terms through 1978, although they fell relative to total expenditure and GNP; the overall deficit in 1979 was unusually low, due to the limited advance in total expenditure and continued growth in revenues. Domestic resources financed about 70 per cent of the aggregate budget deficit over the period 1975-79 (Appendix Table VIII). A major part (60 per cent) of domestic financing has come from the Employees Provident Fund, which is legally required to hold 70 per cent of its assets in government securities. Other important sources of domestic borrowing were the finance houses, insurance companies, and the National Savings Bank. Net borrowing from

Table 3. Malaysia: Summary of Federal Government Operations, 1975-80

(In millions of ringgit)

	1975	1976	1977	1978	1979 Preliminary Estimate	1980 Budget Estimate
Revenue and grants	5,089	6,138	7,794	8,808	10,304	10,904
Tax revenue	4,536	5,473	7,034	7,992	9,286	10,003
Nontax revenue	546	655	757	812	1,016	896
Foreign grants	7	10	3	4	2	5
Expenditure and net lending	6,916	8,114	10,201	11,164	11,317	15,274
Current expenditure	4,945	5,984	7,257	7,610	8,220	10,370
Capital expenditure	1,134	1,334	1,807	2,012	2,273	2,884
Net lending	925	753	1,207	1,606	864	2,070
Adjustment for accounts payable	-88	43	-70	-64	-40	-50
Overall deficit	-1,827	-1,976	-2,407	-2,356	-1,013	-4,370
Financing (net)	1,827	1,976	2,407	2,357	1,013	4,370
External	912	369	534	541	661	945
Project loans	(271)	(243)	(380)	(357)	(236)	(550)
Market loans	(641)	(126)	(154)	(184)	(425)	(395)
Domestic	915	1,607	1,873	1,815	352	3,425
Banking system	180	7	466	-138	-1,118	245
Central Bank	(184)	(735)	(-49)	(147)	(-1,346)	(--)
Commercial banks	(364)	(742)	(515)	(-285)	(228)	(245)
Employees Provident Fund	478	667	854	928	1,080	1,260
Others <u>1/</u>	257	933	553	1,025	390	1,920
<u>Memorandum items:</u>						
As per cent of GNP:						
Revenue and grants	23.6	22.7	25.1	25.2	24.3	22.8 <u>2/</u>
Expenditure and net lending	32.0	30.0	32.8	31.9	26.7	31.9 <u>2/</u>
Overall deficit	8.4	7.3	7.7	6.7	2.4	9.1 <u>2/</u>

Sources: Data provided by the Ministry of Finance.

1/ Includes the timing differences in recording between the Treasury and the Central Bank, as well as unidentified items.

2/ Projection.

the domestic banking system generally represented a small fraction of the total financing of the deficit, although it varied from year to year. The Government's position vis-a-vis the banking system improved markedly in 1979 as a result of the atypically small deficit, and consequently for the period 1975-79 a small net repayment was made to the banking system. External borrowing consisted of project loans from international development institutions and foreign governments and market loans. Market loans, a residual source of finance, were relatively more important in 1975 and 1979.

(1) Revenue

The major sources of Federal Government revenue in Malaysia during 1975-79 were income taxes (40 per cent of total tax revenue), international trade taxes (36 per cent), and sales and excise taxes (22 per cent). Tax revenue accounted for 90 per cent of total revenues and nontax revenue, including petroleum royalties, and foreign grants 10 per cent (Appendix Table IX). Although the proportion varied, total revenue averaged 24 per cent of GNP during the period. Revenue performance in Malaysia is strongly influenced by developments in receipts from income taxes and export duties, which together accounted for the bulk of the changes in total revenue during the period. Developments in income tax receipts for a given year reflect the performance of the economy during the previous year, since these taxes are collected on the basis of the previous year's assessed income. Receipts from export duties reflect the performance of exports in the year in which the duties are collected. Variations in revenue have mainly reflected fluctuations in the performance of the economy, rather than discretionary changes in taxes.^{1/}

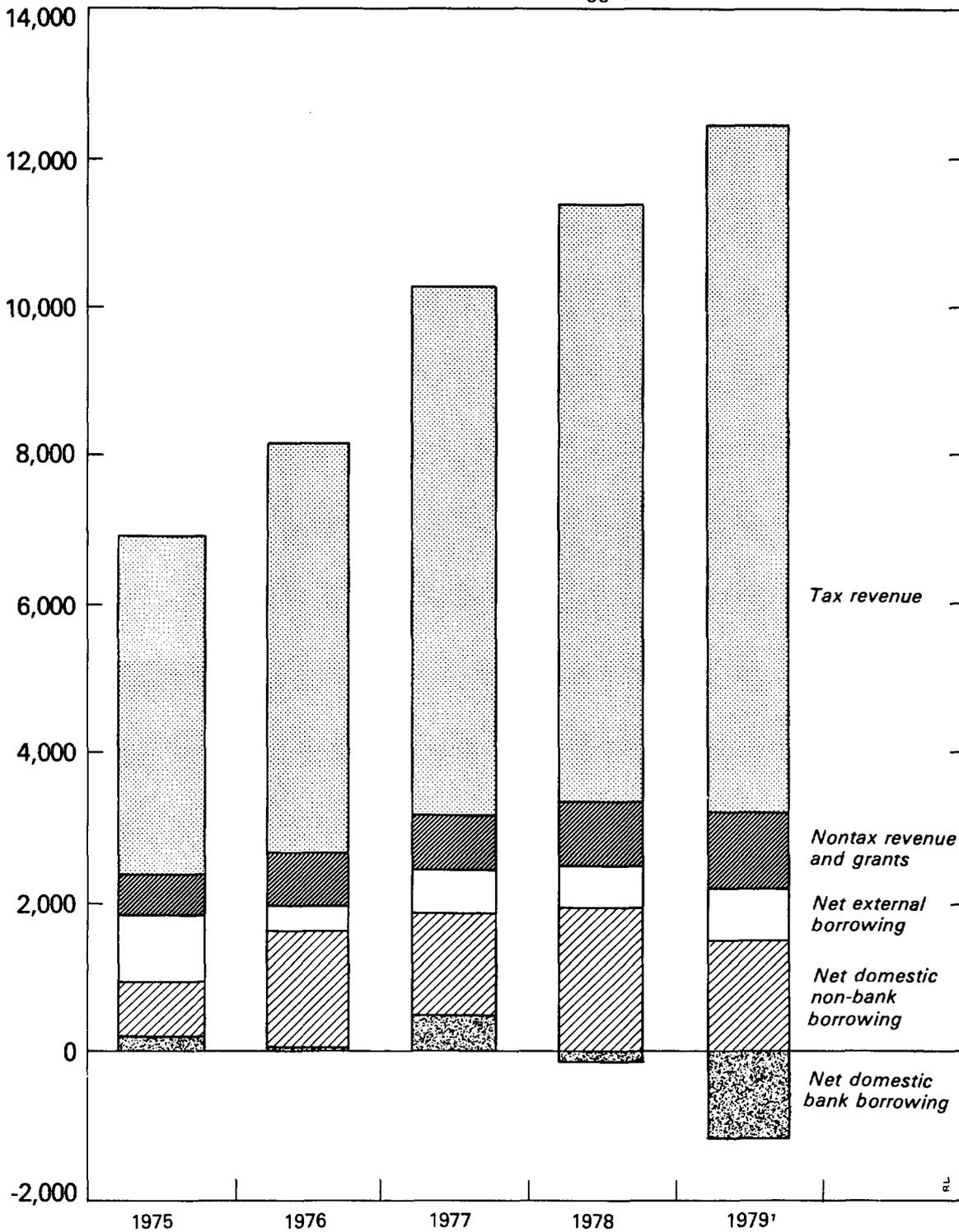
Over the period 1975-79, income tax receipts increased relatively rapidly, as indicated by a buoyancy factor of 1.5. This resulted partly from increased collections from oil production companies, which rose to M\$828 million in 1979, or about 23 per cent of income tax receipts, compared to 17 per cent in 1975. However, even excluding petroleum income tax payments, the buoyancy was 1.3. This result was apparently due to the effect of the progressive rate structure of the personal income tax, since the buoyancy for non-oil companies was slightly less than unity. The share of income tax in total tax collection has not increased over the period (42 per cent in 1975, 40 per cent in 1979), because export taxes were at a cyclical low in 1975 and rose subsequently.^{2/}

The relative importance of receipts from export duties (derived almost entirely from exports of rubber, tin, and palm oil) has varied

^{1/} In 1980, however, revenue performance will be significantly affected by the tax package adopted in the Budget, as discussed in a following section.

^{2/} Mainly because of much higher oil company taxes, the share of income tax is estimated to increase sharply to 45 per cent of tax revenue in 1980.

CHART 3
MALAYSIA
FINANCING OF FEDERAL GOVERNMENT EXPENDITURE
(In millions of ringgit)



Source: Data provided by the Malaysian authorities.
¹Preliminary estimates.

over the years, but has tended to decline over the longer term as the economy has diversified. However, following the recovery in commodity prices from a cyclical low point, their share in total tax revenues increased from 14 per cent in 1975 to 21 per cent in 1979. Moreover, the price-progressive rate structure of export taxes has augmented the favorable price movement, further contributing to the gain in collections and share over the period. The ratio of export tax revenue to the value of taxed exports--the implicit average tax rate--increased from 13 per cent in 1975 to 20 per cent in 1979.

Revenues from import duties and taxes on goods and services showed less pronounced fluctuations than either income tax receipts or export duty collections. Their respective shares in total tax revenue declined slightly over the period considered, and there was a slight decline in the ratios of these taxes to their proximate base. For the period, the ratio of import duties and surtax to gross imports averaged 9.6 per cent, and the ratio of taxes on goods and services to GNP averaged 4.9 per cent.

(2) Expenditure and net lending

Total expenditure and net lending averaged about 30 per cent of GNP over the period 1975-79. Although this ratio varied over the years, it was relatively low in 1979, owing to implementation problems experienced in carrying out the development program during the year. As a result of the Government's efforts through the Cabinet Committee on Implementation, development expenditure--both direct capital expenditure and net lending--is expected to expand rapidly in 1980, and total expenditure and net lending is estimated to amount to about 32 per cent of the projected GNP.

Expenditure on wages and salaries averaged 44 per cent of current outlays during 1975-79, the ratio increasing from 42 per cent to 45 per cent over the period (Appendix Table X). Expenditure on purchases of other goods and services, including defense items, varied from year to year, averaging about 22 per cent of current expenditure. As a result of continued borrowing by the Government to finance the fiscal deficits, interest payments on the public debt have risen, with their share in current outlays advancing from 12 per cent to 15 per cent during the period. Transfers to state governments and pension payments have each averaged about 4 per cent of outlays; other transfers and unallocable expenditure amounted to 12 per cent.

There has been relatively little change in the composition of total expenditure and net lending (Appendix Table XI). Outlays for economic services and housing each increased their share in total expenditure by 1 percentage point during the period 1975-79, while expenditure on general public services declined by 2 percentage points. Expenditure on economic services was the largest category of expenditure in 1979 (24 per cent), followed by education (20 per cent), general public services (14 per cent), and defense (14 per cent).

(3) Public debt

The total outstanding debt of the Federal Government rose by 97 per cent from the end of 1975 to the end of 1979, when it was estimated to total M\$20.5 billion, equivalent to 48 per cent of GNP (Appendix Table XII). The outstanding debt increased at an annual rate of about 16 per cent, which was lower than the growth rate of GNP (18 per cent). Over the period, there was a rise in the ratio of interest payments to outstanding debt (estimated mid-year) from 5.9 per cent in 1975 to 6.5 per cent in 1979.

Foreign debt at the end of 1979 amounted to M\$4.5 billion and was equivalent to about 22 per cent of total debt; it grew at about the same rate as domestic debt during the period considered. Slightly over half of the external debt outstanding represented project borrowing from international development institutions and foreign governments; the rest was from borrowing on international capital markets. During the period, especially in 1978, the bulk of these market loans were refinanced to take advantage of the improved terms then prevailing in the market. The Government maintains an excellent credit standing in international capital markets; its most recent market borrowing in January 1980 was a US\$200 million credit for ten years at a spread over LIBOR of 0.5 per cent for the first three years and then 0.625 per cent.

At the end of 1979, domestic debt amounted to M\$15.9 billion and comprised 78 per cent of total outstanding debt. Long-term securities accounted for 91 per cent of the domestic debt, compared to 84 per cent in 1975; the outstanding issue of Treasury bills fell in both 1978 and 1979 in response to the Government's financing needs relative to the availability of long-term sources of funds. About half of domestic debt is held by captive funds that are required by law to hold a large proportion of their assets in federal securities. At the end of 1979, the Employees Provident Fund and the National Savings Bank held M\$7,449 million and M\$839 million, respectively, in government long-term securities.

At the same time, commercial banks held M\$3,534 million, and the central bank, M\$742 million; their shares of domestic debt outstanding (22 per cent and 5 per cent, respectively) remained essentially unchanged from 1975. Although the monetary sector has increased its holdings of government securities by about M\$1.8 billion from the end of 1975 through 1979, this has been more than offset by an increase in deposits, and net indebtedness to the banking system has fallen by about M\$775 million over the period. Other debt holders included various other financial intermediaries (about 10 per cent of domestic debt), insurance companies and other provident and trust funds (6 per cent), and public enterprises and the Federal Government itself (5 per cent). Federal Government holdings are mostly in the form of sinking funds and trust funds under the Government's control. The share of other financial intermediaries has increased in recent years, reflecting the growing importance of these institutions.

(4) The 1979 budget outcome

The budget outcome for 1979, according to preliminary data, was less expansionary than those of recent years. Revenues exceeded budgetary expectations, total expenditure growth slowed considerably, and the overall deficit fell to M\$1 billion, about one third of the level anticipated. Two unexpected developments were mainly responsible: first, a sharp increase in exports induced more buoyant private sector activity and a faster rate of economic expansion than had been forecast; and second, project implementation problems affected the level of development expenditure, consequently limiting total expenditure growth. Reflecting these developments, the overall deficit fell to the equivalent of 2.5 per cent of GNP, the lowest level of the decade. To finance the deficit, domestic nonbank sources provided M\$1.5 billion, and net external borrowing, M\$661 million. Together these combined sources of finance exceeded the deficit by M\$1.1 billion; accordingly, an equivalent reduction was recorded in net credit from the banking system, reflecting the rise in government deposits at the central bank.

Total revenue and grants increased by 17 per cent to M\$10.3 billion, compared with 13 per cent growth in 1978. The advance is mainly attributable to the exceptional performance of the export sector during the year; export tax collections rose by 33 per cent to M\$1.9 billion, mainly from the increase in rubber duty collections due to the sharp rise in international rubber prices. Also significant was a 16 per cent increase in income tax collection to M\$3.7 billion, reflecting the growth of income in 1978, the tax base for 1979. The growth in income tax collections from individuals during the year was particularly notable, accounting for somewhat over half of the total increase in income tax collections.

Total expenditure and net lending increased by only 1.4 per cent to M\$11.4 billion, compared with 9 per cent in 1978. The slowdown resulted from movements in direct capital expenditure and net lending--development expenditure--rather than current expenditure, which increased by 8 per cent. It had been planned that net lending would be below the M\$1.6 billion level of 1978, but the actual decline to M\$864 million was far sharper than anticipated. Furthermore, there was a shortfall from the budget target for direct capital expenditures, although it did grow by 13 per cent. Accordingly, direct capital and net lending combined fell from M\$3.6 billion in 1978 to M\$3.1 billion in 1979. This 14 per cent decline in development expenditure reflected difficulties in acquisition of project sites and staffing problems experienced by the project implementing agencies. The shortfall in planned development expenditure occurred mainly in transportation, communications, and commerce and industry.

b. The 1980 budget estimates

The budget for 1980, which was presented to Parliament on October 18, 1979, contained a significant package of tax reduction measures aimed at containing recessionary trends and expanding production incentives.

