The Real Economy

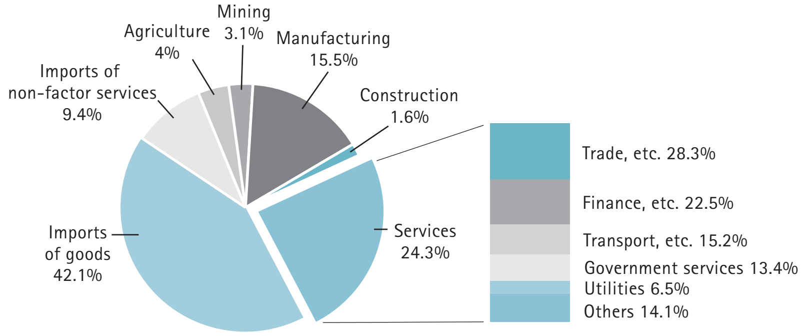
Overview

In 2000, economic activity in Malaysia expanded strongly under the stimulus of strong export growth as well as rising domestic expenditure. The gross domestic product increased by 8.5%, a faster rate of expansion than the earlier forecast and well above the growth of 5.8% achieved in 1999. As a result, real output in value terms exceeded the pre-crisis level and nominal per capita income increased strongly by 8.6% to RM13,361 (US$3,516).

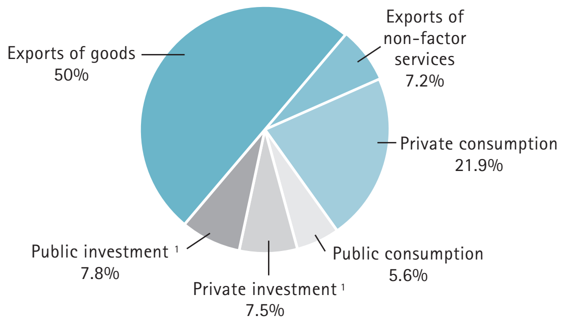
The year 2000 marked the end of the Second Outline Perspective Plan (OPP2), 1991-2000 and the Seventh Malaysia Plan (7MP), 1996-2000. Despite the regional crisis, Malaysia achieved the GDP target of 7% set for the OPP2. For the 7MP period, the economy recorded an average annual growth rate of 4.7%, surpassing the revised 3% growth target set for the Plan. The strong growth in Malaysia was possible because of prompt policy response and adjustments in the banking sector that strengthened and became more resilient during the course of 2000. This was achieved in an environment of stable financial markets. While the ringgit exchange rate was estimated to be marginally undervalued in early 2000, it gradually trended to reach near equilibrium levels by year-end. The relative strength and speed of the economic recovery and stronger financial system and relatively stable markets demonstrated the underlying strength of the economy. This has allowed policy flexibility to respond to external shocks to the system.

Graph 1.1
The Economy in 2000 (at 1987 Prices)

Supply of goods and non-factor services (RM431.4 billion)

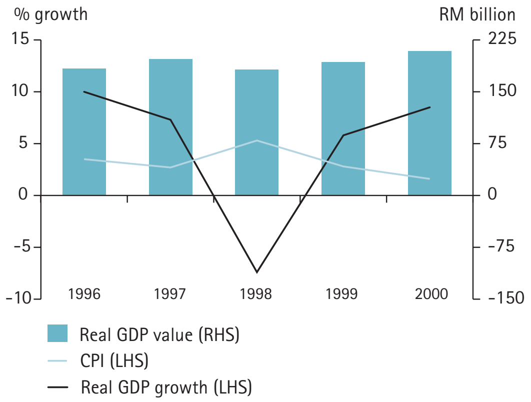


Demand for goods and non-factor services (RM431.4 billion)

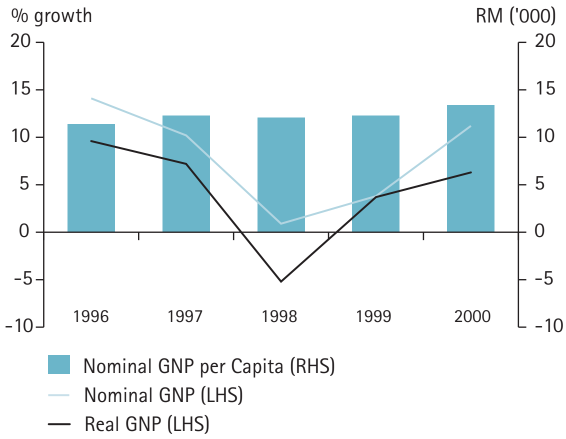


[1] Include stocks

Graph 1.2
Strong Growth in Output



Graph 1.3
GNP Growth and Nominal GNP per Capita

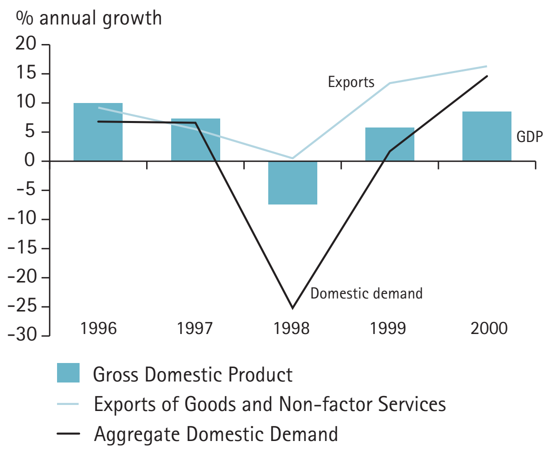


Real output expanded strongly by 10% in the first half-year of 2000 and remained strong at 7.2% in the second half-year. Exports of manufactured goods increased strongly by 19.1% in the first half-year due to both higher export volume and prices (12.9% and 5.5% respectively). This export strength was due to the sustained strong demand for electronics and electrical products and the robust expansion in oil-based exports, namely, petroleum and chemical products. Notwithstanding the moderation in the pace of global growth in the second half-year, particularly in the United States, demand for Malaysian exports continued to be sustained at a high level in the third quarter, with exports of manufactured goods recording a higher growth of 23.9% before moderating to 7% in the fourth quarter.

Towards the end of 2000, global economic activity began to slow, especially in the United States. This led to an adverse impact on exports, especially for semiconductors. However, Malaysian companies were able to utilise their diversified product range and took advantage of demand in growth areas such as telecommunications and wireless applications, thus offsetting the moderation in exports of semiconductors. For the year as a whole, gross exports increased by 16.1% and the trade account registered a surplus of RM60.9 billion or US$16 billion. Malaysia also benefited from higher crude oil prices and thus, export proceeds from crude oil increased despite lower production. Proceeds from crude oil exports accounted for 9.5% of the increase in exports.

Fiscal operations were another principal source of stimulus for higher growth in 2000. The stable economic and financial conditions also provided flexibility for Bank Negara Malaysia (BNM) to adopt an accommodative monetary

Graph 1.4
Sustained Growth in Domestic and External Demand



Graph 1.5
Contribution to Real GDP Growth: Domestic Demand and Net Exports

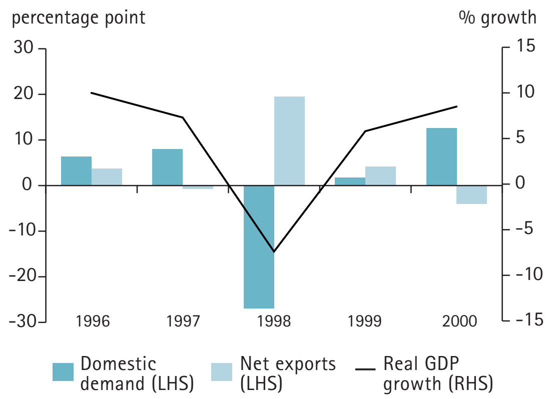


Table 1.1: Malaysia: Key Economic Indicators

	1998	1999	2000*p*	2001*f* [1]
Population (million persons)	22.1	22.7	23.3	23.8
Labour force (million persons)	8.8	9.2	9.6	9.9
Employment (million persons)	8.6	8.9	9.3	9.6
Unemployment (as % of labour force)	3.2	3.4	3.1	3.1
Per Capita Income (RM)	12,135	12,305	13,361	13,618
(US$)	3,093	3,238	3,516	3,584
NATIONAL PRODUCT (% change)				
Real GDP	–7.4	5.8	8.5	5.0–6.0
(RM billion)	182.2	192.8	209.3	219.8–221.8
Agriculture	–3.3	3.8	0.4	1.1
Mining and quarrying	0.8	–3.1	–0.5	1.4
Manufacturing	–13.4	13.5	21.0	8.5
Construction	–23.0	–5.6	1.1	1.0
Services	–0.7	3.3	4.7	3.6
Nominal GNP	0.9	3.8	11.2	4.4
(RM billion)	269.2	279.5	310.8	324.4
Real GNP	–5.2	3.7	6.3	5.4
(RM billion)	172.8	179.2	190.5	200.8
Real aggregate domestic demand[1]	–25.2	1.7	14.6	8.4
Private expenditure[2]	–30.3	–3.9	15.7	7.5
Consumption	–10.8	3.1	12.4	7.0
Investment	–55.2	–21.8	26.7	9.2
Public expenditure[2]	–7.6	16.1	12.3	10.4
Consumption	–6.6	16.3	1.7	12.3
Investment	–8.4	15.9	21.7	8.9
Gross national savings (as % of GNP)	42.0	41.1	39.5	36.5
BALANCE OF PAYMENTS (RM billion)				
Merchandise balance	69.2	86.5	79.5	71.2
Exports (f.o.b.)	281.7	318.9	372.8	389.2
Imports (f.o.b.)	212.5	232.4	293.3	318.0
Services balance	–22.2	–32.1	–40.6	–41.3
(as % of GNP)	*–8.3*	*–11.5*	*–13.1*	*–12.7*
Transfers, net	–9.6	–6.5	–7.7	–7.8
Current account balance	37.4	47.9	31.2	22.1
(as % of GNP)	*13.9*	*17.1*	*10.0*	*6.8*
Net international reserves of BNM [3]	99.4	117.2	113.5	–
(as months of retained imports)	*5.7*	*5.9*	*4.5*	–
PRICES (% change)				
CPI (2000=100)	5.3	2.8	1.6	1.5–2.0
PPI (1989=100)	10.7	–3.3	3.1	–1.8
Real wage per employee in the manufacturing sector (% change)	–2.4	3.0	4.6	–

Note: Figures may not necessarily add up due to rounding.

[1] Sectoral projections are based on real GDP growth of 5%.
[2] Exclude stocks.
[3] Arising from the fixing of the ringgit/US dollar exchange rate in September 1998, all assets and liabilities in foreign currencies have been revalued into ringgit at rate of exchange ruling on the balance sheet date and the gain/loss has been reflected accordingly in the Bank's current year account.
p Preliminary
f Forecast

Table 1.2: Malaysia – Financial and Monetary Indicators

	1998	1999	2000*p*
FEDERAL GOVERNMENT FINANCE (RM billion)			
Revenue	56.7	58.7	61.9
Operating expenditure	44.6	46.7	56.5
Net development expenditure	17.1	21.5	25.0
Overall balance	–5.0	–9.5	–19.7
Overall balance (% of GDP)	–1.8	–3.2	–5.8
Public sector net development expenditure	46.8	48.5	59.0
Public sector overall balance (% of GDP)	–1.3	0.7	–2.9
EXTERNAL DEBT			
Total debt (RM billion)	163.0	161.6	157.0
Medium and long-term debt	130.9	138.7	139.4
Short-term debt	32.1	22.9	17.5
Debt service ratio (% of exports of goods and services)			
Total debt	6.7	6.0	5.0
Medium and long-term debt	6.0	5.5	4.7

	Change in 1998		Change in 1999		Change in 2000	
	RM billion	%	RM billion	%	RM billion	%
MONEY AND BANKING						
Money supply M1	–9.2	–14.6	19.3	35.7	4.7	6.5
M2	4.3	1.5	40.7	13.7	17.5	5.2
M3	10.6	2.7	33.1	8.3	21.9	5.0
Banking system deposits	–1.3	-0.3	20.4	4.7	14.6	3.2
Banking system loans	5.4	1.3	1.1	0.3	23.2	5.4
Manufacturing	1.9	2.9	0.5	0.7	2.2	3.4
Broad property sector	9.6	6.8	4.0	2.6	8.0	5.2
Finance, insurance and business services	1.8	5.0	–3.8	–10.1	0.4	1.3
Loan-deposit ratio (end of year)	91.4		83.2		84.4	

	1998 %	1999 %	2000 %
Interest rates (average rates at end of year)			
3-month interbank	6.46	3.18	3.25
Commercial banks			
Fixed deposits 3-month	5.83	3.33	3.47
12-month	5.74	3.95	4.08
Savings deposit	3.87	2.76	2.72
Base lending rate (BLR)	8.04	6.79	6.78
Finance companies			
Fixed deposits: 3-month	6.43	3.49	3.52
12-month	6.57	4.13	4.21
Savings deposit	5.01	3.50	3.44
Base lending rate (BLR)	9.50	7.95	7.95
Treasury bill (3-month)	5.31	2.71	2.98
Government securities (1-year)	5.79	3.37	3.36
Government securities (5-year)	6.66	5.21	4.80

	1998 %	1999 %	2000 %
Movement of Ringgit (end-period)			
Change against composite	–0.2	–1.3	3.2
Change against SDR	–1.8	2.7	5.2
Change against US$[1]	2.3	0.0	0.0

[1] Ringgit was pegged at RM3.80=US$1 on 2 September 1998.
p Preliminary

policy stance to support the growth process. As a result of mutually reinforcing factors - strengthening external demand, stronger fiscal impulse and a low interest rate environment - private sector activities strengthened significantly in 2000. Private consumption recovered strongly by 12.4% as spending patterns were influenced by the income effects arising from job security, higher disposable incomes and the low interest rate environment. Growth in private investment, which was a less stimulative force in 1999, gained momentum during the year. Private sector investment expenditure turned around from a negative growth in 1999 to register a strong positive growth of 26.7% in 2000. Higher private sector investment was seen in industries in both the manufacturing and services sectors where capacity expansion and new investment were undertaken in response to rising demand.

With strengthening investment activities, potential output, which is the optimal level of output given the capital stock and labour force available for use in the economy, reverted to its trend growth path and expanded by 2.9% in 2000. Despite this, the output gap narrowed to just 1.3% of potential output in 2000 as actual output expanded at a faster pace. This gap, which measures the level of spare capacity available in the economy, was most pronounced at 12.3% of potential output in the third quarter of 1998 (details in White Box).

Despite higher oil prices, lower excess capacity, strong demand and employment conditions, inflationary pressures were contained. The Consumer Price Index only increased by 1.6%, due to the stable exchange rate and low inflation abroad. The main source of the higher prices was several one-off changes, including higher bus fares, petrol and gas prices and higher taxes levied on alcoholic beverages and tobacco. Non-food inflation was lower at 1.3% (1999: 1.6%).

The labour market situation also improved significantly in 2000. Strong economic growth led to more jobs being created and a decline in retrenchments. As a result, the unemployment rate is estimated to have declined to 3.1% (1999: 3.4%), well below the full employment rate of 4%. On the wage front, employers were able to grant wage increases to employees in tandem with improved profitability. Nonetheless, productivity improvements were generally higher than the growth in wages. Inflationary pressures from wage increases remained subdued.

On the supply side, growth in output was supported by further expansion in the manufacturing and services sectors. There was a marked increase in production and capacity utilisation, reaching levels exceeding 80% in several industries (e.g. electronics, electrical products, chemical and petroleum products industries). Average capacity utilisation was 77% in 2000 compared with 75.5% in 1999. Excluding the off-estate processing industry, the average capacity utilisatian was higher at 83% (1999: 80%). In the manufacturing sector, value added grew strongly by 21%, with significant increases in production of both export-oriented (31.6%) and domestic-oriented industries (17.2%). Notwithstanding the strong recovery in 1999, a new record was set for manufacturing production in 2000.

Reflecting the overall growth of the economy, value added in the services sector rose further by 4.7%. This expansion was supported mainly by sustained growth in the utilities; transport, storage and communication; and wholesale and retail trade, hotels and restaurants sub-sectors. Growth was supported by domestic demand as well as significant increases in tourist arrivals.

Value added in the construction sector turned around to register a positive growth of 1.1% (-5.6% in 1999). The revival in construction activities was supported by Government spending under the fiscal stimulus programme and increased activities in infrastructure projects as well as stronger activity in the residential sub-sector which was driven by strong underlying demand, especially for affordable housing. The property overhang

Strong external demand, expansionary fiscal operations and stable financial markets led to a strong rebound in private sector activities. Growth was achieved amidst improving fundamentals.

Potential Output of the Malaysian Economy

BNM's latest estimates of potential output indicate that it has reverted to its growth path and strengthened in 2000. The table below shows that potential output grew by 1.8% in the period 1999 – 2000, as against the GDP growth of 7.2% recorded in the same period. This was due to the relatively slower growth in both investment and labour of only 8% and 1.7% respectively in the period 1999-2000, compared with 14.1% and 3.9% respectively in the period 1992-1997.

Table 1.3
Actual GDP and Potential Output

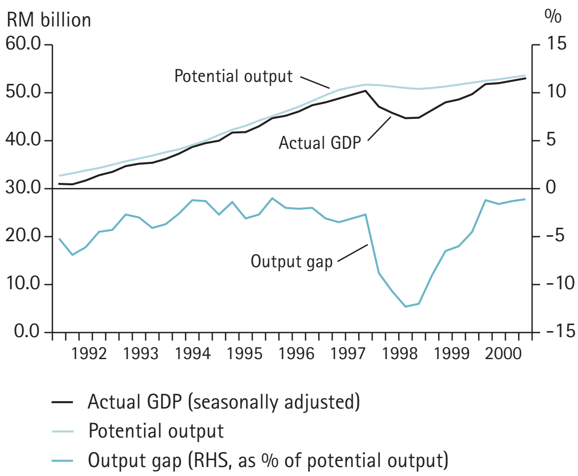
Period	Actual GDP	Potential output	Investment	Labour
	Annual change in %			
1992-1997	9.2	8.3	14.1	3.9
1998	–7.4	0.7	–43.0	–1.7
1999	5.8	0.8	–5.9	1.5
2000	8.5	2.9	24.1	2.0
1999-2000	7.2	1.8	8.0	1.7

As actual output expanded at a faster pace compared with potential output, the output gap continued to narrow in 2000. Real GDP increased by 8.5% in 2000 compared with an increase of 2.9% in potential output, thus closing the output gap to 1.3% of potential output in 2000. The output gap was most pronounced at 12.3% of potential output in the third quarter of 1998.

In line with previous estimates, the short-run elasticity of labour continues to be much higher than of capital. As such, firms attain higher output in the short run by hiring more labour but not by engaging in capital investment. The low elasticity of capital in the short run can also be explained by the significant investment in infrastructure projects that have long gestation periods before yielding returns.

In the long run, however, the elasticity of capital is much higher than previous estimates at approximately 0.4 (previously approximately 0.2), implying that the return to capital was higher in the year 2000. This development is supported by the increase in the capacity utilisation rate as investments in infrastructure in the 1990s begin to contribute to higher output.

Graph 1.6
Actual GDP, Potential Output and Output Gap



remained high in the office and retail space sectors although occupancy rate for office space stabilised while that of retail space increased marginally during the first nine months of 2000.

In the agriculture sector, value added rose marginally by 0.4% due primarily to the sharply slower growth in crude palm oil production, while rubber and cocoa production declined further. On the other hand, value added in the mining sector declined, albeit moderately. Production of crude oil declined by 0.9%. Nevertheless, production in 2000 was only slightly lower than targeted production of 610,000 barrels per day for the year. In response to higher domestic and external demand, natural gas production increased during the year (9.7%).

The balance of payments position remained favourable in 2000. The large current account surplus provided a buffer to the outflows for repayment of debts and overseas investments by Malaysians thereby generating a surplus in the basic balance (current and long-term capital accounts). For the year as a whole, there was outflow of short-term funds.

The merchandise account registered a surplus of RM79.5 billion or US$20.9 billion to offset the deficit in the services and transfers account. Consequently, the current account was estimated to record a surplus of RM31.2 billion (US$8.2 billion) or 10% of GNP (1999:17.1% of GNP). While repayments of external loans and overseas investment by Malaysians increased during the year, inflows of foreign direct investment were sustained in 2000, reflecting new investments in the manufacturing, services and oil sectors. The short-term capital account is estimated to continue to record a large net outflow of RM36 billion in 2000 attributable to an increase in external assets of commercial banks, repayments of short-term borrowing by the commercial banks and non-bank private sector, increased trade credits and liquidation and repatriation of funds by portfolio investors in the second half-year.

Overall, strong trade balance and foreign direct investment inflows as well as some drawdown in external borrowings have provided sufficient cushion to accommodate the short-term capital outflows. Consequently, the net international reserves of BNM remained strong and stood at

Table 1.4
Banking System Health Indicators

	1998	1999	2000
Capital			
Core-capital ratio (%)	8.7	10.1	10.5
RWCR (%)	11.8	12.5	12.4
Net NPL			
(3-month classification)			
Banking system (%)	13.6	11.0	9.6
Banking system (RM million)	52,927	40,631	37,463
(6-month classification)			
Banking system (%)	8.1	6.4	6.3
Banking system (RM million)	31,675	23,849	24,773
GP/Net total loans (6-month, %)	**2.0**	**1.9**	**1.9**

Note: Beginning June 1999 onwards, the figures include Islamic banks.

US$29.9 billion at end-2000, sufficient to finance 4.5 months of imports. Malaysia's external liquidity position improved in 2000 with reserves at 6.5 times of short-term external debt compared with 5.1 times in 1999. As at end-February 2001, the level of reserves amounted to RM110.1 billion (US$29 billion), sufficient to cover 6.3 times the short-term external debt and to finance 4.3 months of retained imports. Reserves are useable and unencumbered.

Malaysia's external debt position and debt maturity profile improved in 2000. Short-term external debt declined further to account for only 11% of total external debt and 15.4% of foreign reserves. Including the medium and long-term debt due in 2001, the ratio of short-term debt to total debt would remain low at 21%. The reduction in short-term debt has reduced the risk to the economy, in particular the vulnerability of the banking sector to potential shocks. Of the total medium-term and long-term external debt, 70% had a remaining maturity of more than three years. Overall, the debt to GNP ratio has trended downwards from a high of 64% at end-1997 to 57.8% as at end-1999 and 50.5% as at end-2000.

The markedly strong economic performance was also reflected in the banking sector. Profitability in the banking system rose, registering a significant increase of 107.5% in pre-tax profit to RM9.7 billion for 2000 (1999: RM4.7 billion). This amount surpassed the pre-crisis level (RM7.7 billion in 1997). The asset quality of the banking system also improved with the net non-perfoming loan (NPL) ratio of the banking system remaining low at 6.3% (on 6-month classification) or 9.6% (on 3-month classification) as at end-2000. Improvements in profitability of banking institutions and stronger economic performance further strengthened the capital position of the banking system with the risk-weighted capital ratio (RWCR) remaining above 12% during the year. Similarly, the core capital ratio of the banking system remained strong at 10.5%.

Macroeconomic Management

In early 2000, there were concerns that the growth in major industrial countries, particularly the United States could slow down during the course of the year. As such, the thrust of macroeconomic management in 2000 focused on sustaining domestic demand to mitigate any potential contraction in external demand. At the same time, the longer-term aim of macroeconomic management continued to be to maintain stability so as not to jeopardise long-term sustainable growth. Therefore, care was taken to ensure that growth-oriented policies did not create new sources of instability in the economy. A key element to maintaining this balance was the careful design and implementation of policies.

To achieve sustainable growth with price stability in the medium and long term, the policy focus was also directed at accelerating the ongoing economic, financial and corporate restructuring to alleviate structural impediments that may impinge on the nation's competitiveness. As a result of the mix of prudent macroeconomic policies and restructuring efforts, economic fundamentals have improved significantly. Stable economic conditions with stronger fundamentals also enabled the focus of policy to shift from managing short-term risks to formulating medium-and long-term policies for achievement of the Vision 2020. Given the changing international environment, the focus of these policies was also being adjusted significantly to ensure that Malaysia would enhance its resilience and achieve its goals amidst greater volatility in international financial markets.

During the year, the Government maintained an expansionary fiscal policy to stimulate domestic demand. The fiscal stimulus package introduced in the Budget 2000 to strengthen domestic demand contained both tax and non-tax measures. Measures to promote consumption included the one percentage point across-the-board reduction in personal income tax rate, higher tax relief and salary adjustment for civil servants as well as reduction of import duties on selected consumer goods. Various incentives were also provided to promote house ownership to reduce the stock overhang in the residential sector. Besides measures to lower the cost of doing business, the Government also intensified its efforts to attract high quality investment by setting up a High Level Committee at the Ministry of Finance to grant special investment incentive package to attract investors to targeted sectors. These measures have strengthened consumer spending and investor confidence.

In terms of expenditure allocation by the Federal Government, priority was given to education and skills training, rural development, agriculture, and low-cost housing and health services as well as industrial and infrastructure development. The objective was to increase allocation on projects with strong linkages to the economy to ensure maximum stimulus to growth, minimal leakage in terms of imports while meeting socio-economic targets. In view of the need for further fiscal stimulus, the fiscal deficit increased to 5.8% of GDP, from 4.1% of GDP announced in the 2000 Budget. Nevertheless, the current account of the Federal Government continued to remain in surplus in 2000.

During the course of the year, the Government stepped up efforts to ensure that the fiscal stimulus package was implemented fully. Measures were taken to accelerate the implementation using the Turnkey, Design and Build Concept and simplification of guarantee procedures. For projects that have been approved, the Government has instituted several oversight measures to ensure prompt disbursements and timely completion. These include creating a Late Payments Unit to handle late payment grievances faced by suppliers and contractors, allowing greater flexibility of Government agencies in handling project management and payments and forming a special squad to ensure timely implementation of projects. As a result of these measures, the Government disbursed RM27.9

billion of the RM28.3 billion in development expenditure earmarked for spending in 2000.

An important development was that fiscal policies were effective in reviving consumer and investor confidence while maintaining the strength in the balance of payments. By focusing Government expenditure on projects with high domestic linkages, the Government sector did not contribute to the lower current account surplus in the balance of payments. The lower surplus (10% of GNP in 2000 from 17.1% in 1999) was due mainly to higher private sector activities seen in higher imports for the manufacturing sector and higher services payments.

Despite the larger fiscal deficit, the outstanding debt of the Federal Government was contained at 37% of GDP in 2000. The Government's financial position is also strong because of low external debt (15% of total Federal Government's debt). This position was maintained because high domestic savings (39.5% of GNP) have enabled the Government to finance its fiscal deficit largely from non-inflationary domestic sources. While the Government raised funds in the international capital markets, the amounts contributed to only 6.4% of net funds raised by the Government. Malaysia tapped the international bond market in September 2000 by reopening its US$1 billion Notes due 2009 for another US$500 million. The deal received positive market reception with the reopening pricing at the spread of 215 basis points over US Treasuries or a 10 basis points premium to the existing 2009 bonds. Despite the volatile financial markets, the issuance of Euro650 million Notes in November 2000 was oversubscribed by two times and was at the tight end of the indicative value, reflecting that investors looked beyond short-term volatility and at the longer-term fundamentals of the Malaysian economy.

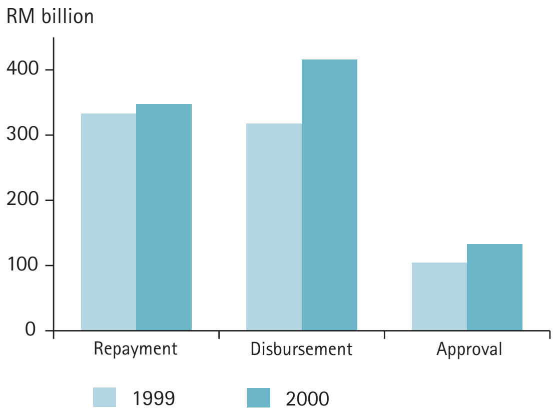
Monetary policy in 2000 remained accommodative to support the strengthening of economic activities. The low interest rates prompted growth in bank lending. The low interest rate regime also improved the viability of corporations by easing their debt-servicing burden. This, in turn, has facilitated the smooth progress of financial and corporate restructuring activities. There was also significant interest in the private debt securities market as longer-term funding could be "locked-in" at low cost. The stable interest rates and the pegged exchange rate regime ensured stability and predictability in market conditions, contributing to the revival in both consumption and investment.

The divergence in interest rates between Malaysia and the United States under the pegged exchange rate regime did not create destabilising conditions. In addition, real interest rates remained positive to ensure that depositors continue to earn a reasonable positive real rate of return. Towards this end, banking institutions increased their deposit rates in August 2000, without a parallel increase in lending rates.

