ECONOMIC REPORT 2003/2004

CORRIGENDA

Page	Para	Column	Line	Printed	To read
53	Chart 2.11	Legend	-	United States Singapore Japan ASEAN (excluding Singapore) North East Asia (excluding Japan) West Asia	West Asia North East Asia (excluding Japan) ASEAN (excluding Singapore) Japan Singapore United States
64	2	Right	15	13.7%	13.2%
131	CHART 5.8	Performance of Selected Indices 31 December 2002 vs End-August 2003	8	HSI, Hong Kong 19.3%	STI, Singapore 19.3%

Economic Report 2003/2004

MINISTRY OF FINANCE
MALAYSIA

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MINISTER OF FINANCE MALAYSIA

PREFACE

The growth momentum of the Malaysian economy continues to be sustained despite the adverse external environment, arising from geopolitical tensions and the outbreak of Severe Acute Respiratory Syndrome (SARS). Growth in the first half of 2003 was significantly stronger at 4.5% compared with 2.6% during the corresponding period in 2002. The Government's quick response and timely policy initiatives and measures, in particular the implementation of the Package of New Strategies have contributed substantially towards the rapid expansion in domestic economic activities. The higher growth achieved amidst an environment of low inflation as well as increased international reserves further reinforced the strength of our macroeconomic fundamentals. With these in place, the nation is poised to achieve the growth target of 4.5% in 2003.

With the prospects of an improved recovery in the global economic environment and the stronger growth momentum in the Malaysian economy, the private sector must once again resume its role as the engine of growth. They need to venture into new endogenous sources of growth and develop broader-based economic activities, especially in the services and agriculture sectors. In addition, they have to undertake greater concerted efforts to enhance value creation activities to produce our own high quality Malaysian products and services. Malaysian entrepreneurs must develop fully homegrown brands, using local inputs and components that can compete in the global market. We must strive hard to be a successful trading nation, capable of exporting our own products and services.

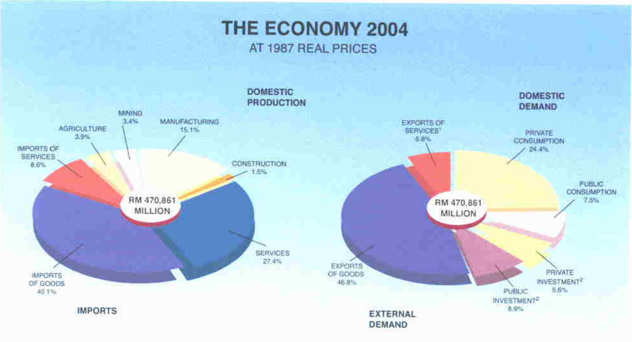
Fiscal and monetary policies will remain supportive of private sector-led growth. In this regard, the Government has put in place the necessary infrastructure and incentives to stimulate greater private sector initiatives to spearhead domestic economic activities. Measures have also been undertaken to ensure greater expediency and efficiency in the delivery system with the view to creating a more business-friendly environment as well as facilitating the private sector to reduce their cost of doing business. The private sector must, therefore, avail themselves of these opportunities to strengthen their resilience and enhance their competitive edge to become successful global players in the international market.

Concomitant with the improved performance of the Malaysian economy, Malaysians from all walks of life have enjoyed higher income growth as well as better quality of life. The success and prosperity as well as the peace and stability that we have achieved thus far would not have been possible without the strong and undivided support of the *rakyat* for the Government, as showcased by the recent 46th Merdeka Celebrations throughout the nation.

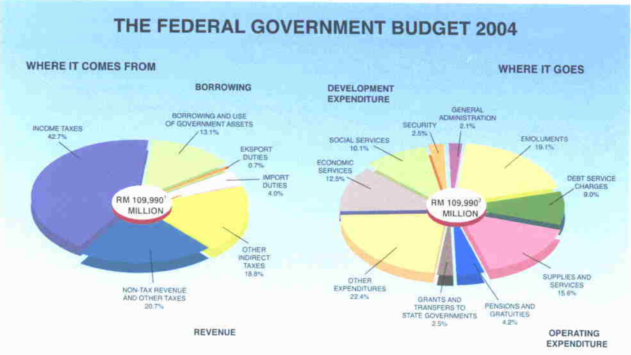
This 2003/2004 Economic Report is the 32nd volume in its series. The Report provides an assessment of the current year's performance and prospects for 2004 as well as the Government's policy responses on economic and social issues as well as challenges. I would like to express my appreciation to all who have contributed towards the preparation and publication of this Report.

Dr. Mahathir bin Mohamad
Minister of Finance

Putrajaya
12 September 2003



[1] Non-factor services
[2] Including change in stocks



[1] Includes revenue, borrowing and use of Government's assets.
[2] Excludes transfers.

MALAYSIA—KEY DATA AND FORECASTS

AREA
(Square kilometres)

Malaysia	Peninsular Malaysia	Sarawak	Sabah[*]
330,252	131,805	124,450	73,997

	2002		2003[1]		2004[2]	
	million		million		million	
POPULATION:	**24.527**		**25.048**		**25.581**	
	RM million	% growth	RM million	% growth	RM million	% growth
DOMESTIC PRODUCTION:						
Gross Domestic Product (1987 real prices)	**219,309**	*4.1*	**229,287**	*4.5*	**241,785**	*5.5-6.0*
Agriculture, livestock, forestry and fishing	18,438	*3.0*	18,869	*2.3*	19,436	*3.0*
Mining and quarrying	15,826	*3.7*	16,545	*4.5*	17,124	*3.5*
Manufacturing	65,908	*4.0*	70,225	*6.5*	75,249	*7.2*
Construction	7,276	*2.3*	7,461	*2.5*	7,652	*2.6*
Services	124,939	*4.1*	130,187	*4.2*	137,282	*5.5*
NATIONAL INCOME AND EXPENDITURE:						
Gross National Product (current prices)	**335,597**	*8.7*	**359,259**	*7.1*	**382,529**	*6.5*
Consumption expenditure: Public	50,015	*18.8*	53,639	*7.2*	56,340	*5.0*
Consumption expenditure: Private	159,506	*5.9*	169,848	*6.5*	184,031	*8.4*
Gross fixed capital formation: Public	53,698	*10.0*	56,680	*5.6*	54,854	*-3.2*
Gross fixed capital formation: Private	30,066	*-12.9*	30,944	*2.9*	34,330	*10.9*
Exports of goods and non-factor services	411,391	*5.7*	422,571	*2.7*	449,769	*6.4*
Imports of goods and non-factor services	348,443	*6.3*	349,985	*0.4*	371,256	*6.1*
Gross National Product (1987 real prices)	**202,056**	*4.7*	**211,123**	*4.5*	**222,341**	*5.3*
Gross National Savings (current prices)	**115,510**	*7.2*	**126,468**	*9.5*	**132,230**	*4.6*
Per capita Income (current prices) RM	**13,683**	*6.4*	**14,343**	*4.8*	**14,954**	*4.3*
FEDERAL GOVERNMENT FINANCE:						
Revenue	**83,515**	*5.0*	**89,168**	*6.8*	**95,595**	*7.2*
Operating expenditure	68,699	*7.8*	73,237	*6.6*	80,030	*9.3*
Current account surplus/deficit	14,816	*-6.3*	15,931	*7.5*	15,565	*-2.3*
Development expenditure (net)	35,069	*2.4*	36,780	*4.9*	28,960	*-21.3*
Overall deficit/surplus	**-20,253**		**-20,849**		**-13,395**	
% to GDP	*-5.6*		*-5.4*		*-3.3*	
Domestic borrowing (net)	6,076		23,250		–	
Foreign borrowing (net)	8,020		-4,391		–	
Change in assets	6,157		1,990		–	

MALAYSIA—KEY DATA AND FORECASTS—*(continued)*

	2002		2003[1]		2004[2]	
	RM million	% growth	RM million	% growth	RM million	% growth
National debt	**185,574**	*7.0*	**186,028**	*0.2*	–	–
Medium and long term debt	153,560	*2.8*	151,234	*−1.5*	–	–
Federal Government	36,283	*49.1*	34,962	*−3.6*	–	–
NFPEs	64,330	*−4.6*	62,376	*−3.0*	–	–
Private sector	52,947	*−8.2*	53,896	*1.8*	–	–
Short-term debt	32,014	*33.5*	34,794	*8.7*	–	–
Debt service ratio (percent)	**6.3**		*7.7*			
	RM million		RM million		RM million	
BALANCE OF PAYMENTS:						
Current Account	**27,321**		**36,767**		**40,064**	
Goods	68,914		81,043		86,598	
Services	−5,966		−8,458		−8,086	
Income	−25,061		−26,515		−28,521	
Transfers	−10,566		−9,303		−9,927	
Financial account	**−11,941**		**−12,500**		–	
Overall balance	**14,191**		**15,247**		–	
	RM million	% growth	RM million	% growth	RM million	% growth
EXTERNAL TRADE:						
Total Exports (f.o.b.)	**354,475**	*6.0*	**368,881**	*4.1*	**392,490**	*6.4*
Manufactured goods	302,258	*5.3*	309,814	*2.5*	332,733	*7.4*
Palm oil (crude and processed)	15,054	*42.2*	16,770	*11.4*	17,740	*5.3*
Crude petroleum	11,597	*3.9*	13,104	*13.0*	11,125	*−15.1*
Liquefied natural gas	9,932	*−10.7*	12,153	*22.4*	13,130	*8.0*
Total Imports (c.i.f.)	**303,508**	*8.3*	**306,027**	*0.8*	**325,220**	*6.3*
Intermediate goods	216,492	*6.2*	218,656	*1.0*	231,882	*6.0*
Capital goods	45,672	*10.6*	46,109	*1.0*	49,434	*7.2*
Consumption goods	19,263	*15.9*	19,280	*0.1*	20,814	*8.0*
Balance of Trade	**50,967**		**62,854**		**67,270**	
	Index	% growth	Index	% growth	Index	% growth
Consumer Price Index (2000=100)	103.2	*1.8*	104.2	*1.1*	–	–
Producer Price Index (1989=100)	130.7	*4.4*	136.9	*7.0*	–	–
	Thousands	% growth	Thousands	% growth	Thousands	% growth
LABOUR:						
Labour force[3]	10,199	*3.1*	10,515	*3.1*	10,856	*3.2*
Unemployment rate[3]	359	*3.5*	365	*3.5*	370	*3.4*

MALAYSIA—KEY DATA AND FORECASTS—*(continued)*

	2002		2003	
	End-July		End-July	
	RM million	% growth	RM million	% growth
MONEY AND BANKING:				
Money Supply (M1)	82,376	*12.2*	91,093	*10.6*
(M2)	370,945	*5.7*	402,672	*8.6*
(M3)	484,442	*5.8*	526,608	*8.7*
Banking sistem (including Islamic banks):				
Deposits	488,102	*2.9*	528,841	*8.3*
Loans[4]	483,525	*3.3*	505,247	*4.5*
	End-July (%)		End-July (%)	
Loan-deposit ratio (end of period)	*86.3*		*83.9*	
	End-July (%)		End-July (%)	
Interest rates (average rates at end of period):				
3-month interbank	*2.96*		*2.87*	
Commercial banks:				
Fixed deposits: 3-month	*3.20*		*3.00*	
12-month	*4.00*		*3.70*	
Savings deposit	*2.25*		*1.92*	
Base lending rate (BLR)	*6.39*		*6.00*	
Treasury bill (3-month)	*2.73*		*2.77*	
Malaysian Government securities (1-year)	*2.91*		*2.95*	
Malaysian Government securities (5-year)	*3.35*		*3.63*	
	End-August (%)		End-August (%)	
Movement of Ringgit (end-period)[5]:				
Change against SDR	*−2.9*		*−3.2*	
Change against USD	*0.0*		*0.0*	
Change against Yen	*−1.7*		*−0.7*	
	End-August		End-August	
Kuala Lumpur Stock Exchange (end period):				
KLCI	711.36		743.30	
Market capitalisation (RM billion)	529.53		579.54	

[*] Including the Federal Territory of Labuan.
[1] Estimate.
[2] Forecast.
[3] Based on estimates by Economic Planning Unit.
[4] Includes loans sold to Cagamas and Danaharta.
[5] Annual rate of appreciation (+) or depreciation (−).
[6] For the period of January-July 2003.

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Economic Management and Outlook

ECONOMIC REPORT

1

Overview

Malaysia's economic resilience mitigates adverse impact of external environment and the economy remains on track towards sustained growth...

After experiencing sluggish growth in 2001, the Malaysian economy rebounded strongly in 2002. Higher growth in 2002 bolstered optimism for a stronger economic performance in 2003 in anticipation of an improved world economic outlook. The prospect for a global economic recovery was, however, affected by recent geopolitical developments, in particular the war in Iraq, sporadic incidences of militancy and outbreak of the Severe Acute Respiratory Syndrome (SARS). During the second quarter, consumer and business sentiments in regional economies were particularly affected by the anxiety of a probable prolonged and widespread SARS epidemic that curtailed transport and tourism-related activities besides trade and investment flows.

Against this adverse global environment and concerns of further weakening of the already sluggish global economy, the Government has put in place a package of broad-based pro-growth measures in May 2003. The Package of New Strategies, apart from providing immediate relief for the SARS-affected sectors, was to address structural and organisational issues towards sustaining economic growth in the medium and longer term. The strategic measures introduced boosted confidence necessary to stimulate domestic consumption and investment. In addition, the short war in Iraq and the quick containment of SARS provided the much-needed relief for the economy to ride over the difficult times and remain on track to a firmer growth trajectory.

Malaysia's sound economic fundamentals and expansionary fiscal and accommodative monetary policies, supplemented by the Government's proactive stimulus package, have helped to sustain high growth in the real gross domestic product (GDP). After expanding 4.5% in the first half and with prospects of sustained growth in the second half, the economy is set to achieve its targetted growth of 4.5% this year, higher than the 4.1% achieved in 2002.

The economy is expected to be driven by stronger domestic demand reinforced by a modest pick-up in external demand in the second half of the year. Exports will continue to be buoyed by global economic recovery and the upturn in electronics, especially in information technology-related products and equipment. On the domestic front, consumer spending continues to pick up, on account of favourable export earnings and high commodity prices, positive wealth effect from better stock market performance as well as rising consumer confidence. All sectors registered positive growth with manufacturing and services driving the economy.

With exports expanding faster than imports, trade balance in July 2003 remains in surplus for 69 consecutive months since November 1997. International reserves continued to increase to a record high of USD38.67 billion at end-August, sufficient to finance 6 months of retained imports and 4.3 times the short-term external debt. Malaysia remains a high net saver with gross national savings constituting about one-third of gross national product (GNP), ranking third among the other high savers in the world.

The corporate and financial sectors continued to strengthen further. With the emergence of stronger and larger capitalised banks amidst an improved economic environment, non-performing loans (NPLs) have declined with the risk-weighted capital ratio (RWCR) sustaining way above the Basle requirement. The stock market began its upward trend after the announcement of the Package of New Strategies as investor confidence started to build up in response to the measures laid out by the Government. By 5 September, the Kuala Lumpur Composite Index rose to 756.48 points, its highest level since July 2002 with market capitalisation rising to RM582 billion.

In the absence of price pressures, the general price level remains stable while the labour market was steady at full employment level. There is a general improvement in the standard of living with per capita income and purchasing power parity higher at RM14,343 (USD3,774) and USD9,390, respectively and overall poverty level declining to 4.5% of total households.

Managing the Economy

Expansionary fiscal and accommodative monetary policies help sustain the growth momentum...

Macroeconomic policies adopted in recent years have focussed on mitigating the increasing uncertainties emanating from the external environment as well as in sustaining the growth momentum. This necessitated the conduct of an expansionary fiscal policy and an accommodative monetary policy to enhance domestic economic activities. Whilst engaging in an expansionary budget stance, the Government remains committed towards achieving a balanced budget in the near term.

The Government continues to play a pivotal role in sustaining growth in 2003 and in providing the enabling environment conducive towards enhancing further private sector activities. Sustained domestic demand amidst strengthening consumer and investor confidence helped to keep unemployment low whilst the increasing per capita income continues to improve the standard of living.

Fiscal Policy

Fiscal policy focussed on consumption and private sector demand to drive the economy ...

Since the Asian financial crisis, Malaysia has adopted an expansionary **fiscal** stance to stimulate economic activity to compensate for the lacklustre performance of the private sector in order to sustain the growth momentum. The continuing volatility and uncertainty in world economy in 2003 posed further challenges to the Government in administering its fiscal consolidation process. Nevertheless, the Government was able to strike a balance between sustaining growth and consolidating its fiscal position by financing the bulk of the latest stimulus Package of New Strategies through off-budget sources.

Revenue for the year is expected to increase by 6.8% to RM89,168 million, marginally lower than the RM89,183 million projected in Budget 2003, due to a decline in sales tax collections following the increase in tax exemptions for petroleum products. Revenue outurn is, nevertheless, commendable considering the less favourable external environment and the numerous incentives provided by the Government. Revenue collection was also able to sustain its performance, reaching 23.1% of GDP.

On the **expenditure** side, there was an increase of 6.2% from the previous year. The higher operating expenditure came from salary adjustments following the implementation of the Malaysia Remuneration System as well as the half-month bonus paid to civil servants to stimulate consumption. In addition to emolument, salaries and pensions, a large portion of the operating expenditure, which constitutes 65.9% of the total budget, was spent on supplies and services, including repairs and maintenance in order to upgrade the service standard as part of measures to enhance the delivery system. Development expenditure was mainly for capacity building, particularly for the expansion of transport network and other infrastructure facilities. The construction of schools, training institutions, hospitals and public housing were also given priority as part of the Government's efforts to develop a quality workforce, improve public health services and provide affordable houses. Expenditure that caters especially for the welfare of the poor and the rural sector was increased by more than 30%, in line with the social policy thrust to reduce the burden of the special groups.

The increased expenditure has led to a higher budget deficit. Continuing with its prudent financial management practice, the Government financed the bulk or 91.7% of its financing needs from the liquid domestic market. This helped to contain the external debt, which remains at sustainable and manageable levels.

During the course of the year, the Government had to resort to another round of fiscal stimulus to help mitigate the economy from the negative impact of the Iraq war and the outbreak of SARS. However, recognising the need to contain the budget deficit, the Government launched the RM7.3 billion **Package of New Strategies** in May with the bulk of the financing from the financial system. Only RM1.7 billion or 23% of the value of the Package came from Government budgetary allocation while the balance is from off-budget sources, mainly through Bank Negara Malaysia (BNM) and development financial institutions (DFIs) such as Bank Pertanian Malaysia (BPM), Bank Simpanan Nasional (BSN), Bank Pembangunan dan Infrastruktur Malaysia Berhad (BPIMB) and Bank Industri and Teknologi Malaysia Berhad (BITMB). Hence, the Government was able to minimise the impact of the additional budgetary requirements on Government finances.

Unlike previous stimulus packages, which were counter-cyclical and primarily aimed at mitigating the short-term impact of the external environment, this Package has a medium to longer-term objective of enhancing the nation's competitiveness. The Package focusses on four broad strategies encompassing 90 specific tax and non-tax measures aimed at generating economic activities with emphasis on mobilising domestic sources of growth and reducing over-dependence on the external sector. The main strategies are:

* Promoting private sector investment;
* Strengthening the nation's competitiveness;
* Developing new sources of growth;
* Enhancing effectiveness of the delivery system.

In order to promote private sector activity, the Government focussed on providing greater financing accessibility to small and medium enterprises (SMEs), apart from the existing facilities provided by commercial banks. In this regard, the Government mobilised DFIs to act as intermediaries and expanded the scope of micro credit schemes to cover SMEs.

In addition to the emphasis on the development of SMEs, various measures under the Package focussed on generating new sources of growth in manufacturing, agriculture and services in line with the policy to broaden the economic base. Among others, these measures include the establishment of various funds and incentives to enhance value-added activities in the manufacturing and services sectors.

At the same time, recognising that the likelihood of a full-blown SARS on the economy could be even more debilitating than the short war in Iraq, the Package also included immediate measures to provide temporary relief to SARS-affected industries. These include the suspension of income tax installment payments for travel agencies and a 5% discount on monthly electricity bills to hotel operators as well as exemption of Human Resource Development Fund (HRDF) levy for both tourism and hotel operators for a 6-month period beginning 1st June. Road tax for taxis was reduced by 50% while service tax exemptions were also granted for hotels and restaurants. These measures provided the much-needed relief to tourism-related industries. In addition, the Special Relief Guarantee Facility (SRGF) of RM1 billion under BNM, especially for working capital is provided to travel agents, hotel operators, restaurants and shopping centres. As at August, 24 applications valued at RM14.4 million were approved. Banking institutions also provided financial relief plans to borrowers affected by SARS in the form of loan restructuring and rescheduling. As at end-June, 244 loan accounts of SARS-affected borrowers in the banking system were rescheduled.

Monetary policy

Monetary policy complements fiscal policy to support private sector activities...

Monetary policy remains accommodative to support economic activities and complement the fiscal policy in stimulating domestic demand. Concurrent with the implementation of the Package of New Strategies, BNM reduced its intervention rate by 50 basis points, the first revision since September 2001, to stimulate private investment and consumption. Following this, base lending rates declined to 6% for commercial banks and 6.9% for finance companies. The strong macroeconomic fundamentals, low inflation and low unemployment, coupled with a resilient banking system have provided flexibility for monetary easing.

With the merger of 54 commercial banks into 10 anchor banks and the successful recapitalisation exercise undertaken by **Danamodal,** the banking system has become stronger and more resilient. As a result, the RWCR is sustained at a high level of 13%. Pre-tax profit of the banking system, excluding Islamic banks, recovered from a low of RM5,732 million in 1998 during the Asian financial crisis to RM9,311 million in 2002. Pre-tax profit for the first half year of 2003 indicates a stronger trend and is expected to increase with improved economic prospects. Furthermore, bank lending has picked up, registering a growth of 3.9% in the second quarter, higher than the 3.2% recorded in the preceding quarter. With the focus on SME development, bank lending to SMEs also showed significant expansion, growing at 5.4% as at end-July.

Much progress has been made with respect to restoring stability in the financial system following the Asian financial crisis. In particular, the closure of the **Corporate Debt Restructuring Committee** (CDRC) in August 2002 marked an important milestone in Malaysia's restructuring initiatives since the crisis. During its four years of existence from 1998 to 2002, CDRC had successfully resolved 48 cases involving debts of RM52.6 billion, representing some 65% of the cases under its auspices. Of significance, debt restructuring has been accompanied by sales of assets and non-core businesses as well as management changes. The implementation of corporate debt restructuring has contributed to the reduction in the level of NPLs by two percentage points. More importantly, the resilience of the banking system has been strengthened and its efficiency improved to better support economic activities as well as face increased challenges from competition. Also, on account of **Danaharta's** successful dealing of NPLs in the banking system since the Asian financial crisis, NPLs on a 6-month classification declined to 6.7% in July 2003, from 7.5% recorded at end-2002. Along with the improving economy, the broad monetary aggregate M3, expanded by 8.2% in June 2003.

In order to stimulate and strengthen the **capital market**, 10 new measures were introduced in March 2003. These include, among others, the delegation of Foreign Investment Committee (FIC) approvals to the Securities Commission for public listed companies, the introduction of performance incentive schemes and the enhancement of capital market skills as well as the role of intermediaries. As a consequence of these measures and the implementation of the Package, the Kuala Lumpur Stock Exchange (KLSE) became more bullish, breaching the 750 mark in September and is expected to trend higher in the year. Even though there are 83 PN4 companies in the KLSE, they account for less than 10% of the total number of companies listed in the bourse. The assemblage of troubled companies into the PN4 group underscores the commitment of the Government in enforcing good corporate governance and requiring the companies to improve their financial stature and integrity.

The stronger international reserves and higher current account surplus continue to support the pegged exchange rate regime and the ringgit remains consistent with the strong macroeconomic fundamentals of the country. Despite experiencing some softening *vis-a-vis* other currencies in tandem with the weaker US dollar, the peg continues to provide the stability and predictability to facilitate efficient business decisions.

Performance Review

Promoting Investment

Private sector activity gradually picking up with domestic investment increasing...

In cognisance of the importance of the role of **private sector investment** in ensuring sustainable growth in the medium and long term, the Government through Budget 2003 and the Package, instituted measures to enhance domestic investment activity, particularly by SMEs. Since the last few years, the contribution of the domestic sector to GDP, amidst slower external sector performance, has been on an increasing trend although the increase has been gradual, from 82.4% in 1999, rising to 89.6% in 2002, respectively and forecast to improve further to 90% in 2003. The domestic sector was driven largely by both public and private consumption as a result of salary adjustments and bonus payment in the public service as well as sustained consumer and business confidence ensuing from Government measures. Investment by the private sector, which has remained below pre-crisis levels has shown some positive signs, increasing by 2.0% in 2003 from a negative 13.1% in 2002 and is expected to rise further on the back of improved export demand, especially for the information technology (IT) replacement market. Investment was broad-based, encompassing new sectors as well as higher value-added activities of electrical and electronics (E&E), transport, machinery, chemical and chemical products as well as prefabricated metals.

Arising from investors' positive response to the Government's tax and non-tax measures, including liberalisation of FIC rules under the Package as well as reduction in corporate income tax for small and medium industries to 20% and the extension of reinvestment allowance to pioneer status companies announced in Budget 2003, investment activities, particularly in the manufacturing sector, have been encouraging. Compared with a total of 878 investment applications valued at RM18.8 billion received for the year 2002, the January-June 2003 figure of 453 applications with proposed investments totalling RM9.7 billion is commendable given the prevailing weak external environment, suggesting continued investor confidence and enthusiasm to invest in the economy. There has been an improvement in **domestic investment,** which constitutes 59% of total investment compared to less than 40% in the previous year. The higher level of domestic investment reflects renewed domestic investor confidence and points to the positive development arising from the various measures by the Government to assist Malaysian industries, particularly SMEs.

In the six-month period, 487 projects were approved involving investments of RM8.1 billion with domestic and foreign participation quite evenly distributed at 51% and 49%, respectively. Investments were in areas of transport equipment, E&E and chemicals, out of which 65% was for new projects and the remaining for expansion and diversification. These projects have the potential to generate 40,860 job opportunities in the economy. A total of 138 projects benefitted from incentives on investment promotion, where 111 projects were granted Pioneer Status and 27 projects were approved with Investment Tax Allowance. Malaysia remains an attractive investment destination for Japan, Singapore, the United States (US) and Thailand, which together account for 76% of foreign investments.

Stronger domestic and external demand led to a **higher capacity utilisation** of 83% in the manufacturing sector. Indicative of the stronger momentum of growth, the manufacturing production index increased by 8.7% in June 2003. Based on this uptrend, value-added of manufacturing is expected to increase by 6.5% in 2003, contributing a 30.6% share in GDP. Notwithstanding the Government policy of reducing the over-dependence on the E&E sub-sector as a source of growth, its proportion remains high due to the strong external demand for technology products. Sale of computers increased by 8% in June 2003, its strongest growth since 2000. The sustained demand for E&E products in the first half of the year contributed to the higher capacity utilisation of more than 80% within the semiconductors industry. Although E&E products still constitute the largest share, other products such as pharmaceuticals and oleochemicals have begun to feature as emerging products with high export potential.

Presently, there are more than 46,000 **SMEs** contributing 28.5% to manufacturing output but only 20% of manufacturing exports. Traditionally, the concentration of SMEs is in resource-based industries of wood and wood products; food, metal and metal products; as well as chemical and chemical products. There are, however, indications of greater linkages with the larger multinational corporations (MNCs) with increased outsourcing from local SMEs. In 2002, MNCs in the electronics sector procured RM12.6 billion worth of locally produced goods and services and is expected to increase purchases by another 9.5% in 2003, thereby opening greater opportunities for SMEs to invest and tap into the outsourcing business.

Budget 2003 highlighted the reluctance of banks to increase lending activities, particularly to SMEs due to their risk-averse attitude, arising from the large magnitude of NPLs experienced during the crisis period. However, following the establishment of one-stop centres to process investments as well as special SME windows in banks have assisted SMEs in their investment ventures and access to credit. Within the banking system, response to the SME loan programme was equally good. Loans extended to SMEs increased by a record high of RM727.8 million in the month of June 2003 to register a cumulative increase of RM3.4 billion for the first six months of the year. With continued improvement in the economy, further acceleration in lending activity is expected towards year-end with corresponding increases in private sector activity and investments.

The Government introduced the micro credit schemes under the Package to further improve accessibility of SMEs to loans and enable them to become the catalyst in generating domestic investment and economic growth *(see Feature Article: An Update on the Micro Credit Scheme)*.

Micro credit facilities amounting to RM1 billion was provided through the various DFIs, namely BPM (RM500 million), BSN (RM300 million) and Amanah Ikhtiar Malaysia (RM200 million). Compared to the conventional terms and conditions imposed by commercial banks, the scheme features a low 4% interest rate, waiver on collaterals, loan approvals based on securitisation of cash flows and repayments based on cash flow projections. The scheme received overwhelming response, whereby within a short span of three months until August, BPM received 28,086 applications valued at more than RM423.61 million. During the period, RM190.46 million was approved by BPM for aquaculture, cash crops, contract farming, agro-product processing, and livestock as well as for working capital and marketing activities. Loan applications received by BSN up to 4 September reached 54,600, totalling RM892 million, out of which RM219 million was approved for various non-agricultural activities in manufacturing, utilities, trade and transport and communications.

In the **capital market,** the introduction of 10 new measures in March has made the KLSE more accessible and attractive to a wider spectrum of investors. The number of listed companies in the KLSE has increased almost four-fold since 1990 to 885 companies in August 2003. The KLSE is currently the largest stock market in the ASEAN region in terms of both market capitalisation and number of companies listed and has regained interests of foreign investors who account for about a third of total trading volume and a collective holding of almost 20% in recent months. Complementing the Package in May, the FIC guidelines were further liberalised to provide greater flexibility in foreign equity participation, acquisitions, mergers and takeovers as well as property and equity ownerships.

AN UPDATE ON THE MICRO CREDIT SCHEME

Introduction

The Government has implemented several measures over the years to address the financing needs of SMEs to develop them as the catalyst of growth in generating domestic investment and economic growth. Of significance, in relation to size and terms, is the establishment of a RM1,000 million micro credit scheme for small businesses and enterprises announced in the Package of New Strategies in May 2003. Of this amount, RM500 million is provided to Bank Pertanian Malaysia (BPM) for small businesses and enterprises in the agriculture sector while RM300 million is allocated to Bank Simpanan Nasional (BSN) to finance non-agricultural projects and an additional RM200 million allocated to the micro-credit scheme of Amanah Ikhtiar Malaysia (AIM).

In order to enhance the accessibility to financing for small borrowers, loan conditions under the micro credit scheme have been relaxed through the waiver of collateral requirement with loans based on securitisation of cash flows. In addition, it also features a low interest rate of 4% per annum, loan repayments based on cash flow projections and the introduction of a mentoring system. In particular, the waiver on collateral requirement is deemed an attractive feature of the micro credit scheme as commercial banks typically insist on collaterals for loans, usually in the form of properties or stocks.

Micro Credit Scheme: Some Country Experience

Micro credit schemes of some countries have been proven effective in helping entrepreneurs and small borrowers secure non-collateral and low-interest loans for their business operations. Such facilities have also helped to ease the burden of the poor, raise their income and improve their quality of life and in turn help to stimulate economic growth. The experience of Bank Grameen in Bangladesh is testimony to the success story of the micro credit scheme. Over 10 million poor borrowers have access to micro credit in Bangladesh. Annual total disbursement of micro credit loans is close to USD1,000 million, with Grameen Bank alone accounting for USD319 million or nearly one third in 2002. As at end-July 2003, Grameen Bank has given out USD4,000 million in cumulative loans to borrowers, benefitting in particular women borrowers, which accounted for about 95% of total borrowers, for activities such as small businesses, farming, animal husbandry and handicrafts.

Indonesia's most successful micro credit scheme has been run by Bank Rakyat Indonesia (BRI) since 1984. BRI through its network of 4,000 branches, has provided micro loans to 2.8 million borrowers as at end-December 2001. Individual loans extended by BRI range from USD3 to USD5,000. Thailand launched the People's Bank programme in June 2001 to provide low-interest loans without collateral to the poor to help them in their business operations. Loans given out under the programme range from 15,000 baht to 30,000 baht (USD350 to USD700) per borrower with interest rate of 1% a month and repayment period of 13-25 months. During the first six months of its operation, the People's Bank programme had approved 3,659 million baht (USD88 million) to more than 275,000 borrowers. In addition, Thailand also launched a micro credit scheme known as the Village and Urban Revolving Fund in July 2001 to provide loans to rural villages and urban communities. The scheme provides a revolving fund of one million baht (USD25,000) to each of the 7,125 villages. The revolving fund provides loans to people at the grassroots for activities, such as agricultural product processing and development of skills in handicraft as well as for the provision of public amenities in villages and urban communities.

Micro Credit Scheme in Malaysia

In Malaysia, the micro credit scheme has been implemented since September 1987, through AIM, a non-governmental organisation. AIM was established to help reduce the poverty level of the hardcore poor by providing small loans for any activity or business that could improve their income. AIM has two micro credit schemes, namely the Economic Financing Scheme and the Special/Social Financing Scheme. The former is to finance economic activities while the special scheme provides financing to single mothers and fishermen. The social scheme provides education loans to children of the hardcore poor as well as loans for housing renovations and installation of utilities, such as water and electricity. Loans given out by AIM range from RM100 to RM10,000 for each borrower without collateral or guarantor. Since its inception until June 2003, AIM has provided micro financing totalling RM863 million to some 490,700 borrowers.