It also included an appropriations program directed at stimulating the economy to counter the impact of the deteriorating international economic environment, while accelerating realization of the Third Malaysia Plan targets--especially programs aimed at reducing poverty. Reflecting this strategy, the 1980 budget estimates are characterized by rapid growth in total expenditure and, after taking into account the largest net tax cut in the country's history, a moderate expansion in revenues. The overall deficit is budgeted to rise sharply by about M\$3.3 billion to M\$4.4 billion, or 9.1 per cent of the projected GNP. Domestic nonbank sources are expected to finance about M\$3.2 billion, and foreign sources, M\$0.9 billion, of the estimated deficit with the domestic banking system providing the relatively small balance of M\$245 million. The actual deficit, however, might be somewhat smaller than budgeted, because revenue prospects, especially export taxes, now appear more favorable than when the budget estimates were made in mid-1979. Additional revenues of about M\$500 million seem likely; if these are realized, the overall budget deficit would be reduced to about 8 per cent of the projected GNP, a level comparable to that of 1975 when fiscal policy sought to offset adverse external developments.

Total revenue and grants are projected to increase by 6 per cent to M\$10.9 billion, net of M\$482 million in tax cuts. At pre-existing rates, tax revenues would have grown by 13 per cent, in line with the projected advance in nominal GNP. The extensive and complex 1980 tax changes involve estimated revenue losses for the year, which may be summarized as follows: export tax--M\$352 million (a 19 per cent tax cut from pre-existing rates); individual income tax--M\$100 million (a 9 per cent cut); company income tax--M\$26 million (a 1 per cent cut); and other taxes--M\$4 million. With regard to the general nature and policy objectives, three substantive revisions took place: (1) the export tax system was extensively changed to insure appropriate producer incentives; (2) the individual income tax structure was changed by enlarging personal exemptions and changing the bracket structure at higher levels to lower effective rates of taxation appreciably, thereby providing more reward for work effort; and (3) company taxes were modified to provide for certain limited tax exemption incentives. These adjustments include tax incentives for companies restructuring their equity and employment to conform to the requirements of the NEP, tax incentives for reafforestation, and revised export incentives offered under the Investment Incentives Act. Further, to provide a continued stimulus for private investment activity, the Accelerated Depreciation Allowance and the Reinvestment Allowance, introduced in previous budgets and scheduled to expire with assessment years 1980 and 1982, respectively, were extended through assessment year 1983.^{1/}

Taking into account these tax changes and projected economic conditions, the estimated increase in revenues of M\$600 million for the year is a product of diverse movements in the main revenue components. On the positive side, income tax collections are expected to expand by just over

^{1/} For details of the tax changes introduced with the 1980 budget, see Annex.

M\$900, million; almost all of this increase is to come from taxes on companies, with nearly half the gain accounted for by oil production companies. Excise and sales taxes are expected to rise in line with income growth by M\$200 million. The advance in import duty collections, however, is expected to be marginal, owing partly to a lowering in duties on gasoline and fuel oil carried out in 1979, and further diversion of imports into the lower-taxed investment and intermediate categories. The major offset to revenue gains is the projected decline in export revenues of M\$400 million, owing mainly to the restructured schedule of rates and partly to expected declines in international prices. Nontax revenues are expected to fall by about M\$100 million.

Total expenditure, including net lending, is budgeted to increase by 35 per cent to M\$15.3 billion. Current expenditure is to advance by 26 per cent, while direct capital expenditure, together with net lending, is forecast to rise by 58 per cent. The especially sharp rate of increase in the latter item reflects the shortfall from 1979 budget targets; if these had been realized, the 1980 increase in capital expenditure would be 32 per cent, and total expenditure, 28 per cent. Of the projected increase in total expenditure of M\$4 billion, nearly 80 per cent is accounted for by three areas of activity. First, expenditures for economic projects and services is budgeted to rise by M\$1.4 billion, reflecting efforts to further improve the transportation and communication system and to modernize the agricultural sector and thus raise the income levels and welfare of the rural poor. Second, in conformity with the Third Malaysia Plan targets, education expenditure is sharply raised by nearly M\$700 million. The third area of spending priority is the increase in defense and internal security expenditure of M\$1.1 billion.

IV. Monetary and Price Developments

1. Longer-term development

Over the last decade, Malaysia has been remarkably successful in achieving the targets of price stability and a strong external position in an environment of rapid economic growth. Much of this success has been due to an excellent record of financial management. While exchange rate policy has been an important factor, the key to financial management has been a prudent monetary policy pursued against a background of fiscal discipline.

Because of the highly open nature of its economy, Malaysia has been particularly susceptible to external developments. Domestic prices have been largely determined by the world prices of Malaysia's imports and exports, converted into domestic currency by the exchange rate. In this regard, the exchange rate policy has played an important role in reducing the impact of imported inflation. The other aspect of the openness of the economy has been that a large portion of demand for liquidity has

been satisfied through the external channel. The increase in the demand for money, arising from the exogenously given increases in prices and output, has been generally less than the increase in the supply of money from domestic sources. Consequently, a large part of the increase in the demand for money has been satisfied through the generation of balance of payments surpluses. The relatively moderate expansion of domestic credit has not only contained overall demand, but has also shifted demand in favor of non-traded goods by stabilizing the prices of these goods. On the other hand, the relatively faster increase of the price of traded goods has promoted the supply of traded goods--exports and import substitutes. The concomitant reduction in the demand for, and the increase in the supply of, tradables has created exportable surpluses, generating trade surpluses. In addition to the trade channel, part of the excess demand for money has also been satisfied through the capital account, as the private sector has directly borrowed abroad.

Under a fractional reserve system, the changes in liquidity in Malaysia have been determined by the changes in reserve money and the changes in the money multiplier. The dominant factor has been the expansion of reserve money; reserve money grew by about 138 per cent over the period 1970-79, while narrow money grew by 137 per cent, and broad money, by 163 per cent. The money multiplier for narrow money remained relatively stable while the multiplier for broad money increased gradually,^{1/} largely as a result of the increase in the ratio of deposits to currency. The rise in the deposit-currency ratio reflected the increase in the private sector's financial savings held mainly in the form of fixed and savings deposits. Although the financial sector in Malaysia is relatively developed, the array of financial assets available to the public is still limited, and the largest portion of private financial savings is held in the form of interest-bearing deposits of commercial banks.

The increase in reserve money over the period 1970-79 was totally provided by the increase in net foreign assets; net foreign assets increased by M\$7.1 billion, offsetting the decrease in the central bank's claims on the Government, amounting to M\$2.1 billion, and resulting in an increase in reserve money, amounting to M\$4.0 billion.^{2/} As already mentioned, the accumulation of external reserves over the longer term was a direct result of the budgetary policies. The net contractionary impact of government operations with respect to the central bank meant that the increase in reserve money, required for the liquidity needs of the financial system, had to be generated by persistent external surpluses.

While in the longer term net foreign assets grew steadily, in the shorter term, they were subject to large variations, resulting mainly from fluctuations in world prices for Malaysia's exports. Malaysia's

^{1/} The money multiplier for narrow money varied between the values of 1.35 to 1.53 while the multiplier for broad money increased gradually from 2.95 to 3.94.

^{2/} The decrease in net other items, amounting to M\$1.0 billion, accounted for the difference.

export earnings are particularly prone to such fluctuations because the markets for primary commodities, which comprise the bulk of Malaysia's exports, are highly volatile. The impact of large fluctuations in net foreign assets on the reserve money, however, was mostly neutralized by the offsetting movements of the net claims on government, resulting in a relatively stable growth of the reserve money. Budgetary operations have neutralized the fluctuations in net foreign assets, partly as a result of the built-in automatic stabilizer provided by the adjustment of government revenues, and partly as a result of discretionary sterilization policies. A large portion of government revenues is from taxes on foreign trade, which are levied on an ad valorem basis with a high degree of progressivity. Consequently, any changes in prices of primary commodities are automatically reflected in the changes in government revenues and, thus, deposits. The discretionary sterilization policies were conducted by open market operations through sales of government bonds to commercial banks and other financial institutions. The offsetting relationship between external and budgetary developments is clearly demonstrated by the plots of the changes in the central bank's net foreign assets and net claims on the Government (Chart 4).^{1/} The exact correspondence of the turning points in Chart 1 highlights the authorities' remarkable success in neutralizing the impact of short-term fluctuations in the external position on domestic monetary conditions.

2. Recent developments 1979-80 ^{2/}

a. Monetary developments

(1) Overview

The monetary policy in 1979 continued to be conducted prudently and consistent with macroeconomic objectives. As in the previous two years, money supply increased by about 17 per cent (Table 4), which was broadly in line with the increase in demand arising from the realized growth of income of 8 per cent and the inflation rate of 5 per cent.^{3/} The growth in quasi-money, however, accelerated to 28 per cent in 1979,

^{1/} This relationship is also supported by the following regression of the changes in net claims on government (DNCG) on the changes in net foreign assets (DNFA).

$$\text{DNCG} = 83.13 - 0.76 \text{ DNFA} \quad ; \quad R = 0.63$$

(3.0) (7.9)

^{2/} This section summarizes the recent monetary and price developments. For a detailed discussion, see Bank Negara Malaysia Annual Report and Statement of Account, 1979.

^{3/} The elasticity of demand for real money balances (nominal money deflated by CPI) with respect to real income is estimated to be about 1.3. Consequently, an increase in real income of about 8 per cent, combined with an inflation rate of about 5 per cent for 1979, led to an increase of about 15.4 per cent in demand for money, somewhat higher than the 13 per cent increase in nominal income.

Table 4 . Malaysia: Monetary Survey, 1972-80^{1/}

(In millions of ringgit)

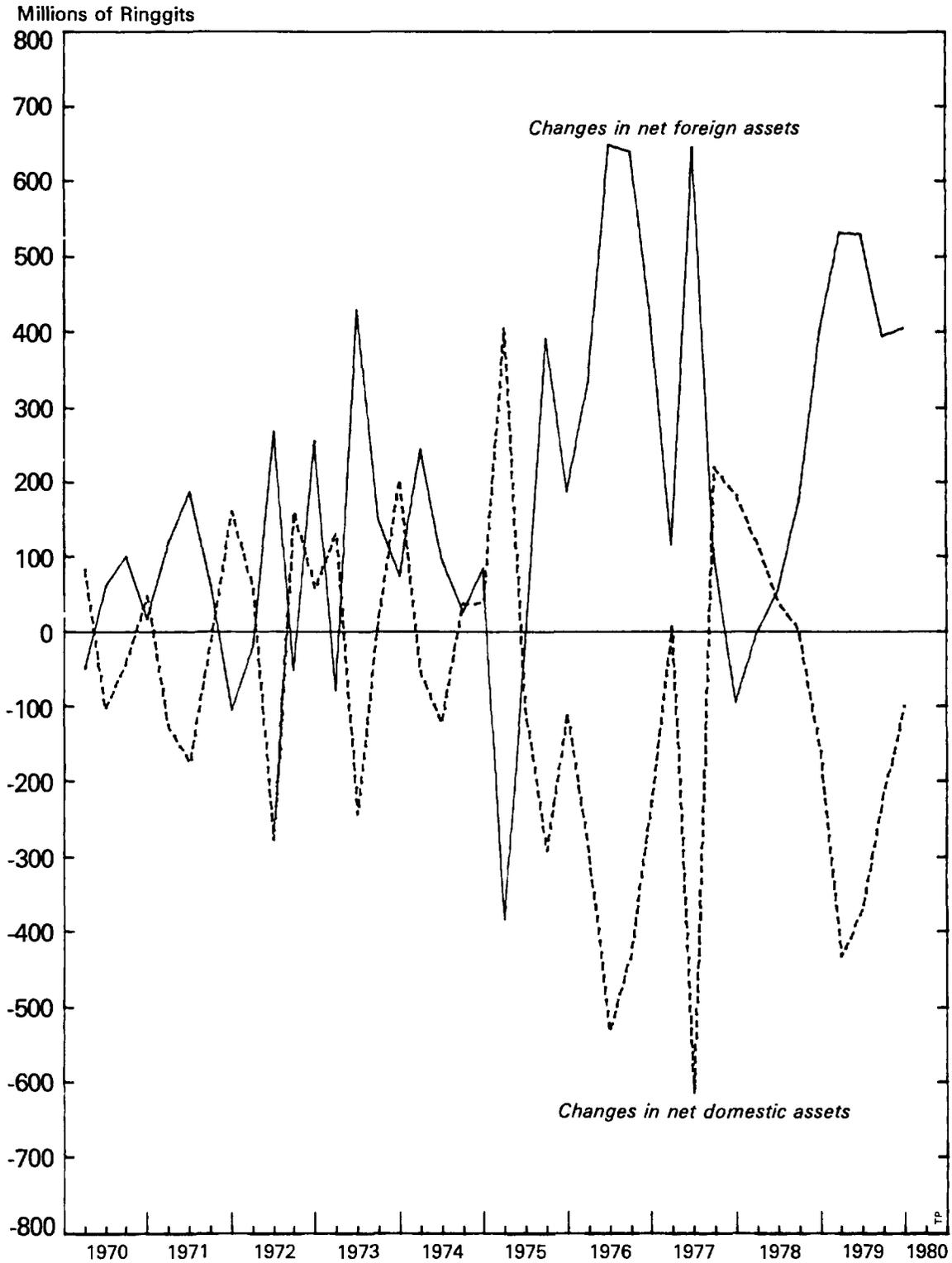
	1972	1973	1974	1975	1976	1977	1978	1979	1980 Jan.
Net foreign assets	2,760	3,078	3,462	3,743	5,722	6,291	6,678	9,115	9,244
Net claims on government	437	565	958	1,306	1,137	1,213	1,017	-700	-592
Credit to the private sector	3,014	4,586	5,278	6,084	7,471	8,970	11,627	14,641	15,057
Other claims (net)	-440	-656	-970	-1,133	-1,558	-1,613	-1,800	-1,418	-1,691
Broad money	<u>5,770</u>	<u>7,574</u>	<u>8,729</u>	<u>10,001</u>	<u>12,771</u>	<u>14,861</u>	<u>17,520</u>	<u>21,638</u>	<u>22,036</u>
Money	2,715	3,736	4,055	4,349	5,257	6,127	7,242	8,486	8,705
Currency	(1,269)	(1,718)	(2,030)	(2,239)	(2,628)	(3,112)	(3,578)	(4,094)	(4,157)
Demand deposits	(1,446)	(2,018)	(2,025)	(2,110)	(2,629)	(3,015)	(3,664)	(4,392)	(4,548)
Quasi money	3,055	3,838	4,674	5,652	7,514	8,734	10,278	13,152	13,331

Source: IMF, International Financial Statistics.

^{1/} End year figures.

CHART 4
MALAYSIA

FACTORS AFFECTING RESERVE MONEY



Source: IMF, *International Financial Statistics*.

compared with 18 per cent in 1978. As a result, total liquidity increased by 24 per cent in 1979. The major factors contributing to this growth were the accumulation of net foreign assets of the banking system and credits to the private sector. These expansionary influences were partly offset by the budgetary operations of the Government which exerted a contractionary influence on liquidity.