Macroeconomic management in 2000 focussed on sustaining domestic demand. Growth-oriented policies and on-going financial and corporate restructuring enhanced the competitive strength of the Malaysian economy.

The low interest rate as well as ample liquidity situation was reflective of the accommodative monetary stance throughout the year. In 2000, loans outstanding have shown an increasing trend since February 2000, driven by higher credit growth in both the household and

Graph 1.7
Loans by Banking System



Modifications to the Exchange Control Rules in year 2000 and early 2001

The exchange control rules are aimed at achieving specified objectives. These rules complement the overall macro-economic policies. The rules are under regular reviews and modifications are made to the rules in line with the changing environment. The major changes introduced in these rules in 2000 and early 2001 include the following:-

Date of Announcement	Subject
	The Central Limit Order Book
14 March 2000	The original non-resident holders of the Central Limit Order Book (CLOB) securities were freely allowed to repatriate all funds arising from the sale of such securities purchased by them without the payment of exit levy.
29 June 2000	Administrative procedures were issued to facilitate the classification of proceeds from the sale of the CLOB securities as being free from levy.
	Private Debt Securities (PDS)
24 April 2000	In line with the objective of promoting the development of the domestic bond market, resident companies in Malaysia would be freely allowed to issue PDS for permitted purposes without prior written approval from BNM. Non-Resident Controlled Companies (NRCCs) raising domestic credit facilities by way of Private Debt Securities would be exempted from the RM10 million limit and the 50:50 requirement for issuance of PDS on tender basis through the Fully Automated System for Tendering (FAST).
30 June 2000	Guidelines on PDS were issued to the Lead Arrangers.
	Import and Export of Currency
27 July 2000	Resident and non-resident would not be required to make a declaration in the Travellers Declaration Form (TDF) as long as they carry currency notes and/or traveller's cheques within the permissible limits. For non-residents, the declaration has been incorporated into the Embarkation Card issued by the Immigration Department.
	Licensed Offshore Banks in Labuan International Offshore Financial Centre
30 September 2000	Licensed Offshore Banks in the Labuan International Offshore Financial Centre would be allowed to invest in ringgit assets/ instruments in Malaysia for their own accounts only and not on behalf of their clients. The investments must not be financed by ringgit borrowing.
	Domestic Credit Facilities extended by Resident Banking Institutions to Non-Resident Controlled Companies
23 November 2000	Effective 1 December 2000, foreign-owned banking institutions in Malaysia may extend up to 50% of the total domestic credit facilities to Non-Resident Controlled Companies (NRCCs), in the

	case of credit facilities extended by resident banking institutions. This is to fulfil Malaysia's commitment under the General Agreement on Trade and Services (GATS). Previously, foreign-owned banking institutions could only extend up to a maximum of 40% funding.
15 December 2000	**Ringgit Credit Facilities to Non-Residents** Effective 20 December 2000, licensed commercial banks and Bank Islam Malaysia Berhad in Malaysia were freely allowed to extend in aggregate an intra-day overdraft facility of not exceeding RM200 million and an overnight facility of not exceeding RM10 million to non-resident stockbroking companies and non-resident global custodian banks. In addition, they can also enter into short-term currency swap arrangement to cover payment for purchase of shares on the Kuala Lumpur Stock Exchange subject to certain conditions.
	Exit Levy System As announced in the Budget 2001, the exit levy system was liberalised.

business sectors. Loan approvals were higher, increasing by 27.7% while loans outstanding improved at an annual growth rate of 5.4% at the end of 2000. Including financing through private debt securities (PDS), lending increased by 9% as at end-December 2000 (1999: 6.5%). For the year as a whole, disbursements rose by 13.4%. Repayments also rose by 4.4%, almost matching disbursements in absolute terms, thereby moderating the growth in total loans outstanding. To some extent, the high repayments reflected short-term borrowing by businesses, which resulted in a high turnover of disbursements and repayments. In addition, there were some refinancing and restructuring of loans via the PDS market.

BNM continued to monitor closely the lending activity of the banking institutions during the year in order to ensure adequate access to funding for viable and productive investments. At the same time, limits on the institutions' exposure to the property sector and for the purchase of shares were maintained. BNM also issued guidelines on credit risk management and a consultative paper to propose further amendments to the scope and definition of credit facilities and a single customer. Given the crucial importance of developing competent personnel to manage and control credit risk within banking institutions, an accreditation programme was introduced. This would ensure that personnel involved in credit appraisal, approvals and credit review were properly trained.

To complement the on-site examinations conducted by BNM supervisors, BNM continued to strengthen its off-site surveillance system by conducting regular stress tests on banking institutions. This would help detect possible areas of vulnerabilities under different scenarios. In addition, a consultative paper on prompt corrective measures was issued in 2000, recommending a set of regulatory actions that would be automatically instituted on banking institutions found to be operating in a manner detrimental to depositors' interests.

To strengthen the resilience of banking institutions, BNM announced on 14 November 2000 that the minimum capital funds for both domestic and foreign-owned banking groups would be increased to RM2 billion and RM300 million respectively with effect from 31 December 2001. The stronger capital position would place banking institutions in a better position to meet the changing demands of the economy. By the first quarter of 2001, only one domestic banking group and five foreign banking institutions had yet to comply with the new minimum capital funds requirement.

In the corporate sector, measures were introduced to enhance corporate governance, transparency, minority shareholder protection and proper accounting and disclosure standards. These new standards were implemented and enforced by all authorities involved. The Securities Commission has also enhanced disclosure obligations and imposed stringent sanctions for false and misleading information in prospectuses. Similarly, under the revamped listing requirements, effective 1 June 2001, companies are required to disclose greater details of their operations.

To further enhance the protection of minority shareholders, a Minority Shareholders Watchdog Group was established and a review of the take-over code that imposes higher duties on directors to make full and honest disclosure to shareholders before they vote on a resolution was made. The Malaysian Code on Corporate Governance was issued in March 2000. The code sets out broad principles of good governance and best practices for listed companies. The KLSE's listing requirements were also subsequently revamped to improve the level of corporate governance and transparency of the listed companies as well as strengthen investor protection and promote investor confidence.

In the financial sector, the consolidation programme for domestic banking institutions showed significant progress. The programme represents an effort to achieve a more effective and competitive banking system. As at 31 December 2000, 50 of the 54 banking institutions were consolidated into 10 banking groups. One banking institution completed its merger process on 1 March 2001. The remaining three institutions were given approval to commence negotiations with other anchor banking groups. Effectively, 94% of the total assets of the domestic banking sector have been rationalised and consolidated. During the year, attention was also focused on the consolidation of the insurance and stock broking industries. Both the insurance and stock broking industries need to be strengthened to meet the increased competition and more dynamic environment in the future. Tax incentives were provided to accelerate mergers and consolidation in both the industries.

Table 1.5
Corporate Debt Restructuring Committee
(as at end-2000)

	No. of cases	Amount (RM billion)
Received	**75**	**47.2**
Withdrawn/rejected	**21**	**7.8**
Resolved	**42**	**27.3**
Transferred to Danaharta	9	1.8
Completed and being implemented	33	25.5
Outstanding	**12**	**12.1**

Financial sector restructuring made further progress in 2000. Danaharta completed its acquisition exercise in March 2000. As at end-2000, NPLs managed by Danaharta remained at RM47 billion, of which RM37.5 billion were removed from the banking system. This represented approximately 44% of total NPLs in the banking system. The weighted average discount rate for the acquired NPLs was 55%. With the completion of its acquisition exercise, Danaharta has shifted its focus to loan and asset management. As at end-December 2000, Danaharta has successfully restructured RM35.8 billion of loans, with expected recoveries of RM23.8 billion. This translates into a 66% recovery rate over the outstanding loans.

Danamodal, which was established to recapitalise banking institutions, had injected a total of RM7.1 billion into 10 banking institutions since its incorporation in 1998. Following the improved economic environment and in tandem with the merger programme, several banking institutions have repaid their loans to Danamodal, reducing this amount to RM3.7 billion as at end-January 2001.

Due to the strong adherence to achieving market-based outcomes and close monitoring of the restructuring efforts, the burden of dealing with bank recapitalisation and restructuring has been significantly less than initial estimates. The actual financing by Danaharta and Danamodal amounted to RM19 billion or US$5 billion, which was far less than the initial estimate of RM31 billion or US$8.2 billion. This amount accounted for less than 7% of GDP.

Corporate debt restructuring efforts undertaken by the Corporate Debt

Restructuring Committee (CDRC) progressed further in 2000 as 42 cases involving total debts of RM27.3 billion were resolved. Consequently, only 12 cases with a loan value of RM12.1 billion remained outstanding.

The corporate debt restructuring under the CDRC framework is a voluntary process based on market-driven principles. The finalisation and implementation of the restructuring schemes undertaken by CDRC involved time and effort for both borrowers and creditors to reach full consensus on the terms of the restructuring scheme. The main objective is to ensure that the debt restructuring scheme is viable, in order to enable companies to continue to operate as a going concern so that the leverage position of these companies are in line with its underlying fundamentals. In this regard, as long as the debt restructuring scheme is workable and supported by all the stakeholders of the distressed corporation, the pace of the finalisation and implementations of the scheme should not be the main criteria in determining the effectiveness of a corporate debt restructuring.

In addition to corporate debt restructuring, the efforts of Danaharta and CDRC have also focused on the operational restructuring by the corporate debtors. The results of a preliminary study, jointly undertaken by Danaharta and BNM, indicate that more than half of the companies to which Danaharta has an exposure[1] have implemented or are planning to implement, changes in ownership structure, organisation structure, business strategy as well as improvements in corporate governance. Given that the financial difficulties encountered were due to a variety of reasons, not all the corporate debts need to undertake comprehensive operational restructuring. In several cases, corporate debt only became non-performing for reasons beyond the control of the borrower, such as the sharp deterioration in the stock market, withdrawal of credit lines by banking institutions and reduction in demand and sales. In other cases, restructuring schemes were delayed due to strict regulatory requirements to ensure that restructuring schemes are credible, workable and not detrimental to future stability. Moving forward, the operational restructuring of corporations in Malaysia is expected to continue, thereby facilitating the asset disposal process.

Industry-wide restructuring is also undertaken. This need arose when in some cases, restructuring troubled companies could not be done without restructuring the whole industry. The CDRC has concluded the study on the Kuala Lumpur public transport system. A task force comprising several government agencies and authorities has been set up to spearhead the implementation of the industry restructuring and also to address the debts of the companies concerned. CDRC has also completed its study on the restructuring of the steel and telecommunication industries and the options to address the various issues concerning the industries are being considered.

In addition to restructuring efforts, there was concerted policy focus to address structural issues and enhance growth prospects from productivity improvements. Greater attention was drawn to skills enhancement and development of a knowledge-based economy. Many of the policy and implementation proposals are contained in the various plans released in early 2001. In the financial sector, the future policy direction is embodied in the Capital Market Masterplan and the Financial Sector Masterplan (details in Chapter 5), released on 22 February 2001 and 1 March 2001 respectively. The overall strategic direction for the economy would be contained in the Third Outline Perspective Plan, 2001-2010. More focused sectoral policy direction would be contained in the Eighth Malaysia Plan, 2001-2005. Both plans would be unveiled in April 2001.

Consistent with the longer-term policy objective, the Budget 2000 provided tax and other incentives to enhance competitiveness through reducing the cost of doing business, improving efficiency and promoting the development of skilled manpower and technological competence. Several incentives were provided to develop the bond market and venture capital companies as alternative sources of financing to reduce the concentration of risks in the banking sector. Besides these incentives, the Government has established several funds to finance high-

[1] The sample selection for the study was based on a cut-off of the top 20% of Danaharta's borrowers and includes all the major restructuring schemes in Malaysia and involves major corporations.

technology projects and venture capital companies as well as provide loans to selective sectors. Given the growth potential of the agriculture sector and services sector, particularly tourism and information technology, several tax and non-tax incentives were given to provide an enabling environment to improve productivity.

Structural adjustments undertaken since the crisis and measures undertaken over the last two decades have strengthened economic fundamentals considerably. Economic diversification has spread risks while removing structural impediments ensures stability. As a result, growth continues to take place in a low inflation environment and full employment situation. Meanwhile, vulnerabilities in the financial system and the economy have been reduced. The external debt position has improved further, while the international reserves of BNM remained high. The banking system has strengthened in terms of capitalisation, quality of assets and profitability. These favourable macroeconomic fundamentals provide the Malaysian economy with a comfortable cushion to absorb potential shocks to the economy.

Sectoral Review

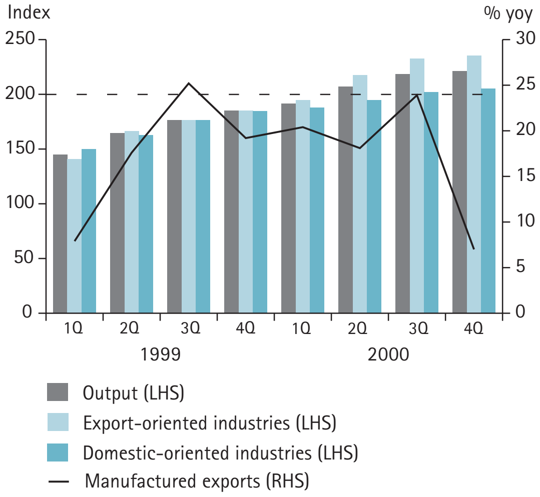
Manufacturing Sector

The strong upturn in economic activity in 2000 largely emanated from the buoyant manufacturing activities. Reflecting significant

Table 1.6
Manufacturing Sector: Production

	1999	2000
	Annual change in %	
Export-oriented industry	**12.8**	**31.6**
of which:		
Electronics	21.2	44.8
Electrical products	2.7	28.7
Textiles and wearing apparel	4.0	8.7
Wood and wood products	–7.3	4.0
Off-estate processing	24.7	11.7
Domestic-oriented industry	**13.1**	**17.2**
of which:		
Chemicals and chemical products	17.1	15.1
Construction-related products	14.2	18.6
Transport equipment	53.4	19.1
Petroleum products	–0.3	19.9
Rubber products	3.6	4.0
Fabricated metal products	–1.1	33.8
Food products	5.7	16.2
Total	**12.9**	**25.0**

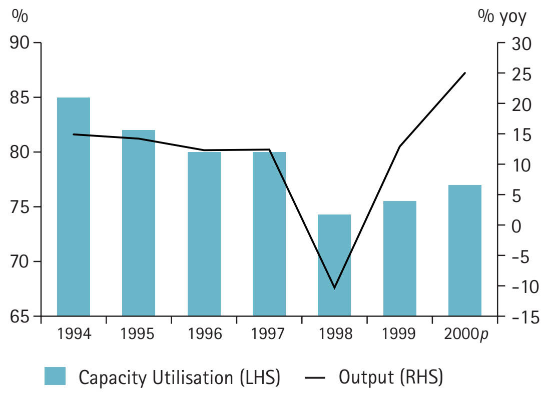
Graph 1.8
Manufactured Production and Exports



increase in external demand as well as sustained strong domestic demand, the production volume as measured by the Index of Manufacturing Production (1993=100) breached the 200 level, to set a new record in October 2000. For 2000 as a whole, manufacturing output expanded significantly by 25% (1999: 12.9%), thus contributing to a higher value-added growth of 21% in 2000 (1999: 13.5%). The strong expansion in manufacturing output enabled the sector to strengthen its position as the leading contributor to GDP, increasing its share further to 33.4% in 2000, from 30% in 1999.

The expansion in output was broad-based and almost all industries recorded higher rates of output growth in 2000. Growth in the export-oriented industries, as a group, accelerated to 31.6% in response to the rapid expansion in global demand for electronics

Graph 1.9
Capacity Utilisation in the Manufacturing Sector



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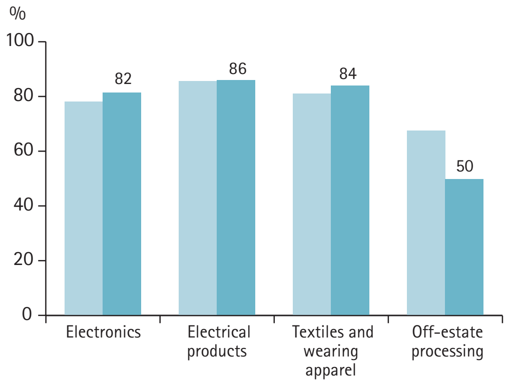
Graph 1.10
Capacity Utilisation of Export-Oriented Industries



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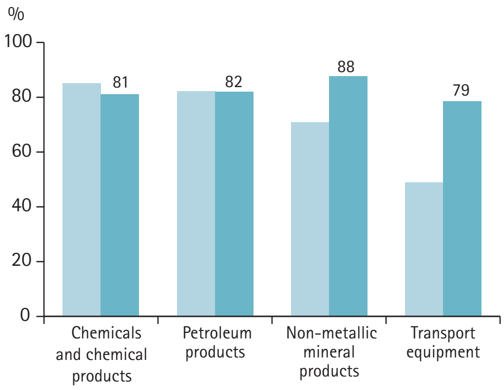
Graph 1.11
Capacity Utilisation of Domestic-Oriented Industries



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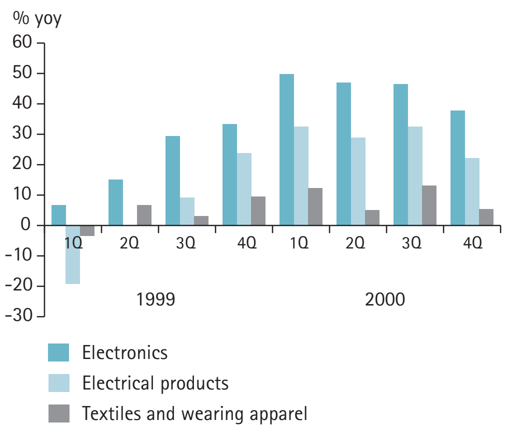
and electrical products. On the domestic front, expansion in both public and private sector demand led to an improved performance of firms producing for the domestic market. Growth in the domestic-oriented industries as a group increased by 17.2% in 2000. With expansion in sales and production volume, there was an increasing number of firms operating at and above 80% capacity in both the export- and domestic-oriented industries. Of significance, the electronics and electrical products industries operated above the 80% level, despite further capacity expansion in 2000. Other industries operating above 80% capacity included textiles and wearing apparel, chemicals and chemical products, petroleum products and non-metallic mineral products industries.

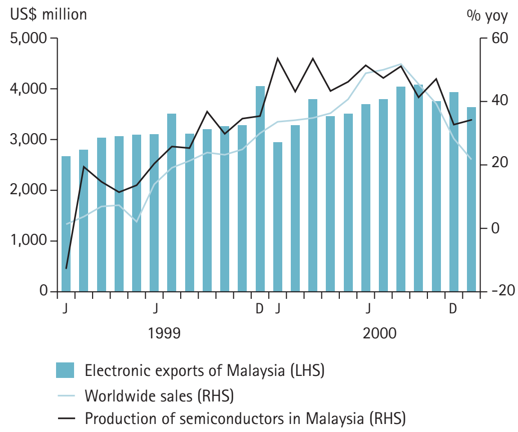
The manufacturing sector provided the strongest stimulus for expansion, with strong growth in both export- and domestic-oriented industries

Graph 1.12
Output Performance of the Export-oriented Sector



The **electronics industry** continued to register a strong expansion in both production and exports, on the back of sustained external demand for semiconductors and electronic components due to the global growth of information and communications technology (ICT). In particular, as mobile phones became more affordable coupled with wider geographical coverage, the proliferation of wireless and cellular communication led to the increased demand for communication chips, particularly from markets in the United States, Japan and the Asia Pacific region. At the same time, the more widespread usage of the Internet further supported growth of the electronics industry. Meanwhile, the increased worldwide corporate spending on networking infrastructure and other ICT-related areas to enhance their efficiencies, also provided the impetus to growth of the electronics industry. Malaysia, being one of the major international production centres for world renowned electronics multinational companies, benefited from these favourable developments in the global ICT sector.

Graph 1.13
Developments of Malaysia's Electronics Industry Vis-a-vis Global Semiconductor Sales

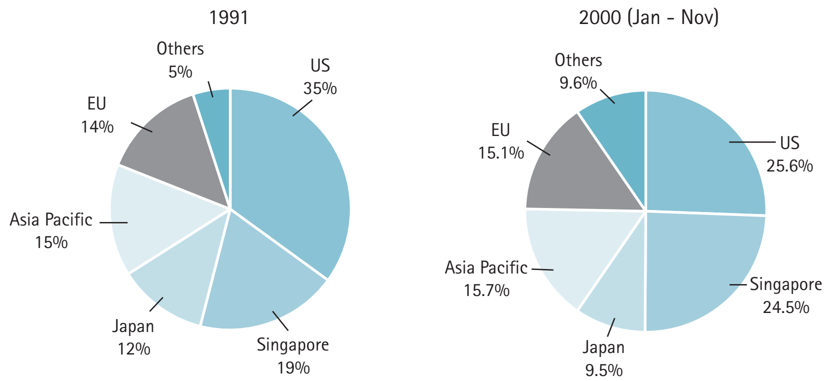


The increased production and export shares of electronics have raised concern about the increasing vulnerability of the manufacturing sector to the slowdown in external demand. Despite the high export-orientation of the electronics industry, the industry managed to remain relatively resilient to adverse external developments in the latter part of 2000. This was mainly due to its relatively well diversified product mix and market base which helped to spread the risks. During past downturns in the electronics sector, this diversified structure resulted in a more moderate impact on Malaysia, especially for certain market segments or orders for certain types of electronic goods. In 1996, for example, Malaysia was less affected by the glut of DRAM chips in the global market, compared with countries which were more concentrated in the production of DRAM. Similarly, in 2000, despite the downward price pressure of DRAM chips during the year, the strong demand for other categories of electronic chips and components such as flash memory chips and integrated circuits, provided the impetus to growth of the industry.

Over the years, Malaysia's electronics industry had increased its resilience by moving up the value-chain of production, evolving from simple test and assembly activities to more sophisticated and higher-end production. The increased production and exports of information- and communication-related equipment enabled Malaysia to take advantage of and respond positively to the increasing demand arising from the global ICT boom, thus increasing its market share in other major Asia Pacific countries besides the United States, Japan and Europe.

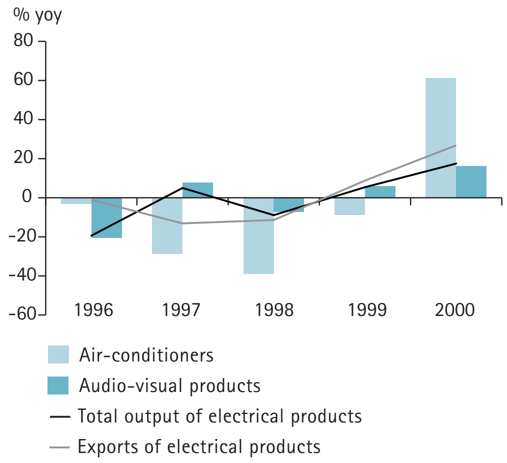
Meanwhile, the production of **electrical products** continued to expand markedly in 2000, reflecting mainly the strong exports of higher-end audio-visual products, namely, video compact disc (VCD) and digital video disc (DVD) players, flat screen TVs as well as air conditioners. In addition, increased demand for videocams and portable handycams, in part due to demand generated from the Summer Olympic Games, also supported the expansion in output. This move to produce higher value-added electrical products enabled Malaysian manufacturers to further increase exports during the year, and to continue to capture

Graph 1.14
Electronics Exports by Market Destination



Note: Asia Pacific refers to People's Republic of China, Taiwan, Hong Kong SAR, Korea and Australia

Graph 1.15
Output and Export Performance of Electrical Products Industry



market shares in the major importing countries, namely, United States, Japan, Singapore, Hong Kong SAR, Australia and the People's Republic of China.

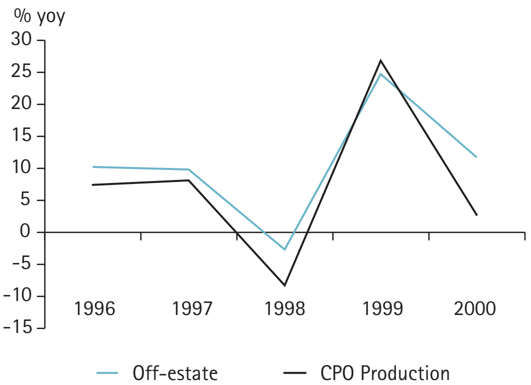
The production of the export-oriented resource-based industries was influenced, to some extent, by the availability of supplies of raw material inputs. During the year, output growth of **off-estate processed products** expanded at a slower pace, following the slower growth in the production of crude palm oil (CPO). Output of **wood products** rebounded in 2000, supported partly by higher output of saw logs, as logging activities recovered from the sluggish period in 1999 when output was affected by bad weather conditions. Nevertheless, lower export prices of plywood amidst competition from the People's Republic of China, led to lower export receipts from wood products. Reflecting sustained demand for the wide range of well designed locally made furniture from major buyers in the United States and the European Union, the furniture and parts industry continued to perform favourably.

The **textiles and wearing apparel industry** recorded a higher output in 2000, in response to higher export orders for wearing apparel and textiles especially from the United States and Hong Kong SAR. At the same time, higher export prices for textiles also contributed to the stronger export growth.

Production and exports of the **chemical products industry**, the single largest product group in the domestic-oriented sector, expanded strongly in 2000. This was underpinned mainly by the industry's strong linkages with major industries producing electronics, electrical products, transport equipment, construction-related materials and textiles, as well as strong demand for resins, organic chemicals, essential oils and toiletries from the Asia-Pacific markets and the United States. Meanwhile, the rebound in the production of the **petroleum products industry** in 2000, reflected the increased demand derived from the strong performance of the transport equipment industry. Increases in crude oil prices raised the export receipts of the petroleum products industry.

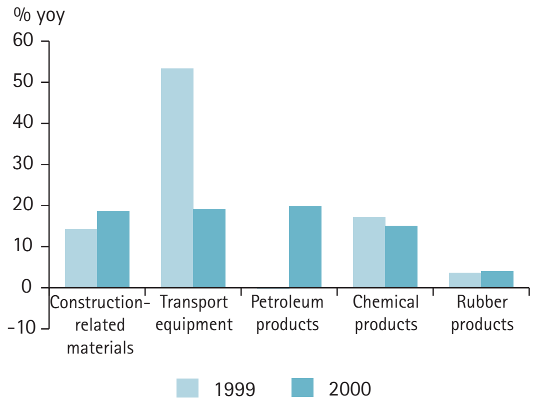
In the **transport equipment industry**, improved consumer and business demand in both the passenger and commercial vehicle sub-sectors

Graph 1.16
Output Performance of Off-Estate Processing Industry

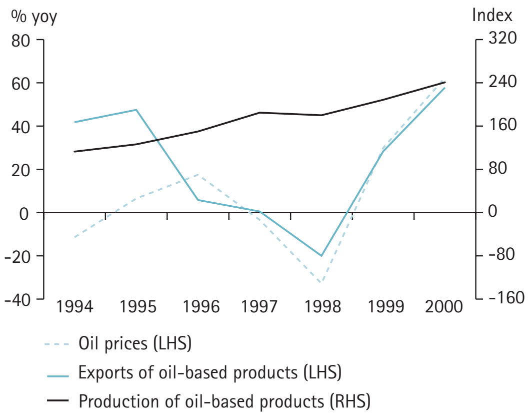


Graph 1.17
Output Performance of Wood Products Industry

Graph 1.18
Output Performance of Domestic-Oriented Industries



Graph 1.19
Output and Export Performance of Oil-based Products[1]



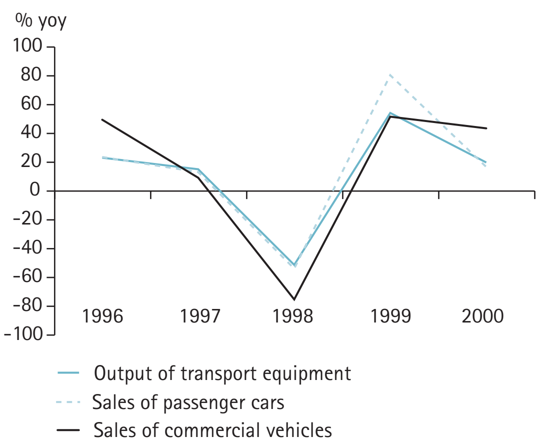
[1] Refer to chemical and petroleum products

sustained production at a high level. The introduction of new car models by the national car makers also contributed to its favourable performance during the year. In tandem with this development, production of motor vehicle parts and accessories also expanded further during the year.