The RM500 million micro financing facility under BPM is only for small businesses and enterprises in the agricultural sector, including activities such as farming, processing and marketing. BPM provides non-collateral loans of up to RM20,000 per borrower or business partnership, with annual interest of 4% and repayment period not exceeding 4 years based on securitisation of cash flow. BPM launched its micro credit facility on 3 June 2003. The response has been overwhelming as in just three months, BPM received a total of 28,086 loan applications valued at RM423.61 million for various activities, such as aquaculture, marine fishing, poultry farming, planting of short and long-term crops, food processing as well as working capital and marketing. BPM has approved applications totalling RM190.46 million and disbursed RM148 million. Loan repayment has also been encouraging with a recovery rate of 87.4%.

Under the pro-growth Package, BSN was given the mandate to manage a RM300 million micro credit scheme to finance non-agricultural activities. BSN micro loans are also without collateral or guarantor and range from RM5,000 to RM20,000 per borrower with annual interest of 4% and repayment period from 1-5 years. However, the main difference between the micro credit scheme of BPM and BSN is the mentor system applicable under BSN. Under the mentoring concept, the mentor is appointed by an association to help identify potential borrowers who have the repayment capability as well as assist the borrowers in securing loans. Similarly, the response to BSN's micro credit facility has been overwhelming. Loan applications received during the three-month period up to 4 September 2003 have reached 54,600, totalling RM892 million. During the period, BSN has approved 22,900 loan applications amounting to RM219 million and disbursed RM123 million for various activities in the manufacturing, utilities, trade, broad property, transport and communications and business services sectors.

Conclusion

The experience of several countries, which had implemented micro credit financing, in particular Bangladesh, clearly points to its effectiveness in helping the poor uplift their livelihood from the vicious cycle of poverty and enable them to be self-reliant and contribute to the economy. The Government is, thus, optimistic that the implementation of the RM1,000 million micro credit scheme will further spur the development of SMEs and enhance their contribution to economic growth.

Note: The article is prepared with input from Amanah Ikhtiar Malaysia, Bank Pertanian Malaysia and Bank Simpanan Nasional.

Enhancing Competitiveness

New strategies and incentives to boost productivity, lower costs and improve the nation's competitiveness.

Globalisation and liberalisation have intensified competition and resulted in the emergence of new players in the market, particularly lower cost-producing nations. This has prompted the Government to strengthen further the **nation's competitiveness.** Additional measures were designed to build upon the present competitive edge, which hinges on the pillars of political stability, a business-friendly Government, educated and easily trainable workforce, abundant natural resources as well as efficient economic management that have contributed to the present strong macroeconomic fundamentals. The excellent network of infrastructure, including high-speed broadband information and communication technology (ICT) connectivity has further enhanced the nation's competitiveness. Further measures were focussed on reducing the cost of doing business, accelerating the transition to ICT as the enabling tool to enhance productivity as well as developing human resource to meet the demands of the New Economy.

During the year, particular emphasis was given to ensure the maintenance of **pro-business and investor-friendly climate,** conforming to the concept of Malaysia Incorporated that encourages greater public-private sector cooperation. The further liberalisation of the FIC rules, indicating the commitment of the Government to enhance investor confidence, was well received. Tax incentives provided under the 2003 Budget were further supplemented by measures introduced in the Package. The Government reinforced efforts in improving the delivery system to reduce the costs of doing business to attract investors.

In consonance with the accommodative monetary policy, the lowering of BNM's intervention rate by half a percent in May this year, aimed at further boosting economic activities and stimulating consumption, led to lower lending rates by commercial banks and financial institutions, which in turn reduced borrowing costs. For SMEs, the micro credit scheme has not only enhanced greater accessibility to financing but also to more favourable interest rates. In addition, tariff rates on public utilities, such as electricity, water and telecommunications have been kept at low levels to ensure that the **cost of doing business** in the country remains competitive.

While both personal and corporate taxes remained at competitive levels, tax and non-tax measures introduced in Budget 2003 helped to further reduce the cost of doing business. Measures introduced include tax waiver on income earned overseas by non-residents, refund of tax paid on service and sales that was actually not collected by companies as well as reduction of sales tax on locally manufactured goods through review of valuation methods.

Pioneer Status with tax exemption and Investment Tax Allowance were provided for manufacturers of selected products in the machinery and equipment industry to further develop the sector. The extension of Pioneer Status from 10 to 15 years and that of the Investment Tax Allowance from 5 to 10 years contributed to the steady increase in investments in the industrial sector from both foreign and domestic investors. In addition, under the pre-package scheme, group relief was also extended to forest plantations and for selected products in biotechnology, nanotechnology, optics and photonics.

Tax incentives were also improved to further encourage **research and development** (R&D) activities, the establishment of operational headquarters, regional distribution centres, international procurement centres and local international trading companies. As for R&D activities in the public sector, RM403 million of its RM621 million under the Eighth Malaysia Plan was released under the Intensification of Research in Priority Areas (IRPA) programme. Research findings with commercialisation potential include stone mix asphalt, biosensor fibre optic in determining pesticide levels as well as optical switches, waveguide devices and fibre amplifiers. A fund of RM100 million was also established to increase the pool of R&D expertise as well as encourage R&D activities. As at May, RM31.9 million was allocated to three pre-package projects involving training, R&D, start-ups and technology transfers.

There has been an all-round improvement in the **productivity** of industries in the country arising from technological improvements, efficient utilisation of inputs as well as higher capacity utilisation. In 2002, the manufacturing sector registered a productivity growth of 3.3% on the back of a 5.2% growth in output. Productivity as measured by value added per employee, in the oil palm industry recorded the highest average annual growth of 7.6%. In the rubber and chemical industries within the manufacturing sector, productivity registered a growth of 6.5% and 4.7%, respectively for the 2001-2003 period. Correspondingly, the unit labour costs in these industries declined by 1.3% and 0.9%, respectively, thereby sustaining their competitiveness in the manufacturing sector.

SMEs, as a group, registered a productivity growth of 2.7% in 2002. The Government has also provided SMEs with technology development grants in the areas of product and process improvement, productivity and quality improvement, certifications as well as the adoption of ICT. As at June 2003, 464 applications were approved with grants amounting to RM28.4 million. Such positive developments in productivity and response towards improvement, thus far, have helped sustain Malaysia's competitiveness.

In the **education sector,** the move towards educational excellence in Malaysia is aimed at improving the quality of workforce. At both primary and secondary levels, the ongoing ICT-driven projects in schools will enable students to tap into the wealth of knowledge arising from the expansion in Internet connectivity. The extension of these projects nationwide will reduce the digital divide between the urban and rural areas. The Government's decision to teach Mathematics and Science in the English language beginning this year, while enhancing proficiency in the language, will also provide students with access to the greater wealth of knowledge in the fields of science and technology. The implementation of single-session schools further ensures that students have effective access to both academic as well as co-curriculum activities and nurture a balanced and all-round development. Such programmes will also equip students with the required knowledge to achieve excellence in education while creating easily trainable and higher quality workforce.

Human resource development, a prerequisite to the enhancement of productivity and efficiency, was given a further boost with an additional allocation of RM500 million to the Skills Development Fund (SDF) for the provision of loans to students pursuing studies in the vocational and technical fields. A Retraining Fund of RM100 million towards re-skilling of new graduates in fields of ICT and accountancy was also established under the Package. Since its inception in 2001, the SDF has trained about 121,000 persons and, with the extra funding, another 76,000 will be trained this year.

The Government continuously improves the National Occupational Skill Standards (NOSS) as a means of maintaining the quality of training in order to meet industrial needs. As at June, there are more than 658 NOSS covering basic, intermediate and advanced training levels. Recognising the need for highly skilled human resource, in line with the transition to higher value-added industries, a total of 2,380 workers is expected to be trained by the end of 2003 in the areas of electrical and electronics, avionics and automotive-related trades. Training schemes for graduates were also provided by corporations such as Tenaga Nasional Berhad, PETRONAS, and Telekom Malaysia Berhad, which apart from improving their skills and marketability, also serve to provide temporary relief in graduate unemployment.

Within the ICT agenda, the penetration rate in Internet usage has surged from 10.6 per 100 population in 2000 to 20.0 per 100 population in 2003 for urban areas as at end-June 2003. As for the rural areas, the progress is also almost two-fold from 1.3 to 2.5 per 100 population for the period under review. Internet connectivity is also being extended to 750 locations for rural schools through the SchoolNet Programme, public libraries as well as clinics throughout the country. As a result of Government programmes, In the Government sector, the establishment of the electronic-government (e-Government) is an initiative towards accelerating information flows and expediting transactions, such as through the e-Procurement and e-Payment.

Malaysia's overall ranking in **world competitiveness,** as reported in the IMD World Competitiveness Yearbook 2003, jumped six notches from the 10th position in 2001 to 4th position out of 30 countries in 2003. It retained the top spot in sovereign competitiveness with respect to Government efficiency, for its pro-business economic policies, fiscal policy on taxes and business legislation that facilitate business activities and foster entrepreneurship. Despite the challenges, Malaysia's sovereign rating was maintained at BBB+ with positive outlook for the year.

Developing New Sources of Growth

Progress made in services, tourism and ICT ...

The concerted efforts of the Government to broaden the economic base and develop new sources of growth have resulted in a gradual shift from over-dependence on a narrow range of export-earning products. The **manufacturing** sector remains the second largest contributor to GDP growth. E&E still accounts for the major share of about 39% of manufacturing sector, of which about 30% comprises semiconductors. However, exports of chemical & chemical products have become increasingly important with RM11,347 million being exported in the first half of 2003 compared with RM9,135 million in the same period last year. Exports of higher value-add products, such as fashionable apparel, footwear and accessories have also featured more in manufacturing exports, comprising 3.2% of total manufacturing exports. In line with the concerted effort towards a domestic-driven economy, construction-related industries, mainly cement, steel and concrete, rebounded to register 11.5% growth during the period against 0.8% recorded in 2002.

In **agriculture,** while industrial crops and food commodities will remain the mainstay, greater emphasis will be given to exploring new agriculture activities that are still largely untapped but with high growth potential. Among the new activities identified, aquaculture has been successful, registering an estimated output of 197,000 tonnes in 2003 against 117,000 tonnes in 2000. Of late, ornamental fish output has also been on the uptrend following higher demand from Taiwan and Singapore. Efforts were intensified towards establishing Malaysia as a regional hub for the production and distribution of *halal* food products to tap the lucrative global market for *halal* food products potentially worth RM1.63 trillion a year. Following the attractive prospects for such ventures, local industries have embarked on the production of *halal* food and is expected to capitalise on incentives offered by the Government, especially pertaining to product promotion and branding. Government measures continue to support the development of the integrated value chain of related services, such as distribution, marketing, packaging and export.

The **services** sector remains the largest contributor to GDP with a share of 56.8% share in 2003. The **tourism** industry accounts for 4.8% of GDP, while over 30% of retail sales are generated from tourist-related activities. Efforts to promote Malaysia as the preferred tourist destination paid off with total tourist arrivals reaching a record high of 13.3 million, contributing foreign exchange earnings of RM25.8 billion in 2002. However, tourism was affected by the outbreak of SARS and the Iraq war when tourist arrivals plunged to a record low of 457,900 in April, 58.4%, lower than the 1.1 million monthly average for 2002. Arrivals from China, Taiwan, Hong Kong and Singapore were lower due to travel restrictions, as part of measures to contain the spread of SARS. Despite this, with the abatement of SARS, the Government is confident that the tourism industry will pick up during the second half of the year, as shown in the increase in tourist arrivals in July to 753,000. Various measures implemented by the Government, such as the establishment of the Tourism Infrastructure Fund (TIF) to develop more tourism products and the Malaysia My Second Home campaign, are expected to attract more visitors from China, Japan and the Middle-East.

The Government, through Budget 2003 and the Package, has also increased the TIF to RM1 billion as part of its efforts to promote the tourism industry by improving and developing new tourism products to attract more tourists. As at end-July, six applications involving RM150.3 million were approved for projects involving the construction of four integrated tourism centres, a theme park and a marina.

Healthcare is an area with high potential for further expansion since the level of expertise and the standard of equipment and facilities in both public and private hospitals have reached international standards. There has been an increasing number of foreigners seeking health treatment and services in Malaysia, including in areas of cardiology, hematology, dermatology and neurology, from 56,100 patients in 2000 to 84,600 patients in 2002. Foreign exchange earned from foreign patients amounted to RM36 million in 2002. Until March this year, 34,400 foreign patients spent RM13.3 million for treatment in private hospitals in the country. The attractiveness of the healthcare industry in Malaysia, in addition to being well-equipped with adequate, highly trained specialists, state-of-the-art machines and equipment, facilities and comprehensive support services that are comparable to hospitals abroad, also lie in its cost competitiveness. Based on figures by the Association of Private Hospitals of Malaysia, a cardiac bypass at a premier private hospital in Malaysia costs an average of USD6,300, significantly lower than the USD10,400 charged in a neighbouring country. The Government has identified 44 out of 224 private hospitals in the country as part of its health tourism programme and with concerted Government efforts in promoting healthcare as a tourism product, health tourism is set to expand further. With improvements in health infrastructure from continuous investment in capacity building, Malaysia is also poised to become a global health information hub for the region.

Development in the **health** sector, particularly in worldwide sharing of health information, saw the initiation for the establishment of the Global Information Centre spearheaded by the Institute of Medical Research (IMR), in July 2003. With respect to the development of integrated medicine, R&D work will take off in the year with prospects for commercialisation in the fields of traditional and complementary medicine, herbal medicine as well as vaccinology, involving the Herbal Medicine Research Centre and the newly-formed National Institute of Natural Products and Vaccinology. In the area of biotechnology for health, four projects are being undertaken involving the collaboration of research institutes and universities. In relation to this, the BioValley project that has taken off with the first phase due for completion in 2006, would house most of the biotechnology research work in health. In order to further improve health services in the country, the Government has also allowed the recruitment of 1,000 health professionals from foreign countries.

Recent efforts in fostering **education** as a tourism product include the establishment of four new promotion offices in Saudi Arabia, China, Indonesia and Vietnam. There are already 17 public institutions of higher learning in the country with established world standards while in the private sector, 30 institutions have been accredited with high standards at the tertiary level. In 2002, local institutions attracted 28,495 foreign students with China heading the list with 11,058 students, followed by Indonesia (7,503), India (1,409), Thailand (1,369), and Singapore (1,296). The number is expected to reach 30,000 by year-end, facilitated by improved and more liberal immigration procedures as well as allowing private agencies to recruit foreign students.

The objective of promoting **venture capital,** apart from generating new sources of growth and stimulating a domestic-driven economy, is to nurture entrepreneurial development in new ICT investment. As at April 2003, from a total of RM500 million allocated to Malaysian Venture Capital Management Berhad (MAVCAP), a sum of RM132.83 million has been committed for investment. Under the Package, an additional allocation of RM100 million was provided to MAVCAP to spearhead investment in seed ventures through the Cradle Investment Program (CIP), which was launched in July 2003. This ICT-related fund has been utilised to provide bridging finance for venture companies involved in ICT in the form of zero-interest loans for durations of up to 10 years. There were 35 projects in six main categories, namely information technology, network and communications, biotechnology, electronics, medical and health as well as semiconductors. MAVCAP has invested in eight companies for direct ventures and twelve for seed ventures. In order to widen the network for sourcing more quality and capable entrepreneurs, the Government, through MAVCAP has appointed four companies under its outsourcing program. Apart from that, in providing the impetus towards the promotion of innovation and creativity in sectors not entirely related to ICT, the Government established a new fund of

RM1 billion for non-ICT ventures, for which several companies have indicated interests in utilising the fund in the areas of advanced manufacturing and biotechnology.

The **Multimedia Super Corridor (MSC)** continues to show progress in providing infrastructural support for the development of ICT industries as the country moves towards a knowledge-based economy. By August 2003, 914 companies, comprising 20% foreign companies, were awarded MSC status. Planned investment in the designated areas covering activities of IT services and software development has reached RM13 billion, an increase of 34% against the previous year. The MSC has since created 21,270 jobs, out of which 86% involves knowledge workers. Currently, 59 world-class companies operate in MSC as against 53 the year before. Reflecting improved demand in the technology sector, total sales generated from the MSC amounted to RM5.85 billion, of which 17.5% were from exports.

Improving the Delivery System

The success of national development policies and strategies hinges upon efficient and effective **delivery systems** in both the public and private sectors. Improving public sector service both in terms of quality and the speed of delivery is a continuing agenda for the Government. While the remuneration for civil servants has gradually improved over the years both as an incentive as well as to attract higher caliber personnel, the implementation of the Malaysian Remuneration System this year will further provide the impetus for the civil service to achieve excellence in its output. Going by the indicator of allocation expended as a measure of the effectiveness of the delivery system, by year-end it is anticipated that all allocations for 2003 will be fully spent, indicating the swift implementation of planned programmes and projects for the year.

While Budget 2003 acknowledged the need to further improve the delivery system, the Package has also instituted specific measures to facilitate private sector activities as well as public sector performance in general. In ensuring efficiency and timeliness in the delivery system, standard guidelines for processing of applications for licences, land, and building plans were given more clarity and agreed upon by the federal, state and local authority levels. These guidelines addressed matters within the purview of the respective areas of jurisdiction and focussed on the congruence of policies and measures among the various authorities. The various measures aim at reducing red tape and eliminate unnecessary procedures in processing applications for approvals, such as the setting up of one-stop agencies to improve coordination. In the case of the Malaysian Industrial Development Authority (MIDA) for the manufacturing sector, specially appointed project officers will now *hand-hold* and assist investors in obtaining all necessary approvals for projects right up to the operational stage. For SMEs, apart from the more liberalised terms and cheaper cost of borrowing offered through DFIs, commercial banks also provide special windows to facilitate applications, processing and onward approvals for SME loans.

Processing and approvals for building plans and certificates of fitness for occupancy were also streamlined and expedited through the establishment of one-stop centres at the state as well as local government levels. All relevant Government agencies at the federal, state, district and local levels have responded positively to the recommendations encompassed in the Package covering processes pertaining to licences, land matters, billings and payments, including the use of ICT in such undertakings, where appropriate. The validity period of licenses and permits for business and investments will also be extended to reduce the burden of frequent renewals. The duration for approvals of building plans is shortened to 12 weeks and the issuance of certificates of fitness for occupancy reduced to four weeks. As regards land alienation and conversion, a fast track approach has been adopted, whereby approval is decentralised from the state government to the state Director of Land and Mines or the Land Administrators at district levels.

The establishment of e-Government is an initiative towards improving information flows and processes, focussing on effective and efficient delivery of Government services to the people. This is made possible through Internet access to all ministries and departments that have since established their own Internet homepages. The Internet Civil Service Link portal also provides public access to the Government machinery while the Public Complaints Bureau continues to resolve public complaints received through relevant Government agencies. The Project Monitoring System, which has been installed in all 25 ministries and 14 states, aims to monitor the implementation of Government projects. In addition, electronic procurement, which covers services pertaining to central contract and direct purchases, has been extended to include procurement by tender and price quotation. This programme has helped to simplify and facilitate processes in Government procurement while its linkage to the Accountant General's office will further expedite payments to contractors.

The progress made at all levels of Government administration in the delivery system, thus far, has enhanced the nation's competitiveness. Efforts towards continuous improvement in the delivery system will be undertaken to ensure smooth and effective implementation of policies and strategies.

Continuing the Social Agenda

Government policy measures have contributed to balanced growth and improved the quality of life.

Arising from Government efforts in enhancing the economic well-being of the *rakyat*, there has been all-round improvement in the quality of life for Malaysians. Despite the anxiety with respect to SARS and sporadic incidents of terrorist attacks in neighbouring countries, Malaysians continue to enjoy a peaceful, harmonious and stable socio-economic environment. Continued growth in the economy has contributed to the higher **per capita income** of RM14,343 in 2003 against RM13,683 in 2002. The **purchasing power parity** has also improved from USD8,862 to USD9,390 in the same period.

Towards achieving a more balanced growth and equitable sharing of wealth, RM2.56 billion, representing a 36% increase from the previous year, was expended for programmes in **rural** areas. These programmes include agricultural extension services and fertiliser subsidies, rural roads, electricity and water supply, rural health clinics and schools. About 12,400 additional households benefitted from the rural electrification programme while under the rural water supply project, an additional 41,300 households were provided with potable water at the cost of RM99.5 million and RM102.4 million, respectively. Further improvements were made in the provision of land transport network in rural areas to enhance rural economic development through the construction of 7,600 kilometers of rural and *kampung* roads, costing RM582.7 million in 126 districts nationwide. The *Orang Asli* community continues to enjoy better health and educational facilities and higher earning capacity through economic extension programmes in farming and cottage industries, especially handicrafts.

Socio-economic issues were also addressed by the Package, especially in respect of providing affordable houses for the low-income group as well as facilitating small businesses. Apart from the micro credit scheme provided to small businesses, including retailers in both urban and rural areas, the Government also introduced the Home Ownership for the People (HOPE) programme. Under this programme, new buyers of houses below RM100,000 will be given subsidy on interests, interest-free loan for deposits, rebates and tax relief on interest payments. By end-August, 85 applications were received and 57 approved involving RM3.4 million and RM2.1 million, respectively. In line with the Government's objective to provide more affordable houses, Syarikat Perumahan Negara Berhad (SPNB) will build 150,000 affordable houses for the low-income group, for which 25,815 units are made available this year. A unique home ownership programme was also introduced, whereby employees of the armed forces, police personnel, widows of civil servants and single mothers who do not own houses, would be eligible to own houses provided by SPNB through a rent-with-option-to-purchase arrangement at a rate of RM50 per month. As at end-July, 40 units of low-cost apartments were in the process of being rented out while another 450 units were in the process of being acquired by SPNB from developers under this programme.

With regards to addressing social problems, particularly in combatting social ills including violence, drug abuse, juvenile delinquency, rape, and a host of other criminal and anti-social activities, the Government launched the **National Social Policy** in August to enhance social development through the forging of noble values at all levels of society throughout the country. In addition, the various programmes under Rakan Muda continued to help foster positive values among youths. Apart from providing the platform for preventive measures under the programme, the Government also continued to provide the social safety net and care for the handicapped, homeless and the poor through various welfare programmes. In this regard, participation of non-governmental organisations (NGOs) has complemented the efforts of the Government, particularly in caring for the handicapped and the elderly, suggesting the strong presence of social voluntarism in the country. In recognition of their role in nation building, RM67.8 million was provided as financial support to NGOs to help raise their effectiveness in rendering services including welfare, caring for the disabled, family development, haemodialysis, as well as drug rehabilitation.

Outlook for 2004

Stronger broad-based growth with higher value-added activities

World growth and trade are expected to improve with most economic activities returning to normalcy. Business confidence and sentiment will, however, be cautiously optimistic against the backdrop of threats from terrorist attacks. World growth is still hinged on the modest performance of the US economy with the euro area still marked by relative weakness although Japan, the world's second largest economy, is showing signs of a more definitive path of sustained positive growth. Overall, indications point towards an improved outlook and higher optimism for 2004, despite the downside risks. Upbeat stock market activities across major bourses into the second half of 2003 should bolster optimism for a firmer global economic recovery. Thus, world economy is expected to post a higher growth of 4% with the US, euro area and Japan registering growth of 3.6%, 2.3% and 1%, respectively in 2004.

On the **regional** front, with the containment of SARS and the positive impact following the implementation of various economic relief packages introduced by SARS-affected countries, regional growth is envisaged to further accelerate in 2004. China is expected to continue on its strong growth track to register 7.5% GDP growth in the coming year. Together with most of the ASEAN economies gaining strength and with intra-regional trade expanding, the Malaysian economy is forecast to register a faster growth in 2004.

The underlying **strategic thrusts** of macroeconomic management for 2004 are premised on a more dynamic and vibrant private sector supported by the enabling and conducive environment put in place through various measures over the years. The Government will continue to play the facilitative role in enhancing the effectiveness of the delivery system. Complementing each other, the private and public sectors will work in close cooperation and partnership within the spirit of Malaysia Incorporated, thereby enhancing sovereign competitiveness and long term growth and sustainabilitty. To enable the private sector to lead the economy, concerted efforts will be made to encourage private initiatives in new sources of growth, particularly in value-creating activities in services and agriculture.

Measures will be taken to develop and transform the agriculture and rural sector into a more dynamic income-generating economic base. This sector is expected to capitalise on the Government's pro-growth measures to unveil its potential and contribute higher value-add to the economy. In the trade sector, building upon its strength as the 17th trading nation in the world, efforts will be made to intensify the promotion and marketing of Malaysian products and brands. Notwithstanding the emphasis on the creation of economic wealth, the social agenda towards a caring society will continue to be accorded due importance, particularly with respect to elevating the standard of living and the quality of life of the populace, especially of the poor, handicapped, aged and the less fortunate.

In consonance with the commitment to balance the budget in the near term, the Government's **fiscal** stance will be the deliberate tightening of public spending to rein in the deficit that had occurred over the last six years. Total budgetted expenditure will be reduced by 1.1% with a larger decline of 21.1% in the development expenditure. The lower budget expenditure by the public sector signals the clear path towards fiscal consolidation after several years of budget expansion to sustain growth momentum. Hence, the overall financial position of the Federal Government is envisaged to be stronger, with deficit reined in from 5.4% to GDP in 2003 to 3.3% in 2004 while the consolidated public sector will register a surplus position.

Development expenditure will be prioritised towards committed and approved projects under the mid-term review of the Eighth Malaysia Plan, especially those with strong linkages and value creation potential in the economy. Particular attention will be directed towards modernising and nurturing the agriculture and rural sectors to position them as significant growth-generating sectors of the economy. Despite a reduction in the budget, expenditure for rural development is expected to double in 2004 for programmes including roads, education, health, and basic amenities, such as water and electricity. In general, the public sector presence in the economy will focus on sustaining public services and improving the delivery system whilst lending support towards the development of a knowledge-based economy as a means to increase productivity and efficiency and, hence, sovereign competitiveness.

In order to support domestic economic activities, the **monetary** policy is expected to remain accommodative amid ample liquidity in the system and subdued inflation. The accommodative monetary policy will facilitate domestic consumption and business activity while making funds more accessible and at a lower cost to benefit a wider spectrum of society.

Growth is expected to be broad-based with all sectors in the economy registering higher output with services and manufacturing continuing to spearhead growth. Growth is also expected to emanate from the domestic sector as well as pick-up in the external sector, following improved world prospects. Following the introduction and implementation of comprehensive measures to enhance the vibrancy of the economy and the medium and long-term competitiveness of the private sector, the private sector is envisaged to drive economic growth with private expenditure expected to be robust at 7.5% and further acceleration in private investment of 9.9%.

The strengthened macroeconomic fundamentals and a more broadly balanced economic structure with emerging new sources of growth will provide the foundation for sustained higher growth. Alongside pragmatic macroeconomic management and the pro-growth measures in place to support private sector initiatives, Budget 2004 will further enhance competitiveness and reinforce the resilience of the economy against likely destabilising external factors and garner higher economic growth for the country. The Malaysian economy is, therefore, targetted to achieve a stronger GDP growth of 5.5%-6% for 2004.

Economic Performance and Prospect

ECONOMIC REPORT

2

Overview

Economic growth remains steady...

The Malaysian economy remains resilient to post a higher real gross domestic product (GDP) growth in the first half of 2003, despite the adverse external economic environment. While the outbreak of the Severe Acute Respiratory Syndrome (SARS) in the region had some transitory negative effects on tourism-related industries, it did not significantly impact the overall performance of the economy in the first half of the year. Consumer and business sentiments are expected to be further enhanced following the containment of SARS and better world economic outlook anticipated for the rest of the year. Hence, growth momentum is envisaged to continue in the second half of 2003. Overall growth for the year is estimated at 4.5%. Growth is expected to be across the board, driven largely by services and manufacturing output.

The steady economic performance, underpinned by stronger domestic demand and mild growth in the external sector, reflects the cumulative effect of the pro-growth fiscal and monetary policy measures. The growth was achieved in an environment of low inflation amidst stable labour market conditions. Further build-up in international reserves arising from larger current account surpluses and high commodity prices as well as better capitalisation and restructuring of the banking and corporate sectors have strengthened macro economic fundamentals. In tandem with higher expansion in economic activities, national income is envisaged to increase by 7.1% to RM359,259 million with per capita income rising by 4.8% to RM14,343 (2002: 6.4%; RM13,683), leading to a better standard of living. Likewise, per capita purchasing power parity is estimated to increase by 6% to USD9,390 (2002: 6.3%; USD8,862).

Domestic Demand Performance

Sustained consumption drives domestic demand to support stronger growth...

In an environment of increasing external uncertainties, domestic demand has proven to be a major contributory factor to economic growth over the past few years. Overall, the economy has become more resilient as domestic demand continues to drive growth in the face of a weak external sector. As business and consumer confidence gains further momentum, boosted by the introduction of the Package of New Strategies towards stimulating the nation's economic growth (Package) in generating economic activities by mobilising domestic sources of growth, **domestic demand** (excluding changes in stocks) is expected to strengthen by 5% and contribute 4.5% to GDP growth, as shown in *Table 2.1*.

After two years of lacklustre performance, **private sector expenditure** is likely to grow by 4.6% and contribute 2.6 percentage point to GDP growth (2002: 0.4 percentage point), due to sustained consumption and upturn in investment activity. Growing strongly at an estimated 5.8%, **public sector expenditure** is envisaged to contribute 1.9 percentage point to GDP growth.

Private consumption, which has been resilient despite the negative impact of global uncertainties arising from the Iraq war and the outbreak of SARS, is expected to expand at a faster pace of 5.2% in 2003 compared with 4.4% in 2002. The strong performance is largely supported by higher disposable income arising from more buoyant domestic activities, favourable commodity prices and the positive wealth effect on account of the rising stock market. The introduction of

TABLE 2.1

Gross Domestic Product (GDP) by Aggregate Demand
(in 1987 real prices)

	Change (%)			Contribution to GDP growth (%)			Share of GDP (%)		
	2002	2003[1]	2004	2002	2003[1]	2004	2002	2003[1]	2004
GDP	*4.1*	*4.5*	*5.5-6.0*	*4.1*	*4.5*	*5.5-6.0*			
Domestic demand[2]	*4.2*	*5.0*	*4.7*	*3.7*	*4.5*	*4.3*	*89.6*	*90.0*	*89.4*
Private expenditure	***0.7***	***4.6***	***7.5***	***0.4***	***2.6***	***4.3***	***56.8***	***56.9***	***58.0***
Consumption	*4.4*	*5.2*	*7.0*	*2.0*	*2.4*	*3.3*	*46.5*	*46.8*	*47.5*
Investment	*-13.1*	*2.0*	*9.9*	*-1.6*	*0.2*	*1.0*	*10.3*	*10.1*	*10.5*
Public expenditure	***10.8***	***5.8***	***-0.1***	***3.3***	***1.9***	***0.0***	***32.8***	***33.1***	***31.4***
Consumption	*12.2*	*7.2*	*4.9*	*1.6*	*1.0*	*0.7*	*14.3*	*14.6*	*14.6*
Investment	*9.8*	*4.6*	*-4.1*	*1.7*	*0.9*	*-0.7*	*18.5*	*18.5*	*16.8*
Change in stocks	–	–	–	*2.5*	*-0.9*	*0.3*	*1.6*	*0.7*	*0.9*
External sector	***-18.9***	***10.2***	***9.9***	***-2.1***	***0.9***	***0.9***	***8.8***	***9.3***	***9.7***
Export[3]	*3.6*	*1.0*	*5.9*	*3.9*	*1.1*	*6.2*	*107.5*	*103.9*	*104.4*
Import[3]	*6.2*	*0.2*	*5.6*	*6.0*	*0.2*	*5.3*	*98.7*	*94.6*	*94.7*
GDP (RM billion, current value)	**360.7**	**385.8**	**411.1**						
Change (%)	*7.9*	*7.0*	*6.6*						

[1] Estimate.
[2] Excluding change in stock.
[3] Goods and non-factor services.

the Package in May 2003, which includes a 2% reduction in contribution to the Employees Provident Fund (EPF), a half-month bonus to civil servants and a lowering of interest rates to encourage consumption are also expected to contribute to strong consumption performance for the year. Improved consumer sentiment is reflected in several key consumption indicators, including imports of consumption goods, production of household refrigerators and credit card spending, which have increased between 2.1% to 18.5% for the first half of the year, as shown in *Chart 2.1*.

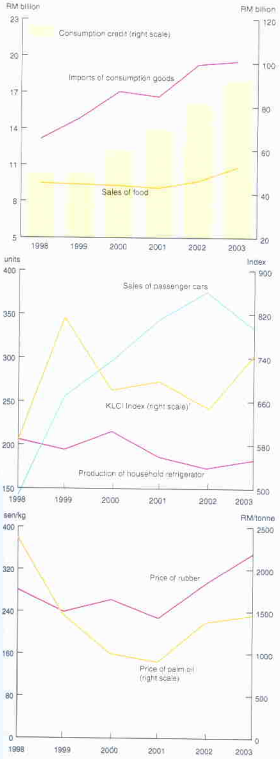
In tandem with improving business confidence and the regaining strength of the corporate sector, **private investment** outlay is expected to turn around and grow moderately by 2%, after two consecutive years of negative growth.

The pick-up in private capital outlay is reflected in several key indicators. These include import of capital goods (excluding transport equipment), sales of commercial vehicles, primary iron and steel, cement and concrete products and production of ready-mixed concrete, which increased between 5.7% and 16.5% during the first half of the year, as shown in *Chart 2.2*.

The value of applications for investment projects in the manufacturing sector, received by the Malaysian Industrial Development Authority (MIDA), was up by 57.6%. A total of RM9.7 billion was recorded for the first half of the year (January-June 2002: RM6.2 billion). Investments by domestic investors remained large at 59.3% or RM5.8 billion of the new applications, reflecting the positive response to the Government's policy to enhance domestic investment to drive growth.