Net foreign assets of the banking system increased by M\$2.4 billion in 1979, compared with M\$0.4 billion in 1978, and accounted for about 60 per cent of the total increase in liquidity during 1979. The rapid increase in net foreign assets reflected the large trade surplus, arising from favorable commodity prices, and large inflows of long-term capital.

Credit to the private sector rose by M\$3.0 billion (26 per cent) during 1979, compared with an increase of M\$2.7 billion (30 per cent) during the previous year. The slower growth in bank credits was attributable to the weak private demand for credit, particularly in the primary commodities sector and the manufacturing sector, which, because of buoyant market conditions, were in a liquid position. Nevertheless, these credits grew in real terms by about 21 per cent, substantially higher than the growth in real income.

Government budgetary operations continued to exert a contractionary impact on liquidity. Net claims on Government fell by M\$1.7 billion in 1979, compared with a decline of about M\$0.2 billion in the previous year. The contractionary impact of the budget was an important element in offsetting the large expansionary impact of the external sector and was instrumental in moderating the growth of liquidity and prices.

Net other items provided an expansionary influence of about M\$0.4 billion in 1979, in contrast to the contractionary impact provided in the previous years. The turnaround reflected mainly the extension of the central bank credit through its refinancing facility for bankers' acceptances and export credit as well as the refinancing of low-cost housing through the Malaysia Building Society Berhad.

The rate of monetary expansion in 1980 is envisioned to remain moderate. The expansionary impact of the external sector is expected to continue. Credit to the private sector is expected to be moderately expansionary, with a slower increase in private investment expenditures anticipated in 1980. Government budgetary operations are not likely to exert a large expansionary influence on the money supply and, in fact, they may well provide a contractionary influence in the event that the external surplus turns out to be higher than presently anticipated.

(2) Central bank financial operations

The central bank has traditionally relied on the control of reserve money as its main instrument of monetary management, although periodically it has also used other instruments, such as changes in reserve requirements, interest rates, discounting arrangements, credit

controls, and moral suasion to directly influence the availability and cost of money and credit. During 1979, the increase in reserve money was the major factor contributing to the increase in liquidity, against a background of financial reform provided by a set of monetary measures. These measures included a more market-oriented determination of interest rates, revision of liquidity requirements, inclusion of the merchant banks under the jurisdiction of the Banking Act, and introduction of two new monetary instruments (i.e., certificates of deposits and bankers' acceptances).

As in the previous year, the reserve money increased by about 16 per cent in 1979 (Appendix Table XIII). Net foreign assets of the central bank increased by M\$1.9 billion in 1979, compared with an increase of M\$0.6 billion in the previous year. The large increase in the central bank's net foreign assets was partly offset by the decline in the claims on government. Net claims on government declined by M\$1.3 billion in 1979, compared with a decline of M\$0.3 billion in the previous year. Other influences representing mainly the expansion of the refinancing facility for bankers' acceptances and export credit, resulted in an increase of about M\$0.2 billion in reserve money during 1979.

In an effort to promote a more efficient allocation of financial resources, commercial banks have been allowed to set their own deposit rates and lending rates charged to their prime customers, effective October 23, 1978 (Appendix Table XIV). However, maximum lending rates for priority sectors and special groups continue to be fixed by the central bank. The central bank also keeps a close watch over other interest rates and uses moral suasion to ensure that the deposit and lending rates remain at levels deemed appropriate. The liquidity requirements for the commercial banks were revised effective June 1, 1979: the minimum primary assets ratio was reduced from 12.5 per cent to 10 per cent; and the aggregate liquidity ratio was reduced from 25 per cent to 20 per cent (Appendix Table XV). In addition, the eligible liabilities of the commercial banks, merchant banks, and finance companies were revised to ensure uniformity of treatment.

On December 28, 1978, the merchant banks were brought under the ambit of the Banking Act, 1973 and licenses were granted by the Minister of Finance to each of the 12 merchant banks. The issuance of licenses was subject to the condition that by January 1, 1981, 30 per cent of total income of these banks should be derived from fee-based activities. This provision is aimed at encouraging the merchant banks to engage more extensively in those activities which they were originally designed to undertake, such as corporate financing, financial investment, management advising, investment portfolio management, and loan syndication.

Two new monetary instruments, namely, bankers' acceptances and negotiable certificates of deposit, were introduced on May 2, 1979. These additional instruments should broaden the range of financial assets available to the private sector and encourage further mobilization of private savings.

(3) Commercial banks and other financial institutions

The liquidity position of commercial banks, which was relatively tight in 1978, improved considerably during 1979. This improvement was largely the result of a substantial inflow of foreign exchange receipts, leading to an accumulation of deposits by the private sector, which, at the same time, moderated the demand for credit by this sector. The easier conditions in the money market were also reflected in the reduction of interest rates.

The new liquidity requirements introduced on March 1, 1979 resulted in an increase in eligible liabilities, against which reserves had to be held by the banks. Under the new requirements, all other deposit substitutes (such as certificates of deposit and net interbank deposits) were also included in total liabilities, which had previously included only demand and fixed deposits. However, the increase in eligible liabilities was more or less offset by the decrease in required reserves (Section 2 above). By the end of 1979, the aggregate liquidity ratio was about 26 per cent, against the required ratio of 20 per cent.

The main impetus to the growth of bank liquidity was provided by the growth of reserve money. The money multiplier for narrow money remained stable (about 1.5), as the effect of a higher ratio of demand deposits to currency was offset by the effect of a higher ratio of total deposits to demand deposits.^{1/} The money multiplier for broad money, however, increased (from 3.7 to 3.9), as the higher ratios of demand deposits to currency and total deposits to demand deposits reinforced each other.^{2/}

The increase in the ratio of total deposits to demand deposits in 1979 reflected the rapid increase in fixed and savings deposits; quasi-money grew by 28 per cent in 1979, compared with 18 per cent in the previous year. The substantial increase in quasi-money represented to a large extent the accumulation of deposits by Petronas and other statutory authorities, which together accounted for about half of the total increase in quasi-money.

^{1/} The money multiplier for narrow money, $mm1$, is defined as:

$$mm1 = (1 + DC)/(1 + RT \cdot TD \cdot DC)$$

where DC, RT and TD denote the ratios of demand deposits to currency, reserves to total deposits and total deposits to demand deposits. It can be shown that a higher DC ratio increases the money multiplier for narrow money while a higher DT ratio reduces it.

^{2/} The money multiplier for broad money, $mm2$, is defined as follows:

$$mm2 = (1 + TD \cdot DC)/(1 + RT \cdot TD \cdot DC)$$

It can be shown that both higher DC and TD ratios increase the money multiplier for the broad money.

Net foreign assets of commercial banks increased by M\$0.6 billion in 1979, compared with a decrease of M\$0.2 billion in 1978 (Appendix Table XVI). The bulk of the increase in foreign assets was in the form of deposits held with banks abroad. The increase in net foreign assets was largely offset by the Government's budgetary operations, as net claims on government declined by M\$0.4 billion, compared with a decline of M\$0.5 billion in 1978. Claims on the private sector increased by M\$3.0 billion (26 per cent), compared to an increase of M\$2.7 billion (30 per cent) in the previous year. The smaller rate of increase in credits to the private sector in 1979 did not impinge on the liquidity position of this sector because of the large inflow of foreign receipts arising from buoyant export conditions.

With regard to the direction of commercial bank lending in 1979, credits for real estate and construction and general commerce expanded significantly more rapidly than credits for agriculture and manufacturing (Appendix Table XVII). The higher demand of consumers to purchase their own houses led to the increase in demand for credits for real estate and construction sectors, while the favorable liquidity position of the export sector led to a slowdown in demand for credits in agricultural and manufacturing sectors.

In contrast to the slowdown in credit by the commercial banks, credits extended by the nonbank financial institutions accelerated during 1979. Credits extended by finance companies increased by M\$0.7 billion (35 per cent) compared with M\$0.5 billion (28 per cent) in 1978 (Appendix Table XVIII). Credits extended by merchant banks and other financial institutions increased by M\$0.8 billion (28 per cent), compared with M\$0.3 billion in 1978.

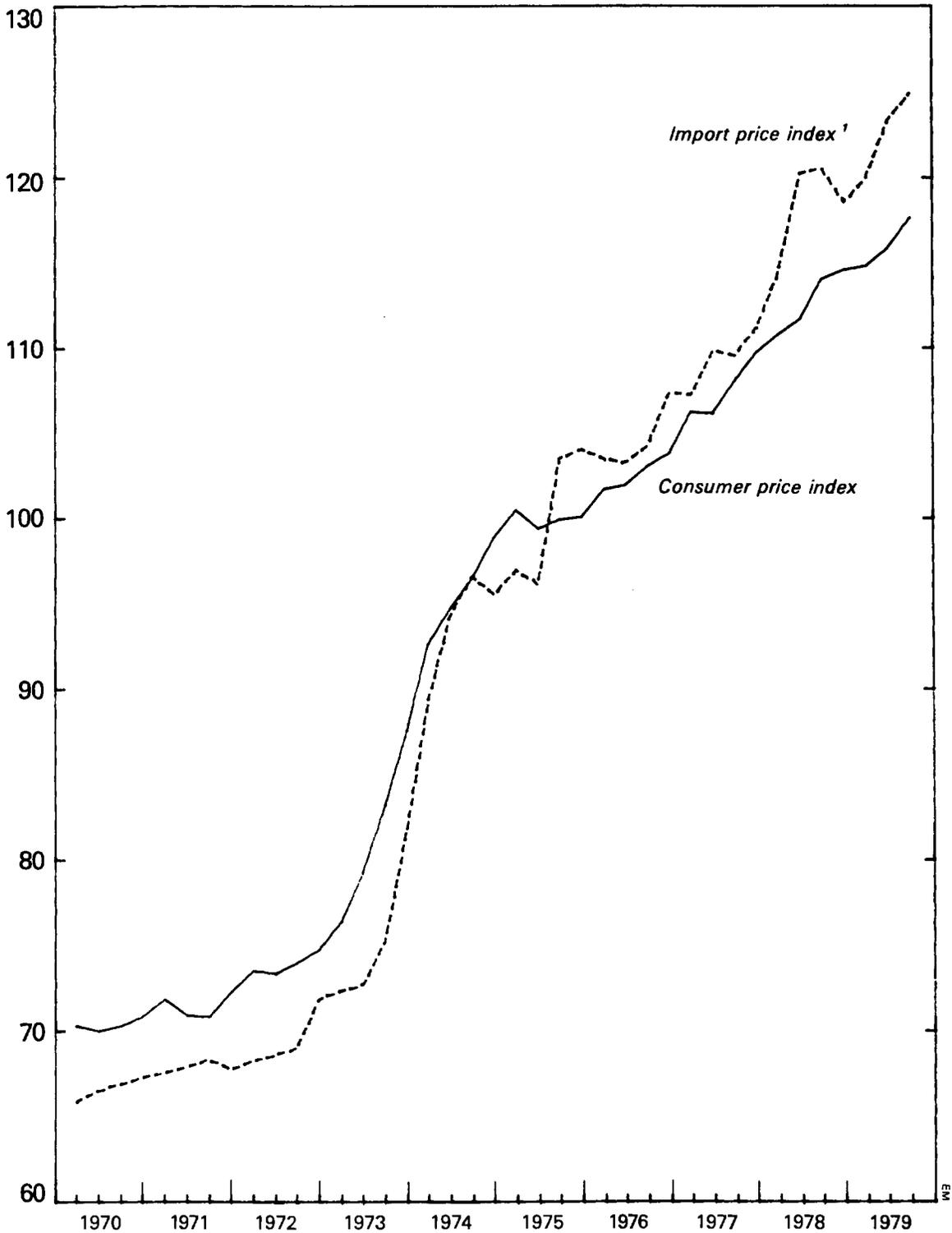
The term-structure of loans extended by the financial sector continued to shift in favor of longer-term maturities; by the end of 1979, 35 per cent of total loans were long term, compared with 32 per cent in the previous year. During 1979, credits extended by the financial sector to the Bumiputra community increased by about M\$0.7 billion (28 per cent); the share of total loans outstanding to the Bumiputra community continued to represent about 19 per cent of total loans outstanding with commercial banks and other financial institutions.

b. Price developments

The inflation rate continued to be moderate during 1979 (Appendix Table XIX). The consumer price index (CPI) increased by about 5 per cent, slightly higher than the average annual increase of about 4 per cent over the last five years. Because of the high degree of openness of the Malaysian economy, domestic price developments are strongly influenced by external developments (Chart 5). During 1979, the average increase in export prices of Malaysian trading partners (in foreign currencies) was about 10 per cent, which combined with the 5 per cent appreciation of the ringgit, in effective exchange rate terms, resulted in an increase of about 5 per cent in Malaysia's import prices (in domestic currency).

CHART 5
MALAYSIA
CONSUMER PRICE AND IMPORT PRICE INDICES

(1975=100)



Sources: IMF, *International Financial Statistics*, and staff calculations.

¹Weighted average of partner countries; export prices in Ringgit.

The increase in export prices was substantially higher as the unit value of exports increased by about 15 per cent. The impact of export prices on domestic inflation is considerably less than the impact of import prices because of the relatively small domestic consumption of export commodities.^{1/} Consequently, the price of the traded goods component of the CPI is likely to have increased only marginally faster than import prices.

The monetary developments in Malaysia have played an important role in restraining inflation. The demand for money generally increases at a somewhat faster rate than the increase in nominal income. The moderate expansion of domestic credit, including credits to the Government, has ensured that a larger proportion of required money is provided through the external sources and that the increase in domestic prices remains below the increase in world prices for Malaysia's imports and exports. The relatively slower growth of nontraded goods prices has had a favorable impact on the development of the traded goods sector, particularly the fast growing manufacturing sector.

V. External Developments

1. Longer-term developments in the balance of payments

During the past decade, Malaysia has maintained a strong external payments position with the overall balance showing surpluses throughout the period. Over the long run, Malaysia's strong external position resulted largely from the authorities' prudent financial policies.^{2/} The increase in international reserves has generally kept pace with the rise in imports; reserves were the equivalent of about six to seven months' imports during most of the period.

The current account balance, which was generally in deficit during the early half of the 1970s, changed to surplus in the latter half. This development in the current account reflected surpluses in the merchandise trade balance offsetting the deficits on net services and transfers. The capital account balance showed surpluses throughout the 1970s due to the net inflows of both private and official long-term capital countering the relatively small outflows of private short-term capital (Chart 6).

^{1/} The following regression of the domestic price index, CPI, on the export price index, PX, and import price index, PM (weighted average of export prices of Malaysia's major trading partners adjusted for exchange rate), exhibits this relationship:

$$\ln (\text{CPI}) = -0.40 + 0.08 \ln \text{PX} + 0.62 \ln (\text{PM}); \quad R = 0.95$$

(2.2) (9.3)

The values in parentheses are t-values. As expected, the weight of export price is quite small, reflecting the small domestic consumption of export commodities.

^{2/} See Section IV for a discussion of the long-run relationship between money and the external balance in Malaysia.

a. Current account

The merchandise trade account was always in surplus during the past decade. These surpluses have been especially large since 1976, reflecting the combined effects of improvements in Malaysia's international terms of trade, as well as increases in the volumes of crude petroleum, palm oil, and manufactured exports.