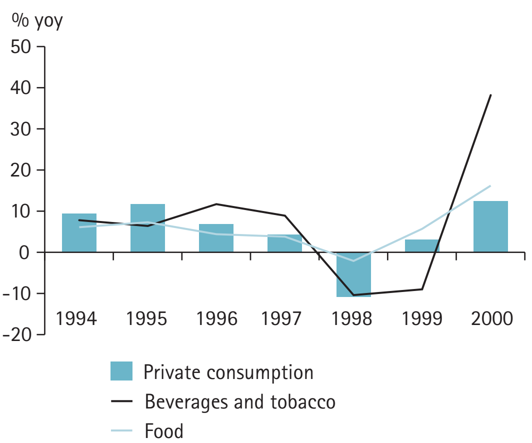
Reflecting the increased activity in the construction sector, output of **construction-related materials** registered a stronger growth in 2000. Growth was also more broad-based with output of cement and concrete products and glass products as well as production of welded iron and steel pipes recording strong growth. Meanwhile, exports of both the non-metallic mineral products and metal products industries expanded further, supported mainly by increased exports of ceramic products and tiles to the European markets as well as the higher imports of iron and steel products, aluminium and copper by the regional markets. Similarly, the increased construction and packaging activities led to a higher production of **fabricated metal products**. In particular, production of structural metal products, brass, copper and aluminium, wire products as well as tin cans and metal boxes expanded strongly during the year.

The **rubber products industry** continued to face competition from the labour-abundant and low cost producing countries especially in the glove market segment. During the year, despite the continued increase in the volume

Graph 1.20
Output Performance of Transport Equipment Industry and Sales of Motor Vehicles



Graph 1.21
Output Performance of the Food, Beverages and Tobacco Product Industries Relative to Growth of Private Consumption



of gloves exported to the United States and Europe, export earnings remained low as a result of persistent weak export prices. The **paper products industry** recorded a higher output growth to meet demand for packaging from most industries, especially the export-oriented industries. The **food, beverages and tobacco products industries** also registered a higher output expansion amidst improved domestic consumption.

Construction Sector

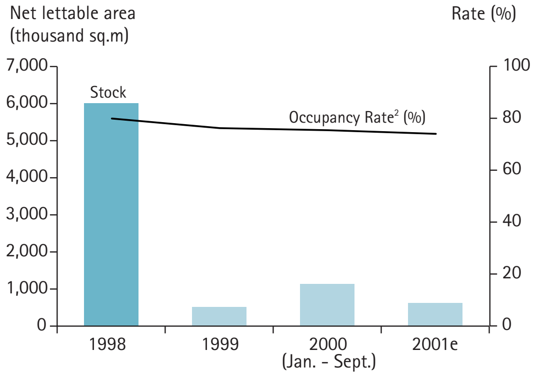
The **construction sector** turned around to record a growth of 1.1% (1999: -5.6%), due primarily to government spending under the fiscal stimulus programme, privatised infrastructure projects and residential housing development, especially for affordable housing. In contrast, construction activity in the non-residential sub-sector remained subdued, constrained by excess capacity given the large overhang of office and retail space.

The **civil engineering sub-sector** benefited from the large increase in Federal Government development expenditure, part of which was expended on construction of projects mainly in the transportation, education, public utilities and housing sub-sectors. Growth in construction activity also emanated from the revival of several privatised projects during 1999, such as the New Pantai Expressway, Express Rail Link and the Kuala Lumpur Monorail System as well as the commencement of new privatised projects during 2000. The latter included one power plant (TNB Janamanjung) and one road project (Kajang-Seremban Expressway). Construction activities were also undertaken for on-going projects related to roads, rail, water and sewerage, ports and waste disposal. By end-2000, Bank Pembangunan dan Infrastruktur Malaysia Berhad approved a total of RM9.7 billion for financing of infrastructure projects, and is expected to play an increasingly greater role as a financier of infrastructure projects in the medium-term.

The expansion in the **non-residential sub-sector** was affected by the excess supply of office and retail space. The increase in number and value of commercial property transactions was not significant. Given the large overhang of **purpose-built office and retail space**, construction activity during 2000 in this sub-sector was supported mainly by on-going projects that had commenced before 1999. New completions of office space in the Klang Valley during the first nine months of 2000 continued to increase, outstripping the increase in demand. As a result, the average occupancy rate for office space declined during this period. In the case of retail space, the new supply from completion of projects was also significant. Nevertheless, demand for retail space strengthened due to improved economic activity, resulting in a higher occupancy rate for the retail space sector.

Rentals for prime office and retail space edged upwards during the year although the

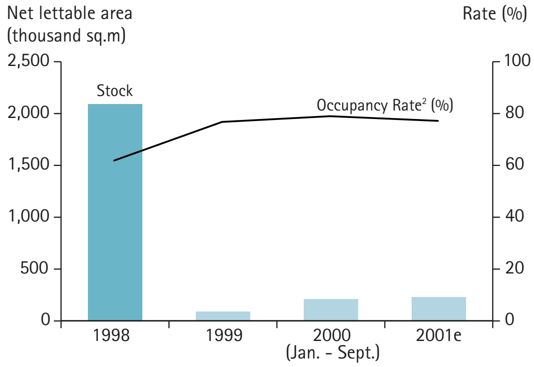
Graph 1.22
New Supply of Purpose-Built Office Space in the Klang Valley[1]: 1999-2001



[1] Refers to Kuala Lumpur and Selangor
[2] Refers to end of period
e Estimates by BNM

Source: NAPIC, Valuation and Property Services Department

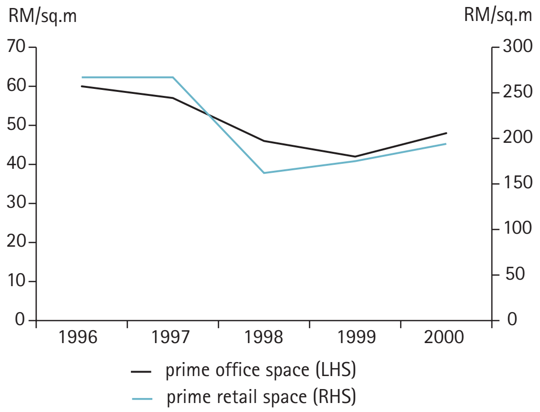
Graph 1.23
New Supply of Retail Space in the Klang Valley[1]: 1999-2001



[1] Refers to Kuala Lumpur and Selangor
[2] Refers to end of period
e Estimates by BNM

Source: NAPIC, Valuation and Property Services Department

Graph 1.24
Average Monthly Rentals for Prime Office and Retail Space in Klang Valley[1]



[1] Refers to Kuala Lumpur and Selangor

Source: BNM, CH Williams Talhar & Wong Sdn. Bhd.

Table 1.7
Residential Property Indicators

	1999	2000
	Number	
Residential property transactions		
Number	156,827	170,876
Value (RMb)	18.5	21.6
Approvals [1]	183,041	214,290
Developers' licences		
New	728	997
Renewals	270	416
Sales and advertising permits		
New	703	969
Renewals	1,104	1,249

[1] Units approved for construction by private developers

Source: NAPIC, Valuation and Property Services Department and Ministry of Housing and Local Government

rentals were lower compared to the pre-crisis levels. Rentals for office and retail space in secondary locations were most affected by the excess supply situation as tenants became more selective, favouring commercial space in strategic locations. In the development of **hotels,** a total of 88 new hotels was completed in 2000. Nevertheless, the average occupancy rate for hotels improved during the year, due to increased tourist arrivals and domestic tourism activity. Active promotional programmes with attractive price offers by the hotels helped to improve the occupancy rate.

The property overhang remained large. The construction sector, nevertheless, turned around, underpinned by the fiscal stimulus programme and strong demand for residential property.

Growth in the **residential sub-sector** was reflected in the marked increase in the number and value of residential property transactions. Growth of the residential sub-sector was supported by strong underlying demand, particularly for affordable housing, arising from low interest rates, rising income and improved sentiment. Reflecting developers' optimism on rising demand, more units were approved for construction by private developers in Peninsular Malaysia. In tandem with higher approvals, new sales and advertising permits as well as renewals of such permits increased in 2000. Loans by the banking system for residential properties also rose significantly by RM11.2 billion in 2000. Similarly, loans approved by most of the housing credit institutions increased during the year (refer to Annex Table 62). During the course of 2000, however, a slowing down in demand was evident. Sales performance of new launches of housing schemes showed a declining trend, with the take-up rate declining from 61% in the first quarter to 49% in the third quarter. Purchasers were becoming more cautious and discerning about buying property.

Nevertheless, reflecting the general improvement in demand and sentiment, **house prices** trended upwards during 2000. Latest data showed that the Malaysian House Price Index rose by 14.3% during the first half of 2000, although the index remained below the peak level in 1997. Prices of all types of houses recorded increases. At the state level, all states also registered price increases. Relatively higher price increases were seen in the Klang Valley, Johor Bahru and Pulau Pinang. In selected choice locations in the Klang Valley such as Bandar Utama, Kelana Jaya and Section 17, Petaling Jaya, prices of landed property increased to above their pre-crisis levels.

Table 1.8
Property Overhang, Incoming Supply and Planned Supply (as at end-June 2000)

	Overhang		In-coming Supply	Planned Supply
	Units/ '000 s.m.	Value (RMb)	Units/ '000 s.m.	
Residential (units)	45,549	6.3	378,839	314,951
Purpose-built office ('000 s.m.)	2,223	7.3	2,505	722
Shopping complexes ('000 s.m.)	1,430	12.7	1,373	969
Retail shops (units)	5,999	1.9	21,604	25,629
Industrial properties (units)	2,398	0.6	7,175	27,813

Source: NAPIC, Valuation and Property Services Department

Despite the improvement in the property sector during the year, latest data compiled by the National Property Information Centre (NAPIC) of the Valuation and Property Services Department showed that the **property overhang** situation remained serious in 2000, especially for the office and retail space sub-sector, which accounted for the bulk of the total overhang. While the incoming supply of new office and retail space has been on a declining trend, as at September 2000, however, an estimated period of 5.3 years is required to fully utilise existing office space, and 4.3 years for retail space. This assumes an average annual take-up rate of 479,000 square metres for office space and 344,000 square metres for retail space (average for the period 1992-September 2000).

In terms of location by state, unoccupied office space was concentrated in Kuala Lumpur, accounting for one half of total vacant office space. Incoming supply of office space was also concentrated in Kuala Lumpur. In the case of retail space, unoccupied retail space was more evenly distributed among Johor, Pulau Pinang, Kuala Lumpur and Selangor, which as a group accounted for three-quarters of total vacant retail space. Meanwhile, incoming supply of new retail space was mainly in Kuala Lumpur, Pulau Pinang and Johor which together accounted for the bulk of the incoming supply. In the case of the residential sub-sector, unsold units were mainly those in the suburbs, as demand in choice locations remained high.

Agriculture Sector

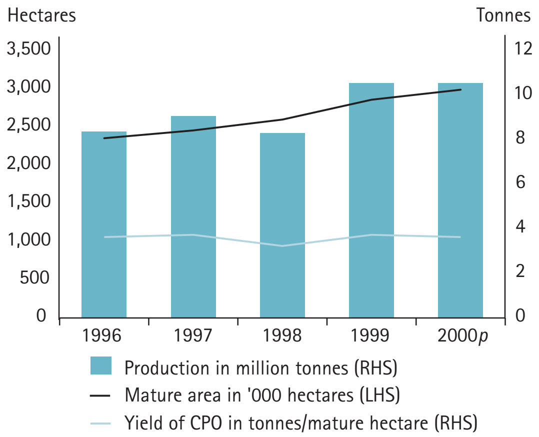
In 2000, the pace of expansion in the **agriculture, forestry and fishery** sector (agriculture) slowed down due primarily to the slower growth in the production of crude palm oil. Production of rubber and cocoa declined

Table 1.9
Office and Retail Space-Unoccupied Space, Incoming Supply and Planned Supply by State (as at end-June 2000)

	Office Space			Retail Space		
	Unoccupied Space	Incoming Supply	Planned Supply	Unoccupied Space	Incoming Supply	Planned Supply
	('000 square metres)					
Kuala Lumpur	1,283	1,759	n.a.	269	659	n.a.
Selangor	485	172	12	214	37	0
Johor	222	198	460	290	183	859
Pulau Pinang	179	158	47	287	367	19
Negeri Sembilan	21	58	104	54	60	64
Perak	41	66	4	81	4	0
Melaka	12	0	0	47	10	0
Kedah	18	13	0	73	10	21
Pahang	15	12	49	58	2	6
Terengganu	5	8	0	5	7	0
Kelantan	13	0	20	13	19	0
Perlis	4	8	26	7	0	0
Sabah	154	3	0	29	15	0
Sarawak	48	50	0	32	0	0
TOTAL	**2,500**	**2,505**	**722**	**1,459**	**1,373**	**969**

n.a: not available
Source: NAPIC, Valuation and Property Services Department

Graph 1.25
Oil Palm: Area, Production and Yield



p Preliminary for mature area and yield

further. Higher production of saw logs, livestock and fish in 2000 contained the slowdown in value added growth in the agriculture sector at 0.4%, from 3.8% in 1999. The prices of most commodities were lower in 2000, reflecting mainly excess global supplies. As a result, export earnings for the sector declined by 17.2% in 2000.

Production of **crude palm oil** (CPO) grew more slowly in 2000 (2.7%; 1999: 26.8%), reflecting the downturn in the biological yield cycle of the oil palm trees during the year, which offset in part the increase in output brought about by an expansion in mature area in Sabah and Sarawak. Yield per hectare also fell as an estimated 10.4% of the total cultivated mature area was under old trees. To encourage replanting by smallholders, the Government allocated a total of RM350 million to assist the smallholders.

The increase in CPO production in 2000, together with the large carry-over stocks of

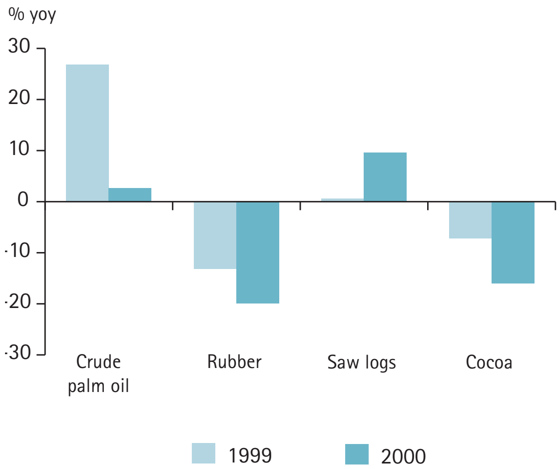
Table 1.10
Agriculture Sector: Value Added, Production and Exports

	1999		2000	
	Volume and value	Annual change (%)	Volume and value	Annual change (%)
Value Added (RM million at 1987 prices)	**18,075**	**3.8**	**18,154**	**0.4**
Production[1]				
of which:				
Crude palm oil	10,553	26.8	10,840	2.7
Rubber	769	-13.2	616	–19.9
Saw logs	21,799	0.6	23,898	9.6
Cocoa	84	-7.2	70	-16.0
Exports (RM million)	**27,673**	**-8.4**	**22,913**	**–17.2**
of which:				
Palm oil				
('000 tonnes)	8,964	19.3	8,863	–1.1
(RM/tonne)	1,615	–31.8	1,122	–30.5
(RM million)	14,475	–18.6	9,948	-31.3
Rubber				
('000 tonnes)	984	–0.5	996	1.2
(sen/kilogramme)	238	–16.7	258	8.4
(RM million)	2,343	–17.2	2,571	9.7
Saw logs				
('000 cubic metre)	6,738	24.4	6,484	–3.8
(RM/cubic metre)	395	14.8	384	–2.9
(RM million)	2,663	42.7	2,489	–6.5
Sawn timber				
('000 cubic metre)	2,818	5.0	2,875	2.0
(RM/cubic metre)	996	5.8	1,051	5.5
(RM million)	2,807	11.1	3,020	7.6
Cocoa				
('000 tonnes)	25	57.8	11	–55.2
(RM/tonne)	4,394	–24.8	2,878	–34.5
(RM million)	112	18.6	33	–70.7

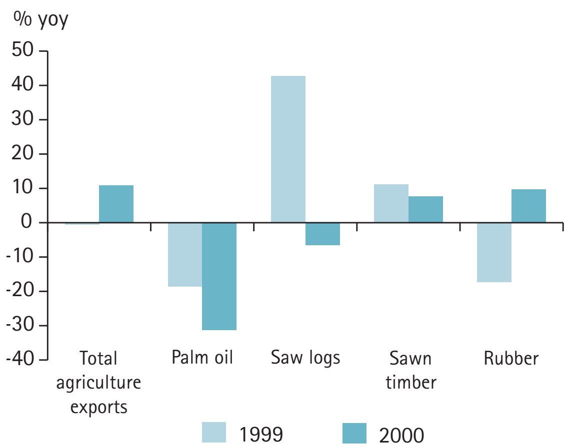
[1] All in '000 tonnes, except for saw logs in '000 metres.

Source: Department of Statistics, Malaysia
Malaysian Palm Oil Board
Forestry Departments (Peninsular Malaysia, Sabah and Sarawak)
Malaysian Cocoa Board

Graph 1.26
Agriculture Production



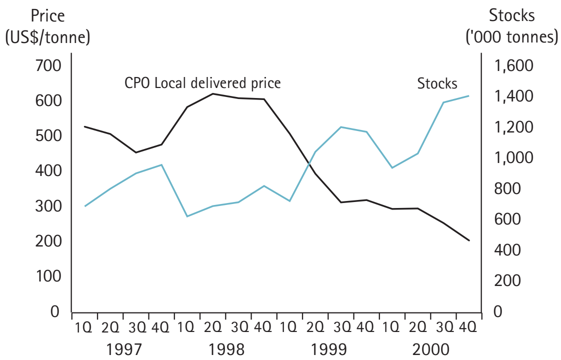
Graph 1.27
Agriculture Exports



palm oil from 1999 of 1.2 million tonnes, and generally poor offtake by major trading partners for Malaysia's palm oil led to a further build-up of stocks during the year to 1.4 million tonnes. This level exceeded the normal stock level of one million tonnes. The ample supplies of palm oil, coupled with excess global stocks of other major vegetable oils, exerted downward pressures on palm oil prices. As a result, the local delivered price of CPO dipped to a six-year low to average at US$263 or RM1,000 per tonne in 2000. In an effort to reduce palm oil stocks, the Government allowed a full waiver on export duty (10-30% based on the price level of palm oil) for 500,000 tonnes of CPO to selected companies during the year. An additional one million tonnes of CPO has been allowed to be exported duty-free in year 2001.

Export earnings from the palm oil sector declined markedly in 2000 due mainly to the fall in the

Graph 1.28
Palm Oil Prices and Stocks



price of palm oil. The volume of palm oil exported also declined, albeit marginally. While offtake by India, Malaysia's largest buyer for its palm oil, fell markedly, this decline was almost offset by higher demand from Malaysia's other major importers namely, Pakistan and the People's Republic of China. During the year, exports to India were affected by increased import duties on palm oil imposed by the Indian authorities and competition from Indonesian palm oil.

In order to meet the longer-term objective of ensuring the continued viability of the industry, efforts to enhance productivity and increase usage of palm oil through research and development (R & D) continued to be conducted by the Malaysian Palm Oil Board (MPOB) in 2000. During the year, the MPOB introduced three new products to the industry, namely, goat's milk ice cream (combined with palm oil products), pourable shortening and specialty animal fat replacer. Meanwhile, in the face of competition from other palm oil producing countries as well as other vegetable oils, the Malaysian Palm Oil Promotion Council continued with its efforts to expand and diversify export markets for palm oil. The Council participated in promotional activities, attended exhibitions and organised market studies and missions during the year. In an effort to strengthen the roles of agricultural agencies as envisaged under the Third National Agricultural Policy, the Malaysian Palm Oil Board was established in May 2000, following the merger of the Palm Oil

Registration and Licensing Authority and the Palm Oil Research Institute of Malaysia. MPOB would undertake R & D; licensing and enforcement; and dissemination of palm oil-related information.

Meanwhile, despite an improvement in rubber prices in 2000 compared with the 5-year low level in 1999, the price remained at an unremunerative level, thereby discouraging tapping activities. As a result, production of **natural rubber** declined sharply by 19.9%. Production was also affected by other factors including continuing conversion of rubber land to other crops as well as to other economic activities, and low yields. Low prices discouraged replanting activity in the past few years although about 25% of the total cultivated land area under rubber was due for replanting. On the external front, exports including re-exports of rubber were higher during the year due primarily to the higher price for rubber (average RSS1 price was 262 sen per kilogramme compared with 240 sen per kilogramme in 1999) and a marginal increase in export volume.

Production of **saw logs** increased by 9.6% in 2000 in response to higher domestic demand particularly from the wood-based industries. Nevertheless, saw log production during the year was in line with the Government's forest conservation policy and sustainable forest management as stipulated under the International Tropical Timber Agreement. On the external front, demand for Malaysian logs was lower given the high inventories in the major importing countries. At the same time, logs from Malaysia also encountered competition from temperate logs particularly from New Zealand and Chile. As a result, the export price for saw logs declined during the year. These developments resulted in a decline in the export earnings from saw logs in 2000.

With lower exports of saw logs, much of its higher production was used for sawn timber, production of which rose in 2000. Export earnings from **sawn timber** also rose in 2000 with higher offtake by Thailand, Taiwan, Republic of Yemen and the United Arab Emirates, which as a group accounted for 35% of total Malaysian sawn timber exports. This, together with an increase in the export unit value for sawn timber, led to higher export earnings for the industry during the year.

Malaysian timber exports continued to face non-tariff barriers including a requirement for timber certification and legislation by states and city councils in some consuming countries to restrict the use of tropical timber in their localities. In response to the increasing demand for certified timber, Malaysia established the National Timber Certification Council (NTCC). This Council began operations in January 1999 to develop a national timber certification scheme for Malaysia. In view of the greater demand by overseas buyers for timber certified by the Forest Stewardship Council (FSC), which dominated timber certification in the world market, the NTCC has taken steps in 2000 to initiate collaborative efforts with the FSC with a view to achieving mutual recognition between the NTCC and the FSC.

In the cocoa industry, low prices for the commodity also led to lower production of **cocoa beans** in 2000. As in the case of rubber, this industry also experienced rapid conversion of cocoa-cultivated land for other economic activities. During the year, large global supplies of cocoa beans resulting from bumper harvests in major producing countries, particularly the Cote d'Ivoire and Ghana, exerted downward pressures on cocoa prices. Reflecting both lower export volume and export unit value, export proceeds from cocoa beans declined sharply during the year.

Production of the **fishery** industry increased further by 5.7% in 2000, with marine fish (accounting for almost 90% of total fish landings) registering higher landings. On the other hand, output from the aquaculture sub-sector declined due to lower output of cockles, which accounted for 60% of total aquaculture output. As domestic production was insufficient to meet the increase in per capita consumption of fish to 45 kilogrammes in 2000, a total of RM1 billion worth of fish was imported during the year. At the same time, the fishery industry generated export earnings of RM1.1 billion, 1.4% lower than in the preceding year. Meanwhile, the year also saw a further increase in the production of the **livestock** industry (3.9%), contributed mainly by the poultry sub-sector.

Table 1.11
Mining Sector: Value Added, Production and Exports

	1999		2000*p*	
	Volume and Value	Annual Change (%)	Volume and Value	Annual Change (%)
Value Added (RM million at 1987 prices)	**13,974**	**–3.1**	**13,907**	**–0.5**
Production				
Crude oil and condensates				
(barrels per day)	691,000	–4.7	683,000	–1.2
of which:				
Crude oil (barrels per day)	*609,000*	*–4.9*	*599,000*	*–1.6*
Natural gas				
(millon standard cubic feet per day)	3,939	6.2	4,308	9.4
Tin-in-concentrates				
(tonnes)	7,340	27.5	6,686	–8.9
Exports (RM million)	**17,198**	**–15.6**	**26,800**	**55.8**
of which:				
Crude oil				
('000 tonne)	17,725	–1.6	16,672	–5.9
(US$/barrel)	18.18	29.8	29.58	62.7
(RM million)	9,306	23.9	14,241	53.0
Liquefied natural gas				
('000 tonne)	15,088	2.8	15,453	2.4
(RM/tonne)	421	3.2	731	73.8
(RM million)	6,349	6.1	11,300	78.0
Tin				
('000 tonne)	24	7.4	21	–12.5
(RM/tonne)	20,425	–5.7	21,090	3.3
(RM million)	491	1.3	435	–11.4

p Preliminary

Source: PETRONAS
Department of Statistics, Malaysia
Minerals and Geosience Department Malaysia

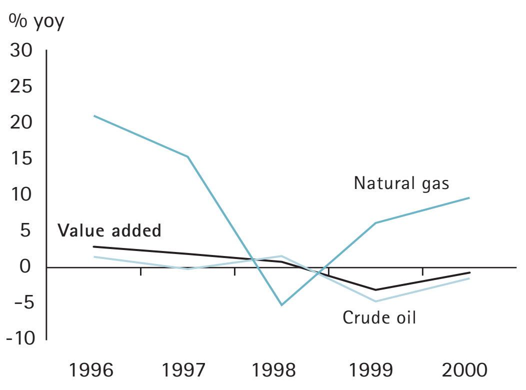
Mining

Total value added in the **mining** sector declined, albeit moderately by 0.5% in 2000 due mainly to developments in the oil sector. The production of **crude oil** of 599,000 barrels per day (bpd) in 2000 was 1.6% lower than the level recorded in 1999, and moderately lower than the nation's production target of 610,000 bpd for the year. Meanwhile, production of condensates (hydrocarbon liquid originating from gas fields) increased in line with higher natural gas production.

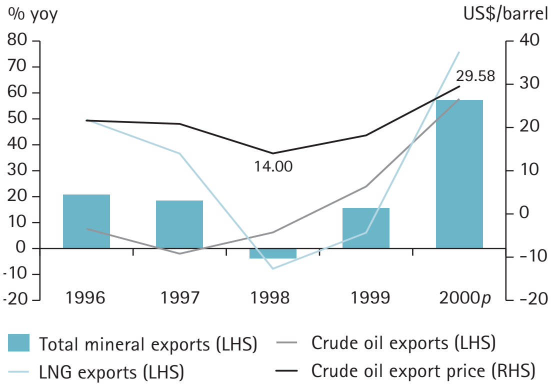
On the external front, export earnings from crude oil increased markedly in 2000 benefiting entirely from higher oil prices. The volume of crude oil exports was lower in 2000 not only due to lower supply but also on account of increased domestic consumption by the petroleum products, petrochemicals and power generation industries. The impact of higher crude oil prices was an increase in export proceeds of RM5.5 billion. Malaysian export prices rose by US$11.00 per barrel in 2000.

In 2000, international crude oil prices continued to increase as world demand for crude oil continued to exceed supply. The high crude oil prices prompted the Organisation of Petroleum Exporting Countries (OPEC) to raise its production quota on four occasions, in March, June, September and October bringing its production quota to 26.7 million bpd from 23 million bpd at the beginning of the year. At the same time, the United States Government released 30 million barrels of crude oil from its strategic stockpile in October. Reflecting these developments, global crude oil prices moderated gradually towards end-year with the North Sea Brent closing at US$23.69 as at end-December 2000 (a peak of US$37.76 per barrel on 6 September 2000). In line with the high global crude oil prices during the year, Malaysia's

Graph 1.29
Mining Production



Graph 1.30
Mineral Exports



p Preliminary

export price for crude oil rose to US$29.58 per barrel in 2000 (1999: US$18.18 per barrel).

Given depleting reserves of crude oil and natural gas, efforts to increase the nation's oil and gas reserves continued during the year. A total of 18 oil production wells and 38 development wells were drilled, while 94,400 line kilometres of seismic data were acquired for exploration and development purposes. In addition, three new production sharing contracts were signed during the year.

In 2000, there was an increase in the utilisation of natural gas by the power generation sector and stronger demand from the manufacturing sector. The increase in demand was partly met by production from a new gas field in Terengganu, which commenced operations in February 2000. At the same time, demand for liquefied natural gas (LNG) from Japan and Taiwan also increased. In response to the higher domestic and external demand, **natural gas** production increased by 9.7% during the year. Meanwhile, benefiting primarily from the strong crude oil prices, the export unit value of LNG increased significantly by 73.8% during the year, contributing substantially to the higher export receipts in 2000.