CHART 2.1

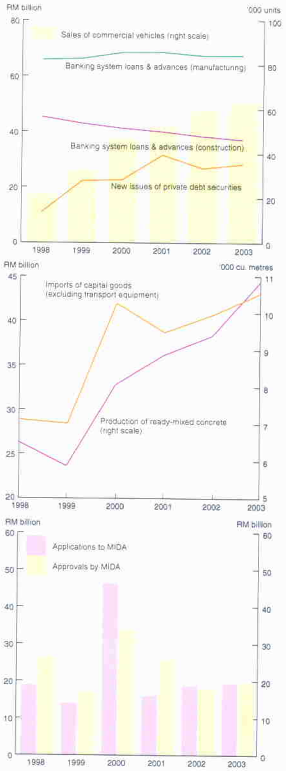
Private Consumption Indicators



[1] As end of the year and as at 25 August 2003.

CHART 2.2

Private Investment Indicators



The bulk of applications received were in the electrical and electronics, transport equipment, food manufacturing, machine manufacturing, rubber products, non-metallic mineral products as well as petroleum and petrochemical sub-sectors. Applications for investments are expected to increase further during the second half of the year, as global uncertainties recede with the end of the Iraq war and the containment of SARS.

In the light of the need to balance the budget in the medium term, public expenditure is budgetted to grow at a slower pace in 2003 at 5.8% compared to 10.8% in 2002. Public investment will decelerate to 4.6% and public consumption, 7.2%.

Sectoral Performance

Growth will be broad-based with manufacturing and services providing the impetus...

On the supply side, growth is anticipated across the board, with higher growth in manufacturing, services, mining as well as construction. After expanding at 5.9% in the first half of 2003, the manufacturing sector is expected to record a growth of 6.5% for the year, as shown in *Table 2.2*, given the better world economic outlook and continuing recovery in the electronics sector. The services sector, recovering from the SARS impact in the second quarter, will register a slightly higher growth rate of 4.2%. Growth in this sector is expected to emanate from finance, insurance, real estate and business services as well as utilities in line with the expanding manufacturing sector and improving domestic demand.

Meanwhile, higher production of palm oil, largely underpinned by increasing external and domestic demand as well as higher prices are expected to contribute significantly to the 2.3% growth in value added of the agriculture sector. Value added in the mining sector is envisaged to increase 4.5%, supported by higher production of natural gas with the coming on-stream of the third liquefied natural gas plant (MLNG3) in Bintulu. The construction sector is expected to register a slightly stronger growth of 2.5%, driven by the development of infrastructure projects and

TABLE 2.2

Gross Domestic Product (GDP) by Sector
(in 1987 real prices)

	Change (%)			Contribution to GDP Growth (percentage point)			Share of GDP Value Added (%)		
	2002	2003[1]	2004	2002	2003[1]	2004	2002	2003[1]	2004
Agriculture, forestry and fishing[2]	*3.0*	2.3	*3.0*	*0.2*	*0.2*	*0.3*	*8.4*	*8.2*	*8.0*
Mining	*3.7*	*4.5*	*3.5*	*0.3*	*0.3*	*0.3*	*7.2*	*7.2*	*7.1*
Manufacturing	*4.0*	*6.5*	*7.2*	*1.2*	*1.9*	*2.2*	*30.1*	*30.6*	*31.1*
Construction	*2.3*	*2.5*	*2.6*	*0.1*	*0.1*	*0.1*	*3.3*	*3.3*	*3.2*
Services	*4.1*	*4.2*	*5.5*	*2.3*	*2.4*	*3.1*	*57.0*	*56.8*	*56.8*
(-) Imputed bank service charges	*5.3*	*5.7*	*6.9*	*0.4*	*0.5*	*0.6*	*8.5*	*8.6*	*8.7*
(+) Import duties	*16.7*	*2.6*	*7.1*	*0.4*	*0.1*	*0.1*	*2.5*	*2.5*	*2.5*
GDP	***4.1***	***4.5***	***5.5-6.0***	***4.1***	***4.5***	***5.5-6.0***	***100***	***100***	***100***

[1] Estimate.
[2] Includes livestock and horticulture.

Source: Department of Statistics.

renewed interest in housing activity following the implementation of several incentives for the industry in the Package.

Manufacturing Sector

Manufacturing output remains strong as industry migrates to higher value-added products...

Malaysia's manufacturing sector is all geared up for better times ahead, as output strengthened further starting February this year, as shown in *Chart 2.3*, on the back of higher growth of domestic-oriented industries and better performance of export-oriented industries. Domestic-oriented industries recorded double digit growth, spurred by higher consumption in food and beverages, and continuing demand for products of construction-related industries, particularly non-metallic minerals such as cement and concrete as well as higher growth of fabricated metal products in the second quarter of 2003. With the increased activities of the manufacturing sector, demand for natural gases surged upward, and contributed to higher growth of the domestic-oriented industries, in particular the industrial gases sub-sector. The export-oriented industries also performed better in 2003 and recorded a moderate growth during the first six months, due to a rebound in rubber products and textile industries, particularly the apparel.

Overall, output of the manufacturing sector expanded by 7.8% in the first six months (January-June 2002: 1.4%). The better-than-anticipated growth was the result of higher production of 7.9% in the second quarter 2003 (second quarter 2002: 6.5%). Total value of finished products and goods-in-process was about 53% or less than one month stock of the RM27,694.8 million sales made in June. The lean stocks, together with broad-based growth in both domestic as well as external demand, is expected to improve capacity utilisation of the sector to more than 80% this year.

CHART 2.3

Industrial Product Index (IPI)
(% annual change)

Source: Department of Statistics

The **export-oriented industries** contributed slightly more than half of the total output of the manufacturing sector and were able to sustain their contributions for the first half of the year, as shown in *Table 2.3*. Their performance was sustained by an upturn in demand, particularly for rubber products and apparel. Increased external demand due to SARS, had boosted production of rubber gloves by 9.4% for the first half of 2003 (first half 2002: -4.6%). The E&E sector maintained its position as the major contributor, despite a slower growth of 4% during the first half of this year, on account of strong growth of semiconductors, ventilating and air conditioning as well as electronic equipment.

Electronic equipment manufactured mainly comprised data processing equipment, communications, automotive, military and civil aerospace equipment as well as consumer electronic products. Products which showed increasing export trends were chemical and chemical products, including pharmaceuticals with a total market value of RM1.6 billion and oleochemicals for which Malaysia accounted for about 20% of world's production.

TABLE 2.3

Manufacturing Production Index
January - June
(1993 = 100)

	Change (%)				Share (%)	
Sectors	2002	2003	2003 Q1	2003 Q2	2002	2003
Export-oriented industries:	***2.0***	***4.3***	***5.5***	***3.1***	***52.3***	***50.6***
Electrical, electronics and machinery:	*5.1*	*4.0*	*5.4*	*2.7*	*40.4*	*39.0*
Semiconductors	*10.4*	*7.3*	*8.6*	*6.1*	*30.5*	*30.4*
Ventilating & air conditioning	*-23.4*	*10.7*	*17.2*	*5.1*	*2.6*	*2.7*
Professional, scientific, measuring and controlling equipment	*-0.3*	*5.0*	*12.2*	*-0.5*	*0.8*	*0.7*
Rubber products	*-2.3*	*10.7*	*9.6*	*11.8*	*4.5*	*4.6*
Wood products	*-10.9*	*1.7*	*-4.6*	*-0.7*	*3.7*	*3.5*
Textiles, apparel and footwear	*-10.8*	*1.7*	*0.8*	*2.5*	*3.0*	*2.8*
Apparel	*16.3*	*16.2*	*8.8*	*23.8*	*1.1*	*1.2*
Domestic-oriented industries:	***0.8***	***11.5***	***9.8***	***13.2***	***47.7***	***49.4***
Plastic and chemical products	*-5.6*	*19.7*	*16.4*	*23.3*	*17.2*	*19.1*
Plastic products	*-6.0*	*27.5*	*31.3*	*24.2*	*6.5*	*7.7*
Chemical and chemical products	*-22.8*	*15.1*	*8.6*	*22.6*	*10.7*	*11.4*
Industrial chemicals	*-0.7*	*16.4*	*9.3*	*25.1*	*9.0*	*9.7*
Food, beverages and tobacco	*1.2*	*11.7*	*6.6*	*16.7*	*10.0*	*10.3*
Construction related industries:	*5.5*	*13.2*	*9.6*	*0.3*	*11.6*	*11.8*
Iron and steel	*0.4*	*9.3*	*16.9*	*2.6*	*3.0*	*3.1*
Fabricated metal products	*10.1*	*9.0*	*3.8*	*13.4*	*4.6*	*4.6*
Non-metallic mineral	*13.3*	*11.5*	*10.6*	*12.3*	*4.0*	*4.1*
Crude oil refineries	*-1.8*	*9.3*	*3.6*	*15.4*	*1.3*	*1.3*
Paper and paper products	*7.7*	*6.1*	*15.1*	*-1.5*	*1.5*	*1.5*
Miscellaneous products of coal and petrol	*-14.1*	*8.2*	*-5.2*	*25.6*	*0.3*	*0.3*
Glass and glass products	*-32.2*	*2.6*	*3.2*	*2.1*	*0.4*	*0.4*
Non-ferrous metal	*1.7*	*6.2*	*16.2*	*-1.5*	*0.8*	*0.8*
Transport equipment	*15.4*	*-10.2*	*-6.6*	*-13.6*	*4.8*	*4.0*
TOTAL	***1.4***	***7.8***	***7.6***	***7.9***	***100.0***	***100.0***

Source: Industrial Production Index, Department of Statistics.

Domestic-oriented industries, as shown in *Chart 2.4*, continued to grow, rebounding at 11.5% after recording a lacklustre growth of 0.8% in 2002. Growth of these industries, particularly plastics which produces parts for household appliances such as refrigerators, washing machines, electric ovens and blenders was boosted by the measures of the Package to stimulate consumption which increased disposable income and contributed to the growth of these industries.

The **E&E industry**, which recorded a turnaround in April 2002, slipped to a lower growth of 4% in the first half of 2003, underpinned by slower growth in the manufacture of semiconductors and electronic components, as shown in *Table 2.3*. However, demand for computers and computer peripherals is expected to pick up with the resumption of the academic year of colleges and universities in May, and the cyclical replacement of obsolete PCs. Additionally, the national roll-out of *MyKad* and the introduction of *bankcards* to replace the old magnetic automated teller machine (ATM) card, resulted in the expansion of the industry into production of embedded microchips with higher memory.

Signs of recovery are also seen in the US electronics market such as the improving book-to-bill (BTB) ratio of North America's electronics equipment industry. An increase of 0.3% in consumer spending in June and a 44.1% boost in US defence expenditure are expected to push demand higher for electronic equipment and semiconductors. The global demand for electronic products, estimated at RM4,028 billion in 2002, is expected to increase by about 10% - 12% in 2003, thereby providing positive impact on the performance of this industry in Malaysia.

There has been an increasing demand for Malaysia's semiconductors from the East Asian countries, especially China and Hong Kong SAR, which recorded double digit growth for 12 consecutive months since April last year, following

CHART 2.4

Growth of Domestic and Export-oriented Industries
(% annual change)

Source: Department of Statistics

increases in outsourcing activities from the region. E&E which accounts for 18.5% of the RM18.8 billion capital investment received is forecast to grow stronger in 2003, with cellular phones leading the growth, followed by hard and optical disk drives and video game devices.

This has resulted in the growth and development of the plastics and metal industries. While the former produces components for the production of new and trendy ICT devices such as hand-held computers and mobile phones equipped with digital cameras, the latter produces metal parts required for computer hardware. The advancements in these industries had facilitated and augmented the **plastics industry** to rebound with double digit growth of 27.5% in the first six months of 2003, after recording a sharp decline in 2002.

More than one third of plastic products manufactured in Malaysia are produced for the packaging industry, with more than 80% investments by Malaysians, especially the small and medium industries. Products manufactured comprise plastic bags, plastic films, sheet and containers. In line with policies to promote the use of biodegradable materials and to enhance the use of agriculture waste, product development is geared towards higher value-added biodegradable disposable packaging household ware from pulp and palm fibre. Besides packaging materials, the plastics industry also manufactures components for automotive industry and office equipment.

Likewise, **chemical and chemical products,** as shown in *Chart 2.5*, had also benefitted from the spill-over effects of the rebound of the E&E sector and recorded a strong output growth of 15.1% in the first six months of 2003, with export constituting more than 70%. Synthetic resins in particular, had expanded from the rapid development of the sector, recording a 19% increase. Meanwhile, production of domestic-oriented chemical products especially industrial

CHART 2.5

Growth of Selected Industries

(% annual growth)

Source: Department of Statistics

chemicals, rebounded with 16.4% growth compared to -0.7% in the previous year. An upcoming sub-sector in the chemical industry is pharmaceutical products with an estimated domestic market size of more than RM2 billion.

Currently, Malaysia is the leading producer and exporter of basic oleochemicals (fatty acids, methyl ester, glycerine and fatty alcohol) with exports valued at RM2.5 billion. As consumers become more health conscious and selective in their personal care products such as cosmetics and toiletries, demand for agro-based oleochemicals are expected to increase further. Meanwhile, on-going product research to increase value-add, range from natural herbal and traditional medicines and its generic products to *halal* gelatine and veterinary medicines.

In contrast to other industries, which were adversely affected by SARS, the **rubber industry** recorded higher growth of 10.7% in the first six months of 2003, on the back of increased external demand for rubber products. Rubber gloves (medical, industrial and households gloves) constituted slightly more than 50% of total production of the industry, with rubber and latex processing, and tyres and tubes, trailing behind at 33.5% and 14.3%, respectively. The tyre industry saw an increase of almost 20% in production and sales largely due to replacement market. The rubber industry benefitted from advancements in production of high-quality new generation gloves such as low protein, powdered or powder free gloves and dry rubber products which include conveyor belts, rubber rollers and moulded rubber parts for the automotive and E&E industries. The requirement to use advanced recyclable rubber materials such as *thermoplastic expodised natural rubber* in automotive components in the European Union (EU) by 2006, also prompted the industry to produce better quality and higher performance rubber products.

Malaysia's quest for developing **heavy industries** along with the development of E&E had resulted in the nation's involvement with industries related to oil and gas, iron and metal as well as transportation and its related equipment. Industrial gases and liquefied petroleum gas (LPG) were able to sustain growth at 34.7% and 17.5%, respectively, due to demand from the manufacturing sector. Diesel and gasoline also recorded a higher growth of 10.1% in the first six months of 2003 (January-June 2002: -4.2%). Increased outputs of these products supported the turnaround in crude oil refineries to record a high growth of 9.3%.

Although business confidence has held up better with most industries recording positive growth, the **transport equipment industry**, however, plummeted to -0.2% (January-June 2002: 15.4%). Intensive promotional efforts by car dealers had not provided the impetus for growth in production of this industry as output of passenger cars dipped by 20.5% in the first half of 2003. On the other hand, production of motorcycles and scooters grew marginally by 2.9% (January-June 2002: -4.9%), helped to cushion the decline in passenger cars. Following this, the transport equipment industry contributed to 4% share of the whole manufacturing sector, as shown in *Table 2.3*. The main reason for the downward trend for passenger cars was attributed to deferred purchases by consumers in anticipation of a more liberalised car market in 2005. With the impending liberalisation under the ASEAN Free Trade Area (AFTA), consumers are waiting for better deals that will be offered by dealers and manufacturers alike.

Overall, **construction-related industries** recorded a firmer growth of 13.2% (January-June 2002: 5.5%), while the iron and steel as well as non-metallic mineral industry continued to perform better due to the continuing implementation of several public roads and low-cost houses. These industries also continued to benefit from the ongoing implementation of the Package and other efforts to stimulate residential housing and public infrastructure projects. Similarly, iron and steel also recorded positive growth of 9.3%, while cement and ready-mixed concrete recorded higher growth of 20.6% and 15.6%, respectively. With external demand anticipated to grow by more than 14% this year, and the positive effect of the implementation of large socio-economic infrastructure projects, such as the hospital *cum* apartment of Lembaga Tabung Haji in Kuala Lumpur, Petronas Hospital, Kajang Sungai Ramal Ring Road and the new Johore-Singapore bridge, the cement and concrete industry is expected to improve further, increasing capacity utilisation of the industry to above 65%.

SMALL AND MEDIUM ENTERPRISES IN MALAYSIA

Introduction

Small and medium enterprises (SMEs) represent an important segment of the Malaysian economy. They provide slightly more than one-third of total employment in Malaysia and more than half of total companies registered with the Companies Commission, as shown in *Table 1*. SMEs are excellent seedbeds for energetic and dynamic individuals to test and develop their talents and skills in business.

In Asia, the role of SMEs in industrial development is more pronounced than in the West. In some Asian countries such as Japan, Taiwan, Korea and China, SMEs are the backbone of the industrial and manufacturing sector. In South Korea, SMEs, reported to be more than one million, exist in most sectors and with strong linkages, support the conglomerates or *chebols*. SMEs in China

TABLE 1

The Importance of SMEs in Selected Economies

SMEs as % of	Contribution (%)					
	Malaysia	Japan	US	China	Korea	Taiwan
Total Establishments	92.0	99.7	n.a.	99.0	99.2	98.1
Total Employment	30.7 [1]	69.5	50.1	75.0	75.3	78.1

[1] Based on SMEs in the manufacturing sector.

Source: MITI and SMIDEC.

contribute about 50% of the country's industrial output, 60% (valued at about USD90 million) of total exports, and provide employment, particularly for laid-off workers from privatised state-owned enterprises.

SMEs in Malaysia form an integral part of the value chain in the overall production network, producing high value-added parts and components and developing themselves as downstream suppliers or service providers of the larger industries (LIs) and multinational corporations (MNCs). When the first national car was launched in 1983, SMEs spearheaded the development of supporting and ancillary industries, through the utilisation of local components required by the project. Local SME supplied RM397.9 million or 10.8% worth of parts and components for the national car in 2002 and RM154 million for the first six months of this year, or 77% of parts and components targetted to be supplied by the SMEs for 2003. SMEs form an important link as second and third tier suppliers or vendors of products such as plastic extrusions, metal stamping parts, wire harnesses and air bags.

Definition of SMEs

Currently, SMEs in Malaysia is not clearly defined, except in the manufacturing and the banking sectors. Definitions of SMEs across countries also vary even though the same parameters are applied. Two common parameters used to define SME in the manufacturing sector are sales turnover and number of employees, as shown in *Table 2*. Malaysian SMEs tend to be relatively smaller than SMEs in other countries.

TABLE 2

Definition of SMEs

Indices	Malaysia	Japan	US	China	Korea	Taiwan
Number of employees[1]	<150[2]	<300	<500[3]	<500	<300	<200
Capital/Assets/Sales turnover	<RM25 million	<yen100 million	<USD5 million	50RMB billion	20-80 Won billion	<NT$60 million

[1] Most common index used by World Bank, UNDP and other international organisations.

[2] Based on SMEs in the manufacturing sector.

[3] Manufacturing.

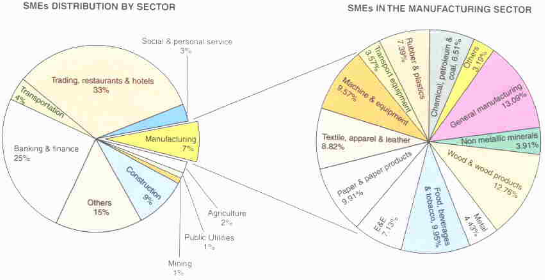
[4] Non-manufacturing

Source: MITI, SMIDEC, BNM, APEC.

Sectoral Distribution of SMEs

SMEs constitute about 92% of the total 689,160 companies registered in Malaysia. In 2002, the output of SMEs to GDP recorded a 2.5% increase while their productivity rose by 2.7% with added-value of RM35,043 per employee. The distribution of SMEs according to economic sectors, as shown in *Chart 1*, shows that SMEs tend to be concentrated in the trading, manufacturing and services sectors.

CHART 1



Source: Companies Commission, Malaysia and SMIDEC

The largest concentration of SMEs is in the trade and retail industries. Although SMEs in the manufacturing sector form only 7% of total SMEs in Malaysia, they constitute more than 90% of the total 51,606 manufacturing entities. Within the manufacturing sector, the SME are predominantly involved in resource-based industries, such as food and beverages industry and wood-based industries including paper and paper products.

Support for Development of SMEs

Currently, at least 12 ministries and 40 Government agencies are involved in the development of SMEs (including micro-enterprises) in Malaysia. The ministries and Government agencies provide a wide range of services for different target groups. In addition, various trade and business organisations also provide support services as well as represent the SMEs in various arenas. However, most agencies tend to focus on the development of SMEs in the manufacturing sector, where data is more readily available.

SMEs in the manufacturing sector, as shown in *Chart 1*, are under the purview of the Ministry of International Trade and Industry (MITI) and the Small and Medium Industries Development Corporation (SMIDEC) while cottage industries, micro-enterprises and SMEs in the rural areas come under the Ministry of Rural Development (KPLB). Meanwhile, the Entrepreneur Development Ministry (KPUn) offers entrepreneurial development programmes such as the Franchise and Vendor Development Programmes. In order to ensure a better coordinated and focussed approach to SMEs development and implementation, the Government is studying the formation of a central body to coordinate the present structure and develop a framework for the comprehensive development of SMEs.

PROGRAMMES TO ASSIST SMEs DEVELOPMENT

To enhance the contribution of SMEs as a catalyst for economic growth, the Government has initiated a comprehensive programme of strategic measures as follows:

1. *Industrial Linkage Programme*

The Industrial Linkage Programme (ILP) aims at enhancing SMEs participation as reliable and competitive suppliers of parts and components or services to the LIs/MNCs. Under this programme, as at June 2003, 181 SMEs have been appointed as suppliers to MNCs with total sales value of RM115 million. Another 11 SMEs have been appointed as suppliers to the E&E sector. To promote domestic capabilities, a partnership between SMIDEC and a foreign-based hypermarket chain in Malaysia has been formed. The partnership is to identify and develop local SMEs into global suppliers. SMEs in the food sector will supply their products to hypermarkets in Malaysia and their outlets worldwide under the hypermarket's brand name and the SMEs own brand.

2. *Global Supplier Programme*

The Global Supplier Programme (GSP) is designed to complement the goals outlined under the ILP. The GSP is a skills development/training programme to enhance knowledge and capabilities of SMEs into world-class suppliers of services and products. Since the programme first started in March 1999, the GSP has trained 1,426 employees from 361 SMEs. In addition to training, the programme attempts to instill the importance of quality, cost, swift delivery (QCD), and flexibility as essential attributes of effective SME suppliers.

3. *Factory Auditing Scheme*

The Government encourages continuous improvements in SMEs to ensure their products and services to LIs/MNCs meet the standards required. Thus, SMEs must conduct regular assessments of their operations by independent experts. In this regard, the Factory Auditing Scheme provides partial grants of up to RM10,000 per company for hiring assessment experts. This scheme also serves as a diagnostic mechanism in evaluating SMEs, as well as in assessing whether the assistance provided by the Government, including GSP, meet the requirements of SMEs. Under this scheme, 34 applications with grants amounting to RM218,700 have been approved.

4. *Headstart 500 Programme*

The Headstart 500 Programme is specially designed to speed up the transformation of 500 SMEs into global manufacturers. At the moment, eighteen out of 75 registered companies have been selected as pioneers of this programme. These companies are provided with a comprehensive package including financial assistance and technical expertise, to help them become global players. These companies have been selected from among those that manufacture promoted products under the Promotion of Investment Act, 1986.

5. *Vendor Development Programme*

The Vendor Development Programme (VDP) was launched in 1988 to coincide with the launching of the national car, PROTON. Under the VDP with KPUn as the implementing agency, LIs/MNCs, which act as anchor companies, provide continuous consultancy and technical assistance to the vendor (SMEs). A tripartite arrangement between the vendor, the anchor and a chosen bank/ financial institution, which will provide the financing, can also be made. Under the Seventh Malaysia Plan, a total of 188 SMEs was appointed as vendors and another 75 vendors were appointed from 2001 until this year. A total of 85 LIs/MNCs and 16 banks/financial institutions are involved in the VDP.

6. *Franchise Development Programme*

The Franchise Development Programme (FDP) is a marketing programme aimed at developing SMEs in the commercial, services and industrial sectors. The FDP will assist entrepreneurs/SMEs to operate in the larger and international business network. The FDP provides entrepreneurs and SMEs with manuals on how best to operate their businesses and expose them to intellectual property and marketing strategies. As at December 2002, 20 multinationals have been appointed as major franchisors, while another 69 local large corporations have joined the programme as franchisors. The number of SMEs that have benefitted from the programme stands at 681, while the amount of grants disbursed under the programme is RM27.3 million. Major sectors with large number of SMEs involvement are food, household equipment, cosmetics, car services and accessories as well as photography.

7. *Infrastructure Development Programme*

This programme is aimed at assisting SMEs to operate their businesses in approved areas or premises. SMEs can purchase various types of factories at affordable prices in various integrated industrial sites developed by the Malaysian Industrial Estates Berhad (MIEL), KPUn, Perbadanan Kemajuan Negeri Selangor (PKNS), and in joint venture (JV) projects between the KPLB and the state governments. The sites are provided with common-user facilities such as testing laboratories, waste disposal system and residential quarters for employees. To date, 985 units or 74.9% of various types of factories built by MIEL and PKNS have been occupied. Meanwhile JV projects between KPLB and state governments have provided another 304 units factories, workshops and business premises.

8. *Skills Upgrading Programme*

Instilling the need for training to enhance skills of workers has always been a challenge, as most SMEs perceive training as a cost rather than an investment. Furthermore, as supply of foreign labour is still abundant, SMEs prefer to delay their investment in skills upgrading, knowledge acquisition and automation. However, to ensure sustained competitiveness and resilience, this programme offers new technologies, new business processes, as well as new skills for employees and management of SMEs. Up to July 2003, a total of 11,220 employees of SMEs have undergone skill-upgrading training at 19 skills-training centres all over Malaysia. Total grant disbursed for this program was RM12.6 million.

9. *Outreach and Promotional Programmes*

The Government has undertaken various efforts to encourage SMEs to participate in development programmes and financial assistance schemes developed for their benefit. As such, various outreach programmes including domestic investments seminars, the SMIDEC Annual Showcase (SMIDEX) and business clinics have been held in major cities in Malaysia. More than 7,000 participants have attended 15 seminars held in 2002, while SMIDEX 2003, held in July this year attracted 4,279 local and international business visitors. A total of 203 business matching sessions linking SMEs to LIs/MNCs were also held. Apart from the programmes mentioned, weekly business clinics are becoming more popular among entrepreneurs and SMEs as these clinics provide a useful venue for SMEs to consult relevant officials on matters related to their business operations. For the first six months this year, 425 entrepreneurs have attended such business clinics.

Programmes undertaken by KPLB and KPUn include 67 entrepreneurship training and consultancy programmes to encourage the participation of 2,150 *Bumiputeras* in businesses. To enhance the livelihood of Malaysians in rural areas, KPLB conducts marketing and promotional programmes such as "One District, One Industry", development of marketing centres, homestay, agro tourism, and the breeding of Boer goats.

10. *SME Information & Advisory Centre*

The SME Information and Advisory Centre provides an opportunity for SMEs to seek information and advice on the various support programmes and financial assistance provided by the Government. The Centre can be accessed via its website and toll free telephone line. Although the toll free service is under utilised, its website has received overwhelming response with 3,980 hits or enquiries during the first six months after its launch date on 4th July 2002.

11. *SME Experts and Advisory Panel*

The SME Experts and Advisory Panel (SEAP) programme provides SMEs with experienced industrial experts to assist them in improving their technological capacity and productivity. This programme has received good response from 44 retirees to participate as panel experts. Another 313 local experts from various Government agencies and institutions of higher learning have also indicated their interest to join the panel. The services of foreign experts, especially from Germany and Japan are presently being explored.

FINANCIAL ASSISTANCE SCHEMES FOR SMES

The Government, through various ministries and agencies, provides financial assistance in the form of grants and soft loans. Projects eligible for financing are in the field of marketing, technology development, ICT adoption and skills upgrading.

Grants

In the area of marketing, the Government has approved RM4.7 million worth of grants to 729 SMEs under the Business Planning and Development Scheme (ITAF 1) and the Market Development Grant (ITAF 4) in 2002. These grants enable SMEs to undertake market studies, participate in international trade fairs, exhibitions and trade missions, and appoint professionals to help them prepare their marketing strategies. For the first six months of this year, 265 applications valued at RM1.7 million were approved. Under the Package of New Strategies, an initial RM100 million allocation has been approved for the development and promotion of Malaysian brands.

To enhance SMEs **technological capabilities** in meeting manufacturing standards set by LIs/MNCs, the Technology Development Grant Scheme was implemented. The Scheme covers three sub-programmes; namely, Product and Process Improvement (ITAF 2); Productivity and Quality Improvement and Certifications (ITAF 3); and Adoption of ICT in Manufacturing Processes. In 2002, 676 applications valued at RM28.4 million were approved under this Scheme, while 464 applications were approved in the first half of 2003. The increased number of applications in 2003 was due to the introduction of additional ICT-related grant schemes. In terms of product certification and quality improvement, which include ISO 9000, ISO 14000, Hazard Analysis & Critical Control Point and Product Certifications, 1,328 out of 1,730 applications were approved.

To accelerate the **adoption and utilisation of ICT** by the SMEs, ICT-related grant schemes were introduced in April 2002. The grants are meant to assist SMEs to integrate their manufacturing and business operations, upgrade designing capabilities, implement RosettaNet Standard and e-Manufacturing. From January to June 2003, 169 applications were approved with grants amounting to RM13.6 million.

The Government has allocated a total of RM3.3 billion as **venture capital** for the ICT and non-ICT sector to realise the vision of developing a knowledge society as well as to identify high growth sectors such as advanced manufacturing, pharmaceuticals and biotechnology. Disbursements of funds are in the form of equity, direct, agency or seed ventures through the Malaysia Venture Capital Management Berhad (MAVCAP) and Malaysia Debt Ventures Berhad (MDV). A total of 35 SMEs projects have been approved under MAVCAP with a total value of RM110.4 million, out of which 12 approvals are for seed ventures in information technology, electronics, telecommunication and networking. Until July this year, another 353 applications, valued at RM4.4 billion are being processed.

The **Technology Acquisition** Fund (TAF) and the **Commercialisation of Research & Development** Fund (CRDF) were launched to enable acquisition of strategic technologies with a view to enhancing technological capability vital for the development of the nation. CRDF provides partial grants to encourage SMEs to commercialise indigenous technologies developed by local universities and research institutions. Grants provided are for the purpose of undertaking market survey and research, product/process design and development, intellectual property protection and demonstrations of technology. A total of 20 applications were approved with grants valued at RM29 million in 2002, while three applications were approved in the first half of 2003.

To enhance and **upgrade skills** of employees, SMEs are provided with grants to help them finance cost of training. The rural *Bumiputera* business community, including *Orang Asli entrepreneur,* will be given priority by the KPLB to obtain these grants. Another grant provider is SMIDEC, which provides grants up to a maximum of 80% of the cost of training to SMEs. To date, this programme has provided training for 5,055 employees of SMEs, while another 1,036 have been trained in the six months of this year. The training courses include photonics, mould and tool die technology and occupational safety. In order to accelerate the development of a skilled workforce, SMIDEC is reviewing a dual traineeship scheme whereby skilled workers will be given opportunities to pursue further studies in their respective areas of interest.

The Special Assistance Scheme for **Women Entrepreneurs** was launched in August 1999 with an initial allocation of RM20 million. A total of 95 women entrepreneurs involved in education, ICT-related services, R&D and marketing enterprises benefitted from the scheme in the form of grants and loans valued at RM9.5 million.

Soft loans

In facilitating SME access to finance, various funds are provided through commercial banks and development financial institutions (DFIs). The funds provided for the purpose of expansion of productive capacity and working capital are shown in *Table 3*.

TABLE 3

Funding for SMEs

FUNDS	BANKS/FINANCIAL INSTITUTIONS	INTEREST RATE (% per annum)	PARTICULARS
Rehabilitation Fund for Small and Medium Industries (RFSMI)	MIDF, BITMB, BPIMB, all commercial banks, BPM, SDB, all finance companies and all Islamic banks.	4.5	Assist viable SMEs facing temporary cash flow problems. Maximum loan RM5 million.
Fund for Small and Medium Industries 2 (FSMI 2)	BPM, MIDF, BITMB, SDB, BPIMB, all commercial banks, finance companies and Islamic banks.	5.0	Promotes activities in the export and domestic-oriented sectors. Maximum loan of RM3 million.
ASEAN-Japan Development Fund	MIDF, BITMB, BPIMB, BPM	6.5	Promote the development of Malaysian SMEs. Maximum loan of RM5 million or 75% from project cost (which ever is lower).
Fund for Food	BPM	3.75	Promotes food production. Maximum loan up to RM5 million or 90% of total project cost (which ever is lower).
New Entrepreneurs Fund 2 (NEF 2)	BPIMB, MIDF, all commercial banks, inance companies and slamic banks.	5.0	Stimulate the growth of *Bumiputera* SMEs. Maximum loan up to RM5 million.
Entrepreneur Rehabilitation and Development Fund	All commercial banks, finance companies and Islamic banks.	5.0	Provides assistance to *Bumiputera* companies facing non-performing loans/financing less than RM1 million. Maximum loan RM3 million or actual working capital required (which ever is lower).
Bumiputera Entrepreneur Project Fund	ERF Sdn. Bhd.	5.0	Assist *Bumiputera* entrepreneurs who have been awarded with contracts projects by the Government related agencies, statutory bodies and reputable private/public companies. Maximum Loan RM3 million or 60% of contract value, less advance by the Government (which ever is lower).
Small and Medium Scale Industry Promotion (SMIPP)	BPIMB	7.0	Purchase of equipment, machinery and assets.