The transformation in the structure of domestic production which occurred during the 1970s was mirrored in the commodity composition of exports. From a predominant reliance on a few primary commodities--namely, rubber and tin--the export structure has become considerably more diversified (Table 5). Whereas nearly a third of total export earnings was derived from rubber in 1970, only one fifth originated from this source in 1979. The share of tin, the other major export in 1970, was halved from 20 per cent in 1970 to 10 per cent in 1979. The decline in the shares of traditional exports was accompanied by sharp increases in the shares of manufactured goods, crude petroleum, and palm oil. Manufactured exports replaced rubber as the major foreign exchange earner in 1979, with their share in total exports rising from 12 per cent to 20 per cent during the decade. The share of crude petroleum has also increased significantly from a mere 3 per cent in 1970 to 17 per cent in 1979, and that of palm oil doubled from 5 per cent to 10 per cent.

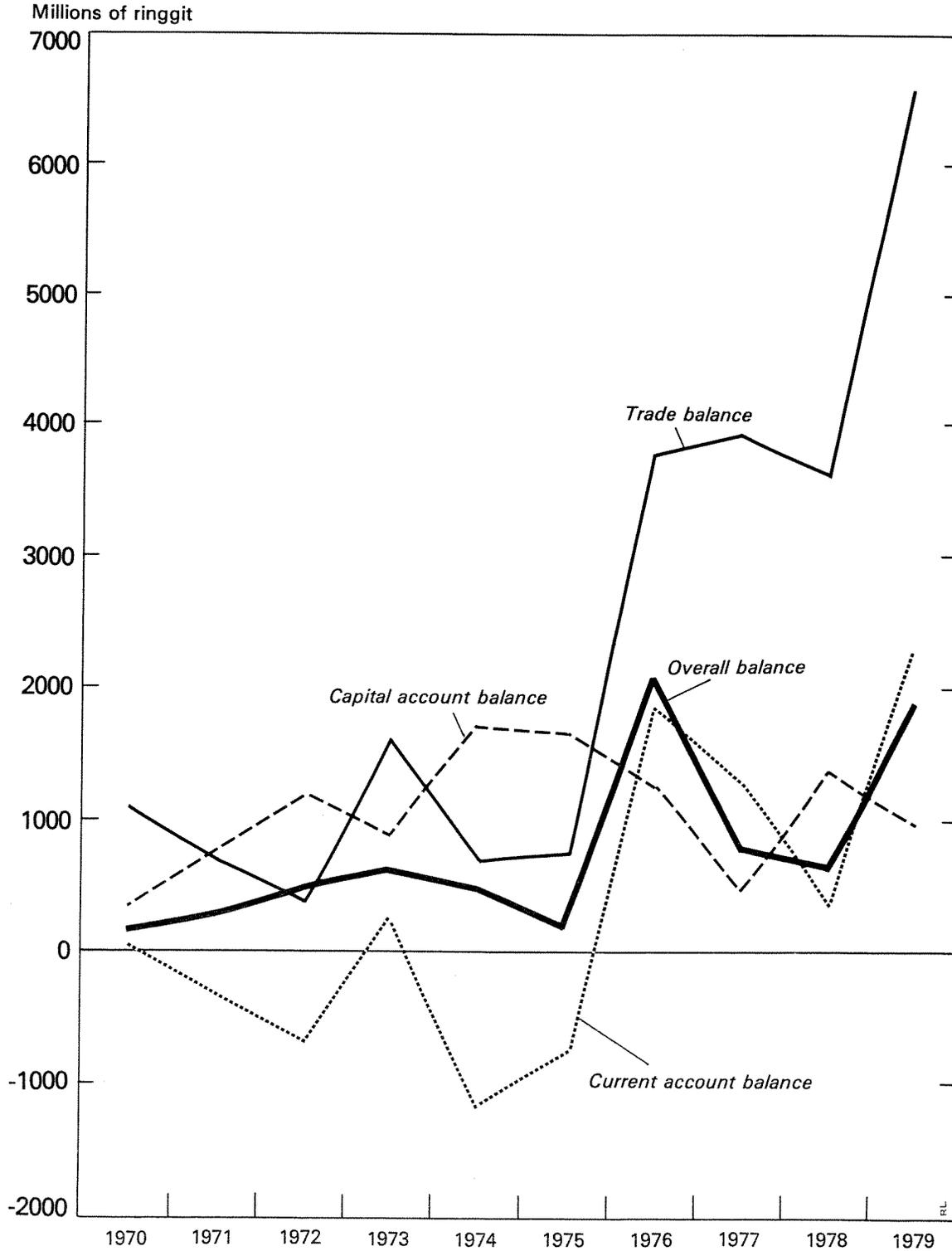
Table 5. Malaysia: Structure of Exports, 1970, 1975, and 1979 ^{1/}

	1970		1975		1979	
	M\$ (mn.)	Per cent	M\$ (mn.)	Per cent	M\$ (mn.)	Per cent
Rubber	1,724	33	2,026	22	4,562	19
Tin	1,013	20	1,206	13	2,298	10
Petroleum	164	3	727	8	4,127	17
Saw logs	643	13	669	7	2,878	12
Sawn timber	199	4	392	4	1,339	6
Palm oil	264	5	1,320	14	2,453	10
Manufactured goods	615	12	1,978	21	4,793	20
Other	541	10	913	10	1,574	6
Total	5,163	100	9,231	100	24,024	100

Source: Data provided by the Malaysian authorities.

^{1/} Customs data.

CHART 6 MALAYSIA MAJOR ACCOUNTS IN THE BALANCE OF PAYMENTS



Sources: Bank Negara Malaysia, *Quarterly Economic Bulletin*, and *Annual Report and Statement of Account*.

RL

Among manufactured exports, some diversification was also evident. The most significant developments were the decline in the shares of agricultural and resource-based manufactures and the increase in the shares of labor-intensive manufactured products (Table 6). Specifically, the share of electrical machinery and appliances has risen from 2 per cent of total manufactured exports in 1970 to 47 per cent in 1979. These products, together with textiles, clothing, and footwear, increased from 7 per cent of manufactured exports in 1970 to 59 per cent in 1979. In contrast, the share of agricultural and natural resource-intensive products, including food, beverages, tobacco, wood, rubber, and petroleum products, declined from 62 per cent of total manufactured exports in 1970 to 23 per cent in 1979.

Table 6. Malaysia: Structure of Manufactured Exports, 1970, 1975, and 1979 ^{1/}

	1970		1975		1979	
	M\$ (mn.)	Per cent	M\$ (mn.)	Per Cent	M\$ (mn.)	Per Cent
Food, beverages, and tobacco	112	18	270	14	364	8
Textiles, clothing, and footwear	32	5	218	11	577	12
Wood products	90	15	205	10	468	10
Rubber products	17	3	43	2	76	2
Chemicals	35	6	79	4	131	3
Petroleum products	161	26	106	1	120	3
Nonmetallic mineral products	20	3	23	5	48	1
Manufactures of metal	23	4	49	3	170	4
Electrical machinery and appliances	15	2	304	15	2,253	47
Other machinery and transport equipment	70	11	269	14	272	6
Other manufactures	40	7	412	21	314	7
Total	615	100	1,978	100	4,793	100

Source: Data provided by the Malaysian authorities.

^{1/} Customs data.

The 1970s also witnessed some shifts in the pattern of import demand, which accompanied the changes in the structure of domestic production (Table 7). In particular, the rapid expansion of the manufacturing sector has led to a rising demand in intermediate products for use in the manufacturing process. As a result, the share of intermediate goods in total imports rose from 37 per cent in 1970 to 47 per cent in 1979. The share of investment goods also increased from 26 per cent of total imports to 31 per cent. In contrast, the share of consumption goods in total imports generally declined, reflecting the rising level of self-sufficiency, especially in food.

Table 7. Malaysia: Imports According to End-Use, 1970, 1975, and 1979 ^{1/}

	1970		1975		1979	
	M\$ (mn.)	Per cent	M\$ (mn.)	Per cent	M\$ (mn.)	Per cent
Consumption goods	1,225	28	1,890	22	3,435	20
Food	496	11	705	8	1,115	7
Beverages and tobacco	73	2	100	1	189	1
Consumer durables	134	3	265	3	795	5
Other	522	12	820	10	1,336	8
Investment goods	1,131	26	2,764	32	5,212	31
Machinery	451	10	965	11	1,691	10
Transport equipment ^{2/}	157	4	163	2	431	3
Metal products	285	7	544	6	1,485	9
Other	238	6	1,092	13	1,605	9
Intermediate goods	1,601	37	3,464	41	8,035	47
For manufacturing	918	21	1,862	22	4,831	28
For construction	88	2	263	3	420	3
For agriculture	158	4	327	4	732	4
Crude petroleum	215	5	534	6	1,222	7
Other	222	5	478	6	830	5
Imports for re-export	360	8	412	5	376	2
Tin ore	153	4	265	3	280	2
Crude natural rubber	43	1	40	1	96	--
Crude petroleum ^{3/}	164	4	107	1	--	--
Total	4,340	100	8,530	100	17,058	100

Source: Data provided by the Malaysian authorities.

^{1/} Customs data.

^{2/} Imports of aircraft and ships are included in 1970 and excluded in 1975 and 1979.

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

The direction of Malaysia's trade has changed somewhat during the period (Appendix Table XXI). The industrial countries have become increasingly important as markets for Malaysia's exports and sources of its imports. In 1979, the industrial countries, including Japan, the United States, Australia, and those in Western Europe, accounted for 63 per cent of Malaysia's exports and 62 per cent of its imports, compared with 53 per cent and 57 per cent, respectively, in 1970. During the same period, trade with other ASEAN countries has been relatively stable despite continued efforts toward regional integration. The share of exports to other ASEAN countries in total Malaysian exports declined from 25 per cent in 1970 to 19 per cent in 1979, mainly due to the smaller share of exports destined for Singapore. On the import side, the relative share of other ASEAN countries has remained approximately unchanged at about 15 per cent of total imports.

Turning to the other major components of the current account, the services account has been in deficit throughout the decade. These deficits were mainly attributable to investment income payments and payments for freight and insurance charges incurred in merchandise trade. The transfers account has also been in deficit, although the deficits were small relative to those on the services account. Since 1976, the combined deficits on net services and transfers were more than offset by surpluses from merchandise trade, leading to continuous surpluses in the current account in the latter half of the 1970s.

b. Capital account

The long-term capital account has consistently been in surplus during the 1970s, reflecting the continued inflows of direct foreign investment and official long-term capital. The net inflows of private long-term capital have generally matched the net investment income payments reported in the current account. Net outflows of short-term capital have occurred since 1975, reflecting in large measure, the accumulation of foreign assets by Petronas, the national oil company.

2. Recent developments in the balance of payments, 1979

a. Overview

In 1979, Malaysia's overall balance of payments recorded a surplus of M\$1.9 billion, compared with a surplus of M\$0.6 billion in 1978 (Table 8 and Appendix Table XX). As a consequence, the level of net official reserves increased to M\$9.3 billion by the end of 1979; this level was equivalent to about seven months of 1979 merchandise imports.

The large accumulation of reserves reflected buoyant export earnings derived from significant increases in both the prices and volumes of Malaysia's major export commodities and long-term capital inflows. In the current account, the rapid growth of merchandise exports was more than sufficient to meet the combined payments for an acceleration in merchandise imports and the usual deficits on services and transfers; record surpluses in both the merchandise trade and current account balances occurred.

Table 8. Malaysia: Balance of Payments, 1975-79

(In billions of ringgit)

	1975	1976	1977	1978	1979
Balance on current account	-0.8	<u>1.9</u>	<u>1.3</u>	<u>0.3</u>	<u>2.3</u>
Balance on goods and services	-0.7	<u>2.0</u>	<u>1.4</u>	<u>0.4</u>	<u>2.4</u>
Trade balance	0.7	3.8	3.9	3.6	6.6
Exports, f.o.b.	9.1	13.3	14.9	16.9	23.8
Imports, f.o.b.	8.3	9.6	11.0	13.3	17.2
Services (net)	-1.4	-1.8	-2.5	-3.2	-4.2
Transfers (net)	-0.1	-0.1	-0.1	-0.1	-0.1
Balance on capital account	<u>1.6</u>	<u>1.2</u>	<u>0.5</u>	<u>1.3</u>	<u>1.0</u>
Errors and omissions	-0.7	-1.0	-1.0	-1.0	-1.5
SDR allocation	--	--	--	--	0.1
Overall balance (deficit -)	<u>0.2</u>	<u>2.1</u>	<u>0.8</u>	<u>0.6</u>	<u>1.9</u>
Gross official reserves ^{1/} (In months of imports)	4.1 (5.9)	6.4 (8.0)	6.8 (7.5)	7.5 6.7	9.3 (6.5)

Source: Data provided by the Malaysian authorities.

^{1/} End of period level.

In the capital account, the larger net long-term capital inflows were associated with increased inflows of direct foreign investment, official long-term capital, and commercial credits, while the larger deficit of private short-term capital, including errors and omissions, was related to the substantial reduction in the net foreign liabilities of the commercial banks and an increase in unrecorded transactions.

b. Current account

(1) Exports

In 1979, exports increased by 41 per cent to M\$23.8 billion, compared with a growth rate of 14 per cent in 1978. Manufactured exports increased by 32 per cent in 1979, contributing significantly to the accelerated expansion in exports. The growth in exports was based on increases in both prices and volumes (Appendix Table XXII). The prices of Malaysia's major export commodities rose across the board. Particularly high prices were observed in crude petroleum, rubber, saw logs and sawn timber. With the single exception of saw logs, the export of the major commodities also increased in volume. The total volume of exports is estimated to have risen by 12 per cent, compared to an 8 per cent increase in 1978. Substantial volume increases were recorded by petroleum and palm oil exports, while the volume of rubber and tin exports rose slightly.

Rubber exports, which accounted for 19 per cent of total exports in 1979, grew by 27 per cent in 1979, compared with 7 per cent in 1978. The higher value of rubber exports resulted from the 22 per cent increase in unit value and a 4 per cent rise in volume. The buoyancy in rubber prices was due to a shortage which prevailed during the early part of the year when a production squeeze coincided with large purchases by the Soviet Union, the People's Republic of China, and the United States. The escalation in rubber prices, which reached a historical high in June 1979, was also attributable to increased commodity hedging and speculation caused by international economic and political uncertainties.

Negotiations for the International Rubber Price Stabilization Scheme under the auspices of the UNCTAD Integrated Program for Commodities were completed in 1979. The program will become effective in October 1980 if it is ratified by 65 per cent of the producing and consuming countries which are signatories to the agreement. Malaysia has already ratified the Agreement.

Crude petroleum exports, which comprised 17 per cent of total exports in 1979, rose by 84 per cent compared with 17 per cent in 1978. The rise in value represented the combination of a 39 per cent increase in unit value and a 32 per cent increase in volume. Major factors contributing to the growth in oil exports were the supply disruptions created by the situation in Iran and the substantial rise in the prices of OPEC crudes. Following the upward trend in world crude oil prices, the price of Malaysian crude was revised from an average of US\$15.08 per barrel in January 1979

to US\$26.84 in November. The average price for the year as a whole was US\$20.93 per barrel. As of January, 1980, the average price for Malaysian crude was US\$33.70 per barrel.

Exports of crude and processed palm oil, which comprised 10 per cent of total exports, increased by 31 per cent in 1979, compared with 5 per cent in 1978. In volume terms, exports of crude palm oil declined by 40 per cent due to the expansion of the domestic processing industry, while exports of processed palm oil rose by 61 per cent. Together, the volume of crude and processed palm oil exports increased by 24 per cent. Prices for crude and processed palm oil increased, on the average, by 6 per cent in 1979, compared to a decline of 2 per cent in 1978. A major contributing factor to the recovery in palm oil prices was the shortage of soybeans, a substitute for palm oil, arising from crop failures in South America and substantial purchases by the Soviet Union.

