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To: Members of the Executive Board

From: The Secretary

Subject: Malaysia - Recent Economic Developments

This paper provides background information to the staff report on the 1985 Article IV consultation discussions with Malaysia, which was circulated as SM/85/180 on June 26, 1985.

Mr. Schultz (ext. 7342) or Mr. I.-S. Kim (ext. 7319) are available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

MALAYSIA

Recent Economic Developments

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Approved by the Asian and Fiscal Affairs Departments

July 3, 1985

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MALAYSIA

Basic Data 1/

Area:	127,581 square miles
Population (1984):	15.2 million
Population growth rates (1979-84):	2.3 percent per annum
Per capita GNP (1984):	US$2,010

	1980	1981	1982	1983	1984
Selected aggregates as percent of GNP 2/					
Gross domestic investment 3/	29.7	34.5	37.9	36.7	32.6
Gross national savings	28.4	24.1	23.5	25.0	26.8
Narrow money 4/	19.9	20.6	21.6	21.3	19.1
Broad money 4/	55.6	59.9	64.6	64.5	64.5
Total liquidity (M3) 4/	66.8	69.8	75.7	78.9	81.5
Federal Government revenue and grants	27.7	28.9	28.3	28.8	28.4
Federal Government expenditure and net lending	34.2	44.7	45.6	39.5	35.9
Federal Government overall deficit	6.6	15.8	17.3	10.7	7.5
Exports of goods and nonfactor services	61.4	55.5	54.5	56.6	59.9
Imports of goods and nonfactor services	58.9	62.4	64.1	62.4	58.8
Current account balance	-1.2	-10.4	-14.4	-11.7	-5.8
Outstanding external debt 4/5/	25.5	35.0	48.3	60.5	60.3
Of which: Medium- and long-term debt	(19.4)	(28.3)	(41.5)	(49.5)	(51.7)
Annual percentage changes of selected economic indicators 2/					
Gross domestic product (1970 prices)	7.8	7.1	5.6	5.9	7.3
Crude oil production	-2.3	-6.6	17.5	26.5	16.8
Gross national product deflator	6.9	1.0	4.0	4.2	5.1
Consumer price index	6.7	9.7	5.8	3.7	3.9
Federal Government revenue and grants	32.9	13.5	5.5	11.7	9.7
Federal Government expenditure and net lending	44.2	41.8	9.8	-4.9	1.4
Reserve money	20.9	9.7	16.6	4.7	4.3
Narrow money	15.0	12.5	13.3	7.9	-0.1
Broad money	26.2	16.9	16.3	9.5	11.5
Total liquidity (M3)	n.a.	13.6	16.8	14.5	15.1
Domestic credit	n.a.	30.9	20.8	20.3	20.2
Government 6/	n.a.	8.0	5.1	-0.2	1.5
Private 6/	n.a.	22.9	15.7	20.5	18.7
Merchandise exports, f.o.b.	17.0	-9.3	2.5	14.7	17.8
Merchandise imports, f.o.b.	33.5	12.6	8.0	4.0	1.9
Terms of trade	0.3	-3.0	-5.3	4.7	4.9
Nominal effective exchange rate (depreciation -)	-4.4	3.6	3.4	3.1	2.8
Real effective exchange rate (depreciation -)	-5.8	4.0	5.1	2.7	1.6

	1980	1981	1982	1983	1984
Federal Government budget 7/			(In billions of ringgit)		
Revenue and grants	13.8	15.7	16.6	18.5	20.3
Of which: Petroleum revenue	(2.8)	(4.6)	(5.3)	(4.5)	(5.7)
Expenditure and net lending	17.1	24.3	26.7	25.4	25.7
Of which: Development expenditure and net lending	(7.3)	(11.1)	(11.1)	(9.4)	(7.6)
Financing requirement 8/	3.3	8.6	10.1	6.9	5.4
External borrowing	0.3	3.4	4.9	4.6	3.0
Domestic borrowing	3.3	4.7	5.8	2.2	2.8
Of which: Banking system	(2.0)	(1.2)	(1.7)	(-0.2)	(1.1)
Balance of payments 7/			(In billions of U.S. dollars)		
Trade balance	2.4	-0.1	-0.7	0.5	2.7
Exports, f.o.b.	12.9	11.7	12.0	13.7	16.2
Imports, f.o.b.	-10.5	-11.8	-12.7	-13.2	-13.5
Invisibles (net)	-2.7	-2.3	-2.8	-3.7	-4.4
Current account balance	-0.3	-2.4	-3.6	-3.2	-1.8
Capital accounts (net)	1.4	2.6	3.6	4.0	2.5
Overall balance	0.4	-0.5	-0.4	--	--
Reserves and external debt 7/					
Gross official reserves 4/	4.7	4.4	4.1	4.1	4.0
(In months of imports)	(5.4)	(4.5)	(3.9)	(3.7)	(3.6)
Total external debt 4/	5.7	8.5	12.2	16.6	17.8
Medium- and long-term debt	4.4	6.9	10.5	13.6	15.3
Short-term debt	1.3	1.6	1.7	3.0	2.5
Debt service 9/	0.6	1.1	1.5	1.8	2.5
Amortization	0.2	0.5	0.7	0.7	1.0
Of which: Prepayments	(--)	(--)	(--)	(--)	(0.2)
Interest payments	0.4	0.6	0.8	1.1	1.5
Debt service ratio (in percent) 9/	4.3	8.0	10.2	10.9	13.1
Amortization	1.9	3.4	4.5	4.1	5.5
Of which: Prepayments	(--)	(--)	(--)	(--)	(0.8)
Interest payments	2.4	4.6	5.7	6.8	7.6

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

1/ Components may not add up to totals because of rounding.
2/ Data for 1984 are estimates.
3/ Includes changes in stocks.
4/ End of year.
5/ Includes short-term debt.
6/ Percentage contribution to the increase in domestic credit.
7/ Data for 1984 are staff estimates based on preliminary official data.
8/ Components may not add to totals because of discrepancy items.
9/ Relative to gross current account receipts; includes interest payments on short-term debt.

I. Introduction and Summary

This report discusses developments in the Malaysian economy during the period 1983-84. Chapter II focuses on recent developments in aggregate demand and supply, investment and savings, production, labor markets, and prices. Domestic financial policies and developments are examined in Chapter III. Developments in the external sector are discussed in Chapter IV, and Chapter V reviews the exchange and trade system.

In the early 1980s Malaysia's growth performance was adversely affected by the international recession and a substantial weakening in external demand. The authorities pursued expansionary financial policies to speed up development and to counter the domestic consequences of weakened external demand. The most important of these policies was a rapid expansion in budgetary expenditures. By boosting domestic demand, these policies worsened the balance of payments situation and led to a sharp rise in external debt. By 1982, the external current account deficit had widened to more than 14 percent of GNP, from near balance in 1980, and external debt had more than doubled to nearly 50 percent of GNP. To reduce the fiscal and current account deficits, the authorities initiated adjustment efforts in mid-1982, and intensified them in 1983. The thrust of these efforts was to curb budgetary expenditure. Attention was also focused on achieving more effective control over investments by nonfinancial public enterprises.

Helped by vigorous fiscal adjustment and a revival in external demand, the balance of payments strengthened in 1983 with the current account deficit narrowing to less than 12 percent of GNP. In addition, with the moderation in the growth of domestic demand and a decline in import prices, inflation levelled off both in 1982 and 1983. The growth of real GDP accelerated slightly as exports recovered and demand for imports weakened.

The Malaysian authorities continued substantial fiscal adjustment in 1984 to further ease strains on the budget and lessen pressures on the balance of payments. Efforts were also stepped up to restrain the investments activity of nonfinancial public enterprises. Following a decline in 1983, Federal Government expenditure rose only slightly by 1 percent in 1984, due to a further sharp reduction in development spending. Government revenues rose by 10 percent, mainly on account of increased collections from the petroleum sector. As a result, the overall federal budget deficit fell by more than 3 percentage points to 7.5 percent of GNP. The growth of real gross fixed capital formation by major nonfinancial public enterprises decelerated sharply to 18 percent in 1984, from 42 percent in the previous year.

Monetary policy became more restrained in the course of 1984, but was eased toward the end of the year, when signs of a weakening in economic activity emerged. Rapid growth in credit demand by the private sector, in particular construction, real estate, and housing, by commercial banks and nonbank financial institutions had strained the liquidity positions of these institutions. Liquidity was further constrained by temporary capital outflows in the wake of a speculative bout against the ringgit in the latter part of the year. In these circumstances, the Central Bank eased the situation through open market operations, foreign exchange swaps, and the recycling of government deposits to commercial banks, but allowed domestic interest rates to rise.

The economic recovery gathered strength in 1984, with the growth of real GDP accelerating further to 7.3 percent, due to strong export demand. The improved growth performance was most pronounced in mining and manufacturing, but growth in agriculture also rebounded from a sluggish performance in the previous year. As in 1983, the growth in domestic demand slowed in 1984, reflecting declines in investment expenditure both in the public and private sector. Continued fiscal retrenchment contributed to a decline of 7 percent in public sector investment; a sharp 40 percent reduction in investment outlays in the oil and gas sectors was responsible for a 3 percent fall in private sector investment. Contributions to GDP growth were shared equally by domestic and foreign demand in 1984, unlike previous years when domestic demand was the dominant growth stimulus.

The recovery of external demand, strong fiscal adjustment, and expansion in the oil sector led to a substantial improvement in the balance of payments during 1984, with the current account deficit narrowing to less than 6 percent of GNP. The surplus on the trade account rose sharply to U.S. dollar 2.7 billion, largely due to a sharp increase in the volume of exports and a decline in the volume of imports. To a lesser extent, an improvement in the external terms of trade also contributed to the increase in the trade surplus. Oil exports expanded rapidly, reflecting a marked increase in production and a slackening in domestic consumption of petroleum products. A strong expansion in electronic and electrical equipment exports boosted the growth of manufactured exports to 27 percent. Total imports grew only by 2 percent in 1984, mainly due to a decline in public sector expenditure and a fall in import prices. The service account deficit widened further, mainly as a result of larger payments of interest on external debt, greater profit repatriation, and a sharp increase in fees and other payments to foreign contractors.

The current account deficit continued to be financed mainly by Federal Government borrowing and commercial credits guaranteed by the Government. There was a recorded net short-term capital outflow of US$0.5 billion in 1984, partly reflecting the temporary placement abroad of proceeds from a floating rate note borrowing of the government. The overall balance of payments was broadly in balance in 1984, after recording a small deficit in 1983. Gross international reserves fell slightly to US$4 billion during 1984, or the equivalent of 3.6 months of imports. Total external debt rose by 7 percent to US$17.8 billion, equivalent to about 60 percent of GNP. This rise was solely due to an increase in medium- and long-term debt. Short-term debt fell by US$0.5 billion to US$2.5 billion, or 14 percent of total external debt. Debt service payments rose to US$2.5 billion, or 13 percent of gross current account receipts in 1984, with interest payments accounting for about three fifths of the total.

During the first nine months of 1984, the ringgit rose by 4.2 percent in real terms, mainly due to a further strengthening in nominal effective terms. However, from the start of the last quarter, there has been a gradual reversal in this trend. Between October 1984 and April 1985, the ringgit depreciated by 3 percent in nominal, and by 5 percent in real effective terms, because prices in Malaysia remained stable during this period.

Economic growth is estimated to slow to 5.6 percent in 1985, primarily due to slower growth in external demand. Crude oil production is estimated to decline by about 6 percent in response to a softening in the oil market. Manufacturing production is expected to be affected by a substantial weakening in the external demand for electronic goods. Even though the growth of imports of goods and nonfactor services is expected to decline to 2 percent, the net contribution of foreign demand to GDP growth is estimated to decline by 3 percentage points to less than 1 percent. Domestic expenditure is expected to be somewhat more buoyant than in 1984, as private sector investment benefits from higher investment in oil and gas and public sector consumption rises more rapidly. However, a moderate rise in public sector investment will dampen the rise in gross investment to 4 percent in 1985. Gross national savings as a proportion of GNP is estimated to decline somewhat, partly reflecting a fall in the external terms of trade. With gross investment remaining unchanged relative to GNP, the domestic resource gap is expected to widen and the current account deficit is estimated to increase to 7.7 percent of GNP. The rate of inflation is expected to remain at a moderate level, primarily due to stagnant import prices.

II. Domestic Economic Developments

1. Aggregate demand and supply

a. Trends and developments in 1984

The Malaysian economy grew strongly in 1984, consolidating the recovery that began in 1983 from the slowdown during 1980-82. The growth of real GDP, which had declined steadily from an average rate of about 9 percent in the latter half of the 1970s to 5.6 percent in 1982 and had recovered to 5.9 percent in 1983, accelerated further to

7.3 percent in 1984, led by strong export growth (Tables 1, 2, and Appendix Tables 22, 23, and 24 and Chart 1).

The pattern of growth in 1984 was in marked contrast to the 1980-82 period. On the demand side, public investment, 1/ which had been the major engine of growth in 1980-82, declined in real terms in 1984. The sharp growth in public investment in the early 1980s was not so much a countercyclical response to the slowdown in external demand, as a product of a development strategy that aimed to speed up development through active public sector investment, particularly in heavy industries. However, the growing external imbalance on the current account, which reached 14.4 percent of GNP in 1982, prompted the authorities to adopt adjustment policies, including restraints on public investment. The momentum of ongoing projects kept the growth of public investment large in 1983, but in 1984 it was finally arrested. Similar adjustments were also undertaken in public consumption expenditures, where the real increase decelerated steadily from 15 percent in 1981 to 2.6 percent by 1984. The net contribution of the public sector to growth was negative at -0.6 percent of GDP growth in 1984, compared with over 3 percent in 1982 and 1983, and nearly 8 percent in 1981.

Compensating for this withdrawal of demand of the public sector was the strong performance of exports. After stagnating in 1981, real export growth accelerated steadily to 13.6 percent by 1984, spurred by the economic recovery in industrial countries and the development of oil and gas resources. Private consumption recovered in 1983 and 1984, mainly through the increased real income brought about by higher output growth and improvements in the external terms of trade. The terms of trade improved by 4.9 percent in 1984, following a similar gain in 1983; and a deterioration averaging 4 percent during 1981-82. Following a marginal decline in 1983, private investment fell further by 3 percent, due to a sharp reduction (40 percent in real terms) of investment in the oil and gas sector, associated with the completion of major projects. Investment in non-oil sectors, however, increased by 8 percent, mainly reflecting the stronger external demand conditions. Changes in inventories also contributed to demand growth in 1984, supported partly by the rebuilding of the stock of palm oil.

With the shift in the composition of growth away from investment to exports, the growth of real domestic production increased from 5.6 percent to 7.3 percent in 1984; at the same time, the growth of real imports of goods and services fell from a peak of 12.6 percent in 1982 to 4.4 percent in 1984. Sharp gains in manufacturing and mining

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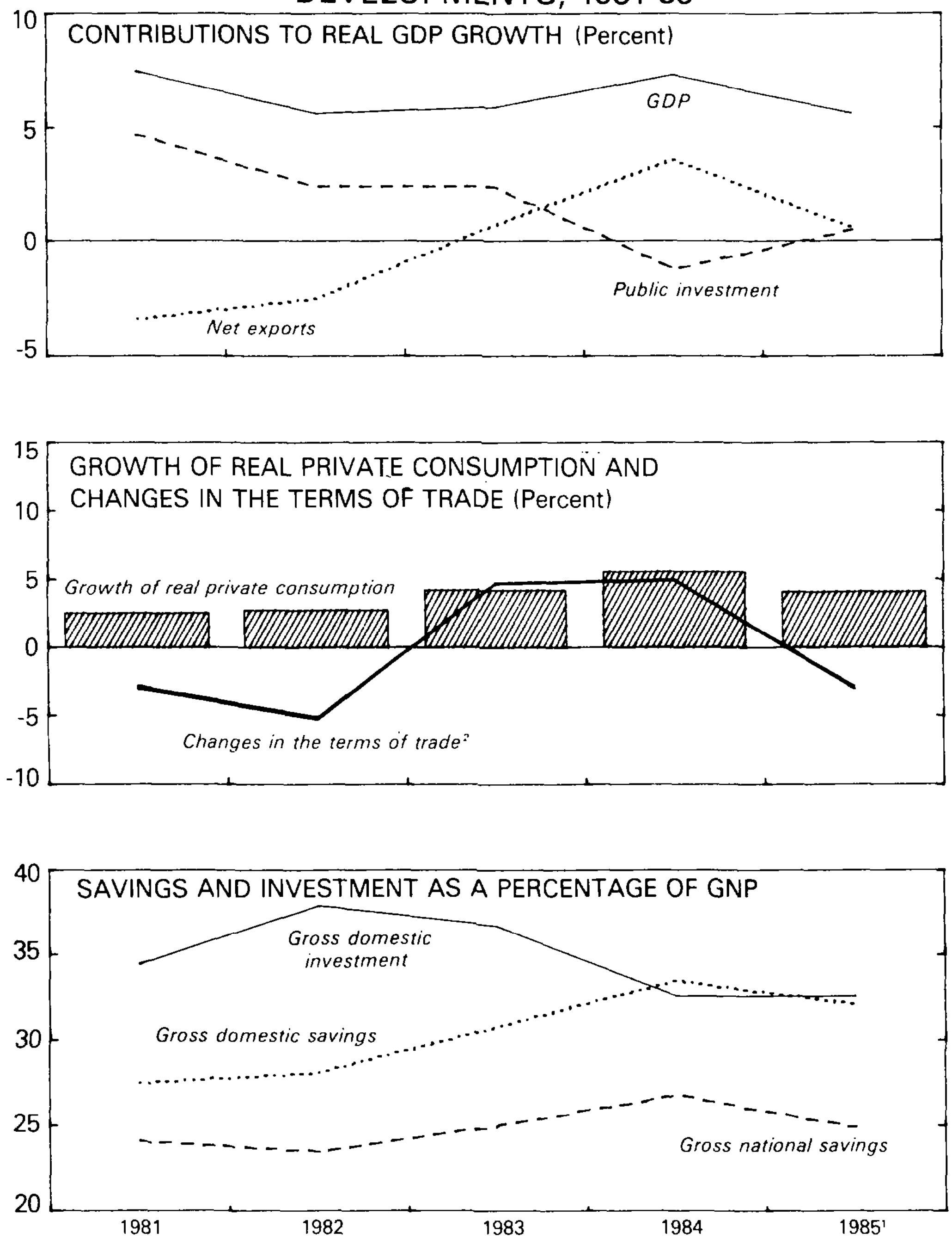
1/ The public sector referred to here is under the new, broader definition that includes 4 local governments and 36 major nonfinancial public enterprises. The figures are still provisional. For more details concerning the definition of the public sector, see the section on public finance.

CHART 1

MALAYSIA

SELECTED INDICATORS OF MACROECONOMIC DEVELOPMENTS, 1981-85



Source: Data provided by the Malaysian authorities

[1] Forecast

[2] Based on provisional 1980 trade weights.

Table 1. Malaysia: Output, Demand, and Prices, 1981-85 1/

(Percentage change over previous year)

	1981	1982	1983	1984	1985 Official Est.
GDP at market prices	7.1	5.6	5.9	7.3	5.6
Agriculture, forestry, and fishing	4.2	7.4	-1.0	3.0	3.4
Mining and quarrying	-2.0	2.8	18.5	20.0	-3.3
Manufacturing	4.9	3.8	6.6	11.1	8.0
Construction	15.1	9.5	10.6	8.3	8.0
Wholesale and retail trade	6.9	4.8	7.8	7.2	6.3
Government services	17.1	7.5	5.0	4.0	4.0
Net factor payments to abroad	-4.8	35.1	45.1	29.0	12.1
GNP at market prices	7.5	4.7	4.3	6.0	5.1
Imports of goods and nonfactor services	7.4	12.6	7.0	4.4	2.3
Demand					
Domestic demand	10.0	7.5	4.8	3.3	4.8
Consumption	5.6	3.9	4.0	4.7	5.1
Private	(2.5)	(2.7)	(4.2)	(5.5)	(4.0)
Public 2/	(15.0)	(7.1)	(3.6)	(2.6)	(8.1)
Investment expenditure 3/	23.0	10.9	7.3	-4.9	4.4
Private	(9.3)	(6.3)	(-0.2)	(-2.9)	(5.7)
Public 2/	(44.5)	(16.4)	(15.5)	(-6.8)	(3.2)
Exports of goods and nonfactor services	0.5	9.1	10.4	13.6	3.8
Crude oil production	-6.6	17.5	26.5	16.8	-5.8
Consumer prices	9.7	5.8	3.7	3.9	4.0-4.5
Terms of trade	-3.0	-5.3	4.7	4.9	-3.0
			(Ratio to GNP)		
Memorandum item:					
Gross national saving	24.1	23.5	25.0	26.8	24.9
Gross domestic investment	34.5	37.9	36.7	32.6	32.6

Source: Data provided by the Malaysian authorities.

1/ Output and demand based on 1970 prices.
2/ Includes 4 local authorities and 36 major nonfinancial public enterprises.
3/ Excludes changes in stock.

Table 2. Malaysia: Contribution to the Growth of GDP in 1970 Prices, 1981-85

(In percent)

	1981	1982	1983	1984	1985 1/
Domestic demand	10.5	8.1	5.2	3.6	5.0
Private sector	3.0	2.6	2.3	2.5	2.9
Consumption	1.5	1.5	2.3	2.9	2.1
Investment	1.5	1.1	--	-0.5	0.8
Of which: oil and gas sector	...	--	-0.3	-1.6	---
Public sector	7.7	3.9	3.2	-0.6	2.1
Consumption	2.9	1.5	0.8	0.5	1.6
Investment	4.7	2.4	2.4	-1.2	0.5
Change in stocks	-0.2	1.7	-0.2	1.8	--
External demand (net exports)	-3.4	-2.5	0.7	3.6	0.6
Gross domestic product	7.1	5.6	5.9	7.3	5.6
Memorandum items:					
Growth of total demand	7.2	7.9	6.3	6.3	4.5
Of which: public investment 2/	3.2	1.6	1.6	-0.8	0.3
exports 2/	0.1	2.5	2.9	3.9	1.2

Source: Data provided by the Malaysian authorities.

1/ Based on official estimates.
2/ In terms of contributions to total demand growth.

contrasted with slowdowns in construction and government services. The slowdowns in the latter two were the result of adjustment measures taken by the Government. The strong performance of manufacturing benefited from growth in foreign demand, in particular for electronic goods. The increase in output of the mining sector was due to increased oil and gas production, which also contributed to the sharper growth of exports in 1983 and 1984.

b. Income, savings, and the resource gap

Notwithstanding the recovery in domestic production, the growth in national income has been adversely affected by rising net factor payments abroad, comprising mainly interest payments on Malaysia's external debt. Net factor payments abroad increased 2.5 times from 1981 to 1984, and accounted for 6.3 percent of GDP in 1984. Consequently, the growth of GNP was a full percentage point lower on average than that of GDP during 1981-84.

The level of investment 1/ relative to GNP declined from a peak of 37.9 percent in 1982 to 32.6 percent in 1984, partly reflecting fiscal adjustment. Meanwhile, gross national savings increased from 23.5 percent of GNP in 1982 to 26.8 percent in 1984. Both the private and public sector contributed to this increase, the former coming from the higher growth of income associated with terms of trade gains, and the latter from lower current expenditure growth and higher revenues from oil. Consequently, the current account deficit narrowed from 14.4 percent of GNP in 1982 to 5.8 percent in 1984. Malaysia would have been able to finance a much larger part of investment with domestic savings had it not been for the sizable and rising net factor payments to abroad. Gross domestic savings (i.e., savings before these payments) rose from 30.6 percent of GNP in 1982 to 33.6 percent in 1984.

c. Outlook for 1985

Growth of real GDP is projected to slow to 5.6 percent in 1985, due mainly to a slackening in net exports. Exports are projected to grow by only 3.8 percent as a result of lower growth in world demand and a cutback in oil production. Even though the growth of imports is expected to decline further to 2.3 percent, the net contribution of foreign demand will decline by 3 percentage points to only 0.6 percent of GDP. The projected 3 percent deterioration in the terms of trade, due mostly to lower prices for commodity exports, will also adversely affect private incomes and consumption. Some of the expected slack in private consumption is expected to be taken up by a faster growth of investment and public consumption expenditures.

1/ Including change in stocks.

As a result of the slower growth, the deterioration in the terms of trade, and some further growth in factor payments to abroad, gross national savings as a ratio to GNP is projected to decline by almost 2 percentage points. With investment expected to remain unchanged at the 1984 level, the domestic resource gap is projected to widen to 7.7 percent of GNP.

d. Production

Malaysia has been particularly successful in developing its primary industries, shifting from an industrial structure heavily dependent on rubber (which provided 55 percent of Malaysia's export earnings in 1960) and tin (14 percent), to palm oil and timber in the 1960s, and further to oil and gas in the 1970s. From the early 1970s, manufacturing has grown rapidly, and notable gains have been recorded in the electronic and electrical appliances industry, aided by direct foreign investment. Between 1971 and 1984, the share of the agriculture, forestry, and fishery sector in GDP declined from 30 percent to 21 percent, while the share of the manufacturing sector increased from 14 to 19 percent. 1/

(1) Agriculture and forestry

Rubber and oil palm are the two most important agricultural crops. Together, they account for about 75 percent of cultivated land and 24 percent of export earnings. Rubber is the traditional crop, but oil palm has been gaining rapidly in importance since the 1960s when major diversification began. The process has accelerated in recent years with continued depressed prices of natural rubber, which has made cultivation of oil palm more profitable. In 1984, palm oil surpassed rubber in export earnings. In addition, there has been a further diversification into cocoa, which is even more profitable than oil palm.

After reaching a peak of 1.61 million tons in 1976, production of rubber has stagnated (Table 3). 2/ Production in 1984 was 1.53 million tons, down 2 percent from 1983, due partly to unfavorable weather conditions in the latter half of the year. The long-term stagnation in rubber production is the result of a decline in planting and replanting activities which began in the mid-1960s in the more productive estate sector (Appendix Table 25). Efforts have been made to expand production

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1/ The share of the mining and quarrying sector declined from 6.4 percent to 5.0 percent during the same period. However, this decline is entirely attributable to the use of 1970 prices, which were very low for oil and LNG compared with tin. There would be a large increase in the share of the mining sector if current prices were used.

2/ Malaysia is the world's leading supplier of natural rubber, accounting for 35 percent of world production. However, natural rubber accounts for only a third of the world supply of elastomers.

Table 3. Malaysia: Production of Major Agricultural and Mining Commodities, 1980-84

	1980	1981	1982	1983	1984
			(In thousands of metric tons)		
Agricultural production and yields					
Production of major commodities					
Rubber	1,530	1,510	1,494	1,562	1,528
Palm oil	2,573	2,822	3,509	3,016	3,714
Palm kernel oil	222	243	337	360	424
Paddy	2,045	2,021	1,884	1,779	1,717
Saw logs 1/	27,915	30,653	32,824	32,833	31,500
Sawn timber 1/	6,138	5,564	6,293	7,116	7,500
			(In thousands of hectares)		
Area under cultivation					
Rubber	2,005	2,006	2,006	1,963	2,000
Estate	(513)	(500)	(482)	(462)	(461)
Smallholder 2/	(1,492)	(1,506)	(1,524)	(1,501)	(1,539)
Oil palm	1,069	1,141	1,216	1,258	1,361
Paddy	716	710	682	665	639
			(In kilogram per hectare)		
Yields					
Rubber (Estate)	1,428	1,432	1,507	1,487	1,500
(Smallholder)	964	951	955	1,015	1,000
Palm oil	3,018	3,129	3,616	2,912	3,411
Palm kernel oil	317	321	380	348	388
Paddy	2,852	2,841	2,761	2,674	2,674
			(In thousands of metric tons)		
Mining					
Tin-in-concentrate	61.4	59.9	52.3	41.4	41.3
Crude petroleum 3/	100.9	94.2	110.7	139.3	161.0

Source: Data provided by the Malaysian authorities.

1/ Expressed in thousands of cubic meters.
2/ Includes Sabah and Sarawak.
3/ Expressed in millions of barrels.

by assisting smallholders in their planting and replanting activities and in the improvement of their management techniques; however, despite some success, the expansion in production has not been able to compensate for the decline in production by the estate sector. 1/ Production in 1985 is projected to increase marginally by 1.3 percent to 1.55 million tons through improved yields.

Rubber prices fell during 1984, particularly in relation to palm oil. The price of rubber (RSS1, in ringgit terms) rose by some 40 percent in the early months of 1983, remained at around M$2.6 per kg. throughout the rest of 1983, and fell during most of 1984. By the end of the year, it had lost the gains realized in early 1983 and stood at M$1.92/kg., barely the break-even level for producers. For the year as a whole, prices were 9 percent below those in 1983. The fall was due to the slower than expected growth in demand in the industrialized countries, particularly in Europe, the larger supply of natural rubber from Indonesia and Thailand, and lower oil prices which reduced the cost of synthetic rubber. A large overhang of inventories under the International Natural Rubber Agreement (INRA) was also a factor. No significant improvement in the price outlook is expected for 1985. However, a reduction in the export tax, effective April 1985, and a higher threshold price for the levying of export duty from M$1.80 to M$2.10 per kg., will help producers to some extent.

Oil palm and its products, palm oil and palm kernel oil, have enjoyed a rapid expansion in production over the past 20 years. 2/ Production of palm oil increased by 23 percent to 3.7 million tons in 1984, rebounding from the 14 percent decline in 1983 that was due to initial stress caused by the introduction of weevil as a pollinating agent in late 1981 and 1982, as well as to adverse weather conditions. Production of palm kernel oil increased by 18 percent to 360,000 tons in 1984. These increases were supported by a large increase in the cultivated area by the Federal Land Development Authority (FELDA) and the estates. From 1980 to 1984, the area under cultivation increased by 27 percent, or almost 300,000 hectares, and new planting in 1984 exceeded 100,000 hectares. The National Agricultural Policy envisages an additional 60,000 hectares of new planting annually during the rest of the decade, resulting in an annual rise in production of palm oil of around 10 percent. Production for 1985 is estimated to increase by 16 percent to 4.3 million tons.

1/ Yields in the smallholders sector in 1984 were two thirds of the level in the estate sector.

2/ Malaysia produces about 60 percent of the world production of palm oil and about 50 percent of palm kernel oil. There is a fairly high degree of substitutability among certain vegetable oils, particularly between palm oil and soybean oil, the major vegetable oil.

Price developments for palm oil and palm kernel oil continued to be favorable in 1984. A reduction in the supply of a wide range of vegetable oils, including soybean oil (due to a drought in the United States) and palm oil resulted in a steep rise in prices in the second half of 1983. The price of palm oil peaked at M$2,390 per metric ton (c.i.f. Rotterdam) in May 1984. It subsequently fell to M$1,463 per metric ton by the end of the year as production of vegetable oil recovered, but remained well above the level in the first half of 1983, which was about M$900 per metric ton. In 1984, prices were on average 63 percent higher than in 1983. The price of palm kernel oil followed similar trends and increased by 51 percent in 1984. Prices in 1985 are expected to remain relatively firm because stocks are still depleted. Oil palm and rubber would be at parity to the producer in terms of profitability if prices were M$2.8 per kg. for rubber and M$900 per metric ton for palm oil. The current price levels for rubber and palm oil strongly favor oil palm cultivation.

The production of paddy declined by 3.5 percent to 1.7 million tons in 1984, the fourth consecutive year of decline. The area under cultivation continued to decline, and yields increased only marginally. Accordingly, rice production decreased by 4.5 percent to 1.1 million tons, covering only 60 percent of domestic rice consumption, compared with 65 percent in 1983. Rice imports increased by 67,000 tons to 424,000 tons.

Malaysia's cost of rice production is high; the National Paddy and Rice Authority (LPN) provided a subsidy of M$165.4 per metric ton of paddy purchased from farmers while maintaining the retail price of rice at M$1,070 per metric ton, a level that is about 50 percent higher than that in Thailand. Under the National Agricultural Policy, the authorities had aimed at 80-85 percent self-sufficiency for national security purposes, but are now in the process of reviewing this target.

Malaysia's output of timber has grown steadily over the past 20 years, and Malaysia is now one of the world's leading producers of timber. Peninsular Malaysia, Sabah, and Sarawak each account for roughly one third of total saw log production. Most of the logs produced in Sarawak and Sabah are exported, whereas those produced in Peninsular Malaysia are processed domestically. As part of an effort to promote the domestic timber-based industry, a complete ban on exports of logs from Peninsular Malaysia was imposed, effective January 1, 1985. In addition, the Sabah State Government imposes royalty rates of 70 percent (f.o.b. value less logging cost allowance) on exports of unprocessed timber and of 7 percent (f.o.b. value) on processed timber.

Production of saw logs declined by 4.1 percent in 1984 to 31.5 million cubic meters, mainly due to abnormally wet weather in the first half of the year, particularly in Sabah and Sarawak. Despite this fall in the output of logs, production of sawn timber increased by 5.4 percent to 7.5 million cubic meters, due mainly to the increase in logs processed domestically, particularly in Sabah and Sarawak. Production of sawn timber in Sabah and Sarawak amounted to 1.3 million cubic meters and 0.4 million cubic meters, respectively, compared with 1.1 million cubic meters and 0.3 million cubic meters in 1983.

(2) Mining

Petroleum is the most important mineral product in Malaysia, accounting for 23 percent of total exports in 1984. As of end-1984, there was a recoverable reserve of crude oil amounting to 2.8 billion barrels, or about 17 years of production at the current level. There has been a lull in exploration activity since 1981, when the five-year exploration period provided in the original contracts with two foreign companies ended. In 1983, no new fields were discovered from 20 drillings. During 1984, sixteen wells were sunk and three new oilfields were discovered; two of these are estimated to have combined reserves of only 13 million barrels and the third is still under appraisal. The Malaysian authorities expect a large increase in exploration activity in 1985 as a foreign contractor that signed a production-sharing contract (PSC) in 1982 steps up its exploration activity, and as exploration by Petronas Carligali, a subsidiary of Petronas, the national oil company continues. Exploration activities are expected to be stepped up further when new contracts are signed under a new PSC 1/ that provides better terms for the oil companies.