FUNDS	BANKS/FINANCIAL INSTITUTIONS	INTEREST RATE (% per annum)	PARTICULARS
JV Promotion Scheme	KPUn	BLR + 2.0	Promote joint venture between *Bumiputera* and non-*Bumiputera* entrepreneurs.
Programmes and Financial Support Packages for SME (PAKSI and PAKSI-W)	BITMB	3.5 - 5.0	Provide working capital and project financing for SMEs.
Skim Pembiayaan Usahawan Kecil dan Sederhana	PUNB	4.0	Stimulate the growth of small and medium *Bumiputera* entrepreneurs and to enhance the quality of SMEs.
Franchise Financing Scheme	MBB and BCB	BLR + 1.5	Provides guarantee coverage to facilitate franchise system. Loan up to 80% for unsecured portion and 90% for secured portion. Maximum loan RM7.5million per SME
JBIC - SMI Fund	MIDF, BITMB, BPIMB	6.25 - 7.0	For new and existing ventures undertaking expansion, modernisation, diversification and/or relocation programmes in the manufacturing, agro-based and services sectors (acquisition of fixed assets, as well as for engagement technical assistance).
Small Entrepreneur Guarantee Scheme (SEGS)	All commercial banks and finance companies	BLR + 1.5	Guarantee coverage of 80% of the facility. Maximum loan RM50,000 per SME.
New Principal Guarantee Scheme	All commercial banks and finance companies	BLR + 2.0 (for loans <RM1 million)	Enables SMEs to maximize the collateral value and obtain more loans. Maximum loans up to RM10 million regardless of their business sectors. Guarantee coverage up to 80% for unsecured portion and 90% for secured portion.
Flexi Guarantee Scheme	All financial institutions participating in FSMI 2, RFSMI and NEF2 respectively	As t.c.a. for FSMI 2, RFSMI and NEF 2	Ensure greater access to credit for viable Malaysian SMEs, especially those eligible for loans under FSMI2, RFSMI, and NEF2.
PROSPER	PUNB	t.c.a.	Increase *Bumiputera* participation and involvement in the retail sector.
Direct Access Guarantee Scheme	Panel of financial institutions assigned by CGC	BLR + 1.0	Allows viable businesses to gain direct access to credit facilities from financial institutions. Guarantee cover is up to 100% with loan amount ranges from RM50,000 to RM1 million.

FUNDS	BANKS/FINANCIAL INSTITUTIONS	INTEREST RATE (% per annum)	PARTICULARS
Skim Pembiayaan Ekonomi Desa (SPED)	BPIMB and Bank Kerjasama Rakyat Malaysia	5.0	A programme under *the KPLB*, to facilitate *Bumiputera* entrepreneurs with lower instalment and interest rate without collateral
Tourism Special Fund	BPIMB, MBB, BCB	3.75	Support the Government's effort in stimulating the development of the tourism industry in Malaysia.
Micro credit	BPM and BSN	4.0	Manage loans for small businesses and enterprises in the agriculture sector (BPM). Maximum loan of RM20,000.
Soft Loan for SME Relocation	MIDF	4.0	Assist existing and new start-up company project, fixed assets and working capital financing. A Special Window for Women Entrepreneurs financing is also covered under this scheme.

To address the issue of insufficient collateral of SMEs, measures have been taken to enhance the efficiency and scope of the Credit Guarantee Corporation (CGC). At the same time, the Enterprise Rehabilitation Fund Sendirian Berhad (ERF) has been enhanced as a one-stop centre to deal with issues pertaining to the development of *Bumiputera* entrepreneurs such as financing, training and advisory services.

Other measures to improve financing to SMEs include expanding the size and scope of selected funds, liberalising the eligibility criteria and reducing lending rates as well as the RM1 billion micro credit facility announced in the Package of New Strategies in May. Of significant importance is the establishment of a special window for SMEs at financial institutions and a SME special unit at Bank Negara Malaysia. At the same time with the establishment of the special window for SMEs, financial institutions complemented Government efforts in enhancing financing for SMEs by providing advisory and consultative services to improve the financial understanding and management of SME.

EXPERIENCE OF SUCCESSFUL SMEs

Studies by BNM on SMEs that have been in business for more than 10 years have identified seven key success factors of SMEs as listed below:

i. sound management capability and integrity;

ii. sound business cultures and entrepreneurial spirit;

iii. prudent financial management;

iv. high quality products and services;

v. effective programme for human resource development;

vi. strong support from financial institutions (in terms of lending and advisory services); and

vii. strong marketing strategies (including good network with suppliers).

The studies, which were based on SMEs financial performance and record of accomplishment, verified that the SMEs shared common attributes such as:

* Starting out on a very small scale.
* Raising capital through self-financing against borrowings and prudent financial management.
* Having strong entrepreneurial motivation.
* Focussing and leveraging their core competencies and concentrating on building records of success.
* Moderate expansion plans and in line with their capacities and overall business strategies.
* Establishing good networking among themselves, their suppliers and customers.

The attributes are very similar to Japanese SMEs, which took 50 years to nurture and groom into global players, such as in the case of Honda and Toyota. Based on these attributes, Malaysian SMEs, hold much potential as the key catalytic factor in Malaysia's economic development.

Demand for houses and other socio-infrastructure development projects such as schools, hospitals and universities had a multiplier effect on **wood-based industries**. The production of particle boards, plywood, carpentry and joinery as well as wood-based panels and flooring, therefore, turned around to record gradual increases since September 2002, to achieve an overall output growth of 1.7% in the first six months of 2003 (January-June 2002: -10.9%). The industry has for some time now been constrained by limitation of domestic saw logs, due to sustainable forest management. Output of the plywood industry as the major contributor, which increased moderately by 4.6% (January-June 2002: -3.2%) and veneer by 2.3% (January-June 2002:-14.6%), helped to reduce the declines experienced by the industry in April and May this year. Diversification into high-end wood products, such as engineered flooring board and own-designed office and household furniture and fixtures, are expected to improve capacity utilisation of the industry to about 60%.

The changing demographic structure towards a young population profile with 27% in the age group between 15 to 29 years old, has in turn changed the consumption pattern of Malaysians. With higher per capita income, coupled with modern urban lifestyles, Malaysians' consumption of ready-to-serve and fast food items has accelerated. Canned drinks, in particular carbonated drinks, surged to almost 50% of total output of beverages. The **food, beverages and tobacco industries** worth more than RM5,960 million contributed to 10% of total manufacturing output, expanded appreciably to record higher growth of 11.7% (January-June 2002: 1.2%). Various measures taken to boost consumption had also resulted in stronger domestic demand and growth in most food items, such as coconut oil, margarine, *vanaspati*, rice, as well as flour, biscuits and canned pineapples.

Meanwhile, improved terms of trade, particularly reduced tariffs on palm oil exports to India, as well as higher prices for the product, had boosted output of the food industry. However, with imports of food items surpassing exports in the first six months, identifying food products with export potential is necessary. Fish and crustacea including frozen shrimps and prawns, which recorded strong growth in production by 20.9% and increased exports by 19.1%, as well as cocoa and cocoa products are among the food items identified with export potential. Production of cocoa products, which include cocoa powder, cocoa butter, cocoa paste, chocolates and sweetened chocolate confectionary, expanded by 31.8% contributing to Malaysia retaining its position as the world's fifth-largest cocoa-processing centre and the largest processing country in Asia. Exports of cocoa products amounted to RM616.7 million and constituted about 15.4% of total food and beverages exported.

Besides food products, consumer products in the **textiles and apparel industry** have also benefitted from increased consumption and better external economic environment. Registering an output growth of 1.7% (January-June 2002: -10.8%) and export value of slightly more than RM3.4 billion, the industry sustained its importance as one of Malaysia's major export earners. Most Malaysian manufacturers act as sub-contractors and supply their products to well-known global brands, besides developing their own. Measures taken to promote brand building, as provided under the Package, will further benefit manufacturers. Meanwhile, efforts to move up the value chain have resulted in increased investments, especially in the higher-end market of the apparel industry. New products gaining market share are customised garments and accessories such as bio-ceramic infra red ray (FIR) garments, wedding gowns and sportswear.

Agriculture Sector

A moderately strong agriculture performance, largely supported by higher palm oil yields and export prices ...

In 2003, value added of the **agriculture, forestry and fishing** sector is expected to register positive growth albeit at a moderate pace of 2.3% The moderation is due largely to the slower output growth of rubber, forestry and logging, while supported by stronger production of palm oil, as shown in *Table 2.4*. The prices of most commodities were higher in 2003, reflecting mainly tight global supplies. As a result, export earnings for the sector is expected to expand by 10%.

TABLE 2.4

Value Added of the Agriculture, Livestock, Forestry and Fishing Sector 2002 - 2003
(in 1987 real prices)

	Growth (%)		Share to Agriculture (%)	
	2002	2003[1]	2002	2003[1]
Agriculture, forestry and fishing	***3.0***	***2.3***	***100***	***100***
Oil palm	*0.1*	*2.9*	*34.7*	*34.8*
Forestry & logging	*5.0*	*2.2*	*13.9*	*13.9*
Fishing	*7.5*	*2.8*	*13.9*	*14.0*
Rubber	*8.8*	*3.5*	*6.7*	*6.7*
Other agriculture[2]	*2.4*	*1.3*	*30.8*	*30.6*

[1] Estimate.

[2] Including livestock, cocoa, padi and miscellaneous agriculture such as fruits, copra, vegetables, tobacco, tea, flowers, pepper and pineapple.

Source: Department of Statistics.

Production of **crude palm oil (CPO)** is expected to register a stronger growth of 4.5% to 12.5 million tonnes in 2003, as shown in *Table 2.5*, reflecting the upturn in the yield cycle and productivity improvement. Increased matured areas especially in Sabah and Sarawak, and higher oil extraction rate arising from more efficient harvesting and handling of fresh fruit bunches also contributed to the growth. Peninsular Malaysia continues to account for the bulk of CPO output (58%) followed by Sabah (35%) and Sarawak (7%). Overall, the total hectarage planted is expected to increase by 2.2% to 3.8 million hectares, taking into account the new areas identified for cultivation of oil palm, especially in Sabah and Sarawak. Of this total, 59.6% is under private ownership with the remainder, Government owned. About 10% of the total hectarage planted comprise smallholdings.

TABLE 2.5

Oil Palm Area and Palm Oil Production 2002-2003

	2002	2003[1]	Change (%) 2002	Change (%) 2003[1]
Planted areas ('000 hectares)	3,670	3,750	*4.9*	*2.2*
Matured areas ('000 hectares)	3,188	3,258	*6.1*	*2.2*
Production ('000 tonnes)				
Crude palm oil	11,910	12,450	*0.9*	*4.5*
Palm kernel oil	1,473	1,469	*-3.8*	*-0.3*
Yield (tonnes/hectare)	18.0	19.7	*-6.1*	*9.4*

[1] Estimate.

Source: Ministry of Primary Industries.

In 2003, the price of crude palm oil is expected to average RM1,450 per tonne (2002: RM1,400) after reaching its peak of RM1,689 per tonne during January 2003. While high production may dampen CPO prices due to increase in stocks, latest data indicates that export growth of CPO has outpaced production and hence prices are expected to remain firm. The increase in demand for export by traditional and new markets and more competitive pricing *vis-a-vis* other vegetable oils and fats have contributed to the strong performance of CPO exports.

In the first half of 2003, output of **rubber** increased sharply by 18.6% to 317,000 tonnes due largely to yield improvement. Total production of rubber is, however, expected to increase moderately by 3.5 % to 610,000 tonnes in 2003 largely driven by improved rubber prices that encouraged higher activities in the small holding sub-sectors. Notwithstanding the positive developments, the major challenge faced by the rubber industry is the slow increase in supply of rubber despite the more favourable prices. Total land under rubber, estimated to be around 1.315 million hectares in 2003, as shown in *Table 2.6*, represents a decline of 2.4%. The decline is due to abandoned holdings as well as some conversion of rubber cultivation to oil palm and other more lucrative activities, following prolonged depressed global demand and lower prices prior to second half of 2002. Steps taken to revitalise the industry include increasing tree yields with new latex timber clones, intensifying integrated projects in rubber plantation, particularly for food production and increasing prices through strategic alliance with other major producers. To ensure adequate supply of rubber and rubber wood for downstream activities, the rubber replanting programme was reviewed to ensure at least 20,000 hectares are replanted annually with latex timber clones, especially in designated rubber zones. In addition, to promote the rubber-wood furniture industry, 25,000 hectares of rubber per year will be planted during the next 15 years. Towards this end, the Government will establish a Rubber Forest Plantation Fund with an initial allocation of RM200 million as soft loans to eligible companies and organisations.

The price of rubber has been on the uptrend since the second half of 2002. This is due to

TABLE 2.6

Rubber Area, Yield and Production 2002-2003

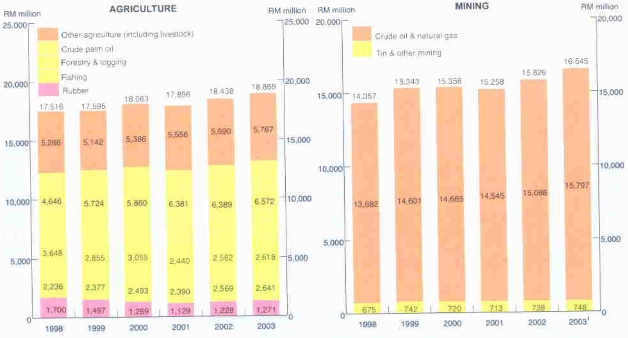
	2002	2003[1]	Change (%) 2002	Change (%) 2003[1]
Total area ('000 hectares)	**1,348**	**1,315**	***-3.0***	***-2.4***
Smallholdings	1,195	1,176	*-2.0*	*-1.6*
Estate	153	139	*-9.5*	*-9.2*
Yield (kg per hectare)				
Smallholdings	920	940	*2.2*	*2.2*
Estate	1,220	1230	*1.7*	*0.8*
Total production ('000 tonnes)	**589**	**610**	***7.7***	***3.5***
Smallholdings	504	539	*12.8*	*6.9*
Estate	85	71	*-15.0*	*-16.5*
% of world production	***8.2***	***8.1***	***-0.6***	***-1.2***

[1] Estimate.

Source: Ministry of Primary Industries and Department of Statistics.

CHART 2.6

Value Added of Major Commodities



Source: Department of Statistics.

lower world stocks amidst increasing demand coupled with market intervention through the International Tripartite Rubber Corporation (ITRCo) pact, a strategic alliance between Indonesia, Malaysia and Thailand. The average price of RSS1 in January-June 2003 increased 39.7% to 366 sen per kilogram (kg) compared to 262 sen per kg during the same period in 2002. Prices are expected to remain firm for the second half of the year.

In the **forestry and logging** sub-sector, in adherence to sustainable forest management policy, the total hectarage for the annual allowable cut in permanent forests has been reduced to 1.36 million hectares under the Eighth Malaysia Plan compared to 1.38 million hectares during the Seventh Malaysian Plan. Hence, the overall production of **saw logs** is not expected to increase significantly in the near term. Sarawak and Peninsular Malaysia, which account for the bulk of the output, are expected to increase production by 8% to 13 million cubic metres (m^3) and 5 million cubic meters (m^3), respectively, underpinned by increase in demand for wood-based products in the world market, following brighter prospects of global economic recovery. In contrast, production of saw logs in Sabah is expected to decline by 39% to 3 million m^3. Subsequently, growth in value added of the forestry and logging sub-sector is expected to moderate to 2.2% in 2003.

Value added of the **fishing** sub-sector, which comprises marine fish landing and aquaculture harvest, is expected to increase by 2.8% and account for 14% of the total agriculture sector value added in 2003. Marine fish landing is envisaged to increase by 2.5% to 1.32 million tonnes, on account of productivity gains due to measures taken to modernise the fishing industry with better facilities and equipment. To further improve the performance of the industry, under the Package as announced in May 2003, the Government will build 1,000 fishing boats with modern equipment to replace existing ones. These boats will be leased to fishermen and managed by Persatuan Nelayan Kebangsaan (NEKMAT). The programme is expected to improve productivity of fishermen and increase fish catches significantly. In addition, the Government will enhance its effort to increase enforcement and surveillance to ensure that local fishing vessels are well protected within Malaysian waters. As for aquaculture, Government's efforts in developing the industry has resulted in increased output from 184,000 tonnes of aquaculture produce in 2002 to 197,000 tonnes in 2003. The increase in production has not only helped to meet domestic demand but also expanded the export capacity of the fishing industry. Given the potential of the sub-sector, an additional 4,500 hectares of aquaculture industrial zones (AIZ) will be developed.

Output of the **other agriculture**, which comprises food commodities like livestock, cocoa, *padi*, fruits and vegetables, is envisaged to expand by 1.3% and contribute almost one third of the share to total agriculture value added. The continued expansion in food commodities reflects successful implementation of the Third National Agriculture Policy (NAP3) to expand domestic food production and broaden export capacity of the sector. **Livestock** value added is expected to grow by 5.4%, mainly due to higher production of beef by 47.3% and mutton by 16%. Similarly, production of eggs, fresh milk, and poultry is anticipated to increase by 16.2%, 13.6% and 13.8%, respectively driven by higher farm-gate prices and better animal handling as well as increasing practices of commercial farming.

Production of **cocoa** is envisaged to increase by 4.8 % in 2003 to 50,000 tonnes, stimulated by higher prices since 2002. The increase in output is also attributed to productivity gained following improved techniques such as bud-grafting and higher input of fertilisers. Of total production, 71% is from smallholders and the remaining from estate producers. ***Padi*** cultivated area is expected to decrease by 0.2% to 689,900 hectares in 2003. Nevertheless, ***padi*** production is expected to grow by 0.4%, as shown in *Table 2.7*, due to several measures to increase production of *padi*. These include encouraging the consolidation of small padi holdings, increasing *padi* yield with Ten Tonnes Per Hectare project through the introduction of the Low Input Sustainable Agriculture (LISA) technology, which utilises highly sophisticated precision farming techniques to expand production.

TABLE 2.7

Production of Other Agriculture 2002-2003
('000 tonnes)

	2002	2003[1]	Change (%) 2002	Change (%) 2003[1]
Padi	2,181	2,189	*3.9*	*0.4*
Cocoa	47.7	50.0	*-17.3*	*4.8*
Pepper	24.1	27.2	*-4.0*	*12.9*
Tobacco[2]	102	120	*32.2*	*17.6*
Fruits[3]	1,285	1,349	*5.0*	*5.0*
Livestock[4]				
Meat	988	1,105	*2.3*	*11.8*
Eggs ('000)[5]	6,619	7,690	*-0.3*	*16.2*
Milk ('000)[6]	36.0	40.9	*19.0*	*13.6*
Flowers (million)[7]	116	167	*14.8*	*44.0*
Tea	26	26	*15.3*	*0.0*
Vegetable	778	813	*-24.5*	*4.5*
Copra	15	14	*557.9*	*-6.7*

[1] Estimate.
[2] Green and dry tobacco leaves.
[3] Consists of starfruit, papaya, jackfruit, ciku, durian, guava, langsat, mango, mangoesteen, pineapple, banana, rambutan, watermelon, and other tropical fruits.
[4] Including beef, poultry, swine and mutton.
[5] Number.
[6] Litre.
[7] Cuttings.

Source: Ministry of Agriculture and Ministry of Primary Industries.

The output of **vegetables and fruits** is anticipated to increase by 4.5% and 5% respectively in 2003, as shown in *Table 2.7*. This is largely due to increased cultivation on new and existing farms following the introduction of Permanent Food Production Parks (PFPP) covering 1,540 hectares and six satellite farming areas. To further boost Malaysia's fruit and vegetables produce to a more competitive level in the local and world market, the Government has introduced Malaysia's Best seal. For farms to be accredited with the seal, they must adhere to the standards of the Malaysian Farm Accreditation Scheme. Standards adopted are based on internationally accepted standards as in the Euro Retailer Produce Working Group (EUREP), the Good Agriculture Practice, the Codex International Code of Practice and also Malaysian Standards. For a start, the first batch of produce to be marketed under the Malaysia's Best programme are mangoes, papayas, starfruits, watermelons and pineapples. Likewise, the **horticulture** industry is expected to grow strongly by 44% in 2003 compared to 14.8% in 2002, following higher external demand arising from new export markets in Europe and the Middle East. The most cultivated varieties are carnations, orchids, chrysanthemum and foliage.

To promote the agriculture sector as the third engine of economic growth, measures will be undertaken to increase investment in large-scale agriculture and commercial activities with potential to increase the overall value added. Specific studies indicate untapped potential in upstream processing activities as well as downstream utilisation of oil palm biomass, herbs, horticulture, deep-sea fishing and ornamental fish. In addition, efforts to establish Malaysia as a regional centre for the production of food and *halal* products will also be intensified. Towards this end, several studies to assess the prospects for these industries were conducted. Action plans and investment guidelines were formulated and disseminated in several seminars and exhibitions to inform investors of new opportunities and prospects in the agriculture industry. Furthermore, the Government has, through the Budget 2002 and 2003 as well as the Package put in place several incentives and measures to accelerate these new sources of growth within the agriculture sector. Apart from production aspects, emphasis will also be given to improve the overall integrated value chain of activities in the sector such as logistic, distribution, marketing, packaging and export. To improve the infrastructure and delivery system in rural areas, an allocation of RM300 million was provided under the Package.

Mining Sector

Malaysia set to be the world's second largest producer of LNG with the on-stream of MLNG3...

The value added of the **mining** sector is anticipated to expand by 4.5%, as shown in *Table 2.8*. Higher oil and gas production especially during the first half of 2003 was due to increase in domestic and overseas demand and prices.

TABLE 2.8

Value Added in the Mining Sector 2002-2003
(in 1987 real prices)

	RM million		Change (%)	
	2002	**2003**[1]	**2002**	**2003**[1]
Mining sector	15,826	16,545	*3.7*	*4.5*
Crude oil & natural gas	15,088	15,797	*3.7*	*4.7*
Other mining	738	748	*3.5*	*1.4*

[1] Estimate

Source: Department of Statistics

During the first six months of 2003, **crude oil** production including condensates averaged 739,800 barrels per day (bpd), reflecting an 8.1% increase compared to the same period in 2002. Similarly, production for the year is expected to increase by 2.4%, as shown in *Table 2.9* with an average of 716,000 bpd based on the planned work programme for the year.

The production of **natural gas** during the first six months increased by 6.2% to 864,500 million standard cubic feet (mmscf) compared with 814,100 mmscf during the same period in 2002.

TABLE 2.9

Production of Crude Oil and Natural Gas 2002-2003

			Change (%)	
	2002	2003[1]	2002	2003[1]
Crude oil ('000 bpd)[2]	699	716	*4.9*	*2.4*
Natural gas (mmscfd)[3]	5,131	5,644	*13.0*	*10.0*

[1] Estimate
[2] Including condensates
[3] Excluding flaring and reinjection

Source: PETRONAS.

Total production for the year is projected to increase by 10% to 5.644 million standard cubic feet per day (mmscfd) in tandem with anticipated increase in external demand as well as higher domestic usage of gas following the revision of gas prices early this year. With the completion of Petroliam Nasional Berhad's (Petronas) third liquefied natural gas plant (MLNG3) in Bintulu in March 2003, Malaysia is set to be the world's second largest producer of LNG. Currently, Malaysia's natural gas reserve is estimated to be 89 trillion standard cubic feet and expected to last 43 years. To further ensure the sustainability of the country's energy resources, the fuel diversification policy, which initially covers the use of oil, coal, gas and hydro, has been expanded to include renewable energy, such as biomass, biogas, municipal waste and solar, as the fifth fuel.

Tin output continued its downward trend, due mainly to the reduction in the number of active tin mines, lower grade deposits, and availability of deposits only at greater depth. To date, only 28 mines are considered to be active and productive with most of them operating near the end of their leases period.

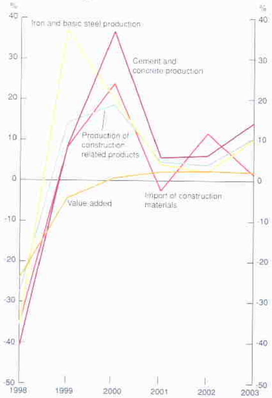
Construction Sector

Housing activity to accelerate in the second half, supported by the Package...

Underpinned by continued demand in selected segments of the property market and higher expected budgetary allocation for public infrastructure projects, value added in the construction sector is envisaged to grow by 2.5% in 2003. The sustained performance is partly on account of renewed interest in residential housing, in particular affordable houses, and supported by incentives given under the Package and lower interest rates. Total public expenditure on infrustructure is expected to pick up in the second half of the year and help sustain construction activities in the public sector. Among the major on-going projects include the construction of the East-Coast Expressway, Kapar-Sabak Bernam and Klang-Banting Road, Tanjung Kidurong-Berkam Coastal Road in Sabah, Rawang-Ipoh double tracking project, the new Johor-Singapore bridge as well as the Stormwater Management and Road Tunnelling (SMART) project in Kuala Lumpur.

CHART 2.7

Construction Sector: Value Added and Key Indicators
(% annual change)



Source: Bank Negara Malaysia

Construction of residential properties remains active despite slower demand for housing as the Iraq war and SARS affected consumer confidence during the first five months of 2003. Housing starts in the residential sector grew by 4.6% during the first half of 2003. Of the 69,941 units of housing starts during the period, 47.5% were terrace houses while condominium, apartments and flats constituted 20.2%. Houses priced at RM180,000 and below were in better demand and those located at preferred locations attracted strong interest of buyers.

Overall, the supply and demand of purpose-built office and shopping complexes largely remain stable since 2000. Total existing stock of purpose-built office space in the second quarter of 2003 was 13.2 million square meters (sq.m.), reflecting a marginal increase of 0.2% from the preceding quarter while the average occupancy rate rose to 79% in the second quarter (first quarter 2003: 78.3%). Similarly, the average occupancy rate of total shopping complexes rose from 78.2% in the first quarter to 78.6% in the second quarter, while the total existing space decreased by 0.2% to 6.33 million sq.m. during the same period. The supply and demand situation for shop units and industrial units is generally balanced. In the second quarter of 2003, 1,533 shop units and 506 industrial units were completed as compared with 1,792 units and 145 units, respectively in the corresponding quarter of 2002. The demand for shop units and industrial units is expected to pick up as a result of higher growth in the business and manufacturing sector.

In response to the Package and stronger economic growth as well as lower interest rates, the number of property transactions is expected to pick up in the second half of the year, after registering a decline of 5.8% to 111,934 transactions in the first-half (January-June 2002: 118,858 transactions). The decline of 11% is due to lower number of residential property transactions. Commercial and industrial properties transactions meanwhile recorded an increase of 5% and 9.6%, respectively during the six-months period.

Construction has been a key sector in the Government efforts to stimulate domestic economic activities and in enhancing growth. As the economy continues to rely on the domestic sector, the contribution of construction sector to GDP growth will have to be further enhanced. The Government, under the Package, introduced several measures and incentives as well as cash payment to first home owners under the Home Ownership for the People (HOPE) project to stimulate the property and construction sector as will as to provide affordable housing to the lower income group. Individual income tax relief will be given on the specified interest payments of housing loans. Within a one-year period from 1 June 2003, purchases of houses below RM180,000 are eligible for stamp duty exemption and the secondary property market is exempted from real property gains tax. To attract and facilitate acquisitions by foreigners in the property market, the Government also liberalised foreign ownership by allowing foreigners to acquire landed properties exceeding RM150,000 per unit.

Syarikat Perumahan Negara Berhad (SPNB), established in 1997 as part of its measures to accelerate the implementation of low-cost housing projects, will build at least 150,000 units of medium-cost and affordable houses within a 5-year period. SPNB will also purchase unsold completed apartments, estimated currently to total 4,400 units, at a minimum discount of 20% of the market price. These units will then be allocated to eligible Government employees including widows of Government employees as well as single mothers, who do not own houses, through a hire purchase and buy-back scheme. After paying a monthly rental of RM50 per month for three years, they will also be given the option to purchase their units. These measures are expected to result in higher demand in the residential sector, particularly for affordable houses.

In an effort to increase productivity and quality in the construction industry, contractors are encouraged to utilise modern building techniques as well as the industrialised building systems (IBS). The IBS, which assembles on-site pre-fabricated building components manufactured at factories, will enable cost saving and quality improvement in the industry through reduced labour intensity and construction standardisation. Realising the benefits of adopting IBS, SPNB has started using the IBS in the steel and tunnel formworks system particularly in its affordable housing scheme. To promote and encourage wider usage of IBS, the Government is currently drawing up a new IBS roadmap.

Given the importance of the property sector to the economy, the Government will continue to provide regular information and data on the property market to reflect the changing conditions affecting demand and supply of real property. As such, the Government is currently reviewing its housing statistics in order to provide a better guide in the assessment of the property market.

Services Sector

Remains resilient despite war and SARS...

Effective measures to stimulate domestic consumption helped mitigate the adverse impact of the Iraq war and SARS and facilitated the services sector to sustain its growth momentum. The sector is expected to continue to expand by 4.2% in 2003, as shown in *Table 2.10*. Demand for financial services, telecommunications and transport arising from improved economic prospects, particularly during the second half of the year will support overall growth. Steady pick-up in tourism after the short-lived SARS outbreak and improved consumer sentiment during the second half of the year further reinforced the sector's growth.

The services sector growth has on average outpaced GDP growth for more than a decade, reflecting the growing demand for services in line with the rapid expansion in other sectors of the economy. Developments in trade liberalisation, emergence of new markets such as China and the East European countries and the proliferation of the information and communication industry (ICT) have spurred the consumption of services, particularly in finance, transport and telecommunications. In addition, rising incomes and changing lifestyles have resulted in higher demand for take-away food, entertainment and travel. Furthermore, the Government's policy of maximising the sector's potential, initially to mitigate the services deficit in the balance of payments and later to develop new growth areas, has also contributed to the stronger growth of the sector. Given the strong growth, the share of the services sector to GDP growth has been rising gradually from 46.8% in 1990 to nearly 57% in 2003. The increasing share is reflective of Malaysia's steady progress towards achieving industrial nation status, whose services sector generally accounts for 60-70% of GDP.

Rising income as well as policy measures aimed at increasing domestic consumption have contributed to the growth of the **wholesale and retail trade, hotel and restaurants sub-sector**. The sub-sector is estimated to register a moderate growth of 2.1% in 2003 compared with 2.6% in 2002, due to the negative impact of SARS during the second quarter. Fortunately SARS was short lived and while some retailers suffered losses, others experienced a boon. Sales of plastic and rubber gloves and surgical masks for protection

TABLE 2.10

Services Sector Performance
(in 1987 real prices)

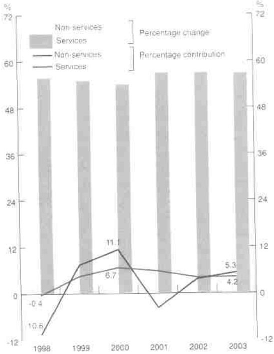
	Change (%)		Share of GDP Value Added (%)	
	2002	2003[1]	2002	2003[1]
Electricity, gas and water	*3.9*	*7.3*	*4.0*	*4.1*
Transport, storage and communications	*2.6*	*4.5*	*8.5*	*8.5*
Wholesale and retail trade, hotel and restaurants	*2.6*	*2.1*	*14.9*	*14.6*
Finance, insurance, real estate and business services	*5.3*	*5.0*	*14.3*	*14.4*
Government services	*6.7*	*4.6*	*7.3*	*7.3*
Other services	*4.6*	*4.2*	*8.0*	*8.0*
Total	***4.1***	***4.2***	***57.0***	***56.8***

[1] Estimate

Source: Department of Statistics

CHART 2.8

Services and Non-services Sector: Percentage Change and Contribution to GDP



Source: Department of Statistics

purposes as well as plastic containers, canned food and health supplements increased substantially during the SARS period. The month-long mega sales in August and during the festival season from October to December is expected to further boost retail sales.

Total sales of the wholesale and retail trade expanded by 5.8% to RM44,254 million in the first quarter of 2003, due mainly to higher sales in wholesale trade, which accounted for 67.9% of total sales. About 87% of the entities in wholesale trade have an annual sales value above RM1.25 million while retail trade, 56.4%. In consonance with growing sales value for the last several years, wages paid in wholesale as well retail trade increased by 8.9% and 11.1%, respectively as compared with the first quarter of 2002, to total RM942 million and RM584 million. In terms of employment, the wholesale trade has about 176,000 workers while the retail trade, 275,000 workers.

Sales value of **wholesale trade** grew at 7.9% to RM30.054 million in the first quarter of 2003 following higher receipts from specialised stores, particularly, sales of motor trading and motor accessories which increased by RM1,726 million, followed by household and personal goods (RM299 million) and palm oil (RM199 million). Sales of other specialised stores in industrial, agricultural and business equipment and materials meanwhile grew marginally by 0.7% or RM47 million while food, drink and tobacco declined by 2.4% or RM104 million. Specialised stores are important to wholesale trade as they accounted for 89.7% of its sales. The largest specialised store was motor trading and motor accessories with a share of 34% followed by other specialised stores in industrial, agricultural and business equipment and materials (21.3%); household and personal goods (15.2%) and food, drink and tobacco (14.3%).

Retail trade sales, meanwhile grew at a slower rate of 1.6% to RM14,201 million in the first quarter of 2003, following marginal growths of 0.9% and 1.8% in the sales value of non-specialised stores and specialised stores, respectively. As in the case of wholesale trade, specialised stores trade dominated retail sales, accounting for 79.7% of its sales value. Sales of specialised motor trading and motor accessories stores as well as specialised stores in industrial, agricultural, business equipment and materials increased by RM216 million and RM 139 million, respectively compared with the first quarter of 2002. During the period, sales of specialised household and personal goods stores, however, declined by 4.5% or RM161 million while specialised food, drink and tobacco stores posted a marginal increase of 0.2% or RM 1.3 million. With shares of 47% and 24.1% of the retail trade sales, motor trading and motor accessories and household and personal goods constitute the two largest specialised stores. The next largest specialised stores in retail trade are industrial, agricultural and business equipment and materials with a share of 4.5%, followed by food, drinks and tobacco (4.1%).