Exports of tin and tin-in-concentrates, which comprised 10 per cent of total exports, grew by 14 per cent in 1979, compared with 19 per cent in 1978. The increase in exports reflected mainly significantly higher prices, while the export volume rose by 2 per cent, on account of a slight increase in production and an increase in the imports of tin-in-concentrates for processing and re-export. Tin prices were favorable in 1979, rising by 12 per cent in terms of unit value. In 1979, the International Tin Council (ITC) revised the price range of its buffer stock; the floor and ceiling prices were raised to M\$1,500 to M\$1,950 per picul, respectively.

Exports of both saw logs and sawn timber increased significantly in 1979. The rise in exports was due mainly to high prices for both logs and timber. Prices increased substantially, despite stagnation in construction activity in the industrial countries, because of the decline in the world supply of tropical hardwoods. Exports of saw logs increased by 73 per cent compared to 10 per cent in 1978. Since the volume of log exports declined by 5 per cent due to the Government's restrictions on log exports, the increase in value was solely a result of the price increase of 81 per cent. Sawn timber exports rose by 52 per cent compared to 5 per cent in 1978, reflecting mainly the 38 per cent increase in price.

Manufactured exports continued to increase rapidly--by 32 per cent in 1979. Manufactured exports, which comprised 20 per cent of total exports have replaced rubber as the major earner of foreign exchange for Malaysia. In contrast to 1978 when the expansion of manufactured exports reflected mainly the growth of electronic products, the expansion in 1979 was fairly broad-based, with substantial increases in electrical and electronic products, as well as in textiles, clothing, footwear, and transport equipment.

(2) Imports

Merchandise imports increased by 29 per cent to M\$17.2 billion in 1979, compared with a 21 per cent increase in 1978. The rapid growth in imports was due to strong private sector demand and higher import prices.

The expansion of private sector demand led to increases in all three major categories of imports--consumption, investment, and intermediate goods (Appendix Table XXIII). Imports of consumption goods rose by 12 per cent in 1979, reflecting mainly the strong demand for consumer durables. Food imports, however, rose by only 1 per cent, compared with 32 per cent in 1978, as the recovery in rice production reduced the need to import. Investment goods rose by 25 per cent, reflecting higher levels of machinery and equipment imports required for the expansion in private investment, as well as increased imports of metal products stemming from domestic shortages of steel products. Intermediate goods increased by 31 per cent, partly as a result of the expansion of manufactured exports whose production required large quantities of imported components.

(3) Services and transfers

In 1979, the deficit on the services account was M\$4.2 billion, compared with a deficit of M\$3.2 billion in 1978. The deterioration of the services account was a result of larger net payments on freight and insurance associated with the growth in imports and higher freight rates, and a larger net outflow of investment income accruing to foreign direct investment. Net transfers also continued to show a small deficit in 1979.

c. Capital account

Net capital movements showed a surplus of M\$1 billion in 1979, compared with a surplus of M\$1.3 billion in 1978. The balance on long-term capital improved because of the increase in net inflows of official long-term capital and a sustained inflow of corporate investment. In addition, the increase in commercial credits associated with the purchases of European airbuses by MAS and ships by MISC also contributed to the surplus on long-term capital. Net private short-term capital outflows increased substantially in 1979 to M\$1.1 billion. These increased outflows represented mainly a substantial increase in the foreign assets of the commercial banks.

d. International reserves

During 1979, gross official international reserves rose by M\$1.9 billion (SDR 0.6 billion) to approximately M\$9.3 billion (SDR 3.2 billion); central bank foreign liabilities remained negligible (SDR 15 million) (Appendix Table XXIV). Net official reserves at the end the year was sufficient to cover 6.5 months of 1979 imports.

3. External debt

The external public debt of the Federal Government has remained relatively small. In 1979, the ratio of the Federal Government's disbursed external public debt to GNP was about 11 per cent. Total outstanding external debt of the Federal Government, including undisbursed amounts, increased by SDR 0.2 billion to SDR 2.2 billion in 1979 (Appendix Table XXV).

Outstanding disbursed debt increased by SDR 0.3 billion to SDR 1.6 billion. Nearly two-thirds of the increase was raised through market loans. Malaysia's high international credit rating has facilitated its continued access to international bond markets. Of the three market loans raised during 1979, two were bonds issued in Japanese (SDR 54 million) and Swiss (SDR 37 million) capital markets.

Total interest and amortization payments declined by SDR 0.4 billion due to refinancing of market loans at more favorable terms in 1978. Consequently, the external debt service ratio, that is, interest and principal payments of the external debt as a proportion of total gross exports, declined from 3.6 per cent in 1978 to 1.8 per cent in 1979.

4. Exchange rate developments

The Malaysian ringgit is pegged to an undisclosed basket of currencies of Malaysia's major trading partners. The weights are based on trade shares and the importance of currencies used in settlement; the composition of the basket has remained unchanged since September 1975. The authorities have intervened to maintain margins of 2.25 per cent, but occasionally and for relatively short periods of time, the rate has been allowed to exceed the margins.

From 1978 to 1979, the ringgit appreciated in terms of the import-weighted effective exchange rate computed by the staff by 5.5 per cent; in terms of the U.S. dollar, the intervention currency, the appreciation was 5.6 per cent (Table 9). The exchange rate movements in 1979 followed the pattern that prevailed during the 1970s, when the ringgit appreciated both against the import-weighted basket of currencies and the U.S. dollar.

The appreciation of the ringgit has moderated the effects of foreign inflation on domestic prices. However, the magnitude of the appreciation, relative to the inflation differential between Malaysia and its trading partners, has implied a depreciation in the real effective exchange rate. Hence, Malaysia's exchange rate has contributed to the expansion of the traded sectors and has supported the diversification of the economy. The allocative implications of the exchange rate are suggested by the developments in the relative prices of traded and nontraded goods--that is, the ratio of the indices of Malaysia's domestic prices to export and import prices during the 1970s.

During 1970-79, the ratio of domestic prices to both export and import prices decreased by an average annual rate of 4 per cent. The higher rate of increase in the prices of Malaysia's traded goods has contributed to the inflow of resources into the exporting and import-competing sectors. The share of exports in GNP rose from 46 per cent in 1970 to 61 per cent in 1979. Manufactured exports has contributed significantly to the expansion of the exporting sector; as a share of GNP, manufactured exports rose from 5 per cent in 1970 to 11 per cent in 1979. The import-competing sector also appears to have grown. Although systematic evidence is not available to support this observation due to the difficulty in

Table 9. Malaysia: Exchange Rates and Prices, 1971-79

(Annual percentage change)

	1971	1972	1973	1974	1975	1976	1977	1978	1979
Exchange rates <u>1/</u>									
U.S.-ringgit	3.1	6.6	16.8	0.9	-2.0	-4.3	3.7	6.4	5.6
Effective exchange rate <u>2/</u>	--	0.9	6.7	3.9	0.3	0.1	0.6	-4.7	5.5
Real effective exchange rate <u>3/</u>	-0.3	1.1	1.5	-5.6	-1.8	-1.8	0.1	-3.0	-0.7 <u>7/</u>
Real exchange rate relevant to exports <u>4/</u>	12.5	4.4	-14.0	-12.7	20.3	-14.8	-10.9	-1.5	-9.9
Real exchange rate relevant to imports <u>5/</u>	-3.2	-4.6	-4.8	-17.1	-1.4	1.0	2.3	2.4	-5.5
Prices									
Consumer price index	1.5	3.4	10.5	17.3	4.5	2.6	4.8	4.9	3.6
Foreign prices <u>6/</u>	5.0	9.0	26.9	25.6	4.2	0.1	8.6	15.1	9.7 <u>7/</u>

Source: Based on staff calculations, annual average.

1/ Increase represents appreciation.2/ Import-weighted.3/ Import-weighted effective exchange rate adjusted for the relative prices between Malaysia and the export prices of its trading countries.4/ Ratio of consumer price index to export price index.5/ Ratio of consumer price index to import price index.6/ Import-weighted index of the export prices of Malaysia's trading countries in U.S. dollars.7/ Data through 1979 III.

measuring the import-competing sector, the manufacturing sector could be viewed as a proxy for this sector since manufactured goods dominate the commodity structure of imports in Malaysia. Manufactured output as per cent of GNP has expanded from 12 per cent in 1970 to 20 per cent in 1979.

5. Exchange and trade system

A detailed description of Malaysia's exchange and trade system is contained in the Annual Report of Exchange Arrangements and Exchange Restrictions 1980. The main features and significant changes since the last consultation report (SM/79/83, 4/3/79) are described below.

Malaysia maintains an exchange system free of restrictions on payments and transfers for current international transactions. However, payments for invisible to and trade with Israel and South Africa are prohibited. Trade and payments restrictions with Zimbabwe have been lifted. Inward investment covered by the guidelines of the Foreign Investment Committee issued on February 20, 1974 regarding the acquisition of assets, mergers, and takeovers requires the approval of this Committee. Malaysian residents also require prior official approval for borrowing from nonresidents in either ringgit or foreign exchange. The proceeds of investments on resale may be repatriated freely. Permission is given freely for direct and portfolio investment by Malaysian residents in countries other than Israel and South Africa. The central bank administers the exchange control system, but commercial banks are authorized to approve payments abroad, except for repayment of foreign loans or the payment of interest on such loans.

To insure adequate domestic supply, the exports of certain commodities and products, which are deemed essential to the country, are controlled. Products subject to quantitative restrictions include steel, scrap metal, bricks, cement, timber and petroleum products. In 1979, the export duty structure for rubber, tin, and pepper was revised. The new structure, based on the "cost plus" concept, levies duties on commodities only at prices above the prevailing cost of production and provides for a maximum marginal rate of 50 per cent on all commodities. Another development was the introduction of a preshipment export financing facility. The facility has been made available to exporters of certain manufactured goods, including textiles, footwear, sporting goods, furniture, food, wood, rubber, and plastic products.

Quantative restrictions are imposed on certain imports for the protection of domestic industries. In 1979, some items were removed from the list of restricted imports (e.g., butter and tablewear) while others were added (e.g., dual purpose vehicles and generators). Import duties were reduced on certain consumer goods (e.g., some varieties of fruit, sporting goods, leather wearing apparel, and bicycles) and industrial inputs (e.g., steel and cement).

The forward exchange market in Malaysia provides cover for traders usually for periods up to three months. Although importers have shown increasing interest in the forward markets in 1979, the main users continued to be exporters of rubber, petroleum, tin, and palm oil. Transactions in ringgit for U.S. dollars comprise the bulk of transactions in the forward market, reflecting the dominance of the U.S. dollar as the currency for trade settlements. However, forward transactions in the Japanese yen have increased due to the rise in demand for import payments in yen.

Summary of Tax Changes Introduced with the 1980 Budget

A number of tax changes were announced in the Budget Speech for 1980 and are summarized below. This appendix supplements the Summary of the Tax System annexed to SM/79/75, 3/19/79. The new tax measures include the following:

1. Export taxes

The commodity export tax structure was revised so that it is now based on a "cost-plus" approach. Under this concept, the cost of production of a particular commodity would be taken into account and appropriate duties would be imposed only at prices above the prevailing cost of production. In addition, the maximum marginal rates would be limited to 50 per cent for all commodities. Comparison with the previous duty schedules is presented in the attached Chart 7.

a. The duty structure on rubber will be:

One the first 60 sen per lb.		Nil
Plus on the next 5 sen per lb.	ad valorem	20 per cent
Plus on the next 5 sen per lb.	ad valorem	25 per cent
Plus on the next 5 sen per lb.	ad valorem	30 per cent
Plus on the next 5 sen per lb.	ad valorem	35 per cent
Plus on the next 5 sen per lb.	ad valorem	40 per cent
Plus on the next 5 sen per lb.	ad valorem	45 per cent
Plus on the balance	ad valorem	50 per cent

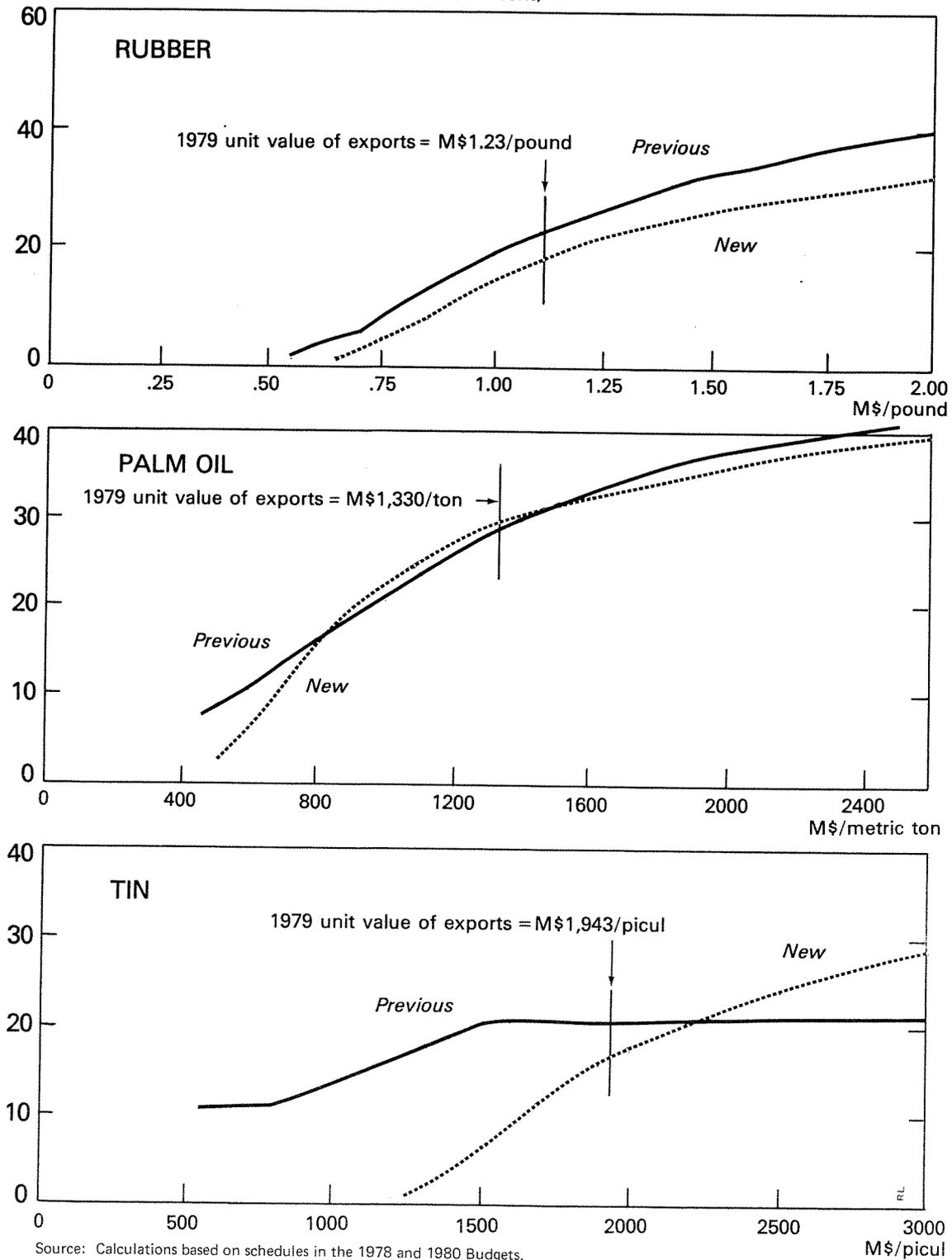
b. The duty structure on tin ores and concentrates will be:

On the first M\$1,200 per picul		Nil
Plus on the next M\$50 per picul	ad valorem	20 per cent
Plus on the next M\$50 per picul	ad valorem	25 per cent
Plus on the next M\$50 per picul	ad valorem	30 per cent
Plus on the next M\$50 per picul	ad valorem	35 per cent
Plus on the next M\$50 per picul	ad valorem	40 per cent
Plus on the next M\$50 per picul	ad valorem	45 per cent
Plus on the balance	ad valorem	50 per cent

c. The duty structure on crude palm oil will be:

On the first M\$500 per ton		Nil
Plus on the next M\$50 per ton	ad valorem	30 per cent
Plus on the next M\$50 per ton	ad valorem	35 per cent
Plus on the next M\$50 per ton	ad valorem	40 per cent
Plus on the next M\$50 per ton	ad valorem	45 per cent
Plus on the balance	ad valorem	50 per cent

CHART 7
MALAYSIA
EXPORT TAX RATES
(Per cent)



Producers in Sabah and Sarawak will continue to pay only 70 per cent of the tax assessed.