Production of crude oil increased by 17 percent in 1984, from 139 million barrels (382,000 barrels per day) in 1983 to 163 million barrels (446,000 barrels per day) (Appendix Table 26). The bulk of this increase came from offshore fields of Peninsular Malaysia. Since 1981, Malaysia's production of crude oil has increased by 74 percent. However, in order to promote stability in oil prices, the Malaysian authorities have decided to lower the production level in 1985 to 420,000 barrels per day, from the 460,000 barrels per day planned earlier.

Liquefied natural gas (LNG) is rapidly becoming an important export product, accounting for 4.6 percent of total exports in 1984. As of end-1984, Malaysia had estimated recoverable gas reserves of about 50 trillion standard cubic feet, comprising 40 trillion cubic feet of nonassociated gas and 10 trillion of associated gas, about three times the size of oil reserves in terms of energy equivalent. Production and shipment of LNG, which began in 1983, doubled from 1.85 million metric tons in 1983 to 3.7 million metric tons in 1984, and is expected to reach 5.65 million metric tons by 1987.

1/ The review of the production-sharing contract is primarily in response to the move made by other countries to provide more attractive terms for exploration. A revision under consideration includes raising the oil companies' share of crude produced in small fields, especially with under 50 million barrels of recoverable reserves.

Domestic use of gas is also progressing with major developments having taken place in 1984. In Peninsular Malaysia, the Duyong Gas Project was completed, and delivery of gas was begun to a 900 megawatt power station and to the HICOM Direct Reduction Iron plant. In Sabah, the upstream phase of the gas project was completed and delivery of gas from the Samarang field began to the Sabah Government's methanol plant and hot briquetted iron plant. In Sarawak, the ASEAN Fertilizer Project urea plant is expected to begin operation in July 1985. With these developments, domestic use of gas in 1985 (excluding use in petroleum operations) will increase almost sevenfold from the 1983 level, to about 50 percent of LNG exports.

The production of tin-in-concentrate, has declined steadily over recent years. In particular, after the imposition of export controls by the International Tin Council in April 1982, production fell from 59,900 metric tons in 1981 to 52,300 metric tons in 1982 and to 41,400 metric tons in 1983. With Malaysia's export quota amounting to 36,500 metric tons per year, production in 1984 declined marginally to 41,300 metric tons--the difference in production and exports is partly accounted for by domestic consumption (1,600 metric tons), and the rest, by stockpiling. Export controls are expected to remain in force throughout 1985, and production is therefore not likely to rise above the 1984 level.

The large oversupply of tin and the stagnant demand kept the price at M$29.15 per kg., the floor price of the International Tin Agreement (ITA), throughout most of 1984. With production by non-ITA members increasing, the current price level is supported by tight export quotas and substantial buffer stock support; consumption growth is limited because of substitution by other materials. Although efforts are being made to develop other uses, including tin chemicals, there is little prospect of improving demand in the medium term, and the price of tin is expected to remain at ITA's floor price throughout 1985.

(3) Manufacturing and construction

A new index of manufacturing production, based on 1981 weights, was introduced in June 1984 to replace the former index based on 1968 weights. A comparison of the weights in these two indices illustrates the extent of the changes in the structure of the Malaysian manufacturing sector over this period. There has been a large expansion in export-oriented, light industries, particularly electrical machinery assembly and textiles. The weight of the category "electrical machinery, apparatus, appliances, and supplies" in the manufacturing production index increased from 2.0 percent in the old index to 14.9 percent in the new index, and that of textiles increased from 2.2 percent to 5.9 percent. There has also been substantial diversification in the manufacturing sector, characterized by the expansion of the category "others," which includes paper, printing, and publishing; plastic products; machinery manufacturing; and other miscellaneous industries.

The weight of this category in the manufacturing index rose from 5.4 percent to 15.7 percent. In contrast, there has been a sharp decline in the weights of domestic market-oriented sectors such as food and beverages, as well as more traditional export industries, such as wood and rubber products (Table 4).

After expanding by about 6 percent in 1983, manufacturing production recorded a strong growth of 12.2 percent in 1984. The largest contribution came from the electrical goods sector, whose output increased by 33.9 percent in 1984. Off-estate processing of agricultural products increased by 14.2 percent in 1984, reversing the 2.5 percent decline in 1983. This increase was due entirely to the larger processing of palm oil, reflecting the increased production of crude palm oil in 1984. The metal products sector recorded an impressive gain of nearly 50 percent, following the expansion of a large aluminum factory.

The main source of expansion in the electrical machinery sector in 1984 was the higher production of integrated circuits and semiconductors, which increased by 42 percent and 22 percent, respectively, as a result of strong demand in overseas markets. There was a slowing of growth in the production of electronic goods in the last quarter of 1984 and early 1985, reflecting the recent worldwide weakening of the semiconductors market. There was further progress in increasing the domestic value added content, which resulted in a reduction in imported inputs. This trend, which became evident in 1983 and strengthened in 1984, was due partly to the introduction of the investment tax credit that stimulated modernization. The tax credit was designed to replace the profit tax exemption under the pioneer status which had expired during 1982-84 for many firms that had started operations in the early 1970s.

In 1985, production in the chemical and iron industries is expected to rise sharply and to partly offset the slowdown in the electronics sector. Four large plants are expected to become operational during 1985, two for chemicals (urea and methanol) and two for iron (hot briquetted iron and iron billet). Urea, methanol and briquetted iron are intended for export. Protective measures, including a ban on imports, are being considered for iron billets to ensure adequate domestic sales.

Activity in the construction industry continued to be buoyant in 1984, increasing by 8.3 percent on a national income account basis, down slightly from 1982 and 1983 when growth averaged about 10 percent. The main source of growth was commercial construction activity, with nonresidential construction starts (measured by floor area) increasing by 41 percent in 1984, compared with a decline of 29 percent in residential construction starts. Construction activity in the nonresidential sector was accounted for mainly by building of shopping centers and hotels. The construction of office buildings peaked in 1984 as little new

Table 4. Malaysia: Industrial Production Index and Growth Rates, 1982-84

Items	Weights		Index (1981=100)			Change in Percent		
	1968=100	1981=100	1982	1983	1984 1/	1982	1983	1984 1/
Off-estate processing	12.3	13.4	118.0	115.0	131.3	18.0	-2.5	14.2
Food	16.5	6.1	92.8	101.6	103.8	-7.2	9.5	2.2
Beverages	4.5	3.7	94.7	84.3	86.5	-5.3	-11.0	-2.6
Tobacco products	7.2	3.6	109.0	104.8	112.5	9.0	-3.9	7.3
Textiles	2.2	5.9	95.9	95.2	103.8	-4.1	-0.7	9.0
Wood products	12.0	8.4	108.4	121.4	118.7	8.4	12.0	-2.2
Rubber products	6.4	3.7	97.9	101.7	94.1	-2.1	3.9	-7.5
Industrial chemicals and chemical products	9.6	3.3	92.2	96.1	102.3	-7.8	4.2	6.5
Petroleum products	5.1	7.2	109.2	139.8	149.4	9.2	28.0	6.9
Nonmetallic mineral products	7.6	5.3	94.8	99.9	110.6	-5.2	5.4	10.7
Basic iron and steel and basic nonferrous metal	2.6	3.2	108.4	114.2	135.6	8.4	5.4	18.7
Fabricated metal products	4.2	2.6	100.9	90.8	136.0	0.9	-10.1	49.8
Electrical machinery, apparatus, appliances and supplies	2.0	14.9	126.7	148.5	198.8	26.7	17.2	33.9
Transport equipment	2.4	3.0	96.0	111.1	119.3	-4.0	15.7	7.4
Othes	5.4	15.7	93.1	93.4	94.2	-6.9	0.3	0.9
All manufacturing	100.0	100.0	105.7	112.7	126.4	5.6	6.6	12.2

Source: Data provided by the Malaysian authorities.

1/ Estimates.

construction was planned because of an emerging oversupply of office space: 3.7 million square feet of office space was completed in and around Kuala Lumpur during 1984, compared to 1.7 million square feet in 1983; an additional 19.8 million square feet will become available during 1985-87, more than doubling the current supply of office space, which is estimated at 14.7 million square feet at end-1984.

2. Employment, wages, and prices

a. Employment

Employment registered a modest increase of 3.1 percent in 1984, slightly above the 2.8 percent gain recorded in 1983. With the labor force increasing by 3.6 percent, the unemployment rate increased by 0.5 percentage point to 6.6 percent in 1984. Sectoral gains broadly reflected the developments in industrial output in 1984, with employment in the manufacturing sector growing the fastest. Construction, wholesale and retail trade, and hotels and restaurants continued to provide the bulk of new employment. The mining and quarrying sector, in contrast, reduced its work force because of lower tin production; the capital-intensive oil sector does not generate much employment. Employment in agriculture, forestry, and fishing rose marginally, due to difficulty in securing workers (Table 5).

A recent survey by the Ministry of Labor indicates little shortage in skilled labor, except for the plantation sector. The number of new job vacancies reported to employment offices has remained relatively low after declining in 1982. Labor shortage in the plantation sector was particularly pronounced for rubber tappers, weeders, and harvesters.

b. Wages

Because of the lack of comprehensive data, wage developments in Malaysia are difficult to judge. The Annual Survey of Industrial Trends, conducted by the Central Bank, estimates that the increase in wages for unskilled labor was 8.3 percent in 1984, virtually unchanged from 1983. However, wage increases in new contracts that were negotiated in collective bargaining during 1984 averaged 15.1 percent over a three-year period, compared with 18.8 percent in contracts negotiated in 1983.

The outstanding features of the recent developments in wages, as revealed by the Occupational Wages Survey conducted by the Ministry of Labor, are the large increases in wages in the manufacturing sector and stagnant wages in the agricultural sector. Wages in the manufacturing sector as much as doubled between 1980 and 1983, while wages in the plantation sector remained virtually unchanged (Table 6). The decline in wages in the plantation sector is largely responsible for the shortage of labor in that sector. Available information suggests that the sharp increase in wages in the manufacturing sector, particularly in the

Table 5. Malaysia: Employment and the Labor Force, 1981-84

	Year-to-Year Percentage change				Percent Share in Employment	Percent Contribution to Growth of Employment		
	1981	1982	1983	1984	1984	1982	1983	1984
Employment								
Agriculture, forestry, and fishing	1.0	0.3	-0.1	0.8	36.3	3.7	-1.4	9.3
Mining and quarrying	-6.8	-8.8	-4.9	-1.1	1.2	-4.9	-2.4	-0.4
Manufacturing	3.9	1.3	4.8	5.8	15.4	7.6	26.6	29.6
Construction	10.5	6.4	6.8	5.5	6.8	14.2	14.9	11.4
Electricity, gas, and water	3.9	3.9	3.6	2.5	0.6	1.5	1.4	1.2
Wholesale, retail trade, hotels, and restaurants	4.2	4.5	5.8	5.2	13.3	21.0	26.4	22.1
Finance, insurance, business services, and real estate	6.7	5.2	5.9	4.7	1.4	3.0	3.3	2.5
Transport, storage, and communications	10.8	5.0	2.9	2.8	4.7	8.2	4.7	4.1
Government services	9.3	6.6	3.7	3.0	16.0	37.4	20.9	15.4
Other services	3.5	5.5	3.7	3.7	4.3	8.3	8.5	5.1
Total employment	4.1	2.6	2.8	3.1	100.0	100.0	100.0	100.0
Labor force 1/	3.7	2.6	3.4	3.6	...	...	...	...
	(As a percent of labor force)							
Unemployment	5.5	5.5	6.1	6.6	...	...	...	...

Source: Data provided by the Malaysian authorities.

1/ Estimates.

Table 6. Malaysia: Earnings in Selected Employment, 1980-83

(In ringgit per month)

	1980	1983	Percent Increase 1980 to 1983
Rubber tapper	259	279	7.7
Oil palm harvester	344	332	-3.5
Laborer			
Unionized worker			
Chemical products industry	352	507	44.0
Motor vehicle parts industry	261	573	119.5
Nonunionized worker			
Rice milling industry	240	375	56.3
Electronics industry	241	458	90.0
Production Operator			
Unionized worker			
Chemical products industry	419	755	80.2
Motor vehicle parts industry	312	451	44.6
Nonunionized worker			
Electronics industry	228	321	40.8

Source: Data provided by the Malaysian authorities.

electronic industry, was supported by a rapid rise in productivity, and there are few indications of a substantial erosion in competitiveness.

c. Prices

Inflation was modest in 1984; the average increase in the consumer price index remained below 4 percent as in the previous year. The favorable price performance was primarily a result of a further decline in import prices (by 2 percent) in 1984. Among major commodity groups, food prices rose by 3.7 percent in 1984, due partly to the higher price of cooking oil that was caused by higher palm oil prices. For the nonfood categories, "gross rent, fuel and power," and "transport and communications" recorded large increases. This was due partly to the withdrawal of government subsidies for kerosene and diesel fuel in January 1984; the price of kerosene was raised by 31 percent, and that of diesel, by 22 percent (Table 7 and Appendix Table 27).

The Government continues to monitor the prices of 17 types of essential goods, including 8 food items. The only significant changes in monitored prices were the increases in diesel and kerosene noted above. Apart from these, minor reductions in the price of condensed milk and sugar took place during 1984.

3. Energy

Malaysia's total energy consumption in 1984 increased by 6.6 percent, a rate that is roughly comparable to the average of the preceding three years. As a consequence, the growth of energy consumption during the 1980-84 period slightly exceeded the growth of real GDP, the elasticity being 1.04.

Oil supplies cover about 80 percent of Malaysia's energy needs, but there have been efforts to diversify energy sources, which have resulted in a decline of the share of oil in energy supply from 94 percent in 1980 to 82 percent in 1984. Natural gas and coal have increased in importance over recent years. Domestic natural gas consumption increased with the completion of the Duyong Gas Project. The second stage of this project will pipe natural gas to the south and west coasts of Malaysia. The use of coal increased by over 60 percent, as most cement companies completed the conversion from fuel oil to coal, and some companies expanded their capacity of coal-based facilities. Hydroelectricity generation also recorded a large increase in 1984, due to the commissioning of two new hydroelectric power stations and the abundance of rain. (Table 8).

Although Malaysia can easily meet its demand for petroleum from its own resources, about two thirds of its domestic consumption of petroleum products are met by imports, and much of its own production of crude is exported (Appendix Table 26). Because of its light, low sulphur quality, Malaysian crude commands a higher price in the international

Table 7. Malaysia: Consumer Price Developments, 1981-84

(Year-to-year percentage change)

Weight	Total (100.0)	Food Items (36.2)	Nonfood Items (63.8)
1981	9.7	11.4	8.7
1982	5.8	8.3	4.4
1983	3.7	0.9	5.5
I	4.3	1.9	5.8
II	3.8	0.6	5.8
III	3.3	-0.7	5.9
IV	3.4	2.0	4.2
1984	3.9	3.7	4.0
I	5.0	6.1	4.4
II	4.2	4.0	4.3
III	4.0	4.1	3.8
IV	2.5	0.6	3.6

Source: Bank Negara Malaysia, Monthly Statistical Supplement.

Table 8. Malaysia: Domestic Demand for and Sources of Energy, 1980-84 1/

	1980	1981	1982	1983	1984
			(In barrels per day; oil equivalent)		
Oil	162,498	171,684	183,087	188,237	185,205
Hydro	7,783	8,909	7,657	9,359	17,400
Natural gas	1,865	2,000	2,620	8,121	14,028
Coal	1,064	1,981	1,871	4,983	8,070
Total demand	173,210	184,574	195,235	210,700	224,703
			(In percent)		
Oil	93.8	93.0	93.8	89.3	82.4
Hydro	4.5	4.8	3.9	4.4	7.7
Natural gas	1.1	1.1	1.3	3.9	6.2
Coal	0.6	1.1	1.0	2.4	3.6
Total demand	100.0	100.0	100.0	100.0	100.0

Source: Data provided by the Malaysian authorities.

1/ Energy demand does not include noncommercial energy (i.e., firewood, rubberwood, and other biomass), as reliable estimates of the use of such energy are not yet available.

market, whereas the large use of fuel oil in electricity generation favors the use of cheaper heavy crude oil and heavier products in domestic consumption. Despite its current status as a net exporter of oil, Malaysia is expected to become a net importer as early as the turn of the century, if domestic consumption increases at the current pace. Efforts to restrain energy consumption have been stepped-up recently with the measure to terminate subsidies on diesel and kerosene.

III. Financial Policies and Developments

1. Public finance

a. Structure of the public sector

The public sector in Malaysia as currently defined consists of the Federal Government, 13 State Governments, 4 local governments (city, municipal, and town councils) and 36 nonfinancial public enterprises. 1/ The general government sector (consisting of the Federal, State, and local governments) is dominated by the Federal Government. The latter provides grants and loans which are a major source of finance for many of the State and local governments. In 1984, 2/ the Federal Government accounted for over 85 percent of the consolidated revenues and expenditure of the general government sector, and by far the largest part of the sector's deficit. The role of State Government is limited because of constraints imposed under the Federal Constitution. Their revenue sources, other than statutory and other transfers from the Federal Government, consist mostly of taxes and royalties from the exploitation of natural resources (timber, petroleum and tin).

Total revenue and grants of the general government sector have remained steady at around 33 percent of GNP during 1980-84. Total expenditure, on the other hand grew strongly to reach over 50 percent of GNP in 1981 and 1982, but fell sharply in the two subsequent years consequent on a contraction in Federal Government expenditures. The overall deficit of the general government sector rose to some 17 percent of GNP in 1981 and 1982, but fell back sharply to 11 percent in 1983 and to 8 percent in 1984 and 1985 (Appendix Table 28). The overall deficit of the State Governments rose from near balance in 1980 to almost 2 percent of GNP in 1984, and is estimated to rise further to 2.5 percent in 1985, due mainly to marked growth in development expenditure (Appendix Table 29).

1/ For a detailed list of public sector institutions see Government Finance Statistics Yearbook, Volume VIII, 1984, International Monetary Fund, Washington, D.C., p. 510.

2/ The fiscal year is the calendar year.

Information on the social security system--consisting of the Social Security Organization (SOCSO)-- 1/ is not adequate to permit a consolidation with the Federal Government account for the entire period under discussion. However, the available data indicate that SOCSO is growing in terms of coverage (over 2.6 million employees registered in 1984) and resources; contributions and investment income exceeded M$153 million in 1984 (Appendix Table 30). In 1984, the Social Security Act was extended to a wider range of wage earners and cash benefits were raised. As a result, expenditure increased by M$3 million to M$9 million. The Social Security Act provides for funds not immediately required for expenses to be invested in securities. Consequently, investments in government securities increased by M$129 million (22 percent), bringing holdings of government securities by SOCSO at the end of 1984 to M$711 million.

b. Federal Government 2/

(1) Trends in 1980-83

Between 1980 and 1982, the overall budget deficit rose sharply from M$3.3 billion (6.6 percent of GNP) to M$10.1 billion (17.3 percent of GNP), due to a rapid growth in both operating and development expenditure including net lending. In mid-1982, the authorities reassessed fiscal policy. Following this reassessment, substantial fiscal adjustment was undertaken during 1983, reflecting in particular a comprehensive review of expenditure policy, and the overall deficit declined to M$6.9 billion, or 10.7 percent of GNP (Table 9 and Chart 2). Roughly one-half of the deficits were financed from external borrowing, which grew from M$0.3 billion (0.6 percent of GNP) to M$4.6 billion (7.1 percent of GNP) in 1983. Recourse to domestic borrowing increased from M$3.3 billion in 1980 to M$5.8 billion in 1982, but fell to M$2.2 billion in 1983. Financing from the nonbank sector rose sharply from M$1.3 billion in 1980 to M$4.2 billion in 1982, due almost wholly to purchases of government securities by the Employees' Provident Fund (EPF) and Petronas. As foreign and nonbank borrowing exceeded financing requirements in 1983, the Government built up substantial deposits; this is reflected in a decline of M$0.2 billion financing from the banking system. In contrast, recourse to bank financing was M$2.0 billion in 1980 and averaged around M$1.4 billion annually during 1981-82.

1/ SOCSO functions basically as a workman's contributory insurance scheme. The Employees' Provident Fund (EPF), in which the majority of the employed Malaysians participate, holds individual accounts on which interest is paid and is therefore classified as a financial institution.

2/ For a summary description of budget formulation, execution and funding procedures see Malaysia--Recent Economic Developments (SM/84/140, 6/22/84) pp. 25-26.

Table 9. Malaysia: Summary of Federal Government Operations, 1980-85

	1980	1981	1982	1983	Est. Act. 1984	Budget 1985	Latest Est. 1985
	(In millions of ringgit)						
Total revenue and grants	13,836	15,703	16,563	18,502	20,300	21,769	22,310
Tax revenue	12,460	13,002	13,069	15,815	17,017	19,042	18,678
Of which: Petroleum tax 1/	2,433	3,219	3,426	3,475	4,194	4,182	3,818
Nontax revenue	1,372	2,695	3,482	2,679	3,277	2,718	3,623
Of which: etroleum revenue 2/	345	1,367	1,875	991	1,553	576	1,481
Foreign grants	4	6	12	8	6	9	9
Total expenditure and net lending	17,132	24,298	26,675	25,379	25,738	27,053	27,853
Operating expenditure	10,128	13,600	15,828	16,063	17,720	20,448	20,448
Development expenditure	5,280	8,864	7,079	5,791	3,847	4,361	4,361
Net lending	2,034	2,241	4,064	3,580	3,721	2,244	3,044
Adjustment for accounts payable	-310	-407	-296	-55	450	--	--
Overall deficit	-3,296	-8,595	-10,112	-6,877	-5,438	-5,284	-5,543
Financing	3,296	8,595	10,112	6,877	5,438	5,284	5,543
External (net)	310	3,419	4,893	4,569	2,958	...	...
Project loans	334	303	409	497	712	...	...
Market loans	-24	2,606	4,213	3,271	2,350	...	...
Other	--	510	271	801	-104	...	...
Domestic (net)	3,296	4,665	5,799	2,190	2,830	...	...
Banking system	2,035	1,168	1,671	-156	1,056	...	...
Central Bank	2,015	-300	855	881	1,002	...	...
Commercial banks	20	1,468	816	-1,037	54	...	...
Nonbanks	1,261	3,497	4,128	2,346	1,774	...	...
Employees' Provident Fund	1,132	1,733	2,154	1,947	2,320	...	...
Petronas	--	1,772	1,900	-177	-1,749	...	...
Other	129	-8	74	576	1,203	...	...
Discrepancy 3/	-310	511	-580	118	-350	...	...
	(As percent of GNP)						
Total revenue and grants	27.7	28.9	28.3	28.8	28.4	28.5	29.2
Of which: Nonpetroleum revenue	22.1	20.5	19.2	21.8	20.3	22.3	22.3
Tax revenue	24.9	23.9	22.3	24.6	23.8	30.0	24.5
Total expenditure and net lending	34.2	44.7	45.6	39.5	35.9	35.4	36.5
Operating expenditure	20.2	25.0	27.0	25.0	24.7	26.8	26.8
Development expenditure	10.5	16.3	12.1	9.0	5.4	5.7	5.7
Net lending	4.1	4.1	6.9	5.6	5.2	2.9	4.0
Overall deficit	6.6	15.8	17.3	10.7	7.5	6.9	7.3
External financing	0.6	6.3	8.4	7.1	4.1	...	...
Domestic financing	6.6	8.6	9.9	3.4	4.0	...	...

Sources: Data provided by the Malaysian authorities.

1/ Taxes on petroleum production, consisting of taxes on income and profits and export taxes.

2/ Royalties and dividends from Petronas.

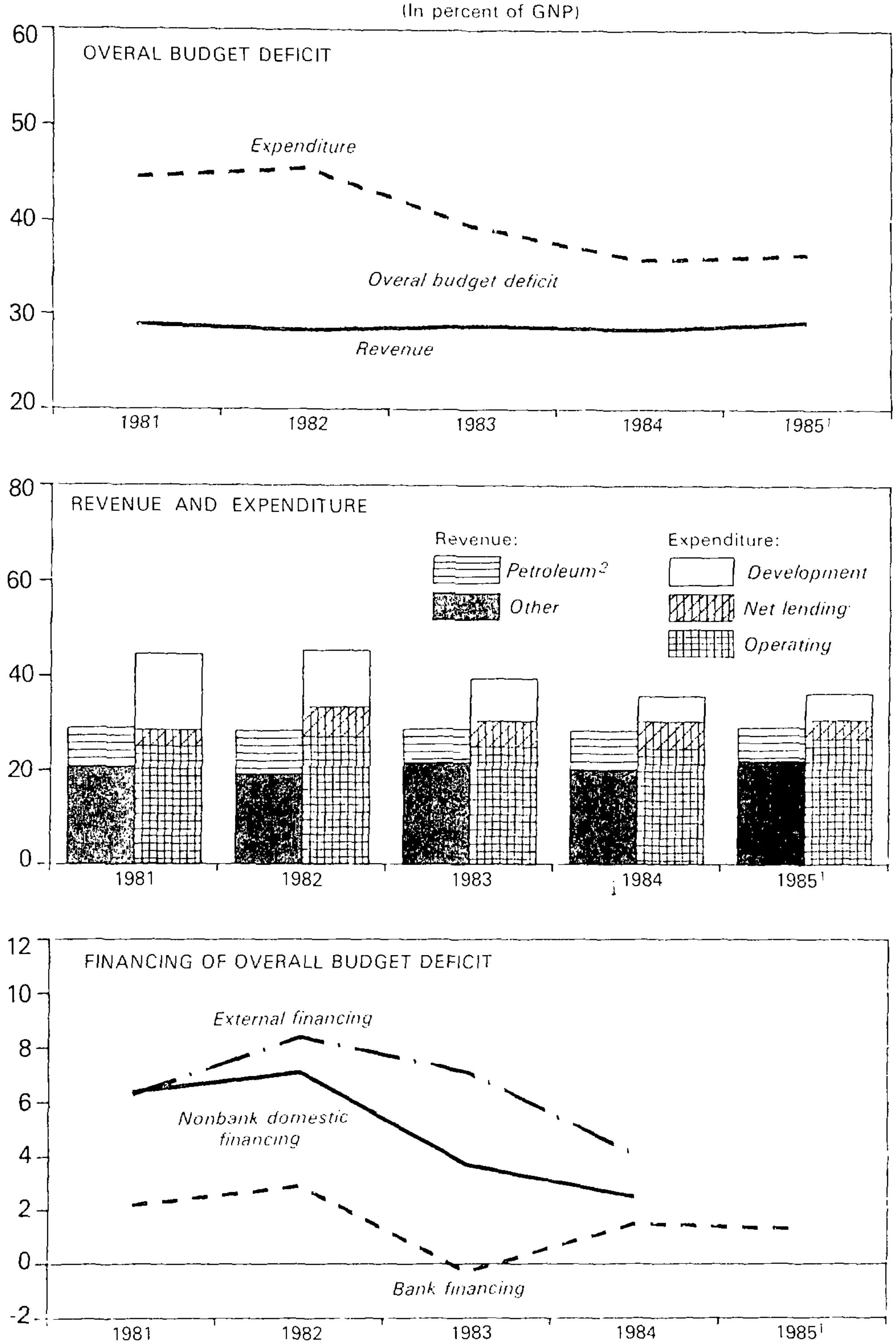
3/ Includes float and timing differences in recording between the Treasury and the Central Bank as well as unallocable sources.

CHART 2

MALAYSIA

FEDERAL GOVERNMENT OPERATIONS, 1981-85

(In percent of GNP)



Source: Data provided by the Malaysian authorities.

[1] Revised estimates.

[2] Consisting of petroleum company tax, export duties, and royalties and dividends paid by the oil company.

The marked increase in the federal government deficit between 1980 and 1982 reflected growth in total expenditures of 56 percent and in revenue of 20 percent. Development expenditure and net lending increased by 52 percent to M$11.1 billion in 1982, reflecting the Government's efforts to accelerate implementation of its development program in the final year of the Third Malaysia Plan (TMP) (1980) and the first year of the Fourth Malaysian Plan (FMP)(1981). 1/ This expansionary expenditure policy was initiated at a time of sharply rising petroleum prices, and provided a countercyclical stimulus to the economy as external demand weakened. The realization that the world recession was lasting longer than expected led to a reduction in direct development spending in 1982, although this decline was offset by a sharp rise in net lending. Operating expenditures increased by almost 60 percent to M$15.8 billion between 1980 and 1982, due both to a sharp growth in wages and salaries and in outlays on other goods and services as a result of the acceleration in the development effort. Operating expenditures were also affected by the very rapid growth in interest payments resulting from the growth in public debt and a rise in interest rates, and from the steady growth in subsidies and transfers.

The growth in total revenues from M$13.8 billion in 1980 to M$18.5 billion in 1983 was due primarily to the increase in revenues derived from the production and export of petroleum. Oil revenues comprising income tax, export taxes (imposed for the first time in 1980 at 25 percent), royalties, and dividends, grew rapidly up to 1982 on account of the sharp rise in world prices of petroleum at the beginning of the decade. Such receipts rose from 5.6 percent of GNP in 1980 to 9.1 percent in 1982, but declined to 6.9 percent in 1983 due to a sharp fall in dividends from Petronas. In contrast, non-oil revenues declined as a share of GNP between 1980 and 1982, mainly because of a decline in revenue from export duties. The recovery of non-oil revenues in 1983 (to 22 percent of GNP) was due partly to a substantial tax package that included a doubling of the sales tax rate, and increases in other taxes on goods and services.

(2) Revenue

The structure of revenue underwent major changes over the period 1980-83 (Appendix Table 31). The single most important factor in this change was oil revenues, which grew from 20 percent of total revenue in 1980 to 32 percent in 1982, but fell to 24 percent in 1983. The largest growth occurred in 1981 (from 20 to 29 percent of total revenue) due to the M$1 billion of dividends received from Petronas and a virtual doubling of export duty receipts. By the same token, the decline in oil revenues in 1983 was due to a fall in dividends from Petronas to M$0.5 billion (from the M$1.5 billion in the previous

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1/ For details see "Malaysia: Recent Economic Developments" (SM/83/144, 6/27/83), p. 24.

year), in spite of a slight increase in export duties and virtually constant receipts from income taxes and petroleum royalties.

The growth of oil taxes also had a considerable impact on the composition of tax revenues over the period. The share of revenue derived from taxes on income and profits increased from about 42 percent to 46 percent, aided by increases in tax revenues from oil-producing companies. Individual and non-oil corporate income taxes declined in relative terms as their base was eroded by exemptions, allowances, and incentives that were granted in support of growth and equity objectives. Taxes on international trade declined continuously during this period--from 37 percent of tax revenue in 1980 to 28 percent in 1983. Although import duties maintained their share (at about 17 percent) of tax revenue, they fell as a proportion of imports, reflecting an erosion of the tax base due to a wide variety of exemptions (see below). Export duties, on the other hand, fell sharply from 21 percent to 12 percent of tax revenue between 1980 and 1983, due both to a fall in dutiable export values and a reduction in export duty rates, particularly on rubber and tin; if export duties on petroleum are excluded, the decline is even sharper. Taxes on goods and services increased from an average of 18 percent in 1980-81 to 20 percent in 1982 and 23 percent in 1983; this was due partly to a doubling of sales tax rates in the latter year. Selective excises on goods and services also increased their ratio slightly, principally on account of increased tax collections on motor vehicles, tobacco and alcoholic beverages, and petroleum products.

Estimates of tax buoyancies over the period 1975-84 indicate that overall tax revenues had a buoyancy of 1.11, due largely to the effect of corporate oil receipts and the domestic sales tax (Table 10). The buoyancy of individual income and import taxes also exceeded unity during 1975-84. More recently, these trends have become even stronger. Thus, corporate oil receipts had a buoyancy of 2.38, and domestic sales taxes 2.00 in the period 1979-84. Sales taxes on imports also had a high buoyancy as did individual income taxes. Buoyancy estimates with respect to proxy tax bases indicate, however, that taxes on international trade (in particular export duties) were not particularly buoyant. The buoyancy of export duties to exports was only 0.15, reflecting discretionary tax reductions in the face of falling export prices. The buoyancy of customs duties to imports was 0.87, reflecting widespread exemptions for government imports, and imports of raw materials and capital goods to which lower duty rates apply (see Annex A--Tax Summary).

(3) Expenditure

The structure of expenditure also changed, as the share of current expenditures declined from 59 percent of total expenditures in 1980 to 55 percent in 1981, due to a sharp boost to development outlays, but increased steadily thereafter to 59 percent in 1982 and to

Table 10. Malaysia: Estimates of Tax Buoyancies, 1975-84

	With respect to:				
	GNP			Imports	Exports
	1975-79	1979-84	1975-84	1979-84	1979-84
Tax revenues	1.05	1.20	1.11	...	...
Income and profits tax	0.93	1.59	1.21	...	...
Individual	(1.42)	(1.16)	(1.31)	...	...
Corporate non-oil	(0.54)	(1.39)	(0.90)	...	...
Corporate oil	(1.42)	(2.38)	(1.82)	...	...
Domestic consumption	0.92	1.19	1.03	...	...
Sales tax--domestic	(1.10)	(2.00)	(1.48)	...	...
Excises and others	(0.89)	(0.99)	(0.93)	...	...
Import taxes	0.91	1.21	1.04	0.92	...
Sales tax--imports	(0.90)	(1.57)	(1.18)	(1.19)	...
Customs duties and surtax	(0.92)	(1.15)	(1.02)	(0.87)	...
Export duties	1.73	0.14	1.00	...	0.15
Petroleum	...	(2.51) 1/	...	...	(3.01) 1/

Source: Staff estimates.