The **tourism industry** started the year on a positive note with over a million tourist arrivals for January 2003. However, the war in Iraq and the outbreak of SARS towards the end of March severely affected the industry. Tourist arrivals plummeted 58.6% on an annual basis to about 457,900 in April but recovered somewhat to 539,100 and 719,000 in May and June, respectively. Travel restrictions placed on citizens of Singapore and China, the worst SARS affected countries led to severe declines in tourist arrivals from these two countries, which traditionally are Malaysia's major tourists markets. Recognising the problems faced by the tourism industry, immediate relief measures were formulated under the Package. These included initiatives to reduce the cost of doing business, such as suspending income tax instalments for travel agencies and providing 5% discount on monthly electricity bills to hotel operators from June to December 2003. In addition, BNM will also provide a Special Relief Guarantee Facility (SRGF) of RM1 billion for working capital to help borrowers in the tourism industry. Banking institutions will also allow borrowers to restructure or reschedule loans. The Tourism Infrastructure Fund was increased by RM500 million to further develop the industry. Measures to stimulate domestic consumption such as the 2% reduction in EPF contributions, a half-month bonus for civil servants and sales tax exemption for hotels and restaurants are also expected to contribute positively to the industry.

The Government's policy of encouraging domestic-driven growth supported by an accommodative monetary policy has contributed to growth in **the finance, insurance, real estate and business sub-sector**, with value added estimated to expand by 5% in 2003. Strong performance of the sub-sector reflects the buoyant performance of the banking and insurance industries as well as the capital market. Supported by low and stable interest rates, ample liquidity and greater accessibility, new loans and advances extended by the banking system rose by 3.9% during the first half of 2003 (end 2002: 4.2%). The performance of the insurance industry continues to be encouraging with total premium increasing by 11.5% in the first half of 2003 on top of 13.3% growth in the corresponding period of 2002. The surge in trading activity and higher share prices in the Kuala Lumpur Stock Exchange (KLSE) further enhanced the performance of the sector. The Kuala Lumpur Composite Index (KLCI) rose 15% to 743.30 points at end-August 2003 compared with 646.32 points at end December 2002 while market capitalisation rose 22.2% to RM579.54 billion.

The transport, storage and communications sub-sector is anticipated to grow strongly by 4.5% in 2003, underpinned by the need to provide better transport services and increasingly sophisticated and technologically advanced communication services. Road, rail, air and sea transportation are expected to achieve positive growth. The main contributory factors are growth in trade-related and transshipment activities. Upgrading and expansion of transport infrastructure, particularly ports and roads, are expected to significantly increase the industry's capacity.

The number of vehicles on tolled highways increased by 4.8% during the first six months of 2003 on top of the 11.5% increase during the same period of 2002. Rail commuter revenue rose 15.2% during the first six months of 2003 after increasing 8.8% in the same period of 2002. In the case of rail cargo, revenue increased marginally by 0.3% after declining 2.4% in the corresponding period. As for port activities, total container throughput at Klang, Pulau Pinang, Johor including Tanjong Pelepas (PTP), Kuantan, Bintulu, Kuching, Miri, Rajang and Sabah increased by 17.5% to 4.9 million twenty equivalent units (TEUs) during the period. Port Klang recorded the highest share of 47.4% with 2.4 million TEUs and PTP, 32.5%. The number of TEUs handled by Tanjung Pelepas Port (PTP) increased strongly by 37% to 1.6 million TEU's. The port is making remarkable progress as the nation's second transshipment hub for the region with a target of 3.5 to 3.6 million TEUs for 2003. PTP is currently involved in negotiations to attract a third shipping line to use its services and further enhance its growth.

In the case of air transport, which was affected by both the Iraq war and SARS, the number of domestic and international passengers on

Malaysia Airlines System (MAS) fell significantly by 7.8% and 14.3%, respectively, during the first half of 2003, compounding the declines of 8.2% and 1.5% in the corresponding period of 2002. However the no-frills airline, AirAsia Sdn Bhd which caters for domestic and some regional routes, recorded another marked achievement with 907,000 passengers during the first half of 2003 as against 418,000 passengers for the same period in 2002. However, air cargo handling by MAS picked up sharply by 27.1% due to increased transshipments diverted from SARS-infected Hong Kong SAR and Singapore.

With a share to GDP value added of 7.2%, **the Government services sub-sector** is expected to expand 4.6% in 2003. The expansion is due to the higher expenditure for salaries and wages, following adjustments to upgrade salaries for civil servants, including salary revision due to the implementation of Sistem Saraan Malaysia (SSM) and a half-month bonus under the Package.

The **electricity, gas and water** sub-sector is expected to register higher growth of 7.3% in 2003. The electricity sales volume and the maximum demand of electricity increased by 7.3% and 2.3%, respectively during the first six months (January-June 2002: 5% and 6%, respectively). These increases are mainly due to higher demand from the manufacturing sector.

Export Performance

Export remains favourable, supported by improved external outlook....

Generally, export performance remains favourable, with improving economic performance of major trading partners, particularly in the second half of the year. During the first half of 2002, Malaysia's external earnings (goods) picked up strongly by 6.9% (January-June 2002: 0.1%), mainly on account of the better-than-anticipated export performace of commodities and higher intra-regional trade. The strong growth was achieved despite an uncertain external environment.

Manufacturing exports, which contribute 82% to total exports, expanded by 1.4% (January-June 2002: 0.6%), reflecting the significant fall in external demand for electrical appliances and electronic equipment and parts. However, the earnings of primary commodities increased to 15% of total exports, with strong growth of 44% (January-June 2002: -4.4%), arising from improved external demand and high prices.

With expectations of softer commodity prices following the increased in global supply of vegetable oils, including palm oil and crude oil, the value of major commodity exports is envisaged to reduce gradually towards the end of the year. Nevertheless, expectations are for a strong build-up in manufactured exports, rejuvenated by global corporate replacement cycle. As the expected increase in export earnings of manufactured goods is likely to offset the slowdown in commodity exports, Malaysia's overall exports earning (goods) are expected to continue to record a favourable strong growth of 4.1% in 2003.

Exports of Manufactured Goods

Growth of manufacture exports stronger with upturn in global electronics demand...

Manufactured goods, comprising more than 80% of exports, remains the major contributor to Malaysia's total exports since the early 1990s. Overall manufactured exports grew faster by more than two times, as shown in *Table 2.11*, due to improved external demand, especially for semiconductors, followed by chemical and chemical products, iron and steel and petroleum products.

Strong growth of almost 20% was recorded for non-electronic products during the first half of 2003. This accounts for 35% share of manufactured exports, attributed to better performance in chemicals and plastic products, iron, steel and metal products as well as petroleum. Within the E&E sector, exports of semiconductors turned around, from a contraction of 0.1% last year to record a double digit growth of 24.7%. The strong growth was due to increased sales of computers, communication applications and the emergence of multi-function products such as smart phones. The contribution of non-

TABLE 2.11

Manufactured Exports
January-June

	RM million		Change (%)		Share (%)	
	2002	2003	2002	2003	2002	2003
Electronics, electrical and machinery appliances	102,998	97,383	*1.8*	*-5.5*	*70.3*	*65.6*
Semiconductors	32,101	40,023	*-0.1*	*24.7*	*21.9*	*26.9*
Electronic equipments and parts	44,060	32,119	*15.5*	*-27.1*	*30.1*	*21.6*
Electrical products	26,837	25,241	*-13.2*	*-5.9*	*18.3*	*17.0*
Textiles, apparel and footwear	3,962	4,180	*-14.7*	*5.5*	*2.7*	*2.8*
Wood products	4,344	4,631	*-3.9*	*6.6*	*3.0*	*3.1*
Rubber products	2,246	2,479	*-2.2*	*10.4*	*1.5*	*1.7*
Food, beverages and tobacco	3,105	3,465	*10.4*	*11.6*	*2.1*	*2.3*
Petroleum products	3,781	5,549	*-27.3*	*46.8*	*2.6*	*3.7*
Chemicals, chemical and plastic products	9,135	11,347	*3.9*	*24.2*	*6.2*	*7.6*
Non-metallic mineral products	1,384	1,415	*16.1*	*2.2*	*0.9*	*1.0*
Iron and steel, and metal products	4,318	5,578	*-0.2*	*29.2*	*2.9*	*3.8*
Transport equipment	1,661	1,599	*31.4*	*-3.7*	*1.1*	*1.1*
Miscellaneous manufactured products	9,484	10,833	*2.6*	*14.2*	*6.5*	*7.3*
Total	**146,418**	**148,458**	***0.6***	***1.4***	***100.0***	***100.0***

Source: Department of Statistics.

E&E exports to total exports of manufactured goods has shown an increase of 28.5% (January-June 2002: 25.7%). Nonetheless, E&E continues to be Malaysia's largest export earner at 65.6% during the first six months of 2003.

Export earnings of **E&E** products declined by 5.5% in the first six months of 2003. The decline was due to a sluggish US demand for electronic equipment and parts, in particular, automatic data office processing machine and equipment, which contracted by 27.1%. On the other hand, semiconductors experienced a significant recovery from the downturn of 2001 and achieved steady sequential growth from the third quarter of 2002. With exports to countries in the Asia Pacific region regaining momentum, global demand for Malaysia's semiconductors, in particular electronic equipment such as computers and peripherals will continue to expand.

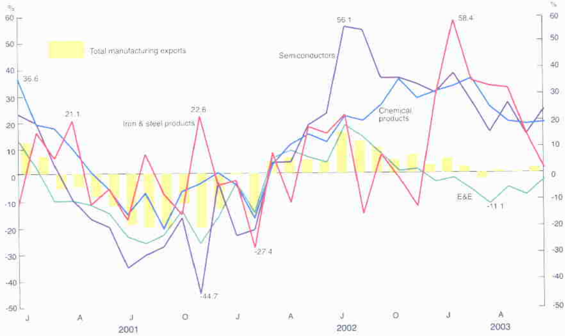
Semiconductor exports accelerated by 24.7% in the first six months this year, as shown in *Chart 2.9*, compared to -0.1% in the same period of 2002. The recovery was broad based with computer and consumer electronics, as well as communication applications, driving the growth and contributed to the emergence of smaller and faster electronic components such as bio-medical sensors, digital signal processors and integrated circuit chips. With expected improving global outlook, demand for semiconductors is envisaged to increase. The contribution of semiconductors is, therefore, anticipated to increase to more than 23% of total exports in 2003.

Chemicals, chemical and plastic products registered a significant growth of 24.2% during the first six months of this year (January-June 2002: 3.9%), and increased its share to total manufacture exports to almost 8%. Higher export growth of organic chemicals, plastic in primary forms and articles of plastics, which accounted for 64% of total exports of the sector contributed to the strong growth. Malaysia's major

CHART 2.9

Growth of Major Manufactured Exports

(% annual change)



Source: Department of Statistics

export destinations were China with about RM1.3 billion (30%), followed by Japan and Singapore. Meanwhile, plastic products exports such as plastic bags, sheet/films and containers have expanded, especially to Hong Kong, South America, Australia, Japan and Singapore.

Pharmaceuticals, which are becoming increasingly important as an export earner, particularly to other ASEAN countries as well as Africa and the Middle East, grew more than 5% in exports this year. Local pharmaceutical manufacturers are intensifying their R&D efforts, particularly in areas of product innovation and improvement in herbal and traditional medicine, such as *tongkat ali, pegaga, dukung anak* and their generic products. These growing developments have attracted foreign investment in R&D of pharmaceutical products and the establishment of regional R&D centers in Malaysia. Furthermore, the increase in world demand for medical devices, particularly in the Asia Pacific region has also led to the higher growth of this industry.

A turnaround was recorded in exports of **petroleum products**, as shown in *Table 2.11*. The industry recorded a strong growth of 46.8% this year, after 27.3% contraction last year, raising its ranking as the third most important export earner. Refined petroleum, which recorded a high growth of 59% and accounted for 77% of total exports of petroleum products, contributed to the turnaround. The high exports of refined petroleum products reflected higher demand particularly from Asian countries.

In the first six months of 2003, export earnings of **iron, steel and metal products** increased sharply by 29.2% (January-June 2002: -0.2%) and remained the fourth largest contributor with export value of RM5.578 million. Iron and steel products, especially tubes and pipes, which grew at 61.1%, contributed substantially to about 41% of total exports of iron, steel and metal products. Meanwhile, exports of fabricated metals increased by 16% on account of higher exports of base metal products.

Export of Primary Commodities

Exports of primary commodities increased notably with its share to total exports increasing...

Export earnings from primary commodities comprising agriculture produce and mineral products is expected to register 13% increase or RM50,645 million in 2003. Export earnings from **agricultural** commodities for the first half in 2003 was strong, increasing by 42% to RM13,891 million from RM9,761 million in 2002 due to both higher external demand and prices amidst tight global supplies of edible oils and fats. However, growth of overall agriculture commodity export earnings is expected to moderate to 10% for the year to RM25,186 million largely due to anticipated lower export prices, especially for palm oil in the second half of the year.

Likewise, export earnings from the **mining** sector also increased markedly by 46% in the first half of 2003 due to higher export prices for crude oil and natural gas which surged by 42% and 58%, respectively during the same period. For the remaining of the year, the export price of crude oil is expected to soften with increasing supply especially from post-war Iraq. Consequently, the share of primary commodities to total exports has increased to 15% in the first six months of 2003 (January-June 2002: 11%).

Exports receipts of **crude palm oil** (CPO) surged by 49%, as shown in *Table 2.12*, accounting for 67% of total agriculture exports. In terms of export volume, it increased by 13% during the same period. The strong performance of palm oil was due to its price competitiveness *vis-a-vis* other competing vegetable oils and fats, higher demand from existing and new markets as well as significant increases in price. The local delivery price of CPO for the first six months of 2003 averaged RM1,532 per tonne (January-June 2002: RM1,248). Despite the increase in price, it was traded at a steep discount to prices of soyabean, sunflower oils and rapeseed oil of 22%, 37% and 39%, respectively as unfavourable weather conditions in US have given rise to poor harvests of these commodities and hence the high prices.

China is presently the largest importer of CPO accounting for 17% of total CPO export. India, the world's largest importer of edible oils, experienced edible oil shortage following the severe drought last year. Subsequently, exports of CPO to India continued to increase and the country remains one of the major importers of CPO. Further, promotional efforts were made to increase exports of CPO including raising awareness about positive health and nutritional benefits of palm oil in new and existing markets. West Asia has emerged as a large potential market for Malaysian palm oil. Markets like Iran has been increasingly importing palm oil from Malaysia. Steps taken to penetrate new and expand existing traditional export markets, among others, include counter-trade arrangements, bilateral negotiations, long term credit assistance to major importing countries with foreign exchange difficulties and technical advice assistance to increase usage of palm oil in food and non-food production. These measures have been effective, with exports to China and EU, increasing by 14% to 43%, respectively. Similarly, export receipts from **palm kernel oil** rose by 24% to RM624 million during the same period. Total export earnings of palm kernel oil in 2003 is envisaged to expand to 5% to RM1,120 million.

During the first half of 2003, export volume of **saw logs** and **sawn timber** increased by 17% and 0.4%, respectively due to higher demand form India and China. Similarly, export value of both saw logs and sawn timbers performed remarkably well, up by 36% and 9%, respectively during the same period. The export price of saw logs has increased by 16% during the first half of 2003, largely on account of supply constraints imposed by major producing countries. Nevertheless, prices appear to be stabilising with the upward trend moderating. For the

CHART 2.10

Primary Commodity Exports

Q : Quarterly

TABLE 2.12

Primary Commodity Exports
January-June

	2002	2003[1]	Change (%) 2002	Change (%) 2003[1]
Palm Oil[2]				
Volume ('000 tonnes)	5,123	5,765	-4.0	12.5
Unit Value (RM/tonne)	1,222	1,614	43.5	32.1
Value (RM million)	6,259	9,306	37.7	48.7
Palm Kernel Oil				
Volume ('000 tonnes)	363	336	5.9	-7.5
Unit Value (RM/tonne)	1,390	1,857	9.9	33.5
Value (RM million)	505	624	16.4	23.5
Saw Logs				
Volume ('000 tonnes)	2,257	2,634	1.0	16.7
Unit Value (RM/tonne)	317	369	-5.6	16.4
Value (RM million)	716	971	-4.7	35.6
Sawn Timber				
Volume ('000 tonnes)	1,217	1,222	-1.8	0.4
Unit Value (RM/tonne)	948	1,025	-1.0	8.0
Value (RM million)	1,154	1,252	-2.0	8.5
Rubber				
Volume ('000 tonnes)	429	460	3.1	7.2
Unit Value (RM/tonne)	239	353	-0.5	47.7
Value (RM million)	1,027	1,623	2.6	58.0
Pepper				
Volume ('000 tonnes)	8.7	7.6	-39.2	-12.9
Unit Value (RM/tonne)	6,011	7,243	-23.9	20.5
Value (RM million)	52	55	-53.7	5.0
Cocoa				
Volume ('000 tonnes)	10.2	9.0	22.9	-11.8
Unit Value (RM/tonne)	4,635	6,642	35.9	43.3
Value (RM million)	47	60	67.0	27.7
Crude Petroleum				
Volume ('000 tonnes)	8,128	8,437	2.1	3.8
Unit Value (RM/tonne)	644	882	-19.1	36.9
Value (RM million)	5,236	7,439	-17.4	42.1
barrels per day ('000)	341	354	2.1	3.8
Liquefied Natural Gas				
Volume ('000 tonnes)	6,916	8,306	-11.0	20.1
Unit Value (RM/tonne)	595	782	-18.6	31.4
Value (RM million)	4,117	6,494	-27.6	57.7
Tin				
Volume ('000 tonnes)	17.8	5.0	56.1	-71.7
Unit Value (RM/tonne)	15.4	17.6	-20.0	14.3
Value (RM million)	274	88	25.0	-67.9
Total Value (RM million)	**19,387**	**27,912**	**-4.4**	**44.0**

[1] Estimate.
[2] Includes crude palm oil, processed palm oil and stearin.
Source: Department of Statistics.

remaining of the year, the export volume for both products are anticipated to be on the decline due to controlled logging in line with Malaysia's sustainable forestry management policy. Despite an anticipated decline in export volume by 3% for the whole year, export receipts of saw logs and sawn timber is envisaged to edge up by 4% to RM1,867 million and 0.5% to RM2,238 million, respectively constituting 8% of total commodity exports.

Total **rubber** exports, the bulk of which is in the form of Standard Malaysian Rubber (SMR), surged by 58% during the first six months of 2003 on account of higher prices and volume. The reduction in the total area under rubber cultivation as well as the obligation to reduce rubber exports under the Tripartite Agreement between Malaysia, Indonesia and Thailand has been effective in increasing the rubber prices. The price of rubber, which has been on the increase since the early part of the year, is anticipated to be sustained to record a 19% jump to about 350 sen per kilogram for the year on the back of increased demand in tandem with global economic recovery. The anticipated higher supply of rubber after a wintering season, which did not occur, coupled with export default by some exporters, brought about a lower level of supply. In contrast, total demand increased on the back of recovery in the global tyre and automobile industry as well as the relaxation of import quota by China. Subsequently, receipts from rubber exports are expected to increase by 18%.

Crude petroleum, the second largest export, is envisaged to increase by 3% to 17 million tonnes (2002: 16 million tonnes). Consequently, export revenue from crude petroleum is forecast to record an increase of 13% to RM13,100 million (2002: RM11,600 million) with its price projecting to stabilise at around USD27 per barrel for the whole of 2003. In terms of export unit value, it is anticipated to increase by 10% to about RM788 per tonne. Export earnings of **liquefied natural gas** (LNG) during the first six months expanded by 58%, driven by higher demand as well as improved prices. In terms of export unit value, it has risen by 31% during the same period while its volume has also increased by 20%. Malaysia is presently the third largest LNG exporter in the world, accounting for 13 per cent or 15 million tonnes of global exports annually, after Indonesia and Algeria.

Import Performance

Imports declined on account of lower capital and intermediate imports while consumption goods rose due to strong consumption...

The gross value of imports including cost, insurance and freight (c.i.f.) contracted by 1.6% during the first six months of 2003, after recording a growth of 2.3% during the corresponding period last year. The decline was due to a contraction in imports of capital and intermediate goods on account of uncertainties in external demand. However, import of consumption goods continued to increase although by a lower rate of 1.1% (January-June 2002: 8.8%), in tandem with growth in domestic consumption. In the remaining months, as uncertainties begin to taper and investment confidence takes hold, imports are expected to trend upwards and result in a 0.8% growth for 2003 (2002: 8.3%), largely from a rebound in imports of intermediate and capital goods.

The postponement of private investment plans following less favourable external conditions led to a 11.8% decline in imports of **capital goods** (January-June 2002: -1.1%). After the completion of a number of large infrastructure projects last year, such as fleet expansion programme by airlines and shipping companies, delivery of trains for the Express Rail Link connecting KLIA and Kuala Lumpur Sentral, imports of transport equipment for industrial purposes, therefore declined substantially by 74.2% during the first six months of the year (January-June 2002: +106.6%). Among these were railway vehicles including hovertrains and associated equipment

TABLE 2.13

Gross Imports by End Use

	RM Million		% Change		% Share	
	2002	2003[1]	2002	2003[1]	2002	2003[1]
Capital goods	**22,622**	**19,957**	***-1.1***	***-11.8***	***15.4***	***13.8***
Capital goods (except transport equipment)	18,992	19,020	*-10.1*	*0.1*	*84.0*	*95.3*
Transport equipment (industrial)	3,630	937	*106.6*	*-74.2*	*16.0*	*4.7*
Intermediate goods	**104,813**	**104,409**	***0.9***	***-0.4***	***71.5***	***72.4***
Food and beverages, primary and processed mainly for industry	2,237	2,668	*4.3*	*19.3*	*2.1*	*2.6*
Industrial supplies, primary and processed	31,160	31,789	*-2.4*	*2.0*	*29.7*	*30.4*
Fuel and lubricants primary, processed, others	4,949	6,794	*-19.2*	*37.3*	*4.7*	*6.5*
Parts and accessories for transport equipment	3,566	2,739	*39.3*	*-23.2*	*3.4*	*2.6*
Parts and accessories of capital goods (except thermionic valves and tubes)	30,800	20,396	*6.2*	*-33.8*	*29.4*	*19.5*
Thermionic valves and tubes	32,101	40,023	*-0.1*	*24.7*	*30.6*	*38.3*
Consumption goods	**9,044**	**9,141**	***8.8***	***1.1***	***6.2***	***6.3***
Food and beverages, primary and processed mainly for household consumption	3,555	3,411	*2.3*	*-4.1*	*39.3*	*37.3*
Transport equipment (non-industrial)	73	149	*17.2*	*104.9*	*0.8*	*1.6*
Other consumer goods	5,416	5,581	*13.4*	*3.0*	*59.9*	*61.1*
Durables	1,120	1,292	*21.0*	*15.3*	*12.4*	*14.1*
Semi-durables	2,083	1,808	*17.1*	*-13.2*	*23.0*	*19.8*
Non-durables	2,213	2,481	*6.9*	*12.1*	*24.5*	*27.1*
Others (including dual use goods)	**6,154**	**6,841**	***22.5***	***11.2***	***4.2***	***4.8***
Imports for re-export	**3,906**	**3,909**	***24.8***	***0.1***	***2.7***	***2.7***
Gross Import	**146,539**	**144,257**	***2.3***	***-1.6***	***100.0***	***100.0***

[1] Estimate

Source : Department of Statistics.

(-67.5%), ships, boats and floating structures (-67.2%) and trailers and semi-trailers (-25.9%). However, import of other types of capital goods grew by 0.1% (January-June 2002: -10.1%).

During the first six months of 2003, import of **intermediate goods** contracted by 0.4% (January-June 2002: +0.9%), primarily due to lower import of parts and accessories of capital goods (except thermionic valves and tubes) which contracted by 33.8% and represents 19.5% of imported intermediate goods. The decline is also attributed to the contraction in imports of parts and accessories for transport equipment, which declined by 23.2% (January-June 2002: +39.3%).

On the other hand, all other categories of intermediate goods recorded growth during the reporting period. Import of thermionic valves and tubes, mainly used as inputs in the export-oriented electronic industry increased significantly by 24.7% (January-June 2002: -0.1%) to account for 38.3% (January-June 2002: 30.6%) of total intermediate goods. The same trend was recorded for fuel and lubricants and industrial supplies which expanded by 37.3% and 2%, respectively. In line with sustained consumer spending, import of food and beverages increased by 19.3%. Despite the overall decline in imports of intermediate goods, its share to total imports improved further to 72.4% (January-June 2002: 71.5%).

In consonance with higher private consumption spending, import of **consumption goods** expanded by 1.1% during the first six months of 2003 (January-June 2002: 8.8%). Notable increases were registered for imports of transport equipment, which increased by 104.9% (January-June 2002: 17.2%). Imports of both consumer durables and non-durables increased, while import of semi-durables fell during the first six months of the year. Imports of non-durables including perfumery, cosmetics and toilet preparations increased by 12.1% (January-June 2002: 6.9%), while import of consumer durables, comprising household electrical and non-electrical products, watches and clocks as well as jewellery increased by 15.3% (January-June 2002: 21%). On the other hand, import of semi-durables contracted by 13.2% (January-July 2002: +17.1%). Food and beverages followed the same trend, declining by 4.1% during the same period, as shown in *Table 2.13*.

Direction of Trade

Trade pattern shows more diversified export markets...

Malaysian external trade continued to strengthen further, despite adverse uncertainties prevailing in the external environment during the first half of 2003. At the same time, the trade pattern has shifted to focus on intra-regional trade within the East Asian region and to further diversity into non-traditional markets. Although the US continues to be Malaysia's biggest trading partner since 1997, its dominant position has declined significantly in the first half of the year.

Malaysia's total trade continued to expand by 3% to RM325,118 million (January-June 2002: 1.1%, RM315,755 million), as shown in *Chart 2.11* and *Table 2.14*, driven mainly by exports picking up strongly by 6.9% (January-

CHART 2.11

Direction of External Trade
January–June

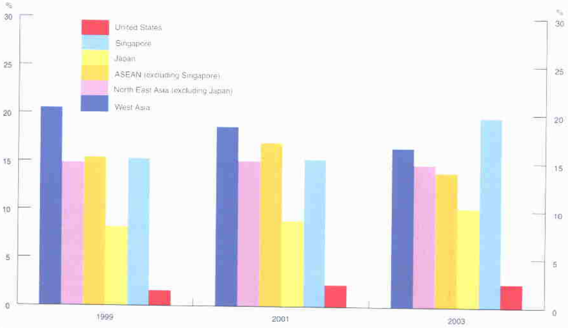


TABLE 2.14

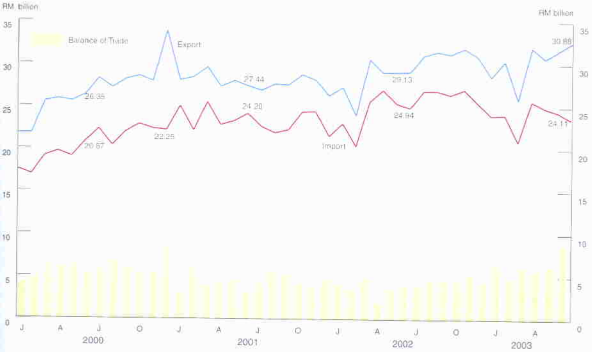
Direction of External Trade
January-June

	Exports				Imports				Trade Balance	
	% Change		% Share		% Change		% Share		RM million	
	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003
United States	**4.8**	**-14.0**	**21.0**	**16.9**	**7.1**	**-10.2**	**17.6**	**16.1**	**9,681**	**7,348**
Singapore	**2.8**	**3.6**	**17.3**	**16.8**	**-4.8**	**-1.0**	**12.1**	**12.2**	**11,545**	**12,785**
Japan	**-20.7**	**7.4**	**11.3**	**11.4**	**-10.4**	**-3.5**	**17.7**	**17.3**	**-6,742**	**-4,418**
North East Asia (excl. Japan)	**17.4**	**18.4**	**17.5**	**19.4**	**34.4**	**-3.4**	**20.6**	**20.2**	**-530**	**5,940**
China, PRC	36.2	26.7	5.2	6.2	76.6	6.3	7.2	7.7	-1,626	79
Taiwan	21.9	-0.1	4.0	3.7	8.9	-17.4	5.7	4.8	-1,716	-261
South Korea	-3.6	2.3	3.3	3.1	45.9	-6.0	5.2	5.0	-2,128	-1,545
Hong Kong SAR	13.8	34.3	5.1	6.4	2.7	6.2	2.5	2.7	4,930	7,644
European Union	**-10.0**	**11.1**	**12.4**	**12.9**	**-11.7**	**2.9**	**11.3**	**11.8**	**4,502**	**6,355**
United Kingdom	-12.9	2.8	2.4	2.3	-15.6	-7.6	2.1	2.0	1,058	1,407
Germany	-10.0	24.4	2.1	2.5	-3.0	25.5	3.5	4.5	-1,634	-2,088
Netherlands	-16.0	-3.5	3.8	3.5	-12.7	-10.8	0.8	0.7	5,288	5,191
France	31.2	39.9	1.4	1.8	-14.0	22.8	1.3	1.7	338	807
Ireland	-38.2	9.6	0.3	0.3	-27.1	-47.5	1.0	0.5	-877	-159
Italy	-14.4	57.8	0.5	0.7	-11.8	-6.8	0.8	0.8	-363	202
ASEAN (excl. Singapore)	**10.2**	**7.9**	**9.2**	**9.3**	**15.0**	**5.5**	**10.8**	**11.6**	**-329**	**35**
Thailand	9.4	11.4	4.3	4.5	5.9	1.3	4.1	4.2	1,313	2,065
Indonesia	17.4	10.6	2.0	2.1	7.8	11.8	3.1	3.5	-1,084	-1,250
Philippines	-0.2	0.5	1.5	1.4	42.0	4.7	3.1	3.3	-2,105	-2,307
Brunei	-17.5	26.7	0.3	0.3	-33.3	54.7	0.0	0.0	450	569
Myanmar	4.4	-36.8	0.3	0.2	-9.6	15.6	0.1	0.1	309	121
South Asia	**2.4**	**46.9**	**2.8**	**3.8**	**-12.4**	**-6.2**	**0.9**	**0.9**	**3,297**	**5,574**
India	-4.1	57.4	1.7	2.6	-14.8	-6.7	0.8	0.8	1,707	3,476
West Asia	**4.4**	**21.3**	**2.1**	**2.4**	**-36.6**	**58.8**	**1.6**	**2.5**	**1,325**	**738**
Saudi Arabia	12.6	6.7	0.4	0.4	-45.2	55.2	0.5	0.8	-52	-428
United Arab Emirates	-7.6	24.9	0.9	1.0	-38.9	209.2	0.1	0.4	1,330	1,326
Yemen	36.4	39.9	0.1	0.1	-10.3	19.1	0.4	0.4	-390	-433
Oman	-64.8	38.1	0.0	0.1	-56.7	213.5	0.2	0.6	-184	-700
Australia	-6.9	21.1	2.1	2.4	-10.4	-10.9	1.8	1.6	1,045	2,097
New Zealand	-3.6	17.5	0.3	0.4	-10.6	-5.9	0.4	0.4	-67	67
Central & Eastern Europe	-14.4	16.8	0.4	0.4	19.1	34.1	0.2	0.2	361	379
Africa	20.8	34.8	1.0	1.3	-20.0	9.3	0.4	0.4	1,161	1,712
Rest of the world	-18.2	14.3	2.5	2.5	-2.0	0.4	4.6	4.8	-2,572	-2,007
% Change/Share	**0.1**	**6.9**	**100.0**	**100.0**	**2.3**	**-1.6**	**100.0**	**100.0**		
RM million		**180,862**				**144,257**			**22,677**	**36,605**

Source: Department of Statistics.

CHART 2.12

Balance of Trade



Source: Department of Statistics

June 2002: 0.1%) while imports registered a negative growth of 1.6% (January-June 2002: +2.3%). Based on this trend, Malaysia continued to enjoy an even larger trade surplus of RM36,605 million during the period under review (January-June 2002: RM22,677 million). This external trade balance position has remained in surplus for 68 consecutive months since November 1997 and is expected to strengthen towards the end of the year as the impact from the Iraq war recedes and the SARS epidemic fades out and the world economy and international trade recover. On the whole, Malaysia continued to register trade surpluses with major trading partners such as the United States (US), the European Union (EU), Singapore and Hong Kong, and deficit, with Japan and the Republic of Korea (South Korea).

With the rapidly changing international trade scenario, particularly following the entry of the People's Republic of China (China) into the World Trade Organisation (WTO), Malaysia's trade pattern has shifted to reflect an increasing share of the East Asian nations and in general moving away from the US market. Intra-trade share among these nations (excluding Singapore and Japan) expanded markedly to 30% of total trade during the first half of the year (1997-2002: 25.2%), whilst trade with Singapore and Japan reduced slightly over the same period with a share of 28.8% (1997-2002: 31.3%). At the same time, trade with the South Asia (including India) and West Asia regions increased further, reflecting successful inroads made in new markets as a strategy to diversify into non-traditional markets.

The decline in Malaysia's trade with the **US** was partly due to the generally lethargic demand for electrical appliances and electronic-related products from Malaysia. This was further compounded by the uncertainties in external environment, particularly during the Iraq war. As such, exports to the US market contracted significantly by 14% (January-June 2002: +4.8%). Likewise, imports from the US declined by 10.2% (January-June 2002: +7.1%). Despite the faster rate of decline in exports compared to imports. Malaysia was able to continue to register a fairly high trade surplus with the US accounting for 20.1% of total trade balance (January-June 2002: 42.7%). Major export items to US were mostly high value-added goods such as storage units, parts and accessories for automatic data processing machines, digital and other monolithic integrated circuits, and input output unit, which together accounted for 31% of total exports. Main imports were parts for electronic integrated circuits and microassemblies, other monolithic integrated circuits, parts and accessories for automatic data processing machines, hybrid integrated circuits and printed circuits.