2. Income tax on individuals

Revision of the individual income tax structure included:

a. Changes in reliefs

	<u>Previous</u>	<u>New</u>
Personal relief	M\$2,000	M\$5,000
Wife's relief	M\$1,000	M\$2,000
Earned income relief (Up to maximum of M\$1,000)	Existing	Withdrawn
Allowance for children educated abroad	Double child relief	Four times child relief

b. Changes in the upper levels of the bracket-rate structure on taxable income

<u>Previous</u>		<u>New</u>	
<u>Bracket (M\$)</u>	<u>Rate (Per cent)</u>	<u>Bracket (M\$)</u>	<u>Rate (Per cent)</u>
35,000 - 50,000	40	35,000 - 50,000	40 <u>1/</u>
50,000 - 75,000	50	50,000 - 75,000	45
Over 75,000	55	75,000 -100,000	50
		Over 100,000	55

3. Income tax on companies

The accelerated depreciation allowance granted to all industries for the years of assessment 1979 and 1980, was extended by three years to cover the years of assessment 1981-83. The reinvestment allowance of 25 per cent of capital expenditure on plant, machinery and industrial buildings given to the manufacturing and processing industries undertaking an expansion approved by the Ministry of Trade and Industry (for the years of assessment 1980-82), was extended by another year (to include year of assessment 1983).

An exemption of 5 percentage points from the company income tax rate of 40 per cent was given for the years of assessment 1980-82 to any company (with a paid-up capital of not less than M\$1 million or net assets

1/ Unchanged, for reference. There are 11 brackets in the old structure and 12 in the new.

of not less than M\$1 million) conforming to the equity restructuring requirement of the Government. Pioneer companies and companies enjoying tax incentives would not qualify for this incentive. An exemption from the development tax of 5 per cent was given for the years of assessment 1980-82 to any company conforming to the restructuring of employment and/or marketing network.

Cultivated timber was brought within the definition of "approved crops" under the Income Tax Act, 1967, so that companies involved in reafforestation could qualify for the writing off of capital expenditure over an accelerated period of 2-10 years. In addition, any expenditure incurred on replanting would be allowed as a current deduction against revenue, and plant and machinery used in reafforestation would qualify for an increased initial allowance of 60 per cent, compared with the normal rate of 20 per cent.

Export incentives: Deductions for overseas promotion were expanded to include a deduction for the cost of maintaining sales offices abroad for promoting exports. Also, the present export allowance (a deduction from gross income) was replaced with an outright allowance of 2 per cent of the ex-factory value of export sales plus an additional 10 per cent of the increase of export sales over the previous year.

Tin profits tax: The top marginal rate was increased from 12.5 per cent to 15 per cent on taxable tin profit which exceeds M\$400,000.

The tax rate on profits from inward reinsurance was reduced from the standard 40 per cent to 5 per cent. Dividends paid to shareholders from profits earned on inward reinsurance were exempted from taxation.

4. Estate tax

Revisions were made in the estate tax to include: (a) increased exemption levels; (2) elimination of 50 per cent abatement against estate duty payable; and (3) a new rate structure. Changes would mainly benefit estates with a net worth not exceeding M\$700,000.

5. Motor vehicle taxes

The excise duty and road tax on taxis and hire cars was reduced by 50 per cent. The engine tax on buses was reduced by 25 per cent.

Table I. Malaysia: Industrial Origin of Gross Domestic Product at Constant 1970 Prices, 1971 and 1975-79 ^{1/}

(In millions of ringgit)

	1971	1975	1976	1977	1978	1979	Percentage Share of GDP		
							1971	1975	1979
Agriculture, livestock, forestry, and fishing	3,852	4,804	5,307	5,423	5,480	5,701	29.6	27.7	23.5
Mining and quarrying	834	792	955	967	1,093	1,257	6.4	4.6	5.2
Manufacturing	1,858	2,850	3,377	3,735	4,258	4,770	14.3	16.4	19.7
Construction	541	654	713	800	904	1,031	4.2	3.8	4.3
Electricity, gas, and water	238	365	400	442	189	538	1.8	2.1	2.2
Transport, storage, and communications	632	1,071	1,153	1,290	1,412	1,553	4.9	6.2	6.4
Wholesale and retail trade	1,717	2,219	2,405	2,592	2,825	3,094	12.9	12.8	12.8
Ownership of dwellings, banking, insurance, real estate, and business services	1,126	1,468	1,552	1,649	1,815	1,965	8.7	8.5	8.1
Government services	1,466	2,210	2,420	2,719	2,788	2,962	11.3	12.7	12.2
Other ^{2/}	<u>752</u>	<u>932</u>	<u>1,006</u>	<u>1,136</u>	<u>1,261</u>	<u>1,346</u>	<u>5.8</u>	<u>5.4</u>	<u>5.6</u>
GDP at market prices	13,016	17,365	19,753	20,753	22,325	24,217	100.0	100.0	100.0

Source: Data provided by Malaysian authorities.

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

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

Table II. Malaysia: Gross National Product at Constant 1970 Prices, 1971 and 1975-79 ^{1/}

	1971	1975	1976	1977	1978	1979
(In millions of ringgit)						
Consumption expenditure	9,809	12,748	13,601	14,886	16,379	18,184
Private	(7,731)	(9,631)	(10,219)	(11,172)	(12,468)	(13,839)
Public	(2,078)	(3,117)	(3,382)	(3,714)	(3,911)	(4,345)
Investment expenditure	2,609	3,936	4,133	4,677	5,077	5,785
Private	(...)	(2,454)	(2,465)	(2,726)	(3,075)	(3,481)
Public	(...)	(1,482)	(1,668)	(1,951)	(2,002)	(2,304)
Change in stocks	-26	-266	-38	225	292	148
Exports of goods and services	5,480	7,179	8,397	8,704	9,392	10,528
Less imports of goods and services	-4,856	-6,232	-6,805	-7,739	-8,815	-10,428
Net factor payments to abroad	-349	-449	-545	-681	-848	-957
Gross national product at market prices	<u>12,667</u>	<u>16,916</u>	<u>18,743</u>	<u>20,072</u>	<u>21,477</u>	<u>23,260</u>
(Percentage rate of change over previous year)						
Consumption expenditure	...	0.9	6.7	9.5	10.0	11.0
Private	(...)	(-0.9)	(6.1)	(9.3)	(11.6)	(11.0)
Public	(...)	(6.8)	(8.5)	(9.8)	(5.3)	(11.1)
Investment expenditure	...	-7.4	5.0	13.2	8.6	14.0
Private	(...)	(-19.5)	(0.5)	(12.9)	(12.8)	(13.2)
Public	(...)	(23.0)	(12.6)	(13.6)	(2.6)	(15.1)
Exports of goods and services	...	-3.0	17.0	3.7	7.9	12.1
Imports of goods and services	...	-17.1	9.2	13.7	13.9	18.3
Gross national product at market prices	...	2.2	10.8	7.1	7.0	8.3

Source: Data provided by the Malaysian authorities.

^{1/} Revised new series compiled on the basis of the United Nations' System of National Accounts (SNA). The new series begins in 1971. Data for 1979 are preliminary estimates.

Table III. Malaysia: Gross National Product at Current Market Prices, 1971 and 1975-79 ^{1/}

	1971	1975	1976	1977	1978	1979
	(In millions of ringgit)					
Consumption expenditure	10,081	17,010	18,895	22,043	25,198	28,901
Private	(7,911)	(13,086)	(14,594)	(16,655)	(19,420)	(22,328)
Public	(2,170)	(3,924)	(4,301)	(5,388)	(5,778)	(6,573)
Investment expenditure	2,701	5,602	6,206	7,343	8,627	10,812
Private	(1,890)	(3,492)	(3,701)	(4,265)	(5,208)	(6,485)
Public	(811)	(2,110)	(2,505)	(3,078)	(3,419)	(4,327)
Change in stocks	-13	-381	-71	168	600	318
Exports of goods and services	5,242	10,172	14,554	16,216	18,491	25,719
Less imports of goods and services	-5,056	-10,071	-11,620	-13,507	-16,519	-21,405
Net factor payments to abroad	-363	-726	-931	-1,189	-1,451	-1,925
Gross national product at market prices	12,592	21,606	27,033	31,074	34,946	42,420
Annual rate of change (In per cent)	...	-1.2	25.1	15.0	12.5	21.4
	(As per cent of GNP)					
Consumption expenditure	80.1	78.7	69.9	70.9	72.1	68.1
Private	(62.8)	(60.6)	(54.0)	(53.6)	(55.6)	(52.6)
Public	(17.2)	(18.2)	(15.9)	(17.3)	(16.5)	(15.5)
Investment expenditure	21.5	25.9	23.0	23.6	24.7	25.5
Private	15.0	(16.2)	(13.7)	(13.7)	(14.9)	(15.3)
Public	6.4	(9.8)	(9.3)	(9.9)	(9.8)	(10.2)
Exports of goods and services	41.6	47.1	53.8	52.2	52.9	60.6
Imports of goods and services	-40.2	-46.6	-43.0	-43.5	-47.3	-50.5

Source: Data provided by the Malaysian authorities.

^{1/} Revised new series compiled on the basis of the United Nations' System of National Account (SNA). The new series begins in 1971. Data for 1979 are preliminary estimates.

Table IV. Malaysia: Production of Major Commodities, 1975-80

(In thousands of metric tons)

	1975	1976	1977	1978	1979	1980
Rubber	1,478	1,644	1,613	1,607	1,586	1,586
Rice	1,287	1,300	1,245	968	1,153	...
Palm oil	1,237	1,390	1,612	1,786	2,190	2,497
Palm kernel	256	281	335	368	478	...
Saw logs <u>2/</u>	19,126	26,152	28,345	28,220	26,652	24,685
Sawn timber <u>2/</u>	3,810	5,336	5,792	5,219	5,303	5,024
Tin-in-concentrate	64.4	63.4	58.7	62.7	63.0	63.0
Crude petroleum <u>3/</u>	98	166	184	217	283	280

Source: Data provided by the Malaysian authorities.

1/ Projection.2/ Expressed in thousand cubic meters.3/ Expressed in thousand U.S. barrels per day.

Table V. Malaysia: Summary of the Consolidated Public Sector, 1975-79^{1/}
(In millions of ringgit)

	1975	1976	1977	1978 Preliminary Estimate	1979 Preliminary Estimate
Total revenue and grants ^{2/}	5,901	7,341	8,974	10,308	12,424
Revenue	5,894	7,331	8,971	10,304	12,422
Foreign grants	7	10	3	4	2
Total expenditure and net lending ^{2/}	7,874	9,089	11,665	12,958	13,994
Current expenditure ^{3/}	5,758	6,645	8,310	8,905	9,875
Direct development expenditure ^{4/}	1,741	1,819	2,497	2,667	3,295
Net lending ^{5/}	463	582	928	1,450	864
Adjustment for account payable	-88	43	-70	-64	-40
Public authorities' overall deficit (-)	-457	-159	-150	-387	-1,056
Public sector overall deficit (-)	-2,430	-1,907	-2,841	-3,037	-2,626
Financing (net)	2,430	1,907	2,841	3,037	2,626
Foreign	1,004	578	628	671	754
Domestic	1,426	1,329	2,213	2,366	1,872

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

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

2/ Federal and state governments only.

3/ Net of statutory grants from Federal and state governments.

4/ Net of other grants from Federal to state governments.

5/ Net of loans to public authorities.

Table VI. Malaysia: Summary of the State Government's Operations, 1975-79

(In millions of ringgit)

	1975	1976	1977	1978	1979 Preliminary Estimate
Revenue and grants	<u>1,247</u>	<u>1,549</u>	<u>1,620</u>	<u>2,004</u>	<u>2,600</u>
Revenue	812	1,203	1,180	1,500	2,120
Statutory grants	340	277	350	410	312
Other Federal Government grants	95	69	90	94	168
Expenditure	<u>1,601</u>	<u>1,423</u>	<u>1,960</u>	<u>1,988</u>	<u>2,677</u>
Current expenditure <u>1/</u>	994	938	1,270	1,333	1,655
Development expenditure <u>1/</u>	607	485	690	655	1,022
Overall deficit (-)	-354	126	-340	16	-77
Financing (net)	<u>354</u>	<u>-126</u>	<u>340</u>	<u>-16</u>	<u>77</u>
Federal Government loans	158	112	170	124	192
Change in assets (increase -)	195	-238	170	-140	-115

Source: Data provided by the Ministry of Finance.

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

Table VII. Malaysia: Summary of the Principal Authorities' Operations, 1975-79 ^{1/}

(In millions of ringgit)

	1975	1976	1977	1978	1979 Preliminary Estimate
Revenue and grants	<u>986</u>	<u>1,239</u>	<u>1,504</u>	<u>1,553</u>	<u>1,898</u>
Revenue	979	1,227	1,371	1,408	1,721
Federal and state government grants	7	12	133	145	177
Total expenditure	<u>1,443</u>	<u>1,398</u>	<u>1,654</u>	<u>1,940</u>	<u>2,954</u>
Current expenditure ^{2/}	884	923	1,140	1,340	1,564
Development expenditure ^{2/}	559	475	514	600	1,390
Overall deficit (-)	-457	-159	-150	-387	-1,056
Financing (net)	<u>457</u>	<u>159</u>	<u>150</u>	<u>387</u>	<u>1,056</u>
Foreign borrowing ^{3/}	100	170	94	130	92
Federal and state government loans ^{4/}	94	107	124	196	624
Change in assets (increase -)	263	-118	-68	61	340

Source: Data provided by the Ministry of Finance.

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

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

^{3/} Project loans guaranteed by the Federal Government.