1/ For period 1980-84.

63 percent in 1983 (Appendix Table 32). Development expenditures, which grew strongly in 1981 and reached 46 percent of total expenditures in that year, declined sharply to 42 percent in 1982 and 37 percent in 1983. In the latter year, direct development expenditure accounted for only 23 percent of total expenditure the balance of total expenditure being accounted for by net lending which increased slightly during that year.

The composition of operating expenditures shifted as interest payments, particularly the foreign component, grew strongly from 15 percent of operating expenditure in 1980 to 17 percent in 1982, and to 21 percent in 1983. The percentage of wages and salaries, on the other hand, declined from 42 percent of operating expenditure in 1980 to 40 percent in 1983. The relative decline reflects in part the absence of any general wage and salary increase since 1980. The relative importance of outlays on goods and services declined in each of the following years after reaching 17 percent of operating expenditure in 1981, and was associated with the shift to an environment of budgetary stringency. Subsidies and transfers, which accounted for some 27 percent of expenditures in 1980 and 1981, increased in relative terms in the following year, but declined sharply in 1983. The rise in interest payments on government debt during 1980-83 was mainly at the cost of expenditures on social and economic services, which fell by 6 percentage points to 57 percent of total government expenditure (Appendix Table 33).

(4) The 1984 budget outturn

The budget for 1984, presented in October 1983, aimed at consolidating and strengthening the Government's financial position by aligning expenditures more closely to available resources in light of the continuing balance of payments constraint. The budget, which aimed at curbing the growth in expenditures, especially development outlays, also contained a revenue package to boost nonpetroleum receipts. The overall deficit was initially budgeted at M$7.4 billion, equivalent to 10.4 percent of estimated GNP, at the time the budget was framed. This deficit was based on revenues of M$19.4 billion, 1/ reflecting a growth of 8 percent over 1983 preliminary actuals, notwithstanding a projected 8 percent decline in petroleum receipts. Expenditures (inclusive of net lending) were budgeted to increase by some M$2.2 billion, reflecting a 9 percent growth, compared to an annual average of some 25 percent during 1980-82; however they represented virtually no growth compared with the estimates of 1983 and the actual outturn of 1982.

The budget estimates were subsequently revised to reflect an additional receipt of M$530 million in dividends to be collected from

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1/ Including a package of tax measures amounting to a net M$242 million, on an annual basis.

Petronas; an expenditure reduction of about M$400 million in petroleum subsidies following increases in domestic prices in January 1984; and a downward revision of some M$430 million in external interest payments. However, these changes were more than offset by the appropriation of an additional M$1.2 billion for development projects, including telecommunications and road projects which for contractual and other considerations had to be restored, and by the provision of M$855 million for project payments postponed in 1983. Accordingly, the revised overall deficit 1/ was estimated at M$7.9 billion (equivalent to 11 percent of GNP) and was projected to be higher than that initially budgeted by M$450 million.

The estimated outturn for 1984 was much better than both the original and revised budget estimates, with a decline in the overall deficit of M$1.5 billion from the 1983 outturn. The overall deficit was reduced to M$5.4 billion, or 7.5 percent of GNP, compared to a deficit of M$6.9 billion or 10.7 percent of GNP in 1983. The improvement was due wholly to a M$1.8 billion increase in revenue offset in part by a M$300 million increase in expenditure. Revenue increased by some 10 percent (slightly below the growth in GNP at current prices), and tax revenue rose by 11 percent principally on account of increased collections from petroleum producing companies. Taxes from international trade also rose, both on account of imports and exports (petroleum and palm oil). Taxes on goods and services increased marginally by 5 percent; in contrast, nontax revenue rose by M$600 million due entirely to increased dividends paid by Petronas, and petroleum royalties.

The increase in expenditure was almost wholly due to an increase in operating expenditure (M$1.7 billion, or 10 percent) caused by a sharp rise in interest payments and a somewhat smaller increase in wages and salaries. Interest charges increased by 26 percent, reflecting primarily the growing size of the public debt since 1980, and, to a lesser extent, a rise in interest rates in international financial markets. The 10 percent increase in wages and salaries was to meet normal annual wage increments as employment in the Federal Government increased by 3 percent over the year. Reflecting the tight control on development expenditure and new commitments, Federal Government development outlays (inclusive of net lending) declined by 19 percent due to lower direct development expenditure. In contrast, net lending to State Governments and nonfinancial public enterprises rose by 4 percent. As a result, the share of direct expenditure in total development expenditure declined to 51 percent from 62 percent in 1983, while that of net lending rose to 49 percent from 38 percent a year earlier. The decline in the share of expenditure on economic services relative to total federal government expenditure continued in 1984, affecting all major economic categories. Retrenchment of outlays on general administration and defense,

1/ As of April 1984.

which had started in 1982, continued in 1984. However, unlike in previous years, expenditures on social service, particularly education, rose faster than total expenditure in 1984.

The reduction in the overall deficit necessitated a lower level of financing than in 1983. Net external borrowing declined sharply by M$1.6 billion to M$3.0 billion. As a matter of policy, recourse to project loans was stepped up during the year, while there was some prepayment of market loans raised in previous years. Nonbank financing fell (by M$500 million) for the second successive year due to a reduction in the holding of government securities (of M$1.5 billion) by Petronas. This mainly reflected a transfer of government securities to Bank Bumiputra in exchange for foreign property loans and equity shares, accounting for most of the recourse to the banking system, which rose by M$1.1 billion, compared with a net repayment of M$0.2 billion in 1983.

(5) The budget for 1985

The budget for 1985, which was presented by the Minister of Finance to Parliament in October 1984, contained a package of fiscal measures aimed at further strengthening the finances of the public sector, promoting private sector growth and improving the balance of payments. The overall deficit initially budgeted for 1985 was M$5.3 billion, equivalent to 7 percent of GNP. This deficit was based on revenues of M$21.8 billion, reflecting a growth of 7.2 percent over the estimated actuals of 1984 and yielding a buoyancy of 1.1 in relation to nominal GNP. The forecast included new revenue measures amounting to a net M$40 million on an annual basis. The revenue package included a share transfer tax on land-based companies (M$150 million); increases in import duties on cars, tires and plywood (M$80 million); increases in road transport fees (M$150 million); and increased excise duty on cars (M$12 million), offset in part by a reduction in personal income tax rates and an increase in child relief (M$327 million) and a reduction in estate duty rates (M$23 million). Expenditure was budgeted at M$27.1 billion, 5 percent more than the estimated outturn for 1984. Operating expenditure was estimated at M$20.4 billion (an increase of 15 percent over 1984), reflecting principally increases in interest payments (M$1.1 billion), and subsidies and other transfers (M$500 million). In contrast to the budgetary outturn in 1984, direct development outlays were budgeted to increase by M$500 million, while net lending was cut back by some M$1.5 billion. The latest budget estimates anticipate significant reductions in outlays on defense and transport and telecommunications in 1985.

The latest revenue estimates have taken into consideration a further softening in petroleum production and exports. Income tax from petroleum producing companies, export duties on petroleum, and petroleum royalties are expected to decline by M$390 million. 1/ This decline has been more than offset by an anticipated dividend from Petronas of M$930 million, so that total revenue is expected to be M$22.3 billion, or 10 percent over 1984 revenue collections and about the same rate of increase as in the previous year. With the inclusion of a sum of M$800 million for housing loans, total expenditure and net lending is expected to be M$27.8 billion. The resulting overall deficit of M$5.5 billion is thus expected to increase marginally in absolute terms when compared to the overall deficit in 1984, but decline slightly as a share of GNP from 7.5 percent to 7.3 percent in 1985.

(6) Federal Government debt

Total Federal Government debt outstanding at end-December 1980 was M$23.1 billion (Table 11). By end-1983, it had more than doubled to M$50.6 billion, reflecting the marked deterioration in Federal Government finances, with the increase almost equally divided between foreign and domestic sources. By 1984, the level had reached M$56.8 billion. Although the net increase in total debt was relatively small in 1984 (M$6.2 billion), the annual increase between 1980 and 1983 was more than M$9 billion. The outstanding debt in relation to GNP, which was 46 percent in 1980, increased rapidly in 1981 and 1982, but slowed considerably in 1984 with the improved budgetary situation, nonetheless reaching about 80 percent of GNP in that year.

Foreign debt quadrupled between 1980 and 1984, reaching 36 percent of total debt outstanding. The strongest growth occurred in 1982 when the Federal Government borrowed M$4.9 billion abroad. Most of this growth was in market loans which increased as a share of total external loans from 45 percent in 1980 to 70 percent by 1984. Amortization of foreign debt had been low at M$0.2 billion annually in 1980 and 1981, but increased to M$0.5 billion in the two subsequent years; and to M$1.1 billion in 1984. The larger part of repayments must still be made when grace periods of earlier borrowing expire, although in 1984 prepayment of maturities due later in the decade have been undertaken to smooth out years of heavy amortization. While domestic debt increased in 1984 in absolute terms by a larger amount, its share in the total declined. This reflected both the constraints imposed by the statutory limitation on the outstanding stock of domestic debt (M$3 billion for Treasury bills and M$40 billion for government securities), and the Government's policy of not crowding out the private sector from access to domestic sources of finance. The stock of domestic debt grew from M$18.3 billion in 1980 to M$36.1 billion in 1984. By far the larger

1/ It is likely that export duty collections (principally rubber) and taxes on goods and services may have to be revised further. On April 17, 1985, in order to reduce the incidence of export duty on rubber growers, a higher threshold price and a reduced export duty structure was announced.

Table 11. Malaysia: Outstanding Federal Government Debt, 1980-84 1/

	1980	1981	1982	1983	1984
		(In billions of ringgit)			
Domestic debt	18.3	22.4	28.5	32.9	36.1
Government securities 2/	16.8	20.6	26.2	30.1	33.3
Treasury bills	1.5	1.8	2.3	2.8	2.8
Foreign debt 3/	4.9	8.3	13.2	17.7	20.7
Project loans	2.7	3.5	4.2	5.4	6.1
Market loans	2.2	4.8	9.0	12.3	14.6
Total debt	23.1	30.7	41.6	50.6	56.8
		(As percent of GNP)			
Domestic debt	36.6	41.2	48.6	51.2	50.4
Government securities	33.6	37.9	44.7	46.9	46.5
Treasury bills	3.0	3.3	3.9	4.3	3.9
Foreign debt	9.7	15.2	22.5	27.6	28.9
Project loans	5.3	6.4	7.1	8.5	8.5
Market loans	4.4	8.8	15.4	19.1	20.4
Total debt	46.3	56.4	71.1	78.8	79.3
Amortization of foreign debt (in billions of ringgit)	0.2	0.2	0.5	0.5	1.1

Source: Data provided by the Malaysian authorities.

1/ End of period.
2/ Includes Investment Certificates of M$0.2 billion.
3/ Excludes use of Fund credit.

part of the growth occurred in government securities which constitute the bulk of outstanding debt and have a much higher statutory limit on the amounts outstanding; these grew from M$16.8 billion in 1980 to M$33.3 billion in 1984. The largest share of government securities is held by the EPF, which accounted for about 46 percent of domestic debt in 1984. Treasury bills are held mostly by commercial banks.

In order to contain debt servicing charges on government debt and to provide government lending at preferential rates to priority activities, interest rates on government securities have been kept relatively stable in recent years, despite rising yields on other financial assets. The discount rate on three-month Treasury bills fell by about 1 percentage point to 5.1 percent in 1984, following a rise of similar magnitude in the previous year. The coupon rates on long-term government bonds remained broadly unchanged within a range of 6.5-8.6 percent for maturities of 3 years and 21 years, respectively. Since interest rates on other financial assets rose during the same period, the differential between yields on government securities and those assets became more pronounced.

c. Nonfinancial public enterprises

Traditionally, nonfinancial public enterprises (NPE's) had been defined to comprise ten entities whose activities broadly encompass ports, railways, electricity, and telecommunications (see Annex B for a list of agencies). 1/ Although the surpluses of these agencies remained sizable, they were also funded by loans and grants from the Federal and State Governments and project financing from international development agencies. During the Third Malaysia Plan period, the current surpluses of these agencies, largely reflecting surpluses of Petronas, financed some 40 percent of their total development expenditure. The development expenditure of these entities amounted to less than 20 percent of the total development expenditure incurred by Federal and State Governments in the Third Plan.

In recent years, however, due to the increasing involvement of the public sector in national economic activities, there has been a rapid growth in the number of publicly-owned or controlled enterprises engaged in typically private sector activities. As their level and range of activity expanded in recent years, so has the extent of their financial requirements for new investment. Most of these agencies, like the traditional NPE's, depend on the Federal Government for grants, equity,

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1/ In addition to these ten entities, four local governments were included in a list of 14 public authorities, which, together with the Federal Government and 13 State Governments comprised the limited public sector--see Malaysia--Recent Economic Developments (SM/84/140, 6/22/84), Appendix Table 25.

or loans, including domestic and external loans guaranteed by the Government.

Given the significant impact that NPE's have on domestic consumption and investment, as well as on the balance of payments, the Government has, since 1983, taken steps to review the expenditure of the NPE's within the framework of public sector budgetary planning. In initiating steps toward more effective control, the authorities established an Interagency Committee in 1984 to lay down guidelines on the definition of public agencies and to monitor the activities of these agencies within the framework of national economic planning. Accordingly, the Committee has now extended the coverage of NPE's from the traditional 10 NPE's and the 13 "Off-Budget Agencies" to include a further 13 NPE's for immediate monitoring and reporting purposes (Annex B). This group of NPE's meet the criteria of: (1) 51 percent government ownership and control; and (2) annual revenue in excess of M$5 million. The concept has not, however, been extended to include a number of agencies which have been acquired by public holding companies in the course of pursuing NEP objectives to restructure asset ownership.

The overall deficit of the 36 NPE's which was M$3.1 billion (6.1 percent of GNP) in 1980 declined to M$1.9 billion (3.5 percent of GNP) in 1981, but more than doubled to M$4.2 billion (7.2 percent of GNP) in 1982 (Appendix Table 34). 1/ The overall deficits remained high both in 1983 and 1984 standing at M$3.6 billion and M$4.6 billion, respectively. These deficits have been met almost wholly through loan financing, with two fifths coming from foreign sources, particularly in the period 1982-84. The operating surpluses of these enterprises, which totaled M$0.5 billion in 1980, increased steadily to M$2.2 billion (4.1 percent of GNP) in 1981 and to M$2.3 billion (4.0 percent of GNP) in 1982. In 1983, however, they increased strongly to M$5.1 billion (7.9 percent of GNP) with M$4.3 billion contributed by Petronas. In the five-year period 1980-84, four fifths of the operating surpluses came from Petronas, while the balance was generated mainly by two other enterprises--the National Electricity Board and Telecommunications Department. Development expenditure of the enterprises has increased every year and tripled during the period--from M$3.5 billion in 1980 to M$10.6 billion (14.8 percent of GNP) in 1984. In the latter years, development expenditure of the public enterprise sector was almost three times the level of direct development expenditure of the Federal Government.

1/ These statistics, however, are only indicative of broad trends and need further refinement.

2. Money and credit

a. Structure of the financial sector

The financial sector of Malaysia comprises a wide range of bank and nonbank financial institutions. The banking system, consisting of the Central Bank, 39 commercial banks (23 domestic and 16 foreign), 41 finance companies, 12 merchant banks, and 5 discount houses, is at the heart of the sector. At the end of 1984 the banking system accounted for 72 percent of the sectors total assets of M$146 billion. In addition to the banking system, there are nonbank financial intermediaries, of which the largest is the EPF, with total assets of nearly M$21 billion at the end of 1984. Other large intermediaries include the National Savings Bank, the development finance institutions, and life insurance funds.

The banking system is supervised by Bank Negara Malaysia (BNM), the Central Bank, which issues currency, acts as banker and advisor to the Government, and conducts monetary and credit policy. In recent years, BNM has operated its monetary policy mainly by affecting the volume of bank reserves and by intervening in the money market, primarily through lead banks. This policy has been implemented mainly through open market operations in government securities, rediscounting of commercial bills and bankers' acceptances, recycling of government deposits, foreign exchange swap transactions and, most recently, changes in statutory reserve requirements of commercial banks and merchant banks.

The activities of commercial banks are controled by a variety of instruments. Important among these is the statutory reserve requirement which requires banks to keep 4 percent of designated liabilities in the form of noninterest-bearing balances with the Central Bank 1/. In addition, the banks are also required to invest 20 percent of their designated liabilities in liquid assets, of which one half should be in the form of primary liquid assets. For this purpose, primary liquid assets comprise cash, balances with the Central Bank, net money at call with discount houses, Treasury bills and government bonds with remaining maturities of one year or less. Moreover, the ratio of capital to total assets (for domestic banks) and of net working funds to total assets (for foreign banks), both net of fixed and long-term investment, should not be below 4 percent and 6 percent, respectively. The loan portfolio of commercial banks is subject to lending guidelines designed to channel credit to priority sectors, generally at below market interest rates. Also, loans to a single customer cannot exceed 30 percent of a bank's capital.

Salient features of the finance companies are that they are not permitted to accept deposits of less than three months' maturity and

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1/ Five percent before April 15, 1985.

they cannot grant unsecured loans. The reserve requirements are less stringent than those for commercial banks. They are set at 2.5 percent of designated liabilities for statutory reserves and at 10 percent for total and 5 percent for primary liquid assets. The capital adequacy ratio is defined in terms of risk assets which cannot exceed 15 times the shareholders' funds. Finance companies are also subject to lending guidelines similar to commercial banks.

The merchant banks provide corporate financial services such as underwriting, loan syndication, and portfolio management, undertake related lending, and operate in the money market. At least 30 percent of total income of merchant banks should be from fee-based activities. They are permitted to accept corporate deposits of not less than M$1 million per deposit, as well as deposits of not less than M$250,000 per deposit from financial institutions. They are also allowed to accept foreign currency deposits from nonresidents, equivalent to at least M$250,000 each. They are subject to a statutory reserve requirement of 2.5 percent 1/ of designated liabilities and a minimum total liquid asset ratio of 10 percent.

The discount houses are allowed to accept deposits, including those of less than one-month maturity, from other banking institutions as well as from corporations. They are required to invest at least 85 percent of their resources in Treasury bills and other government securities with remaining maturities of not more than three years; the balance can be invested in bankers' acceptances (BAs) and negotiable certificates of deposit (NCDs).

Malaysia has an active money market. The largest component of the money market is the interbank market representing transactions among commercial banks and merchant banks. Most of these transactions are in the form of interbank deposits and loans (overnight and seven-day call money, and fixed deposits of one to twelve month maturities). Finance companies are not permitted to participate in interbank transactions except for placement of fixed deposits. The discount houses participate in the market by accepting call money and investing in BAs and NCDs, and Treasury bills. Intermediation in the interbank market is subject to limits. The foreign banks are not allowed to fund more than 20 percent of their lending operations from the interbank market. Recently, their interbank borrowing has been limited to their capital base and the same limit has been applied to merchant banks.

Interest rates on interbank borrowing and lending are essentially determined by market conditions. Interventions by BNM have usually been aimed at stabilizing interest rates. The discount rates on various instruments are generally set in line with the prevailing money market rates; Bank Negara does not announce a discount rate.

1/ Before April 15, 1985, 1.5 percent.

b. Monetary and credit developments and policies

(1) Main trends

In the 1970s, a large portion of the demand for money was satisfied through the generation of balance of payments surpluses. Despite accommodative monetary policies, domestic credit expansion was moderate, mainly because relatively small financing requirements of the Government were largely met from nonbank sources. In the 1980s, these trends reversed. During the four-year period ended in 1984 the supply of money from domestic sources generally exceeded the demand for money. The resulting increase in pressures on overall demand contributed to a weakening of the balance of payments. Major stimuli to domestic credit expansion included expansionary Federal Government budgets (1980-82) and strong private sector credit demand (1983-84) 1/

In the 1970s and early 1980s, the growth in nominal money supply was mainly associated with increases in reserve money, and during the past two years, with rises in the money multiplier. The growth in reserve money stemmed primarily from increases in the foreign assets of Bank Negara although in more recent years domestic sources became a prominent factor. Among these, financing of government deficits and accommodation of banks, particularly through open market operations in government securities, and recycling of government deposits played an important role. In recent years, Bank Negara has also placed greater reliance on foreign exchange swap facilities to influence bank liquidity, partly because their self-liquidating nature ensures that accommodation is only temporary. The rise in the multiplier in the last two years was largely associated with a shift in the composition of money toward interest-bearing quasi-monetary deposits. This shift reflected a change in the liquidity preference of the nonbank public induced by abating inflation, rising nominal interest rates on deposits, and intensified deposit mobilization efforts, in particular by nonmonetary financial institutions. During 1983-84, the rate of inflation declined by more than 3 percentage points 2/, and nominal interest rates on one-year fixed deposits rose by more than 2 percentage points. During the same period, deposits of nonbank financial institutions increased by 68 percent, more than twice as fast as those of commercial banks.

In the past, the general level of interest rates was kept low relative to international rates, due partly to the policy of supplying loans to priority sectors and special groups at low cost. From 1978, the commercial banks have been allowed to set their own deposit and

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1/ The greater part of the large budget deficits, particularly in 1981 and 1982, was financed by foreign borrowing and increased resort to domestic nonbank resources and, to this extent, had little direct consequences for the expansion of domestic credit.
2/ End of period.

lending rates. Since then, interest rates have increased in response to domestic money market forces. For instance, interest rates on one-year deposits of commercial banks rose from 6.5 percent in 1978 to nearly 11 percent in the recent past. At the same time, average lending rates of commercial banks increased from 9.3 percent to almost 13 percent. In recent years, as a result of the increase in the general level of nominal interest rates and a concurrent decline in the rate of inflation, real interest rates approached those prevailing in international financial markets.

Until recently, short-term interest rates in the domestic interbank market were below prevailing international rates (Chart 3). A substantial differential between domestic and international interest rates in favor of domestic borrowing existed until mid-1982. With the subsequent decline in international rates and the rise in domestic interbank rates, the differential narrowed and turned in favor of borrowing from abroad in the last quarter of 1984. The Central Bank has been providing swap facilities to commercial banks with a premium on the ringgit to offset the impact of the interest rate differential on capital flows. The forward premium on the ringgit fell in line with the narrowing of the interest rate differential and has turned into a discount from mid-1984.

(2) Overview of monetary policies in 1984

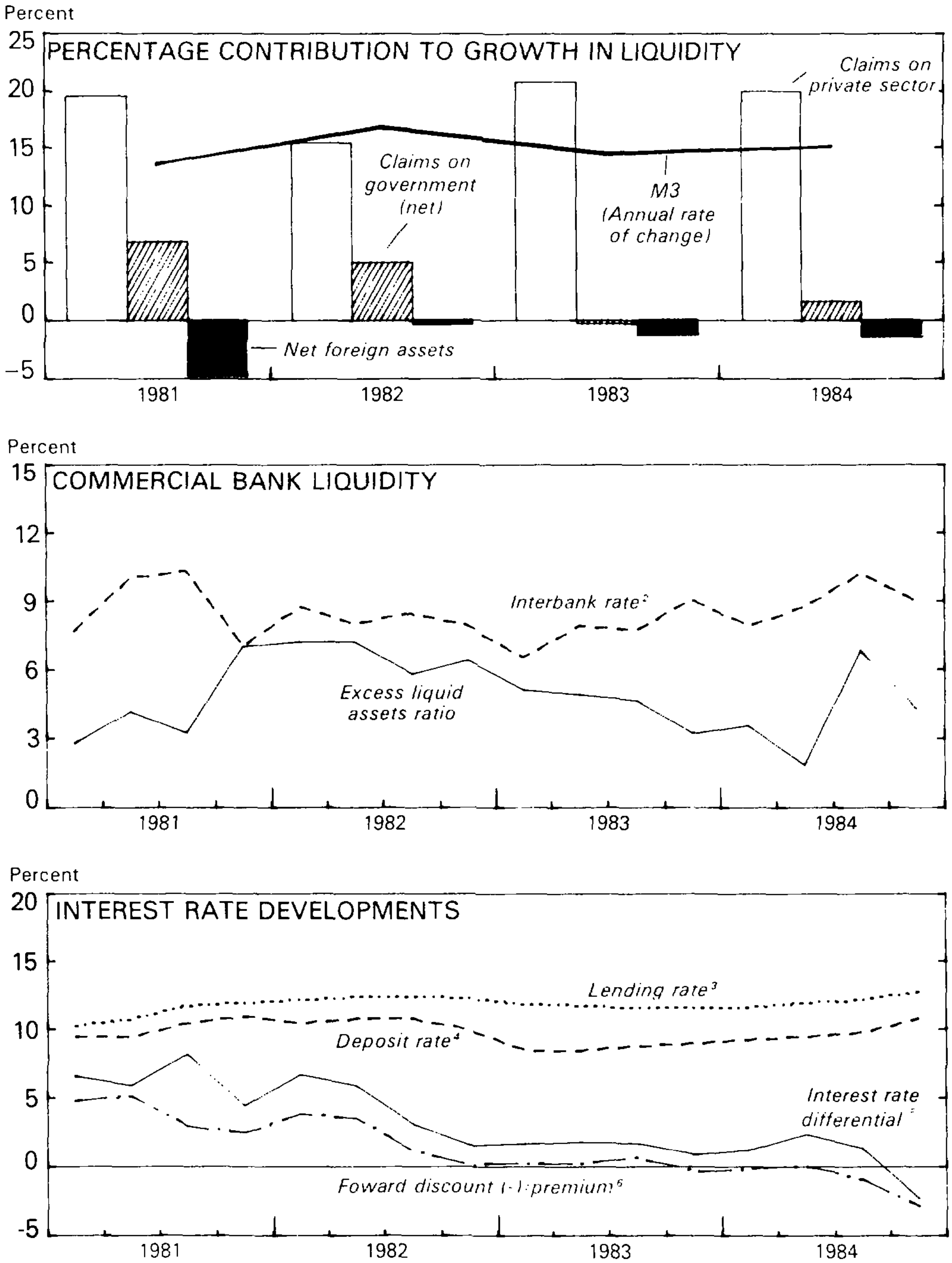
In 1984, the Central Bank pursued a relatively accommodative monetary policy during the first half of the year. It reverted to a stance of moderate restraint at mid-year, largely in response to a more rapid than expected credit expansion by the banking system. It shifted back to a more relaxed stance during the last two months of the year and in early 1985, partly because of signs of a weakening in economic activity. In the conduct of monetary policy, the focus of monetary management turned away from narrow money (M1) towards broader concepts of money (M2 and M3) and corresponding credit aggregates which were found to have assumed greater significance in terms of a stable and predictable relationship with underlying economic activity. As in the previous year, a factor which reduced the flexibility of the Central Bank in the conduct of monetary policy during 1984 was a continued large overhang of undrawn loan commitments and new commitments of commercial banks, finance companies, and merchant banks to the property development and real estate sector. 1/

1/ Undrawn loan commitments of the commercial banks to the property sector remained unchanged at M$3.9 billion in 1984, but rose by M$0.5 billion to M$1.3 billion in regard to finance companies.

CHART 3

MALAYSIA

MONETARY DEVELOPMENTS, 1981-84



Source: Data provided by the Malaysian authorities.

[1] Official estimates.

[2] Seven-day rate; [illegible] average [illegible] month of quarter.

[3] Weighted average lending rate of commercial banks.

[4] One-year fixed deposit of commercial banks; end of period.

[5] Three-month LIBOR on U.S. dollar minus three-month interbank rate; period average.

[6] Forward discount (-)/premium in percent [illegible] for representative three-month swap effected through foreign exchange brokers; quarterly average of end-of-month data.

Against this background, the Central Bank concentrated its monetary operations during 1984 on stabilizing money market conditions by providing liquidity as and when necessary to relieve undue pressures on interest rates and to enable financial institutions to meet their credit commitments at reasonable cost. During the year, it injected M$3.9 billion of new funds (M$2.4 billion in 1983) into the interbank market, mainly through purchases of government securities and bankers' acceptances, foreign exchange swaps and recycling of government deposits to commercial banks. In April 1985, BNM reduced the statutory reserve requirement of the commercial banks by 1 percentage point to 4 percent with a view to easing the liquidity conditions in the banking system. This measure was estimated to augment bank liquidity by about M$0.4 billion. At the same time, it raised the statutory reserve requirement of merchant banks by 1 percentage point to 2.5 percent in order to reduce the unequal impact of differential reserve requirements on the cost of funds of financial institutions and foster competition among them.

In early 1984, the Central Bank introduced new guidelines for lending of commercial banks and finance companies to priority sectors. With a view to strengthening the safety and soundness of banking institutions, the Central Bank set the maximum limit for loans to any customer of commercial banks, finance companies, and merchant banks at 30 percent of capital funds and, for the same group of institutions, issued guidelines on the suspension of interest on nonperforming loans. The Central Bank also continued to exercise moral suasion to prevent undue exposure of these institutions to loans to the real estate sector.

Interest rate policy during 1984 aimed at effective mobilization of domestic savings, consistent with the need of promoting private investment. In general, the authorities allowed the level of interest rates to rise in accordance with prevailing market trends. The policy focused on maintaining generally stable short-term rates and keeping them better aligned with interest rates abroad to prevent undue capital movements.

(3) Recent developments in monetary aggregates

A conspicuous feature of monetary developments in 1983 and 1984 has been a sharp deceleration in the growth of narrow money and a rapid expansion of liquid liabilities in nonbank financial institutions. In 1983, the stock of narrow money grew by 8 per cent, compared with about 13 percent in each of the previous two years, and in 1984 it fell by 1 percent (Table 12 and Appendix Tables 35 and 36). During the same period, the stock of liquid liabilities of nonbank financial institutions rose by more than 30 percent per annum (Appendix

Table 12. Malaysia: Banking Survey, 1981-84 1/

	1981 Dec.	1982 Dec.	1983 Dec.	1984 Dec.
	(Percentage change)			
Domestic credit	30.9	20.8	20.3	20.2
Government (net)	114.2	44.4	-1.1	13.8
Private sector	24.6	17.7	23.7	21.0
Total liquidity (M3)	13.6	16.8	14.5	15.1
Currency	7.2	12.3	5.2	-0.8
Demand deposits	18.2	14.1	10.4	-0.4
Liquid liabilities 2/	13.9	18.2	17.0	20.7
Memorandum items:				
Monetary survey 3/				
Domestic credit	34.9	21.0	16.5	18.0
Private sector 4/	22.8	16.4	21.7	18.0
Broad money (M2)	16.9	16.3	9.5	11.5
Narrow money (M1)	12.5	13.3	7.9	-0.1
Quasi money	19.4	17.9	10.3	17.2
	(Changes as percent of the stock of total liquidity)			
Net foreign assets	-4.7	-0.2	-1.2	-1.4 5/
Domestic credit	26.3	20.4	20.6	21.6
Government	6.8	5.0	-0.2	1.7
Private sector	19.5	15.4	20.8	19.9
Total liquidity (M3)	13.6	16.8	14.5	15.1
Currency	1.0	1.6	0.7	-0.1
Demand deposits	2.7	2.2	1.6	-0.1
Liquid liabilities 2/	9.8	12.9	12.2	15.2

Source: Appendix Tables 35 and 36.

1/ Consolidation of the accounts of monetary authorities, commercial banks, finance companies, merchant banks, and discount houses.
2/ Includes time and savings deposits and negotiable certificates of deposit.
3/ Consolidation of monetary authorities and commercial banks' accounts.
4/ Excludes claims on other financial institutions.
5/ Includes adjustment for write-off of M$1 billion of foreign assets.

Table 37). Although exceptional factors 1/ contributed to the decline in narrow money in these two years, these developments were perceived by the Malaysian authorities to be indicative of significant changes in the liquidity preference of the public in response to movements in interest rates and changes in banking and payment practices. In view of this, the focus of monetary management shifted from the concept of narrow money to the broader monetary aggregates M2 and M3 which were considered to have a more stable relationship with economic activity.

Historically, the stock of broad money (M2) grew significantly faster than domestic income and so did the stock of total liquidity (M3). As a result, the respective velocities of circulation of money followed a declining trend. This trend came to a halt for the velocity of M2 in 1983, but continued for the velocity of M3 in 1984 (Chart 4). A decline in the rate of inflation and a gradually rising level of nominal interest rates contributed to a pronounced shift in the demand for money from currency and demand deposits toward quasi-monetary deposits. During 1983-84, the demand for quasi-monetary deposits was satisfied to a larger extent than in previous periods by nonmonetary financial institutions, partly because of their higher interest rates (Chart 5). The modal margin of interest rates on three-month fixed deposits offered by these institutions over those of commercial banks rose in the course of 1984 to a range of 0.75-1.00 percentage point from 0.50 percentage point during most of 1983. It went temporarily as high as 1.25 percentage points for six-month deposits and 3.25 percentage points for three-month deposits in October 1984. In addition, the nonmonetary financial institutions became more aggressive in their efforts to mobilize deposits. They supported these efforts by a rapid expansion of their branch network.

During 1983-84, the rate of growth in the stock of M2 dropped by 6 percentage points to an average annual rate of 10.5 percent (Table 13). In contrast, growth of M3, averaging 15 percent, was only slightly below the average annual growth rates of the preceding two years. Unlike in previous years, when growth in broad money aggregates was mainly associated with changes in the stock of reserve money, during 1983-84, M2 and M3 grew mainly on account of increases in the respective money multipliers. These rose on average by 6 percent for M2 and nearly 10 percent for M3, compared with growth of reserve money averaging 4 percent during the two-year period (Chart 6). The increase in the money multiplier was in turn associated largely with declines in the currency/deposit ratio. A decline in the reserves/deposit ratio

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1/ An important factor was a currency changeover. For a more detailed explanation of this see p. 43.