Despite economic difficulties faced by **Singapore** during the first half of the year, Malaysia's trade with Singapore remained unchanged, constituting 14.8% of total trade. With exports growing modestly by 3.6% and imports registering a negative growth of 1%, Malaysia continued to enjoy a favourable trade balance. The continuous favourable position over the years is a result of the increasing utilisation of local ports and engagement in direct trade by Malaysian businesses. Items such as parts and accessories for automatic data processing machines, hybrid integrated circuits, digital and other monolithic integrated circuits and other transistors were the main exports, contributing to 36.1% of total exports, while imports comprised other monolithic integrated circuits, unleaded petrol, parts for electronic integrated circuits and microassemblies, residual fuel oil, and parts and accessories for automatic data processing machines, constituting 32.4% of total imports.

The trade balance with **Japan**, which has always been in Japan's favour, improved with a smaller deficit of RM4,418 million (January-June 2002: RM6,742 million), underpinned by better export performance. Exports turned around to increase significantly by 7.4% in contrast to imports, which contracted by 3.5%. Main exports were LNG, digital monolithic integrated circuits, parts and accessories for automatic data processing machines, naphtha and crude petroleum oils. Imports items were mainly parts for electronic integrated circuits and microassemblies, other monolithic integrated circuits, hybrid integrated circuits, line pipe used for oil or gas industry, and parts and accessories for automatic data processing machines.

Malaysia's trade with **North East Asia** (excluding Japan) continued to expand at a fairly strong rate of 7.4% and accounted for 19.7% of total trade (January-June 2002: 25.4%, 18.9%). The entrance of China into the WTO has provided vast opportunities for greater intra-regional trade within the Asian region. As a result, Malaysian trade with China and Hong Kong continued to increase at double-digit rates, 15.7% and 25.9%, respectively (January-June 2002: 55.5%, 10.3%). China remained the largest trading partner in the region, accounting for 6.9% of total trade, followed by Hong Kong SAR (4.7%), Taiwan (4.2%) and South Korea (3.9%). Exports to this region comprised mainly digital monolithic integrated circuits, LNG, palm oil and crude petroleum oil. Together, they accounted for 38.5% of the total exports. A major portion of the palm oil was for the China market, increasing by 71.4% during the first half of the year (January-June 2002: 63.4%). Major items imported from the region were other monolithic integrated circuits, parts for electronic integrated circuits and microassemblies, parts and accessories for automatic data processing machines, other transmission apparatus incorporating reception apparatus, indicator panels and other automatic data processing machines.

Total trade with the **EU**, another important trading partner, increased by 7.5% (January-June 2002: -10.8%), with exports and imports expanding by 11.1% and 2.9%, respectively. Malaysia continues to register a sizeable surplus of RM6,355 million (January-June 2002: RM4,502 million) with the EU. Within the EU, Germany is still the leading trading partner, accounting for 3.4% of Malaysia's total trade, followed by the Netherlands (2.3%) and the United Kingdom (2.2%). Total trade with these three economies amounted to RM25,382 million (January-June 2002: RM23,660 million).

Reflecting the increasing intra-regional trade within the **ASEAN** (excluding Singapore) region as well as economic recovery of member countries, Malaysia's trade with its members expanded significantly by 6.7% to account for 10.3% of total trade in the first half of the year (January-June 2002: 12.6%, 10%). With exports expanding

TABLE 2.15

Current Account of the Balance of Payments
2002-2003
(RM million)

	2002 Receipts	2002 Payments	2002 Net	2003[1] Receipts	2003[1] Payments	2003[1] Net
Goods	**354,855**	**285,941**	**68,914**	**368,915**	**287,872**	**81,043**
Services account	**56,536**	**62,502**	**-5,966**	**53,656**	**62,114**	**-8,458**
Transportation	10,847	22,389	-11,542	10,943	22,240	-11,297
Travel	27,049	9,947	17,102	22,893	9,585	13,308
Other services	18,166	29,408	-11,242	19,373	29,742	-10,369
Government transactions	474	758	-284	447	547	-100
Income	**8,129**	**33,190**	**-25,061**	**8,987**	**35,502**	**-26,515**
Compensation of employees	1,653	2,832	-1,179	1,977	3,025	-1,048
Investment Income	6,476	30,358	-23,882	7,010	32,477	-25,467
Current transfers	**2,513**	**13,079**	**-10,566**	**2,364**	**11,667**	**-9,303**
Current account	**422,033**	**394,712**	**27,321**	**433,922**	**397,155**	**36,767**

[1] Estimates.

at 7.9% (January-June 2002: 10.2%) and imports at 5.5% (January-June 2002: 15%), Malaysia registered a surplus of RM35 million (January-June 2002: -RM329 million) with these nations. Although there was a total trade deficit of RM3,557 million against Indonesia and Philippines, Malaysia continued to achieve a trade surplus with Thailand, Brunei, Vietnam, Myanmar, Cambodia and Laos amounting to RM3,592 million. Major exports consisted of crude petroleum oil, parts and accessories for automatic data processing machines, parts for electronic integrated circuits and microassemblies, cathode-ray television picture tubes as well as digital monolithic integrated circuits. Imports, on the other hand, included mainly hybrid integrated circuits, other monolithic integrated circuits, parts for electronic integrated circuits and micro-assemblies, parts and accessories for automatic data processing machines and cocoa beans.

Total trade with **West Asia** expanded strongly by 35.9% (January-June 2002: -16.6%) to account for a higher share of 2.5% of Malaysia's total trade (January-June 2002: 1.9%). Both imports and exports picked up strongly by 58.8% (January-June 2002: -36.6%) and 21.3% (January-June 2002: 4.4%), respectively. Malaysia continued to register a trade surplus of RM738 million (January-June 2002: 1,325 million), mainly due to trade surplus with the United Arab Emirates (UAE), Iran, Syria and Jordan. Within West Asia, the leading trading partners were the UAE and Saudi Arabia, accounting for 0.8% and 0.6% of total trade,respectively, followed by Yemen and Oman, contributing 0.3% each. Export items to the region were mainly palm oil, articles of jewellery and parts of other precious metal and colour television receivers, while imports comprised mostly crude petroleum oil, naphtha, other petroleum spirit, aluminium alloys and gold.

Balance Of Payments

Current account surplus increases and international reserves strengthen further...

The current account of the balance of payments is expected to improve further and register a surplus for the fifth consecutive year in 2003. The surplus is envisaged with a higher net balance in the goods account and declining deficits in the transfers account. Meanwhile, net outflow in the financial account is expected to continue due to higher outflows in other investments and lower net inflows in direct investment. As in the past, the surplus in the current account is anticipated to be more than sufficient to cover the net outflows in the financial account, ensuring an overall surplus in the balance of payments for the third consecutive year since 2001.

Malaysia has always registered a surplus on **goods account** in the balance of payments. Reflecting the strength of the goods account, it is expected to register an even higher surplus of RM81,043 million in 2003 (2002:RM68,914 million), despite the adverse external environment, particularly in the first half of 2003. This is based on a higher expected export growth of 4% compared to a lower rate of 0.7% for imports.

The **services account,** in contrast, is envisaged to record a higher deficit of RM8,458 million (2002: RM5,966 million), resulting from lower net inflows from travel due to the impact of SARS. Receipts from the **transportation account** is expected to increase further by 0.9% in 2003 (2002:3.9%), following the Government's continuing efforts to promote the usage of local airports, particularly the Kuala Lumpur International Airport (KLIA) and local ports as transshipment hubs. Efforts have also been undertaken to ensure the seamless movement of sea-air cargo, involving Port Klang in Selangor and the Port of Tanjung Pelepas (PTP) in Johor. However, the transportation account still records a net outflow, constituting 2.9% of GDP.

Net inflow in the **travel account,** comprising business and personal travel as well as payments for education and pilgrimage, is envisaged to decline by 22.2% (2002: +5.9%). Growth in travel receipts is estimated to contract by 15.4% in 2003 (2002: +3.7%) largely due to the impact of the slower world growth, Iraq war and SARS. The timely proactive measures taken by the Government, as well as the quick resolution of the Iraq war and the containment of SARS, helped cushion the impact. In addition, intensive promotion of inbound tourism and the hosting of major international conferences, such as Non-

CHART 2.13

International Reserves

Source: Department of Statistics

aligned Movement (NAM) and Organisation of Islamic Countries (OIC) Summit, and major sports events, particularly Formula One Race, Powerboat World Championship and Le Tour De Langkawi, further helped in minimising the impact on the travel account. On a positive note, outflows in the travel account, largely on education and pilgrimage are expected to contract by 3.6% to RM9,585 million (2002: +0.1%), thereby resulting in a surplus.

The **government transactions account** is expected to continue to register a net outflow of RM100 million in 2003 (2002: -RM284 million). Both payments and receipts show contraction. Payments, mainly comprising expenditure incurred by Malaysian embassies are estimated to contract to RM547 million in 2003 (2002: RM758 million). Receipts, largely from expenditure by foreign embassies, are expected to total RM447 million (2002: RM474 million).

The **income account** of the balance of payments is expected to record a higher deficit. Receipts from investment income, which include mainly returns from the external assets of BNM as well as income from Malaysian investments abroad are expected to increase by 8.3% to RM7,010 million (2002: 15.2% and RM6,476 million). As receipts from Malaysian investments overseas are not likely to offset the repatriation of profits and dividends by foreign companies operating in Malaysia, the investment income component will continue to record a deficit, amounting to RM25,467 million (2002:-RM23,882 million).

Net outflows, associated with **current transfers** comprising largely of remittances by foreign workers is expected to decline to RM9,303 million, against RM10,566 million in 2002. The significant difference in net outflow is mainly due to the one-time lump sum repatriation made by 318,272 illegal workers returning to their home countries under the Amnesty Programme carried out between 22 March to 31 July 2002. Consequently, the total amount of transfer payments is likely to contract by 10.8% in 2003 (2002: +28%), while, current transfer receipts from abroad are estimated to decrease by 5.9% in 2003 (2002: +23.2%), largely on account of lower remittances by Malaysians working abroad. After taking into account the deficits in the income and current transfers components, the **current account** of the balance of payments is expected to record a higher and sizeable surplus of RM36,767 million or 10.2% of GNP (2002: RM27,321 million or 8.1% of GNP).

In the **financial account,** comprising direct investment, portfolio investment and other investment is expected to record a net outflow of RM12,500 million (2002: -RM11,941 million). The other investment account, including loans trade credits and bank deposits is expected to record a deficit of RM16,000 million (2002: -RM10,370 million), partly due to higher net loan repayments. On the other hand, the direct investment account is envisaged to register a net inflow of RM3,500 million (2002: RM4,935 million) mainly in the manufacturing and oil and gas sectors.

The surplus in the current account is more than sufficient to meet the deficit in the financial account. Taking into account the net outflows of RM9,020 million (2002: -RM1,189 million) due to errors and omissions, the **overall position** of the balance of payments is envisaged to record a net inflow of RM15,247 million in 2003 (2002: RM14,191 million). Thus, the nation's balance of payments position is expected to remain fundamentally strong.

Malaysia's international reserves has improved since June 2001 and continued to further strengthen by RM32,559 million or USD8,568 million until end-December 2002. As at end-August 2003, Malaysia's international reserves amounted to RM146,941 million (USD38,669 million) as compared to RM131,416 million (USD34,583 million) at end-December 2002. The increase in reserves reflect the continuing inflows from trade, foreign direct investment as well as portfolio funds, which more than offset payments for services and external loan repayments.

National Resource Position

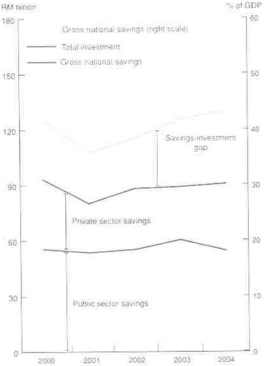
Stronger resource position with high savings rate...

In spite of overall modest exports performance arising from the uncertainties in the external environment, especially during the first half of the year, national income in nominal value continued to expand strongly by 7.1% in 2003 (2002: 8.7%). Following the Government's deliberate efforts to enhance higher consumption aimed at generating greater domestic economic activities, **gross national savings** likely to increase further at the rate of 9.5% to RM126,468 million or 32.8% of GDP (2002: 7.2%, RM115,510 million, 32% of GDP), with public sector savings accounting for a slightly higher proportion of about 54% of total savings. With this savings rate, Malaysia ranks high among other nations with ample liquidity to support and finance its economic activities. The **savings-investment gap** is expected to increase further to RM36,767 million or 9.5% of GDP (2002: RM27,321 million, 7.6% of GDP) due to slower growth of 1.7% to RM89,701 million or 23.3% of GDP (2002: 10.1%, RM88,189 million, 24.4% of GDP) in overall investment expenditure (including changes in stock), partly on account of modest improvements in private sector investment initiatives.

Private sector savings is envisaged to increase significantly by 10.8% (2002: -4.1%) and to account for 14.9% of GDP (2002: 14.4% of GDP). The private sector is expected to record a even higher surplus of 6.7% of GDP (2002: 5.6%) although capital expenditure activity (excluding changes in stock) has picked up by 2.9% (2002:-12.9%) in nominal value. This ample liquidity in the private sector has enabled the public sector to continue financing its deficits through domestic sources without crowding out the private sector. In view of the expansionary fiscal measures that has resulted in higher investment outlays of 5.6% (2002: 10%) and lower public savings of 8.4% (2002: 18.6%), a fair surplus of 2.8% of GDP (2002: 1.9%) in the resource position is expected for the sector.

CHART 2.14

Savings-Investment Gap[1]



[1] Including changes in stocks

Prices

Inflation remains subdued despite increasing domestic demand...

Inflation is expected to remain subdued for the year 2003 in spite of higher domestic demand supported by pro-growth measures of the Government. Generally, there is an absence of pressure on the general price level. Although capacity utilisation is higher in tandem with improving economic prospects, excess capacity still prevails in some sectors of the economy. Declining import prices further restrained increases in domestic price levels. The environment of low inflation, since 1999 averaging below 2%, has provided the Government the flexibility to implement pro-growth policies to stimulate economic activities and to sustain the growth momentum.

The lower **consumer price index** (CPI) in first half of the year reflected consumer sentiment which was affected by external uncertainties on global economic recovery, the Iraq war and SARS. In addition, the scheduled mega sale in March encourage consumers to defer consumption and time their purchases for the sale. Deflationary trends in major economies also resulted in declining import prices, which further eased price pressure. Consequently, inflation remained tame with CPI increasing 1.1% for the first seven months of 2003, as shown in *Table 2.16*.

Price increases were recorded mainly for transport and communication which rose at a slower rate of 2.3% (2002: 6.4%). Transport and communication contributed the largest share of 41% to the total increase in CPI. The impact of the one-off price adjustment for telecommunication tariff (telephone rental, local calls and payphone services) in March 2002 was not sustained and did not filter through. In addition, the marginal increase in the retail price of petrol by a total of two sen per litre over a period of 9 months to RM 1.35 per litre at August 2003 was insignificant and did not have a large impact on overall prices.

In contrast to transport and communication, the index for food doubled by 1.2% during the first seven months (January-July 2002: 0.6%). Consequently, food contributed the second largest share to the overall increase in CPI with 38.1% from 11.6% last year. Prices increased largely for Food At Home, due mainly to increase in prices for fruits and vegetables in contrast to a decline in the same period last year. Restaurants and food outlets were badly affected by SARS in April and May, resulting in a slower increase of 1% (2002: 1.8%) in the index for Food Away From Home. Prices for cigarettes and tobacco products were contained and stable, marginally at 0.1% compared to an increase of 5% in same period in 2002. This was due to the absence of higher sales tax and import duty on these two products in the 2003 Budget.

TABLE 2.16

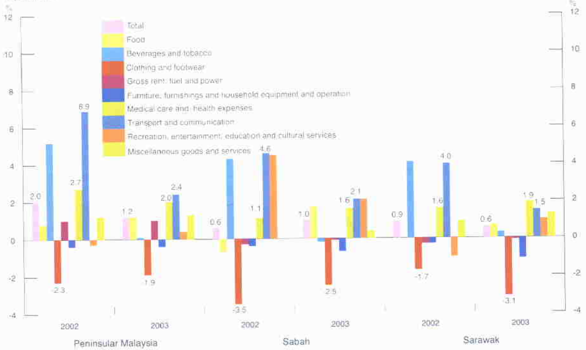
Consumer Price Index
January–July
(2000=100)

		Annual Change (%)		Contribution to Growth (%)	
	Weights	2002	2003	2002	2003
Total	**100.0**	***1.8***	***1.1***	***100.0***	***100.0***
Food	33.8	*0.6*	*1.2*	*11.6*	*38.1*
Beverages and tobacco	3.1	*5.0*	*0.1*	*9.0*	*0.3*
Clothing and footwear	3.4	*-2.4*	*-2.1*	*-4.8*	*-6.8*
Gross rent, fuel and power	22.4	*0.8*	*0.8*	*10.2*	*16.7*
Furniture, furnishings and household equipment and operation	5.3	*-0.4*	*-0.5*	*-1.2*	*-2.5*
Medical care and health expenses	1.8	*2.4*	*2.0*	*2.5*	*3.4*
Transport and communication	18.8	*6.4*	*2.3*	*69.5*	*40.8*
Recreation, entertainment, education and cultural services	5.9	*-0.1*	*0.6*	*-0.3*	*3.4*
Miscellaneous goods and services	5.5	*1.1*	*1.3*	*3.5*	*6.6*

Source: Department of Statistics.

CHART 2.15

Consumer Price Index by Region
January - July
(2000:100)



Index for clothing and footwear as well as furniture and household equipment, continued to decline by 2.1% and 0.5%, respectively. With the introduction of nationwide mega sales at regular intervals, consumers tend to defer purchases to coincide with the sales. Prices for these goods eased as demand remains soft and characterised by large discounts and offers.

Prices are, however, expected to be on a slightly increasing trend in the next five months as the economy strengthens further in the second half of 2003 with modest global economic recovery. Mild deflationary pressures emerging in some major global economies are expected to contain domestic inflation at a low level for 2003.

CPI by region continued its past trends with Peninsular Malaysia recording the highest increase, as shown in *Chart 2.15*, with price increase of 1.2%, which is above the national average of 1.1%. Sabah and Sarawak, on the other hand, recorded price increases of 1% and 0.6%, respectively, below the national average. In all three cases, price increases were highest for transport and communication, with medical care and health expenses, and food showing rising trends. Price increases for food was highest in Sabah at 1.7% due to supply constraints of fresh food.

Price increases were lesser in the rural areas. Unlike price movements in the rural and urban areas, there was no significant difference in the price movements among the lower income groups with earnings below RM1,500 per month and below RM1,000 per month.

The overall **Producer Price Index** (PPI) for the first seven months of 2003 increased 7% (2002: 1.5%), as shown in *Table 2.17*. The increase was attributed to the higher price for crude oil

TABLE 2.17

Producer Price Index
January-July
(1989=100)

	Weights	2002	2003[1]
Domestic economy	**100.0**	***1.5***	***7.0***
Food and live animals chiefly for food	14.9	*0.1*	*-1.7*
Beverages and tobacco	2.1	*3.9*	*1.1*
Crude materials, inedible except fuels	18.0	*3.3*	*8.7*
Mineral fuels, lubricants and related materials	18.8	*-9.5*	*15.6*
Animal and vegetable oils and fats	8.5	*55.6*	*21.7*
Chemicals and related products n.e.c.	4.4	*-1.3*	*1.6*
Manufactured goods classified chiefly by material	10.8	*-0.5*	*1.7*
Machinery and transport equipment	18.3	*-0.5*	*0.1*
Miscellaneous manufactured articles	3.6	*-0.4*	*0.7*
Commodities and transactions not classified elsewhere in the s.i.t.c.	0.6	*4.2*	*0.8*
Local production	**79.3**	***2.0***	***8.5***
Import	**20.7**	***-0.6***	***0.5***

[1] Estimate.

Source: Department of Statistics.

arising from fears of disruptions in supply due to the Iraq war and subsequently reduced supply arising from the Venezuela oil crisis. The smaller price increase for animal and vegetable oils and fats, particularly palm oil, of 21.7% compared to 55.6% for 2002, somewhat moderated the PPI.

Labour Market

Unemployment stable amidst subdued wages and higher productivity...

Labour market conditions are expected to be more favourable in 2003 due to a moderately improved economic performance, particularly in the second half of the year. With the better economic situation, improved employment prospects and reduced retrenchments, **unemployment** continues to remain low for the year with higher productivity amidst subdued wage level.

Despite increasing external uncertainties and the outbreak of SARS, the number of retrenched workers declined by 11% during the first seven months of 2003 (2002: -20%). In addition, the number of those employed is expected to increase by 28% with the second half of the year showing a strong pace. Unemployment is, thus, estimated to remain low at 3.5%.

The **labour force**, which has been expanding at slightly above 3% since 2001, continued the trend and is envisaged to grow at 3.1% in 2003 (2002: 3.1%), as shown in *Table 2.18*. With the extension of universal education to 11 years as well as increasing number of people pursuing higher education, the proportion of the labour force in the age group 15-24 years is expected to decline from 49.4% in 2000 to 48.4% in 2003. However, the overall labour force participation rate is expected to increase from 65.7% in 2002 to 66.9% in 2003 with participation of males recording a higher rate of 87.1% compared to 45.7% for females. In terms of quality, the proportion of labour force with tertiary education is envisaged to increase from 13.9% in 2000 to 17.1% in 2003 and those with secondary education, from 53.8% to 56.2%.

TABLE 2.18

Labour Market Indicators

	('000)		Change (%)	
	2002	2003[1]	2002	2003[1]
Labour Force	10,198.8	10,514.9	*3.1*	*3.1*
Employment	9,840.0	10,150.0	*3.2*	*3.2*
Unemployment	358.7	364.9	*3.5*[2]	*3.5*[2]

[1] Estimate.
[2] To labour force.

Source: Economic Planning Unit.

TABLE 2.19

Employment by Sector

	('000)		Share (%)		Change (%)	
	2002	2003[1]	2002	2003[1]	2002	2003[1]
Agriculture, hunting, forestry and fishing	1,405.5	1,403.0	*14.9*	*13.8*	*-0.1*	*-0.2*
Mining	42.2	42.8	*0.3*	*0.4*	*1.0*	*1.4*
Manufacturing	2,679.8	2,814.9	*21.7*	*27.7*	*4.9*	*5.0*
Construction	782.1	794.6	*9.5*	*7.8*	*1.3*	*1.6*
Services	4,930.3	5,094.8	*53.6*	*50.3*	*3.7*	*3.3*
Electricity, gas and water supply	84.5	89.4	*0.5*	*0.9*	*6.2*	*5.8*
Wholesale and retail trade, hotels and restaurants	1,698.6	1,738.2	*15.7*	*17.1*	*2.7*	*2.8*
Finance, insurance real estates and business services	607.2	635.3	*6.7*	*6.3*	*5.7*	*4.6*
Transport, storage and communication	508.6	522.8	*5.2*	*5.2*	*2.7*	*2.8*
Government services	994.5	1,026.1	*10.4*	*10.1*	*1.5*	*3.2*
Other services	1,036.8	1,082.9	*15.1*	*10.7*	*6.5*	*4.4*
Total	**9,840.0**	**10,150.1**	***100.0***	***100.0***	**3.2**	**3.2**
Primary sector	1,447.8	1,445.8	*15.2*	*14.2*	*0.0*	*-0.1*
Secondary sector	3,461.9	3,609.5	*31.2*	*35.5*	*4.0*	*4.3*
Tertiary sector	5,116.6	5,094.8	*53.6*	*50.3*	*7.6*	*-0.4*

[1] Estimate.

Source: Economic Planning Unit.

A total of 10.150 million was employed with the bulk in the manufacturing sector, as shown in *Table 2.19*. The improved performance of the manufacturing sector is envisaged to result in its increased contribution to total employment from 21.7% in 2002 to 27.7% in 2003. **Employment** in this sector is also forecasted to register the second highest growth rate of 5% after utilities. All other sectors except agriculture are also expected to record increases for the year. Employment in the agriculture sector continues to decline, due in part to higher utilisation of high technology cultivation methods and large-scale farming as well as mechanisation, which has contributed to less labour-intensive cultivation.

In terms of occupational groups, the demand for plant and machine operators and assemblers surged by 14.6% in tandem with robust growth in manufacturing and transport as well as the increasing use of machines and equipment in work processes. Professionals are estimated to comprise 5.4% of total employment in 2003 and expected to witness an increasing trend, growing at 9.2%, as shown in *Table 2.20*. The demand for professionals, which include graduate teachers, computer system designers and analysts, is in line with the development of Malaysia as a regional center for excellence in education with export potentials by private institutions as well as the progression towards a knowledge-based economy. The employment of skilled agricultural and fishery workers is projected to contract with its share to total employment declining from 13.7% in 2002 to 12.7% in 2003. This is due partly to increasing mechanisation, better agronomic practices and structural changes.

The number of **job seekers** registered with the Manpower Department declined by 1 % to 37,397 the first seven months of 2003 (January-July 2002: 37,797). Of this total, almost half of them (18,387) are of age group 20-24 years and 20% of the age group 15-19 years. About 68% (25,245) are holders of Sijil Pelajaran Malaysia (SPM) and 15% (5,588) are holders of Sijil Tinggi Pelajaran Malaysia (STPM), diploma and degree. A total of 14,152 or 38% of the persons registered were seeking employment in professional and technical occupations as well as production and related occupations. Another 55% (20,484) were seeking employment in lower skilled occupations, such as clerical and related jobs.

The number of **vacancies** declined by 28% or 58,183 during the first seven months of 2003 (2002: 80,412), as shown in *Chart 2.16*. As in the case of employment by sector, the

TABLE: 2.20

Employment by Major Occupational Group 2002-2003

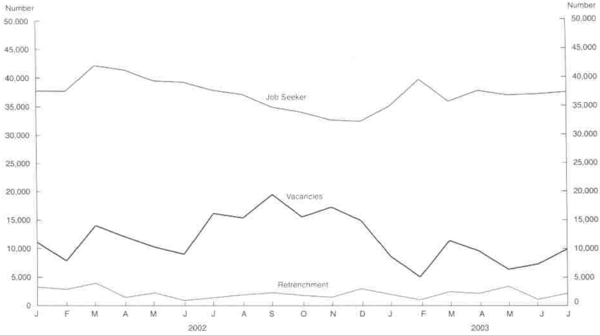
Occupation [1]	('000)		Share (%)		Change (%)	
	2002	2003[2]	2002	2003[2]	2002	2003[2]
Legislator, Senior[3] Official&Managers	806.9	771.4	*8.2*	*7.6*	*16.0*	*-4.4*
Professionals[4]	501.8	548.1	*5.1*	*5.4*	*7.4*	*9.2*
Technician & Associated Professionals[5]	1,230.0	1,268.8	*12.5*	*12.5*	*6.6*	*3.2*
Clerical Workers[6]	925.0	974.4	*9.4*	*9.6*	*1.1*	*5.3*
Service & Shop & Market Sales Workers[7]	1,348.1	1,421.0	*13.7*	*14.0*	*1.7*	*5.4*
Skilled Agricultural & Fishery Workers[8]	1,298.9	1,289.1	*13.2*	*12.7*	*-3.4*	*-0.8*
Craft&Related Trade Workers[9]	1,200.5	1,086.1	*12.2*	*10.7*	*2.4*	*-9.5*
Plant&Machine Operators and Assemblers[10]	1,417.0	1,624.0	*14.4*	*16.0*	*-2.8*	*14.6*
Elementary Occupations[11]	1,111.9	1,167.3	*11.3*	*11.5*	*11.1*	*5.0*
Total	**9,840.0**	**10,150.0**	***100***	***100***	***40***	***28***

[1] The classification based on Malaysia Standard Classification of Occupation 1998.
[2] Estimate.
[3] Include general managers, department manager & senior govt officials.
[4] Include graduate teaching professionals, accountant, auditors, computer system designers & analysts.
[5] Include non-graduates teachers, supervisors & air traffic & transport controllers.
[6] Include administrative clerks, accounting & finance clerks & telephone operators.
[7] Include cook, travel guides & waiters.
[8] Include farm workers, plantation workers & forestry workers.
[9] Include fitters, carpenters and tailors.
[10] Include equipment assemblers, drivers and machine operators.
[11] Include street vendors, domestic helpers & cleaners & construction& maintenance labourers.

Source: Economic Planning Unit.

CHART 2.16

Trend Vacancies, Retrenchment and Job Seeker
January 2002 - July 2003



Source: Department of Statistics

manufacturing sector offered the most job opportunities representing, 38% or 21,908 jobs, followed by the agriculture, forestry, hunting and fishing sector with 32% or 18,754 jobs.

As a result of the improved economic environment, the number of retrenched workers declined by 11% to 14,288 (January - July 2002: 16,052), of which 96% were locals. Most of the **retrenchment** came from the manufacturing sector, comprising 10,174 or 71% of the total retrenched. The second highest retrenchment came from the wholesale and retail trade, restaurant and hotel sector with 8.7%. The reasons for retrenchment, among others, were the downturn in the electronic cycle in the first half of the year, company reorganisation, reduction in demand for products, closures as well as the impact of the Iraq war and SARS.

Output **productivity** in the manufacturing sector recorded a 6.2% growth during the first half of 2003, attributed to higher labour productivity and technological advancement. Productivity increases were highest in rubber products, 19.3%, followed by petroleum refineries, 11%, chemical and plastic products, 10.8% and the electrical and electronic, 6.9%. Output in the manufacturing sector rebounded by 8.6% after a contraction of 0.3% in 2002 with higher sales and output arising from strong demand. As a result, the sales-employment ratio rose by 8.7% to RM165,510 from RM152,323 amidst subdued wage increases. Real **wages** per worker rose only 4.4% while sales value gained 10.4%. Consequently, unit labour cost declined from 91.9 sen per unit in 2002 to 88.4 sen per unit in 2003. In an environment of moderate growth, wage pressures in the labour market is expected to remain subdued in 2003.

Labour relations in Malaysia is characterised by a tradition of cordial relationship between employers and the trade unions. Industrial disputes are normally negotiated and settled in a harmonious environment. To date, only two disputes resulted in strikes (2002: 4), which was carried out in a subdued manner amidst fears of uncertainty in the global economic environment and international security. Consequently, the number of man-days lost reduced significantly from 708 in same period of 2002 to 114 man-days in 2003. The number of workers involved also declined to 57 workers (2002: 96).

Foreigners constitute 9.9% of the total labour force in 2003. While **foreign labour** has become an integral part of the Malaysian labour force, particularly in the construction, manufacturing, plantation and services sectors, measures were taken to regularise the large presence of illegal immigrant labour. In this respect, several measures have been implemented by the Government to reduce the number in the country. The New Immigration Act 1995/63 (Amendment 2002), which came into effect on 1 August 2002, provides for heavier penalties for employers of illegal immigrant or foreigners entering the country illegally. About 318,300 illegal immigrants were deported in 2002 as part of the measure to regularise the recruitment of foreign workers in a systematic manner. Currently, the Government is finalising a number of agreements with Indonesia and Sri Lanka relating to recruitment process and procedures to further regulate the admission of foreign workers. The Government plans to have similar agreements with other source countries. From a total of 1.2 million foreign applicants registered by 1 May 2003, the Technical Committee on Foreign Workers under the Ministry of Home Affairs has approved 67,172 at end-July 2003. The foreign workers are employed in the plantations (17,730), manufacturing (18,484), services (3,579) and in particular, construction (27,379).

Outlook for 2004

Higher GDP growth, supported by better external outlook and more vibrant domestic sector...

The economic outlook for 2004 is envisaged to be favourable. Real GDP growth is expected to gain momentum and register a higher rate of 5.5%-6% in 2004. Growth is expected to emanate from higher exports on account of continuing improvement in world economic prospects while domestic demand will continue to be driven by pro-growth fiscal and monetary measures. Whilst all sectors are forecast to register higher growth, services and manufacturing will continue to lead GDP growth, contributing 3.1 and 2.2 percentage points, respectively.

Of particular importance is the shift in the structure of the economy to focus on the services sector in keeping with the status of the nation as a more developed economy. The agriculture sector will be revitalised and emerge as the third engine of growth. In line with better economic prospect, per capita income is projected to continue to increase by 4.3% to RM14,954 (2003: 4.8%, RM14,343), while income in term of purchasing power parity will also increase by 5.3% to USD9,887 (2003: 6%, USD9,390).

Domestic Demand

Sustainable strong domestic demand with private sector resuming its role...

Given the better prospects of world economic growth and international trade in 2004, with firm recovery taking place in several major industrialised countries and regional economies, the Malaysian economy is projected to strengthen and be reinforced by more vigorous domestic economic activities. In this regard, **domestic demand** (excluding change in stocks) in real terms is likely to increase at a fairly strong rate of 4.7% (2003: 5%), generated largely by the private sector resuming its role as the engine of growth and supported by pro-growth fiscal and monetary measures.

To a certain extent, the stronger pick-up anticipated in business confidence and consumer sentiment is expected to increase **private sector expenditure** by 7.5% (2003: 4.6%). However, with a view to consolidating, **public sector expenditure** will decrease by 0.1% (2003: 5.8%). Consequently, private sector contribution to real GDP growth will increase by as much as 4.3 percentage point (2003: 2.6 percentage point) as against zero contribution (2003: 1.9 percentage point) by the public sector.