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

Table VIII. Malaysia: Federal Government Financing, 1975-79
(In millions of ringgits)

	1975	1976	1977	1978	Prelimi Estima 1979
Domestic financing (net)	<u>915</u>	<u>1,607</u>	<u>1,873</u>	<u>1,815</u>	<u>352</u>
From general government and nonfinancial public enterprises <u>1/</u>	24	-65	101	-54	21
From other parts of the same level of government <u>2/</u>	(1)	(-1)	(3)	(1)	(-1)
From state governments	(-24)	(--)	(--)	(-1)	(--)
From public authorities <u>3/</u>	(47)	(-64)	(98)	(-54)	(25)
From monetary authorities	-184	-735	-49	147	-1,346
Treasury bills	(161)	(-40)	(17)	(-140)	(71)
Long-term securities	(37)	(-86)	(78)	(103)	(285)
Change in deposits	(-382)	(-873)	(120)	(184)	(-1,700)
Other <u>4/</u>	(--)	(264)	(-264)	(--)	(--)
From deposit money banks	364	742	515	-285	228
Treasury bills	(132)	(400)	(180)	(-175)	(-200)
Long-term securities	(238)	(401)	(356)	(-82)	(490)
Change in deposits	(-6)	(-59)	(-21)	(-28)	(-242)
Other <u>5/</u>	618	1,026	1,156	1,512	1,655
Employees Provident Fund	(478)	(667)	(854)	(928)	(1,080)
Other provident funds and insurance companies	(38)	(58)	(110)	(122)	(177)
National Savings Bank	(46)	(66)	(109)	(54)	(31)
Finance houses	(86)	(184)	(249)	(255)	(404)
Other financial institutions	(-36)	(105)	(-46)	(109)	(58)
Others	(-1)	(-4)	(7)	(-1)	(-20)
Other Treasury bills	(7)	(-50)	(-127)	(45)	(-71)
Unidentified <u>6/</u>	193	639	150	495	-213
Foreign financing (net)	<u>912</u>	<u>369</u>	<u>534</u>	<u>541</u>	<u>661</u>
From international development institutions and governments <u>7/</u>	271	243	380	357	236
Other <u>8/</u>	641	126	154	184	425
Total financing	1,827	1,976	2,407	2,356	1,013

Source: Data provided by the Ministry of Finance.

1/ Long-term securities.

2/ Trust funds within government and sinking funds.

3/ Major local governments and nonfinancial public enterprises excluding social institutions.

4/ Represents the domestic currency counterpart of a purchase (1976) and a repurchase (1977) under the compensatory financing facility.

5/ Long-term securities except the final item, other Treasury bills.

6/ Includes the timing differences in recording between the Treasury and the Central Bank, as well as unidentified items.

7/ Project loans.

8/ Market loans.

Table IX. Malaysia: Federal Government Revenue and Grants, 1975-80

(In millions of ringgit)

	1975	1976	1977	1978	1979 Preliminary Estimate	1980 Budget Estimate <u>1/</u>
Taxes on net income and profits <u>2/</u>	1,924	2,061	2,791	3,166	3,672	4,589
Oil production companies	(322)	(322)	(776)	(770)	(828)	(1,233)
Other companies	(1,166)	(1,170)	(1,336)	(1,620)	(1,804)	(2,296)
Individuals	(436)	(569)	(679)	(776)	(1,040)	(1,060)
Taxes on property <u>3/</u>	36	42	75	81	54	46
Taxes on goods and services	<u>1,078</u>	<u>1,287</u>	<u>1,511</u>	<u>1,815</u>	<u>2,027</u>	<u>2,225</u>
Sales tax	272	322	383	458	544	581
Imported goods	(131)	(161)	(180)	(206)	(234)	(232)
Domestic goods	(141)	(161)	(203)	(252)	(310)	(349)
Selective excises on goods	451	550	695	849	957	1,063
Tobacco and alcoholic beverages	(90)	(100)	(135)	(158)	(184)	(189)
Petroleum products	(215)	(289)	(342)	(387)	(407)	(445)
Motor vehicles	(111)	(122)	(164)	(202)	(242)	(278)
Other	(35)	(39)	(54)	(102)	(124)	(151)
Selective excises on services <u>4/</u>	100	124	130	156	172	192
Motor vehicles taxes	242	262	298	328	354	389
Other	13	29	5	24
Taxes on international trade	<u>1,426</u>	<u>1,997</u>	<u>2,531</u>	<u>2,788</u>	<u>3,451</u>	<u>3,045</u>
Import duties	800	977	1,141	1,325	1,512	1,525
Tobacco and alcoholic beverages	(196)	(188)	(220)	(230)	(232)	(237)
Petroleum products	(63)	(36)	(25)	(32)	(61)	(33)
Other import duties	(360)	(481)	(574)	(664)	(754)	(750)
Surtax on imports	(181)	(272)	(322)	(399)	(465)	(505)
Export duties	626	1,020	1,390	1,463	1,939	1,520
Rubber	(121)	(519)	(557)	(716)	(1,118)	(727)
Tin	(196)	(291)	(441)	(500)	(545)	(350)
Palm oil	(282)	(166)	(346)	(207)	(236)	(382)
Other	(27)	(44)	(46)	(40)	(40)	(61)
Other tax revenue	72	86	126	142	82	98
Total tax revenue	<u>4,536</u>	<u>5,473</u>	<u>7,034</u>	<u>7,992</u>	<u>9,286</u>	<u>10,003</u>
Nontax revenue	539	649	741	812	1,016	896
Property income	271	352	366	447	583	517
Nonfinancial public enterprises	(16)	(12)	(13)	(14)	(8)	(9)
Public financial institutions	(50)	(80)	(90)	(120)	(150)	(150)
Rents and interest	(126)	(176)	(152)	(197)	(259)	(113)
Petroleum royalties	(78)	(84)	(111)	(116)	(166)	(245)
Administrative fees and charges, sale of goods, fines and forfeits	221	235	252	241	260	210
Other nontax revenue	48	62	123	124	173	169
Capital revenue	7	6	16	--
Total revenue	<u>5,082</u>	<u>6,128</u>	<u>7,791</u>	<u>8,804</u>	<u>10,302</u>	<u>10,899</u>
Foreign grants	7	10	3	4	2	5
Total revenue and grants	<u>5,089</u>	<u>6,138</u>	<u>7,794</u>	<u>8,808</u>	<u>10,304</u>	<u>10,904</u>

Source: Data provided by the Ministry of Finance.

1/ Includes effects of tax measures contained in the 1980 budget.2/ Corporate and individual income tax, land speculation tax, and capital gains tax.3/ Includes death and gift taxes.4/ Comprises betting and lottery taxes, and film rental tax.

Table X. Malaysia: Economic Classification of Federal Government
Expenditure and Net Lending, 1975-80

(In millions of ringgit)

	1975	1976	1977	1978	1979 Preliminary Estimate	1980 Budget Estimate
Current expenditure	<u>4,945</u>	<u>5,948</u>	<u>7,257</u>	<u>7,610</u>	<u>8,220</u>	<u>10,370</u>
Expenditure on goods and services	3,335	3,941	4,609	4,891	5,769	6,709
Wages and salaries	(2,081)	(2,638)	(3,350)	(3,477)	(3,701)	(4,086)
Other purchases of goods and services <u>1/</u>	(1,254)	(1,313)	(1,259)	(1,414)	(2,068)	(2,623)
Interest payments	596	815	960	1,112	1,221	1,436
Subsidies and other current transfers <u>2/</u>	1,014	1,228	1,688	1,607	1,230	2,225
Transfers to state governments	(203)	(216)	(274)	(333)	(339)	(345)
Pensions	(169)	(202)	(185)	(339)	(393)	(309)
Other current transfers <u>2/</u>	(642)	(810)	(1,229)	(935)	(498)	(1,571)
Capital expenditure	1,134	1,334	1,807	2,012	2,273	2,884
Net lending	925	753	1,207	1,606	864	2,070
Adjustment for accounts payable	-88	43	-70	-64	-40	-50
Total expenditure and net lending	6,916	8,114	10,201	11,164	11,317	15,274

Source: Data provided by the Ministry of Finance.

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

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

Table XI. Malaysia: Functional Classification of Federal Government
Expenditure and Net Lending, 1975-80

(In millions of ringgit)

	1975	1976	1977	1978	1979 Preliminary Estimate	1980 Budget Estimate
General public services	<u>1,114</u>	<u>1,187</u>	<u>1,785</u>	<u>1,557</u>	<u>1,587</u>	<u>2,286</u>
General administration	626	651	1,122	767	729	1,200
Internal security	488	536	663	790	858	1,086
Defense	1,055	1,118	1,570	1,406	1,616	2,468
Education	1,364	1,487	2,125	2,044	2,213	2,880
Health	412	422	670	611	694	813
Social security <u>1/</u>	165	187	183	373	393	409
Housing and community amenities	219	109	184	667	482	510
Other community and social services	104	116	143	180	76	100
Economic services	<u>1,580</u>	<u>1,799</u>	<u>2,119</u>	<u>2,700</u>	<u>2,721</u>	<u>4,067</u>
Agriculture, forestry, and rural development	575	626	558	939	1,044	1,426
Transport and communications	568	675	713	851	914	1,534
Other economic services <u>2/</u>	437	498	848	910	763	1,107
Unallocable	<u>987</u>	<u>1,646</u>	<u>1,492</u>	<u>1,690</u>	<u>1,575</u>	<u>1,791</u>
Public debt interest	596	815	960	1,112	1,221	1,436
Grants to state governments	203	216	274	333	339	345
Other	188	615	258	245	15	10
Adjustment for accounts payable	-88	43	-70	-64	-40	-50
Total expenditure and net lending	6,916	8,114	10,201	11,164	11,317	15,274

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

1/ Government pensions.

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

Table XII. Malaysia: Distribution of Outstanding Federal Government Debt by Class of Holders, 1975-79 ^{1/}

(In millions of ringgit)

	1975	1976	1977	1978	1979 Prelimir
Government securities	<u>7,354.5</u>	<u>8,680.7</u>	<u>10,497.4</u>	<u>11,931.9</u>	<u>14,459</u>
Government	<u>728.5</u>	<u>664.3</u>	<u>765.4</u>	<u>711.6</u>	<u>736</u>
Federal Government ^{2/}	439.9	439.4	442.6	443.4	442
State governments	12.6	12.6	12.5	11.6	11
Public authorities	276.0	212.3	310.3	256.6	282
Social security institutions	<u>4,334.3</u>	<u>5,058.5</u>	<u>6,022.0</u>	<u>7,072.3</u>	<u>8,328</u>
Employees Provident Fund	3,920.9	4,587.5	5,441.0	6,369.4	7,449
Other provident and trust funds	221.0	264.8	314.1	370.0	445
Insurance companies	192.4	206.2	266.9	332.9	433
Financial institutions	<u>2,221.9</u>	<u>2,892.5</u>	<u>3,638.0</u>	<u>4,077.0</u>	<u>5,342</u>
Central Bank	251.2	165.5	243.2	346.2	629
Commercial banks	1,131.6	1,533.0	1,889.0	1,806.5	2,296
National Savings Bank	578.5	644.8	753.6	807.9	838
Finance houses	245.1	429.0	677.9	933.2	1,336
Other financial institutions	15.5	120.2	74.3	183.2	241
Others	69.8	65.4	72.0	71.0	51
Treasury bills	<u>1,400.0</u>	<u>1,710.0</u>	<u>1,780.0</u>	<u>1,510.0</u>	<u>1,490</u>
Central Bank	204.5	164.7	181.4	41.9	113
Commercial banks	852.5	1,252.8	1,432.4	1,257.3	1,237
Others	343.0	292.5	166.2	210.8	139
Domestic debt	<u>8,754.5</u>	<u>10,390.7</u>	<u>12,277.4</u>	<u>13,441.9</u>	<u>15,949</u>
Foreign debt	<u>2,424.4</u>	<u>2,805.7</u>	<u>3,349.3</u>	<u>3,859.2</u>	<u>4,520</u>
From international development institutions and foreign governments ^{3/}	1,076.1	1,338.2	1,721.5	2,081.4	2,317
Other ^{4/}	1,348.3	1,467.5	1,627.8	1,777.8	2,203
Total debt	<u>11,178.9</u>	<u>13,196.4</u>	<u>15,626.7</u>	<u>17,301.1</u>	<u>20,469</u>

Source: Data provided by Bank Negara Malaysia.

- ^{1/} End of period.
^{2/} Banking funds and trust funds.
^{3/} Project loans.
^{4/} Market loans.

Table XIII. Malaysia: Factors Affecting Reserve Money, 1972-80^{1/}

(In millions of ringgit)

	1972	1973	1974	1975	1976	1977	1978	1979	1980 Jan.
Net foreign assets	2,731	3,307	3,757	3,930	5,975	6,740	7,364	9,227	9,069
Net claims on government	-478	-370	-276	-347	-1,325	-1,641	-1,317	-2,644	-2,266
Net other items	-350	-354	-550	-579	-1,083	-973	-1,292	-1,085	-1,072
Reserve money	<u>1,903</u>	<u>2,583</u>	<u>2,931</u>	<u>3,004</u>	<u>3,567</u>	<u>4,126</u>	<u>4,755</u>	<u>5,498</u>	<u>5,731</u>
Currency outside banks	1,269	1,718	2,030	2,239	2,628	3,112	3,578	4,094	4,157
Currency and deposits of banks	581	774	858	733	875	941	1,050	1,244	1,383
Other deposits	53	91	43	33	65	73	127	160	191

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

^{1/} End year figures.

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

(In per cent per annum)

Effective Date	Maximum Deposit Rates					Savings deposits	Maximum Lending Rates	
	Fixed deposits; Maturity period in months						Prime rate	Preferential rate ^{1/}
	1	3	6	9	12			
1974 April 24	4.50	6.50	7.00	8.00	9.00	6.50	10.00	9.50
1975 February 3	4.00	6.00	6.50	7.50	8.50	6.50	9.50	9.00
May 2	3.50	5.50	6.00	7.00	8.00	6.00	9.00	8.50
August 9	3.50	5.50	6.00	6.50	7.50	5.50	8.50	8.00
1977 June 2	3.00	5.00	5.50	5.75	6.50	5.00	7.50	7.00
1978 December ^{2/}	5.00	5.50	5.75	6.00	6.50	5.00	7.50	7.00
1979 March	5.00	5.50	5.75	6.00	6.50	5.00	7.50	7.00
June	5.00	5.50	5.75	6.00	6.50	5.00	7.50	7.00
September	5.00	5.50	5.75	6.00	6.50	5.00	7.50	7.00
December	5.25	5.50	5.75	6.00	7.00	5.00	7.50	7.00
1980 February	5.25	5.50	5.75	6.00	7.00	5.00	7.50	7.00

Source: Data provided by the Malaysian authorities.

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

^{2/} Effective October 23, 1978, all interest rates have been freed from regulation. The interest rates for this date refer to the rate quoted with the highest frequency among the banks.

Table XV. Malaysia: Commercial Banks--Liquidity and Other Requirements, 1975-79

	1975	1976	1977	1978	1979			
					March	June	Sept.	Dec.
Total liquid assets ^{1/}	2,367.0	3,417.4	4,104.6	4,246.0	4,324.8	4,705.4	4,427.1	4,786.2
Of which:								
Primary liquid assets ^{2/}	1,452.7	1,842.7	2,171.5	2,338.9	2,177.2	2,275.9	2,045.7	2,293.5
Total deposits	8,119.4	10,531.0	12,261.7	14,755.1	15,683.0	16,955.6	17,272.8	19,141.6
Eligible liabilities ^{3/}	6,536.2	8,626.3	9,818.1	11,783.0	15,630.7	16,684.9	17,108.9	18,602.6
Liquidity ratio ^{1/}	36.2	39.6	41.8	36.0	27.7	28.2	25.9	25.7
Primary liquid assets ratio ^{1/}	22.2	21.4	22.1	19.9	13.9	13.6	12.0	12.3
Statutory reserves ^{4/}	551.7	619.3	725.2	703.7	759.3	823.9	849.0	919.4
Composition of assets against savings deposits ^{5/}								
Government securities	110.6	116.5	153.1	191.4	--	--	--	--
Approved housing loans	528.1	655.5	861.3	1,049.7	--	--	--	--
Loans under the Credit Guarantee Scheme	152.9	180.4	207.4	237.9	290.0	297.8	309.3	312.8

Source: Bank Negara Malaysia, Annual Report and Statement of Accounts, 1979.