Table 1.12
Malaysia: Crude Oil and Natural Gas Reserves[1]

	As at 1 January	
	1999	2000
Crude oil		
Reserves level (billion barrels)	3.6	3.4
Life span (year)	15	15
Natural gas		
Reserves level (trillion cubic feet)	85.8	84.4
Life span (year)	45	42

[1] The National Depletion Policy was introduced in 1980 to safeguard the exploitation of the national oil reserves by applying production control to major oil fields.

Source: PETRONAS

The production of **tin-in-concentrates** declined in 2000 due to the closure of some tin mines, as the increase in the price of tin during the year was insufficient to cover rising production costs. Production was also affected to some extent by exhaustion of reserves in several tin mines following more intensive mining activities in response to higher tin prices in 1998 and 1999. As a result, exports of tin, including tin tolled-smelted in Malaysia were lower during the year.

Services

The services sector, given its strong linkages with the other sectors in the economy, grew at a faster rate of 4.7% in 2000 (1999: 3.3%), in line with the overall strong expansion of the economy. Growth was broad-based, with both the final and intermediate services groups increasing at a faster pace than in 1999. While the services sector continued to remain as the largest sector of the economy, the contribution of the sector to the GDP declined to 52.4%, reflecting the stronger performance of the manufacturing sector.

Intermediate services, comprising transport, storage and communication; and finance, insurance, real estate and business services recorded a growth of 4.9% in 2000. Reflecting robust trade performance and rapid expansion in the cellular phone segment, the **transport, storage and communication sub-sector** expanded strongly. For port services, where

Table 1.13
Growth in the Services Sector in Constant 1987 Prices

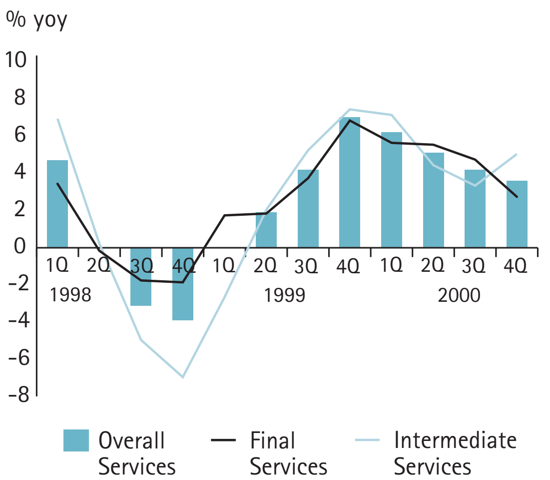
	1999	2000*p*	1999	2000*p*
	Annual change, %		% share of GDP	
Services	**3.3**	**4.7**	**54.3**	**52.4**
Intermediate services	2.9	4.9	20.4	19.7
Transport, storage and communication	4.8	6.7	8.1	8.0
Finance, insurance, real estate and business services	1.7	3.7	12.3	11.8
Final services	3.5	4.6	33.9	32.7
Electricity, gas and water	4.8	6.9	3.4	3.4
Wholesale and retail trade, hotels and restaurants	2.8	5.9	15.2	14.9
Government services [1]	6.9	3.4	7.4	7.0
Other services [2]	1.3	2.3	7.9	7.5

[1] Include general public services (general public administration, external affairs and public order and safety), defence, health, education and others.
[2] Include imputed rent from owner-occupied dwellings; community, social and personal services; product of private non-profit services to households; and domestic services of households.
p Preliminary

Source: Department of Statistics, Malaysia

much progress has been achieved in developing these services in recent years, the year 2000 saw a significant improvement in the performance of Malaysian ports. This was due to increased cargo volume following the surge in international trade and the commencement of operations of the Port of Tanjung Pelepas (PTP) in late 1999. During the year, Port Klang handled a total of 3.2 million TEUs (20-foot equivalent units), a marked increase compared with the two preceding years (1999: 2.5 million TEUs; 1998: 1.8 million TEUs). All three terminals at Port Klang, namely, Klang Container Terminal (KCT), Klang Port Management (KPM) and Westport handled more than 1 million TEUs each. Meanwhile, PTP benefited from the relocation of the transhipment hub of Maersk Sealand from Singapore to the port. The entry of Maersk Sealand, a leading world shipping company, is expected to increase the cargo volume handled by PTP annually by a minimum of two million TEUs. Similarly, Westport also embarked on capacity expansion to enhance its facilities and services. The presence of Maersk Sealand in PTP, coupled with Hutchison Port Holding of Hong Kong in Westport, augur well for the future development of local ports.

Graph 1.31
Services Sector: Quarterly Annual Growth



Supported by the buoyant economic activity, the air transport industry also improved as reflected by the significant increase in cargo and passenger volume handled by the Kuala Lumpur International Airport (KLIA). Meanwhile, Malaysian Airline System (MAS) continued to actively pursue code share services agreements with new partners in a continued effort to upgrade its services and operations. In 2000, MAS signed two new agreements for code share services. In domestic air transportation, the Government expanded the Penang Airport to cater for increased cargo volume. In an effort to strengthen its freighter services, MASkargo set up a second overseas cargo terminal at Sharjah International Airport, United Arab Emirates.

Rail transport benefited from the commencement of the Thailand-Malaysia Landbridge and buoyant manufacturing sector in 2000. Its expansion was reflected by the

Table 1.14
Selected Indicators for the Services Sector

	1999	2000p
	Annual change, %	
Cargo throughput at five major ports [1]	9.0	8.7
Container throughput at five major ports [1]	32.7	32.2
LRT ridership [2]	105.6	81.7
Insurance premiums	6.2	19.4
KLSE (turnover, volume)	48.2	-16.3
Tourist arrivals	42.9	28.7
Hotel occupancy rate	51.7	54.3[3]
Electricity production index	3.9	6.0

[1] Include Port Klang, Johor Port, Penang Port, Sabah Ports and Bintulu Port.
[2] Include STAR and PUTRA.
[3] Refers to January-September 2000.
p Preliminary

Sources: Relevant port authorities; Sistem Transit Aliran Ringan Sdn Bhd (STAR); Projek Usahasama Transit Ringan Automatik Sdn Bhd (PUTRA); Kuala Lumpur Stock Exchange (KLSE); Bank Negara Malaysia; Malaysia Tourism Promotion Board; and Department of Statistics, Malaysia.

increase in the revenue of Keretapi Tanah Melayu (KTM) in 2000, particularly the cargo business sector. In the case of the Light Rail Transit (LRT), aggressive promotion by the operators resulted in the ridership increasing at a rapid pace in 2000. With the Government's plan to consolidate and integrate the public transportation network in the Klang Valley, the rail segment is expected to strengthen further in the near term.

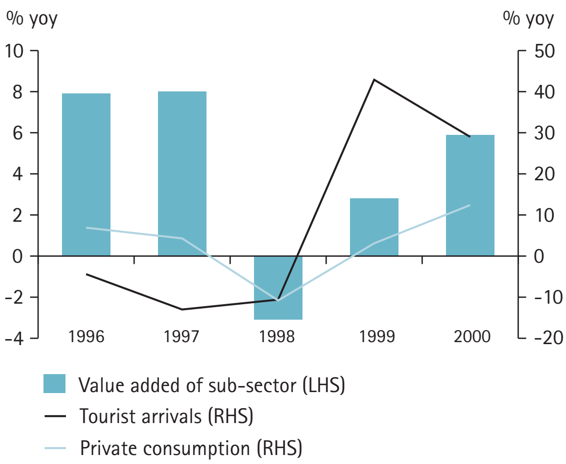
The communication sub-sector also grew strongly in 2000, benefiting from the increased level of economic activity as well as the rapid expansion in the mobile phone segment. Based on BNM's survey of the telephone companies, the market size for fixed line telephones was 4.8 million as at end-2000 (1999: 4.7 million) while that for cellular telephones was 5.1 million (1999: 2.9 million), reflecting the increasing popularity of mobile phone services, particularly in the prepaid services sector. With more applications being made available through the cellular phone, such as Wireless Application Protocol (WAP), the mobile services sector is expected to expand more rapidly in the near future.

Activity in the services sector kept pace with the overall growth in the economy. Stronger growth was recorded by the transport, storage and communication; wholesale and retail trade, hotels and restaurants; and utilities sub-sectors.

Strong growth was also recorded by the **finance, insurance, real estate and business services** sub-sector, as reflected in the increased profitability of financial institutions following the rapid expansion of the economy. In the banking sector, growth emanated from higher loan disbursements. The insurance industry recorded a strong expansion as reflected by a sharp increase in insurance premium income collection. Nevertheless, the growth of the sub-sector was negated partially by the weak performance of the Kuala Lumpur Stock Exchange, particularly in the second half-year.

The **final services** group, which comprised utilities; wholesale and retail trade, hotels and restaurants; government services and other services also recorded higher growth in 2000. The improved performance was due mainly to the rapid growth of the wholesale and retail trade, hotels and restaurants; and the utilities sub-sectors. The **wholesale and retail trade, hotels and restaurants** sub-sector recorded a markedly stronger growth during the year, following the improvement in consumer confidence. The improved consumer sentiment was supported by the survey findings of the Malaysian Retailers Association (MRA), which

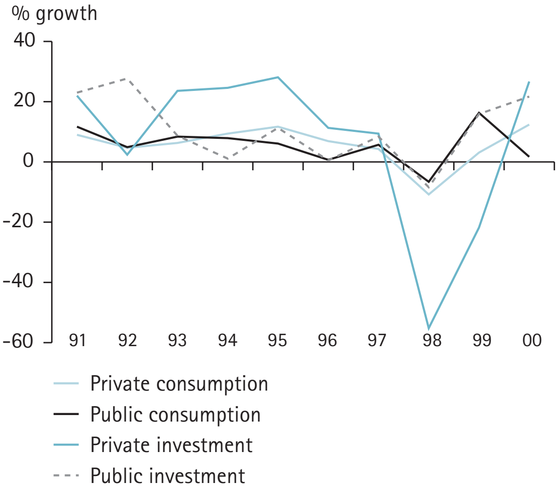
Graph 1.32
Wholesale and Retail Trade, Hotels and Restaurants, Private Consumption and Tourist Arrivals



showed that retail sales increased by 10.6% in 2000 (1999: 7.4%). Sales performance was also boosted by the three nationwide Mega Sale Carnivals and higher tourist arrivals. The tourism industry benefited from Malaysia's hosting of a number of events, including the Formula One Grand Prix Championship in October. Reflecting the improvement in the domestic trade activity, the collection of sales tax increased markedly by 33% (1999: 16.7%). Looking ahead, the wholesale and retail sector has vast potential in view of rising incomes, improving standard of living and increasing usage of e-commerce. A few players in the local retail industry have started to conduct online transactions and are optimistic about the prospects of e-retailing in Malaysia.

Value-added growth in the **government services** sub-sector continued to expand, albeit at a slower rate. The increase was attributed to higher expenditure on emoluments arising from the 10% salary adjustment, increase in housing allowances for selected categories of civil servants and payment of a half-month bonus or a minimum of RM500 to all civil servants.

Graph 1.33
Real Domestic Demand Aggregates



to 14.6%, from 1.7% in 1999. In real terms, gross fixed capital formation and consumption rose by 24.1% and 10% respectively.

Growth in **public sector expenditure** remained strong at 12.3% in 2000 (1999: 16.1%) reflecting the fiscal stimulus programme of the Federal Government and

Strong rebound in private expenditure was due to both buoyant export sector as well as expansionary fiscal operations.

In line with the strong expansion of manufacturing activities and higher domestic consumption, value-added in the **utilities** sub-sector increased further due primarily to the increased demand for electricity. Based on the industrial production index, the production of electricity was higher by 6% during the year. Growth in the sub-sector was also supported by an increase in consumption of water, which rose by 2% to 9,010 million litres per day.

Domestic Demand Conditions

Growth in domestic demand gathered further momentum in 2000. A combination of strong external demand and expansionary fiscal operations contributed to a significant strengthening in consumer and investor sentiment and an increase in economic activities. Private consumption surpassed the pre-crisis level, while private investment expenditure turned around to register strong growth, following two years of decline. As a result of a broad-based increase, growth in real aggregate domestic demand (excluding stocks) accelerated

higher capital outlays by the non-financial public enterprises (NFPEs).
Reflecting the stronger fiscal stimulus, **public investment** expenditure increased at a higher rate of 21.7% in real terms. The higher spending was on education and health to promote human resource development and on infrastructure projects which generated high spill-over effects on other sectors of the economy. Total capital expenditure of the NFPEs was also higher in 2000, due mainly to the modernisation and expansion programmes of several NFPEs. Capital outlays by Petronas included the implementation of several petrochemical projects in Kertih and Gebeng, as well as the expansion and upgrading of the Universiti Teknologi Petronas in Tronoh. The capital expenditure of Tenaga Nasional Berhad was mainly for capacity expansion and upgrading to meet increasing demand for electricity. Telekom Malaysia Berhad continued to modernise and expand its telecommunication network. Meanwhile, the implementation of two wafer fabrication projects in 2000, namely, First Silicon in

Kuching and Silterra in Kulim, were intensified and also contributed to the increase in investment of other NFPEs.

Expenditure on emoluments and supplies and services of the Federal Government rose strongly in 2000. Higher expenditure on emoluments was due to the 10% upward salary adjustment and the 50% increase in housing allowances for selected categories of civil servants as well as the half-month bonus awarded in December 2000. Meanwhile, higher spending on supplies and services was for professional services, supplies of materials as well as for maintenance and renovation works. Nevertheless, growth in total **public consumption** expenditure moderated due mainly to lower spending for defence.

Private sector expenditure rebounded strongly in 2000 to record double-digit growth of 15.7% following a decline of 3.9% in 1999. **Private consumption** was sustained at a high rate of 12.4%, reflecting improved consumer confidence in an environment of higher disposable income, low interest rates as well as favourable employment prospects. The across-the-board reduction in personal income tax and upward adjustment in salaries for the public sector, also provided support to sustain the momentum of growth of private consumption expenditure. Major consumption indicators such as sales of passenger cars, imports of consumption goods, loans disbursed for consumption credit and activities in the wholesale, retail, restaurants and hotels sub-sector as well as sales and service tax collection, all pointed to further improvement in consumption spending in 2000 (Table 1.15). The Malaysian Retailers Association (MRA) also reported that gross sales turnover of the retail sector increased by 10.6% in 2000 (1999: 7.4%).

Private investment activities gained momentum during the year, increasing by 26.7% after two consecutive years of contraction (1998: -55.2%; 1999: -21.8%). The reversal in trend was evident from key investment indicators, including higher capital imports, rising capacity utilisation in the manufacturing sector as well as increased applications and approvals of investment in the manufacturing sector (Table 1.16). In line with the strengthening of investment activities, loans disbursed by the banking system also increased in 2000, mainly to fund manufacturing activities and property development. At the same time,

Table 1.15
Private Consumption Indicators

	1999	2000				
		1Q	2Q	3Q	4Q	Year
Sales of passenger cars (incl. 4WD)						
'000 units	255.9	65.8	75.8	77.2	77.7	296.6
Annual change (%)	79.9	17.9	26.9	12.4	8.6	15.9
Imports of consumption goods						
US$ billion	3.9	1.0	1.2	1.2	1.2	4.6
Annual change (%)	16.4	28.0	24.4	16.0	4.4	17.2
Tax collection						
Sales tax (RM billion)	4.4	0.9	1.8	1.4	1.9	6.0
Service tax (RM billion)	1.5	0.3	0.5	0.3	0.6	1.7
Loans disbursed by banking system						
Consumption credit (excl. passenger cars) (RM billion)	16.7	6.2	6.5	6.7	7.5	26.8
Wholesale, retail, restaurants and hotels (RM billion)	57.4	14.1	14.5	16.2	18.1	62.9
MRA retail sales						
Annual change (%)	7.4	8.7	12.3	10.0	9.5	10.6
Credit card operation						
Turnover spending (RM billion)	13.9	4.2	4.6	5.0	5.5	19.3
Annual change (%)	0.3	38.4	46.4	40.9	33.8	39.5
MIER Consumer Sentiments Index	–	120.7	121.0	126.0	115.6	–

funds raised in the private debt securities market to support new activities was also higher.

In tandem with higher capacity utilisation and strong demand in the export-oriented industries, capital outlay in the **manufacturing sector** was estimated to have increased by 36.8% in 2000. Strengthening investor confidence and the introduction of policy measures aimed at attracting foreign investors through the pre-packaged incentive scheme for strategic projects, contributed to higher investment in the manufacturing sector. Capacity expansion in the manufacturing sector was mainly in petroleum products and electrical and electronic products industries. Despite the increase in capacity, the electrical and electronic products industry operated at above the 80% level throughout 2000 in response to the rapid expansion in global

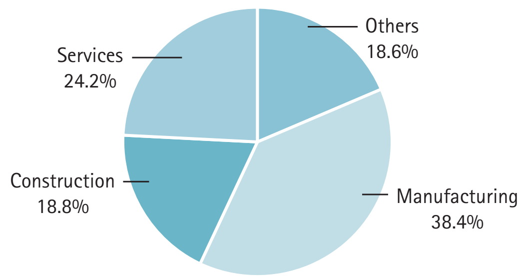
Table 1.16
Private Investment Indicators

	1999	2000 1Q	2Q	3Q	4Q	Year
Sales of commercial vehicles (incl. 4WD)						
'000 units	32.7	9.8	12.2	12.8	11.7	46.6
Annual change (%)	50.8	49.8	62.1	44.3	21.3	42.7
Imports of capital goods						
US$ billion	8.4	2.4	3.2	3.7	3.1	12.4
Annual change (%)	–9.2	40.1	69.0	48.2	35.1	47.7
Applications to MITI						
No. of projects	776	190	215	250	288	943
Capital investment (RM billion)	14.0	16.2	6.7	12.5	10.5	45.9
Foreign	*9.0*	*7.3*	*5.0*	*9.4*	*7.9*	*29.7*
Local	*5.0*	*8.9*	*1.6*	*3.2*	*2.5*	*16.2*
Approvals by MITI						
No. of projects	725	157	168	261	212	798
Capital investment (RM billion)	17.0	2.7	3.1	19.5	8.2	33.5
Foreign	*12.3*	*1.5*	*1.7*	*10.4*	*6.1*	*19.8*
Local	*4.7*	*1.1*	*1.4*	*9.1*	*2.1*	*13.7*
Loans disbursed by banking system						
Manufacturing sector (RM billion)	84.7	22.0	22.0	24.1	25.9	94.1
Construction sector (RM billion)	24.7	5.9	5.9	6.2	5.8	23.6
Private Debt Securities						
Total fund raised (RM billion)	22.1	4.2	3.8	4.3	10.2	22.5
MIER Business Conditions Survey						
Business Conditions Index	–	60.8	64.3	59.4	53.2	–
Capacity Utilisation Rate	–	81.9	84.5	85.0	85.2	–

demand for electronic components and electrical appliances. The high investment in the petrochemical industry was attributable to the implementation of several large-scale petrochemical and natural gas projects during the year.

In the manufacturing sector, the value of investment approved by the Ministry of International Trade and Industry (MITI) increased to RM33.5 billion in 2000, compared with RM17 billion in 1999. Of the total investment approved, six large projects, each with investment exceeding RM1 billion, accounted for RM15.1 billion, approximately 45.1% of the total investment approved. The

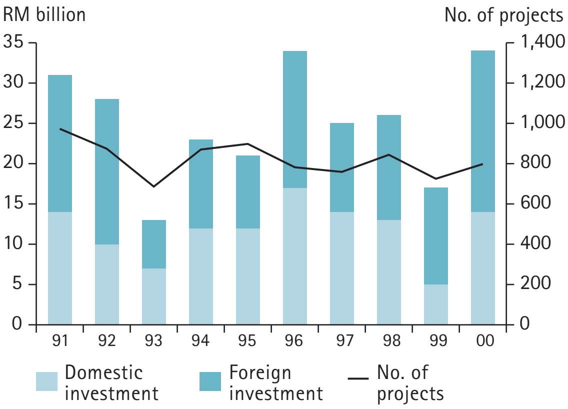
Graph 1.34
Private Investment by Sector, 2000 (% share)



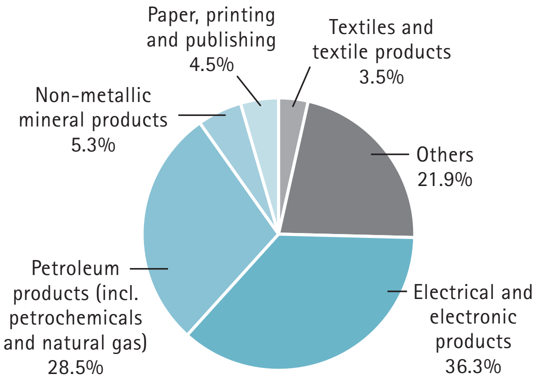
electrical and electronic industry continued to account for highest share of 36.3% of total investment approved in 2000. This was followed by the petroleum products industry (28.5%); non-metallic mineral products industry (5.3%); paper, printing and publishing industry (4.5%) and textiles and textile products industry (3.5%). In terms of ownership, domestic investment recorded a significant increase to RM13.7 billion (1999: RM4.7 billion), reflecting the revival of activities in the domestic-oriented industries.

The value of foreign investment approved in 2000 amounted to RM19.8 billion, exceeding the RM12.3 billion approved in 1999. The bulk of the new projects approved was in the electrical and electronic products industry (51.5%), petroleum products industry (16.2%) and non-metallic mineral products industry (7.7%). The top five foreign investors during the year were from the United States, Japan, the Netherlands, Singapore and Germany. These countries together accounted for 80.6% of total foreign investment approved by MITI.

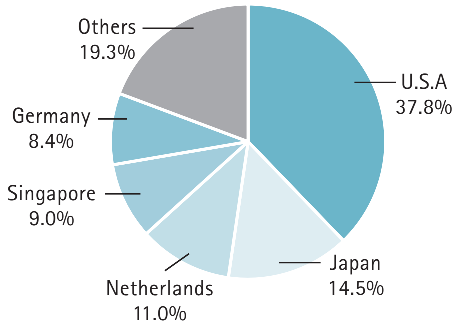
Graph 1.35
Approved Investment in the Manufacturing Sector



Graph 1.36
Approved Manufacturing Investment by Industry, 2000 (% share)



Graph 1.37
Foreign Participation in Approved Manufacturing Investment by Country, 2000 (% share)



The pick-up in investment in the **services sector** from an estimated value of RM5.2 billion in 1999 to RM10.4 billion in 2000 was due mainly to higher capital outlay by an increasing number of companies in the telecommunication sector, banking and finance industry as well as the business services sector in information and communications technology (ICT) activities. In the telecommunication sector, most telecommunications companies embarked on capacity expansion and upgrading of their network to cater for a larger subscriber base and broader coverage area. At the same time, companies also engaged in upgrading exercises to increase transport capacity in the internet service provider (ISP) and broadband services as well as to introduce the General Packet Radio Services (GPRS) solutions. In the retail and wholesale sector, retailers and wholesalers expanded their branch network, following favourable performance of the sector.

Capital outlay in the utilities sub-sector was estimated to be higher in 2000 on account of several on-going power plant and water supply projects. These projects included the Mini-Hydro Sungai Kenerong plant, Nur Generation and Distribution and the on-going Sungai Selangor Water Supply Project. Investment activities in the transport sub-sector was supported by the on-going construction of the Express Rail Link, Kuala Lumpur Sentral Station and People-mover Rapid Transit System. The capacity expansion of ports, including the West Port and the Port of Tanjung Pelepas, also contributed to the higher investment in the transport sub-sector. Financing by financial institutions for investment in ICT ventures also picked up in 2000.

Investment in the **construction sector** was higher by 9.4% in 2000. The reversal of trend was due to construction works on residential projects and the acceleration of on-going highway projects. In the residential sector, investment was mainly supported by the construction activity of low- and medium-cost houses as well as affordable condominiums and apartments. Among the major highway projects in 2000 were the Kuala Lumpur Traffic Dispersal System, New North Klang Straits Bypass and South Klang Valley Expressway.

Capital investment in the **agriculture and mining sectors** also increased during the year. Investment in the mining sector increased by 12.2% due mainly to the sustained expansion in production facilities in the oil and gas sub-sector. The increase in replanted area and the higher allocation for this sector under the National Agricultural Policy contributed to an increase of 1.5% in investment in the agriculture sector.

In 2000, the strong growth in nominal income led to both higher consumption spending and higher savings. **Gross national savings (GNS)** increased by 6.9% in 2000 (1.5% in 1999). Despite the higher operating expenditure of the public sector, **public sector savings** increased by 4.7% to RM49.3 billion due mainly to significantly improved revenue performance of the public sector, particularly the NFPEs. **Private sector savings** increased by 8.5% in 2000. As gross nominal income increased at a faster rate of 11.2%, the share of GNS to GNP declined to 39.5% (41.1% in 1999). Nevertheless, this rate of

Table 1.17
Savings-Investment Gap

	1999	2000*p*
	RM million	
Public gross domestic capital formation	34,642	46,516
Public savings	47,069	49,281
Deficit / surplus	12,427	2,765
(% of GNP)	4.4	0.9
Private gross domestic capital formation	32,188	45,007
Private savings	67,666	73,405
Deficit / surplus	35,478	28,397
(% of GNP)	12.7	9.1
Gross domestic capital formation	66,830	91,523
(% of GNP)	23.9	29.4
Gross national savings	114,735	122,686
(% of GNP)	41.1	39.5
Balance on current account	47,905	31,163
(% of GNP)	17.1	10.0

p Preliminary

Source: Department of Statistics, Malaysia and Bank Negara Malaysia.

savings still remained high by historical standards and in comparison with other countries. This high rate of savings has enabled Malaysia to achieve high growth financed mainly by domestic non-inflationary sources and to reduce its reliance on external sources of financing.

As gross domestic capital formation turned around to increase markedly by 36.9% in 2000, the surplus in the national resource balance narrowed to RM31.2 billion or 10% of GNP (1999: RM47.9 billion or 17.1% of GNP). This resource balance reflected the current account surplus in the balance of payments.

During the year, the financial planning program, which was started in 1996 as a result of the strategy for promotion of savings, continued to emphasise on the efficiency and smart personal financial management amongst the students and the public. In line with this objective, BNM published the second edition of both the Pocket Money Book and the Household Account Book for the public. In 2000, educational programs to demonstrate effective use of both books were organised. Seminars on the School Adoption Program, whereby schools in Malaysia are adopted by financial institutions or development financial institutions were organised at the state level during the year. The objective of the seminar was to disseminate information to the State Education Officers on issues related to the School Adoption Program and the usage of Pocket Money Book. In order to promote the usage of Household Account Book, half-day training programmes on the Importance of Financial Planning and Usage of Household Account Book for Women were organised at the state level. The objective of the programme was to instil financial discipline and inculcate prudent spending and sound financial management amongst women.

Prices and Employment

Inflation

Inflation moderated further in 2000. The **Consumer Price Index** (CPI, 1994=100) rose at an annual rate of 1.6% in 2000, lower than the forecast of 3.2% made in early 2000 and is the lowest rate recorded since 1987. Non-food

Table 1.18
Inflation Indicators

	Weights	1999	2000
		Annual change	
		(%)	
Consumer Price Index (1994=100)	**100.0**	**2.8**	**1.6**
Of which:			
Food	34.9	4.6	1.9
Beverages and tobacco	3.6	7.9	2.8
Clothing and footwear	3.6	–2.0	–1.7
Gross rent, fuel and power	21.1	1.6	1.5
Furniture, furnishings and household equipment and operation	5.6	1.3	0.0
Medical care and health expenses	1.9	3.1	2.0
Transport and communication	17.9	0.5	2.1
Recreation, entertainment, education and cultural services	5.8	2.6	0.5
Miscellaneous goods and services	5.6	1.5	0.9
Consumer Price Index by Region			
Peninsular Malaysia		2.9	1.7
Sabah		2.4	0.6
Sarawak		1.6	1.5
Producer Price Index (1989=100)	**100.0**	**–3.3**	**3.1**
Of which:			
Local Production	79.3	–3.9	3.6
Imports	20.7	–0.6	1.1
House Price Index (1990=100)		**–2.3**	**14.3**[1]
Of which:			
Klang Valley		–4.0	13.3
Johor Bahru		3.7	11.3
Penang Island		–3.7	11.7

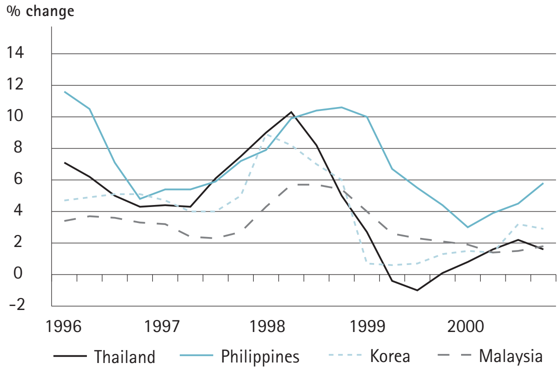
[1] January-June

Source: Department of Statistics, Malaysia
Department of Valuation and Property Services

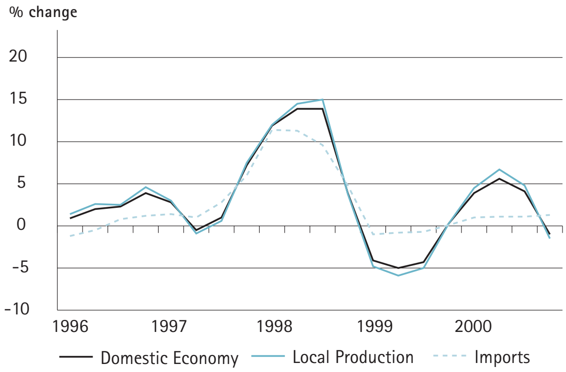
inflation was also lower at 1.3% (1999: 1.6%). Contributory factors included the relative stability of the ringgit exchange rate, low inflation abroad, excess capacity in certain sectors of the domestic economy, expansion programmes undertaken by the sectors that were operating at close to full capacity as well as the lower prices for many commodities.