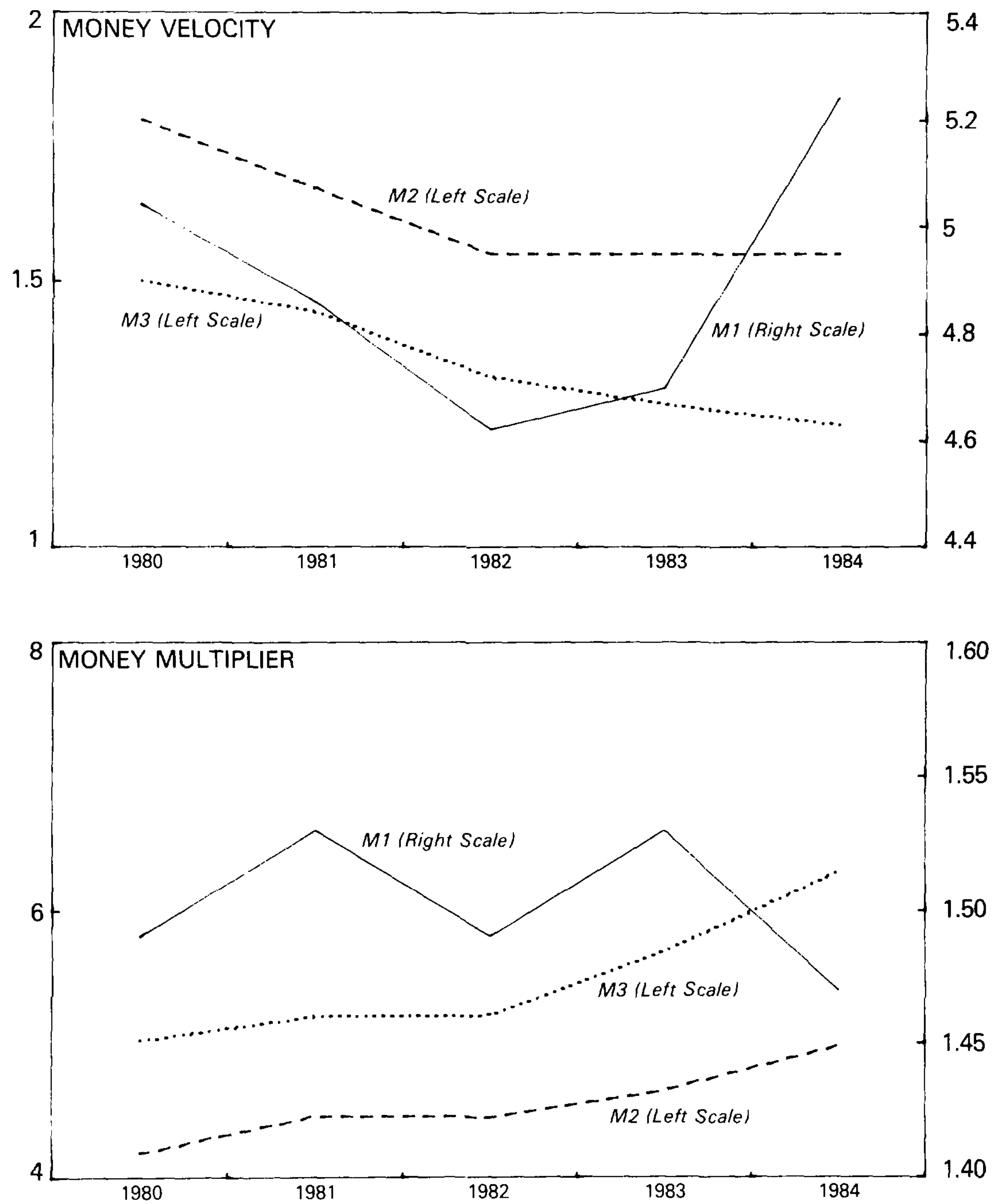
Table 13. Malaysia: Money Velocity and Money Multipliers, 1981-84

	1981	1982	1983	1984
Money velocity 1/ :				
M1	4.86	4.62	4.70	5.24
M2	1.67	1.55	1.55	1.55
M3 1/	1.44	1.32	1.27	1.23
Money multiplier 2/ ;				
M1	1.53	1.49	1.53	1.47
M2	4.46	4.45	4.65	4.98
M3 2/	5.20	5.21	5.69	6.29
	(Percentage contribution to change in the stock of total liquidity (M3))			
Total liquidity (M3)	13.6	16.8	14.5	15.1
Reserve money	9.7	16.6	4.7	4.3
Money multiplier (M3)	4.0	0.2	9.3	10.4
	(Percentage contribution to change in the money multiplier (M3))			
Currency/deposit ratio	4.6	3.0	5.9	11.2
Reserves/deposit ratio	-0.5	-2.8	2.8	0
Memorandum items:				
Interest rate on one-year time deposits	11.0	10.0	9.0	10.8
Rate of inflation (end of period)	8.8	5.2	3.1	1.7

Source: Staff calculations based on Appendix Tables 35, 36, 38 and 41, and data provided by the Malaysian authorities.

1/ GNP/money.
2/ Money/Reserve money.

CHART 4
MALAYSIA
MONETARY INDICATORS,1980-84[1]

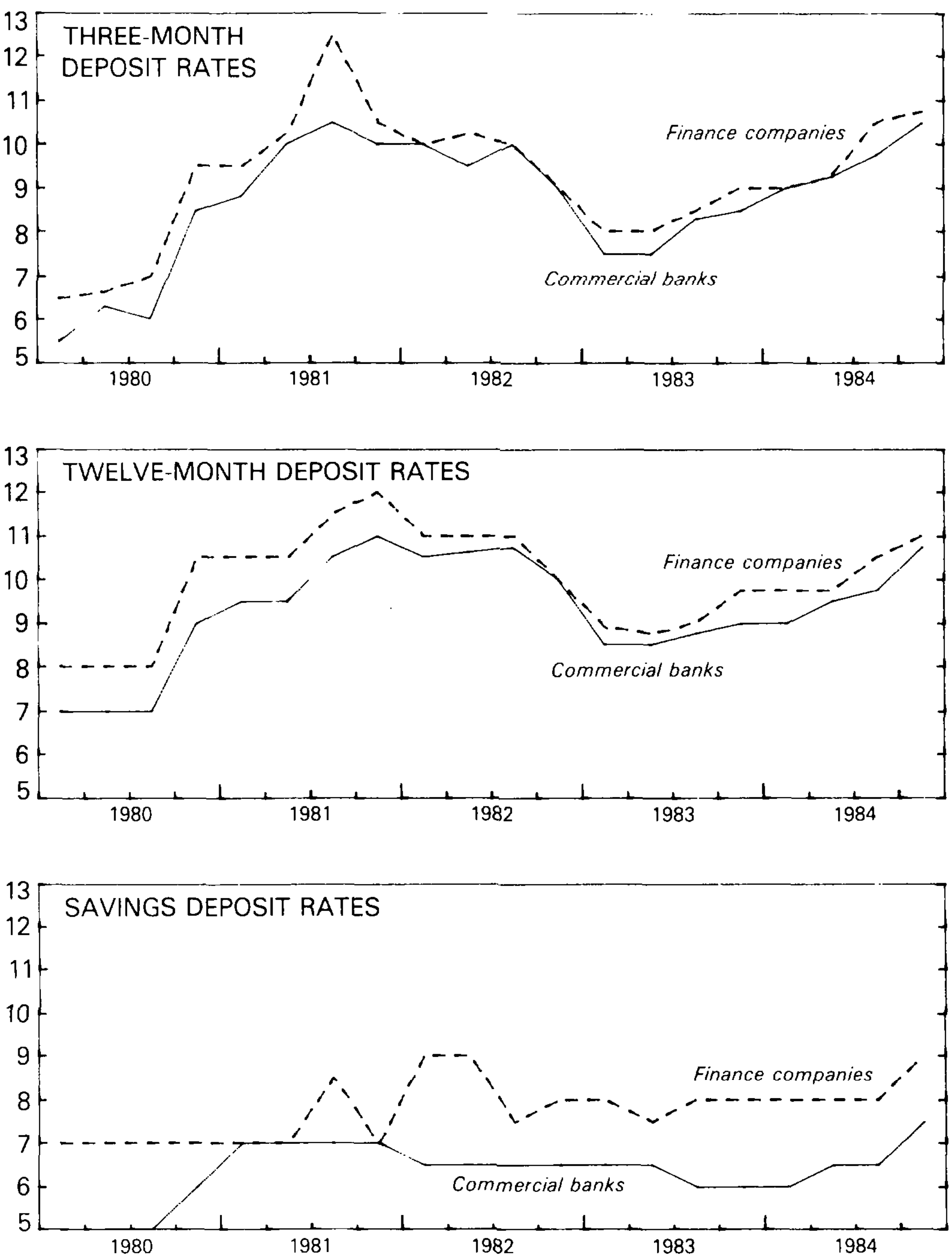


Source: Staff estimates based on data provided by the Malaysian authorities.
[1]Based on monetary aggregates at end of period.

CHART 5

MALAYSIA

INTEREST RATES ON DEPOSITS OF COMMERCIAL BANKS AND FINANCE COMPANIES, 1980-84

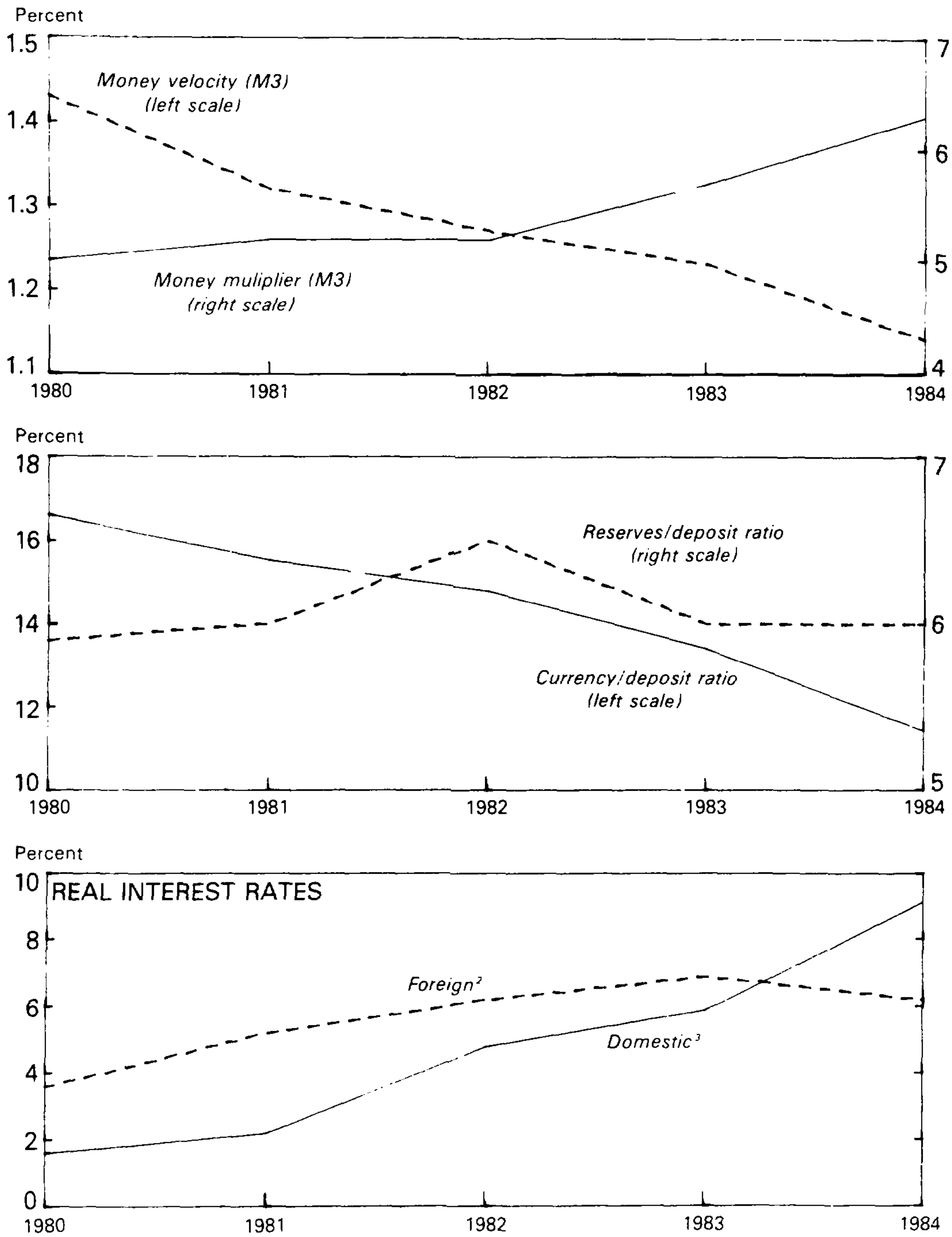


Source: Bank Negara Malaysia, *Quarterly Economic Bulletin*, and *Annual Report (1984)*

CHART 6

MALAYSIA

MONETARY RATIOS AND REAL INTEREST RATES, 1980-84[1]



[1]Based on end-of-period data; monetary ratios are derived from M3 data.

[2]Libor on one-year U.S. dollar deposits deflated by change in U.S. consumer price index, end of period.

[3]Interest rate on one-year fixed deposits of commercial banks, deflated by changes in consumer price index of Peninsular Malaysia, end of period.

contributed about 30 percent to the increase in the multiplier of M3 in 1983, but was a negligible factor in 1984. 1/

(4) Reserve money management

As indicated earlier, during the 1970s and early 1980s, increases in reserve money were the dominant factor contributing to growth in broad money aggregates. During this period the increases in reserve money, reflecting both sharp expansions in currency outside banks and reserves, were largely associated with increases in the foreign assets of the monetary authorities (in the 1970s) or with increases in the domestic component of the monetary base (early 1980s). During 1983-84, the growth of reserve money slowed sharply, and increases in the money multiplier became a major factor contributing to monetary growth. More specifically, after averaging nearly 17 percent per annum during 1970-82, the growth in reserve money slowed markedly to a range of 4-5 percent during 1983-84 (Table 14 and Appendix Table 38). This slowdown mainly reflected a weakening demand for currency by the nonbank public and was largely associated with a sharply reduced expansion of the domestic component of the monetary base. The weakening in the demand for currency, reflecting the increased opportunity cost of such holdings, and perhaps changes in payment practices as well, was reinforced by a concurrent changeover to currency notes with new designs. The nonbank public took less in new notes against old ones, keeping the balance in time or savings deposits to earn interest. A larger than usual buildup of government deposits at the Central Bank resulting from higher government revenue collections and a slowdown in government outlays may also have contributed to withdrawal of cash from the economy. The reduced expansion of the domestic component of the monetary base was mainly associated with a contraction in the Central Bank's lending to commercial banks and other financial institutions 2/, which largely offset the expansionary influence on reserve money emanating from the growth of the Central Bank's net claims on government.

The slow annual growth in reserve money during 1983-84 masks sizable fluctuations in the course of each year. These fluctuations were highlighted in 1984 by a marked expansion of reserve money in the second quarter, followed by a contraction of similar size in the third quarter. The expansion in the second quarter was mainly associated with the Central Bank's intervention to ease the increasingly tight liquidity situation of commercial banks through purchases of government securities, recycling of government deposits, and other lending reflected

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1/ Since statutory reserve requirements remained unchanged during this period, the movements in the reserve/deposit ratio reflected largely changes in the demand for excess reserves of the financial institutions.

2/ Indicated by the reduction in the Central Bank's net other assets.

Table 14. Malaysia: Factors Affecting Changes in Reserve Money, 1982-85

	1982	1983	1984	1984				1985
	Annual			Q1	Q2	Q3	Q4	Q1
	(Changes in billions of M$) 1/							
Reserve money	1.2	0.4	0.4	0.1	0.4	-0.4	0.2	0.4
Of which:								
Currency outside banks	0.6	0.3	-0.1	0	0.2	-0.4	0.1	0.2
Reserves 2/	0.5	0.2	0.5	0.1	0.1	0.1	0.2	0
(Statutory reserves)	(0.3)	(0.3)	(0.4)	3/(0.1)	(0.1)	0.1)	(0.1)	3/(...)
Factors:								
Net foreign assets 4/	-0.6	0	0.1	0.3	-0.2	0.8	-0.6	-0.6
Net domestic assets	1.8	0.4	0.3	-0.2	0.6	-1.2	0.8	1.0
Claims on Government	1.3	1.5	1.3	-0.5	0.7	0.8	0.3	0.3
Less: Government deposits (increase -)	-0.3	-0.5	-0.5	0.9	-0.5	-1.5	0.6	1.1
Claims on private sector	0	0.3	0	0	0.2	-0.1	-0.1	...
Less: Net other assets	0.8	-0.9	-0.5	-0.6	0.2	-0.4	0	...
Memorandum item:								
Foreign exchange swaps	-0.3	-0.9	0.6	0.1	0	0.1	0.4	...
	(Percentage change)							
Reserve money	16.6	4.7	4.3	1.4	4.1	-3.8	2.6	4.0
(Seasonally adjusted)	...	...	...	(0.9)	(6.0)	(-0.4)	(0.8)	(3.7)

Source: Appendix Table .., and data provided by the Malaysian authorities.

1/ Data do not always add up to totals due to rounding.
2/ Includes currency holdings and deposits of commercial banks, and demand deposits of finance companies and merchant banks with the Central Bank.
3/ Includes only statutory reserves of commercial banks.
4/ Includes foreign assets acquired through swaps.

in the increase of the Central Bank's claims on the private sector and net other assets. The contraction of reserve money in the third quarter was largely due to tax payments and lower government disbursements as a result of continued fiscal restraint. In spite of a sharp fall of net foreign assets in the fourth quarter, reserve money rose moderately because of compensating operations of the Central Bank to stabilize strained money market conditions. In October, speculation against the ringgit early in the month led to a sharp decline in commercial bank deposits and a severe shortage of ringgit funds in the interbank market. The loans-deposit ratio of the commercial banks reached more than 99 percent at the end of October, while the liquidity ratio dropped by nearly 3 percentage points to 24 percent. To alleviate the tight liquidity situation, the Central Bank purchased a net amount of M$1 billion of government securities and sold more ringgit under swap arrangements with branches of foreign banks. The latter was done, unlike in previous years, at a discount on the forward ringgit, as interest rates in the domestic interbank market rose above those in international markets. With a view to further alleviating the tight liquidity situation, the Central Bank recycled M$1.3 billion of government deposits back to local banks in the last two months of the year.

During the first quarter of 1985, reserve money rose significantly by M$0.4 billion, or an annual rate of 14 percent on a seasonally adjusted basis, despite a further decline in net foreign assets by M$0.6 billion. The increase was mainly associated with a substantial decline in government deposits at the Central Bank (by M$1 billion).

(5) Interest rate developments

Since 1978, the commercial banks have been allowed to set their own deposit and lending rates. However, interest rates on loans to priority sectors are determined by the Central Bank, and those charged on loans to the Government are prescribed by law. Since November 1983, all lending rates of the commercial banks are pegged to a bank's base lending rate (BLR) 1/. The BLR is determined by a bank's cost of funds, after providing for the cost of statutory reserves, liquid asset requirements, and overhead costs. Lending margins above the BLR are fixed for each borrower depending upon credit standing and other relevant factors. Therefore, the interest rate charged to each borrower moves automatically with movements in the BLR.

After having fallen in 1983, the general level of nominal interest rates rose in 1984, more so in real than in nominal terms, due to a further abatement in the rate of inflation. The rise in nominal interest rates was largely the result of strong credit demand and tight money market conditions which were only partly alleviated by Central

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1/ The finance companies adopted the BLR system in October 1984.

Bank intervention. Interest rates on deposits increased steadily throughout 1984 before tapering off somewhat in the early months of 1985. The increase was more pronounced in regard to interest rates on savings deposits and fixed deposits with original maturities between one and six months than for longer-term deposits. For instance, commercial banks raised their rates on savings deposits by 1.5 percentage points to 7.5 percent and on short-term fixed deposits by 1.8-2.0 percentage points to 10.0-10.5 percent (Table 15 and Appendix Table 39). Longer-term fixed deposit rates were raised by 1.8 percent to 10.5-10.8 percent. Average lending rates were also adjusted upwards by 1.2 percentage points to 12.8 percent, but somewhat less than deposit rates. As a result, the bank's gross interest rate margin, which had widened in 1983, narrowed in 1984. Somewhat larger adjustments were made by other financial institutions, in particular finance companies.

Conditions in the interbank money market tightened in the course of the year, with growth in lending activities outpacing deposit growth in financial institutions. After declining moderately during the first four months, interbank rates rose gradually in the remainder of the second quarter and in the third. The interbank market came under particular strain in October when exchange speculation drained large funds from the market, resulting in a surge of short-term rates, between 5-10 percentage points, for a short period during the month. Following massive liquidity injection by the Central Bank, the market acquiesced quickly, and in the last two months of the year, short-term rates returned to a range of 9-10 percent, the level prevailing during the third quarter.

There was little trading in BAs and yields remained broadly unchanged for 1984 as a whole. In contrast, active trading continued for NCDs, with the total amount outstanding rising by M$1 billion to M$4.3 billion and yields increasing by 1-2 percentage points.

After having been generally in favor of domestic borrowing in recent years, the uncovered differential between domestic interbank rates and corresponding foreign money market rates turned in favor of borrowing from abroad during the last quarter in 1984 and the first two months in 1985. However, because of a discount on forward ringgit implicit in the swap margin the cost of borrowing through swaps was kept above that in the domestic interbank market, by less than 1 percent in October and November, and 1-3 percentage points in the following three months.

(6) Commercial banks

With loans growing faster than deposits, the liquidity position of commercial banks was generally tight during 1984, requiring liquidity injections by the Central Bank to local banks and greater resort to liquidity abroad by branches of foreign banks, particularly in the last quarter of the year. The average weekly liquidity ratio fell

Table 15. Malaysia: Money Market Indicators, 1981-85

	1981	1982	1983	1984						1985	
	Dec.	Dec.	Dec.	QI	Q2	Q3	Oct.	Nov.	Dec.	Jan.	Feb.
Excess bank liquidity (end of period)	7.0	6.4	3.2	3.5	1.8	6.8 1/	...	...	4.3	4.0	...
Foreign exchange swaps (end of period; M$ bn.)	1.6	1.2	0.3	0.4	0.4	0.5	0.8	0.8	0.9	0.9	0.9
Net foreign liabilities of commercial banks (end of period; M$ bn.)	1.6	1.0	1.5	2.8	2.5	5.2 2/	4.6	4.1	3.5	3.2	3.3
Government deposits with commercial banks (end of period; M$ bn.)	2.5	2.4	5.1	5.0	4.9	5.2	5.0	5.3	6.1	5.8	5.9
Interbank rate 3/	6.5	7.9	9.0	7.9	8.7	10.2	16.2	...	9.0	...	...
Average lending rate 4/	12.0	12.3	11.6	11.7	12.0	12.2	...	...	12.8	...	...
Deposit rate 5/	11.0	10.0	9.0	9.3	9.5	9.8	10.3	...	10.8	10.8	10.8
Interest rate differential 6/	4.5	1.6	0.9	1.3	2.4	1.4	-4.6	-0.3	-1.6	-1.0	-0.2
Forward premium /Discount (-) 7/	2.5	0.2	-0.3	-0.1	0.1	-0.4	-4.6	-0.7	-3.0	-3.1	-2.7
Memorandum item:											
Rate of inflation 8/	9.1	5.2	3.4	5.0	4.2	4.0	3.0	2.5	1.7	-0.2	...

Source: Data provided by the Malaysian authorities; and IMF, IFS.

1/ 5.5 percentage points due to purchase of government securities by Bank Bumiputra.
2/ Includes M$1 billion write-off of foreign assets by Bank Bumiputra.
3/ Seven-day rate (weekly average of end of period (month)).
4/ Weighted average lending rate of commercial banks (end of period; month).
5/ Interest rate on one-year fixed deposits (end of period).
6/ Three-month LIBOR on U.S. dollar minus three-month interbank rate (period average; fourth quarter average for annual data).
7/ Forward premium/discount on the ringgit for three months swap effected through foreign exchange brokers (period average; fourth quarter average for annual data).
8/ Percentage change in consumer price index; annual rate of change of quarterly (monthly) data (fourth quarter average for annual data).

from 24.4 percent in 1983 to 23.7 percent in the first quarter, 22.8 percent in the second, and 22.7 percent in the third (Appendix Table 40). Excluding exceptional acquisitions of government securities by one large bank, 1/ the liquidity ratio in the third quarter would have been less than 22 percent. After adjustment, the liquidity ratio fell further by about 2 percentage points to 20 percent in the fourth quarter of 1984.

Commercial banks' lending to the private sector, including private businesses and individuals and public enterprises but excluding other financial institutions, rose by M$6.6 billion, or 19 percent in 1984, compared with an expansion of M$6.2 billion, or 21 percent in 1983 (Appendix Table 41). As in the previous year, the more rapid expansion of lending was not matched by the growth of private sector deposits which rose by M$4.5 billion or 14 percent, due in part to continued strong competition from nonbank intermediaries. However, compared with 1983 when deposits grew by only M$1.3 billion, deposit growth was substantially faster in 1984. The composition of private sector deposits shifted in favor of fixed deposits with original maturities of one, three, and fifteen months. The share of demand deposits in total private sector deposits fell from 23 percent in 1983 to 20 percent, while the share of one-and-three-month fixed deposits rose from 25 percent to 33 percent and that of fifteen-months deposits increased from 12 to 16 percent. The shift to fixed deposits in the short maturities was due to expectations of an increase in interest rates and relatively high returns on such deposits, whereas the switch to 15 month deposits was a result of the tax exemption incentive on interest received and the negotiability of interest rates on such deposits.

The major portion of the increase in commercial bank lending in 1984 continued to be to the real estate and construction sectors (32 percent), followed by financing, insurance and business services (17 percent), and individual housing (14 percent). The combined share of the traditional sectors (agriculture, industry, and commerce) in new lending was 23 percent, compared with 38 percent in 1983 (Appendix Table 42). Except for agriculture, lending to all other traditional sectors was significantly below that in 1983. In particular, loans to the mining sector fell by M$0.1 billion in 1984, due to a reduction in credit extended to the petroleum and gas industries. Loans for manufacturing rose by only M$0.5 billion, or 7 percent, in 1984, compared with M$1.2 billion or 20 percent in the previous year, partly reflecting a slackening in investment activity. However, the slowdown

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1/ In September 1984, Bank Bumiputra Malaysia Berhad (BBMB) sold M$1,255 million of foreign property loans to Petronas in exchange for Malaysian government securities and cash. In addition, BBMB received M$300 million government securities from Petronas as contribution to its capital and M$729 million in cash and government securities in compensation for its shares in a local bank.

in lending to the traditional sectors may have also been attributable to crowding-out by the continued large lending to the real estate sector.

In compliance with the lending guidelines, commercial banks' lending to the Bumiputra community at the end of 1984 amounted to nearly 32 percent of the total outstanding loans at the end of 1983, and substantially exceeded the minimum requirement target of 20 percent set for that date (Appendix Table 43). Bumiputra borrowing for real estate, construction, and housing accounted for the largest share of total new credit (44 percent), followed by borrowing for financial and business services (17 percent). The agricultural sector absorbed less than 1 percent of new credit, and manufacturing accounted for 9 percent. Under the Special Loan Scheme commercial banks are required to lend 5 percent of total loans outstanding at the end of 1980 to small-scale enterprises by the end of 1985, of which 2.5 percent is earmarked for the Bumiputra community. Compliance with these targets at the end of 1984 was 3.8 percent for total credit and 1.1 percent for credit to Bumiputra enterprises. Housing Loan Commitment targets were exceeded by 14 percent at the end of 1984 for total allocations, but for Bumiputra allocations there was a shortfall of 2 percent.

(7) Other financial institutions

The nonmonetary financial institutions, including finance companies, merchant banks and discount houses, continued to expand rapidly during 1983-84. Their liquid liabilities rose on average by nearly 32 percent per year, and growth of their combined lending to the private sector averaged 29 percent (Appendix Table 44). As with commercial banks, the growth of liquid liabilities was concentrated in short-term fixed deposits, due mainly to the relatively high returns offered on these deposits and expectations of rising interest rates. In 1984, the bulk of new credit was extended to the real estate sector (31 percent of total new credit), followed by consumption credit (17 percent). Agriculture accounted for only 6 percent and manufacturing for 8 percent, of new lending.

Finance companies were the most dynamic element in the expansion of the nonbank financial institutions. In 1984, their liquid liabilities rose by 35 percent, due partly to higher interest rates offered on fixed and savings deposits relative to commercial banks, and partly to continued rapid expansion of the branch network. The finance companies opened 28 new branch offices in 1984 bringing their total to 303, about 45 percent of the commercial banks' branch offices.

With the increase in their resources, the finance companies were able to expand their lending activities significantly, with a considerable shift toward term and bridging loans for construction, real estate and property development purposes. Their total claims on the private sector rose by M$2.6 billion or 35 percent. Of this increase, M$1 billion, or 40 percent, was in loans to the building and construction industry, including housing loans to individuals. In addition, at the end of 1984, M$1.4 billion, or 65 percent of the finance companies' undrawn loan commitments was intended for the financing of this broad sector.

Credit extended to the Bumiputra community constituted 31 percent of new lending, and loans outstanding reached M$2.6 billion at the end of 1984, representing 34.5 percent of total loans outstanding at the end of 1983. This was well above the prescribed minimum target of 20 percent. Credit extended to small-scale enterprises at the end of 1984 was broadly in line with the minimum target of 25 percent of total loans outstanding at the end of 1983.

The activities of the merchant banks slowed down in 1984, after vigorous growth in 1983. Constrained by generally tight liquidity conditions and rising interest rates, both fee-based and fund-based activities lost momentum during the year. Growth in fee-income fell to 13 percent in 1984, from 27 percent in 1983. As in previous years, the fee income was derived mainly from syndication and management of corporate loans, corporate advisory services, underwriting and portfolio management, and from commissions. Total fund-based resources of merchant banks rose by 32 percent in 1983 (Appendix Table 45). In line with the slow growth in resources, the lending operations of the merchant banks slackened in 1984. The growth in credit to the private sector decelerated to 15 percent, from 44 percent in 1983. As in recent years, a substantial part of the new credit (40 percent) was extended to the construction, real estate and property development sectors. Loans to agriculture and manufacturing fell by 16 percent and 29 percent, respectively.

Deposits of discount houses rose by 24 percent to M$2.0 billion in 1984 (Appendix Table 46). This increase was largely absorbed by investment in government securities and, to a lesser extent, by claims on the private sector, including BAs and NCDs, which expanded more rapidly than in previous years.

IV. External Developments

1. Overall balance of payments developments

During 1981-82, Malaysia's balance of payments experienced a rapid deterioration, reflecting a sharp expansion in public sector expenditure and the severe international recession. The current account deficit widened from US$0.3 billion (about 1 percent of GNP) in 1980 to US$3.6 billion (more than 14 percent of GNP) in 1982 (Table 16 and Chart 7). As the bulk of the deficit was financed by foreign borrowing, external debt more than doubled to US$12.2 billion (48 percent of GNP), and debt service payments increased to US$1.5 billion (10 percent of gross current account receipts). However, the balance of payments began

Table 16. Malaysia: Balance of Payments, 1980-84

(In millions of U.S. dollars)

	1980	1981 1/	1982 1/	1983	1984
Trade account	2,406	-105	-753	495	2,687
Exports (f.o.b.)	12,868	11,675	11,966	13,722	16,164
Imports (f.o.b.)	10,462	11,780	12,719	13,227	13,477
Service Account (net)	-2,670	-2,305	-2,816	-3,702	-4,390
Of which:					
Freight and insurance	-818	-871	-922	-934	-972
Travel	-406	-292	-332	-476	-519
Investment income 2/	-836	-797	-1,147	-1,597	-2,051
Transfers, net	-21	-34	-33	-22	-66
Current account	-285	-2,445	-3,601	-3,231	-1,769
Long-term capital (net)	1,017	2,539	3,473	3,894	2,992
Official (net)	83	1,310	2,214	2,689	2,094
Federal Government	(142)	(1,263)	(2,030)	(1,897)	(1,315)
Other 3/	(59)	(47)	(184)	(792)	(778)
Private (net)	934	1,229	1,259	1,205	898
Short-term capital (net)	431	42	140	123	-468
Domestic financial sector	575	279	-238	208	423
Other	-144	-237	378	-85	-891
SDR allocation	35	32	--	--	--
Errors and omissions	-776	-662	-419	-827	-755
Overall balance	424	-495	-407	-40	-1
Monetary movements	-424	495	407	40	1
Change in gross reserves (increase -)	-420	274	356	-19	68
Change in liabilities	-4	221	51	59	-67
Net use of Fund credit	(--)	(221)	(53)	(56)	(-72)
Memorandum item:					
Current account/GNP ratio (In percent)	-1.2	-10.4	-14.4	-11.7	-5.8
Exchange rate (M$/US$)					
Period average	2.1769	2.3041	2.3354	2.3213	2.3436
End of period	2.2224	2.2423	2.3213	2.3383	2.4250

Source: Data provided by the Malaysian authorities.

1/ Five LNG tankers acquired by the Malaysian National Shipping Company during 1981-82 at a cost of about US$800 million are not included in trade and capital account data. However, the debt incurred in the purchase of these tankers is included in external debt statistics.

2/ Includes interest payments for foreign debt.

3/ Includes commercial credits guaranteed by the Government.

improving in 1983, as fiscal adjustment was intensified and external demand recovered during the second half of the year from the prolonged recession. Exports rebounded from setbacks in the previous two years and the growth in imports levelled off. Although the net deficit on the service account increased sharply, the current account deficit declined to US$3.2 billion (12 percent of GNP) in 1983. With medium- and long-term capital inflows continuing to finance the current account deficit, external debt rose to US$16.6 billion (61 percent of GNP), and debt service payments, to US$1.8 billion (11 percent of gross current account receipts) in 1983.