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

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

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

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

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

Table XVI. Malaysia: Assets and Liabilities of Commercial Banks, 1972-80^{1/}

(In millions of ringgit)

	1972	1973	1974	1975	1976	1977	1978	1979	1980 Jan.
Claims	<u>4,351</u>	<u>5,659</u>	<u>6,533</u>	<u>7,624</u>	<u>9,956</u>	<u>11,532</u>	<u>13,710</u>	<u>17,318</u>	<u>17,644</u>
Net foreign assets	29	-229	-295	-187	-253	-449	-686	-112	174
Net claims on government	915	935	1,234	1,653	2,462	2,854	2,334	1,944	1,674
Claims on private sector	3,014	4,586	5,278	6,084	7,471	8,970	11,627	14,641	15,057
Claims on central banks	575	750	858	731	869	938	1,049	1,246	1,383
Net other claims	-182	-383	-542	-657	-593	-781	-614	-401	-644
Liabilities	<u>4,350</u>	<u>5,659</u>	<u>6,533</u>	<u>7,624</u>	<u>9,956</u>	<u>11,533</u>	<u>13,710</u>	<u>17,318</u>	<u>17,644</u>
Demand deposits	1,393	1,928	1,982	2,083	2,572	2,953	3,548	4,251	4,398
Time and savings deposits	2,957	3,731	4,551	5,541	7,384	8,580	10,162	13,067	13,246

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

^{1/} End year figures.

Table XVII. Malaysia: Direction of Commercial Bank Lending, 1975-79

(In millions of U.S. dollars)

	1975	1976	1977	1978	1979			
					March	June	Sept.	Dec.
Lending to public sector	259.5	449.6	463.5	596.1	628.9	630.0	628.0	630.1
Lending to private sector	<u>6,208.9</u>	<u>7,611.8</u>	<u>9,094.3</u>	<u>11,692.3</u>	<u>12,050.3</u>	<u>12,428.9</u>	<u>13,373.2</u>	<u>14,629.7</u>
Agriculture	483.8	535.8	661.0	870.8	852.8	873.1	885.7	1,013.0
Mining and quarrying	106.7	105.7	96.3	128.1	125.2	110.5	119.4	122.6
Manufacturing	1,265.6	1,382.0	1,594.7	2,225.5	2,281.9	2,310.3	2,457.4	2,564.7
Real estate and construction	721.7	806.3	1,057.9	1,349.7	1,491.0	1,554.4	1,681.5	1,843.3
General commerce	1,355.3	1,693.3	2,064.2	2,693.1	2,837.4	3,039.1	2,388.1	3,822.0
Professionals and individuals	1,095.9	1,345.0	1,728.2	2,266.1	2,436.5	2,535.6	2,784.0	2,970.1
Foreign trade bills	366.9	479.0	514.1	586.4	578.2	541.5	552.2	573.9
Other	813.0	1,443.7	1,474.2	1,572.6	1,447.3	1,464.4	2,398.0	1,720.1
Total	<u>6,468.4</u>	<u>8,061.4</u>	<u>9,557.8</u>	<u>12,288.4</u>	<u>12,679.2</u>	<u>13,058.9</u>	<u>14,001.2</u>	<u>15,259.8</u>

Source: Bank Negara Malaysia, Annual Report and Statement of Accounts, 1979.

Table XVIII. Malaysia: Sources and Maturity of Credits to
Private Sector, 1975-79

(In millions of U.S. dollars)

Source and Maturity ^{1/}	1975	1976	1977	1978	1979
Financial sector	8,462	10,397	12,310	15,762	19,867
Commercial banks	5,690	6,974	8,243	10,900	13,518
Short-term	4,562	5,372	6,209	7,920	9,171
Medium-term	236	367	479	667	807
Long-term	892	1,235	1,555	2,313	3,540
Finance companies	906	1,166	1,516	1,973	2,661
Short-term	90	100	173	138	131
Medium-term	597	748	937	1,312	1,840
Long-term	219	318	406	528	690
Other financial institutions ^{2/}	1,866	2,257	2,551	2,889	3,688
Short-term	239	356	411	326	500
Medium-term	374	451	494	374	412
Long-term	1,253	1,450	1,646	2,189	2,776
Public sector ^{3/}	3,627	4,181	5,255	6,351	7,101
Total	<u>12,089</u>	<u>14,578</u>	<u>17,565</u>	<u>22,113</u>	<u>26,968</u>

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

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

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

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

Table XIX. Malaysia: Consumer Price Index, 1975-80

(1967 = 100)

Period ^{1/}	1975	1976	1977	1978	1979				1980
					March	June	Sept.	Dec.	Jan.
Total	144.0	147.8	154.8	162.4	165.7	167.2	170.7	173.8	175.4
Food	157.4	160.5	169.4	177.7	180.0	180.1	184.7	187.3	184.3
Beverages and tobacco	121.2	122.8	127.3	133.8	134.7	135.1	135.9	137.2	137.6
Clothing and footwear	143.3	146.9	152.6	157.9	162.1	169.2	172.1	173.4	175.0
Gross rent, fuel and power	118.9	125.6	133.3	139.9	145.6	149.6	151.5	154.0	158.2
Furniture, furnishings and household equipment	157.8	161.7	167.3	174.2	177.6	180.1	183.1	186.6	188.2
Medical care and health expenses	122.4	135.2	140.9	146.0	152.7	155.4	157.2	158.5	161.4
Transport and communication	127.1	133.3	138.1	146.3	150.2	151.3	153.3	154.3	154.6
Recreation, entertainment, education, and cultural services	129.5	130.3	132.7	135.5	137.4	138.1	139.4	141.5	142.4
Miscellaneous goods and services	147.9	151.3	159.4	170.2	181.2	186.4	194.9	213.6	253.4

Source: Bank Negara Malaysia, Annual Report and Statement of Accounts, 1979.^{1/} Quarterly and annual indices are simple averages of monthly indices.

Table XX. Malaysia: Balance of Payments, 1975-79

(In millions of ringgit)

	1975	1976	1977	1978	1979
A. Current account balance	<u>-757</u>	<u>1,855</u>	<u>1,278</u>	<u>319</u>	<u>2,270</u>
Goods and services (net)	-678	1,955	1,356	401	2,389
Merchandise trade (f.o.b.)					
Exports	9,057	13,329	14,861	16,925	23,784
Imports <u>1/</u>	8,333	9,567	10,990	13,338	17,213
Trade balance	724	3,762	3,871	3,587	6,571
Services (net)	-1,402	-1,807	-2,515	-3,186	-4,182
Transfers (net)	-79	-100	-78	-82	-119
B. Capital account balance	<u>1,633</u>	<u>1,231</u>	<u>464</u>	<u>1,343</u>	<u>979</u>
Private long-term	862	763	1,174	1,258	1,300
Commercial loans (MAS and MISC) <u>2/</u>	-18	154	-20	-82	117
Official long-term	872	489	590	513	702
Private short-term capital <u>3/</u>	-83	-175	-1,280	-346	-1,140
C. Errors and omissions	-705	-1,032	-987	-1,037	-1,460
D. SDR allocation	--	--	--	--	74
E. Total (A through D)	171	2,054	755	625	1,863
F. Monetary movements (increase -) <u>4/</u>	<u>-171</u>	<u>-2,054</u>	<u>-755</u>	<u>-625</u>	<u>-1,863</u>
Reserve position in the Fund	-21	4	9	-5	-41
Holdings of SDRs	-11	-5	116	-35	-140
Central Bank gold and net foreign exchange	-139	-2,318	-615	-585	-1,682
Use of Fund credit	--	265	-265	--	--

Sources: Data provided by the Malaysian authorities.

1/ Includes nonmonetary gold.2/ National airline and shipping companies.3/ Commercial banks, finance companies and Petronas.4/ Net change in Central Bank reserve.

Table XXI. Malaysia: Direction of Trade, 1975-79 ^{1/}

(In per cent of total exports)

	Exports (f.o.b.)					Imports (c.i.f.) ^{2/}				
	1975	1976	1977	1978	1979 ^{3/}	1975	1976	1977	1978	1979 ^{3/}
N	24	21	19	19	19	15	14	15	14	15
which:										
Singapore ^{4/}	20	18	16	16	17	8	9	9	9	10
Indonesia	1	--	--	--	--	2	1	1	1	1
Thailand	2	1	1	1	1	4	4	5	4	4
n	14	21	19	22	24	20	21	23	23	21
Kong	1	1	1	2	2	2	2	2	2	2
a, People's Republic of	1	1	2	1	2	4	4	3	4	3
ed States	16	16	18	19	17	11	13	12	14	15
ralia	2	2	2	2	2	8	7	6	6	6
pean Economic Community	23	21	20	18	18	20	17	17	18	18
which:										
Germany, Federal Republic of	4	4	4	4	4	5	6	6	6	6
Netherlands	8	7	7	6	5	1	1	1	1	1
France	2	2	2	1	2	2	2	1	1	2
Italy	2	2	2	2	2	1	1	1	1	1
United Kingdom	6	5	5	5	4	10	7	8	7	7
r Western Europe	2	2	2	2	2	3	2	2	2	2
ern Europe	2	3	2	2	2	--	--	--	--	--
n of Soviet Socialist										
publics	3	2	2	2	3	--	--	--	--	--
r countries	<u>12</u>	<u>10</u>	<u>13</u>	<u>11</u>	<u>9</u>	<u>17</u>	<u>20</u>	<u>20</u>	<u>17</u>	<u>18</u>
Total	100	100	100	100	100	100	100	100	100	100
l imports (in billions										
ringgits)	9.2	13.4	15.0	17.1	24.0	8.5	9.7	1.2	13.7	17.1

Source: Data provided by the Malaysian authorities.

Customs data.

Excludes imports of ships, aircraft, military imports, and imports for offshore installation in the petroleum industry.

Provisional estimates based on data for the first nine months.

Singapore re-exports a significant part of its imports from Malaysia.

Table XXII. Malaysia: Volume, Value and Unit Value of Major Export Commodities, 1975-79

	1975	1976	1977	1978	1979
Rubber					
Volume ('000 tons)	1,460	1,620	1,654	1,614	1,677
Value (M\$ million)	2,026	3,098	3,379	3,601	4,561
F.o.b. unit value (M\$ per ton)	1,390	1,912	2,044	2,231	2,720
Tin and tin-in-concentrates					
Volume ('000 tons)	80	82	67	70	72
Value (M\$ million)	1,206	1,524	1,704	2,022	2,298
F.o.b. unit value (M\$ per 1,000 ton)	15	19	26	29	32
Saw logs					
Volume ('000 cubic meter)	8,473	15,394	16,078	16,732	15,986
Value (M\$ million)	670	1,472	1,520	1,667	2,878
F.o.b. unit value (M\$ per cubic meter)	79	96	95	100	180
Sawn timber					
Volume ('000 cubic meter)	1,890	3,055	3,100	3,176	3,504
Value (M\$ million)	442	887	844	882	1,339
F.o.b. unit value (M\$ per cubic meter)	234	290	272	278	382
Palm oil					
Volume ('000 tons)	1,163	1,346	1,424	1,519	1,880
Value (M\$ million)	1,318	1,220	1,790	1,872	2,453
F.o.b. unit value (M\$ per ton)	1,133	907	1,257	1,232	1,305
Petroleum (crude and partly refined)					
Volume ('000 tons)	3,763	7,144	7,794	9,229	12,088
Value (M\$ million)	853	1,747	2,017	2,263	4,127
Unit value (M\$ per ton)	227	245	259	245	341
Total major primary exports (M\$ million)					
(As percentage of total exports)	(71)	(74)	(75)	(72)	(73)
Manufactured goods (M\$ million)					
(As percentage of total exports)	(21)	(18)	(18)	(21)	(20)
Total exports					
	9,231	13,443	14,959	17,094	24,024

Source: Data provided by the Malaysian authorities.

Table XXIII. Malaysia: Imports According to End Use, 1975-79 1/

(In millions of ringgit)

	1975	1976	1977	1978	1979
Consumption goods	<u>1,890</u>	<u>2,049</u>	<u>2,401</u>	<u>3,068</u>	<u>3,435</u>
Food	705	699	839	1,109	1,115
Beverages and tobacco	100	113	140	185	189
Consumer durables	265	293	398	561	795
Other	820	944	1,024	1,213	1,336
Investment goods	<u>2,764</u>	<u>3,136</u>	<u>3,532</u>	<u>4,170</u>	<u>5,212</u>
Machinery	965	966	1,126	1,380	1,691
Transport equipment <u>2/</u>	163	282	246	340	431
Metal products	544	672	776	1,050	1,485
Other	1,092	1,216	1,384	1,400	1,605
Intermediate goods	<u>3,464</u>	<u>4,169</u>	<u>4,931</u>	<u>6,139</u>	<u>8,035</u>
For manufacturing	1,862	2,272	2,717	3,700	4,831
For construction	263	221	218	300	420
For agriculture	327	382	454	510	732
Crude petroleum	534	696	859	929	1,222
Other	478	598	683	700	830
Imports for re-export	<u>412</u>	<u>368</u>	<u>301</u>	<u>313</u>	<u>376</u>
Tin ore	265	117	141	224	280
Crude natural rubber	40	62	78	89	96
Crude petroleum <u>3/</u>	107	189	82	--	--
Total	8,530	9,722	11,165	13,690	17,058

Source: Data provided by the Malaysian authorities.

1/ Customs data.2/ Excludes imports of aircraft and ships.3/ Imports of crude petroleum from Brunei for re-export.

Table XXIV. Malaysia: External Reserves, 1975-79

(In millions of SDRs)

End of Period	1975	1976	1977	1978	1979
A. Central Bank (net)	1,297	2,122	2,345	2,563	3,199
Foreign assets	1,301	2,130	2,356	2,577	3,207
Of which:					
Gold and foreign exchange	(1,186)	(2,011)	(2,278)	(2,484)	(3,052)
Reserve position in the Fund	(54)	(54)	(52)	(54)	(68)
Special drawing rights	(62)	(65)	(26)	(39)	(87)
Foreign liabilities	-4	-8	-11	-14	-7
B. Government official holdings	46	37	36	36	33
C. Total net official reserves (A + B)	1,343	2,159	2,381	2,599	3,232
D. Commercial banks (net)	-62	-86	-156	-239	-39
Foreign assets	(220)	(382)	(359)	(353)	(588)
Foreign liabilities	(282)	(468)	(515)	(592)	(627)
E. Total net external reserves (C + D)	1,281	2,073	2,225	2,360	3,193

Source: Data provided by the Malaysian authorities.

Table XXV. Malaysia: External Public Debt of the Federal Government, Outstanding and Service Payments, 1977-79

(In millions of SDRs)

	1977	1978	1979
Outstanding debt <u>1/</u>	1,813	2,038	2,241
Disbursed	1,167	1,343	1,568
Undisbursed	646	695	673
Service payments	386	581	174
Amortization	315	485	59
Interest	71	96	115

Source: Data provided by the Malaysian authorities.

1/ End December. By amount contracted, with an original maturity of one year or longer.

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