Graph 1.38
Inflation: Average Annual Rate of Change

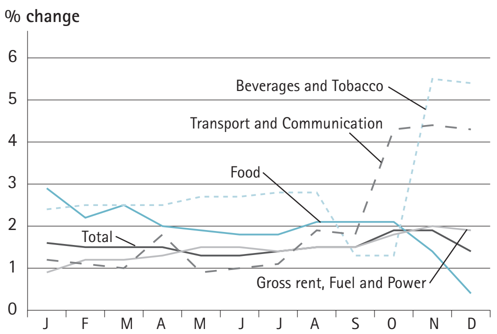
Selected Countries: CPI



Malaysia: Producer Price Index



Consumer Price Index, 2000



There were concerns, particularly in early 2000, that price pressures could emerge during the year as economic growth strengthened and as the impact of higher global oil prices were transmitted to the domestic economy. However,

Inflation remained low, despite one-off price increases in the second half-year.

these fears subsided as inflation moderated from the beginning of 2000 to reach a low of 1.3% in May and June. The increase in bus fares and in the retail price of several petroleum products as well as the higher sales tax rate on alcoholic beverages and cigarettes and tobacco products announced during the year were among the cost-push factors to headline inflation evidenced in the latter half of 2000. The impact of these cost-push factors was reflected in the monthly inflation rates. However, given the low weight of about 9% of these items in the CPI basket, coupled with the minimal increase in price for the petroleum products and the staggered implementation of bus fare increases, the overall inflation was contained at 1.6% in the second half-year.

Abundant food supplies throughout the year given the favourable weather conditions contributed to the more moderate rate of increase in the prices of food items in 2000. Nevertheless, price pressures arising from cyclical and seasonal shortages of certain food items remained a concern, particularly with regard to its impact on the lower income group. While Malaysia's trade policy remained liberal to overcome domestic supply constraints via imports, the Government intensified efforts to promote measures to increase domestic food production as well as services related to the food industry. In this regard, in Budget 2001, the Government provided additional incentives for domestic food production and also for companies providing cold chain facilities and services.

The CPI measures prices of final goods and services that are consumed by the average household in the country. To reflect more accurately the current consumption pattern of the average household in Malaysia, the Department of Statistics would be revising the CPI using expenditure weights derived from the 1998/99 Household Expenditure Survey for all income groups. Using prices that were relatively

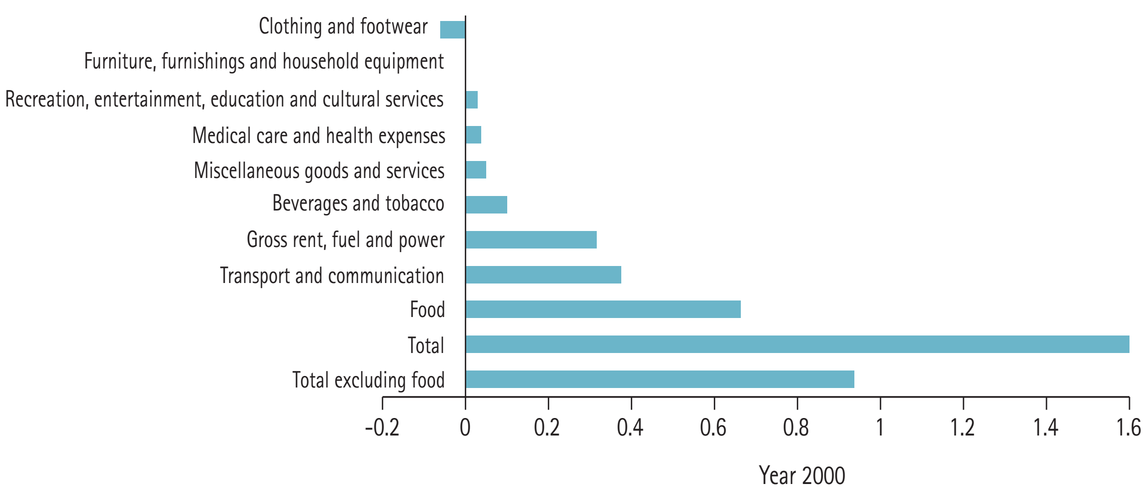
Further details on one-off adjustment in prices in 2000

One-off adjustment in prices for bus fares, petroleum and diesel are captured in the transport and communication group in the CPI basket, while LPG is a component of the gross rent, fuel and power group. Government approval for the bus fare increase was granted in early July 2000. However, actual implementation was staggered over July, August and October as bus operators nation-wide had to comply with the necessary legislative licensing requirements beforehand. The fare increase for Kuala Lumpur and its surrounding areas were only implemented in mid-October after the division of the bus routes concerned into various zones. With effect from 1 October 2000, the Government also approved an increase in the domestic retail pump price of petrol, diesel and cooking LPG. The details are summarised below.

Table 1.19
Retail Price of Petroleum Products Effective 1 October 2000

Product/Region	Old price	Quantum of increase		New price
	Sen per litre	Sen per litre	%	Sen per litre
PENINSULAR MALAYSIA				
Unleaded Petrol (97 Octane)	110	10	9.1	120
Unleaded Petrol (92 Octane)	106	10	9.4	116
Diesel	65.1	5	7.7	70.1
LPG (in sen per kilogramme)	118	10	8.5	128
SABAH				
Unleaded Petrol (97 Octane)	108	10	9.3	118
Unleaded Petrol (92 Octane)	106	10	9.4	116
Diesel	65.4	5	7.6	70.4
LPG (in sen per kilogramme)	126	10	7.9	136
SARAWAK				
Unleaded Petrol (97 Octane)	109	10	9.2	119
Unleaded Petrol (92 Octane)	106	10	9.4	116
Diesel	64.8	5	7.7	69.8
LPG (in sen per kilogramme)	126	10	7.9	136

Graph 1.39
Contribution to Inflation by Main Groups



stable, the weights in the CPI would be further adjusted to base year 2000. Thus, the revised CPI would now use 2000 as the new base year to replace the current CPI that uses 1994 as its base. More details on the revised CPI are available in the chapter on outlook for 2001.

The Producer Price Index (PPI, 1989=100) which measures prices of both intermediate and final goods charged by domestic producers and paid by importers in the country rose moderately by 3.1% in 2000. In the first half of 2000, there was concern that the PPI which was on a rising trend (peaked at 7.3% in June 2000) would eventually translate into higher consumer prices after some time lag. Such fears faded as the rate of increase in the PPI started moderating in the second half-year and declined in November and December. Furthermore, the rise in the PPI was not broad-based across all main groups, but was due more to the low base effect of 1999 (-3.3%) and significantly higher crude oil prices.

Asset prices generally increased in the first half-year, but were weaker thereafter. The Kuala Lumpur Stock Exchange Composite Index (KLSE CI) increased in the first half-year by 2.5%, driven by improving fundamentals, low interest rate environment, expectations of improved corporate earnings and the impending reinstatement of Malaysia into the Morgan Stanley Capital International indices. Despite the rebound in economic growth, the KLSE declined in the second half of 2000 on concerns about the effects of US interest rate increases on US growth and the impact on Asia. For 2000 as a whole, the KLSE CI declined by 16.3%. Property prices, as indicated by the Malaysian House Price Index (MPHI) increased by 14.3% in the first half of 2000, after declining by 2.3% in 1999. Nevertheless, except for certain choice locations, particularly in the Klang Valley, property price levels remained below the peak levels that prevailed in 1997.

Labour Market Developments

Strong economic growth in 2000 led to a strengthened labour market situation but did not create wage pressures. Productivity improvements exceeded increases in wages. The economy continued to operate at full employment level, with a significant presence of foreign workers, both skilled and unskilled.

Employment prospects increased in 2000 and the number of retrenchments declined. By end-year, total employment rose at a higher rate of 4.6% to 9.3 million workers, while the labour force expanded by 4.3% to 9.6 million persons. Given the pick up in demand for labour, the unemployment rate declined further from 3.4% in 1999 to 3.1% in 2000, well below the full employment rate of 4%. Overall, labour productivity improved significantly as capacity utilisation rose to higher levels to cater to an increase in demand for products and services. Although the number of job vacancies reported was almost five times the number of workers retrenched, excessive increases in wages were not recorded.

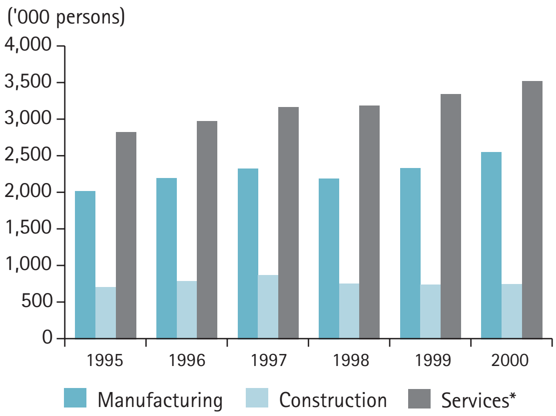
In 2000, the manufacturing sector accounted for the major share of new workers employed (52.7% or 215,600 persons). The majority of new jobs created in the manufacturing sector was concentrated mainly in the assembly and labour-intensive industries, such as wood and wood products; electrical machinery; rubber products; and textiles industries. The services

Table 1.20
Labour Market Indicators

	1996	1997	1998	1999	2000
Labour force ('000)	8,642	9,039	8,849	9,178	9,573
(annual change in %)	4.7	4.6	–2.1	3.7	4.3
Employment (annual change in %)	5.3	4.7	–2.9	3.5	4.6
Unemployment rate (% of labour force)	2.5	2.4	3.2	3.4	3.1
Labour productivity (GDP/Employment)					
(annual change in %)	4.5	2.5	–4.6	2.2	3.8
Real wage per employee in manufacturing sector					
(annual change in %)	6.7	5.9	–2.4	3.0	4.6

Source: Economic Planning Unit
Department of Statistics, Malaysia
Bank Negara Malaysia

Graph 1.40
Employment by Sector



* Excludes Government services.

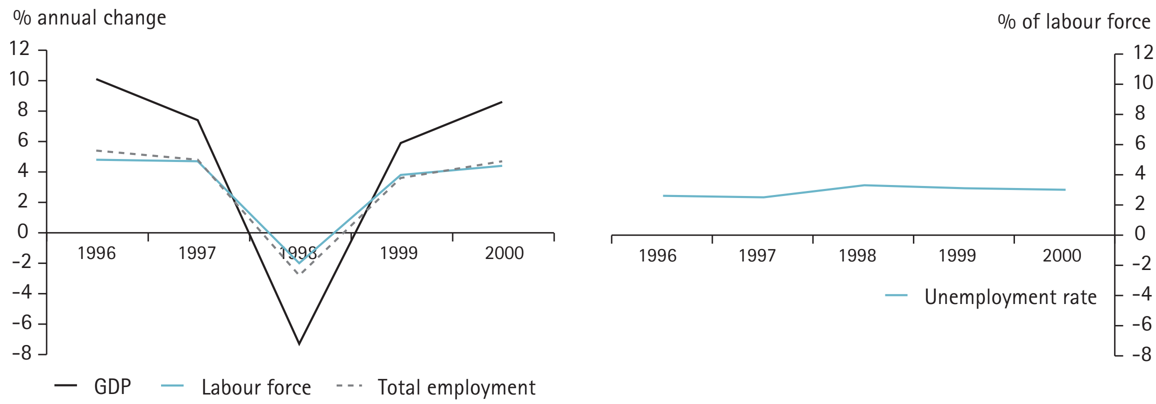
Source: Economic Planning Unit

sector which accounted for the largest share of total employment (48.6%) recorded a pick up in employment by 4.6% to 4.5 million persons. Meanwhile, the increase in both privatised and public infrastructure projects as well as new housing schemes generated 6,200 new jobs in the construction sector.

In line with robust economic growth, labour demand, as reflected by the number of job vacancies reported to the Manpower Department of the Ministry of Human Resources increased further during the year. The total number of job vacancies reported throughout the country increased by 14% to 123,484 vacancies in 2000. The actual number of vacancies could have been higher, as it is not compulsory for firms to report job vacancies to the Manpower Department. More than half of the job vacancies was reported in Sarawak. Penang, Selangor and Johore also reported significant vacancies, but each accounted for less than 10% of total vacancies. The manufacturing sector offered the most job opportunities. Job vacancies in the agriculture sector increased by 29.1% due partly to the continued expansion in agriculture activities in Sarawak, particularly oil palm cultivation. Of significance, job vacancies in the services sector increased by 33.5% after declining by 0.8% in 1999. The increase prevailed in all sub-sectors, with the majority concentrated in the 'other services' (comprising community, social and personal services, private non-profit services to households and domestic services to households) and wholesale and retail trade, hotels and restaurants sub-sectors. Thus, the share of the services sector in total job vacancies increased to 15.9% in 2000 (1999: 13.6%). By occupational group, job vacancies reported by employers were mostly production related (61.2% of the total or 75,552) and agriculture related (21.9% or 27,031). Nonetheless, the rising need for high-end skills resulted in the demand for professionals, technicians and related workers to increase rapidly by 21.4% to 4,055 vacancies in 2000.

The total number of active job seekers registered with the Manpower Department declined by 12.6% to 27,820 as at end-2000. Of the total, 25.7% or 7,144 job seekers reported that they were already in employment, but were seeking new jobs. The rate of emplacements by the Department was higher at 21.9% in 2000,

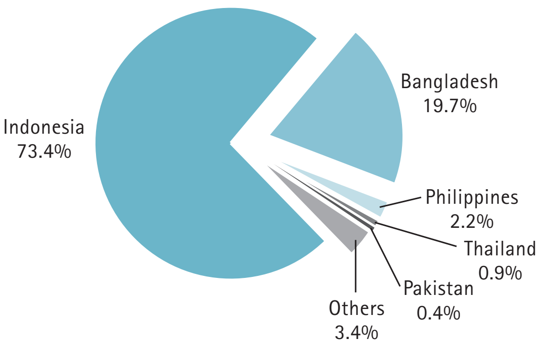
Graph 1.41
Output and Employment



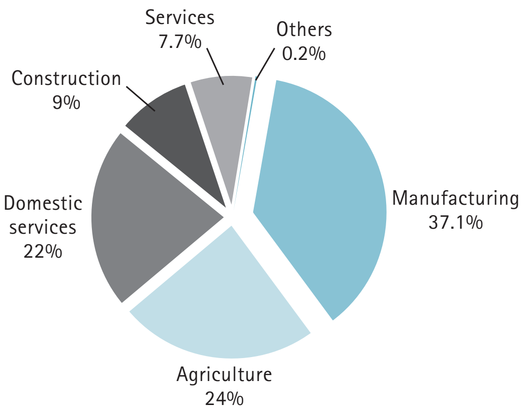
Source: Economic Planning Unit
Bank Negara Malaysia

Graph 1.42
Foreign Workers by Country of Origin and Sector in 2000

Foreign Workers by Country of Origin



Foreign Workers by Sector



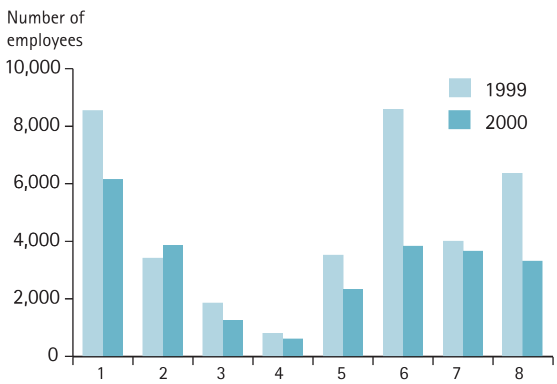
Source: Ministry of Home Affairs

compared with 18.8% in 1999. The total number of emplacements in 2000 included 23.7% or 5,399 of a total of 22,785 retrenched workers who registered with the Ministry. The increase in job opportunities resulted in the further narrowing of the ratio of job seekers to vacancies from 0.29:1 at end-1999 to 0.23:1 at end-2000. In terms of occupation, the most sought-after jobs were clerical related (46.6% of the total or 12,966 persons), production related (25.1% or 6,982 persons) and professional, technical and related jobs (16% or 4,438 persons).

In order to alleviate shortages of semi-skilled and unskilled labour faced by selected employers, the Government approved the recruitment of 230,608 new foreign workers in 2000 (1999: 84,150 workers). In total, the number of registered foreign workers increased by 5.1% to 732,588 workers (1999: 697,219 workers). The majority of foreign workers was engaged in the manufacturing, agriculture and domestic services sectors. In terms of origin, workers from Indonesia and Bangladesh accounted for 73.4% and 19.7%, respectively, of the total foreign workforce. With effect from 2 August 2000, the Government shortened the employment term of foreign workers from a maximum of seven years to three years.

The number of workers retrenched in 2000 declined by 32.4% to 25,244. At the same time, the number of employers involved in retrenchment exercises fell by 56.9% to 889 from 2,064 in 1999. The main reasons cited for retrenchments were the closure of companies, sale of companies, decline in demand for products and restructuring of companies. Lower retrenchments were recorded in all the main sectors of the economy. The majority (60.1%) of the workers retrenched in the manufacturing sector was mainly from the fabricated metal, machinery and equipment industry. Within the services sector, the finance, insurance, real estate and business services sub-sector accounted for the largest share of workers retrenched (53.3%) on account of higher retrenchments by the financial institutions (3,092; 1999: 640). Nonetheless, 2,986 workers retrenched by the banking institutions that were involved in the on going consolidation exercise were re-deployed by the anchor banks of the merged entities. Bank Negara Malaysia had, through moral suasion, indicated that any

Graph 1.43
Reasons for Retrenchments



1 Closure of companies
2 Sale of companies
3 Relocation to foreign countries
4 Relocation locally
5 High production cost
6 Reduction in demand for products
7 Company reorganisation
8 Others

Source: Ministry of Human Resources

Table 1.21
Employment, Job Vacancies and Retrenchments in 2000

	Employment		Job Vacancies[1]		Retrenchments	
	Number ('000 persons)	% share	Number	% share	Number	% share
Total	**9,271**	**100.0**	**123,484**	**100.0**	**25,244**	**100.0**
Agriculture, forestry and fishing	1,408	15.2	31,315	25.4	2,384	9.4
Mining and quarrying	41	0.4	126	0.1	211	0.8
Manufacturing	2,558	27.6	67,480	54.6	13,928	55.2
Construction	755	8.2	4,869	3.9	1,260	5.0
Services	4,509	48.6	19,694	16.0	7,461	29.6
Wholesale and retail trade, hotels and restaurants	*1,584*	*17.1*	*6,789*	*5.5*	*1,865*	*7.4*
Finance, insurance, real estate and business services	*509*	*5.5*	*3,967*	*3.2*	*3,977*	*15.8*
Transport, storage and communication	*462*	*5.0*	*1,905*	*1.6*	*706*	*2.8*
Electricity, gas and water	*75*	*0.8*	*116*	*0.1*	*1*	*0.0*
Social and private services[2]	–	–	–	–	*905*	*3.6*
Other services	*1,879*	*20.2*	*6,917*	*5.6*	*7*	*0.0*

[1] The number of job vacancies could have been under-reported as it is not compulsory for firms to report vancancies to the Manpower Department, Ministry of Human Resources.
[2] For employment and vacancies, data on 'social and private services' are included in 'other services'.

Source: Economic Planning Unit
Ministry of Human Resources

staff rationalisation by the anchor banks should be conducted through the Voluntary Separation Scheme (VSS), in which reasonable compensation should be offered to staff leaving the banking institutions. In 2000, a total of 396 employees and 20 employers in the financial sector were involved in the VSS exercise, compared with 1,830 employees and 34 employers in 1999.

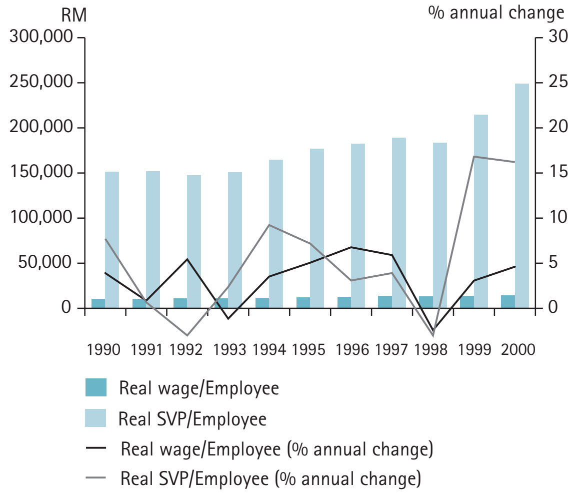
In 2000, the acceleration in economic activity resulted in most employers being able to grant salary increases to employees. Nevertheless, as productivity improvements were generally higher than the growth in real wages, inflationary pressures from wage increases were contained during the year.

- The findings of the survey conducted by the Malaysian Employers Federation (MEF) showed that the average private sector salary had increased by 7% in 2000 from 5.9% in 1999 and 6.2% in 1998. On a sectoral basis, the average salary increase in companies in the non-manufacturing sector was slightly higher (7.6%), compared with companies in the manufacturing sector (6.4%). For those with a basic degree, the average minimum salary offered increased by 1.5% to RM1,663 per month (1999: RM1,638).

- On 1 January 2000, the Government granted a 10% salary adjustment for civil servants, in line with its policy of salary adjustment every five years. In addition, the Government increased housing allowances by 50% for selected categories of civil servants.

- Data on the manufacturing sector from the Department of Statistics showed that on an annual basis, the rate of increase in real wage per employee was 6.2% in the first half-year before moderating to 3% in the second half of 2000. For the year as a whole, real wage per employee increased by 4.6% in 2000 (1999: 3%), significantly lower than the increase of 16.2% in labour

Graph 1.44
Real Productivity and Real Wage Per Employee in the Manufacturing Sector



Source: Department of Statistics
Bank Negara Malaysia

productivity (1999: 16.8%), as measured by real sales value of products (SVP) per employee. Real wage per employee in the export-oriented industries had picked up by 5.9%, whilst labour productivity had increased by 14.2%. Meanwhile, the domestic-oriented industries recorded a smaller real wage increase of 2.9% although labour productivity increased by 19.6%.

The man-days lost due to industrial action were significantly lower in 2000. The number of strikes, whilst stabilising at 11 cases in 2000 involved a substantially lower number of workers (2,969; 1999: 3,452 workers). Seven cases were recorded in the manufacturing sector involving 2,551 workers, compared with six cases involving 2,169 workers in 1999. Meanwhile, in the agriculture sector, only two cases involving 104 workers were recorded, compared with five cases involving 1,283 workers in the preceding year. Two other sectors, namely the transportation and the construction sectors recorded only one case each, involving 250 and 64 workers, respectively. The strikes were due mainly to disputes over terms and conditions of employment (two cases) and infringements of workers' rights/unfair labour practices (two cases).

The number of industrial disputes reported to the Industrial Relations Department declined to 436 cases in 2000 from 505 cases in 1999, and involved a markedly lower number of workers (57,492 workers; 1999: 90,278 workers). The bulk of the disputes centred on the deadlock in the process of collective bargaining (186 cases) and issues relating to terms and conditions of employment (103 cases). On a sectoral basis, the largest declines in the number of disputes were recorded by the services, followed by the manufacturing and agriculture sectors.

As Malaysia forges ahead towards becoming a knowledge-based economy, one of the major challenges confronting the nation in the management of human resources is the need to equip workers with new skills, whilst building a culture of high technology and dynamic entrepreneurship. Given that human resource development remained a national priority, the Government introduced several measures in 2000 to address issues concerning the up-grading of productivity as well as increasing the supply of skilled labour. In this regard, emphasis continued to be placed by the Government on industrial training to meet the increasing demand for high-end skills. In 2000, the existing nine Industrial Training Institutes provided training for 4,995 trainees, while the Centre for Instructors and Advanced Skill Training (CIAST) was involved in the training of 2,106 new instructors. Also, the four advanced training institutes established through joint collaboration between the respective Governments, namely, the German Malaysian Institute (GMI), Malaysian French Institute (MFI), British Malaysian Institute (BMI) and Japan Malaysian Technical Institute (JMTI) recruited 1,268 trainees in 2000.

In enhancing labour mobility during the year, the Ministry of Human Resources had placed 8,121 workers under its programme to increase the mobility of workers with appropriate skills from surplus to deficit areas. An Electronic Labour Exchange Project is expected to be operational by end-2001 to ensure the effective mobilisation of workers. Also, the Ministry had continued to disseminate information on the 1996 Guidelines for a Productivity-Linked Wage System (PLWS) to employers and trade unions in order to improve competitiveness through the promotion of a closer link between wages and productivity performance.

Recognising that continued intellectual development of future generations will drive the

Major Fiscal Incentives in 2001 Budget for the Development of Human Resources

- A sum of RM1.2 billion was allocated to build 14 Industrial Training Institutes and four Advanced Technology Training Centres. The training institutions are expected to be completed in 2001 and cater for 17,000 trainees annually. In addition, 10 National Youth Skills Development Institutes will be completed with a capacity to train 8,950 students annually in various skills. Training centres (Giat Centres) under the Council of Trust for the Indigenous People (MARA) and Skills Development Institutes are expected to expand their capacity to train an additional of 30,370 students in 2001.

- An allocation of RM19.7 billion, accounting for 22.5% of the total Budget allocation (excluding intra-account transfer and contingency reserves) was provided to further develop the education sector, particularly for the following:

  - A total of 167 primary schools, 120 secondary schools and 42 new hostels was proposed to be built by 2001. This is expected to entail an additional number of 11,684 personnel, including 9,424 teachers and 2,260 new staff and benefit about 168,000 students nation-wide;

  - Every school will be provided with between 12 to 43 computers and equipped with multimedia and internet facilities, in line with the computer laboratory programme. To narrow the digital gap between the urban and rural areas, 1,262 computer laboratories will be established in rural schools;

  - The establishment of five new matriculation colleges in Johore, Perak, Pahang, Selangor and Kedah and three new polytechnics in Mersing, Penang and Miri was proposed;

  - A sum of RM3.5 billion was allocated for the public institutions of higher learning. Four new universities were proposed to be built, namely in Malacca, Negeri Sembilan, Pahang and Perlis; and

  - A total of RM1.3 billion was allocated to the National Higher Education Fund for the provision of education loans to more than 125,000 students pursuing diploma and degree courses in both the public and private institutions of higher learning.

- Companies that provide scholarships to students at local institutions of higher learning were granted income tax deductions.

- Income tax relief of RM500 per year was given to individuals for the purchase of books, including text books.

- Tax relief given to individuals for expenses incurred on education was increased from RM2,000 to RM5,000 per year.

- Employees Provident Fund (EPF) contributors intending to further their own education were allowed to withdraw their contributions.

- EPF contributors were allowed to withdraw their contributions to purchase computers for their own use and also for their children's use in institutions of higher learning and schools.

- Government employees were allowed to apply for a computer loan once in every five years.

- New computers given by employers to their employees were no longer deemed as benefit in kind and, hence, not subjected to income tax. Such expenses incurred by the companies were allowed as income tax deductions.

- Incentives were provided to skilled Malaysian citizens working overseas to return to Malaysia, as follows:
  - Income remitted to Malaysia within a period of two years was exempted from income tax;
  - All personal effects brought into Malaysia, including two motorcars, were given tax exemptions; and
  - Spouse and children who are not Malaysian citizens were given permanent resident status within six months.

new economy, the Government provided a number of fiscal incentives in the 2001 Budget. These incentives aimed at skills development, addressing the digital divide and accelerating the acquisition of IT skills by students and workers. These incentives represent initial measures of the longer-term policies to move towards a knowledge-based economy (details in White Box).