With the policy emphasis to promote private sector-led growth by creating the enabling and investor-friendly environment as well as favourable external demand conditions, **private investment** outlays are projected to register a considerable growth of 9.9% (2003: 2%). As such, the share of private investment to GDP is projected to increase further to 10.5% (2003: 10.1%). This is in line with the Government's continuous efforts to encourage the private sector, particularly domestic investors, to venture into new growth areas, including the services and agriculture sectors. More buoyant activities are anticipated for high value-added industries as well as information technology, telecommunications, transport and finance. It is also envisaged that SMEs will respond positively to the Government's strategies and measures, including the recent Package of New Strategies towards stimulating the nation's economic growth, with funding continuing into 2004. Likewise, growth in **private consumption** expenditure will be more broad-based and is expected to register a respectably strong growth of 7% (2003: 5.2%). Further improvement in consumer confidence arising from anticipation of higher disposable income, better job prospects and low interest rate will encourage stronger private consumption.

In tandem with the policy to achieve balanced budget in the near term and reduce over-reliance on public sector fiscal stimulus, **public investment** is budgetted to decrease by 4.1% (2003: +4.6%). The Government will, however, continue to implement socio-economic development projects, particularly towards transforming of the rural and agriculture sector into more dynamic value-added economic base. Measures to improve the nation's competitiveness through human resources development will also continue, especially towards improving quality of education at both primary and secondary levels. In the case of **public consumption**, it is budgetted to increase at a moderate rate of 4.9% (2003: 7.2%), mainly to cover emolument and higher outlays on supplies and services.

Sectoral Outlook

All sectors to record higher growth, led by manufacturing and services ...

External developments and strengthening domestic economy point to stronger growth in the **manufacturing sector**. Growth in export-oriented industries, in particular the electronics industry, is envisaged to gain strength following higher inter-regional trade, particularly between ASEAN and East Asia. Efforts to promote domestic consumption as well as advancements into higher value-added products will further boost growth of domestic-oriented industries. Taking cognisance of the on-going development processes, the overall value added of the manufacturing sector is expected to register a stronger growth of 7.2%.

The **agriculture sector** is forecast to expand by 3% largely due to higher production of palm oil following the increase in matured areas in Sabah and Sarawak. Higher utilisation of palm oil in downstream processing, such as oleochemicals will further spur growth of the sector. In addition, the yield of major commodities is also envisaged to increase in line with continuing introduction of new breed of more productive clones in palm oil, rubber and cocoa. Marine fish landing is also expected to increase due to better facilities and equipment made available to the fishing industry through the Package in 2003.

As the domestic economy strengthens in 2004, the demand for energy will continue to increase. Output of natural gas is envisaged to increase by 11.6% due to expanded production capacity and anticipated higher demand in tandem with global economic recovery while output of crude oil is expected to maintain at 600,000 bpd (excluding condensates). As a result, growth of value added of the **mining sector** is forecast to increase by 3.5%.

The **construction** sector will continue to be supported by the property sub-sector, driven by measures and incentives introduced under the Package to stimulate construction and sales of residential properties, in particular affordable houses. On-going public and privatised infrastructure projects as well as off-shore fabrication works in the oil and gas industry will further boost the growth of the sector. The construction sector is, therefore, projected to register a slightly stronger growth of 2.6%.

Growth in the **services sector** will be broad based, fuelled by higher demand for transport, telecommunication financial and insurance services in tandem with improved economic performance. A robust manufacturing sector will underpin higher consumption in utilities and higher trade and commercial activities will further enhance growth. The services sector is, therefore, envisaged to record a higher growth of 5.5% in 2004.

External Trade

Further improvement in external front with firmer world economy and trade recovery...

The better economic performance amidst an improved world growth and trade environment is expected to spur export and import growth by 6.4% and 6.3%, respectively, resulting in a trade balance of RM67,270 million (2003: RM62,854 million). With faster growth in exports, the surplus in the goods account will be higher at RM86,598 million (2003: RM81,043 million). The performance of the services account is expected to improve, registering a smaller deficit of RM8,086 million (2003:-RM 8,458 million) with the recovery in the tourism sector and tourist arrivals returning to the pre-SARS level. Further improvements can be expected in the transportation component, where inflows are envisaged to expand faster by 2.4% compared to the 0.9% growth estimed for 2003. However, outflow in the transportation component is expected to continue, contributing 36.7% of the total outflows in the services account. Similarly, the income and transfer payments due to higher remittances by foreign workers in the country will register a deficit position. Despite the deficit in the services account, on aggregate, the current account of the balance of payments position is projected to record another round of substantial surplus of RM40,064 million (2003: RM36,767 million), suggesting the continuing robustness of the domestic economy.

National Resource Position

Improvement in export earnings and sustained domestic activities is expected to strengthen national resource position further...

National income is anticipated to expand further arising from sustained domestic activities and improved export earnings. Malaysia is, thus, envisaged to continue to record a large **savings-investment** surplus in 2004, amounting to RM40.064 million or 9.8% of GDP (2003: RM36,767 million or 9.5% of GDP). The favourable national resource position reflects the likely outcome of high **gross national savings** in terms of percentage to GDP of 32.2% (2003: 32.8%). The surplus will provide ample domestic funds to finance private sector initiatives at reasonable rates to further support economic growth. With lower expenditure, the bulk of 54.7% (RM72,284 million) of the savings will come from the public sector, while private savings will increase slightly to RM59,946 million (2003: RM57,652 million).

International Developments

ECONOMIC REPORT

3

Overview

Amidst heightening uncertainties threatening to derail world economic recovery, world growth improves moderately...

The world economic performance in the first half of 2003 took a dive on account of the war in Iraq and the outbreak of the Severe Acute Respiratory Syndrome (SARS). With the end of the Iraq war and containment of SARS, global economic performance in the second half of 2003 is expected to improve, supported by indications of an upturn in the major economies towards the end of the second quarter. The expected return of investor and consumer confidence, resulting from accommodative monetary policies and fiscal easing in major economies, will further boost demand. However, there exist downside risks arising from continued global current account imbalances, inadequate structural reforms in some economies and security concerns in several parts of the world.

The prevailing global current account imbalance has arisen out of the world's over-reliance on the United States (US), which since 1995 has been the only real engine of world economic growth. The gap in global external accounts reached close to 2% of global Gross Domestic Product (GDP) in 2002. While the current account deficit in the US continued to worsen, its main trading partners, particularly in Europe and Asia, built up large surpluses. By the first quarter of 2003, the current account deficit of the US had grown to an unprecedented USD544 billion or 5.1% of GDP.

Even though world economic growth was lethargic, the financial markets were active in the first half of 2003. With prevailing low interest rates and high liquidity in the market, funds sought for equities in the hope for higher yields on the expectations that the global economy would recover towards the second half of 2003. Consequently, the major bourses did relatively well, with the Dow Jones and the Nikkei performing 12.4% and 20.6% better respectively, in the eight months from end-2002 to end-August 2003.

In a global economic environment weighed down by uncertainties and lacklustre global demand, the concern in all international fora continues to focus on the need to stimulate economic growth and maintain financial stability. At the same time, countries are increasingly looking towards regional and bilateral arrangements to spur trade and economic growth. In this respect, regional groupings such as ASEAN and ASEAN+3 (China, Japan and Republic of Korea) have initiated various efforts, which include enhancing financial and monetary cooperation to further facilitate and promote intra-regional trade as well as deepening regional economic integration. One such on-going effort is towards the fostering of Asian bond markets.

World Economy

Early indications signal recovery...

World output growth is expected to improve marginally to 3.2% in 2003 (2002: 3%) given the weak economic environment, as shown in *Table 3.1*. Weaknesses still persist in the euro area and Japan although some positive signs have emerged. Global growth continues to be dependent on the US, whose growth is expected to be slightly lower than the previous year at 2.2% (2002: 2.4%).

In the first six months of 2003, the US economy recorded a real GDP growth of 2.3% arising from higher personal consumption expenditure, federal defence spending and both residential and non-residential fixed investments. The pace

TABLE 3.1

Global Economic Indicators
2002-2004

	Real GDP (%)			Inflation (%)			Unemployment (%)		
	2002	2003[1]	2004	2002	2003[1]	2004	2002	2003[1]	2004
World	**3.0**	**3.2**	**4.1**	**n.a**	**n.a**	**n.a**	**n.a**	**n.a**	**n.a**
Advanced countries	1.8	1.9	2.9	1.5	1.9	1.7	6.4	6.6	6.5
Developing countries	4.6	5.0	5.8	5.4	5.8	5.1	n.a	n.a	n.a
Newly industrialised Asian economies	4.6	4.1	4.5	1.0	1.8	1.9	4.1	4.0	3.9

[1] Estimate.
n.a. not available.

Source: IMF World Economic Outlook, April 2003 and various sources.

of economic activity edged up, fuelled by low interest rates and tax cuts. Nascent signs of recovery in the manufacturing sector after a period of decline, provided optimism in the remaining six months for the sector and the economy as a whole. Current low mortgage rates also continue to spur housing starts and sales.

In the euro area, real GDP growth was maintained at 0.1% during the first quarter of 2003 (Q4 2002: 0.1%). This was supported mainly by growth in private consumption, as was in the previous quarters of 2002. However, initial data showed that there was no growth in the second quarter, mainly because Germany experienced a negative growth of 0.1%. The economic sentiment indicator (ESI) did not show any change from May to July due to improvements in the consumer, construction and retail trade confidence indicators, being offset by a decrease in the industrial confidence indicator. While there are no signs of a worsening economic climate in the euro area, current developments indicate that a sustained upturn in economic activity is still doubtful. Thus, the euro area is expected to register a mild growth of 0.7% in 2003.

In Japan, economic growth continued to pick up with second quarter GDP growth recording 0.6% (Q1 2003: 0.3%). This has been spurred by improved industrial output, housing investments, and imports as well as pockets of recovery in the job market as sentiments improved. However, Japan is still plagued with declining prices and the value of its exports fell for the first time in 15 months in June. Nevertheless, the fledgling recovery of the US lifted share prices in Japan. Expectations that the US recovery will be sustained and stoke demand for Japanese products augurs well for further improvement in the second half of the year.

World trade growth slowed down in late 2002 as global economic activity lost some of its strength and world ICT markets relapsed. Subsequently, the non-economic shocks to the world economy, that is, threat of and eventual war in Iraq and the outbreak of SARS, have all been detrimental to world trade, especially trade in services, such as travel and tourism. The lack of progress in the Doha round of trade negotiations and the lingering risks associated with heightened geopolitical tensions also cast a pall over the immediate prospects for improvements in global trade. The key to the recovery of world trade is contingent upon the recovery of the US economy. China and other Asian economies are also anticipated to continue to be significant contributors to growth in world trade. As world economic growth recovers, trade is also expected to pick up to 4.3% in 2003 (2002: 2.9%).

Inflation is currently not a policy concern in a large number of economies. Inflation in the US rose at an annual rate of 2.2% in the first seven months of 2003, mainly because of higher oil prices. However, in the face of retreating oil prices after the Iraq war, the outlook for inflation is benign. At the same time, depreciation of the US dollar reduced the possibility of deflation in the US, but made it more likely in the economies with appreciating currencies, notably Germany in the euro area. Japan continued to be in deflation amidst mixed signs of sectoral performance. In the case of developing countries, consumer prices are expected to increase by just below 6%. In the wake of a weak global recovery and uncertainties, several Asian markets such as Hong Kong SAR, Singapore and Taiwan experienced periods of falling prices without widespread detrimental effects but this may prove problematic if deflation becomes entrenched. World inflation, therefore, continues to remain low, as the upturn in the global economy remains weak.

Worldwide **equity markets** which had been trending downwards in 2002 due to lower corporate earnings, fallout from accounting irregularities and concern about geopolitical instability and its impact on petroleum prices, continued to do so into the first two months of 2003. However, the quick conclusion of the Iraq war coupled with the preservation of oil supplies buoyed market confidence. Consequently, equity prices in major bourses began an upward rally from early March, which has been sustained until now. The Nikkei, however, only rallied from the later part of April 2003 after recovering from reports of weak earnings of electronics chipmakers and software companies due to slowing demand.

Compared to 1 September 1998, when Malaysia pegged the ringgit to the US dollar, the equity market in Malaysia has performed the best in relation to other countries in the region. The rise in the KLCI has more than doubled from 262.70 points to 743.30 points on 29 August 2003, while the increases in other bourses were less significant, such as Singapore (94.24%), Jakarta (62.55%) and Manila (0.09%).

Compared to the end of 2002, the stock markets in the region fared better than the major bourses. While the Bangkok bourse, the star performer, rose by 50.84%, others in the region performed reasonably well, with the Taipei stock exchange rising by 26.92%, Jakarta, 24.64%, Singapore, 19.25%, and Kuala Lumpur, 14.63%. In comparison, the Tokyo, New York and London bourses rose by 20.57%, 12.38% and 6.54% respectively, as shown in *Table 3.2*.

In **foreign exchange markets,** the US dollar further declined into the first quarter of 2003. The range of decline varied with 7.3% against the euro and 2% against the pound sterling. The dollar, however, appreciated marginally by 0.7% against the yen. While the lower dollar may make US exports more competitive and help accelerate economic recovery in the US, the stronger euro may further slow down growth in the euro area.

TABLE 3.2

Stock Markets

	1 September 1998	31 December 2002	29 August 2003	Change[1] (%)	Change[2] (%)
Stock Markets					
Bangkok	211.09	356.48	537.71	*154.73*	*50.84*
Hong Kong SAR	7,062.47	9,321.29	10,908.99	*54.46*	*17.03*
Jakarta	325.85	424.95	529.68	*62.55*	*24.64*
Kuala Lumpur	**262.70**	**648.43**	**743.30**	***182.95***	***14.63***
London	5,118.70	3,940.40	4,198.00	*-17.94*	*6.54*
Manila	1,191.76	1,018.41	1,192.83	*0.09*	*17.13*
New York	7,827.43	8,341.63	9,374.21	*19.76*	*12.38*
Seoul	309.71	627.55	759.47	*145.22*	*21.02*
Singapore	823.33	1,341.03	1,599.25	*94.24*	*19.25*
Taipei	6,335.09	4,452.45	5,650.83	*-10.80*	*26.92*
Tokyo	14,369.63	8,578.95	10,343.55	*-28.02*	*20.57*

[1] Percentage change between 1 September 1998 and end-August 2003.
[2] Percentage change between end 2002 and end-August 2003.

Source: Kuala Lumpur Stock Exchange and various sources.

TABLE 3.3

Foreign Exchange

	2 September 1998	31 December 2002	20 March 2003 (War in Iraq begins)	End-August 2003	Change[1] (%)
Currencies (Against USD)					
Euro[2]	–	1.05	1.06	0.92	*-12.28*
Indonesian rupiah	10,750.00	8,955.00	9,025.00	8,539.33	*-4.64*
Japanese yen	136.98	118.69	120.15	117.15	*-1.30*
Korean won	1,344.50	1,186.05	1,245.95	1,178.66	*-0.62*
Malaysian ringgit	**3.80**	**3.80**	**3.80**	**3.80**	***0.00***
New Taiwan dollar	34.77	34.75	34.77	34.16	*-1.70*
Philippine peso	43.04	53.28	54.49	54.96	*3.15*
Singapore dollar	1.73	1.74	1.77	1.75	*0.57*
Thailand baht	40.55	43.14	42.93	41.18	*-4.54*

[1] Percentage change between 31 December 2002 and end-August 2003.
[2] USD against euro.

Source: Bank Negara Malaysia and various sources.

Advanced Countries

Indications of nascent growth after the Iraqi conflict...

Advanced countries continued to register anaemic growth in the first few months of the year weighed down by the after-effects of the burst of the IT bubble, weak equity markets, soft labour market conditions, low capacity utilisation, concerns about terrorism as well as risks of mild deflation spreading beyond Japan. Risks to growth were exacerbated by geopolitical tensions in the Middle East, a strong euro as well as volatile oil prices which peaked at USD39.99 per barrel in late February in the build-up to the war. Oil prices, which rose on account of supply disruptions in Venezuela, cutbacks in Nigeria as well as the war in Iraq, averaged about USD28 per barrel in the first six months of the year. However, the easing of monetary and fiscal policies by major economies to offset faltering business and consumer confidence provided impetus to growth.

Growth in advanced countries remained slow, uneven and below trend even after the conclusion of hostilities in Iraq. As global growth prospects continue to remain overly hinged on the US, indications of a rebound in the latter's economy at the end of the second quarter are expected to generate optimism and boost global confidence for accelerated economic activity. Sustained by supportive macroeconomic policies put in place to spur growth, in addition to moderating oil prices as well as reduced military uncertainties in the Middle East, growth is anticipated to pick up momentum towards the second half of the year with real GDP growth forecast to improve marginally at 1.9% (2002: 1.8%), as shown in *Table 3.4*. Further, structural and institutional reforms currently undertaken by major economies in the financial and corporate sectors are also expected to support and enhance growth prospects. Barring any false starts, the strengthening of the US economy in the third quarter will be catalytic to global growth.

The **United States** enjoyed better-than-expected strong economic growth in the second quarter at 3.1% following a 1.4% tepid growth in each of the two previous quarters. The second quarter growth was led by resilient household spending, business investment, as well as military

TABLE 3.4

Advanced Countries: Major Economic Indicators 2002-2004

	2002	2003[1]	2004
Gross Domestic Product[2] (%)			
Advanced countries	*1.8*	*1.9*	*2.9*
France	*1.2*	*1.2*	*2.4*
Germany	*0.2*	*0.0*	*1.5*
Italy	*0.4*	*1.1*	*2.3*
Japan	*0.3*	*0.8*	*1.0*
United Kingdom	*1.6*	*2.0*	*2.5*
United States	*2.4*	*2.2*	*3.6*
Euro area	*0.8*	*0.7*	*2.3*
Inflation (%)			
Advanced countries	*1.5*	*1.9*	*1.7*
France	*1.9*	*2.0*	*1.6*
Germany	*1.3*	*0.6*	*0.7*
Italy	*2.6*	*2.4*	*1.6*
Japan	*-0.9*	*-0.7*	*-0.6*
United Kingdom	*2.2*	*2.8*	*2.7*
United States	*1.6*	*2.3*	*2.3*
Euro area	*2.3*	*2.0*	*1.5*
Unemployment (%)			
Advanced countries	*6.4*	*6.6*	*6.5*
France	*8.8*	*9.1*	*9.1*
Germany	*8.2*	*10.5*	*8.8*
Italy	*9.0*	*9.3*	*9.1*
Japan	*5.4*	*5.5*	*5.4*
United Kingdom	*5.2*	*5.4*	*5.3*
United States	*5.8*	*6.2*	*5.9*
Euro area	*8.3*	*8.8*	*8.7*
Current account balance (USD billion)			
Advanced countries	**-217.2**	**-270.4**	**-261.9**
France	29.7	36.1	33.4
Germany	49.6	59.5	63.4
Italy	-6.8	0.3	5.1
Japan	112.8	115.5	131.3
United Kingdom	-29.7	-35.3	-41.9
United States	-503.4	-576.7	-583.1
Euro area	72.1	91.0	94.1

[1] Estimate.
[2] Real GDP.

Source: IMF World Economic Outlook, April 2003 and various sources.

expenditure, which saw a 44.1% increase, the biggest since the Korean War in the early 1950s. The growing confidence in the economy was also reflected in better corporate earnings as well as significant gains in equity markets. The Dow rose 12.5%, the Standard & Poor's 500 Index, 14.9% while the Nasdaq Composite gained a robust 21% in the second quarter, after a mild downturn in the first quarter.

Despite positive indications in the second quarter, the overall growth was not broad based. Industrial production remained sluggish with unemployment rising to a nine-year peak of 6.4% in June. Consumer spending, which accounts for two thirds of all economic activity, remained lacklustre. Consequently, monetary policy was eased with interest rates slashed by 25 basis points to 1.00% in late June (November 2002: 1.25%), the lowest since 1958.

With the dissipation of risks following the end of the Iraq war, signs of an upswing in the economy emerged indicating growth in the overall economy as well as the manufacturing sector, which grew two months consecutively in July and August since contracting in February 2003. The Institute for Supply Management (ISM) factory index registered 54.7 points in August (July: 51.8 points) after having recorded 45.4 points in April, the lowest reading for the first seven months of the year. While demand for factory goods increased, the employment index, in sharp contrast, continued to remain below the breakeven point of 50 for the past 35 months, recording 45.9 points in August (July: 46.1 points) signalling that job creation was not growing in tandem with growth in the manufacturing sector. However, the depletion of inventories is expected to stimulate new investments, boost consumption and ultimately generate employment as companies replenish stocks.

After contracting to 47.9 points in March 2003, the ISM Non-Manufacturing Business Activity Index has been on the rise since April, reflecting an upward trend in the services sector. The Index surged in July to register 65.1 points (June: 60.6 points) reporting brisk economic activity in construction, agriculture, finance and banking, retail trade and communications while health services contracted. Indications of recovery were also reinforced in the employment index, which rose to 50.7 points in July (June: 50.3 points) after decreasing for four consecutive months, beginning February, when it stood at 49 points.

Real GDP growth for the year is expected to moderate at 2.2% (2002: 2.4%) with the pace and momentum of recovery aided by low inflation, strong productivity growth and a 45-year low interest rate of 1.00% which is anticipated to bolster business investment that was lagging in the first six months of the year. In addition, tax relief worth USD35 billion for the year, aimed at boosting disposable incomes of households, is expected to strengthen consumption.

Despite a second quarter upturn in the economy, solid signs of sustainable growth have yet to emerge. While unemployment fell for the first time in July to 6.2% (June: 6.4%) and capital spending, the laggards in economic recovery, have only just improved, real GDP growth has to exceed 3% to generate new jobs which are crucial to sustain the pace and momentum of growth. Apart from unemployment, concerns also remain with regard to the widening current account and fiscal deficits estimated to be 5.3% (2002: 4.8%) and 4.6% of GDP (2002: 3.6%), respectively, for the year. In addition, oil and natural gas prices which have yet to stabilise and slack demand from its major trading partners, the euro area and Japan, continue to pose some risks to the nascent recovery in the economy.

Ending on a weak note in 2002, growth in the **euro area** continued to remain sluggish in the first half of 2003 on account of the geopolitical situation in the Middle East, weak external environment and a slump in domestic demand due to low business and consumer confidence that deterred spending. Growth stagnated in the second quarter after a subdued first quarter growth of 0.1% (Q4 2002: 0.1%), contributed by a marginal increase in household spending.

To arrest sliding business and consumer sentiments and stimulate economic activity in the face of difficulties exacerbated by geopolitical uncertainties in Iraq, the European Central Bank (ECB) pared its benchmark refinancing rate from 2.75% held since December 2002, to 2.50% in early March. The euro, which has appreciated by about 20% against the US dollar, while keeping in check import costs and inflation, further dampened export performance, adversely affecting Germany, France and Italy which rely on exports to fuel growth and business investments. In a bid to revitalise the ailing economy amidst fears of deflation and renewed recession, monetary policy was further eased when the interest rate was slashed to 2.00% in early June. While room for fiscal stimulus is somewhat constrained by the EU's Stability and Growth Pact which caps budget deficits of members to 3% of GDP, this all-time low interest rate, is anticipated to boost capital spending and support employment.

The outlook for the euro area economy for the second half of the year is expected to improve as growth in the US economy, which absorbs 20% of its exports, gathers momentum. Led by an environment of low interest rate, low inflation (July: 1.9% against ECB's target 2%), softening oil prices and improving financial markets, real GDP growth is expected to stabilise at 0.7% (2002: 0.8%). However, downside risks to this growth prospect include rising unemployment, which stood at 8.8% in July 2003 (2002: 8.3%), a strengthening euro, weak corporate profits, as well as a fragile German economy, which accounts for a third of the euro area output. In addition, the slow pace of reform in the labour and capital markets is also expected to inhibit a quick rebound in domestic demand.

Germany, the largest economy in the euro area slipped into recession after contracting 0.1% (Q1 2003: -0.2%) in the second quarter on account of weak global demand and a strong euro which eroded its competitiveness abroad. The economy, which stalled at the end of 2002, was negatively impacted in the first quarter when surging oil prices, the impending war in Iraq and the appreciating euro restrained business spending. Sluggish demand from its key trading partners, France, US, United Kingdom (UK) and Italy for its automobiles, industrial machinery and electrical appliances further worsened export prospects.

Falling producer and energy prices as well as flat industrial output have raised concerns that deflation is threatening the German economy. Adding to deflationary pressures is rising unemployment hovering at 10.6% (2002: 8.2%) which has further curbed consumer spending. Inflation is forecast at 0.6% for the year (2002: 1.3%).

With limited flexibility in policy options, Germany is expected to breach the 3% ceiling on fiscal spending under the Stability and Growth Pact for the third consecutive year and record a deficit of 3.9% (2002: 3.6%) in order to invigorate the economy. However, signs of an upturn in the US economy, which accounts for 10% of its exports, is expected to boost external demand as reflected in the increase in German factory orders in June. The broad economic reform package on labour, welfare, and healthcare currently underway is also anticipated to provide the much-needed impetus to consumption and business investment. For the year, Germany is expected to stagnate at 0% (2002: 0.2%), well below 1% for the third year running.

Outside the 12-nation euro area, the **United Kingdom** registered the weakest growth rate in a decade, at 0.1% in the first quarter (Q4 2002: 0.4%) as concerns over the Iraqi conflict and a sluggish world economy eroded business and consumer confidence. Slowdown in household spending, which has been the engine of growth in recent years and industrial output, was offset in part by government spending on defence, health, transport and other key public services as well as net growth in exports of goods and services. However, the UK economy registered a modest 0.3% in the second quarter supported by an upturn in the services sector, particularly retail, hotel and catering, post and telecommunications as well as computing services. While consumer spending has been resilient and the housing market buoyant, manufacturing output, which accounts for 20% of the economy, remained flat due to weak external demand especially from the euro area and the US which buy about 50% and 15% of British exports, respectively.

Faced with uncertainties in the external environment, the Bank of England (BOE) eased monetary policy twice in the first six months of the year, to counter the effects of slowing demand both at home and abroad. The benchmark interest rate was trimmed for the first time since November 2001, in early February from 4.00% to 3.75% when it became evident that a war in Iraq could hurt growth prospects. However, when growth was slower than expected, even after the Iraqi conflict, the BOE lowered interest rate by a further 25 basis points to 3.50% in July, the lowest since 1955, to further boost business investment and foster broader economic growth.

The unemployment rate in July stood at 5% while inflation at 2.8%, was well over the Government's target of 2.5%. Reflective of prevailing low interest rates as well as softening oil prices, inflation is expected to dip below the target in the coming months. Sustained by accommodative macroeconomic policies, an improving external environment with the cessation of hostilities in Iraq, signs of recovery in the US economy as well as resilient consumer spending which accounts for two thirds of GDP, growth is projected to strengthen to 2% for the year (2002: 1.6%).

After a better-than-expected last quarter expansion of 0.5% in 2002, **Japan** recorded a slower real GDP growth of 0.3% in the first quarter of the year led by a slight increase in household spending mainly on automobiles in anticipation of increased taxes in the new fiscal year beginning April. However, persistent concerns over unemployment presently at 5.3%, declining real incomes and weak equity markets have dampened consumer spending which accounts for 55% of GDP. Weak consumer sentiment continued to weigh heavily on wholesale prices, which have been declining for the past four years since September 1999, resulting in severe deflationary pressures on the economy. Compounding the slump in the domestic market was poor export demand from the US, its biggest trading partner.

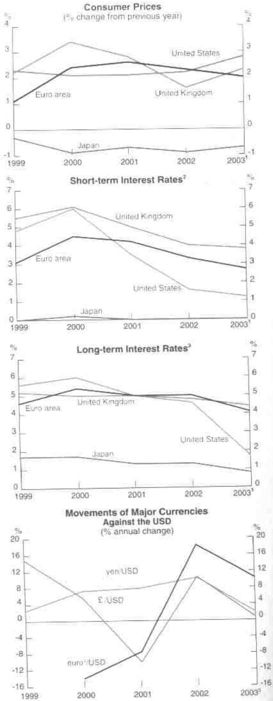
Despite the outbreak of SARS, exports to China, its second largest trading partner, have remained robust. Exports comprised mainly automobiles, machinery and machine tools, steel, chemicals, organic compounds and raw materials. The effects of SARS on the Japanese economy have so far been limited to the travel and tourism sectors as well as minor disruptions to the supply chain for high-tech products and components.

In an effort to end deflation and reflate the sluggish economy, the Bank of Japan (BOJ) reviewed its policy framework, eased monetary conditions as well as launched a programme to buy asset-backed securities and expanded its plan to buy more shares from banks beset with bad debts, thus raising their liquidity for fresh lendings. Credit-starved small- and medium-sized businesses, which were previously shunned by risk-wary banks and struggling to stay afloat, are to be the biggest beneficiaries, as this move allows them to undertake new capital investments, boosting domestic demand. Further, to strengthen the financial and corporate sector, the BOJ set up the Industrial Revitalisation Corporation (IRC) in April to tackle the problem of non-performing loans in the banking sector. The IRC is to conduct its activities over a five-year period within which a workout plan will be implemented with viable companies to address the problems of excessive debt or capacity as well as facilitate restructuring.

Signs of a turnaround in the stagnant economy have emerged towards the end of the second quarter. The Japanese economy posted a better-than-expected growth of 0.6% (Q1 2003: 0.3%) aided by an increase in consumer spending as well as growth in exports which account for 10% of GDP. Unemployment, which peaked at 5.5% in January, fell slightly and remained at 5.3% with job losses in the manufacturing sector easing. Industrial output was up in May on account of strong demand for electronic products from the US. Buoyed by indications of a US recovery, machinery and equipment orders rose in June in anticipation of demand from the latter. Improved business and consumer confidence was also reflected in household spending, which accelerated for the first time in a decade, rise in capital spending, improved corporate earnings as well as gains in the equity market as foreign investments in Japanese stocks hit its peak in June, with the Nikkei rising over 30% since April. A full fledged recovery in the US economy would be a boon for the Japanese economy as it would accelerate business investment, generate new jobs as well as improve corporate balance sheets. For the year, Japan is expected to register a firmer GDP growth of 0.8% (2002: 0.3%).

CHART 3.1

Current Trends in Key Economic Determinants in Industrial Countries 1999-2003



[1] Estimate.
[2] Averages of interest rates weighted by the average US dollar value.
[3] Average yield on government bonds.
[4] The euro was introduced in 1999.
[5] Up to August 2003.

Source: IMF World Economic Outlook, April 2003.

East Asia

Post-SARS prospects point to moderate growth...

In the face of a weak external environment and the SARS outbreak, GDP growth of most developing countries in East Asia slowed down in the first half of 2003. Nevertheless, overall growth for the year is expected to be moderate at 2.4% (2002: 2.3%) as a result of the tentative improvement in the external environment as well as measures undertaken by governments to contain the SARS outbreak.

The **People's Republic of China** (China) weathered the difficulties posed by the SARS outbreak, slowing down from an exceptionally high rate of 9.9% posted in the first quarter of 2003, to 6.7% in the second quarter. As the SARS outbreak was confined to some specific locations in China and did not affect the overall economy, China is expected to achieve growth of 9%-10% for the year (2002: 8%), as shown in *Table 3.5*. The expected robust growth is also due, in part, to the post-WTO accession effect that resulted in increased foreign investment to China as well as energised urban consumer demand for services and products such as automobiles and upscale real estate. China's exports in the first half of 2003 also increased further by USD190.3 billion, up 34% from the same period the previous year, while imports registered USD185.8 billion, up 44.5%. Sustainability of the high growth rate hinges on the Government's effectiveness in keeping SARS from recurring, resolving bad loans of the banking sector and reforming inefficient state-owned enterprises, while promoting private enterprise.

The **Republic of Korea** (Korea) recorded a growth rate of 6.3% in 2002, driven by growth in private consumption and very strong export performance. However, towards the end of the year there was a marked deceleration in consumption growth due, in part, to earlier measures to curb the rapid growth in consumer borrowings. This was further compounded by a decline in consumer confidence in domestic economic prospects due to lingering uncertainties as a result of geopolitical tensions in the Korean peninsula. In addition, growth was affected by a series of domestic problems, such as the corporate accounting scandals and incidents of labour unrest. As a result, Korea registered negative growth in the first two quarters of 2003, the first time since its recovery from the 1997/98 Asian Financial Crisis. In response to the slowdown in private consumption and to arrest a further decline in the overall economy, a USD3.5-billion supplementary budget was approved to boost spending in social infrastructure projects, public welfare and provide financing for small companies. Korea is expected to register moderate growth of 3.3% for 2003.

TABLE 3.5

Selected East Asian Economies: Major Economic Indicators
2002-2004

	2002	2003[1]	2004
Gross Domestic Product[2] (%)			
China	*8.0*	*9.0-10.0*	*7.5*
Republic of Korea	*6.3*	*3.3*	*5.3*
Taiwan	*3.5*	*3.2*	*3.7*
Inflation (%)			
China	*-0.8*	*0.2*	*1.5*
Republic of Korea	*2.8*	*3.5*	*3.2*
Taiwan	*-0.2*	*0.3*	*0.8*
Current account balance (% of GDP)			
China	*1.9*	*1.4*	*1.1*
Republic of Korea	*1.3*	*0.3*	*0.5*
Taiwan	*9.1*	*8.6*	*8.8*

[1] Estimate.

[2] Real GDP.

Source: IMF World Economic Outlook, April 2003 and various sources.

In **Taiwan**, the economy is expected to pick up slightly in the second half of 2003 to record a growth rate of 4.3% (H1 2003: 3.1%). Domestic demand is envisaged to strengthen during the second half of the year following the lowering of interest rates and containment of the SARS outbreak. As a result, industrial production in the second half of the year is anticipated to grow by 5% - 7% (H1 2003: 3%), further propelled by external demand on the part of its major trading partners. The relatively low rate of inflation is also expected to boost domestic demand. To ameliorate the lingering impact on the economy of the SARS outbreak, as in the case of other SARS-affected countries, the government instituted a SARS relief package amounting to USD1.5 billion as well as two employment creation plans totalling USD2.3 billion. Export growth is projected to pick up with the easy monetary and fiscal policies providing support for recovery. The overall growth for 2003 is expected to be 3.2% (2002: 3.5%).