In 1984, the external payments position improved further, as fiscal adjustment was sustained and the recovery in external demand gained momentum. The current account deficit narrowed to US$1.8 billion (about 6 percent of GNP). Exports grew robustly, aided by a step-up in oil/LNG production, buoyant manufacturing exports, and favorable price developments for palm oil. The growth of imports continued to slow, reflecting restraint in public sector expenditure and a weakening in import prices. However, the resulting significant increase in the trade surplus was more than offset by a further widening in the service account deficit, due mainly to higher interest payments and higher contract and professional charges. Reversing a rapidly rising trend of previous years, the net inflow of long-term capital declined to US$3 billion in 1984, as a result of a slowdown in public sector investment. With the short-term capital account and the net errors and omissions registering a sizable deficit, the overall payments position remained in near balance; gross official reserves declined slightly to US$4 billion at the end of 1984. Total external debt rose at a slower pace to US$17.8 billion, remaining equivalent to 60 percent of GNP. Debt service payments, however, increased sharply to US$2.5 billion (13 percent of gross current account receipts) in 1984, partly reflecting a substantial increase in amortization.

2. Merchandise trade

The strengthening of the trade account, which began in 1983, continued in 1984, with the surplus widening to US$2.7 billion from US$0.5 billion in 1983. This was attributable primarily to a further expansion in export volume and a slower growth of import volume (Table 17). These volume developments are estimated to have accounted for about 70 percent of the increase in the trade surplus in 1984. A further gain in the terms of trade also contributed importantly to the widening of the trade surplus.

a. Exports

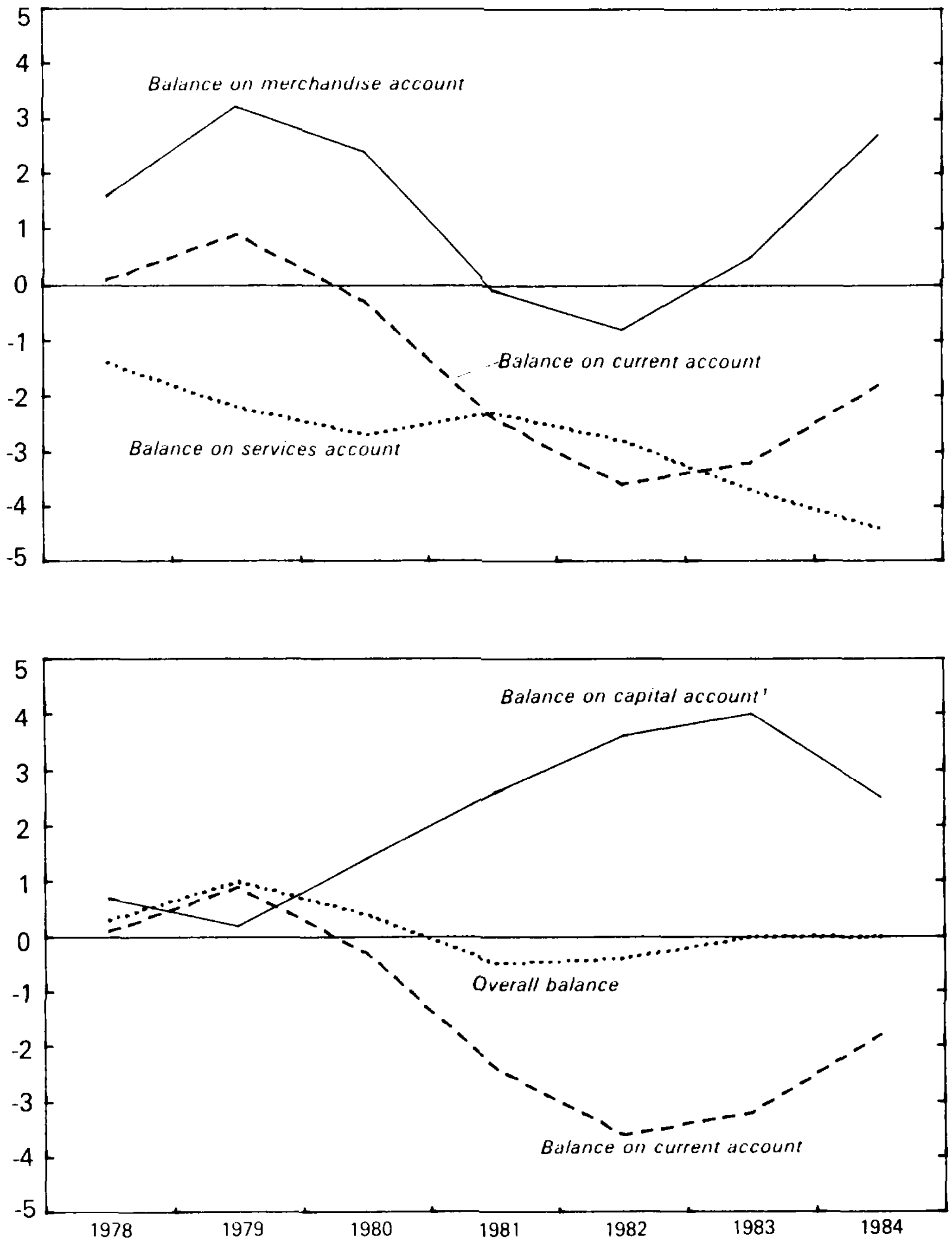
Following a poor performance during 1981-82 as a result of the severe international recession, exports recovered strongly in 1983, as external demand strengthened during the course of the year and production in the oil/gas sector increased. Exports grew further by

CHART 7

MALAYSIA

BALANCE OF PAYMENTS, 1978-84

(In billions of U.S. dollars)



Source: Data provided by the Malaysian authorities.
[1] Includes unidentified short-term capital.

Table 17. Malaysia: Factors Affecting Developments in the Balance of Trade, 1981-84

(Changes from previous year in billions of U.S. dollars)

	1981	1982	1983	1984
Changes in trade balance	-2.5	-0.6	1.2	2.2
Contribution to changes in balance due to:				
Changes in volume 1/	-2.1	--	0.6	1.5
Exports	(-1.5)	(1.1)	(1.5)	(2.2)
Imports	(-0.6)	(-1.1)	(-0.9)	(-0.7)
Changes in the terms of trade 2/	-0.4	-0.6	0.5	0.7
Changes in import prices 3/	0.1	--	--	--

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

1/ The change in the trade balance that would have occurred had export and import volumes changed as they did, with prices remaining unchanged at the previous year's levels.

2/ The change in the trade balance that would have occurred had the terms of trade changed as they did, with volumes remaining unchanged at the previous year's levels.

3/ The change in the trade balance that would have occurred had import prices changed as they did, with volumes and the terms of trade remaining unchanged at the previous year's levels.

Note: In addition to the three identified components, the change in the trade balance also includes the contribution of second- and third-order effects resulting from the interaction between volume, price, and terms of trade changes. Their net contribution was never greater than US$0.1 billion in absolute terms.

18 percent to US$16.2 billion in 1984, reflecting a continued expansion in manufacturing exports and a further step-up in oil/gas production. A sharp rise in palm oil prices also contributed importantly to the favorable export performance. However, exports of major traditional primary products (rubber, tin, saw logs, and sawn timber) generally stagnated, partly because of excess supply in international markets and a shift in demand to cheaper sources. As in 1983, much of export growth was accounted for by a substantial increase in export volume (16 percent). Export prices continued to rise sluggishly (less than 2 percent), as a result of a further weakening in oil prices and a decline in rubber and tin prices. Reflecting the stagnation in exports of traditional primary commodities, manufactures and crude oil/LNG have become increasingly predominant in Malaysia's exports, accounting for about 60 percent of total exports in 1984.

Exports of natural rubber remained unchanged at US$1.6 billion in 1984, following a rebound in 1983, as prices weakened sharply during the second half of the year (Table 18). The export unit value fell by about 20 percent during June-December, after remaining at about US$1,070 per ton during the first five months of 1984, although the average unit value declined by less than 3 percent for the year as a whole. The weakening in prices reflected an increased rubber supply from Indonesia and heavy forward sales of rubber in anticipation of a strengthening of the U.S. dollar. Export volume increased only marginally, partly in response to the adverse price developments and stagnant production.

Export earnings from tin declined by 35 percent to less than US$0.5 billion, following a temporary recovery in 1983. The decline was principally due to a fall in export volume, as a result of weak world demand caused by a large commercial tin surplus (about 68,000 tons) and increased supply from non-ITC (International Tin Council) member countries. The application of more stringent export control by the ITC was another factor contributing to the decline; in an effort to counter weak demand, Malaysia's export quota was reduced to 9,123 tons per quarter in July 1983. The export unit value fell further for the fourth consecutive year, reflecting the continued soft market conditions.

Total export earnings from saw logs and sawn timber declined by about 13 percent to US$1.5 billion, following a 9 percent fall in 1983. Despite a substantial increase in prices, exports of saw logs decreased by 10 percent to US$1.1 billion, as export volume fell by 20 percent. The large fall in export volume reflected stagnation in production due to adverse weather conditions in early 1984 and a shift in external demand to cheaper saw logs from Papua New Guinea and the Solomon Islands. The poor volume performance was also attributable to a number of recent measures aimed at encouraging the expansion of the timber-based industries; these included a selected ban on saw log

Table 18. Malaysia: Exports, 1980-84 1/

(In millions of U.S. dollars)

	1980	1981	1982	1983	1984
Rubber	2,121	1,611	1,137	1,578	1,565
Volume ('000 tons)	(1,526)	(1,492)	(1,378)	(1,563)	(1,588)
Unit value (US$/ton)	(1,390)	(1,086)	(825)	(1,010)	(985)
Tin 2/	1,151	928	635	740	479
Volume ('000 tons)	(69.5)	(66.4)	(48.6)	(57.1)	(38.3)
Unit value (US$/kg.)	(16.6)	(14.0)	(13.1)	(13.0)	(12.5)
Saw logs	1,212	1,083	1,447	1,198	1,080
Volume ('000 cu. m.)	(15,156)	(15,923)	(19,298)	(18,726)	(15,000)
Unit value (US$/cu. m)	(80)	(68)	(75)	(64)	(72)
Sawn timber	584	457	471	550	450
Volume ('000 cu. m.)	(3,245)	(2,908)	(3,116)	(3,438)	(2,710)
Unit value (US$/cu. m.)	(180)	(157)	(151)	(160)	(166)
Palm oil	1,222	1,256	1,186	1,298	1,932
Volume ('000 tons)	(2,258)	(2,507)	(2,817)	(2,949)	(3,000)
Unit value (US$/ton)	(541)	(501)	(421)	(440)	(644)
Petroleum	3,082	3,004	3,295	3,391	3,728
Volume ('000 tons)	(11,227)	(10,143)	(11,974)	(14,224)	(16,498)
Unit value (US$/ton)	(275)	(296)	(275)	(238)	(226)
LNG	--	--	--	358	743
Volume (million tons)	(--)	(--)	(--)	(1.8)	(3.7)
Unit value (US$/ton)	(--)	(--)	(--)	(196)	(201)
Manufactured goods	2,863	2,728	3,149	4,070	5,084
Other	706	699	716	935	1,184
Total exports	12,941	11,766	12,036	14,118	16,245

Source: Data provided by the Malaysian authorities.

1/ Customs data.
2/ Includes tin-in-concentrates.

exports from Peninsular Malaysia 1/ and preferential export royalty rates on exports of processed timber. Export earnings from sawn timber decreased by 18 percent to less than US$0.5 billion, as a result of a 21 percent fall in export volume. The limited availability of logs in early 1984 and a weak recovery in construction activity in major importing countries were major factors responsible for the volume decline.

Exports of palm oil grew by about 50 percent to US$1.9 billion in 1984, after stagnation in previous years. The significant increase in export earnings was entirely the result of a strong surge in prices, which reflected a tightening in the international vegetable oil markets due to low production of soybean abroad. Notwithstanding signs of slackening during the second half of 1984, palm oil prices (c.i.f. Rotterdam) averaged US$729 per ton in the year as a whole, compared with US$501 per ton in 1983. Export volume rose by only 2 percent, as high prices induced a shift in external demand to cheaper vegetable oils.

Exports of crude oil increased by 10 percent to US$3.7 billion in 1984, as export volume rose by 16 percent to 343,000 barrels per day, reflecting a step-up in production. The relatively steady demand by Japan and Singapore for Malaysia's low sulphur oil has helped sustain the large increase in export volume in recent years, despite the slackening in the world demand for petroleum; these two countries together imported about 65 percent of the total export volume in 1984. The weighted average price of Malaysian crude was reduced by US$0.93 per barrel to US$29.88 per barrel, following a decline of US$5.50 per barrel in 1983. The downward adjustment reflected a further softening in the international oil market, with a cutback of North Sea Oil prices in October 1984.

Following the first major contribution to Malaysia's exports in 1983, LNG exports more than doubled to over US$0.7 billion in 1984, as export volume also doubled to 3.7 million tons. Export prices rose sluggishly (less than 3 percent), reflecting weak oil prices. At present, Japan is the sole buyer of LNG, under a 20-year contract. Export volume is expected to rise to about 5.7 million tons by 1987.

Exports of manufactures expanded further by 25 percent to US$5 billion in 1984, as external demand strengthened. The stimulus to this robust expansion came primarily from electrical machinery and appliances (including electronic components), which rose by about 20 percent to US$2.9 billion, accounting for almost 60 percent of manufactured exports (Appendix Table 47). The significant expansion reflected a continued strong surge in world demand (particularly from the United States) for electronic components, which expanded by

1/ The export of saw logs above 41 centimeters in diameter from Peninsular Malaysia has been banned effective January 1985.

24 percent to US$2.1 billion. However, demand slackened during the fourth quarter of 1984, due partly to large accumulation of inventories and structural adjustments in the computer industry as a result of intensive competition. Domestic value added of electronics remained relatively small, as production continued to concentrate in the free trade zones and to depend heavily on imports for intermediate components. Among other major manufacturing export items, exports of chemical products increased by more than 50 percent, mainly reflecting a marked rise in exports of petroleum products as a result of an expansion in refinery operations. Exports of textiles, clothing, and footwear rose by about 20 percent, due to strong external demand, particularly from the United States.

With a view to strengthening exports, the export refinancing scheme is currently under review. Under the present scheme, export credit (for both post and pre-shipment) is available for a maximum period of three months at an interest rate linked to the market rate for bankers' acceptances. The scheme is open to manufactured goods and selected primary commodities, such as palm oil products. Total export credit provided under the refinancing facility in 1984 was about US$0.7 billion (equivalent to 6 percent of non-oil/LNG exports in the year), the bulk of which was extended to the textiles, palm oil, rubber, and wood products sectors.

b. Imports

Malaysia's imports registered a significant expansion during 1979-80 (an average annual rate of 35 percent in nominal terms and about 20 percent in real terms), in response to higher public sector expenditure and an increase in real income as a result of an improvement in the terms of trade. While the growth of imports slowed considerably to an average rate of about 10 percent in nominal terms (about 8 percent in real terms) during 1981-82, 1/ the continued expansion in imports was a major factor responsible for the widening of the current account deficit during the period. These developments resulted in a relatively high average income elasticity of more than 1.5 during 1979-82. However, the adverse impact of rising imports on the current account weakened substantially during the subsequent two years, as import growth moderated considerably, partly in response to the intensification of fiscal adjustment. In 1984, imports grew by 2 percent to US$13.5 billion, following a rise of 4 percent in the previous year. The sluggish expansion was due to a slowdown in public sector expenditure and a further fall in import prices. A moderation in offshore oil installation activity and a decline in oil imports also contributed. Adjusted for import prices, imports grew by 5 percent in volume terms, compared with an increase of 7 percent in 1983.

1/ This growth rate does not include five LNG tankers acquired by the Malaysian National Shipping Company at a cost of about US$800 million.

Among major import categories, consumption goods rose by 11 percent to US$2.8 billion in 1984, compared with a 5 percent increase in 1983 (Appendix Table 48). The faster expansion was attributable to increased food imports, due to a shortfall in domestic rice production and higher imports of consumer durables in anticipation of increases in import duties in the 1985 budget. Imports of investment goods, which are exclusive of imports of military equipment, aircraft and offshore oil installation equipment, increased by 11 percent to US$4.7 billion, following a 9 percent increase in 1983. 1/ The acceleration in the growth of investment goods imports reflected a significant increase in "other" investment goods imports, such as generators, electric fittings, and office equipment. Imports of machinery grew relatively rapidly, as a result of a strong demand for manufacturing investment. Imports of transport equipment declined substantially, due to reduced public sector expenditure on railway locomotives and coaches. Imports of intermediate goods grew by 3 percent to US$6.5 billion in 1984, compared with a 6 percent increase in 1983. The slowdown was attributable to a further decline in imports for construction and a substantial fall in imports of crude oil and petroleum products. The latter was the result of the commencement of operations at the Kerteh refinery, which processes local crude, as well as an increased substitution of petroleum products by gas, coal, and hydroelectricity. Imports of intermediate goods for manufacturing, the largest item among intermediate goods imports, expanded by 13 percent to US$4.2 billion in 1984, partly reflecting large manufactured goods exports.

c. Terms of trade

After deteriorating during 1981-82, the terms of trade improved gradually in the subsequent years. In 1983, the terms of trade rose by about 5 percent, due to a recovery in export prices of some non-oil primary commodities and a decline in import prices (Appendix Table 49 and Chart 8). 2/ This was followed by another 5 percent improvement in 1984, as a result of a further rise in some non-oil export prices and a continued fall in import prices. Consequently, the terms of trade in 1984 were roughly comparable to the level prevailing in 1980. The gain in the terms of trade during 1983-84 is estimated to have accounted for about one third of the improvement in the trade balance during the period.

1/ Official import data presented in the balance of payments (Table 16) are adjusted so as to include imports of military equipment, aircraft, and offshore oil installation equipment. In 1984, these imports were about US$1 billion, compared with US$1.6 billion in 1983.

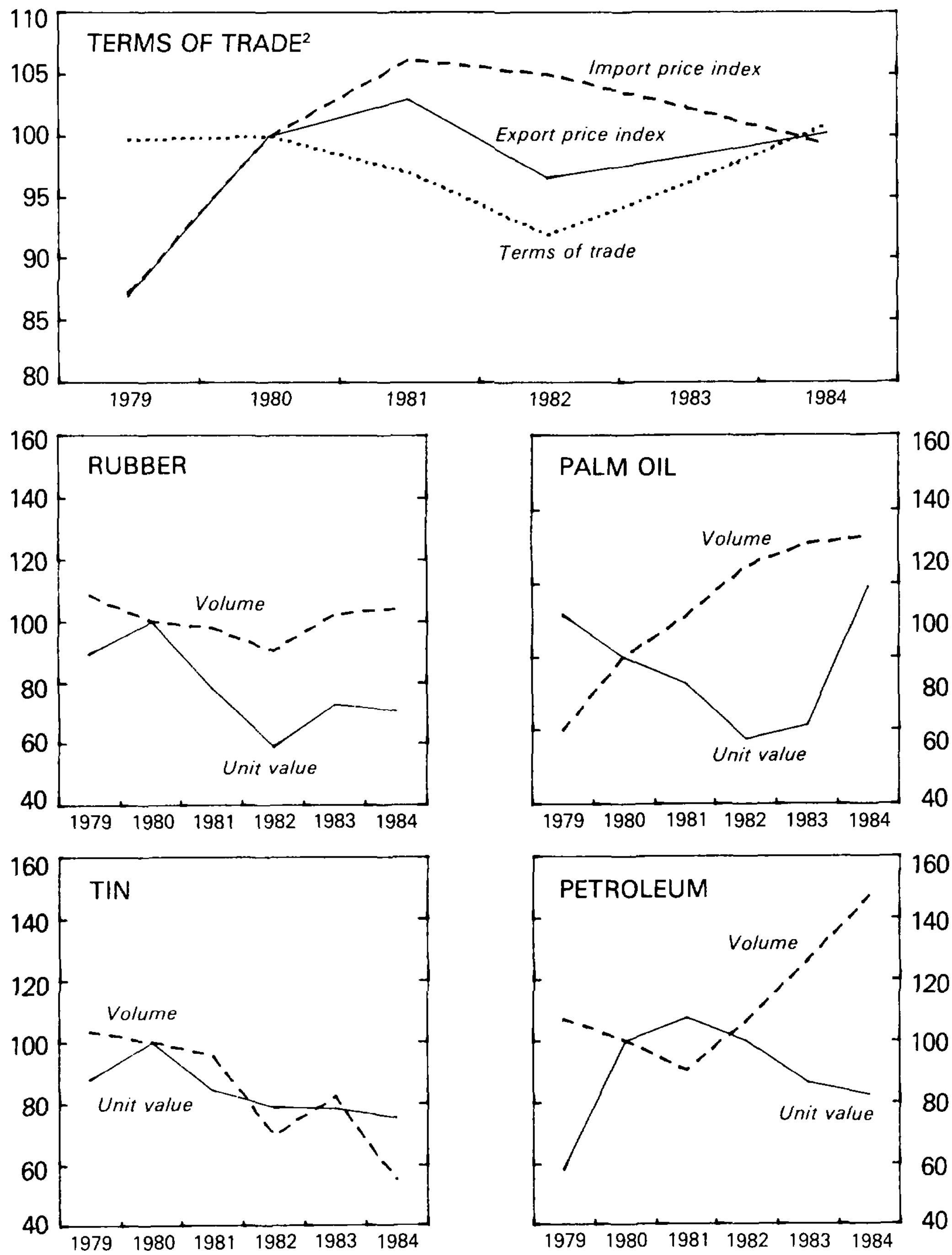
2/ The terms of trade is computed on a basis of price indices with 1980 weights, which are estimated by the authorities. These price indices are still provisional because of the absence of the full adjustment to the commodity composition in 1980.

CHART 8

MALAYSIA

TRENDS IN TERMS OF TRADE, AND UNIT VALUE AND VOLUME OF MAJOR EXPORTS, 1979-84[1]

(1980=100)



Sources: Data provided by the Malaysian authorities and staff estimates.
[1]Prices and unit value are in terms of U.S. dollars
[2]Based on provisional 1980 weights

d. Direction of trade

The geographical pattern of Malaysia's trade has been characterized by a marked concentration in four areas, namely, the ASEAN countries (mainly Singapore), Japan, the United States, and the EC, which together accounted for about three fourths of total trade during 1981-83 (Appendix Table 50). Notwithstanding a rapid increase in the share of the ASEAN countries in the early 1980s, mainly due to increased oil transactions, the trade shares among these trading partners remained relatively stable during 1981-83, with Japan and Singapore together accounting for about two thirds of trade undertaken with these four groups.

In 1984, Malaysia's exports to Japan rose sharply, accounting for 23 percent (US$3.7 billion) of total exports, due to a significant increase in crude oil and LNG. Japan continued to be the principal importer of Malaysia's major primary commodities, particularly crude oil, LNG, saw logs, and tin, which together accounted for about three fourths of its total imports from Malaysia in 1984. The share of exports to Singapore fell to 21 percent (US$3.5 billion), reflecting a substantial decline in exports of crude oil, rubber, and sawn timber. Crude oil has been a major item among Malaysia's exports to Singapore in recent years, accounting for more than one third of the total exports in 1984. The share of exports to the EC, which has been a major importer of sawn timber, palm oil, and tin, also fell somewhat, mainly on account of its relatively sluggish economic growth. Exports to the United States, the principal importer of Malaysia's manufactured goods, increased substantially, reflecting strong demand for electronic goods.

On the import side, Japan and the United States continued to be the major suppliers of Malaysia's imports (particularly manufactured and investment goods), together accounting for more than two-fifths of the total imports in 1984. Japan's position as the largest source of Malaysia's imports further strengthened, due partly to increased demand for machinery. The share of imports from the United States remained roughly unchanged, aided by higher imports of electronic component parts and manufactured goods. The relative share of imports from the ASEAN countries rose slightly, reflecting higher imports of food items. However, the share of imports from the EC fell, primarily on account of a decline in imports from West Germany.

3. Services

During 1981-83, the net deficit on services increased by almost 40 percent to US$3.7 billion, equivalent to about 13 percent of GNP. The bulk of this deterioration was attributable to marked increases in payments for investment income (particularly, interest payments) and miscellaneous other services, including contract and professional charges for foreign contractors; net investment income payments almost doubled to US$1.6 billion (Appendix Table 51). The widening of the net deficit on the services account limited the scope for reducing the current account deficit, despite the improvement in the trade account in 1983.

In 1984, the service account deficit rose by 19 percent to US$4.4 billion, equivalent to more than 14 percent of GNP. The major factor responsible for the widening deficit continued to be net investment income payments, which increased by about 28 percent to US$2.1 billion. This sizable increase was mainly due to a further rise in interest payments to about US$1.5 billion, reflecting a rapid increase in foreign borrowing in recent years. Direct investment income payments (mainly profits and dividends accruing to foreign direct investment--both remitted abroad and reinvested) grew by 19 percent to US$1.2 billion, mainly on account of the recovery in export earnings. The increase in net payments for freight and insurance, however, remained sluggish, as gross earnings grew sharply, aided by an expansion in the carrying capacity of the domestic shipping companies (including LNG tankers). The increase in the net deficit on travel moderated significantly, partly because domestic holiday travel was encouraged. The net deficit on other miscellaneous services widened further by 20 percent to US$0.9 billion, reflecting higher payments on contract and professional charges for oil/gas projects and turnkey projects awarded to foreign contractors. However, the rate of increase in these service payments in 1984 was substantially slower than in 1983 (about 52 percent), partly due to completion of some projects.

Efforts have been made to improve the chronically weak services account through the Council on Malaysian Invisible Trade which was set up in 1981, with a view to promoting exports and import substitution in the area of invisible transactions. The Council has undertaken extensive studies on the services account and made a number of policy recommendations, particularly with respect to tourism, shipping, insurance, and investment income. Recently, the Council has initiated discussions with a number of countries on a bilateral basis to foster closer cooperation in improving Malaysia's invisibles account.

4. Capital account

a. Long-term capital

After almost quadrupling to US$3.9 billion during the previous three years, the net inflow of long-term capital declined by about 25 percent to US$3 billion in 1984. The turnaround was due to a substantial decline in both official and private long-term capital inflows. The net inflow of official long-term capital decreased by 22 percent to US$2.1 billion in 1984, as Federal Government borrowing was curtailed sharply to US$1.3 billion, in an effort to forestall a further significant increase in the external debt burden. The net borrowing in 1984 included a floating rate note issue of US$0.6 billion to prepay amortization due during 1986-93. Among other official capital, net borrowing by nonfinancial public entities remained unchanged, roughly at the high 1983 level (US$0.8 billion), reflecting the foreign financing requirement for ongoing projects. Other official capital registered a minor net outflow, as a result of Malaysia's subscription to the Islamic Development Bank and a voluntary contribution to the Sixth International Tin Agreement to supplement the resources of the Buffer Stock Manager. On the other hand, the net inflow of private capital declined by one quarter to US$0.9 billion in 1984, partly on account of the completion of major projects in the oil and gas sector.

b. Short-term capital

There was a recorded net short-term capital outflow of US$0.5 billion in 1984, following a net inflow of US$0.1 billion in 1983. Net external liabilities of the domestic financial sector rose by about US$0.4 billion: the settlement of foreign loans for real estate resulted in a large decline in net foreign liabilities (about US$0.4 billion); 1/ however, this decline was more than offset by a substantial borrowing and a drawdown in foreign assets by the financial sector, primarily in response to a tightening of domestic credit conditions. Other short-term capital registered an outflow of US$0.9 billion, compared with an outflow of US$0.1 billion in 1983. The large outflow reflected an undrawn portion of the floating rate note borrowing (about US$330 million) which was temporarily withheld by the Federal Government to be used for prepayments during the course of 1985. The purchase of part of the foreign loans for real estate by Petronas from Bank Bumiputra was another major factor contributing to the outflow. 2/

1/ In the process of settling these loans (total value of about US$0.9 billion), Bank Bumiputra wrote off about US$0.4 billion and sold the remainder (US$0.5 billion) to Petronas. At the same time, Bank Bumiputra is estimated to have repaid the foreign liability of about US$0.9 billion, which had been incurred in connection with real estate lending operations. Since the reduction in foreign assets due to the write-off is not included in capital transactions in the balance of payments, the transactions related to the settlement of these loans resulted in a decline in net foreign liabilities of US$0.4 billion in the capital account for the domestic financial sector.

2/ In standard balance of payments statistics, transactions associated with the real estate loan portfolio should be classified as long-term capital transactions. However, in Malaysia's official balance of payments statistics, external transactions related to the domestic financial sector are traditionally treated as part of short-term capital transactions.

5. International reserves

Gross official international reserves declined slightly, by US$0.1 billion to US$4 billion at the end of 1984 (Table 19). In terms of months of imports, they fell from the equivalent of 3.7 months in 1983 to 3.6 months. The decline marked the fourth consecutive year of a downward trend since 1980, when gross official reserves peaked at the equivalent of 5.4 months of imports. Foreign liabilities fell by US$67 million in 1984, as Malaysia repayed SDR 52 million to the Fund to reduce its liability under the compensatory and buffer stock financing facilities to SDR 263 million. The monetary authorities' net international reserves at the end of 1984 thus remained unchanged from the end of the previous year at US$3.7 billion.

6. External debt

Total external debt rose rapidly between 1980-83, at an average annual rate of more than 40 percent to US$16.6 billion, equivalent to about 60 percent of GNP (Table 20). Medium- and long-term external debt more than tripled to US$13.6 billion (50 percent of GNP) during the period. Reflecting the marked increase in external debt, debt service payments almost tripled to US$1.8 billion (11 percent of gross current account receipts). In 1984 there was a substantial moderation in the growth of external debt, as a result of continued fiscal adjustment and restraint on external borrowing. Total external debt grew by only 7 percent to US$17.8 billion, remaining equivalent to about 60 percent of GNP. Medium- and long-term debt increased by 12 percent to US$15.3 billion (52 percent of GNP), compared with a 30 percent increase in 1983. Debt service payments, however, rose sharply to US$2.5 billion (13 percent of gross current account receipts) in 1984, with interest payments accounting for about three fifths of the total.

a. Medium- and long-term debt

Public sector medium- and long-term debt rose by 16 percent to US$11.5 billion, following a 37 percent increase in 1983, with both Federal Government and other public sector borrowing growing slowly (Table 21). The Federal Government continued to be the principal borrower, accounting for about three fourths of the total public sector external debt outstanding in 1984. About 59 percent of public sector debt at the end of 1984 carried variable interest rates, compared with 56 percent in 1983.

In terms of classification of lender, financial institutions accounted for the bulk of public sector borrowing, with their share increasing by 11 percent to US$7.9 billion, about 70 percent of the total public sector debt in 1984. Market borrowing continued to be undertaken in diversified currency denominations (including the Japanese yen, the Swiss franc, and the Deutsche mark) to spread exchange risk and obtain favorable interest rates. Among major market borrowings

Table 19. Malaysia: International Reserves and Related Foreign Assets and Liabilities, 1980-84

(In millions of U.S. dollars; end of period)

	1980	1981	1982	1983	1984
Central bank (net)	4,636	4,368	4,020	4,038	3,970
Foreign assets	4,641	4,373	4,023	4,044	3,981
Gold and foreign exchange	(4,368)	(4,091)	(3,765)	(3,769)	(3,728)
Reserve position in IMF	(148)	(136)	(128)	(167)	(156)
SDRs	(125)	(146)	(130)	(108)	(97)
Foreign liabilities	5	5	3	6	11
Government and other official entities (net)	46	-181	-240	-298	-231
Foreign assets	46	40	34	32	27 1/
Foreign liabilities	--	221	274	330	258
Of which: Use of Fund credit	(--)	(221)	(274)	(330)	(258)
Monetary authorities' total foreign assets (net)	4,682	4,187	3,780	3,740	3,739
Foreign assets	4,687	4,413	4,057	4,076	4,008
Foreign liabilities	5	226	277	336	269
Commercial banks (net)	-427	-710	-446	-649	-1,447
Foreign assets	876	896	1,244	2,312	1,014
Foreign liabilities	1,303	1,606	1,690	2,961	2,461
Memorandum items:					
Gold (in millions of troy ounces)	2.32	2.33	2.33	2.33	2.33
Gross international reserves in terms of months of imports	5.4	4.5	3.9	3.7	3.6

Source: Data provided by the Malaysian authorities and IMF, International Financial Statistics.

1/ Excludes US$333 million, which was temporarily withheld by the Federal Government abroad following the floating rate note borrowing (US$600 million) to be used for prepayments in 1985.

Table 20. Malaysia: External Debt, 1980-84

	1980	1981	1982	1983	1984
	(In millions of U.D. dollars)				
Total external debt 1/	5,730	8,477	12,184	16,633	17,806
Medium- and long-term 2/	4,375	6,854	10,461	13,606	15,275
Short-term 3/	1,355	1,624	1,723	3,027	2,531
Debt service	635	1,111	1,454	1,763	2,479
On medium- and long-term 2/	536	991	1,325	1,582	2,259
On short-term 3/	100	119	128	181	220
Amortization	285	469	646	659	1,035
Interest payments	350	641	808	1,104	1,444
	(In percent)				
External debt/GNP ratio	25.5	35.0	48.3	60.5	60.3
Medium- and long-term 2/	19.4	28.3	41.5	49.5	51.7
Short-term 3/	6.0	6.7	6.8	11.0	8.6
External debt/exports	45.5	70.7	101.2	122.1	114.0
Medium- and long-term 2/	34.7	57.1	86.9	99.9	97.8
Short-term 3/	10.8	13.5	14.3	22.2	16.2
Debt service ratio 4/	4.3	8.0	10.2	10.9	13.1
On medium- and long-term 2/	3.6	7.1	9.3	9.7	11.9
On short-term 3/	0.7	0.9	0.9	1.1	1.2
Amortization	1.9	3.4	4.5	4.1	5.5
Interest payments	2.4	4.6	5.7	6.8	7.6
Memorandum item					
Prepayments(In million of U.S. dollars)	--	--	--	--	152
Ratio to current account receipts	(--)	(--)	(--)	(--)	(0.8)

Source: Data provided by the Malaysian authorities.