In creating a world-class workforce, the Government has stepped up efforts to hire a pool of the best talents and brains from the country and abroad. Incentives were also announced in Budget 2001 to encourage skilled Malaysian citizens working overseas to return to Malaysia (see White Box). As at end-February 2001, 10 out of 19 applications received from Malaysian experts in various fields who wished to return were approved by a special committee set up by the Ministry of Human Resources.

Since its inception in 1993, the Human Resource Development Council (HRDC) which administers the Human Resource Development Fund (HRDF) has approved a total of 2.6 million training places with a total expenditure of RM818.9 million. Funds from the HRDF are channelled for retraining and skills upgrading of workers employed by companies registered with the HRDC. As at end-December 2000, the number of employers registered with the HRDF rose to 7,135 employers, of which 73% were from the manufacturing sector, while 27% were from the services sector. The HRDF collection from a levy imposed on companies (equivalent to a compulsory contribution of 1% of the companies' monthly wage bills, or 0.5% in the case of small- and medium-sized industries (SMIs)) was significantly higher in 2000, amounting to RM186.5 million (RM82.7 million in 1999). A final six-month (12 August 1999 to 11 February 2000) exemption from contributing to the HRDF which was given to companies affected by the recent economic crisis, was only extended to the hotel industry and in-bound travel agency sector.

In 2000, a total of 301,790 training places was approved by the HRDC with financial support of RM113.7 million. Of this, 10.6% or 32,050 of the approved training places, involving financial support of RM17.4 million pertained to IT/computer training. In addition, the HRDC had extended RM1.7 million to employers to purchase computers for staff training. With effect from 16 July 2000, the HRDC had increased its financial assistance to 100% from 75-80% for IT related, technical, craft and quality/productivity related programmes. Whilst financial assistance for all other courses (such as business and management) was increased from 75% to 85%, financial support for overseas courses remained at 50%. On 1 August 2000, the HRDC established a Training Assistance Scheme for SMIs, aimed at encouraging employers of SMIs to intensify worker retraining programmes. As at end-2000, a total of 62 training places was approved with financial assistance of RM30,000. At the same time, the Training Scheme for Retrenched Workers which was set up in May 1998 as a result of the economic crisis had disbursed about 88% of the total allocation of RM5 million to retrain 891 retrenched workers. Also, 3,202 participants had benefited from various Apprenticeship Schemes with financial support of RM15.9 million.

In 2001, the HRDC plans to make 'E-Training' programmes eligible for financial support under the HRDF and establish a Workers' Information Technology Training Scheme with an allocation of RM5 million to train workers in courses relating to information and communication technology. A Skills Development Fund with an allocation of RM140 million that was established by the Ministry of Human Resources became operational on 2 January 2001. The Fund is aimed at providing loans not exceeding RM5,000 per annum to school-leavers and workers to acquire industrial skills.

Large trade surplus and inflows of long-term capital provided sufficient cushion to accommodate short-term capital outflows. Movements in the level of international reserves reflected underlying trade and capital transactions in line with the expansion in economic activities.

External Sector

Balance of Payments

The balance of payments position remained favourable in 2000, with a continued large surplus in the trade balance and sustained inflows of long-term capital. In contrast to developments in 1998 when the trade surplus reflected a significant contraction in imports, a fundamental strength in the trade account in 2000 was the continued buoyant expansion in exports. This was underpinned by a competitive electronics sector and the continued strength in global demand and intra-regional trade. The stable exchange rate enabled industries to respond positively to the increased export demand. The trade balance also benefited from higher oil prices, as Malaysia is a net exporter of petroleum products. As a result, the current account remained fundamentally strong and recorded a large surplus for the third consecutive year. Compared with the exceptionally strong performance in the previous year, however, the surplus in 2000 narrowed to RM31.2 billion or 10% of GNP (17.1% of GNP in 1999). This was a positive development as it reflected the stronger increase in imports to meet the demands of the export sector, capacity expansion investments by the export-oriented manufacturing sector and the services sector, and robust domestic economic activity.

The services deficit also widened during the year, reflecting the overall strong performance in the domestic economy and buoyant trade-related activities. Of significance, the increase in the services deficit was due mainly to higher net payment of investment income that accrued to foreign investors arising from better export earnings. Of these payments of profits and dividends, it is estimated that about one-third is retained in Malaysia for expansion activities. In 2000, services receipts also increased, mainly in the tourism, education and other transportation accounts.

The long-term capital account remained strong in 2000, with sustained inflows of foreign direct

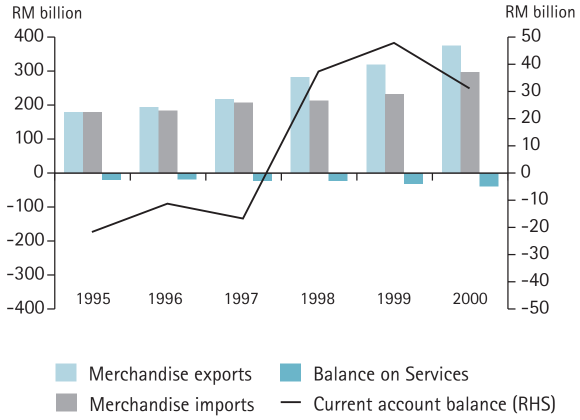
Table 1.22
Balance of Payments

Item	2000e +	2000e –	2000e Net
	RM million		
Merchandise balance (f.o.b)	372,778	293,256	79,522
Trade account	*373,307*	*312,427*	*60,880*
Balance on services	60,721	101,345	–40,624
Balance on goods and services	433,499	394,601	38,898
Unrequited transfers	3,229	10,964	–7,735
Balance on current account	**436,728**	**405,565**	**31,163**
% of GNP			**10**
Official long-term capital			3,961
Private long-term capital			7,510
Balance on long term capital			11,471
Basic balance			**42,634**
Private short-term capital			–36,000
Errors and omissions			–10,337
of which:			
Exchange revaluation loss			*–5,335*
Overall deficit			**–3,703**
Bank Negara Malaysia international reserves, net			**113,541**
(US$ million)			**29,879**

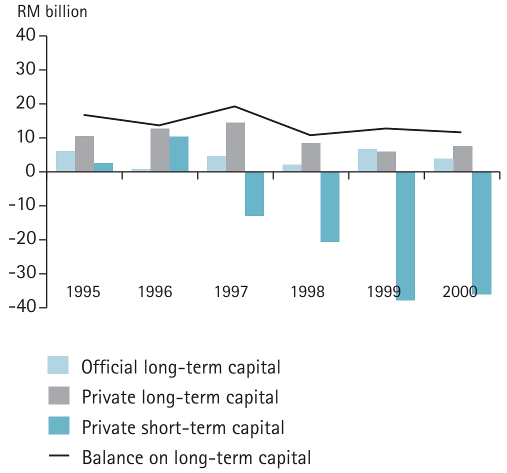
e Estimate

Source: Bank Negara Malaysia and Department of Statistics, Malaysia investment channelled mainly into the high-end electronics and electrical and petrochemical industries as well as the services sector. During the year, net inflows were slightly lower than in 1999 due primarily to significantly higher repayments of external debt by both the Federal Government and the NFPEs, and higher overseas investment. The repayment of debt has

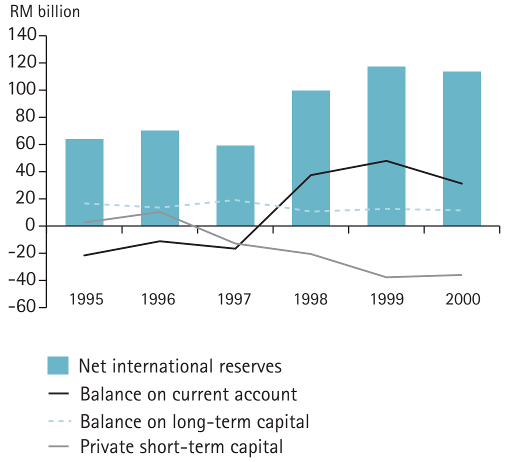
Graph 1.45
Malaysia: Balance of Payments



Capital Flows



Net International Reserves



contributed towards improving the nation's external debt position, thereby reducing the risk exposure to external shocks. Investments abroad by Malaysian corporations were mainly in ventures of strategic benefit to Malaysia in terms of enhancing prospects of foreign exchange earnings from the export of goods and services in the medium term.

The short-term capital account recorded a large net outflow of RM36 billion due to a number of factors, including an increase in the external assets of commercial banks mainly in the form of placements abroad for hedging of trade related transactions and significant repayment of short-term external borrowings by commercial banks and the non-bank private sector. Part of the outflows also reflected the normal leads and lags in the repatriation of export proceeds by the exporters as well as increased trade credit extended to foreign importers, prompted by higher interest rates abroad. Outflows of portfolio capital in 2000 have been lower than in previous years. In the early part of the year, there were substantial net inflows of portfolio funds amounting to RM8.3 billion (US$2.2 billion). However, investor concern over overall uncertainty and volatility in the global financial markets led to outflows of portfolio capital from the region, including Malaysia. As a result, the liquidation and repatriation of portfolio investments by foreign investors in the second half-year amounted to RM12.3 billion (US$3.2 billion). Nevertheless, the large surplus in the basic balance (current account surplus and long-term capital account inflows) provided sufficient cushion to accommodate these short-term capital outflows.

Errors and omissions amounted to RM10.3 billion, reflecting a revaluation book loss of RM5.3 billion due to the appreciation of the US dollar against the major currencies. Excluding the book loss, the errors and omissions of RM5 billion reflects the normal errors and inconsistencies that occur in the course of compilation of the balance of payments statistics. This represented less than one percent of the total merchandise trade which is well within the accepted norm of 5% of total merchandise trade. After adjusting for errors and omissions, the overall balance of payments position recorded a deficit of RM3.7 billion or

US$1 billion. Consequently, the international reserves of BNM was lower at RM113.5 billion (US$29.9 billion) at end-2000.

The movements in the level of reserves in 2000 essentially reflected underlying trade transactions and capital flows due to a stronger economy. In addition, there has been some decentralisation of reserves as some export earnings were maintained in foreign currency accounts with banks in Malaysia. While reserves had declined, Malaysia's external liquidity position had strengthened because of the decline in short-term external debt. The level of reserves at US$29.9 billion remained high and represented 6.5 times the short-term external debt at end-2000, compared with 5.1 times at end-1999. After taking into account the medium and long-term debt due in the next 12 months, the reserve level is more than three times larger than the short-term debt.

The performance of the **trade account** remained favourable in 2000, recording a surplus for the third consecutive year on the back of buoyant external demand for electronics, electrical appliances and other manufactured exports from the United States and Asia Pacific region. Nevertheless, with imports increasing at a faster pace (25.7%) relative to exports (16.1%), the trade surplus, while large, narrowed to RM60.9 billion (US$16 billion). In tandem with favourable conditions in the world economy and further expansion in world trade, Malaysia's total trade expanded by 20.3% to RM686 billion to

Table 1.23
External Trade

	1999	2000	1999	2000
	RM billion		US$ billion	
Gross exports (f.o.b)	**321.6**	**373.3**	**84.6**	**98.2**
Annual change (%)	12.2	16.1	15.5	16.1
	Annual change (%)			
Volume[1]	19.7	11.6	19.7	11.6
Prices[1]	–5.6	6.2	–2.7	6.2
Gross imports (c.i.f)	**248.5**	**312.4**	**65.4**	**82.2**
Annual change (%)	8.9	25.7	12.2	25.7
	Annual change (%)			
Volume[1]	14.9	18.6	14.9	18.6
Prices[1]	–5.2	6.0	–2.4	6.0
Trade balance	**73.1**	**60.9**	**19.2**	**16.0**

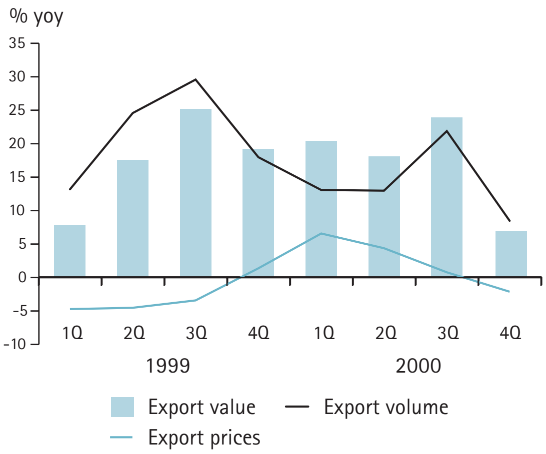
[1] Volume and prices are estimates.

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

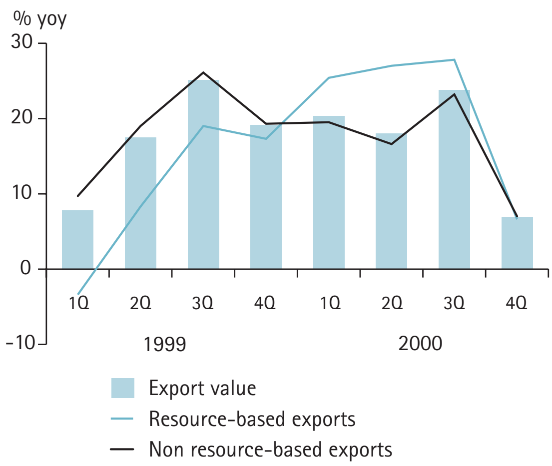
account for 221% of GNP in 2000 (1999: 204% of GNP).

Total gross exports remained buoyant in 2000, increasing further by 16.1% to RM373.3 billion (US$98.2 billion). The strong increase was due to both recovery in export prices and further increase in export volume. Export growth emanated mainly from sustained strong global demand for manufactured goods, particularly electronics and electrical products, and the robust expansion in oil-based manufactured products, as well as higher proceeds from mineral exports attributed to the higher price for crude oil. On the other hand, receipts from

Graph 1.46
Export Performance of the Manufacturing Sector



Graph 1.47
Export Performance of Resource-Based and Non Resource-Based Industries



agriculture exports declined mainly on account of a further decline in palm oil exports. Growth in imports accelerated to 25.7% to reach RM312.4 billion (US$82.2 billion), reflecting both higher import prices and volume. The increase in import volume was underpinned by strong demand for intermediate goods and capital goods, mainly for the export sector.

Reflecting the developments in the trade account, the **merchandise account** recorded a large surplus of RM79.5 billion (1999: RM86.5 billion).

Sustained demand from the major industrial countries and economies in the region continued to support growth of **manufactured exports** in 2000. Reflecting the continued broad-based expansion, exports of both the non-resource and resource-based industries, especially those producing electronic and electrical products, furniture, chemical products and petroleum products rose further and contributed favourably to growth. During the year, exports of manufactured goods recorded a stronger growth of 17% (1999: 14.3%), with its share increasing further to account for 85.2% of total gross exports (1999: 84.5%). The increase in export receipts was derived from the higher export volume and higher average prices for 2000.

While Malaysian exporters were continuing to improve on areas to raise their international competitiveness, including productivity, product quality and reliability of service, efforts undertaken to consolidate and restructure business operations to enhance cost effectiveness have also allowed the exporters to better position themselves in an increasingly competitive international market.

Table: 1.24
Gross Exports

	2000*p*		
	RM million	Annual change (%)	% share
Manufacturing sector	**317,937**	**17.0**	**85.2**
of which:			
Electronics, electrical machinery and appliances	230,425	18.1	61.7
Electronics	166,807	15.1	44.7
Semiconductor	*71,071*	*8.5*	*19.0*
Electronic equipment and parts	*95,737*	*20.6*	*25.6*
Electrical machinery and appliances	63,618	26.8	17.0
Consumer electrical products	*26,499*	*22.0*	*7.1*
Industrial and commercial electrical products	*23,633*	*43.2*	*6.3*
Electrical industrial machinery and equipment	*12,584*	*13.3*	*3.4*
Household electrical appliances	*903*	*8.8*	*0.2*
Textiles, clothing and footwear	10,388	9.7	2.8
Chemicals and chemical products	15,033	35.4	4.0
Wood products	6,801	–2.6	1.8
Manufactures of metal	8,618	9.6	2.3
Transport equipment	2,894	–43.4	0.8
Rubber products	4,740	-6.3	1.3
Optical and scientific equipment	6,828	41.3	1.8
Agricultural sector	**22,913**	**–17.2**	**6.1**
of which:			
Palm oil	*9,948*	*–31.3*	*2.7*
Sawn timber	*3,020*	*7.6*	*0.8*
Saw logs	*2,489*	*–6.5*	*0.7*
Rubber	*2,571*	*9.7*	*0.7*
Minerals	**26,800**	**55.8**	**7.2**
of which:			
Crude oil	*14,241*	*53.0*	*3.8*
LNG	*11,300*	*78.0*	*3.0*
Tin	*435*	*–11.4*	*0.1*
Other	**5,657**	**14.1**	**1.5**
Total	**373,307**	**16.1**	**100.0**

p Preliminary

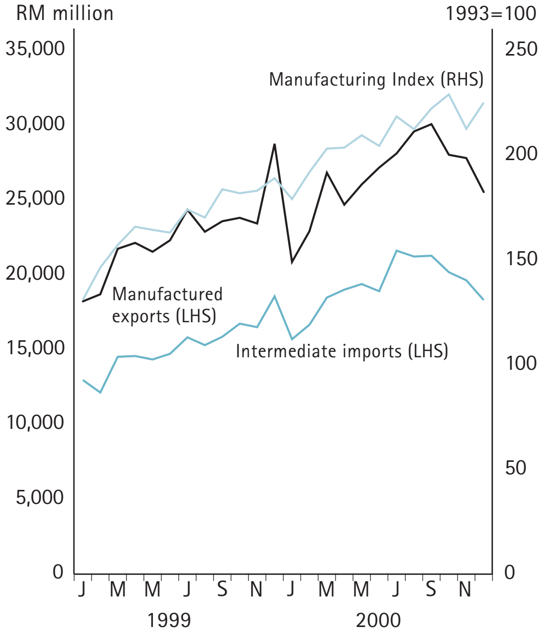
Source: Bank Negara Malaysia and Department of Statistics, Malaysia

Exports from the commodity sector turned around to record a growth of 10.8% or RM49.7 billion due entirely to a marked increase in mineral exports. Higher receipts from **minerals** were largely contributed by increased exports of crude oil and LNG. While the volume of crude oil exported was lower given domestic supply constraints, the marked increase in the price of crude oil led to higher export earnings from the commodity. Exports of oil contributed 9.5% to the increase in export receipts, compared with an average of about 2% in recent years. LNG exports also increased, reflecting both higher export price and export volume.

Export proceeds from **agricultural products** were lower in 2000 due to sharply lower receipts from palm oil, reflecting primarily a lower export price, due to global oversupplies of vegetable oils. Higher import duties imposed by traditional markets (India and Pakistan) also affected export volume. Similarly, saw log exports declined during the year. On the other hand, export receipts from sawn timber and rubber were marginally higher, contributed by higher export volume and export unit value.

Gross imports increased strongly by 25.7% in 2000 and across all categories. The growth momentum in imports was mainly supported by the strong demand for imports of intermediate goods and capital goods. Imports were mainly for expansion in manufacturing production in response to stronger economic performance. Imports of capital goods also increased as investment activity picked up, particularly in the manufacturing and services sectors.

Graph 1.48
Manufacturing Production, Exports and Intermediate Imports



Imports of **intermediate goods** expanded by 25.6%, accounting for 73.8% of total imports. Higher imports were mainly for parts and accessories of capital goods and processed industrial supplies (which rose by 25.8% and 17.4% respectively), both of which are primarily used as component parts in the production of manufactured exports. Of significance was the higher imports of parts and accessories of capital goods which contributed about 45% of the total increase in imports. The main items contributing to the increase in this major sub-group were imports of electronic component parts and telecommunication parts and accessories. These are inputs required for the production of semiconductors and electronic equipment and parts, which experienced strong increases in overseas sales orders during the year. These items comprised about three-quarters of imports of parts and accessories of capital goods and 33% of total imports, underlining the importance of the electronics industry as the main driver of manufacturing production and economic growth during the year.

Another significant factor was the strong increase in intermediate imports that were related to the manufacture of goods for the domestic market. In particular, the value of imports of primary and processed fuels and lubricants doubled during the year, reflecting international price developments for crude oil and higher volumes due to increased demand from domestic users. In line with the strong performance of the motor assembly industry and passenger car sales, imports of parts and accessories of transport equipment also rose significantly by 49.1%.

While intermediate imports were the main driver of import growth, imports of **capital goods** also had a significant impact, contributing 23.8% of the overall increase in imports. Reflecting the recovery in investment activities, imports of capital goods increased strongly by 47.7% in 2000. As a result, the

Table 1.25
Gross Imports by End Use

	2000*p*		
	RM million	Annual change (%)	% share
Capital goods	**47,064**	**47.7**	**15.1**
Capital goods (except transport equipment)	44,762	57.7	14.3
Industrial machinery and equipment	*19,441*	*46.2*	*6.2*
Office equipment	*5,000*	*17.7*	*1.6*
Telecommunication equipment	*3,534*	*118.8*	*1.1*
Transport equipment	2,303	–34.0	0.7
Intermediate goods	**230,611**	**25.6**	**73.8**
Food and beverages, mainly for industry	3,869	–3.3	1.2
Industrial supplies, n.e.s.	69,086	17.4	22.1
Metals and metal products	*18,732*	*12.4*	*6.0*
Chemicals	*7,742*	*29.8*	*2.5*
Fuels and lubricants	12,084	102.9	3.9
Parts and accessories of capital goods (except transport equipment)	141,347	25.8	45.2
Electronics	*94,839*	*27.7*	*30.4*
Parts and accessories of telecommunication equipment	*8,646*	*33.1*	*2.8*
Parts and accessories of transport equipment	4,224	49.1	1.4
Consumption goods	**17,372**	**17.2**	**5.6**
Food and beverages, mainly for household consumption	6,463	6.7	2.1
Transport equipment, non-industrial	101	12.4	0.0
Consumer goods, n.e.s.	10,808	24.5	3.5
Consumer durables	*2,196*	*39.8*	*0.7*
Consumer semi-durables	*4,482*	*39.5*	*1.4*
Consumer non-durables	*4,130*	*5.9*	*1.3*
Dual use goods	**6,391**	**29.5**	**2.0**
Motor spirit	2,467	51.3	0.8
Passenger motor cars	3,924	18.8	1.3
Others	**4,679**	**6.0**	**1.5**
Re-exports	**6,309**	**–28.4**	**2.0**
Gross Imports	**312,427**	**25.7**	**100.0**

p Preliminary

n.e.s: Not elsewhere specified

Source: Department of Statistics, Malaysia and Bank Negara Malaysia.

share of capital goods increased to 15.1% of total imports (12.8% in 1999). Investment in new growth areas such as information and communications technology (ICT) and capacity expansion activities in response to rising capacity utilisation, especially by the export-oriented manufacturing sector, underpinned the robust growth in capital imports. Some of the big value capital imports included industrial machinery and equipment for manufacturing; generators, turbines and electrical motors for power generation; telecommunication equipment and office equipment. On the other hand, imports of industrial transport equipment declined further due mainly to lower imports of aircraft and ships as the major transportation companies consolidated following significant expansion programmes in recent years. This had more than offset higher imports of commercial vehicles and buses which increased by 16.4% in line with robust economic activities.

Consonant with the recovery in private consumption following higher disposable income and improved consumer confidence, imports of **consumption goods** continued its uptrend, increasing by 17.2% in 2000. However, the imports of consumption goods account for a small share of total imports (5.6%). The growth in consumption imports was due mainly to higher imports of consumer goods and, to a lesser extent, imports of food and beverages. Durable items which increased significantly included audio and video equipment (55.3%) and furniture (56.3%), while growth in imports of household electrical goods such as washing machines, electric stoves and refrigerators stabilised after recording strong double-digit increases in 1999. Semi-durable consumer imports that increased significantly included clothing and footwear; household furnishings and tapes and records. Imports of non-durable goods increased modestly, with higher imports of soaps and cosmetics partly offset by lower imports of medicines. Imports of **dual use goods** increased strongly due to the higher imports of motor spirits reflecting high oil prices, and higher imports of passenger motorcars.

Malaysia's trade pattern remained relatively unchanged in 2000. The United States, Japan, Singapore and the European Union were the major **trade partners,** accounting for 64.3% of Malaysia's total trade. The **United States** remained Malaysia's most important trade partner, although its share of total trade declined further to 18.7% (1999: 19.9%). While imports from the US increased strongly (19.7%), due in part to higher import prices, US demand for Malaysian goods moderated (8.8%) in part due to high base effects, particularly in the fourth quarter, in tandem with the slowdown in the US economy towards end-2000 and slower sales in the global electronics industry. As a result, the bilateral surplus in Malaysia's favour, while still large, declined to RM24.7 billion (1999: RM27.1 billion).

Japan maintained its position as the second most important trade partner. Its share increased to 16.7% of total trade (1999: 15.6%), due to strong increases in both exports and imports. Japan strengthened its position as Malaysia's most important source of imports, increasing its market share further to 21.1% of total imports. This reflected the significant increase in imports, particularly imports of machinery, electronics and electrical components and parts and accessories of transport equipment. Exports to Japan also expanded strongly by 30.7%, reflecting to a large extent increased exports receipts from mineral fuels on the back of higher crude oil and LNG prices. Nevertheless, the traditional trade deficit with Japan widened to RM17.1 billion (1999: RM14.5 billion).

Singapore remained Malaysia's third most important trade partner, accounting for a higher share of 16.5% of total trade, compared with 15.4% in 1999. Increased intra-regional trade activities and higher out-sourcing by the regional offices based in the Republic contributed to a higher share of exports bound for Singapore. As

Table 1.26
Direction of External Trade

	2000*p*				
	Exports		Imports		Trade balance
	RM million	% share	RM million	% share	RM million
Selected South-East-Asian countries	97,905	26.2	74,701	23.9	23,204
Singapore	68,592	18.4	44,704	14.3	23,888
Thailand	13,492	3.6	12,067	3.9	1,425
Indonesia	6,488	1.7	8,622	2.8	–2,134
Philippines	6,561	1.8	7,565	2.4	–1,004
Other ASEAN countries	2,772	0.7	1,743	0.5	1,029
European Union	51,026	13.7	33,692	10.8	17,334
United Kingdom	11,572	3.1	6,102	2.0	5,470
Germany	9,333	2.5	9,276	3.0	57
Netherlands	15,612	4.2	2,209	0.7	13,403
Other EU countries	14,509	3.9	16,105	5.1	–1,596
United States	76,584	20.5	51,863	16.6	24,721
Japan	48,742	13.1	65,860	21.1	–17,118
The People's Republic of China	11,506	3.1	12,310	3.9	–804
Hong Kong SAR	16,872	4.5	8,602	2.8	8,270
Taiwan	14,226	3.8	17,521	5.6	–3,295
South Korea	12,383	3.3	13,921	4.5	–1,538
India	7,314	2.0	2,755	0.9	4,559
Australia	9,217	2.5	6,096	2.0	3,121
Rest of the world	27,532	7.3	25,106	7.9	2,426
Total	**373,307**	**100.0**	**312,427**	**100.0**	**60,880**

p Preliminary

Source: Department of Statistics, Malaysia a result, the trade surplus with Singapore increased to RM23.9 billion. Meanwhile, trade with the **European Union (EU)** declined slightly in relative importance from 13.9% of total trade in 1999 to 12.4% in 2000. Exports to the EU stabilised at about the 1999 level amidst the strong expansion in Malaysia's total exports. The value of imports from the EU increased by 16.3%, but, its importance as a source of imports declined slightly.

The trade pattern with several other East Asian countries displayed mixed trends, reflecting the domestic economic developments in partner countries and the trend among manufacturers and traders in placing increased importance on global out-sourcing based on cost effectiveness. Generally, bilateral trade with several ASEAN trade partners expanded during the year. The share of exports to the East Asian countries recording strong economic growth, including the People's Republic of China, Hong Kong SAR and Korea, improved further in 2000. However, as importers continued to source inputs from lower cost suppliers, Malaysia experienced a trade deficit with the People's Republic of China for the first time since 1997, and with the Philippines and Indonesia.

For the third consecutive year, the sustained strong surplus in the merchandise account generated sufficient foreign exchange earnings to finance the higher deficit in the services and **transfers accounts.** In 2000, the net outflow in the transfers account increased to RM7.7 billion. The increase reflected higher repatriation by a larger number of foreign workers in the country. The number of registered foreign workers rose to 732,588 workers compared with 697,219 persons in 1999, largely to meet the demand for labour particularly in the export-oriented manufacturing and services sectors.