1/ Outstanding at the end of the period.
2/ Original maturity of one year and over.
3/ Original maturity of less than one year.
4/ Ratio to gross current account receipts.

Table 21. Malaysia: Medium- and Long-Term External Debt, 1/ 1980-84

	1980	1981	1982	1983	1984
	(In millions of U.S. dollars)				
Total outstanding debt	4,375	6,854	10,461	13,606	15,275
Government and government guaranteed	3,103	5,062	7,269	9,928	11,474
By lender					
Bilateral	(575)	(854)	(808)	(983)	(1,803)
Multilateral	(745)	(873)	(982)	(1,091)	(1,096)
Financial institutions	(1,712)	(3,049)	(5,112)	(7,141)	(7,928)
Suppliers' credits	(71)	(58)	(82)	(359)	(356)
IMF	(--)	(227)	(285)	(354)	(290)
By debtor					
Federal Government	(2,187)	(3,692)	(5,668)	(7,582)	(8,530)
Other 2/	(916)	(1,370)	(1,601)	(2,347)	(2,944)
Private nonguaranteed	1,272	1,792	3,192	3,678	3,801
Total debt servicing	535	991	1,326	1,582	2,259
Publicly guaranteed	326	534	803	975	1,488
Amortization	118	178	310	299	554
Federal government	(84)	(86)	(209)	(215)	(449)
Other 2/	(34)	(92)	(101)	(85)	(105)
Interest payments	208	356	493	675	934
Federal Government	(172)	(277)	(407)	(535)	(720)
Other 2/	(36)	(79)	(86)	(140)	(214)
Private nonguaranteed	209	457	523	607	771
Amortization	167	291	336	360	481
Interest payments	42	166	187	248	290
	(In percent)				
Outstanding debt/GNP ratio	19.4	28.3	41.5	49.5	51.7
Federal Government	9.7	15.2	22.5	27.6	28.9
Other publicly guaranteed 2/	4.1	5.7	6.3	8.5	10.0
Private sector	5.6	7.4	12.7	13.4	12.8
Debt service ratio 3/	3.6	7.1	9.3	9.7	11.9
Federal Government	1.7	2.6	4.3	4.6	6.2
Other publicly guaranteed 2/	0.5	1.2	1.3	1.4	1.7
Private sector	1.4	3.3	3.7	3.7	4.0
Memorandum item:					
Prepayments(In million of U.S. dollars)	--	--	--	--	152
Ratio to current account receipts	(--)	(--)	(--)	(--)	(0.8)

Source: Data provided by the Malaysian authorities.
1/ Original maturity of one year and over; end of period.
2/ Mainly non-financial public enterprises.
3/ Percentage ratio to gross current account receipts.

undertaken during the year were a syndicated Euro-dollar loan of US$500 million and a floating rate note issue of US$600 million. The syndicated Euro-dollar loan has a ten-year maturity with a five-and-a-half year grace period and consists of two tranches: one (US$300 million) carrying combined interest rates of 0.5 percent above LIMEAN and LIBOR; and the other (US$200 million) carrying an interest rate of 0.25 percent above LIBOR. The floating rate note issue was aimed at prepaying external borrowing undertaken earlier and due in 1986/93, with a view to reducing the interest burden and improving the maturity profile of Malaysia's external debt. 1/ External debt due to multilateral sources (mainly the IBRD and the Asian Development Bank) remained unchanged at the 1983 level of US$1.1 billion (10 percent of total public sector external debt). External debt due to bilateral sources (mainly Japan, the United Kingdom, and the Federal Republic of Germany) almost doubled to US$1.8 billion (16 percent of total public sector external debt).

Private sector medium- and long-term debt increased by 3 percent to US$3.8 billion in 1984, compared with 15 percent in 1983. The moderate expansion reflected the Central Bank's urging to the private sector to exercise greater restraint, generally higher external borrowing costs during the year, and a sizable repayment with the expiration of grace periods of some large loans. It was also attributable to a slowdown in borrowing by the oil/gas-related industry, as a result of the completion of major projects, particularly those related to LNG development.

Total debt service payments on medium- and long-term external debt rose by about 43 percent to US$2.3 billion in 1984, following a 19 percent increase in 1983. The marked increase was due to a rise of about US$0.4 billion in amortization and to an increase of US$0.3 billion in interest payments; amortization in 1984 included a prepayment of US$152 million. The debt service burden in relation to gross current account receipts rose by about 2 percentage points to 12 percent, of which about 8 percentage points related to services on public sector debt.

b. Short-term debt

Short-term external debt declined by 16 percent to US$2.5 billion (9 percent of GNP) in 1984, following an increase of more than 75 percent in 1983 (Table 20). 2/ This compares with outstanding short-term foreign assets of US$1 billion held by commercial banks at the end

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1/ Out of the floating rate note issue, US$152 million was used for prepayments in 1984, and the bulk of the remainder is to be disbursed for prepayments during 1985.

2/ Official statistics on short-term external debt are available only for the financial sector (commercial banks, merchant banks, and finance companies).

of 1984. The decline in 1984 reflected a settlement of large foreign liabilities by a major commercial bank in connection with the restructuring of its foreign lending operations. The impact of the repayment was partly offset by increased external borrowing by the banking system to fund domestic lending in the face of tight liquidity conditions during the second half of the year. Interest payments on short-term debt in 1984 are estimated to have been about US$0.2 billion, equivalent to about 1 percent of gross current account receipts.

V. Exchange and Trade System

1. Exchange rate developments

The external value of the Malaysian ringgit is determined on the basis of an undisclosed basket of currencies of Malaysia's trading partners. The weights are based on a formula that takes into account trade shares as well as the importance of currencies used in settlements. The composition of the basket has remained unchanged since September 1975, when the basket pegging scheme was first introduced. The exchange rate of the ringgit in terms of the U.S. dollar, the intervention currency, is determined in the foreign exchange market, and the authorities intervene to smooth out excessive day-to-day fluctuations of the ringgit in relation to the basket of currencies. The commercial banks are free to determine and quote exchange rates for all currencies and are permitted to deal forward in all currencies.

a. Spot market developments

Between December 1981 and December 1983, the ringgit appreciated by 6.6 percent vis-a-vis a currency basket of major trading partners (Chart 9). This strengthening reflected a substantial appreciation of the Malaysian currency vis-a-vis the Deutsche mark (14 percent), the pound sterling (22 percent), and the French franc (29 percent), which more than offset a depreciation against the U.S. dollar (4 percent). During the period, the ringgit remained roughly unchanged vis-a-vis the Singapore dollar and registered a minor appreciation against the Japanese yen (3 percent). With domestic inflation rising at a slightly faster pace than foreign inflation, the ringgit thus appreciated by 7.9 percent in real effective terms during the period.

During the first nine months of 1984, the trend of appreciation continued. The Malaysian currency rose by 4.2 percent in real effective terms, mainly reflecting a further strengthening in nominal effective terms. This was due to an appreciation vis-a-vis the three European currencies (about 9-12 percent) and the Japanese yen (4 percent); the ringgit remained roughly unchanged vis-a-vis the U.S. dollar and the Singapore dollar. However, there has been a gradual turnaround from October 1984. The Malaysian currency depreciated by 3 percent in nominal effective terms during October 1984-April 1985, as it weakened vis-a-vis the U.S. dollar (6.1 percent) and the Singapore dollar (3.5 percent). With domestic prices rising slightly more slowly than foreign prices, the ringgit thus depreciated by 5.1 percent during the period. The recent depreciation brought back Malaysia's relative external price position roughly to the level prevailing during the latter part of 1983.

b. Forward market developments

Forward exchange cover is provided to customers of the commercial banks generally for a period not longer than three months through swap facilities with Bank Negara. Forward premia or discounts on the ringgit are equivalent to the swap margins provided by the commercial banks in arranging contracts for forward exchange with their customers. Exporters of petroleum, rubber, tin, and palm oil, as well as an increasing number of importers, were the main users of the forward exchange market. Most of the transactions were for the U.S. dollar, reflecting its predominance in Malaysia's external trade and financial settlements. Swap transactions slackened somewhat during the first three quarters of 1984, partly reflecting a slower expansion in imports. However, the volume of transactions increased substantially during the fourth quarter of 1984, mainly reflecting increased needs for ringgit funds for domestic lending operations, speculation on the ringgit, and a more rapid increase in imports. According to data on the swap margins, the ringgit continued to be quoted at a forward premium in terms of the U.S. dollar during the first six months of 1984. However, from July 1984, the ringgit began to be quoted at a forward discount, mainly reflecting a tightening of credit policy, which led to a rise in domestic interest rates (Appendix Table 52). The forward discount widened substantially after October 1984, partly due to a decline in foreign interest rates relative to domestic rates.

2. Trade system 1/

Malaysia continues to have an exchange system free of restrictions on payments and transfers in respect of current international transactions. However, special restrictive regulations are applied to transactions with Israel and South Africa. The Central Bank administers the exchange control system, but most of the authority for approving payments abroad is delegated to the commercial banks, irrespective of the amount of such payments. Payments to nonresidents in excess of M$10,000 may be subject to prior approval and the completion of exchange control forms. Proceeds from exports must be repatriated to Malaysia in a specified currency, or sold to an authorized bank in Malaysia for ringgit, in accordance with the time of payment specified in the

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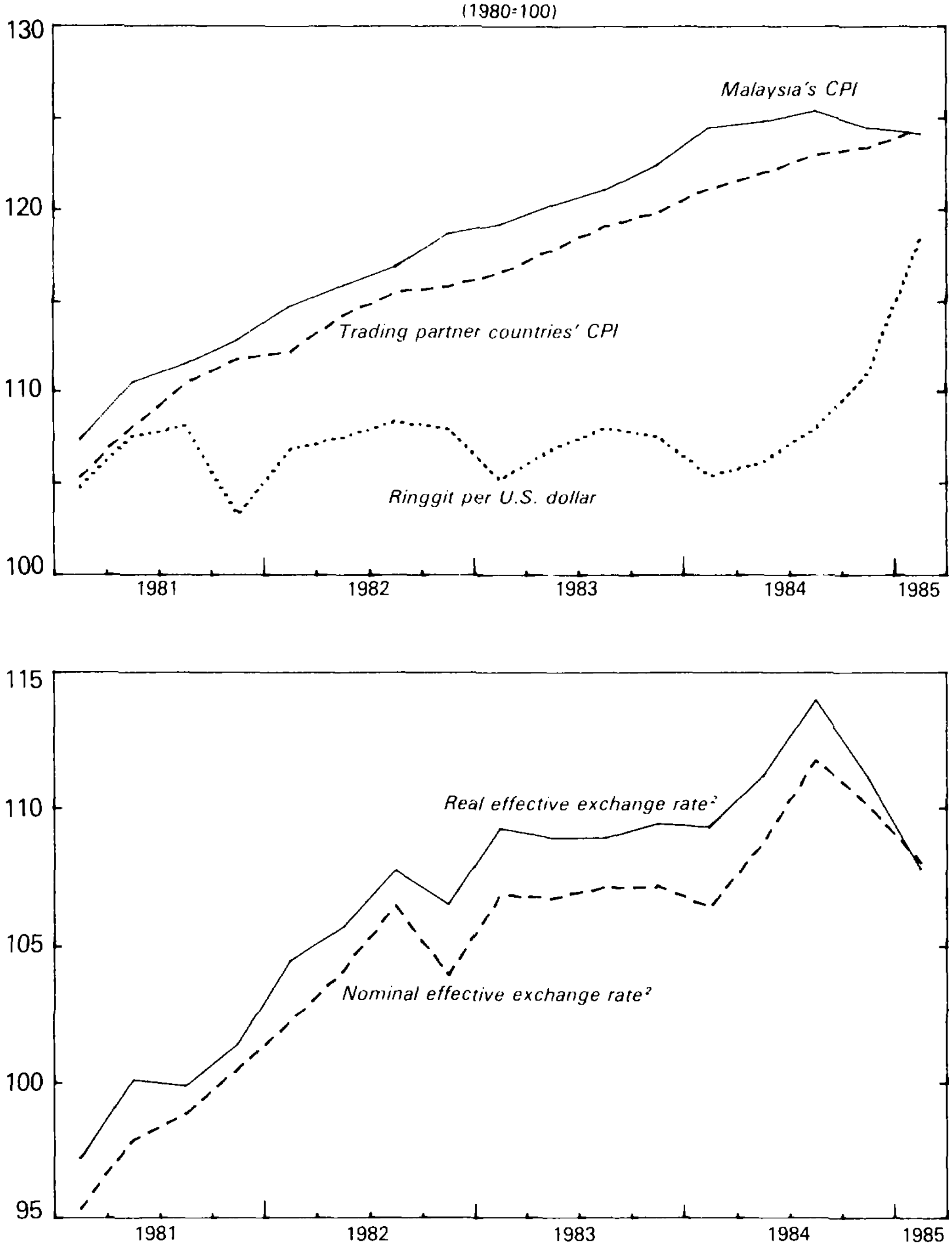
1/ IMF, Annual Report on Exchange Arrangements and Exchange Restrictions, 1984 contains a more detailed description of Malaysia's exchange and trade system.

CHART 9

MALAYSIA

DEVELOPMENTS IN RELATIVE PRICES AND EXCHANGE RATE INDICES[1], 1981-85

(1980=100)



Sources: Data provided by the Malaysian authorities; IMF, *International Financial Statistics*, and staff estimates.

[1] Indices calculated using last month data for each quarter.

[2] Increase in the index indicates appreciation of the ringgit.

commercial contract, which must not exceed six months from the date of export. Payments for invisibles to all countries, other than Israel and South Africa, may be made without restriction after exchange control requirements have been met. Foreign borrowing of the equivalent of M$100,000 or more by residents requires specific permission; for loans raised on reasonable terms and used for productive purposes in Malaysia, such permission is readily given. Companies in Malaysia controlled by nonresidents are permitted to borrow in Malaysia up to M$500,000 without exchange control approval. The authorized commercial and merchant banks in Malaysia are permitted to borrow or accept deposits from nonresidents in foreign currency. Loans in foreign currency by banks in Malaysia are permitted, provided that certain business and productive purposes are met.

Tariffs and import controls in the various parts of Malaysia have been fully unified. Depending on the nature and origin of goods, specific licenses are required for certain imports for reasons of health, security, or public policy. Certain imports are subject to quantitative restrictions as a temporary measure to protect local industries; these restrictions are reviewed from time to time. Imports of motor vehicles are subject to specific licensing with quantitative restrictions as a measure to protect local industries. Raw materials and machinery for the manufacturing sector are eligible for duty exemptions as follows: (a) raw materials are subject to a reduced rate of import duty of 2 percent to 3 percent; (b) industries can be further exempted from this reduced import duty if they comply with the New Economic Policy recommendations on equity participation, management, and employment structure; (c) all duties on imported machinery and equipment which are unavailable locally and used directly in manufacturing were abolished, replacing the system of case-by-case exemption; and (d) import duty drawbacks for imported raw materials may be claimed by any manufacturer, provided that evidence of export performance and importation of the raw material is submitted.

To ensure adequate domestic supply, exports of cement, scrap iron, steel bars, wheat flour, rice and paddy, and sugar are subject to licensing. Also subject to licensing are exports of all textiles, tiles, bricks, and other goods as specified in the Customs Prohibition of Export Orders, 1978.

3. Changes during 1984

June 10. A ban on the export of saw logs above 41 centimeters in diameter from Peninsular Malaysia was announced with effect from January 1, 1985.

Table 22. Malaysia: Industrial Origin of Gross Domestic Product at 1970 Prices, 1971 and 1981-84

(In millions of ringgit)

	1971	1981	1982	1983	1984	1971	1981	1984
						As percent of GDP		
Agriculture, forestry, and fishery	3,852	6,516	6,995	6,922	7,130	29.6	23.2	21.1
Mining and quarrying	834	1,148	1,180	1,398	1,678	6.4	4.1	5.0
Manufacturing	1,858	5,115	5,309	5,659	6,287	14.3	18.2	18.6
Construction	541	1,391	1,523	1,685	1,825	4.2	5.0	5.4
Electricity, gas, and water	238	665	707	786	874	1.8	2.4	2.6
Transport, storage, and communications	632	2,024	2,248	2,447	2,667	4.8	7.2	7.9
Wholesale and retail trade	1,717	3,772	3,952	4,260	4,567	13.2	13.4	13.5
Ownership of dwellings, banking, insurance, real estate, and business services	1,126	2,199	2,337	2,513	2,689	8.6	7.8	8.0
Government services	1,466	3,750	4,030	4,232	4,401	11.3	13.3	13.1
Other 1/	752	1,512	1,396	1,540	1,604	5.8	5.4	4.8
GDP at market prices	13,016	28,092	29,677	31,442	33,724	100.0	100.0	100.0

Source: Data provided by the Malaysian authorities.

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

Table 23. Malaysia: Major Expenditure Aggregates in 1970 Prices, 1971 and 1981-84

	1971	1981	1982	1983	1984	1982	1983	1984
						Annual percent change		
Consumption	9,809	21,632	22,475	23,381	24,479	3.9	4.0	4.7
Private	7,731	15,729	16,150	16,828	17,754	2.7	4.2	5.5
Public	2,078	5,903	6,325	6,553	6,725	7.1	3.6	2.6
Investment	2,609	8,837	9,801	10,518	10,000	10.9	7.3	-4.9
Private	...	4,795	5,095	5,085	4,938	6.3	-0.2	-2.9
Public	...	4,042	4,706	5,433	5,062	16.4	15.4	-6.8
Change in stocks	-26	-104	367	298	855			
Domestic demand	12,392	30,365	32,643	34,197	35,334	7.5	4.8	3.3
Exports of goods and nonfactor services	5,480	11,413	12,447	13,737	15,609	9.1	10.4	13.6
Total demand	17,872	41,778	45,090	47,934	50,943	7.9	6.3	6.3
Imports of goods and nonfactor services	(4,856)	(13,686)	(15,413)	(16,492)	(17,219)	12.6	7.0	4.4
Gross domestic product	13,016	28,092	29,677	31,442	33,724	5.6	5.9	7.3
Net factor payments to abroad	(349)	(874)	(1,181)	(1,714)	(2,211)	35.1	45.1	29.0
Gross national product at market prices	12,667	27,218	28,496	29,728	31,513	4.7	4.3	6.0

Source: Data provided by the Malaysian authorities

Table 24. Malaysia: Major Expenditure Aggregates in Current Prices, 1971 and 1981-84

	1971	1981	1982	1983	1984
Consumption	10,081	41,019	44,695	48,154	52,222
Private	7,911	30,594	33,226	35,998	39,497
Public	2,170	10,425	11,469	12,156	12,725
Investment	2,701	18,972	21,311	22,719	21,729
Private	...	10,295	11,081	10,984	10,730
Public	...	8,677	10,230	11,735	10,999
Change in stocks	-13	-208	845	844	1,634
Exports of goods and nonfactor services	5,242	30,153	31,876	36,388	42,919
Imports of goods and nonfactor services	(5,056)	(33,872)	(37,531)	(40,126)	(42,104)
Gross domestic product	12,955	56,064	61,196	67,979	76,400
Net factor payment to abroad	(363)	(1,748)	(2,679)	(3,707)	(4,806)
Gross national product at market prices	12,592	54,316	58,517	64,272	71,594
(Annual percent change)	(...)	(8.6)	(7.7)	(9.8)	(11.4)
			(Percent of GNP)		
Consumption	80.1	75.5	76.4	74.9	72.9
Private	62.8	56.3	56.8	56.0	55.2
Public	17.2	19.2	19.6	18.9	17.8
Investment	21.5	34.9	36.4	35.3	30.4
Private	...	19.0	18.9	17.1	15.0
Public	...	16.0	17.5	18.3	15.4
Exports of goods and nonfactor services	41.6	55.5	54.5	56.6	59.9
Imports of goods and nonfactor services	(40.2)	(62.4)	(64.1)	(62.4)	(58.8)

Source: Data provided by the Malaysian authorities

Table 25. Malaysia: Acreage of Newly Planted and Replanted Rubber in Peninsular Malaysia, 1961-84

(In thousands of hectares)

Year	Estates		Smallholders 1/		Total	
	Newly planted	Replanted	Newly planted	Replanted	Newly planted	Replanted
1961	7.2	28.3	27.3	27.0	46.0	55.3
1962	4.0	25.5	44.0	31.3	48.0	56.8
1963	3.5	23.8	34.6	37.7	38.1	61.5
1964	2.5	23.8	24.7	37.0	27.2	60.8
1965	2.0	21.5	13.3	41.4	15.3	62.9
1966	1.3	20.2	10.7	21.7	12.0	41.9
1967	1.0	11.3	7.9	32.3	8.9	43.6
1968	0.2	5.3	4.2	15.8	4.4	21.1
1969	0.9	9.7	6.3	15.1	7.2	24.8
1970	1.2	14.1	11.0	21.5	12.2	35.6
1971	2.4	12.1	12.7	23.3	15.1	35.4
1972	2.2	8.0	37.5	23.4	39.7	31.4
1973	2.3	9.7	20.8	28.6	23.1	38.3
1974	1.9	12.2	10.8	22.2	12.7	34.4
1975	2.6	11.2	15.1	20.3	17.7	31.5
1976	1.2	8.5	10.4	13.7	11.0	22.2
1977	2.1	7.4	13.9	12.4	16.0	19.8
1978	0.6	7.2	24.1	12.8	24.7	20.0
1979	1.4	5.4	14.8	13.7	16.2	19.1
1980	0.4	7.1	18.4	14.5	18.8	21.6
1981	1.7	7.2	13.0	21.7	14.7	28.9
1982	2.4	6.7	12.4	22.9	14.8	29.6
1983	2.5	5.9	12.6	23.2	15.1	29.1
1984 2/	2.0	7.0	16.5	21.5	18.5	28.5

Source: Data provided by the Malaysian authorities.

1/ 1961-69 refers to those smallholdings receiving assistance from RISDA only.
2/ Estimates.

Table 26. Malaysia: Production, Consumption, and Net Exports of Petroleum and Products, 1980-84

(In millions of barrels oil equivalent)

	1980	1981	1982	1983	1984 1/
1. Production of crude oil	100.3	93.7	110.1	139.3	162.7
2. Total exports of crude oil and products	86.4	77.9	93.0	116.2	139.2
Crude oil	85.0	76.8	90.6	107.7	126.6
Products 2/	1.4	1.1	2.4	8.5	12.6
3. Total imports of crude oil and products	48.7	49.6	48.2	48.9	43.8
Crude oil	29.5	26.5	18.9	20.3	19.4
Products	19.2	23.1	29.3	28.6	24.4
4. Net exports of crude oil and products (2 - 3)	37.7	28.3	44.8	67.3	95.4
5. Domestic consumption of crude oil and products	58.9	62.5	66.5	68.5	67.3
6. Stock change, refinery use, and losses and discrepancies	3.7	2.9	-1.2	3.5	--

Source: Data provided by the Malaysian authorities.

1/ Preliminary.
2/ Including bunkers.

Table 27. Malaysia: Consumer Price Index, 1981-84 1/

(1980 = 100)

	Weights	1981	1982	1983	1984	1984 1st qtr.	1984 2nd qtr.	1984 3rd qtr.	1984 4th qtr.
Total	100.0	109.7	116.1	120.4	125.1	125.2	124.8	125.5	124.8
Food	36.2	111.4	120.6	121.7	126.2	127.9	126.2	126.3	124.3
Beverages and tobacco	4.9	113.9	121.5	147.5	152.7	149.1	152.7	154.5	154.5
Clothing and footwear	4.7	109.5	114.1	118.6	121.6	120.8	121.3	122.0	122.3
Gross rent, fuel and power	18.2	109.9	116.8	124.0	133.3	131.4	131.9	134.9	134.9
Furniture, furnishing, and household equipment	5.9	106.4	109.6	112.3	113.4	113.2	113.4	113.5	113.4
Medical care and health expenses	1.3	109.0	114.4	130.0	131.5	131.2	131.2	131.8	131.8
Transport and communications	16.6	107.9	111.5	114.2	119.9	119.3	120.3	120.1	120.0
Recreation, entertainment, education and cultural services	6.7	105.5	108.1	107.5	104.7	106.9	104.1	104.0	103.6
Miscellaneous goods and services	5.5	109.1	111.7	118.9	120.7	120.5	120.6	120.8	121.1

Sources: Bank Negara Malaysia, Monthly Statistical Supplement; and data provided by the Malaysian authorities.

1/ Quarterly and annual indices are simple averages of monthly indices. The data are not seasonally adjusted.

Table 28. Malaysia: Summary of the General Government Sector, 1980-85 1/

	1980	1981	1982	1983	Estimate Actual 1984	Latest Estimate 1985
			(In millions of ringgit)			
Total revenue and grants	16,441	18,399	19,866	21,769	23,793	26,016
Revenue	16,437	18,393	19,854	21,761	23,787	26,007
Federal	(13,832)	(15,697)	(6,551)	(18,494)	(20,294)	(22,301)
State	(2,445)	(2,489)	(3,064)	(2,997)	(3,210)	(3,451)
Local	(160)	207	239	270	283	255
Grants	4	6	12	8	6	9
Total expenditure and net lending	19,718	27,538	29,530	28,769	29,469	32,116
Current expenditure	11,716	15,351	17,576	17,872	19,828	22,556
Federal	(10,128)	(13,600)	(15,828)	(16,063)	(17,720)	(20,448)
State 2/	(1,446)	(1,580)	(1,552)	(1,565)	(1,763)	(1,834)
Local	(142)	(171)	(196)	(244)	(345)	(274)
Direct development expenditure	6,278	10,353	8,186	7,372	5,470	6,516
Federal	(5,280)	(8,864)	(7,079)	(5,791)	(3,847)	(4,361)
State	(931)	(1,442)	(1,040)	(1,505)	(1,452)	(2,021)
Local	(67)	(47)	(67)	(76)	(171)	(134)
Net lending	2,034	2,241	4,064	3,580	3,721	3,044
Adjustment for accounts payable	-310	-407	-296	-55	450	...
Overall deficit	-3,277	-9,139	-9,664	-7,000	-5,676	-6,100
Financing (net)	3,277	9,139	9,664	7,000	5,676	6,100
External	310	3,419	4,893	4,569	2,958	...
Domestic	2,967	5,720	4,771	2,431	2,719	...
			(As percent of GNP)			
Memorandum items:						
Total revenue and grants	32.9	33.9	34.0	33.9	33.2	34.1
Total expenditure and net lending	39.4	50.7	50.5	44.8	41.2	42.1
Overall deficit	6.5	16.8	16.5	10.9	7.9	8.0

Source: Data provided by the Malaysian authorities.

1/ Federal Government, the 13 state governments, and 4 local governments. The consolidation is incomplete because some data on the flows between the Federal Government and the other subsectors are not available.

2/ Net of statutory and other grants from the Federal Government to the 13 state governments.

APPENDIX

Table 29. Malaysia: Summary of the State Governments' Operations, 1980-85

(In millions of ringgit)

	1980	1981	1982	Final Actual 1983	Estimate Actual 1984	Latest Estimate 1985
Revenue and grants	3,297	3,489	4,303	4,445	4,704	5,177
Revenue	2,445	2,489	3,064	2,997	3,210	3,451
Statutory grants	551	636	843	1,028	980	1,137
Other Federal Government grants	301	364	396	420	514	589
Expenditure	3,392	4,454	4,651	5,426	6,016	7,081
Operating expenditure	1,997	2,216	2,395	2,593	2,743	2,971
Development expenditure	1,395	2,238	2,256	2,833	3,273	4,110
Overall deficit (-)	-95	-965	-348	-981	-1,312	-1,904
Financing (net)	95	965	348	981	1,312	1,904
Federal Government loans	163	432	820	908	1,307	1,500
Change in assets (increase -)	-68	533	-472	73	5	404

Source: Data provided by the Malaysian authorities.

Table 30. Malaysia: Summary of the Social Security Organization Operations, 1980-84

(In millions of ringgit)

	1980	1981	1982	1983	1984 1/
Receipts	72.7	105.0	126.6	141.7	153.6
Contributions	55.0	81.1	93.3	99.0	100.8
Investment income	17.7	23.9	33.3	42.7	52.8
Expenditure	5.6	8.7	11.2	16.0	19.3
Balance	67.1	96.3	115.4	125.7	134.3
Memorandum items:					
Holdings of government securities 2/	259.40	354.50	466.50	582.50	711.50
Registered employees (millions)	1.84	2.16	2.18	2.46	2.62
Registered employers (thousands)	41.70	47.00	53.20	57.50	61.90

Sources: Data provided by the Malaysian authorities.

1/ Provisional.
2/ The Social Security Organization invests all its surplus funds in government securities.

Table 31. Malaysia: Federal Government Revenue and Grants, 1980-85

(In millions of ringgit)

	1980	1981	1982	Final Actual 1983	Estimate Actual 1984	Latest Estimate 1/ 1985
Total tax revenue	12,460	13,002	13,069	15,815	17,017	18,678
Taxes on net income and profits 2/	5,240	5,819	6,048	7,262	8,035	7,943
Oil production companies	1,736	1,978	2,075	1,998	2,570	2,481
Other companies	2,521	2,754	2,613	3,450	3,438	3,560
Individuals	983	1,087	1,360	1,814	2,027	1,902
Taxes on property 3/	73	86	103	100	88	250
Taxes on goods and services	2,337	2,420	2,633	3,623	3,789	5,035
Sales tax	696	730	788	1,284	1,320	1,802
Imported goods	(351)	(325)	(343)	(528)	(531)	(811)
Domestic goods	(345)	(405)	(445)	(756)	(789)	(911)
Selective excises on goods	973	964	1,024	1,361	1,460	1,796
Tobacco and alcoholic beverages	(209)	(227)	(247)	(335)	(355)	(384)
Petroleum products	(330)	(276)	(305)	(436)	(487)	(679)
Motor vehicles	(316)	(344)	(406)	(530)	(563)	(654)
Other	(118)	(120)	(66)	(60)	(55)	(79)
Selective excises on services 4/	247	278	319	325	326	435
Motor vehicles tax	390	408	460	545	568	816
Other	31	37	42	108	115	186
Taxes on international trade	4,628	4,470	4,035	4,483	4,782	5,048
Import duties	2,061	2,245	2,315	2,591	2,697	3,369
Tobacco and alcoholic beverages	(259)	(324)	(386)	(463)	(358)	(472)
Petroleum products	(150)	(174)	(233)	(297)	(337)	(375)
Other import duties	(1,029)	(1,148)	(1,241)	(1,447)	(1,888)	(2,241)
Surtax on imports	(623)	(599)	(455)	(384)	(114)	(281)
Export duties	2,567	2,225	1,720	1,892	2,085	1,679
Rubber	(1,098)	(514)	(110)	(273)	(162)	(187)
Petroleum	(697)	(1,241)	(1,351)	(1,477)	(1,624)	(1,337)
Tin	(575)	(298)	(159)	(56)	(35)	(32)
Palm oil	(166)	(148)	(75)	(49)	(193)	(77)
Other	(31)	(24)	(25)	(37)	(71)	(46)
Other tax revenue 5/	182	207	250	347	323	402
Nontax revenue	1,372	2,695	3,482	2,679	3,277	3,623
Property income	855	1,963	2,491	1,843	2,428	2,520
Nonfinancial public enterprises	35	46	43	43	48	54
Public financial institutions	180	220	220	220	220	220
Rent and interest	295	330	353	589	607	765
Dividends paid by Petronas	0	950	1,450	500	980	930
Petroleum royalties	345	417	425	491	573	551
Administrative fees and charges, sale of goods, fines and forfeit	309	348	373	443	438	577
Other nontax revenue	208	384	618	393	411	526
Total revenue	13,832	15,697	16,551	18,494	20,294	22,301
Foreign grants	4	6	12	8	6	9
Total revenue and grants	13,836	15,703	16,563	18,502	20,300	22,310

Source: Data provided by the Malaysian authorities.

1/ Includes effects of tax measures contained in the 1985 budget (original estimates).
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.
5/ Excludes expenditure refunds and net lending items.

Table 32. Malaysia: Economic Classification of Federal Government Expenditure and Net Lending, 1980-85

(In millions of ringgit)

	1980	1981	1982	Final Actual 1983	Estimate Actual 1984	Latest Estimate 1985
Operating expenditure 1/	10,128	13,600	15,828	16,063	17,720	20,448
Expenditure on goods and services	5,777	7,951	8,502	8,690	9,685	10,775
Wages and salaries	(4,292)	(5,528)	(6,104)	(6,466)	(7,088)	(7,466)
Other purchases of goods and services 2/	(1,485)	(2,369)	(2,398)	(2,224)	(2,597)	(3,309)
Interest payments 3/	1,531	2,033	2,711	3,445	4,338	5,476
Subsidies and other current transfers	2,820	3,616	4,615	3,928	3,697	4,197
Transfers to state governments	(355)	(407)	(550)	(473)	(592)	(547)
Pensions	(531)	(573)	(580)	(629)	(685)	(797)
Other current transfers 4/	(1,934)	(2,636)	(3,485)	(2,826)	(2,420)	(2,853)
Development expenditure	5,280	8,864	7,079	5,791	3,847	4,361
Net lending 5/	2,034	2,241	4,064	3,580	3,721	3,044
Adjustable for accounts payable	-310	-407	-296	-55	450	--
Total expenditure and net lending	17,132	24,298	26,675	25,379	25,738	27,853

Source: Data provided by the Malaysian authorities.

1/ Includes refunds of expenditure.
2/ Estimated. Includes defense expenditures shown in the development budget and excludes capital expenditure shown in the current budget.
3/ Excludes contributions to the sinking funds.
4/ Derived as a residual. Includes contributions to statutory funds and may include bloc-voted expenditure not classified above.
5/ Includes repayments of loans made from revenue and loan funds.

Table 33. Malaysia: Functional Classification of Federal Government Expenditure and Net Lending, 1980-85

(In millions of ringgit)

	1980	1981	1982	Final Actual 1983	Estimate Actual 1984	Latest Estimate 1985
General services	9,597	13,502	15,704	13,591	13,885	14,824
General public services	2,371	3,062	3,776	3,338	3,126	4,174
General administration	(1,237)	(1,702)	(2,330)	(1,916)	(1,607)	(2,493)
Internal security	(1,134)	(1,360)	(1,446)	(1,422)	(1,519)	(1,681)
Defense	2,255	3,333	3,695	3,410	3,043	2,270
Education	2,786	3,517	4,073	3,930	4,609	4,743
Health	773	973	1,066	992	1,003	1,279
Social security 1/	516	584	580	629	655	797
Housing and community amenities	330	1,663	1,889	856	978	1,160
Other community and social services	566	370	625	436	471	401
Economic services	5,642	8,120	7,927	7,297	6,275	6,589
Agriculture, forestry and rural development	1,329	2,004	2,313	1,907	1,802	2,289
Transport and communications	1,663	1,820	2,907	2,716	2,432	2,134
Other economic services 2/	2,650	4,296	2,707	2,674	2,041	2,166
Unallocable 3/	2,203	3,083	3,340	4,546	5,128	6,440
Public debt interest	(1,531)	(2,033)	(2,711)	(3,445)	(4,338)	(5,476)
Grants to states	(355)	(407)	(550)	(473)	(592)	(547)
Other 3/	(317)	(643)	(79)	(628)	(198)	(417)
Adjustment for accounts payable	-310	-407	-296	-55	450	...
Total expenditure and net lending	17,132	24,298	26,675	25,379	25,738	27,853

Source: Data provided by the Malaysian authorities.

1/ Government pensions.
2/ Includes general administration, regulations and research, mining, manufacture and construction, utilities, and other economic services.
3/ Includes expenditure refunds and net lending items.

Table 34. Malaysia: Summary of Operations of Nonfinancial Public Enterprises, 1980-85 1/

(In millions of ringgit)

	1980	1981	1982	1983	Estimate 1984	Estimate 1985
Operating surplus	482	2,186	2,294	5,050	6,034	7,182
Development expenditure	3,545	4,090	6,484	8,683	10,629	10,138
Overall deficit	-3,063	-1,904	-4,190	-3,633	-4,595	-2,956
Financing	3,063	1,904	4,190	3,633	4,595	2,956
Grants (federal and state)	246	500	609	585	617	676
Loans	1,954	1,915	5,199	3,911	4,081	4,502
Foreign	327	613	2,171	2,002	1,723	1,680
Domestic	1,627	1,302	3,028	1,909	2,358	2,822
Of which: Federal and state	1,356	923	2,045	2,023	1,853	2,226
Other	271	379	983	(114)	505	596
Equity	378	694	333	386	652	290
Of which: Domestic	363	513	253	344	641	266
Foreign	15	181	80	42	11	24
Internal funds	268	307	...	-164	...	...
Use of assets 2/	217	-1,512	-1,951	-1,085	-755	-2,512

Source: Data provided by the Malaysian authorities.

1/ Consisting of 36 NPEs as defined in Annex B.
2/ Residual.

Table 35. Malaysia: Banking Survey, 1980-84 1/

	1980 Dec.	1981 Dec.	1982 Dec.	1983 Dec.	1984 March	June	Sept.	Dec.
	(In millions of ringgit; end of period)							
Foreign assets (net)	9,280	7,697	7,624	7,086	5,982	6,144	4,313	5,367
Domestic credit	28,452	37,246	44,995	54,130	56,245	59,666	63,605	65,076
Claims on government (net) 2/	2,003	4,290	6,194	6,123	6,977	6,556	7,807	6,966
Claims on private sector	26,449	32,956	38,801	48,007	49,268	53,110	55,798	58,110
Total liquidity	33,394	37,923	44,286	50,705	52,432	52,802	56,139	58,350
Other items (net)	4,338	7,020	8,333	10,511	9,795	11,008	11,779	12,093
Memorandum items:								
Narrow money (M1)	9,932	11,173	12,656	13,662	13,678	13,966	13,460	13,655
Broad money (M2)	27,823	32,527	37,827	41,424	42,468	44,036	44,284	46,189

Source: Data provided by the Malaysian authorities; and staff estimates

1/ Consolidation of the accounts of the monetary authorities, commercial banks, finance companies, merchant banks, and discount houses.

2/ Includes counterpart of Treasury IMF account.

Table 36. Malaysia: Monetary Survey, 1980-84 1/

	1980 Dec.	1981 Dec.	1982 Dec.	1983 Dec.	1984 March	1984 June	1984 Sept.	1984 Dec.
	(In millions of ringgit; end of period)							
Foreign assets (net)	9,363	7,707	7,660	7,155	6,139	6,273	4,430	5,493
Domestic credit	22,952	30,952	37,444	43,636	45,833	47,739	50,467	51,500
Claims on government (net) 2/	549	2,788	4,617	4,203	4,883	4,627	5,625	4,771
Claims on private sector	20,930	25,712	29,916	36,417	37,649	39,704	41,403	42,974
Claims on other financial institutions	1,473	2,452	2,911	3,016	3,301	3,408	3,439	3,755
Broad money (M2)	27,823	32,527	37,827	41,424	42,468	44,036	44,284	46,191
Narrow money (M1)	9,932	11,173	12,656	13,662	13,678	13,966	13,460	13,657
Quasi money	17,891	21,354	25,171	27,762	28,790	30,070	30,824	32,534
Other items (net)	4,492	6,132	7,277	9,367	9,504	9,976	11,613	11,802
	(Percentage change)							
Domestic credit		34.9	21.0	16.5	15.1	15.6	20.9	18.0
Of which: Claims on private sector		22.8	16.4	21.7	19.6	20.1	19.5	18.0
Claims on other financial institutions		66.5	18.7	3.6	8.0	19.8	17.9	24.5
Broad money		16.9	16.3	9.5	7.1	12.8	10.9	11.5
Narrow money		12.5	13.3	7.9	4.7	9.3	3.2	-0.1
Quasi-money		19.4	17.9	10.3	8.3	14.5	14.6	17.2

Source: Data provided by the Malaysian authorities; and IMF, IFS.

1/ Consolidation of the accounts of the monetary authorities and commercial banks.
2/ Includes counterpart of Treasury IMF account.

Table 37. Malaysia: Consolidated Statement of Assets and Liabilities of Nonmonetary Financial Institutions, 1980-84 1/

	1980	1981	1982	1983	1984			
	Dec.	Dec.	Dec.	Dec.	March	June	Sept.	Dec.
	(In millions of ringgit; end of period)							
Cash	1,680	1,999	2,438	3,112	3,783	3,459	3,706	4,054
Foreign assets (net)	-83	-10	-36	-69	-157	-129	-117	-126
Claims on government (net)	1,454	1,502	1,577	1,920	2,094	1,929	2,182	2,195
Finance companies	203	137	127	145	189	165	151	133
Merchant banks	161	180	189	306	343	305	358	336
Discount houses	1,090	1,185	1,271	1,469	1,562	1,459	1,673	1,726
Claims on private sector	5,512	7,238	8,885	11,547	11,532	13,258	14,201	14,896
Finance companies	3,616	4,646	5,810	7,539	8,096	8,712	9,480	10,189
Merchant banks	1,709	2,391	2,871	3,793	3,183	4,287	4,414	4,415
Discount houses	187	201	204	215	253	259	307	292
Liquid liabilities 2/	5,749	6,785	8,122	10,779	11,640	12,197	13,309	14,117
Finance companies	4,818	6,227	7,240	8,973	10,199	10,411	11,260	12,097
Merchant banks	543	266	518	1,425	1,023	1,378	1,599	1,299
Discount houses	388	292	364	381	418	408	450	721
Credit from commercial banks	401	1,154	1,523	1,538	1,852	1,998	1,762	2,145
Capital accounts	411	490	642	869	900	981	1,033	1,111
Other items (net)	2,002	2,300	2,577	3,324	2,860	3,341	3,868	3,646

Source: Data provided by the Malaysian authorities; and IMF, IFS.

1/ Consolidation of the accounts of finance companies, merchant bank, and discount houses.

2/ Includes time and savings deposits, and money market instruments.

Table 38. Malaysia: Monetary Authorities Account, 1980-84

(In millions of ringgit; end of period)

	1980	1981	1982	1983	1984				1985
	Dec.	Dec.	Dec.	Dec.	March	June	Sept.	Dec.	March
	(In millions of ringgit; end of period)								
Foreign assets	10,316	9,805	9,338	9,456	9,754	9,402	10,221	9,655	9,090
Claims on government	1,681	708	2,001	3,525	3,064	3,735	4,515	4,809	5,115
Claims on private sector	591	748	729	1,029	985	1,176	1,086	1,006	...
Reserve money	6,648	7,296	8,505	8,903	9,031	9,400	9,045	9,283	9,651
Currency outside banks	4,758	5,100	5,727	6,025	6,064	6,256	5,870	5,974	6,185
Currency and deposits of banks 1/	1,591	1,837	2,328	2,457	2,506	2,551	2,653	2,836	2,853
Deposits of non-monetary financial institutions 2/	110	143	173	225	243	258	280	298	316
Other deposits	189	216	277	196	218	335	242	173	297
Time deposits	1,342	46	35	36	36	37	33	32	...
Foreign liabilities	4	506	643	784	782	660	641	652	684
Government deposits 3/	2,426	998	1,327	1,808	921	1,441	2,909	2,267	1,195
Capital accounts	1,118	1,333	1,325	1,616	1,616	1,616	1,616	1,742	1,742
Other items (net)	1,050	1,082	233	863	1,417	1,159	1,578	1,494	...

Source: Data provided by the Malaysian authorities; and IMF, IFS.

1/ Includes currency holdings and deposits of commercial banks.
2/ Includes deposits of merchant banks and finance companies.
3/ Includes counterpart of Treasury IMF account.

APPENDIX

Table 39. Malaysia: Interest Rates of Commercial Banks, 1980-85

(In percent per annum)

Effective Date	Fixed Deposits: Maturity Periods in Months					Saving Deposits	Minimum Lending Rates			
	1	3	6	9	12		Prime Rate	Preferential Rate 1/	Base Lending Rate 2/	Average Lending Rate 3/
1980										
December	8.50	8.50	8.50	9.00	9.00	6.00	8.50	7.00	...	10.17
1981										
December	9.00	10.00	10.50	10.50	11.00	7.00	8.50	7.00	...	12.00
1982										
December	8.00	9.00	9.25	9.50	10.00	6.50	8.50	7.00	12.00	12.30
1983										
March	7.00	7.50	8.25	8.25	8.50	6.50	8.50	7.00	11.00	11.88
June	7.00	7.50	8.00	8.00	8.50	6.50	8.50	7.00	11.00	11.77
September	8.00	8.25	8.50	8.50	8.75	6.00	8.50	7.00	11.00	11.56
December	8.25	8.50	8.50	8.75	9.00	6.00	8.50	7.00	10.75	11.60
1984										
March	8.00	9.00	9.00	9.00	9.00	6.00	8.50	7.00	10.75	11.72
June	9.00	9.25	9.25	9.25	9.50	6.50	8.50	7.00	11.00	11.97
September	9.75	9.75	9.75	9.75	9.75	6.50	8.50	7.00	11.50	12.18
December	10.00	10.50	10.50	10.50	10.75	7.50	8.50	7.00	12.25	12.81
1985										
February	9.50	10.00	10.50	10.50	10.75	7.00	...	7.00	12.25	n.a.

Source: Bank Negara Monthly Statistical Supplement, various issues.

1/ The preferential rate applied to advances to Federal and State Government and public authorities and advances against government or municipal securities, and against agricultural products.

2/ With effect from November 1, 1983, all lending rates are pegged to a bank's declared base lending rate (BLR), with the exception of those levied on loans to priority sectors and those prescribed by law.

3/ Refers to the weighted average lending rate of all the commercial banks.

Table 40. Malaysia: Commercial Banks--Liquidity and Statutory Reserve Requirements, 1980-84

	1980	1981	1982	1983	1984			
					Mar.	June	Sept.	Dec.
	(In millions of ringgit; end of period)							
Total liquid assets 1/	5,484	7,428	8,348	8,593	9,181	8,701	11,070	10,395
Of which: Primary liquid assets	2,870	3,421	3,813	4,273	4,442	4,426	4,665	4,768
Eligible liabilities 2/	23,387	27,490	31,621	37,109	39,034	39,830	41,390	42,834
Statutory reserves 3/	1,169	1,375	1,581	1,853	1,952	2,067	2,006	2,142
	(In percent)							
Statutory reserves ratio	5.0	5.0	5.0	5.0	5.0	5.2	4.8	5.0
Liquidity ratio	23.4	27.0	26.4	23.2	23.5	21.8	26.8	24.3
Primary liquid assets ratio	12.3	12.4	12.1	11.5	11.4	11.1	11.3	11.1

Source: Bank Negara Malaysia, Monthly Statistical Supplement.

1/ With effect from March 1979, commercial banks are required to maintain a minimum ratio of their eligible liabilities in Malaysian liquid assets. One half of this ratio is to be in primary liquid assets. Primary liquid assets are defined to comprise cash, balances with the Central Bank of Malaysia, net money at call with the discount houses in Malaysia, Federal Government Treasury bills, and Federal and State Government securities with maturities of one year or less to run. Other liquid assets, known as secondary liquid assets, comprise Federal and State Government securities with maturities of more than one year to run, bills discounted to 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 percent and the minimum liquidity ratio is 20 percent. Liquidity requirements against foreign liabilities, which are also eligible liabilities, have been set at zero percent since October 1981.

2/ Comprises 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.

3/ As from April 15, 1985, the statutory reserve which commercial banks are required to maintain with the Central Bank has been reduced from 5 to 4 percent of eligible liabilities. Statutory reserve requirements against foreign liabilities have been set at zero percent since October 1981.

Table 41. Malaysia: Assets and Liabilities of Commercial Banks, 1980-84

	1980 Dec.	1981 Dec.	1982 Dec.	1983 Dec.	1984 March	1984 June	1984 Sept.	1984 Dec.
	(In millions of ringgit; end of period)							
Assets								
Reserves	1,586	1,833	2,323	2,451	2,484	2,607	2,602	2,816
Foreign assets	1,947	2009	2,889	5,407	4,320	4,342	2,242	2,458
Claims on government	3,972	5,552	6,301	7,586	7,722	7,230	9,237	8,333
Claims on private sector	20,339	24,964	29,187	35,388	36,664	38,528	40,317	41,968
Claims on other financial institutions	1,473	2,452	2,911	3,016	3,301	3,408	3,439	3,755
Liabilities								
Demand deposits	4,875	5,714	6,479	7,216	7,153	7,117	7,068	7,210
Time and savings deposits	15,773	19,917	24,206	24,808	25,880	26,364	26,908	29,264
Negotiable certificates of deposit (NCDs) 1/	776	1,391	930	2,918	2,874	3,669	3,883	3,238
Foreign liabilities	2,896	3,601	3,924	6,924	7,153	6,811	7,392	5,968
Government deposits	2,678	2,474	2,358	5,100	4,982	4,897	5,218	6,104
Capital accounts	965	1,595	1,997	2,995	3,029	3,091	3,462	3,588
Other items (net)	1,354	2,118	3,717	3,887	3,420	4,166	3,906	3,958

Source: Data provided by the Malaysian authorities; and IMF, IFS.

1/ Excludes NCDs held by commercial banks.

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Table 42. Malaysia: Direction of Commercial Bank Lending, 1980-84

(In millions of ringgit)

End of period:	1980 Dec.	1981 Dec.	1982 Dec.	1983 Dec.	1984 Dec.
Agriculture	1,648 (8.1)	1,910 (7.7)	2,134 (7.3)	2,390 (6.7)	2,664 (6.3)
Mining and quarrying	211 (1.0)	277 (1.1)	495 (1.7)	626 (1.8)	486 (1.2)
Manufacturing	4,694 (23.1)	5,947 (23.8)	6,190 (21.2)	7,399 (20.9)	7,895 (18.8)
Electricity	279 (1.4)	170 (0.7)	144 (0.5)	96 (0.3)	39 (0.1)
General commerce	4,644 (22.8)	5,594 (22.4)	6,138 (21.0)	7,662 (21.6)	8,168 (19.5)
Building and construction	1,407 (6.9)	1,643 (6.6)	1,860 (6.4)	2,494 (7.0)	3,248 (7.7)
Real estate	1,710 (8.4)	2,755 (11.0)	3,660 (12.5)	4,667 (13.2)	6,032 (14.4)
Individual housing loans	2,232 (11.0)	2,811 (11.3)	3,498 (12.0)	4,158 (11.7)	5,129 (12.2)
Transport, storage, and communication	400 (2.0)	624 (2.5)	715 (2.4)	750 (2.1)	772 (1.8)
Other	3,114 (15.3)	3,233 (12.9)	4,353 (14.9)	5,244 (14.8)	7,535 (18.0)
Total	23,339	24,864	29,187	35,388	41,968

Source: Bank Negara, Monthly Statistical Supplement, various issues.

1/ Figures in parentheses are percentage shares. Excludes lending to government.

Table 43. Malaysia: Compliance with Lending Guidelines, 1982-84

(In percent)

	Guidelines Expiring Dec. 31, 1982		Guidelines Expiring Dec. 31, 1983		Guidelines Expiring Dec. 31, 1984	
	Minimum 1/ requirement	Actual performance	Minimum 1/ requirement	Actual performance	Minimum requirement	Actual performance
Commercial banks						
Loans to/for						
Bumiputra community	18.0	17.5	18.0	29.7	20.0	31.7
Small-scale enterprises	12.01	12.6	--	--	--	--
Of which: Loans under the Special Loan Scheme	5.0 2/	3.4	5.0 2/	3.8	5.0	3.8
(Bumiputra community) 3/	(--)	(--)	(2.5) 2/	0.8	(2.5)	1.1
Agricultural food production	10.0 4/	12.4	6.0	6.7	6.0	6.2
Housing	10.0	13.7	--	--	20,000 units	25,738 units
Of which: Bumiputra housing	--	--	--	--	(7,896 units) 5/	7,735 units
Finance companies						
Loans to/for						
Bumiputra community	20.0	29.2	20.0	30.7	20.0	34.5
Small-scale enterprises	25.0	27.7	25.0	24.9	...	...
Housing	20.0	23.4	--		...	...

Sources: Bank Negara Malaysia, Annual Report, various issues.

1/ As a percentage of total loans outstanding at end of the preceding year.
2/ As a percentage of total loans outstanding at end of 1980.
3/ Introduced on March 31, 1983.
4/ As a percentage of total loans outstanding at June 30, 1979.
5/ As per guidelines introduced in March 1984.

Table 44. Malaysia: Assets and Liabilities of Finance Companies, 1980-84

(In millions of ringgit; end of period)

	1980	1981	1982	1983	1984			
					Mar.	June	Sept.	Dec.
Foreign assets	14	7	5	3	2	3	3	2
Domestic assets	5,634	7,394	9,105	11,357	12,732	13,170	14,125	15,222
Cash 1/	249	264	322	379	417	426	469	504
Claims on Central Bank	90	116	139	179	196	206	224	243
Net claims on commercial banks	1,158	1,617	1,972	2,165	2,826	2,450	2,545	2,847
Net claims on govt.	203	137	117	145	227	221	212	198
Claims on private sector 2/	3,587	4,595	5,727	7,437	7,997	8,610	9,376	10,077
Other 3/	347	665	828	1,052	1,070	1,259	1,301	1,355
Assets = Liabilities	5,648	7,401	9,110	11,360	12,733	13,172	14,127	15,224
Foreign liabilities	28	15	14	19	19	19	20	30
Domestic liabilities	5,620	7,386	9,096	11,341	12,714	13,153	14,107	15,194
Fixed deposits 4/	4,592	6,021	7,073	8,643	9,887	10,146	11,019	11,917
Savings deposits	370	402	510	691	712	762	741	728
Borrowing from banks	43	63	312	499	489	498	435	480
Other 5/	615	900	1,201	1,508	1,626	1,747	1,912	2,069
Of which: Capital and reserves	(270)	(332)	(440)	(578)	(607)	(679)	(708)	(756)

Source: Data provided by the Malaysian authorities.

1/ Includes merchant banks' balances with commercial banks and money at call.
2/ Includes investment in subsidiary and other companies, loans and advances to customers and bills discounted.
3/ Includes all other assets, n.i.e.
4/ Includes fixed deposits of finance companies and deposits of merchant banks.
5/ Includes all other liabilities, n.i.e.

Table 45. Malaysia: Assets and Liabilities of Merchant Banks, 1980-84

(In millions of ringgit; end of period)

	1980	1981	1982	1983	1984 Mar.	1984 June	1984 Sept.	1984 Dec.
Foreign assets	10	15	15	15	15	15	15	15
Domestic assets	2,219	2,889	3,579	4,717	4,932	5,255	5,541	5,527
Cash 1/	34	13	22	48	41	26	31	55
Claims on central bank	22	29	37	48	52	54	57	57
Net claims on commercial banks	73	101	240	281	249	296	371	339
Net claims on Government	161	162	189	307	343	305	358	336
Claims on private sector 2/	1,684	2,382	2,773	3,980	4,090	4,410	4,548	4,568
Other 3/	245	202	318	54	157	164	176	172
Assets = Liabilities	2,229	2,904	3,594	4,731	4,947	5,270	5,556	5,542
Foreign liabilities	88	25	60	134	155	145	133	137
Domestic liabilities	2,141	2,879	3,534	4,597	4,792	5,125	5,423	5,405
Fixed deposits 4/	1,185	1,628	2,099	3,067	3,340	3,702	3,868	4,018
Savings deposits	--	--	--	--	--	--	--	--
Borrowing from banks	209	247	328	222	256	215	278	125
Other 5/	748	1,004	1,107	1,309	1,196	1,208	1,277	1,262
Of which: Capital and reserves	(141)	(158)	(202)	(291)	(292)	(302)	(324)	(355)

Source: Data provided by the Malaysian authorities.

1/ Includes merchant banks' balances with commercial banks and money at call.
2/ Includes loans and advances to customers and bills discounted.
3/ Includes all other assets, n.i.e.
4/ Includes fixed deposits of finance companies and deposits of merchant banks.
5/ Includes all other liabilities, n.i.e.

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Table 46. Malaysia: Assets and Liabilities of Discount Houses, 1980-84

(In millions of ringgit; end of period)

	1980	1981	1982	1983	1984 Mar.	1984 June	1984 Sept.	1984 Dec.
Assets								
Claims on the Central Bank	1.8	2.6	4.5	0.7	1.5	0.5	0.5	0.7
Claims on government	1,090.2	1,185.0	1,271.2	1,468.5	1,561.8	1,458.6	1,672.6	1,725.6
Claims on private sector	187.4	200.8	204.2	215.3	253.5	259.2	307.0	291.5
Net other assets	-56.2	-67.4	-54.3	-68.0	-66.4	-41.7	21.3	-16.5
Liabilities								
Deposits	1,223.2	1,321.0	1,425.6	1,616.5	1,750.4	1,676.6	2,001.4	2,001.3

Source: Data provided by the Malaysian authorities.

Table 47. Malaysia: Composition of Manufactured Exports, 1980-84

(In millions of U.S. dollars)

	1980	1981	1982	1983	1984
Food, beverages, and tobacco	218	260	224	249	277
Textiles, clothing, and footwear	370	340	350	406	483
Wood products	215	205	181	211	176
Rubber products	39	36	38	42	46
Chemicals and petroleum products	165	182	224	384	588
Of which: petroleum products	(87)	(99)	(123)	(258)	(396)
Nonmetallic mineral products	28	22	31	45	56
Manufactures of metal	115	92	88	104	131
Electrical machinery and appliances	1,385	1,407	1,771	2,387	2,883
Of which: electronic components	(1,053)	(1,094)	(1,355)	(1,673)	(2,067)
Transport equipment	102	36	86	148	212
Other manufactures 1/	225	147	156	194	232
Total	2,862	2,727	3,149	4,070	5,084

Source: Data provided by the Malaysian authorities.

1/ Includes paper and paper products, and optical and scientific equipment.

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Table 48. Malaysia: Gross Imports, 1980-85 1/

(In millions of U.S. dollars)

	1980	1981	1982	1983	1984
Consumption goods	1,988	2,312	2,396	2,508	2,783
Food	541	695	745	745	785
Beverage and tobacco	111	129	128	120	101
Consumer durables	456	468	474	525	711
Other	880	1,020	1,049	1,118	1,186
Investment goods 2/	3,231	3,261	3,870	4,226	4,706
Machinery	1,184	1,247	1,352	1,417	1,598
Transport equipment	423	415	683	717	607
Metal products	812	751	886	897	893
Other	812	848	949	1,195	1,608
Intermediate goods	5,369	5,811	5,956	6,303	6,481
For manufacturing	3,064	3,166	3,314	3,745	4,217
For construction	266	407	544	519	486
For agriculture	410	328	268	257	328
Crude petroleum	868	894	626	704	551
Other	761	1,016	1,204	1,078	899
Imports for re-export	186	163	182	205	157
Tin ore	136	134	166	183	107
Crude natural rubber	50	29	16	22	50
Total	10,774	11,547	12,404	13,242	14,127

Source: Data provided by the Malaysian authorities.

1/ Customs data; excludes military imports, imports of ships and aircraft by the national shipping and airline companies, and imports of offshore installation equipments of the petroleum sector.

2/ Exclusive of imports of ships and aircraft by the national shipping and airline companies and imports of offshore installation equipments by the oil sector.

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Table 49. Malaysia: Exports, Imports, and Terms of Trade, 1979-84

(1980 = 100) 1/

	1979	1980	1981	1982	1983	1984
Exports						
Value 2/	85.4	100.0	90.7	93.0	106.7	125.6
Volume	98.2	100.0	88.1	96.3	108.4	125.3
Price 2/	87.0	100.0	103.0	96.6	98.4	100.2
Imports						
Value 2/	74.9	100.0	112.7	121.5	126.4	128.9
Volume	85.8	100.0	106.1	115.7	123.6	129.8
Price 2/	87.3	100.0	106.2	105.0	102.3	99.3
Overall terms of trade	99.7	100.0	97.0	91.9	96.2	100.9

Source: Data provided by the Malaysians authorities.

1/ Trade indices with 1980 weights presented in this table are provisional official estimates.
2/ In terms of U.S. dollars.

Table 50. Malaysia: Direction of Trade, 1980-84

(Percentage shares)

	Exports					Imports				
	1980	1981	1982	1983	1984	1980	1981	1982	1983	1984
ASEAN countries	22.4	26.5	30.0	28.2	27.1	16.5	18.0	19.9	18.8	19.4
Of which:										
Singapore	(19.1)	(22.8)	(24.9)	(22.5)	(20.8)	(11.7)	(13.1)	(14.4)	(14.0)	(13.1)
Japan	22.8	21.1	20.3	19.6	22.6	22.9	24.5	25.0	25.3	26.1
India	2.2	2.6	1.9	2.4	3.6	0.9	0.7	0.6	0.7	0.8
Australia	1.4	1.7	1.9	1.4	1.6	5.5	5.5	4.6	4.2	4.0
EEC	16.9	15.2	14.9	14.6	12.8	15.4	13.9	12.2	14.0	13.4
United States	16.3	13.1	11.6	13.2	13.7	15.0	14.6	17.5	16.1	16.2
U.S.S.R.	2.2	2.2	2.0	2.2	1.3	0.3	0.2	0.2	0.1	0.1
Other	15.7	17.6	17.4	18.4	17.3	23.5	22.6	20.0	20.8	20.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Data provided by the Malaysian authorities.

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Table 51. Malaysia: Service Account, 1980-84

(In millions of U.S. dollars)

	1980	1981	1982	1983	1984
Freight and insurance (net)	-818	-871	-922	-934	-972
Receipts	(202)	(191)	(180)	(277)	(380)
Payments	(1,019)	(1,063)	(1,102)	(1,211)	(1,353)
Other transportation (net)	-26	3	66	40	34
Receipts	(372)	(434)	(460)	(482)	(527)
Payments	(398)	(431)	(394)	(442)	(492)
Travel (net)	-406	-292	-332	-476	-519
Receipts	(317)	(387)	(518)	(571)	(645)
Payments	(723)	(678)	(850)	(1,047)	(1,164)
Investment income (net) 1/	-836	-797	-1,147	-1,597	-2,051
Receipts	(739)	(792)	(650)	(557)	(641)
Payments	(1,575)	(1,589)	(1,797)	(2,154)	(2,692)
Government, n.i.e. (net)	-3	3	12	15	15
Receipts	(89)	(91)	(101)	(108)	(113)
Payments	(92)	(88)	(89)	(93)	(98)
Other (net) 2/	-581	-352	-493	-750	-897
Receipts	(250)	(308)	(424)	(516)	(484)
Payments	(831)	(660)	(917)	(1,267)	(1,381)
Total services (net)	-2,670	-2,305	-2,816	-3,702	-4,390
Receipts	(1,968)	(2,204)	(2,332)	(2,511)	(2,791)
Payments	(4,638)	(4,509)	(5,148)	(6,213)	(7,181)

Source: Data provided by the Malaysian authorities.

1/ Includes interest payments on external debt.
2/ Includes contract and professional charges, agency fees, commissions, rents and royalties, and salaries.

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Table 52. Malaysia: Interbank Swap Transactions, 1982-85 1/

Period	Swap margin 2/	Forward premium implicit in swap margin	Eurodollar interest rate	Cost of borrowing M$ through interbank: Swap	Money market	Difference
		(Percent per annum)				
1982						
January	-165	3.0	15.1	12.3	8.8	3.5
February	-290	5.1	16.8	11.6	9.1	2.5
March	-207	3.6	15.6	12.1	9.6	2.5
April	-220	3.9	15.0	11.3	9.5	1.8
May	-105	1.8	14.5	12.8	9.9	2.9
June	-295	5.1	16.7	11.8	9.3	2.5
July	-195	3.4	14.9	11.7	9.5	2.2
August	15	-0.3	10.8	11.2	9.5	1.7
September	-28	0.5	11.5	11.2	9.4	1.8
October	-35	0.6	10.1	9.6	8.2	1.4
November	-25	0.4	9.9	9.6	8.4	1.2
December	20	-0.3	9.6	10.1	8.5	1.6
1983						
January	-5	0.1	9.3	9.3	7.9	1.4
February	5	-0.1	8.9	9.1	7.9	1.2
March	-60	0.9	9.7	8.8	7.3	1.5
April	-30	0.4	9.1	8.7	7.5	1.2
May	-5	--	9.5	9.5	7.8	1.7
June	-30	0.4	10.0	9.6	7.6	2.0
July	-60	0.9	10.1	9.2	7.8	1.4
August	-27	0.3	10.3	10.0	8.7	1.3
September	-55	0.8	9.5	8.7	8.4	0.3
October	-35	0.4	9.6	9.2	8.3	0.9
November	25	-0.6	10.0	10.6	8.7	1.9
December	35	-0.8	10.0	10.8	9.9	0.9
1984						
January	23	-0.5	10.9	10.4	9.4	1.0
February	-15	0.1	10.1	10.0	8.6	1.4
March	-10	0.1	10.9	10.8	8.9	1.9
April	-15	0.1	10.9	10.8	8.8	2.0
May	-8	0.1	11.8	11.7	9.2	2.5
June	-10	0.2	12.3	12.1	9.6	2.5
July	15	-0.4	11.9	12.3	10.3	2.0
August	21	-0.5	12.0	12.5	10.2	2.3
September	--	-0.2	11.3	11.5	10.4	1.1
October	260	-4.6	10.2	14.8	14.8	--
November	35	-0.7	9.3	10.0	9.6	0.4
December	170	-3.0	8.7	11.7	10.3	1.4
1985						
January	180	-3.1	8.6	11.7	9.6	2.1
February	160	-2.7	9.6	12.3	9.8	2.5
March	150	-2.5	9.6	12.1	9.5	2.6

Source: Data provided by the Malaysian authorities; and staff calculations.

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

2/ Ringgit per US$10,000 over a three-month period.