The **services account** deficit widened to RM40.6 billion or 13.1% of GNP in 2000 as a result of increased demand for imported services in tandem with the significant expansion in external trade and the higher level of domestic economic activity. Gross payments expanded at a faster pace of 18.7% relative to gross receipts which also increased strongly by 14%. As in previous years, the higher deficit reflected larger net payments of investment income accruing to foreign investors and higher freight and

Table 1.27
Services Account

Subsector	1999	2000e		
	RM billion			
	Net	+	–	Net
Freight and insurance	–9.4	5.7	18.5	–12.8
Other transportation	1.9	7.9	5.9	2.0
Travel and education	6.1	17.7	8.0	9.7
Investment income	–20.3	6.9	34.9	–28.0
Government transactions, n.i.e	...	0.4	0.4	...
Other services	–10.4	22.1	33.6	–11.5
Balance on services				
RM billion	**–32.1**	**60.7**	**101.3**	**–40.6**
US$ billion	**–8.5**	**16.0**	**26.7**	**–10.7**
% of GNP	–11.5			–13.1
% of GNP[1]	–8.9			–10.2

[1] Adjusted to exclude the portion of profits and dividends which are retained in the country.
e Estimate

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

insurance as well as other services payments. Meanwhile, significant improvement in net receipts was recorded in the travel and education as well as other transportation accounts. The services deficit would be considerably less at 10.2% of GNP when adjusted to exclude the portion of profits and dividends due to foreign investors that were retained for capacity expansion in Malaysia.

Net payments in the **investment income** account (comprising interest income and profits and dividends) increased by 36.2% to RM28 billion and remained the largest contributor to the deficit in the services account. The larger deficit reflected mainly higher profits and dividends accruing to the foreign direct investors, particularly in the export-oriented electronics and electrical industries and the oil sector, which enjoyed strong earnings on the back of buoyant global demand and the surge in oil prices in the second half of 2000. Nevertheless, the actual outflow of investment income was considerably lower as a significant portion of the profits and dividends were retained by the investors in the country for capacity expansion.

In contrast to the previous three years, the interest income component recorded a surplus position, which contributed to the narrowing of the deficit in the investment income account. The higher returns from the external assets of Bank Negara Malaysia and the corporate sector (including commercial banks) more than offset the marginally higher interest payments on the external debt.

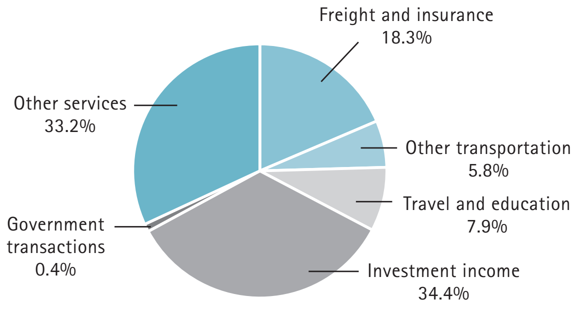
Other services account also posted a higher deficit of RM11.5 billion, stemming mainly from higher payments for contract and professional charges, royalties and agency fees. The deterioration reflected the increase in demand for foreign professional and consultancy services, especially in areas relating to ICT enhancement and mergers and restructuring exercises in the corporate, banking and financial services sectors. Export earnings from contract and professional services offered by Malaysians to foreigners, which have been on an uptrend since the mid-1990s, stabilised in 2000. Receipts from professional services remained large, totalling RM8.8 billion. Such export services provided by Malaysians were diversified across a broad spectrum, namely business services, administration and operating services, technical services and construction and installation.

The strong expansion in external trade, together with adjustment in freight rates by the international shipping lines arising from higher fuel cost, resulted in the **freight and insurance** account recording significantly larger net payments of RM12.8 billion. The higher payments were partly offset by improved earnings from cargo services provided by major domestic shipping companies and the national airline.
The net surplus in the **travel and education** account expanded by 58.7% to RM9.7 billion.

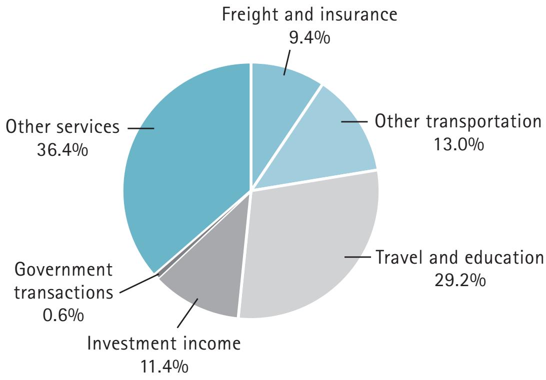
While the increase in gross payments was moderate, gross receipts recorded significant increases in both the tourism and the education accounts. Net inflows from tourism expanded further, benefiting mainly from a marked increase in tourist arrivals which reached a record of 10.2 million visitors (1999: 7.9 million). Tourist receipts (including excursionists) reached an unprecedented level of RM17.4 billion in 2000. The 29.6% increase in receipts reflected the success of well targeted promotional efforts and policies, including intensified promotion in the high potential and niche markets (including the People's Republic of China, India, Middle-East countries, US and Europe), relaxation on rulings for tourist visa requirements, the hosting of major international conventions and sports events and shopping carnivals to promote the country as a shopping haven. Of significance, the Formula One race event attracted an estimated 90,000 visitors, generating about RM1 billion in foreign exchange earnings.

Meanwhile, the measures put in place in the mid-1990s to establish Malaysia as a regional centre for education also yielded positive results as education receipts improved by 60%. The total number of foreign students at all levels of education (comprising tertiary, secondary and primary education) in both public and private institutions increased to 26,649 students (1999: 20,175 students). Students from Indonesia, the People's Republic of China, Singapore and India accounted for the bulk of the foreign students in Malaysia.

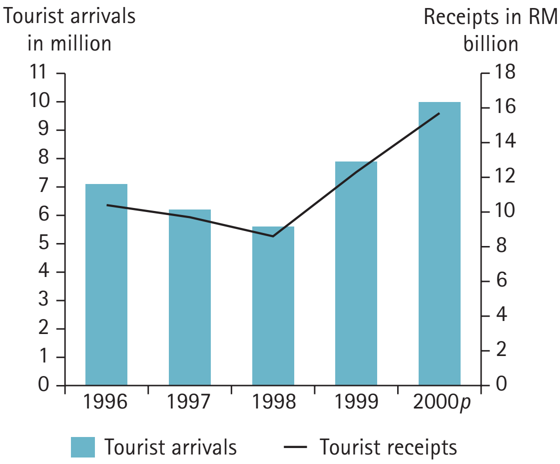
Graph 1.49
2000: Components of Gross Payments in the Services Account (% share)



Graph 1.50
2000: Components of Gross Receipts in the Services Account (% share)



Graph 1.51
Tourist Arrivals and Tourist Receipts



p Preliminary

On the gross payments front, higher income level, increased business activities overseas and improved prospects contributed to a further increase in expenditure on overseas travel and foreign education, which rose by 6.4% to RM8 billion. Nevertheless, in US dollar terms, the outflow of US$2.1 billion was contained below the pre-crisis level of US$2.6 billion in 1997. The active promotion of domestic tourism activities and higher student intake at local universities and private colleges have somewhat mitigated such outflows.

The net surplus in the **other transportation** account also improved as a result of higher receipts from passenger fares earned by Malaysian airline companies and increased earnings from port and airport related activities and charter services in tandem with higher business and tourist travel and buoyant external trade. In particular, container throughput of five major ports (namely Port Klang, Johor Port and Port of Tanjung Pelepas, Penang Port, Kuantan Port and Bintulu Port) increased significantly by 32.1% to 5.1 million TEUs in 2000. The higher earnings were largely due to strategic initiatives undertaken by the Government to provide world-class port facilities and services to enhance the attractiveness and competitiveness of the major local ports as regional transhipment hubs.

In the **capital account,** the net inflow of long-term capital was slightly lower at RM11.5 billion in 2000 due entirely to higher repayments of external borrowings by the public sector. Inflow of private long-term capital, however, increased. The developments in the long-term capital account in 2000 reflected the country's commitment to contain the external debt level within prudent levels. Hence, while the positive balance in the long-term capital account was lower compared with 1999, the risk exposure to external shocks was also reduced. Investments in the economy were higher in 2000 but these were financed mainly through domestic non-inflationary sources or through new foreign equity and reinvested earnings, rather than external loans.

The **official long-term capital account** registered a lower net inflow of RM4 billion in 2000, as higher repayments by both the Federal Government and the non-financial public enterprises (NFPEs) more than offset the new loans raised abroad. The Federal Government maintained a policy of keeping debt levels low. Therefore, access to long-term funds in the international capital markets in 2000 was made only to establish market presence and to set a benchmark rate for Malaysian corporations. The US$1 billion

Table 1.28
Balance of Payments: Capital Account

	1999	2000*e*	1999	2000*e*
	RM billion		US$ billion	
Official long-term capital	**6.7**	**4.0**	**1.8**	**1.0**
Federal Government				
Gross borrowing	4.8	4.8	1.3	1.3
Repayment	1.8	3.9	0.5	1.0
Net	2.9	0.9	0.8	0.2
NFPEs				
Gross borrowing	6.1	6.9	1.6	1.8
Repayment	2.2	3.8	0.6	1.0
Net	3.9	3.2	1.0	0.8
Others	–0.1	–0.1	...	...
Private long-term capital (net)	**5.9**	**7.5**	**1.6**	**2.0**
Foreign direct investment in Malaysia by foreigners	14.8	14.7	3.9	3.9
Foreign direct investment abroad by Malaysians	–5.4	–7.7	–1.4	–2.0
Borrowings by resident controlled companies	–3.5	0.6	–0.9	0.1
Balance on long-term capital	**12.6**	**11.5**	**3.3**	**3.0**
Private short-term capital (net)	**–37.7**	**–36.0**	**–9.9**	**–9.5**
Commercial banks	–10.9	–6.2	–2.9	–1.6
Other	–26.8	–29.8	–7.1	–7.8

e Estimates

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Notes due 2009 was reopened by US$500 million and an inaugural Euro650 million Notes was launched. At the same time, repayments by the Federal Government were significantly higher during the year due mainly to the maturity of a US$200 million Yankee bond raised in 1990 and the redemption of the bulk of the US$650 million floating rate notes raised in 1985.

The NFPEs increased their gross borrowings in 2000, to finance domestic capital expenditure and overseas investments as well as to refinance the more expensive loans. The new borrowings included the issuance of a 10-year global bond by a subsidiary of Telekom. However, the net external borrowing of the NFPEs were lower than in the previous year as the scheduled repayments and prepayments were markedly higher.

The net inflow of **private long-term capital** increased to RM7.5 billion in 2000. **Foreign direct investment** (FDI) inflows remained stable at RM14.7 billion in 2000 or 4.7% of GNP. The main source of funds continued to be in the form of reinvested earnings, which accounted for about 60% of FDI, followed by new equity which accounted for a share of 39%, while the balance was in the form of inter-company borrowings. The new inflows of equity reflected mainly funds brought by foreign investors for the purpose of expansion and diversification of projects and setting up of new strategic alliances with Malaysian partners, including the acquisition of 30% stakes in two major ports following the liberalisation of foreign equity ownership policy in selected services sub-sectors. As a result, unlike the previous years whereby the bulk of the FDI was channelled into the manufacturing sector, the higher inflows in 2000 were mainly channelled into the services sector, which accounted for a 45% share of total FDI inflows during the year. FDI in the manufacturing sector accounted for 33% and the oil and gas sector, 22%. Investment into the services sector was mainly channelled into the financial, insurance and business services sector, ports as well as into the Multimedia Super Corridor. Amidst ample liquidity in the domestic economy and higher interest rates abroad, borrowings by non-residents from parent and associated companies declined markedly.
In terms of investments in manufacturing projects, the value of proposed foreign investments approved by the Ministry of International Trade and Industry increased to RM19.8 billion in 2000 (1999: RM12.3 billion). This reflected the continued strong level of confidence and commitment among existing foreign investors to invest in the country. This was indicated by the higher value of approvals for expansion and diversification projects, which increased to RM10.9 billion (1999: RM6.2 billion). Several export-oriented industries which were operating at full capacity are undertaking expansion programs. Several other existing companies in Malaysia are moving up the value chain to produce advanced and high technology products, particularly the high-end electronic and electrical products as well as petrochemical products. These companies were also attracted by the special Pre-Package Incentives provided by the Government and targeted at bringing in quality investment that would enhance competitiveness. In terms of sources of investment, the US, Japan, the Netherlands and Singapore remain as the top investors during the year. Within the oil and gas sector, the US and the Netherlands continued to remain the major foreign investors in the country. In addition to the higher approvals in manufacturing projects, approvals for foreign investment in the Multimedia Super Corridor by the Multimedia Development Corporation (MDC) more than doubled to RM4.2 billion in 2000, compared with RM2 billion during the period 1997-99.

In 2000, **overseas investment** by Malaysian companies increased to RM7.7 billion. This reflected higher investment by the Malaysian-owned companies in a move to expand their operations worldwide or to acquire more advanced technology. In addition, the higher overseas investment also reflected the higher loans extended by the non-resident controlled companies (NRCCs) to their related companies abroad. Among the investments by the Malaysian-owned companies, a large part was undertaken by the NFPEs and was channelled into the oil and gas sector as well as telecommunication sector, mainly in Sudan, Iran, Thailand and Ghana. Other companies invested mainly in investment holding companies (to seek investment opportunities in other countries) and the agriculture sector.

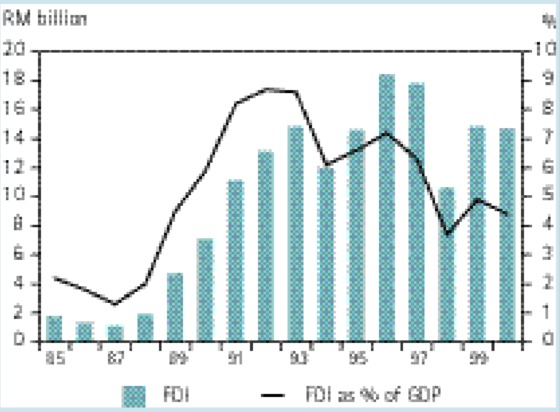
Box I

A Perspective of Foreign Direct Investment in Malaysia

In the past two decades, Malaysia has received large and sustained inflows of foreign direct investment (FDI) which have been driven by international developments, economic fundamentals, official policies and structural changes in the economy. The open and liberal trading regime, sound macroeconomic management and long-term vision to accelerate the industrialisation process created a conducive investment environment for both domestic and foreign investors. Equally important was the further liberalisation of domestic regulations. In 1986, the Government liberalised the foreign equity ownership and introduced the Promotion of Investments Act, 1986 to provide generous fiscal incentives. These measures were part of the overall package to promote private business initiative and enterprise to achieve long-term growth with further diversification of the economy. On the international front, the sharp appreciation of the Japanese yen following the Plaza Accord (1985) and subsequently the currencies of the NIEs, and the high cost of production and shortages of labour in the NIEs led to relocation of industries to developing countries, including Malaysia.

At its peak in 1992-93, FDI accounted for 8.7% of GDP. These inflows moderated, thereafter, but remained high at around 6.6% of GDP in the period 1994-97. FDI inflows declined to below 4% of GDP in 1998 due to a combination of factors: global excess capacity, domestic problems in the major investor countries and continued uncertainty in the region. However, the stability and certainty accorded by the selective exchange control rules and the fixed exchange rate, together with the Government's commitment to maintain a pro-business environment contributed to the continued commitment of several multinational corporations to long-term investment in the country. As a result, FDI increased to account for 4.9% of GDP in 1999 and stabilised at about the same level in 2000. In 2000, applications received for manufacturing investment rose significantly to RM29.7 billion from RM9 billion in 1999. The value of approved investment in manufacturing projects also increased significantly to RM19.8 billion compared to RM12.3 billion in 1999, while approvals for foreign investment in the Multimedia Super Corridor increased to RM4.2 billion (1999: RM1.1 billion). These companies were attracted by the new strategies that have been put in place to attract the FDI into promoted sectors, consistent with Malaysia's growth strategies. In view of the strong competition for FDI, the Government will continue to implement measures and strategies to make Malaysia an attractive and profitable centre for investment.

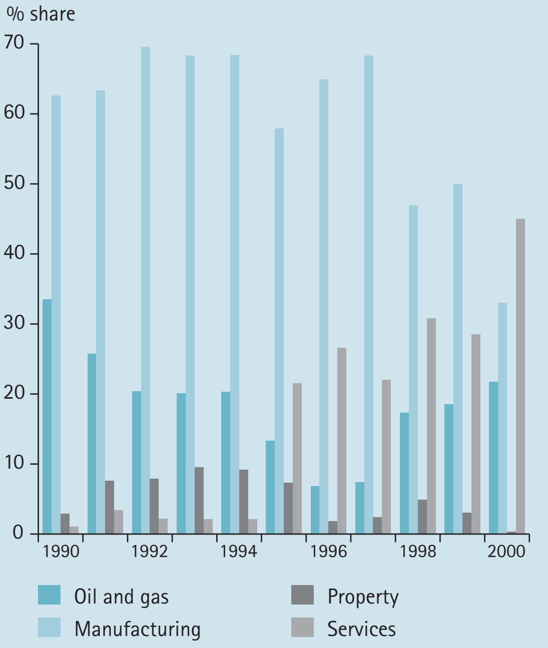
Graph I.1
Foreign Direct Investment Inflows to Malaysia



Much of the FDI inflows into Malaysia during the period 1990-97 were channelled into the manufacturing sector, which accounted for about 65% of the total FDI inflows, followed by oil and gas (18%), services (10%) and property (7%) sectors. While FDI inflows continued to be significant in the manufacturing and in the oil and gas sectors, FDI into the services related activities has expanded more rapidly over the recent period. Since 1998, FDI has been more broad-based. The share of FDI in the manufacturing sector has declined to about 43% of total FDI inflows in the period 1998-2000. The share of the oil and gas sector has remained sizeable at 19% of total FDI. The share of investment in the services sector has increased to 35%, reflecting mainly investment in the financial services, trading and marketing, communication and IT-related services. The residual share is taken up by investments in the property sector.

In terms of components, the bulk of FDI inflows since the early 1990s is in the form of retained earnings which accounted for about 50% of the FDI inflows, followed by new equity inflows

Graph I.2
Foreign Direct Investment (Share by Sector)

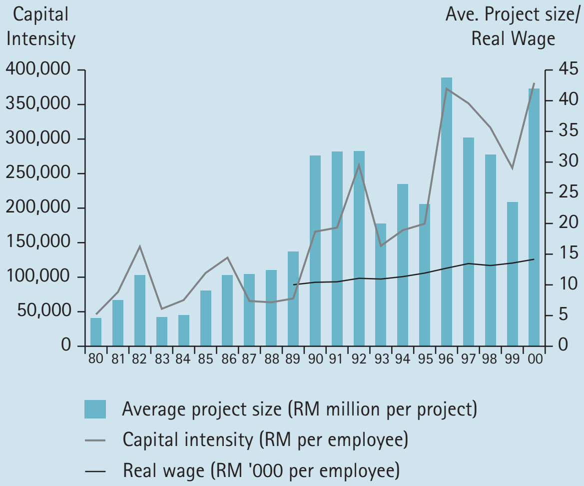


(36%) and loans (14%). The high share of retained earnings is the result of incentives directed at encouraging reinvestment by investors already in Malaysia.

Prior to the crisis, the major investing countries were Japan, Singapore, the United States, Taiwan and the United Kingdom. The period after the Asian financial crisis saw some significant shifts in terms of major investing countries. Countries which increased their share of investment into the country were the United States, followed by Japan, Germany and Singapore.

In terms of total private investment in the manufacturing sector, foreign companies accounted for about 60% of the total manufacturing investment prior to the Asian crisis before declining to about 40% in the recent period. During the early 1980s, large multinationals invested in import-substitution industries, manufacturing simple consumer and intermediate goods such as electrical household appliances and assembly of electronic components, cars and motorcycles. The actual FDI inflows and capital intensity of new investments increased in the 1990s as Malaysia began to attract more investments in capital-intensive and high value-added products (Graph I.3). This structural shift was reflected in the increased value of approved foreign investment in the manufacturing sector, mainly the higher

Graph I.3
Capital Intensity and Project Size



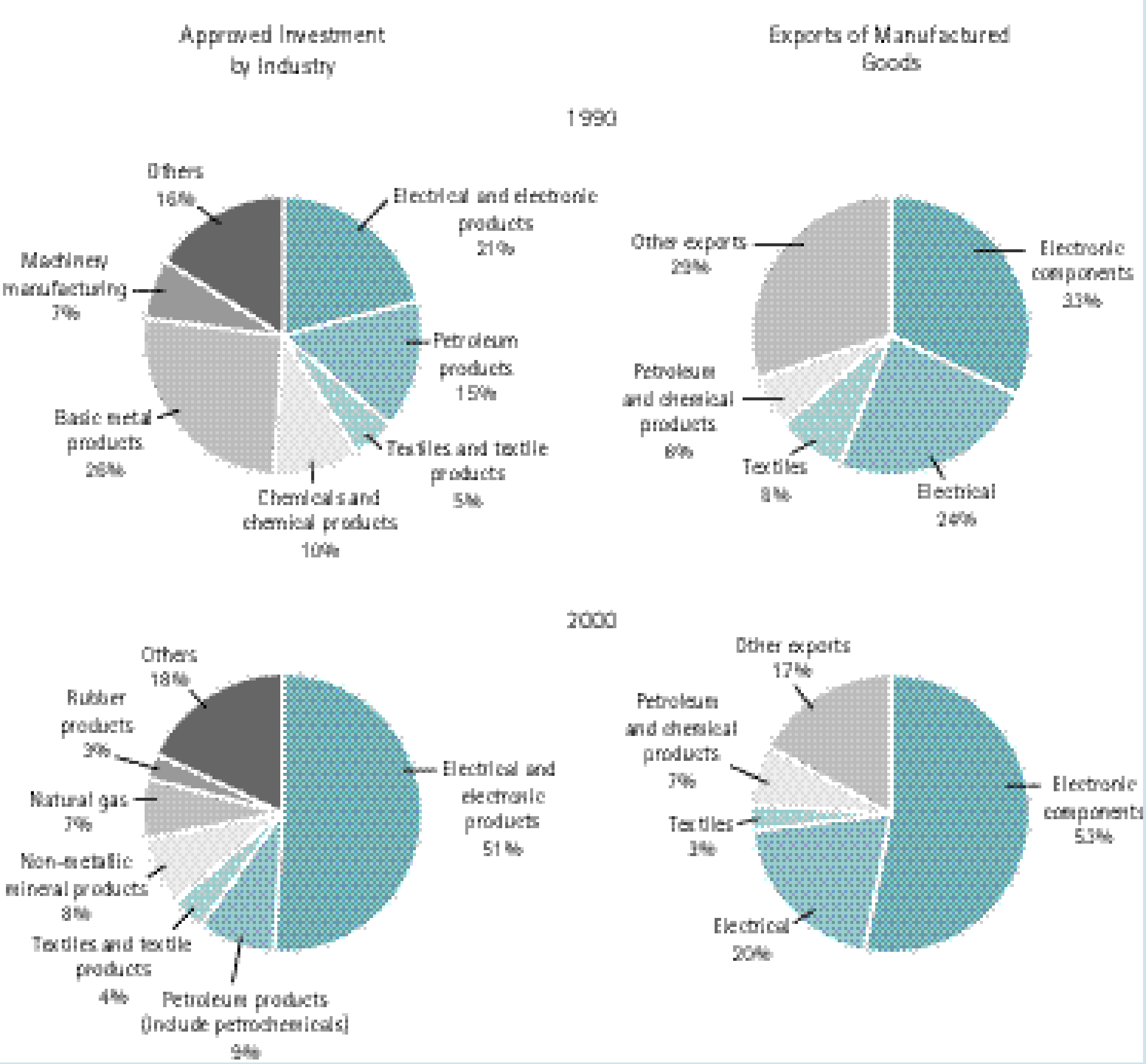
approvals for investment in electrical and electronic industries as well as chemical and petrochemical industries.

By the mid-1990s, labour market conditions tightened and it became evident that Malaysia no longer had a comparative advantage in labour-intensive manufacturing operations. The strategy had also shifted to promote high technology and high value-added industries. In November 1995, the Ministry of International Trade and Industry issued a guideline defining labour–intensive industries as a first step towards identifying more capital-intensive projects. As a general rule, projects with capital investment per employee of less than RM55,000 were no longer considered for manufacturing licences, unless under specific considerations. The Second Industrial Master Plan launched in the mid-1990s also represented an important milestone in the nation's push towards higher value-added and technology-driven industries.

The changes in the investment pattern in the manufacturing sector during the 1990s were reflected in the changing pattern of exports. Graph I.4 shows exports of higher technology products, particularly electrical and electronic products, increased significantly in 2000 in line with higher investment in the industry.

Relative to countries in the region, foreign presence in Malaysian industries has been significant even before the crisis. In the manufacturing sector, foreign content is not limited while in the services sector, foreigners have large shareholdings. In the financial sector, for example, there are already fourteen

Graph I.4
Approved Foreign Investment by Industry and Exports of Manufactured Goods in 1990 and 2000



100% foreign owned banks in Malaysia. The policy response to the crisis, therefore, did not have to focus on further liberalisation or sale of assets to foreigners. Nevertheless, acquisitions by foreigners were encouraged in several areas. Examples were in the telecommunication and the cement industries. Following this strategy, FDI into Malaysia since the crisis represented mainly investment in new production and expansion of capacity, and was less associated with mergers and acquisitions. Foreign investment in the oil and gas sector was more significant, accounting for about 80% of the total investment in this sector. However, the share declined to about 70% after the crisis period. These inflows were for investment in exploration, development and production activities by international oil companies. While there is a foreign equity ownership limit in the services sector, the Government has liberalised the equity limit in certain services, consistent with the needs of the economy and where it is judged that liberalisation will bring benefits to the economy. The best example is the companies that have been granted Multimedia Super Corridor (MSC) status, where 100% foreign equity is allowed. At present, there are 40 world-class companies in the MSC, close to the Government's target of having 50 companies operating in the MSC by 2003. Investor sentiment has strengthened in 2000. Approvals for foreign investment in the MSC by the Multimedia Development Corporation (MDC) more than doubled to RM4.2 billion during the year compared with RM2 billion during 1997-99.

While new entry into the banking sector is limited to an aggregate foreign shareholding of 30% in the existing Malaysian-controlled banks, the Malaysian financial sector already has a significant foreign presence. Overall, foreigners currently account for about 20% of the total shareholders' funds of the banking sector. More importantly, the foreign banks have garnered 25% of the banking sector's market share in terms of total assets and total deposits as at end-2000. Foreign presence also features significantly in the Malaysian insurance industry, with the shareholders' funds amounting to about 40% of the total shareholders' funds of the insurance industry. Despite the high foreign presence in the financial sector, Malaysia is committed to a gradual and progressive liberalisation of the sector. Malaysia has made substantial commitments to liberalise the financial sector under the General Agreement on Trade in Services of the World Trade Organisation that was ratified on 29 January 1999. Among the commitments are: to increase the foreign equity limit in the insurance companies from 30% to 51% under certain conditions; to issue six new licences for life reinsurance; to allow 100% foreign equity in fund management companies; and to liberalise offshore investment banking, offshore insurance and offshore financial leasing.

In the non-financial services sector, the Government has also liberalised the equity ownership policy in selected industries such as telecommunications (from 30% to 61%)[1] , forwarding agencies (from 30% to 49%), and shipping agencies (from 49% to 70%). In addition, the Government also encourages strategic alliances or joint-ventures between Malaysian and foreign companies in other services industries. In the recent 2001 Budget, the Government had announced that foreign participation is allowed not only by way of foreign equity holdings, but also at the management level in sectors such as energy, ports and the airline industry. In this regard, several key corporations in the services sector are currently engaged in negotiations with foreign parties. While conclusion has not been reached in some of the negotiations, there were several successful acquisitions and strategic alliances in recent years. These included the acquisition of stakes in Binariang by the British Telecom (1998), Port of Tanjung Pelepas by Maersk-Sealand (2000) and Westport by Hutchison Port Holdings (2000).

Reflecting the increased foreign participation in the services sector, either through acquisitions or increased investment in other services-related activities such as financial services, trading and marketing and information and communications technology, the share of foreign investment to total investment in the services sector increased significantly from about 5% prior to the crisis to more than 50% in recent years.

Malaysia's success in attracting a significant level of FDI in the past two decades can be attributed to both the domestic "pull" factors as well as external "push" factors. The Government will continue to provide a conducive investment environment to attract a sustainable level of FDI, while at the same time, ensure that policies are in place to ensure that there will be mutual benefits gained from the FDI. Going forward, the challenge will be to attract investment in higher knowledge content activities, in order to transform Malaysia into a knowledge-based economy so as to remain competitive.

In the knowledge-driven economy, information and communication technologies (ICT) will play an important role to help improve productivity and efficiency. In this respect, in addition to encouraging investment into the production of more advanced and high technology products, priority is also given to encourage companies to engage in ICT, research and development (R & D), product design, sales and distribution. Investment in services activities such as R & D and product design would require more intellectual capital rather than fixed capital. In this regard, there is a shift in foreign investment towards skills in technology. To meet the demand for skilled workers, the Government has offered incentives to attract talent from abroad. Meanwhile, on the domestic front, to attract FDI, the focus is to provide the required workforce that is more skilled in ICT to meet the future needs of investors. Human resource has become an important thrust of the education and human resource development policy. Efforts will focus on upgrading the quality of education and to promote lifelong learning. Curriculum are being reoriented to incorporate ICT and encourage R & D. At the same time, there will be measures

[1] In this case, foreign equity should be reduced to 49% after 5 years.

to promote continuous training and retraining by both the private and public sectors.

With increasing competition for FDI and the opening up of investment regimes by other countries, the Government will continue to fine-tune investment policies and strategies to attract the right kind of FDI from both new and existing foreign investors.
On the macroeconomic front, policy priorities are stability in financial markets and a low inflation environment. This is important to protect the value of long-term foreign investments in Malaysia.

The Government's current policy stance is that FDI should not only increase the nation's stock of capital, but also play a role in increasing the nation's competitiveness. Some of the areas earmarked for further growth include the manufacture of high value-added resource-based products, higher value-added electronics, petrochemical products and in the Multimedia Super Corridor. A high level committee has been established at the Ministry of Finance to formulate a special package of incentives to meet the specific needs of individual investors who wish to invest in identified priority areas. In this way, Malaysia aims to attract investment in these identified niche areas.

The Government has also set up a special implementation and coordination unit in the Malaysian Industrial Development Authority to ensure the smooth implementation of planning, operation, expansion, diversification and approval of manufacturing projects in the country. In addition, efforts are also being made to promote Malaysia as the regional hub for multinational operations and manufacturing-related services including the setting up of International Procurement Centres, Operational Headquarters and regional offices.

Since most of the capital-intensive industries have already established their presence in Malaysia, it is expected that there will be less big investment projects in the near term. The country is now targeting FDI in the higher knowledge content activities such as in the MSC and in the medium-sized industries, with special technology which involve high intellectual capital and low capital investment. In view of this, the future FDI inflows in value terms may not be as large as in the 1990s.

However, the right kind of FDI together with higher productivity and improved efficiency will be able to generate higher value-added output that will contribute towards a sustainable level of growth in the future.

Private long-term capital in the form of **loans by the resident-controlled companies** (RCCs) recorded a small net inflow of RM0.6 billion during the year. These borrowings were mainly for the purpose of debt restructuring and to finance domestic and overseas investment as well as other capital expenditure.

The **short-term capital account** continued to record a net outflow amounting to RM36 billion in 2000, due to a number of factors. A large part of the outflows represented an increase in the external assets of commercial banks, mainly in the form of inter-bank placements abroad. This reflected increased hedging activities by the importers following the higher imports during the year. There was also significant repayment of short-term inter-bank borrowings by the commercial banks. The non-bank private sector also repaid their short-term debt. In addition, higher interest rates abroad prompted an increase in trade credit extended to foreign importers as well as maintenance of export proceeds abroad up to the maximum six month period from the date of exports.

The outflows in the short-term capital account also included net outflows of portfolio capital although these outflows were slightly lower than a year ago. In the first five months of 2000, the net inflow of funds for portfolio investment amounted to RM8.3 billion. These inflows of funds were prompted by the impending reinstatement of Malaysia in the Morgan Stanley Capital International (MSCI) indices at end-May 2000. However, investors' concern over overall uncertainty and volatility in the global financial markets as well as domestic developments led to outflows of portfolio funds amounting to RM12.3 billion in the period between June and December 2000.

External Debt

Two years after the Asian crisis, Malaysia's external debt position continues to improve and remains low relative to other emerging economies. In addition, the public sector share of external debt remains low. The approach adopted has been to balance the need to contain debt levels in order to reduce vulnerabilities to external shocks with the need to accord the private sector flexibility to obtain least cost financing to fund economic activities.

Within this perspective, the framework for prudent external debt management has been set from a macro perspective to reduce risk exposure to global interest rate shocks, adverse exchange rate movements and shifts in investor sentiment. In the context of these objectives, Malaysia continued to actively manage its external debt to ensure that the debt level is contained within prudent levels, without impinging on the ability of the private sector to have access to long-term funding from competitive sources in the international capital and financial markets. Debt management is also guided by the objective to maintain debt service payments consistent with the economy's debt servicing capacity over the medium term, by ensuring that foreign loans are utilised to finance productive activities that will generate foreign exchange revenue to service the debt. Companies are encouraged to diversify their borrowing in terms of currencies, debt instruments, markets and creditors in order to achieve a more balanced debt profile to spread risks. It would also enable the lengthening of the maturity profile, smoothen the bunching of repayment and maintain continued access for corporations in international capital markets.

Prudent external debt management policy was reflected in the continued improvement in the external debt position of the nation. In 2000, the external debt position strengthened in terms

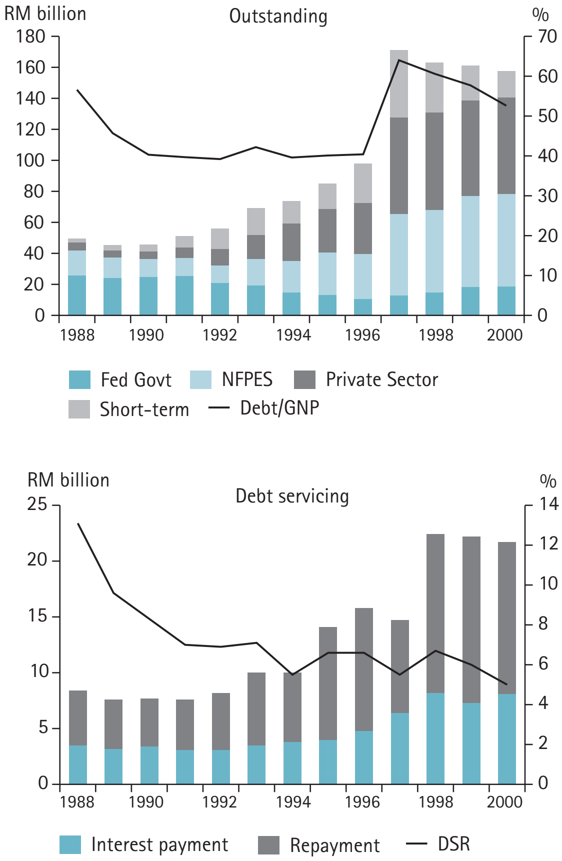
Table 1.29
Outstanding External Debt

	1999		2000*p*	
	RM million	US$ million	RM million	US$ million
Total debt	**161,606**	**42,528**	**156,953**	**41,303**
Medium and long-term	*138,743*	*36,511*	*139,418*	*36,689*
Short-term [1]	*22,863*	*6,017*	*17,535*	*4,614*
As % of total debt	*14*	*14*	*11*	*11*
As % of international reserves	*19.5*	*19.5*	*15.4*	*15.4*
As % of GNP				
Total debt	57.8	57.8	50.5	50.5
Medium and long-term debt	49.6	49.6	44.9	44.9
As % of exports of goods and services				
Total debt	43.4	43.4	36.2	36.2
Medium and long-term debt	37.3	37.3	32.2	32.2
Debt service ratio (%)	**6.0**	**6.0**	**5.0**	**5.0**

[1] Refers to bank and non-bank private sector short-term debt.
p Preliminary

of a further reduction in the overall debt level and continued improvement in the maturity profile. The nation's **total external debt** outstanding declined by 3% to RM157 billion (US$41.3 billion) at the end of 2000, due mainly to the reduction in the short-term debt and, to a lesser extent, the revaluation gains arising from the stronger ringgit. The improvement in the debt situation in 2000 was reflected in several debt indicators. The ratio of external debt to GNP and to exports declined from 58% and 43% at end-1999 to 51% and 36% respectively at end-2000. The maturity structure of the debt has lengthened with the share of short-term debt comprising only 11% of total external debt, while 70% of the medium and long-term debt were of remaining maturity of more than three years. In addition, the international liquidity ratio, which measures international reserves against the short-term debt (including longer-term debt falling due within one year), is well over 300%. Prudent debt management has improved the external liquidity position, thereby reducing Malaysia's vulnerability to external shocks.

Graph 1.52
External Debt



The Federal Government's external debt accounted for a low share of total external debt (12%), providing the Government with more flexibility in policy options. The non-financial public enterprises (NFPEs) accounted for a share of 38% of the total debt, while the private sector accounted for the bulk of the debt (50%) with the non-resident controlled companies accounting for a large share of this debt. These are mainly export-oriented companies, which have a natural hedge against currency risk.

The **short-term external debt** has been relatively small and, even at its peak in 1996, it constituted only 26% of the total external debt. In 2000, short-term external debt declined for the third consecutive year, by 23% to RM17.5 billion (US$4.6 billion). The short-term debt is mainly in the form of short-term borrowing by banks, revolving credits and inter-company loans. Ample liquidity in the domestic banking system and higher interest rates abroad contributed to lower demand for external financing. Consequently, the ratio of short-term debt to total external debt declined to 11% from 14% in 1999. Similarly, the ratio of short-term debt to international reserves fell to 15.4% from 19.5% in 1999. Including medium and long-term debt falling due within 12 months, short-term debt would amount to RM32.9 billion or US$8.7 billion, less than one third the level of international reserves.

External borrowing of medium and long-term loans recorded a lower net inflow of RM4.7 billion in 2000 (1999: RM5.1 billion). The public sector, comprising the Federal Government and the NFPEs, registered a net inflow of RM4 billion (1999: RM6.8 billion) while the private sector recorded a small net inflow of RM0.7 billion after recording net repayments in 1999. However, an exchange revaluation gain of about RM4 billion arising from the appreciation of ringgit against the Japanese yen and selected major currencies moderated the increase in ringgit terms. Hence, the total **medium and long-term external debt** recorded a marginal increase of 0.5% to RM139.4 billion at the end of 2000. In United States dollar terms, the medium and long-term debt amounted to US$36.7 billion.

The **currency composition** of medium and long-term debt continued to be dominated by United States dollars with a share of 72% of debt outstanding at the end of 2000. Reflecting the increased drawdown of US dollar loans and diversification of borrowing to euro loans as well as the depreciation of yen, the share of yen denominated debt declined to 18% (1999: 21%). The remaining 10% of the debt was accounted for by other international currencies, including the French franc, Singapore dollar, euro and pound sterling. The currency composition of liabilities generally corresponds closely with the currency composition of earnings, providing a natural hedge against currency risks.

Overall **debt servicing** (including prepayment) increased by 5.8% to RM24 billion, due to the higher repayments and the interest payments. The increase in principal repayments was partly due to the prepayment of some of the more expensive loans by the NFPEs and the exercising of the put option on a Federal Government bond, as well as the maturity of bond issues that were raised in the early 1990s. With the higher export growth, the total debt service ratio (excluding prepayments) declined to 5% from 6% in 1999.

Public sector external debt: The **Federal Government's** external debt increased by 2.5% to RM18.8 billion at the end of 2000, to account for a share of 12% of total external debt. Gross borrowings stabilised at RM4.8 billion, largely from the issuance of US$500 million through the reopening of the US$1 billion Notes due 2009, issuance of Euro650 million Notes due 2005 and the drawdown of loans offered under the Miyazawa Initiative as well as project loans from multilateral institutions. Repayments during the year increased significantly to RM3.9 billion, including the maturing of a US$200 million Yankee Bond as well as redemption of the bulk (US$617.17 million) of the US$650 million floating rate notes raised in 1985.

As in previous years, the Federal Government's funding requirements were primarily met from domestic non-inflationary sources. Nevertheless, the Federal Government also tapped the international capital markets in September and November 2000, in order to establish market presence, diversify Malaysia's investor base and set a benchmark rate to facilitate the corporate sector's access to European and other international capital markets. As the reopening offer was oversubscribed by three times, the size of the issue was increased from the initial offer of US$350 million to US$500 million. The Federal Government also launched its inaugural five-year EURO650 million Notes at a coupon of 102 basis point over Euribor swap rate. The issue was oversubscribed by two times.

Reflecting the improvement in Malaysia's fundamentals, in September 2000, Standard and Poor's revised its outlook on Malaysia's sovereign foreign currency debt rating to "positive" from stable, while reaffirming Malaysia's BBB foreign currency debt rating. Similarly, in October 2000, Moody's Investor Services upgraded Malaysia's foreign currency rating by one notch to Baa2 and assigned a stable rating to its outlook. Interest rate spreads of Malaysian benchmark securities remained relatively stable at about 225 basis points over US Treasuries at end-2000.

The **NFPEs** continued to access long-term funds from the international markets to finance their capital investment, including business expansion overseas as well as to refinance their more expensive existing offshore loans. Despite new loans, the outstanding debt of the NFPEs increased marginally by 1.4% to RM59.5 billion at the end of 2000. This reflected large repayments in 2000 in light of higher rates abroad. The NFPE debt was also moderated by an exchange revaluation gain of RM2.3 billion. Gross inflows of external borrowing increased to RM6.9 billion (1999: RM6.1 billion), mainly raised by Telekom Malaysia Berhad, Petronas, Tenaga Nasional Berhad, and First Silicon (Malaysia) Sdn. Bhd. Telekom via its wholly-owned unit TM Global Inc, launched a US$300 million (RM1.1 billion) 10-year global bond at a coupon rate of 8% to meet capital requirements of the Telekom group. Loans drawndown under the Miyazawa Initiative by Bank Industri and Bank Pembangunan for export financing facilities and infrastructure projects were not significant (RM398 million). The NFPEs as a group recorded a lower net inflow of RM3.1 billion as repayments increased by 70%, reflecting some refinancing of loans to take advantage of better interest rate spreads due to Malaysia's improved credit rating.

Private sector external debt: Despite robust economic activity and the strengthening of investment activity, demand for longer-term external loans by the private sector was lower at RM8.8 billion (1999: RM9.6 billion) in the face of higher interest rates abroad and the increased availability of domestic funding including internally generated funds from higher export earnings. The non-resident controlled companies accounted for about 56% of the loans, sourcing the borrowing largely from offshore shareholders and parent and associate companies. Such loans were generally of longer maturity, with more flexible terms and at concessionary interest rates. A large share of the external borrowing was to finance investment projects and joint ventures abroad. Such foreign borrowings are naturally hedged, with earnings in foreign currency to service the debt. Meanwhile, as part of active debt management to reduce debt servicing cost, some companies continued to restructure their debt by refinancing their more expensive loans through the issuance of private debt securities. Repayments were lower during the year (RM8.2 billion; 1999: RM11.3 billion), resulting in a small net inflow of external loans of RM0.7 billion, compared with a net repayment of RM1.7 billion in 1999. Reflecting these developments and together with an exchange revaluation gain of RM1.3 billion, private sector external debt outstanding declined marginally by 1% to RM61.1 billion at end-2000.

To improve data transparency, steps have been taken to improve data dissemination on debt. Bank Negara's Monthly Statistical Bulletin includes disclosure on Federal Government debt by remaining maturity and currency. Under the Special Data Dissemination Standards (SDDS) on international reserves, data on predetermined short-term inflows and outflows attributable to the Federal Government's external debt is released to the public monthly with a one month lag. In addition, contingent liability on the Federal Government's external debt falling due within 12 months, is also published.

The policy on external debt is supplemented by a framework for monitoring the national external debt level. The debt monitoring system enables the authorities to know the overall debt level, the structure of the debt as well as the servicing obligations of both the public and private sectors. Private sector companies and the NFPEs are also required to submit quarterly reports on their external debt position to BNM. In order to provide a more comprehensive coverage of external debt statistics enabling policy makers to assess the country's external vulnerability, BNM is embarking on a new statistical system. The new system will further enhance the collection, compilation and dissemination of external debt data to meet the new SDDS external debt data requirement, consistent with the framework for international investment position statistics in the fifth edition of the Balance of Payment Manual. The separate data category for external debt under the SDDS will be introduced by the IMF for reporting end-June 2003 debt position, by end-September 2003.

International Reserves

The **net international reserves** held by BNM (comprising gold and foreign exchange holdings, IMF reserves position and holdings of Special Drawing Rights (SDR)) increased significantly in the first four months of the year before moderating during the remaining part of the year. For the year as a whole, the net international reserves declined by RM3.7 billion or US$1 billion to RM113.5 billion (US$29.9 billion) as at end-2000. The level of reserves remains high, increasing by US$9.7 billion since August 1998. Of significance is that the reserves are usable and unencumbered. In addition, BNM does not engage in options in foreign currencies vis-à-vis the ringgit, and there are no foreign currency loans with embedded options. There are also no undrawn, unconditional line of credit provided by or to other central banks, international organisations, banks and other financial institutions.

During the year, there were substantial trade and long-term capital inflows, which were able to

Graph 1.53
Net International Reserves

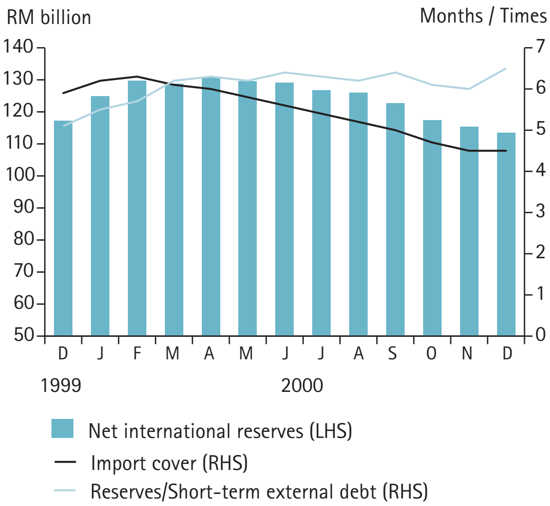


Table 1.30
Net International Reserves

	As at end			Change
	1998	1999	2000	2000
	RM million			
SDR holdings	793.9	330.3	418.7	88.4
IMF reserves position	2,379.2	3,168.2	3,310.9	142.7
Gold and foreign exchange	96,265.0	113,766.0	109,835.4	–3,930.6
Gross International Reserves	**99,438.1**	**117,264.5**	**113,565.0**	**–3,699.5**
Less BNM external liabilities	13.7	21.0	23.7	2.7
Net International Reserves	**99,424.4**	**117,243.5**	**113,541.3**	**–3,702.2**
US$ equivalent	**26,164.3**	**30,853.6**	**29,879.3**	**–974.3**
Months of retained imports	5.7	5.9	4.5	
Reserves/Short-term external debt (times)	3.1	5.1	6.5	

cushion the reserves outflows. The inflows in 2000 reflected the strong trade surplus, sharp increase in portfolio investments in the early part of the year and long-term capital inflows. The long-term capital inflows included net inflows of FDI (RM14.7 billion or US$3.9 billion) as well as net foreign currency borrowings by the Federal Government, the non-financial public enterprises (NFPEs) and the non-bank private sector (RM4.5 billion or US$1.2 billion). The external borrowing of the Federal Government included the reopening of the US$1 billion Notes due 2009 (initially issued in June 1999) by US$500 million and the issuance of the Malaysian Euro 650 million Notes due 2005.

The significant inflows in 2000 were sufficient to accommodate the outflows during the year and the revaluation adjustments due to the appreciation of the ringgit during the course of the year. The outflows during the year, particularly during the period May to December, reflected a combination of factors:

- The larger net outflows for the **payment of services and transfers** (RM48.3 billion or US$12.7 billion). This was attributable to the buoyant trade-related activities and overall improvement in the domestic economic performance.

- **Net overseas investments** by the Malaysian corporate sector of RM7.7 billion (US$2 billion), mainly in telecommunications, plantation and power projects.

- **Net outflow of portfolio funds** of RM4 billion (US$1.1 billion) from the External/Special External Accounts. In the first five months, there was a net inflow of funds (RM8.3 billion or US$2.2 billion) with the impending reinstatement of Malaysia in the MSCI index at end-May 2000. The outflow of portfolio capital between June and December (RM12.3 billion or US$3.2 billion) was mainly due to investor concerns over the overall uncertainties about the effects of a US slowdown on the region in general, Asian corporations in particular; the sustainability of global electronics demand and volatility in the global financial markets as well as concerns on regional and domestic corporate issues.

- **Repayment of external debt** by the Federal Government, the NFPEs, and the private sector, amounting to RM15.8 billion (US$4.2 billion).

- **Repayment of short-term debt by the non-bank private sector and the increase in net external assets of banking institutions** of RM8.8 billion (US$2.3 billion), reflecting higher net interbank placements abroad for hedging trade-related activities.

- The higher interest rates overseas led to Malaysian exporters keeping their export proceeds abroad within the six months period from the date of exports and prompted an increase in **trade credits** extended to foreign importers. Export proceeds were also maintained in foreign currency accounts in banks in Malaysia, balances of which rose during the course of the year.

- **Foreign exchange revaluation losses** of RM5.3 billion (US$1.4 billion) with the appreciation of the US dollar against other major foreign currencies.

The strength of Malaysia's reserves is reflected in the adequacy of reserves to finance 4.5 months of retained imports (5.9 months at end-1999) and to cover 6.5 times the short-term external debt (5.1 times at end-1999). In terms of external vulnerability, the risk to the economy with respect to the short-term external debt has been reduced with net repayment as well as the decline in liabilities of commercial banks. The large repayments of external debt during the year has substantially reduced the external debt exposure of Malaysia to only 51% of GNP at end-2000 (58% at end-1999), thus further strengthening the external position of the country (see section on *External Debt*). The higher overseas investment provides greater synergy to Malaysian corporate activities thereby enhancing the prospects of future exports of goods and services. In addition, there remains ample liquidity domestically to finance investments in Malaysia.

Malaysia's holdings of reserves in the form of **Special Drawing Rights** (SDR) increased by RM88.4 million to RM418.7 million at the end of 2000. The increase was mainly on account of the receipts of remuneration from the IMF arising from Malaysia's net creditor position with the Fund as well as exchange revaluation gains on holdings of SDR. During the year, Malaysia's **reserves position with the IMF** remained unchanged. In ringgit terms, however, the reserves with the IMF registered an increase of RM142.7 million to RM3,310.9 million at the end of 2000 on account of exchange revaluation gains during the year.

Malaysia is among the first group of 47 countries (20 developed and 27 developing countries) to subscribe to **IMF's Special Data Dissemination Standard (SDDS)** to improve transparency in the compilation and dissemination of statistics in 1996. As part of the measures to enhance transparency in the international financial system, the SDDS introduced a new requirement, with effect from 31 May 2000, for detailed disclosure of international reserves on a monthly basis. In subscribing to the new requirement, BNM now releases forward-looking information not only on the size of reserves, but the type and usability of reserves, and the future and potential (contingent) inflows and outflows of foreign exchange over the next 12-month period. The information, therefore, facilitates an assessment of vulnerabilities and foreign exchange risk exposure. Currently, the SDDS data is made available to the public at the end of each month (with a one month lag). The data is also available to the public on BNM's website *(www.bnm.gov.my/stats/reserves.htm).* For comparison with the other SDDS subscribers, the data can also be accessed on IMF's website *(http://dsbb.imf.org/ediscird.htm).* With effect from March, 1996, BNM has released the Statement of Assets and Liabilities fortnightly with a one week lag.

Flow of Funds

For 2000, the economy registered a smaller total resource surplus of RM31.2 billion, which accounted for 10% of GNP (a surplus of RM47.9 billion or 17.1% of GNP in 1999). While the lower resource surplus reflected lower net exports over imports, it also reflected a slight moderation in net savings of both the private and public sector. The inter-sectoral flow of funds between various sectors of the economy for the year is shown in Tables 1.31 and 1.32.

Looking at the resource surplus from the perspective of the current account of the balance of payments, the smaller surplus reflected a stronger growth of imports compared to exports. Although exports of goods and services grew at a higher rate of 16.7% (11.5% in 1999), imports grew at an even stronger rate of 23.8% (9.3% in 1999), following the robust recovery in economic activity during the year.

The resource surplus can also be analysed in terms of the savings-investment gap. The lower overall resource surplus was the outcome of lower net savings by both the public and private sectors. Although the public sector registered a larger disposable income, this was offset by the higher public investment expenditure to support the economic recovery. This resulted in a lower net public sector resource surplus of RM2.8 billion in 2000 (+RM12.4 billion in 1999). The lower resource surplus was entirely the outcome of a RM15.4 billion resource surplus by NFPEs, which was partially offset by the RM12.6 billion resource gap of the General Government. The bulk of the resource gap of the General Government was financed through net domestic borrowings (+RM12.7 billion) and net borrowings from the banking system (+RM4.3 billion). In view of

Table 1.31
Flow of Funds: 1999

	National accounts	Domestic economy			Rest of the world	Sum
		Public sector	Private sector	Banking system		
	RM billion					
Disposable income	–273.0	80.5	192.4			0
Consumption	158.2	–33.5	–124.8			0
Investment	66.5	–34.5	–32.0			0
Change in stocks	0.3	–0.2	–0.2			0
Exports of goods and non-factor services	365.4				–365.4	0
Imports of goods and non-factor services	–290.1				290.1	0
Net factor payment abroad	–20.9				20.9	0
Net transfers	–6.5				6.5	0
Non-financial balance	0.0	12.4	35.5	0.0	–47.9	0
Foreign financing						
Corporate investment			5.9		–5.9	0
Net foreign borrowings		6.7	–25.5		18.8	0
Net change in foreign assets						
BNM				–17.8	17.8	0
Banking system				–12.2	12.2	0
Domestic financing						
Change in credit		2.2	–6.8	4.5		0
Change in money supply, M3			–33.1	33.1		0
Net borrowings from non-bank sector		–21.4	21.4			0
Net errors and omissions			2.7	–7.6	4.9	0
Sum		0	0	0	0	

Table 1.32
Flow of Funds: 2000

	National accounts	Domestic economy			Rest of the world	Sum
		Public sector	Private sector	Banking system		
	RM billion					
Disposable income	–303.1	85.5	217.6			0
Consumption	180.4	–36.2	–144.2			0
Investment	87.1	–44.3	–42.9			0
Change in stocks	4.4	–2.2	–2.2			0
Exports of goods and non-factor services	426.5				–426.5	0
Imports of goods and non-factor services	–359.0				359.0	0
Net factor payment abroad	–28.6				28.6	0
Net transfers	–7.7				7.7	0
Non-financial balance	0.0	2.8	28.4	0.0	–31.2	0
Foreign financing						
Corporate investment			7.5		–7.5	0
Net foreign borrowings		4.0	–29.7		25.8	0
Net change in foreign assets						
BNM				3.7	–3.7	0
Banking system				–6.3	6.3	0
Domestic financing						
Change in credit		4.3	25.6	–29.9		0
Change in money supply, M3			–22.1	22.1		0
Net borrowings from non-bank sector		–11.1	11.1			0
Net errors and omissions			–20.7	10.4	10.3	0
Sum		0	0	0	0	

their resource surplus, the NFPEs were also the main source of funds for the private sector. A total of RM11.1 billion was extended to the private sector during the year.

Meanwhile, the strong recovery of economic activity enabled the private sector to register a higher disposable income of RM217.6 billion in 2000. However, the strong growth of private consumption and higher private investment expenditure led to a lower net savings of RM28.4 billion by the private sector (+RM35.5 billion in 1999). Together with net inflows of FDI (+RM7.5 billion), borrowings from the banking system (+RM25.6 billion) and net borrowings from the public sector (+RM11.1 billion), the resources available to the private sector amounted to RM72.6 billion.

The bulk of these resources of the private sector was used for net placements of deposits of RM22.1 billion with the banking system (inclusive of currency holdings). Outflows were mainly in the form of private short-term funds (-RM29.7 billion), and included repayments of short-term debt by the non-bank private sector and increases in trade credits extended to foreign importers. In addition, outflows were also in the form of a reduction in the net external liabilities of the banking system (-RM6.3 billion). Nonetheless, continued inflows of long-term capital – both official borrowings and corporate investments – together with the continued large current account surplus, were able to accommodate most of these outflows and minimise their impact on the net international reserves of BNM, which declined by RM3.7 billion during the year.