ANNEX A

Malaysia: Summary of the Tax System, 1985 1/

(All amounts in Malaysian ringgit)

Tax	Nature of Tax	Exemptions and Deductions	Rates
1. Income Tax			
1.1 Individual (Income Tax Act, 1967)	Levied annually on taxable income from all sources accrued in or derived from Malaysia and outside income received in Malaysia by a resident. These sources include gains or profits from any profession, vocation, or employment, pensions, or annuities, and rents. Claims for personal relief and benefits of graduated rates are granted to residents. Member of partnerships are assessed individually. Dividends, when taxable in the shareholders' hands, are grossed by an addition for tax at the rate at which tax was deductible at the date of payment, and tax credit is given for the withheld tax. (If no taxes were withheld from the dividends by the distributing company, the dividend is grossed up as if withholding has taken place.) The income of Hindu Joint Families is assessed in the name of its manager who is liable for payment. Married women can opt for a separate assessment of income earned from employment and professions. Other income is assessed jointly with the husband.	Where individuals are engaged in trade, business, profession, or vocation, the same deductions as for companies are allowed (see 1.2 below). Personal allowances (calculated on the basis of the preceding year of assessment) are (a) Personal allowance--M$5,000; (b) Wife allowance--M$2,000 (if living with husband); (c) Child allowance--first child M$800, second M$750, third M$600, fourth M$500, and fifth M$500 up to a maximum of M$3,500. Other allowances include M$000 for child maintenance if incapacitated; four times the normal deduction for costs of children educated abroad. Employee's Provident Fund and life assurance premium are exempt to a maximum of M$3,500. A rebate of M$00 is allowed for individual taxpayer and M$750 rebate for wife, provided that the chargeable income does not exceed M$10,000. Royalties for literary and artistic work are exempt up to M$6,000 per year while income from translation of books into Bahasa Malaysia with conditions is exempt up to M$3,000. Credit against tax is given for Islamic religious dues. Exemptions are granted on interest from savings of up to M$10,000 with registered cooperatives, Agricultural Bank, Tabung Haji, and MSSB or any other financial institution approved by the Minister of Finance; interest earned on a maximum saving of M$1,000 with commercial banks and financial institutions; interest on fixed deposits placed by residents and foreigners with maturity exceeding 12 months. Dividends up to a maximum of M$5,000 received by resident unit trust holders are exempt. Seamen serving in international waters and on coastal vessels registered as Malaysian ships are exempt. Gratuity for government employees approved on or after October 22, 1982. Pensions for retirement at the age of 55 or compulsory age of retirement or due to ill health. With effect from year of assessment 1982, exemption on pension is allowed for one pension (the highest amount). Rental income of house owners unable to occupy own houses due to transfer or service or business matters are also exempt. Free passage once a year for the taxpayer and his immediate family members with the qualification that in group travel, the longest distance covered by MAS, must be travelled by and ticket issued by MAS, and in other cases, tickets must be issued by MAS. In the case of local travel, it is limited to three times a year.	Taxable Malaysian ringgit / Marginal Tax Rate (percent): up to 2,500 — 5 2,501–5,000 — [illegible] 5,001–10,000 — 10 10,001–20,000 — 15 20,001–35,000 — 20 35,001–50,000 — 25 50,001–70,000 — 30 70,001–100,000 — 35 over 100,000 — 40 Nonresidents are generally subject to a rate of 40 percent in Malaysia unless double tax treaties exist. Interest, royalties and public entertainers' fees derived by nonresidents are taxed at 15 percent on gross. Payments made to nonresident contractors and professionals are subject to 15 percent withholding tax and a further 5 percent to cover the tax obligation of the employees, if applicable. A withholding tax of 15 percent is also imposed on rental income of movable property, or on payments for the use of property or rights, installation or operation of any plant machinery, technical advice and assistance or service, received by nonresident.
1.2 Companies (Income Tax Act, 1967)	Levied annually on taxable income from all sources in Malaysia (apart from income derived from petroleum production--see 1.3 below) and income received from outside Malaysia by a resident company, and in the case of a nonresident company, on income derived from Malaysia. Tax is levied on the preceding year of	Prescribed expenditure incurred wholly in the production of gross income, losses brought forward from an earlier period, and contributions to approved public institutions, Government, State Government and Local Authorities are deductible from gross income. Depreciation allowances are also allowed. Interest paid on money borrowed and employed in producing income and royalties is deductible.	All companies are taxed on their retained earnings at 40 percent. Companies may withhold dividend taxes at the rate of 40 percent.

ANNEX A

Malaysia: Summary of the Tax System, 1985 (continued) 1/

(All amounts in Malaysian ringgit)

Tax	Nature of Tax	Exemptions and Deductions	Rates
	assessment ending on December 31 or the accounting year ending within that assessment year. Resident companies may withhold tax on dividends at the current corporation tax rate. Special rules apply for determining assessable profits in Malaysia of insurance companies, trusts, beneficiaries, executors, shipping companies, and airlines. In a partnership the main partner is required to make a return of the partnership income, but each partner is assessed individually on his share of the income. Income of a nonresident partner is assessable in the name of the partnership or of any resident partner or agent, and the tax may be recovered from the assets of the partnership.	Exemptions are granted to certain official employments, disability pensions, unemployment benefits, incomes of friendly societies, etc., but not to dividends, interest, bonus, salaries or wages paid out of these incomes. Interest paid to nonresidents by banks is exempted from withholding tax.	
1.3 Excess Profit Tax (Income Tax Act, 1967 (Amended))	This tax is levied on that portion of the chargeable income of any company in excess of M$200,000 (or for residents, 25 percent of shareholders' funds, whichever is the greater). For individuals, this tax is levied on income exceeding M$300,000.	Inter-corporate dividends between companies resident in Malaysia are not subject to EPT (1981 Budget). Companies that are exempt from income tax (petroleum) and those that pay supplementary income tax (tin mining and timber extraction companies) are exempt from EPT. Income under Section 4A Income Tax Act 1967, that is, technical fees and rental income from movable properties.	Tax is levied at 5 percent of assessable income above exemption limits.
1.4 Cooperative (Income Tax Act, 1965 (Amended))	Excess profits tax and development tax are not levied. Distributions in the hands of the members are not taxed; while no credit is given for the income tax paid by the cooperative society making the distribution.	A tax exempt period of 5 years from the date of registration is allowed. Thereafter, cooperatives having members' funds of M$500,000 or less will continue to be tax exempt. A deduction, up to a maximum of 25 percent of net income, for contributions to a statutory reserve fund required under the cooperative Societies Ordinance is also allowed. In the 1975 Budget, 8 percent of total income was allowed to encourage dividend payments.	M$ / Percent For the first 10,000 / 5 next 10,000 / 7 next 10,000 / 10 next 10,000 / 14 next 10,000 / 20 next 25,000 / 23 next 25,000 / 27 next 50,000 / 30 next 100,000 / 34 next 250,000 / 37 next 500,000 / 40
1.5 Petroleum Tax (Petroleum Income Tax Act, 1967)	A tax in lieu of the income tax, levied annually on the "chargeable income" derived by any company from the search for, or the production and sale of, crude petroleum or related products. Included under this tax are profits from incidental operations (e.g., oil drilling) along with profits from the transportation of these products within Malaysia. However, profits from refining or the sale of refined products are taxed as part of normal corporate income (see 1.2 above). The "chargeable income" is derived on the basis of an oil production sharing agreement where production is divided among State and Federal Governments, Petronas, and the oil companies. Of the total production, 10	Deductions are granted for normal business expenses. An initial allowance for capital expenditures on exploration is allowed of between 10 percent and 20 percent. A minimum annual allowance of 5 percent is granted. Certain allowances and charges are also made for "qualifying" capital expenditure on industrial buildings and machinery and plants. Deductions may also be claimed for the amount by which admissible deductions from gross income from petroleum operations exceed that income in the previous year, and also for charitable gifts, to approved institutions or organizations.	45 percent of the chargeable income.

ANNEX A

Malaysia: Summary of the Tax System, 1985 (continued) 1/

(All amounts in Malaysian ringgit)

Tax	Nature of Tax	Exemptions and Deductions	Rates
	percent goes to royalties (at 5 percent each for State and Federal Government) a maximum of 20 percent for "notional" costs of oil production (i.e., cost oil) for the oil companies, and the remaining 70 percent (or more) shared between Petronas and the oil companies on a 70:30 basis. The chargeable income of the oil company is its share of production plus the cost of oil, less the actual cost of production. The tax is levied on the basis of the preceding accounting calendar year.		
1.6 Supplementary Income Taxes			
1.6.1 Development Tax (Supplementary Income Tax Act, 1967) (Amended)	A tax, levied annually in addition to income tax, on development income only. Development income is defined as income from any trade, business, profession, vocation, and the leasing of property situated in Malaysia.	For individuals and a partner in a partnership, development source income not exceeding M$5,000 are exempt. Business and property losses incurred previously, and not already allowed, may be deducted, as may be a proportion of charitable donations, gifts, etc. Income from development, interest, and dividends are exempt. Companies conforming to employment and/or marketing network restructuring are exempt from assessment year 1980-82. *Income under Section 4A Income Tax* Act 1967, that is technical fees and rental income from movable properties.	5 percent of development income.
1.6.2 Tin Profits Tax (Supplementary Income Tax Act, 1967)	A supplementary income tax is levied on taxable income from tin mining operations in Malaysia. To arrive at taxable tin profits, a standard deduction of M$100 a pikul (133-1/3 lbs.) of tin metal sold is allowed. A partnership is treated in the same manner as an individual for the purpose of Tin Profits Tax.	Business expenses and depletion and capital allowances admissible for income tax and attributable to tin mining operations (without carry forward of unused allowances for capital) and donations and gifts to approved institutions are deductible. The first M$10,000 of taxable tin profits is exempt from tax.	Tax is charged at the following rates: M$ — Percent First 200,000 — 5 Next 200,000 — 10 Exceeding 400,000 — 15
1.6.3 Timber Profits Tax (Supplementary Income Tax Act, 1967)	A supplementary income tax is levied annually on taxable income derived from timber extraction including all premiums, rents, and tributes receivable as a result of the extraction of timber from a forest in Malaysia. Also subject to this tax is income from the granting or assignment of any rights, privileges, etc., for the extraction of such timber. However, the processing, milling, or manufacturing of the timber is not included. To arrive at taxable timber profits, a fixed standard profit deduction of 10 percent of gross income from timber operation is allowed. A partnership is assessable as an individual and all partners are jointly and severally liable to tax.	Business expenses and capital allowances and special forest allowances--inclusive of license fees paid to the state governments--attributable to timber operations may be deducted without any carry forward of unused allowances for capital expenditure or set off of losses. Also allowed is a proportion of donations or gifts to approved institutions.	Tax is chargeable at the rate of 10 percent on taxable timber profits that do not exceed 10 percent of gross timber income. A rate of 20 percent is payable on the balance of taxable timber profits.

ANNEX A

Malaysia: Summary of the Tax System, 1985 (continued) 1/

(All amounts in Malaysian ringgit)

Tax	Nature of Tax	Exemptions and Deductions	Rates
1.7 Film Hire Duty (Cinematograph Film Hire Duty Act, 1965)	This tax is levied on the gross receipts derived from film rentals.	Receipts from sale and hire of accessories and receipts from advertising materials are excluded from the scope of tax.	Effective rate is 15 percent of gross, or a rate of 25 percent on 60 percent of gross receipts.
2. Social Security Contributions			
2.1 Employees' Provident Fund (EPF Ordinance, 1951)	Every employee and his employer is liable to pay monthly contributions at a given minimum fixed rate. Contributions may be withdrawn by a member on death, on attaining the retirement age of 55 years, upon physical or mental disablement from employment, and on permanent departure from Malaysia.	All government employees who are already emplaced on the pensionable establishment.	Based on the monthly wage of the employee, the contributions by employee and employer are: Percent Employee's share 9 Employer's share 11
2.2 Social Security Organization (Employee's Social Security Act, 1969)	Insures workers (in all industries, except government, earning M$500 per month or less) against employment injury or disability through the Employment Injury Insurance Scheme (EIIS) and the Invalidity Pension Scheme (IPS). Contributions to the Organization are payable partly by the employee and partly by the employer except in the case of EIIS which is contributed wholly by the employer.	An establishment having less than five employees, and an employee whose monthly earning exceeds M$500 are not covered by SOCSO.	Amounts to about 1 percent of the wage of the employee for IPS and 1.25 percent for EIIS.
3. Employer's Payroll Taxes None.			
4. Taxes on Property and Capital Gains			
4.1 Real Property Gains Tax (Real Property Gains Tax Act, 1976)	A tax is levied on gains derived from disposal of land and buildings situated in Malaysia and any interest, option, or other right in or over such land. With effect from year of assessment 1984, the acquisition date of the property disposed of by the restructured company in line with government policies be deemed to be the date the property was originally acquired by the transferor company.	An exemption of M$5,000 or 10 percent of gains, whichever is higher, is granted for disposal of property. Gains accruing to the Government, a State Government, or a local authority and gains in respect of the disposal before the date of coming into force of this Act are exempted. Gains from compulsorily acquired properties are exempted. Exemption is also given to each house owner once in his lifetime when he disposes of his house or any one of his houses. Gifts from husband to wife, parent to child, or grandparent to grandchild and transfers between spouses are exempted. These exemptions are restricted to Malaysians and permanent residents. Gains on property disposed to settle estate duty are exempt up to the extent of estate duty payable.	Tax is levied on the gains (selling price) less purchase price at the rate of: 40 percent if the property is disposed of within the first two years after the date of acquisition; 30 percent within the third year; 20 percent within the fourth year; 10 percent within the fifth year; 5 percent within the sixth year; Thereafter no tax, except in the case of company, a 5 percent tax is levied even after sixth year. Nonpermanent resident foreigners pay tax at a flat rate of 40 percent.
4.2 Estate Duty (Finance (Estate Duty) Act, 1965; Finance (Estate Duty) (Amendment) Act, 1976; Finance (Estate Duty) Act,	Estate duty is levied at progressive rates on estates of deceased persons. Gifts made within five years from date of death pay the amount of the estate duty that	The first M$2,000,000 of the estate of a deceased domiciled in Malaysia is exempt. For a nondomiciled deceased the first M$500,000 of the estate value is exempt. EPF Death Benefit Schemes payments are exempted	Domiciled deceased: Percent First M$2,000,000 Nil Next M$2,000,000 5 Exceeding M$4,000,000 10

Malaysia: Summary of the Tax System, 1985 (continued) 1/

(All amounts in Malaysian ringgit)

Tax	Nature of Tax	Exemptions and Deductions	Rates
1979, and Finance (Estate Duty) Act, 1980)	would have been due if the gift was included in the estate.	from estate duty, as are personal accident insurance claim monies. Contributions made to approved charitable organizations are exempted.	Nondomiciled deceased: Percent First M$400,000 Nil Next M$400,000 5 Exceeding M$800,000 10
4.3 Share (Land Based Company) Transfer Tax Act, 1984 (New Tax)	Share Transfer Tax is levied on the disposal value of shares exceeding $1 million by a Land Based Company not listed on Stock Exchange. A definition of "Land Based Company" is given in the Act.	A list of exemptions is provided under Schedule 2 to the Act.	10 percent on the gross market value.
5. Taxes on Goods and Services			
5.1 General Sales Tax (Sales Tax Act, 1972)	An ad valorem single-stage tax levied on imported goods paid by the importer at the time of customs clearance, and on domestically manufactured goods when the goods are sold by the manufacturer. Tax is levied on the sale value of goods.	Manufacturers with gross sales below M$100,000 are exempt. Primary commodities, foodstuffs, and basic necessities are exempt. Government agencies do not pay the tax. Goods traded between East and West Malaysia, and all exports are exempted from sales tax. Raw materials for manufacture are exempt from the tax on application. Tailors are exempted from being licensed under sales tax.	10 percent.
5.2 Selective excises on goods (Excise Act, 1976 and Annual Finance Acts)	Excise duties are levied on selected domestically manufactured goods such as light electrical equipment (televisions, refrigerators, electric accumulators), tobacco and cigarettes, beer, stout and spiritous and malt liquors, and motor vehicles. Petroleum products are also taxed.	Excise duties (Exemption) Order 1977, lists out the group of people and goods exempted from excise duties. Partial exemption from excise duties is also given for petroleum and petroleum products manufactured in Sabah and Sarawak. Taxis, hired cars, stage buses, and company-owned school buses are given full exemption.	Most excise rates are specific. Selected rates currently in force are as follows: Cigarettes M$9.00 per kg. Beer and ale, stout, and porter M$2.00 per liter. Petrol M$0.3533 per liter. Locally assembled motor vehicles are taxed according to the value: Value of vehicle (Malaysian ringgit) — Marginal Tax Rate (percent) 0- 7,000 25 7,001-10,000 30 10,001-13,000 35 13,001-20,000 50 20,001-25,000 60 above 25,000 65
5.3 Selective Tax on Services (Service Tax Act, 1975)	A tax is levied on all charges in respect of certain prescribed services and sales of prescribed goods by any prescribed establishment. For the purposes of this tax, the services taxable are confined to accommodation, food, entertainment, and certain other goods and services sold or provided by or in such establishments. The establishments concerned are responsible for charging and collecting the tax.	Small hotels (less than [illegible] rooms) are exempted from service tax and on other prescribed services.	10 percent on services provided in hotels and similar establishments such as motels and rest houses; on all restaurants, bars, snackbars, and coffee houses located outside hotels and having an annual sales turnover of M$500,000 and above of prescribed goods and services; and on all private clubs having an annual sales turnover of M$500,000 and above of prescribed goods and services.
5.4 Motor vehicle taxes	The annual road user tax on passenger cars and taxi/hire	All new buses registered from January 1, 1967 are exempt from seat	Rates of tax are:

Malaysia: Summary of the Tax System, 1985 (continued) 1/

(All amounts in Malaysian ringgit)

Tax	Nature of Tax	Exemptions and Deductions	Rates
	cars and the monthly tax on stage buses are based on engine capacity and the type of fuel used. Goods vehicles are taxed on the basis of maximum permissible laden weight and the type of fuel used. Motorcycles are taxed at a flat rate per annum. Also, an ad valorem registration fee is paid when a car is purchased.	tax. Company buses and landrovers/ jeeps and private passenger cars owned by driving schools are exempted from paying four times the rate for the company.	Private passenger cars owned by an individual (i) Petrol: Engine Capacity in cc — Marginal Tax Rate (M$ per cc) 0-1,000 — 0.13 1,001-1,200 — 0.15 1,201-1,500 — 0.20 1,501-2,000 — 0.35 2,001-2,500 — 0.80 2,501-3,000 — 2.00 Over 3,000 — 3.00 (ii) Diesel: Four times the above rates. Private passenger cars owned by a company: (a) Petrol: Two times the rate in (i) above. (b) Diesel: Two times the rate in (ii) above. Taxi cabs and hire cars M$0.06 per cc for petrol engines. M$0.22 per cc for diesel engines. Hire and drive vehicles cc — Sen per cc Not exceeding 1,600 — 12 1,601-1,800 — 14 1,801-2,200 — 18 2,201-2,600 — 22 Above 2,601 — 30 Diesel: 3 times the rates stated above. Limousine taxi M$0.12 per cc for petrol engines. M$0.54 per cc for diesel engines. Motorcycles cc — M$ 0-75 — 50 per year 76-100 — 55 per year 101-150 — 65 per year 151-250 — 100 per year 251-500 — 150 per year 501-1,000 — 200 per year Over 1,000 — .50 per cc Buses Petrol powered buses: — M$ per month Less than 2,000 cc — 5.60 More than 2,000 cc — 8.40

Malaysia: Summary of the Tax System, 1985 (continued) 1/

(All amounts in Malaysian ringgit)

Tax	Nature of Tax	Exemptions and Deductions	Rates
			Diesel powered buses: cc / M$ per month Less than 1,500 — [illegible] 1,500–2,500 — 55 2,500–3,500 — [illegible] Exceeding 3,500 — 123 Goods vehicles According to maximum permissible laden weight and type of fuel used: amount varying between M$1,036 and M$7,000 per annum. Land tractors, mobile machinery and others M$180 per annum M$40 per 6 months M$15 per month
6. Taxes on International Trade and Transactions			
6.1 Taxes on imports			
6.1.1 Customs duties (Customs Act, 1967 (Revised 1980); Customs Regulations 1977; Trade Classification and Customs Tariff, 1978 (Amended); Customs Duties (Exemption) Order, 1977 (Amended))	Single column, nondiscriminatory tariff on imports. Duties are levied on the price which the importer would give for the goods on a purchase in the open market (under conditions of free market and arms length transactions) and inclusive of freight, insurance, commission and all other costs, charges, and expenses incidental to the purchase and delivery. Customs duties are normally applied on c.i.f. value but customs officer has the powers to reassess the value and apply an uplift, taking into account the relationship between the buyer and seller and the terms and conditions under which the sale is effected. Goods manufactured in Malaysia and exported are allowed *full duty drawbacks* on imported raw materials. Before October 1981, raw materials and manufactured goods had to be prescribed or gazetted before drawback claim could be made. This requirement has now been withdrawn and procedures simplified. All goods used as raw *materials or component parts* in the manufacture of finished goods are now eligible for drawback on exports. Heavy penalities are levied on customs offenses. For giving false information, penalties range between 10–20 times the amount of customs duty. The penalties are raised if the same offense is repeated.	All or nearly all imports of the following persons and organizations are exempt: Head of State, Rulers of States, Federal Government, State Governments, local authorities, Malaysian Airlines System, public utility undertakings in Sarawak, free trade zones, licensed manufacturing warehouses. Selected imports of the following are exempt: Malaysian Armed Forces, shipbuilders and shipbuilding contractors, bona fide manufacturers and industrial enterprises, bona fide charitable institutions, sports organizations, research institutes, and international organizations. Full or partial exemptions are given to imports of plant, machinery, equipment, raw materials, etc., by selected new enterprises established under the Investment Incentives Act, 1968 (Amended) and approved by the Ministry of Finance under discretionary powers given to him by Section *14 (1) and (2) of Customs Act, 1967*. Since 1982, this duty exemption has been made automatic for all industries. Nil rates of import duty apply to many items (see under Rates).	Both specific and ad-valorem rates apply. Specific rates apply to selected food items, cigarettes, petroleum products, and a few other items. Ad-valorem rates apply to selected food and other consumer items, selected raw materials, selected consumer durables (color television, shavers, gramophone records, mattresses, pianos), and motor cars and parts thereof. Examples as follows: Percent Cheese — [illegible] Fruit juices — 30 Soups and broths — 30 Soaps and detergents — [illegible] Leather products — 30 Silk yarn — 20 Man-made yarn — 15 Semi-finished wood — 30 Wood fillers — 20 Synthetic rubber latex — [illegible] Parts of footwear — [illegible] Parts of cars — 30 Smoking pipes — [illegible] Pianos — [illegible] Shavers — [illegible] Color TV — 50 Gramophone records — [illegible] Mattresses — [illegible] Motor cars — [illegible] Most items are subject to ad valorem tariffs between 10 to 50 per-

Malaysia: Summary of the Tax System, 1985 (continued) 1/

ANNEX A

(All amounts in Malaysian ringgit)

Tax	Nature of Tax	Exemptions and Deductions	Rates
			cent) and specific rates and the higher of the two rates apply. Nil rates of import duties apply to many food items, medicines, raw materials, and machinery. The following is an illustrative list: meat and edible offals, frozen fish, fresh and chilli vegetables, coffee, spices, maize, rice, flour, vegetable oils, canned meats and fish, macaroni, tomato paste and puree, salt, antibiotics and vitamins, medicaments, fertilizers, insecticides, tractors, and all machinery. Since 1982, nil rates of import duties have also been applied, cameras, watches, photograph film, pens, cigarette lighter, perfumery and cosmetics, pocket calculators.
6.1.2 Surtax (Trade Classification and Customs Tariff, 1978 Amended))	An additional tax on imports, surtax is levied on the same value base as customs duties and is levied on goods listed under Second Schedule of Trade Classification and Customs Tariff, 1978.	Imports into Labuan are exempt. Imports of persons, organizations and enterprises, which are exempt from customs duties, are also normally exempt from surtax on imports.	A uniform 5 percent ad valorem rate is applied to imports subject to surtax.
6.2 Taxes on exports			
6.2.1 Rubber (Customs Act, 1966 and Annual Finance Acts)	Export duty on a specific grade of rubber is on the gazetted value based on the average of RSS 3 and SMR 20 prices announced monthly. Export duty is only levied when the price exceeds 210 sen per kg. In addition to export duty, research and replanting cesses are also being charged.	None.	Percent On the first 210 sen — nil plus on the next 40 sen — 10 plus on the next 50 sen — 20 plus on the balance — 30
6.2.2 Tin (Customs Act, 1967 and Finance Act, 1976)	The tax levied on tin ores and concentrates is calculated according to different marginal rates which are applied depending on the price per tonne. Tin slag and hardhead of tin are taxed at the rate prescribed for ores and concentrates unless accompanied by a certificate of assay in which case duty is levied at the rate of unwrought tin, on the estimated amount of tin in the consignment. Unwrought tin is taxed at the rate for tin ores and concentrates if the commodity was smelted or manufactured in West Malaysia. Export duty is levied on tin at a price level exceeding M$26,400 per tonne which is estimated to be the cost of production.	None.	M$ per tonne — Percent On the first 26,500 — nil plus on the next 826.74 — 20 plus on the next 826.74 — 25 plus on the next 826.74 — 30 plus on the next 826.74 — 35 plus on the next 826.74 — 40 plus on the next 826.74 — 45 plus on the balance — 50

ANNEX A

Malaysia: Summary of the Tax System, 1985 (continued) 1/

(All amounts in Malaysian ringgit)

Tax	Nature of Tax	Exemptions and Deductions	Rates
	Revenues are shared between state and central government.		A research cess of M$26.4560 per tonne is also charged.
6.2. Palm oil (Customs Act, 1967 and Annual Finance Act)	A tax on the gazetted value per tonne of palm oil. Export duty is imposed on crude palm oil at a price level exceeding M$500 per tonne which is estimated to be the cost of production. Export duty on processed palm oil is imposed on the same basis but an exemption is granted based on the stage of processing; palm oil at the highest stage of processing--Category IV--is completely exempt.	Export duty on processed palm oil is subject to exemption based on the degree of processing. The exemption schedule for processed palm oil is as follows where Dp is the duty calculated on processed and Dc the duty calculated on crude palm oil. Exemption formula Export duty per tonne — Exemption Category I 95 and less — 100 percent 95 - 200 — 0.5 (Dp-95) + 95 + .35 (Dp-Dc) 200 - 365 — 0.35 (Dp-200) + 147.5 + .35 (Dp-Dc) 365 and above — 0.2 (Dp-365) + 205.25 + .35 (Dp-Dc) Category II 95 and less — 100 percent 95 - 200 — 0.6 (Dp-95) + 95 + 0.35 (Dp-Dc) 200 - 365 — 0.45 (Dp-200) + 158 + 0.35 (Dp-Dc) 365 and above — 0.3 (Dp-365) + 232.25 + 0.35 (Dp-Dc) Category III 95 and less — 100 percent 95 - 200 — 0.67 (Dp-95) + 95 + 0.35 (Dp-Dc) 200 - 365 — 0.5 (Dp-200) + 163.25 + 0.35 (Dp-Dc) 365 and above — 0.35(Dp-365) + 245.75 + 0.35 (Dp-Dc) Category IIIA 95 and less — 100 percent 95 - 200 — 0.7 (Dp-95) + 95 + 0.35 (Dp-Dc) 200 - 365 — 0.55 (Dp-200) + 168.5 + 0.35 (Dp-Dc) 365 and above — 0.4 (Dp-365) + 259.25 + .35 (Dp-Dc) Category IV — Complete exemption.	M$ per tonne — Percent On the first 500 — nil plus on the next 49.21 — 30 plus on the next 49.21 — 35 plus on the next 49.21 — [illegible] plus on the next 49.21 — [illegible] plus on the balance — 50 A differential of [illegible] percent shall be charged for the export of crude palm oil from Sabah and Sarawak. Every palm oil miller shall pay a research cess of [illegible] and a PORLA cess of [illegible] on every metric ton of crude palm oil produced by him.
6.3. Pepper (Customs Act, 1967 and Finance Act, [illegible])	Duty is levied throughout the country at differing rates on white and black pepper and is imposed at a price level exceeding M$3,000 per tonne for black pepper and M$3,500 per tonne for white pepper.	None.	Black pepper M$ per tonne — Percent On the first 3,000 — nil plus on the next 83 — 10 plus on the next 83 — 12 plus on the next 83 — [illegible] plus on the next 331 — 25 plus on the next 331 — 30 plus on the next 331 — 35

Malaysia: Summary of the Tax System, 1985 (continued) 1/

(All amounts in Malaysian ringgit)

Tax	Nature of Tax	Exemptions and Deductions	Rates	
			plus on the next [illegible]	40
			plus on the next [illegible]	45
			plus on the balance	50
			[illegible]	
			M$ per annum	Percent
			On the first 3,000	nil
			plus on the next [illegible]	10
			plus on the next [illegible]	15
			plus on the next [illegible]	20
			plus on the next [illegible]	25
			plus on the next 697	[illegible]
			plus on the next [illegible]	35
			plus on the next [illegible]	40
			plus on the next [illegible]	[illegible]
			plus on the balance	50
4. Other Taxes				
4.1 Entertainment tax	A tax is levied by state governments and local authorities on public entertainment varying with the type of entertainment and the price of admission.	None.	Various.	
4.2 Stamp taxes (Stamp Duty Ordinance, 1949)	Stamp duties are imposed ad valorem on certain written documents varying according to the nature of the documents and values referred to. The duties are normally [illegible] when transfers of property or securities are made between corporations for reasons of reconstruction. Other stamp duties also attract specific rates.	Certain instruments are exempted. Exemption for Malaysian incorporated companies [illegible] in line with the New Economic Policy. Life insurance policy not exceeding M$5,000.	Stamp duty rates include: Contracts Notes: M$1.00 for every M$1,000 and for every fractional part of M$1,000. This includes contract notes on transactions between local and foreign brokers. [illegible] M$1,000. Securities: M$[illegible] for every M$500 or part thereof. A graduated rate applies to the sale of property other than shares, stocks, or securities. A mortgage of stock or marketable security: M$2.50 for every M$500 or part thereof and in any other case M$[illegible] for M$[illegible] [illegible] of property transferred to below M$100,000, [illegible]	

Malaysia: Summary of the Tax System, 1985 (continued) 1/

(All amounts in Malaysian ringgit)

Tax	Nature of Tax	Exemptions and Deductions	Rates
			M$100 for property values above M$100,000. M$2 for every share certificate. M$2 duty on certain insurance policies. Duty of 0.1 percent on loans not exceeding M$250,000 for the purposes of small business. For foreign loans, the maximum amount of stamp duty charged is M$500. Duty on the original loan is M$2.50 for every M$500 or part thereof, and on other securities and instruments for the same loan is subject to a maximum M$10 duty.
7.3 Gaming Tax (Gaming Tax Act, 1972)	Gaming tax is imposed on punters placing their bets or investments in respect of any gaming authorized under any law and shall be collected by the promoter of the gaming so authorized and paid into the revenue of Federation.	Nil.	5 percent of the bet.
7.4 Betting and sweepstakes (Racing (Totalisator Board) Act, 1961)	A duty is charged on every bet made on any totalisator or para-mutual promoted by the Totalisator Board or any racing club established in the states of Malaya or association in accordance with any approved scheme under Section 16.	Nil.	(a) 3-digits or number forecast tote: 20 percentum of the amount of every such bet (b) Forecast totalisator: 15 percentum of the amount of every such bet (c) Win or place bet: 15 percentum of the amount of every such bet
7.5 Lotteries (Lotteries Ordinance, 1952)	A lottery permit may be granted to any person or society, for the purpose of raising funds to be applied in and of any philanthropic, religious, educational, welfare, and any other charitable purposes as specified under the Lotteries Ordinance, 1952.	The tax may be exempted by the Minister of Finance in whole or in part as the Minister may approve.	20 percent on the total amount raised by the promoter of any lottery.
7.6 Casino (Common Gaming Houses Ordinance, 1953)	Under Section 27(A) of the Ordinance the Minister of Finance may, at his discretion, license a company, registered under the Companies Act, 1965, to promote an organized gaming subject to the payment of such fees and duties and subject to such other terms and conditions as may be specified in the license, for a period not exceeding three months.	Nil.	License fees: M$1,000,000 for every 3 months. Casino duty: M$25,000 per day or 10 percent of gross win, whichever is the higher. Levy: M$5,000,000 for every 3 months.

ANNEX A

Malaysia: Summary of the Tax System, 1985 (concluded) 1/

(All amounts in Malaysian ringgit)

Tax	Nature of Tax	Exemptions and Deductions	Rates
[illegible].7 Pool Betting Act (Pool Betting Act, 1967)	Under Section 5(1) of the Act, the Minister of Finance may issue a license to a person for the collection, operation, or promotion of pool betting. Such license shall be valid for one calendar year only and may be renewed from year to year from the date of expiration of the license.	Nil.	Magnum Corporation: License fees: M$1,000,000 per year. Pool betting duty: 25 percent of the amount of the bet. Sports Toto: License fees: M$2,400 per year. Pool betting duty: 10 percent of the amount of the bet.
[illegible].8 Goods Vehicles Levy Tax Act, 1983 (Levy Tax)	The levy is levied on all goods vehicles leaving the country unless exempted.	Goods vehicles carrying various types of goods exclusively for the Singapore market are exempted from the levy.	M$100 per good vehicle.

Sources: Ministry of Finance and various Acts.

1/ As at April 30, 1985.

Nonfinancial Public Enterprises

A. Traditional definition

1. National Electricity Board
2. Sabah Electricity Board
3. Sarawak Electricity Supply Commission
4. Peang Port Commission
5. Port Klang Authority
6. Kuching Port Authority
7. Malaysian Railways
8. Telecommunications Department
9. Federal Land Development Authority (FELDA)
10. Rubber Industry Small Holders Development Authority (RISDA)

B. Off-Budget Agencies

1. Petroleum Nasional Berhad (PETRONAS)
2. Sabah Gas Industries Sendirian Berhad
3. Sabah Energy Corporation
4. Malaysian Airline System
5. Malaysian International Shipping Corporation Berhad
6. Perbadanan Nasional Shipping Line Berhad
7. Malaysian Highway Authority
8. Sabah Port Authority
9. Heavy Industries Corporation of Malaysia Berhad (HICOM)
10. Perak Hanjoong Cement Sendirian Berhad
11. Pahang Cement Sendirian Berhad
12. Cement Industry of Malaysia Berhad
13. Urban Development Authority (UDA)

C. Expanded nonfinancial public enterprises

1. Malaysian Shipyard and Engineering
2. Sabah Shipyard
3. Rajang Port Authority
4. Johore Port Authority
5. Benhulu Port Authority
6. Perbadanan Nasional Berhad (PERNAS)
7. Cement Manufacturers (Sabah)
9. Kedah Cement
10. Malaysian Rubber Development Corporation (MARDEC)
11. Federal Land Consolidation and Rehabilitation Authority (FELCA)
12. Sabah Forest Industries
13. Food Industries of Malaysia (FIMA)

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