Developing Countries

Growth strengthening amidst difficulties...

Developing countries as a group are expected to continue to grow stronger at 5% (2001: 3.9% and 2002: 4.6%), performing better than advanced countries at 1.9% (2002: 1.8%) and countries in transition at 4% (2002: 4.1%). Growth from developing countries would have been even stronger had it not been for the impact of the SARS outbreak, which moderated growth in developing Asia to 6.3% (2002: 6.5%). Other developing countries not so affected are anticipated to perform better than the previous year, with growth in Africa projected at 3.9% (2002: 3.4%), Middle East and Turkey, 5.1% (2002: 4.5%) and the Western Hemisphere turning around to 1.5% after a contraction of 0.1% in 2002.

While many more developing countries are beginning to realise their full growth potential, many other countries could not do so as they are still plagued by difficulties. Middle East countries, while benefitting from the rise of crude oil prices during the early part of the year attributed to the uncertainty in oil supplies leading to the Iraq war, had to contend with the serious security situation in the region. Growth in Latin America continued to be weighed down by vulnerabilities in the economies of Argentina, Brazil and Uruguay, while the political crisis in Venezuela continued to impact on the economy. Compared to other regions, Africa has been able to achieve commendable growth, attributed mainly to its discipline in implementing improved macroeconomic policies and resolving regional conflicts while assisted by rising commodity prices and debt relief under the Heavily Indebted Poor Countries Initiative (HIPC). The continent, however, continues to be exposed to shocks related to bad weather, the HIV/AIDS pandemic and political instability in Zimbabwe and Cote d'Ivoire, which will have implications on their neighbours.

ASEAN

Resilient economies, supported by domestic consumption and greater intra-regional trade...

ASEAN economies are expected to perform reasonably well in 2003, despite the adverse external environment in the first half of the year, the SARS outbreak and sporadic acts of militancy in the region. With higher agricultural prices boosting incomes in Southeast Asia, coupled with the wealth effects from the improved stock market performance, regional economies continue to be largely sustained by domestic demand, particularly private consumption and investment. The economic recovery in 2002 which carried over into the first quarter of 2003, but slowed down in the second due to SARS, is expected to pick up again in the latter half of the year.

Most ASEAN economies also saw their exports beginning to rise significantly during the second half of 2002. The improvement in export performance, which continued in 2003, came on the back of the recovery in global trade and commodity prices as well as the rebound in high-tech industries and from greater inter- and intra-regional trade among ASEAN economies and East Asia, particularly China. Higher inter-regional trade is reflected in the increase in the volume of trade between China and ASEAN by 45.3% to USD34.24 billion in the first half of 2003. The current trading pattern also reinforces China's emergence as a major market for ASEAN exports.

Fiscal policy remained generally expansionary and monetary policy, accommodative, continuing the momentum set during the first quarter of 2003 in response to the Iraq war and, later, the SARS outbreak. This easing was further supported by the region's benign inflation when prices stabilised following the relatively quick conclusion of the Iraq war, and the return to stable oil prices at around USD27.00 - USD29.00 per barrel. At the same time, stock markets in the ASEAN economies, which were generally volatile in 2002, rallied during the first half of 2003. Against this backdrop, financial and corporate restructuring continued at a steady pace.

The economic performance for the rest of 2003 is expected to be more positive given improved prospects for a global and regional pick up. Globally the quick end to the Iraq war, positive economic news on the US since May 2003, and better-than-expected economic performance of Japan augur well for stronger growth prospects among ASEAN economies.

In the region, policies already in place to strengthen domestic demand and add new vigour in intra-regional trade continued to sustain economic growth. The economic stimulus packages implemented to mitigate the effects of SARS in Malaysia, Singapore and Hong Kong SAR, combined with the policies already in place in other regional economies, were targetted towards increasing domestic investment, especially in small- and medium-enterprises (SMEs) that utilise domestic resources. These measures were aimed at improving the purchasing power of both consumers and enterprises, increasing the income potential of the rural economy as well as strengthening institutional capacities.

The rapid containment of the SARS outbreak in the region further augmented investor and consumer sentiment, thereby improving prospects for higher growth. The overall growth rate for ASEAN economies in 2003 is expected to range between 4.3% and 4.9% (2002: 4.4%).

The **Indonesian economy** is expected to grow at a steady rate of 3.5%-4% in 2003 (2002: 3.7%), as shown in *Table 3.6*, despite difficulties caused by militant activities in the archipelago and unrest in Aceh. A number of measures were undertaken by the government to sustain growth, improve security and attract foreign investment. Government spending continued to expand at 10.7% as a result of an increase in salaries in the civil service to offset the slower private consumption, as well as expenditure on security and defence in the light of the bombings in Bali and Jakarta. The government is nevertheless serious about budget consolidation, initiating bold policies toward reducing subsidies on fuel and utilities. To further encourage investment and consumer spending, the Central Bank of Indonesia reduced its overnight intervention rate on rupiah deposits further by 75 basis points to 9.00% in early July 2003, marking the eighth reduction in the rate for the year.

The increasing stability of the rupiah is one of the factors expected to help the country attract foreign investment, while falling interest rates are envisaged to stimulate economic activities. Exports are also likely to improve in the second half of the year in tandem with the expected improvement in the US, as in other regional economies. Inflationary pressure is also likely to ease in the second half of 2003 bringing inflation down to 9%. The government, in announcing that it would not be renewing its USD5-billion loan from the International Monetary Fund (IMF) that expires at the end of 2003, also reiterated its commitment to continue reforms in the corporate and financial sectors.

Real GDP growth in the **Philippines** is anticipated to grow within the range of 4.2%-5.2% in 2003 (2002: 4.4%) due to the global slowdown that began in late 2002. Nevertheless, its economy continues to be relatively strong with inflationary pressure likely to remain low during the second half of 2003, domestic consumption continuing to be supported by remittances from some 5 to 8 million overseas workers and the balance of payments broadly in equilibrium. In the external sector, the expected improvement in regional economies in the second half of 2003 is likely to boost the country's export sector.

Government consumption slowed down as a result of the fiscal consolidation programme juxtaposed against the effort to strengthen tax administration. Nevertheless, growth prospects continue to be affected by domestic security and political concerns, which, in turn, have affected the inflow of foreign investment.

To help stimulate economic activities, the central bank reduced its overnight rate by 25 basis points in early July 2003. This brought the overnight borrowing rate and the overnight lending rate to an 11-year low of 6.75% and 9.00%, respectively.

Singapore was badly affected by the SARS outbreak, registering the fifth-highest number of SARS cases in the world. This epidemic slashed visitor arrivals and retail sales, leading the economy to its biggest contraction of 4.2% in the second quarter of 2003. Amidst generally cautious consumer sentiments and a weak labour market, almost all other areas of the economy were hit in the second quarter, with the transport and communications sector, a direct casualty of SARS, contracting by 10.5%, construction sector down by 9% and manufacturing sector by 7.2%. Although the wholesale and retail trade sector expanded by 0.5% year-on-year, this was sharply down from the 5.6% growth recorded earlier in the first quarter.

The financial services sector, however, turned around after five consecutive quarters of contraction to grow by 4.3% in the second quarter. Stockbroking activities rose as the stock market rebounded after the SARS and Iraq war, while currency trading improved. Nevertheless, performance of the business services sector did not match that of the financial services, contracting by 3% as demand for real estate services fell.

To stimulate the economy, while targetting the SARS-affected industries, the government implemented a number of fiscal measures with effect from April 2003 covering direct public sector spending, reduction of tax rates and increase of income transfers. Further, in late August 2003, the government unveiled a USD570.7 million package of financial relief measures to ease the impact of an overhaul of the social security system on workers and their families. The package, which includes direct rebates and income-boosting measures, is aimed at lowering business costs and enhancing the nation's economic competitiveness.

The stimulus packages, coupled with free trade agreements (FTAs) recently concluded with a number of countries and anticipated improvements in the global economy, are expected to help the economy avoid another recession year. Based on the fact that the SARS epidemic has been contained and global demand for electronics products is expected to rebound, Singapore's economy is likely to do better in the second half of the year. The overall growth rate for the year is, therefore, expected to hover between 0% and 1% (2002: 2.2%).

Thailand, Southeast Asia's second largest economy after Indonesia, is likely to continue to grow within the range of 4%-5% in the second half of 2003 following growth of 4.5%-5.5% in the first half of the year. Overall growth, driven by the domestic economy and private consumption supported by loose monetary and fiscal policies, strong external balances, low inflation and a mild impact from SARS, is expected to be 4.2% (2002: 5.3%).

Domestic demand is anticipated to continue to gather strength during the second half of the year given the low interest rate environment. Output of vehicles is likely to continue to post a strong growth in the second half of the year as consumers take advantage of a record low interest rate to purchase motor vehicles. Despite the forecast strengthening in domestic demand, the rise in inflation is likely to remain low at 1.5% - 2.5% in the second half of 2003, following a rise of 1.8% in the first half.

To inject confidence in the economy, Thailand repaid the final balance of the USD1.6-billion IMF loan on 31 July 2003, two years ahead of schedule. In an effort to further boost growth, Thailand also accelerated the implementation of its dual track policy aimed at stimulating domestic demand in parallel with export promotion. Boosting domestic demand was primarily through strengthening and empowering those at the grassroots who are deprived of opportunities. The programmes include a nationwide Village Fund that extends credit to small enterprises, provision of micro credit facilities and an incentive scheme for SMEs, the One Village-One Product scheme as well as housing, health and education schemes for the poor.

TABLE 3.6

Selected ASEAN Countries: Major Economic Indicators
2002-2004

	2002	2003[1]	2004
Gross Domestic Product[2] (%)			
Brunei Darussalam	3.2	5.0-6.0	n.a
Indonesia	3.7	3.5-4.0	4.0
Malaysia	**4.1**	**4.5**	**5.5-6.0**
Philippines	4.4	4.2-5.2	4.0
Singapore	2.2	0.0-1.0	3.5
Thailand	5.3	4.2	4.3
Vietnam	5.8	6.2	7.0
Inflation (%)			
Brunei Darussalam	-0.3	1.0	1.3
Indonesia	10.0	9.0	8.4
Malaysia	**1.8**	**1.2**	**-**
Philippines	2.6	4.0	4.0
Singapore	0.4	0.9	1.7
Thailand	1.6	1.0-2.0	0.9
Vietnam	4.0	3.8	3.3
Current Account Balance (% of GDP)			
Brunei Darussalam	37.9	n.a	n.a
Indonesia	4.2	2.2	2.2
Malaysia	**7.6**	**9.5**	**9.8**
Philippines	5.4	0.3	0.5
Singapore	21.5	22.2	20.5
Thailand	6.0	2.8	2.6
Vietnam	-2.5	-2.1	-1.5

[1] Estimate.
[2] Real GDP.
n.a. not available.

Source: IMF World Economic Outlook, April 2003 and various sources.

Financial Cooperation and Trade Developments

Towards sustaining regional financial stability and integration...

The 1997/98 Asian Financial Crisis highlighted cross-border relationships in the region and brought to the fore the importance of collaborative regional approaches to complement the efforts of individual governments in overcoming economic and financial crises. In addition to reform efforts at the national level, important initiatives have since been taken to enhance regional resilience in the face of possible future crises, such as the SARS outbreak and the fight against terrorism. These initiatives are geared towards the expansion of trade and production networks, and the management of financial flows and reserves, all of which have national, regional and global dimensions. The pressing financial issues raised at various fora and levels included, among others, financial stability and integration, capacity building and skills training as well as trade liberalisation.

Regional Financial Cooperation

Considerable progress was made in a number of initiatives to enhance financial and monetary integration among ASEAN economies. Regional cooperation on customs made headway with the signing of the Protocol Governing the Implementation of the ASEAN Harmonised Tariff Nomenclature (AHTN), aimed at facilitating regional trade and investment by simplifying and streamlining customs processes. The AHTN Protocol was signed at the **Seventh ASEAN Finance Ministers Meeting** held in early August 2003 in Manila. Progress was also attained in the area of insurance, with ASEAN insurance regulators signing a Memorandum of Understanding (MOU) to establish the ASEAN Insurance Training and Research Institute.

In addition, the **Roadmap for the Integration of ASEAN in Finance** was finalised, aimed at achieving the free flow of goods, services and investments and a freer flow of capital by 2020. The areas covered under the Roadmap include the following:

- Capital Market Development - to adopt a two-pronged approach, the first covering institutional capacity building, and the second, initiatives to foster greater cross-border collaboration between capital markets in the region in areas such as the establishment of training networks, development of products and market linkages as well as the harmonisation of capital market standards;

- Capital Account Liberalisation - to adopt an orderly approach with adequate safeguards against volatility and systemic risks;

- Financial Services Liberalisation - to adopt a Positive List modality with designated milestones to facilitate negotiations; and

- Currency Cooperation - to focus on areas of currency cooperation that would further facilitate and promote intra-regional trade and deepen regional economic integration.

To further enhance monetary and financial cooperation, **ASEAN+3 Finance Ministers** established the ASEAN+3 Finance Cooperation Fund to underwrite the cost of hosting ASEAN+3 meetings. In terms of regional self-help and support initiatives, new Bilateral Swap Arrangements (BSAs) were concluded under the Chiang Mai Initiative (CMI). The number of BSAs concluded more than doubled from six in 2002 to 13 this year, while the total commitment to the network increased from USD17 billion to USD 32.5 billion. Three more BSAs are expected to be concluded by year end. In addition, the USD1-billion ASEAN Swap Arrangement (ASA) was renewed in November 2002 for an additional two years.

In an effort to diversify regional sources of funds, making Asian economies more resilient in the event of possible financial crises, ASEAN+3 member countries agreed to work towards fostering regional bond markets. The Asian Bond Markets Initiative (ABMI), which capitalises on the high savings rate and the large pool of reserves in many Asian countries, is premised on the principle of using Asian savings for Asian investments. To ensure the successful conclusion of this Initiative, voluntary working groups were established to discuss various key issues such as securitisation, credit guarantees as well as foreign exchange transactions and settlement issues. The establishment of the Asian Bond Fund (ABF) in May under the aegis of the Executives' Meeting of East Asia and Pacific Central Banks (EMEAP) is a significant step in fostering regional cooperation in Asia, facilitating the reinvestment of a small portion of Asia's reserves back into the region, while at the same time, aiding the further development of regional capital markets. Among the eleven members contributing to the USD1-billion fund were the ASEAN member countries of Indonesia, Malaysia, the Philippines, Singapore and Thailand.

The **Tenth APEC Finance Ministers Meeting,** which was held in Phuket, Thailand in early September 2003, focussed on the need to achieve balanced, broad based, equitable and sustainable growth through strengthening financial linkages and fostering closer economic ties among APEC economies. Guided by the policy theme, *Local/ Regional Link, Global Reach: A New APEC Financial Cooperation*, efforts were focussed on financial cooperation through enhancing financial alternatives and improving financial management of grassroot and SMEs development, regional bond market development and fiscal and financial aspects of regional trade arrangements (RTAs).

In recognising the critical role played by SMEs in the sustainable development of an economy, and to complement the work of SME Ministers in APEC, there will be greater exchange of information and expertise as well as efforts to improve trade facilitation and securitisation of SME debts to accelerate the development of SMEs and intensify their contribution to economic growth. Towards this end, a network among APEC SME financial institutions to promote regional financial and technical cooperation will be set up. Similar efforts to develop a regional bond market in the APEC region to complement the ABMI are also being considered.

Much progress has also been made in capacity building and skills enhancement through initiatives and work plans undertaken in areas such as improving surveillance, financial disclosure and corporate governance as well as reviewing the regulatory and legislative framework with a view to improving the formal financial system. Since

ASIAN BOND MARKETS INITIATIVE: ASIAN SAVINGS FOR ASIAN INVESTMENTS

Background

The idea to foster Asian bond markets, initially mooted in the '80s, gained additional impetus in the aftermath of the 1997/98 Asian Crisis. The crisis exposed the vulnerability of Asian economies to massive short-term reversals in capital flows due, in part, to currency speculation, and compounded by their underdeveloped capital markets. Having relied excessively on short-term financial borrowings from both domestic and foreign markets for their sizeable, long-term capital development requirements, some crisis-affected economies found themselves saddled with a substantial portion of public and corporate debt with maturity of less than a year. The problem of maturity mismatches, which underscored the dangers of mismatching borrowings to cashflow, was further compounded by currency mismatches when such borrowings were inadequately hedged. This dual mismatch highlighted the urgent need to develop new instruments of resource mobilisation to finance public and private sector investments in infrastructure and other development projects.

In acknowledging the need to formulate appropriate long-term financial sector development strategies to deepen and modernise capital markets, Asian economies have since focussed on the development of bond markets. Given the high domestic savings rates in the region, there is immense potential for this venture.

Accordingly, ASEAN and ASEAN+3 member countries have agreed that the large pool of domestic savings and reserves, amounting to more than USD1 trillion in East Asia, would be better utilised for the benefit of all through the fostering of viable domestic and regional bond markets - hence, the thrust for the Asian Bond Markets Initiative (ABMI).

ABMI: What is it?

The ABMI is yet another collaborative effort by East Asian member countries to establish a **regional self-help and support mechanism that would promote economic development and enhance financial stability in the region.** The Initiative is a further step up the value chain in ASEAN+3 financial cooperation that began with the ASEAN Swap Arrangement (ASA), evolved into the Bilateral Swap Arrangement (BSA), and which, in turn, progressed into the Chiang Mai Initiative (CMI). The CMI, a network of bilateral swap arrangements, allows ASEAN and ASEAN+3 member countries with bilateral swap agreements to avail themselves to 10% of the swap amount, free of International Monetary Fund (IMF) conditions, in the event of short-term liquidity problems in their balance of payments. The easier access to funds undoubtedly provides confidence to foreign investors, thereby contributing towards maintaining regional financial stability. In this respect, however, the ABMI goes much further.

While BSAs focus on the provision of temporary relief in the event of short-term liquidity problems, the ABMI aims to strengthen member countries' financial systems through the broadening and deepening of domestic capital markets. The Initiative, in providing for more diversified financial markets and instruments, is consequently better placed to render regional economies more resilient to systemic risks in the event of future shocks as well as lay a firmer foundation for more sustainable development. Furthermore, it also allows for currency diversification through providing for the issuance of local currency-denominated bonds by Asian issuers for sale to investors in the region. This would allow governments, corporations and financial institutions in the region access to long-term funding in their respective domestic currencies, thereby avoiding the dual mismatch in both maturity and currency for Asian issuers.

With swap arrangements already in place, it is, therefore, timely and appropriate that ASEAN+3 channels its cooperative efforts toward **the ABMI's longer-term objectives of**:

a. fostering the development of more efficient and liquid bond markets in Asia;

b. enabling governments and private sector companies to tap savings in the region;

c. investing long-term capital with reduced currency and maturity risks; and

d. developing a market through which to channel regional savings for regional investment needs.

ABMI: Challenges

Despite the region being flushed with funds, they are mostly channelled into US and European markets, leaving the region's bond markets largely untapped. Consequently, the banking system continues to be the primary source of funding. To ensure the further development of Asian bond markets, there is, therefore, a need for an enabling environment comprising sophisticated, monetised financial systems supported by an appropriate regulatory framework as well as the relevant domestic financial institutions and instruments.

In the effort to **create an environment conducive to fostering bond markets in Asia,** the ABMI focusses on the following:

a. provision of credit guarantees through the active use of existing guarantors and the possible establishment of an Asian Regional Guarantee Facility;

b. strengthening of the rating system by enhancing the role of domestic rating agencies as well as the possible establishment of an Asian Credit Rating Board;

c. establishment of a mechanism for disseminating information on issuers and credit rating agencies;

d. facilitating foreign exchange transactions and addressing settlement issues on cross-border transactions;

e. examining legal and institutional infrastructure; and

f. enhancing capacity building through the conduct of market research and technical assistance programmes for the promotion of policy dialogue and human resource development among the member countries.

ABMI: Progress

The ASEAN+3 Finance Ministers endorsed the ABMI during their meeting on 7 August 2003 in Manila. It was further agreed that, given the complexity of the proposed Initiative and the diversity of the levels of member countries' capital market development, the ABMI be supported by **six voluntary working groups chaired by the various ASEAN+3 member countries** to address the following areas:

a. foreign exchange transactions and settlement issues - chaired by Malaysia;

b. technical assistance coordination - chaired by Indonesia with the Philippines and Malaysia acting as co-chairs;

c. new securitised debt instruments - chaired by Thailand;

d. credit guarantee mechanisms - chaired by Korea;

e. issuance of bonds denominated in local currency by multilateral development banks (MDBs), government agencies and Asian multinational corporations - chaired by China; and

f. local and regional rating agencies - chaired by Singapore and Japan.

Malaysia's commitment towards ensuring the success of this Initiative is illustrated by the willingness to chair the voluntary working group on foreign exchange transactions and settlement system as well as co-chair the technical assistance coordination group. In this regard, Malaysia has much to share in progressing the work pertaining to the ABMI, having in place the essential building blocks to foster the development of a dynamic domestic bond market. These include a sound regulatory environment, a reliable and well-developed financial system, a re-energised and restructured corporate sector, as well as adequate infrastructure for custody and settlements.

Towards fostering Asian bond markets

It is clear that the way forward for East Asian economies includes the diversification of financing methods to facilitate the mobilisation of financial resources for development projects as well as acceleration of financial sector development. The ABMI encapsulates this effort, taking cognisance of the fact that the development of viable regional bond markets with depth and breadth calls for continued and consistent policy efforts on the part of East Asian economies in consultation with the private sector, to provide the enabling environment that includes strong institutional and regulatory structures for the financial sector.

As the ABMI progresses, the work of the six voluntary working groups would, at some point, need to converge into a **consolidated roadmap for the development of Asian bond markets**. This would facilitate more effective planning and help focus efforts to eliminate gaps or overlaps. At the national level, developments must progress in parallel with those at the regional level towards developing regional bond markets that would mobilise and channel Asian savings to finance long-term investments in Asia.

its inception in 1998, a total of 1,131 participants have benefitted from courses relating to banking supervision, and another 443 on securities regulations under the 'Financial Regulators Training Initiative' aimed at junior and mid-level supervisors and regulators. Further, in the area of prudential supervision of the life insurance and pensions industry, 180 regulators have been trained under the 3-year initiative ending in September 2003.

At the inter-regional level, the **Asia-Europe (ASEM) Finance Ministers** met for the fifth time in Bali, Indonesia in early July. Recognising that capacity building and skills training are crucial building blocks in a sound financial system, an important outcome of the meeting was the Bali Initiative. The Initiative is aimed at enhancing human resource development through cooperation among fiscal and financial authorities in both regions in the form of internships, staff exchanges, provision of scholarships and training. The Task Force on Closer Economic Partnership, established in response to a call made at the Fourth Leaders Summit in Copenhagen in September 2002 presented its interim report identifying possible areas of cooperation. In a bid to concretise ASEM financial cooperation, among the studies that will be undertaken include the examination in greater detail the more efficient use of Asian savings and the use of euro as a reserves currency and as a means of transaction in Asian financial and commercial sectors.

On **combating the financing of terrorism and money laundering** under the Anti-Money Laundering Act 2001 (AMLA), further progress has been made of compliance by reporting institutions. Effective mid-April 2003, the required reporting obligations had been invoked on all financial institutions in Malaysia deemed to be reporting institutions under the AMLA including banks, insurance companies, offshore entities, money changing businesses as well as non-financial institutions which are at risk to money laundering and terrorist financing such as licensed casinos and postal remittance services. The AMLA provides for 150 money laundering predicate offences, including predicate offences relating to terrorism. To enhance cooperation in information sharing, including financial intelligence for detecting and deterring criminal activities, Malaysia signed an MOU with Australia in late January 2003 and is also pursuing similar MOUs with other relevant authorities in the Republic of Korea, Indonesia, UK and the US. In this connection, Malaysia was also accepted into the Egmont Group of Financial Intelligence Units in July 2003. Further, the recent establishment of the South-East Asia Regional Centre for Counter-Terrorism in Kuala Lumpur aimed at enhancing the capacity and capability of countries in the region to combat terrorism is testament to Malaysia's on-going efforts and commitment in this area.

To explore the feasibility of coordinated efforts among ASEM members to ensure transparency of payment transactions and vigorous prosecution of illegal financial transactions outside the regulated financial sector, a workshop in Berlin entitled "Transparency of International Payment Flows, Alternative Remittance Services and Underground Banking" will be held in late October 2003. Co-hosted by Malaysia and Germany, the workshop is expected to develop effective counter-measures in the field of financial market supervision and prosecution of illicit financial services providers.

Progress in trade negotiations within the **World Trade Organisation (WTO)** has been less successful, as evidenced by missed deadlines on key issues. Of particular concern to developing countries is the impasse on issues such as agriculture, special and differential treatment, safeguard measures as well as implementation-related issues that are helpful and meaningful towards their national development agendas. The Fifth WTO Ministerial Conference will be held in Cancun, Mexico from 10 to 14 September 2003, of which the main task will be to take stock of progress in negotiations and other works under the Doha Development Agenda launched in the Fourth Ministerial Conference in 2001.

In the negotiations of trade in services, which includes financial services, 30 member countries comprising both developed and developing countries, have made initial offers. However, the offers from several members are conditional upon other members making reciprocal commitments or commitments deemed sufficient. This is somewhat contrary to the fact that Article XIX of the General Agreement on Trade in Services (GATS) provides flexibility to developing countries to progressively extend market access in line with their level of development. An initial assessment of the offers made by some of these developed countries indicates that they do not reflect the spirit of Article IV of GATS, which specifically states that members should provide market access in sectors and modes of supply of export interests, to developing countries. In comparison to the wide-ranging requests that the developed countries made to developing countries, their offers, which centred mainly on **Mode 4 (movement of natural persons)**, are very poor.

In the light of the slow progress of developments under the multilateral trading system, following the inconclusive 1982 **General Agreement on Tariffs and Trade** (GATT) Ministerial Meeting, countries pursued RTAs to further enhance trade. To date, 259 RTAs have been concluded and the GATT/WTO duly notified, with many more under negotiation. In addition, there is also an increasing number of bilateral free-trade agreements, with overlapping memberships for many countries. A large number of countries are now parties to two or more RTAs, which progressively have taken many different forms, often going beyond the simple removal of tariff barriers and quotas. These include the removal or reduction of non-tariff barriers through harmonisation or mutual recognition of product standards and conformity assessment procedures, and other areas such as trade in services, capital mobility, environmental standards, investment and labour standards.

MALAYSIA'S FINANCIAL SERVICES LIBERALISATION

Background

The World Trade Organisation (WTO) was established in 1995 as the successor to the General Agreement on Tariffs and Trade (GATT), which deals with global rules of international trade. Its main function is to ensure that trade flows as smoothly and freely and as predictably as possible. This is achieved through administering trade agreements, acting as a forum for trade negotiations, settling trade disputes, reviewing national trade policies and assisting developing countries in trade policy issues. Under the WTO, members operate a non-discriminatory trading system, that spells out their rights and obligations. Each country receives guarantees that its exports will be treated fairly and consistently in other country markets. Each has to do the same for imports into its own market. The system also provides developing countries some flexibility in implementing their commitments. Decisions in WTO are made by consensus by the entire membership, which as of April 2003 stands at 146. The highest level of decision-making body is the Ministerial Conference, which meets at least once every two years.

The Fourth Ministerial Conference in Doha, Qatar in November 2001 has agreed on the Doha Development Agenda (DDA) which lays out a comprehensive agenda focussing on development issues for the future. Members also agreed to a far-reaching set of negotiations that are to be completed within a three-year timeframe with requests and offers of member countries to be summited by 30 June 2002 and 31 March 2003 respectively.

Negotiations in the Services Sector

In respect of negotiations in the services sector, currently 30 members, mainly from developed and a few developing countries have submitted initial offers. However, the initial offers of some developed countries are minimal in scope and do not commensurate with the long and wide-ranging requests made to developing countries. Furthermore, the offers for market access under Mode 4 (movement of natural persons) fail to match the requests made mostly under this mode by many developing countries. At the same time, the lack of requests from developing countries reflects the asymmetries between developing and developed countries in the area of services as developing countries have limited export capacity.

To date, Malaysia has received requests from 21 countries for market access into the services sector, with 15 countries making specific requests on the financial services sector. Malaysia in turn made requests to 45 countries, which include requests on the financial services sector of four countries. Malaysia did not table initial offers by the 31 March 2003 deadline as it is still evaluating the comprehensive requests received as well as continuing with its internal consultations. Nevertheless, Malaysia remains committed to further enhancing the capacity of its financial services sector with a view to further liberalisation and deregulation in a progressive manner to ensure its long-term competitiveness in an increasingly globalised environment.

Liberalising Malaysia's Financial Services

A careful study of Malaysia's commitments at the conclusion of the financial services negotiations in 1997 will reveal the commitment of the Government to bind its existing liberal policies on foreign ownership. In the banking sector the Government allowed the 13 foreign banks in the country to maintain their 100% equity ownership, but were required to be locally incorporated. It had also bound foreign presence at an aggregate maximum of 30% of the total equity of a domestic banking institution. In the insurance sector, existing foreign shareholders were allowed to increase their ownership subject to a maximum 51% of total equity. New entry of foreign insurance companies was also allowed through participation of up to 30% of total equity of a locally-incorporated insurance company.

The capital market has been progressively opened up, with gradual increases in foreign equity participation in stock broking, fund management and entry of managers, specialists, experts and professionals. Malaysia is committed to 49% foreign equity in stock broking companies. Under appropriate circumstances, Malaysia allows full foreign ownership, such as in fund management and investment advisory.

Malaysia's liberal policies in the financial services sector has resulted in significant presence of foreign services providers in the country. At the end of 2002, apart from the 13 wholly foreign-owned banks which set up presence in Malaysia, foreigners also owned an average 23% of total equity in four domestically-owned banks. On an aggregate basis, foreigners account for about 33% of total commercial bank assets. In the insurance sector, 23 out of a total of 54 insurance companies are majority foreign-owned. Foreign market share in the insurance industry remains high, accounting for 77% of life insurance premiums and 40% of general insurance premiums. In the capital market, five out of 79 licensed fund managers are majority or wholly foreign-owned whilst in the investment advisory sector, close to half of the licensed advisers are majority or wholly foreign-owned.

Besides equity participation, foreign participation has also taken other forms, such as participation through strategic alliances with local entities. In the insurance sector, there are 10 bancassurance arrangements involving locally-incorporated foreign-owned banks, of which nine were established with domestically-owned insurance companies.

Challenges

To prepare domestic institutions for liberalisation, a timeline of 10 years have been set aimed at building a core of strong and forward-looking domestic players. The timelines are encapsulated in the Financial Sector Masterplan (FSMP) and the Capital Market Masterplan (CMP). Both the FSMP and the CMP, launched in 2002, provide a guide on Malaysia's approach towards financial liberalisation and the strategies that would be adopted.

By end December 2002, 54 domestic banking institutions consolidated into 10 core banking groups. This contrast with 13 foreign-owned commercial banks in the country. In the broking sector, the number of stockbroking companies was 40, compared to 66 before the consolidation programme began in 2000.

The mergers was a first for Malaysia in terms of their scale and complexity as they involved more than 50 banking institutions and 66 stockbroking companies. It is therefore not surprising that the process of restructuring and consolidation is still ongoing, particularly in the broking industry, where some institutions have yet to identify their merger partners.

For institutions that have completed their merger exercises, much still needs to be done to consolidate the corporate cultures of the merged institutions. Difficulties are also faced in merging databases and IT systems without disruption to operational efficiency. Other difficulties have also surfaced, in particular, human resource management and manpower deployment which are still being addressed to ensure minimal social disruption. It is important to monitor and manage these developments to ensure the stability of the financial system, more so in an environment of geopolitical uncertainties and nascent economic recovery.

Malaysia, as a member of the WTO, is certainly committed to long-term gradual and progressive liberalisation of the financial services sector. But at the same time Malaysia must ensure that liberalisation must be in the context of its own domestic imperatives. The financial sector must support the nation's economic development agenda.

Malaysia's stand is that for the benefits of liberalisation to be fully realised, the pace of liberalisation has to be in tandem with the capacity and ability of the system to absorb these changes without undermining financial stability. Liberalisation must be carried out at a pace that is consistent with prevailing conditions, infrastructure and regulatory framework and towards meeting the needs of the economy. It is imperative that liberalisation does not marginalise domestic financial institutions. An important lesson of the last financial crisis is that liberalisation strategies must go hand in hand with effective supervision and enhanced capacity building.

The Government has a responsibility to ensure equitable distribution of wealth. It is necessary that domestic institutions must be given a fair chance to develop themselves to face global competition. This is the basis of Malaysia's approach to liberalisation in a sustainable and progressive manner.

Outlook for 2004

Encouraging signs of strengthening recovery...

Global economic growth for the second half of 2003 is projected to be gradual but firm. This is supported by the more positive economic data on Japan, the euro area and in particular, the US. In the US, low interest rates coupled with the extra cash in the hands of consumers made possible from tax cuts contributed towards the sustained vibrancy in housing construction and growing strength in retail sales, while industrial production rose on account of revival in the high-tech sector and auto production. In Japan, positive results of corporate restructuring were reflected in improvement in corporate profits and a gradual upturn in business fixed investment. Meanwhile, in the euro area, pick-up in personal computer replacements led to higher investment and strengthening consumption. Growth in major economies will also be supported by better performance in Asia as the impact of SARS fades out. With stronger export growth benefitting from pent-up demand pushing up consumption and the positive impact of stimulus packages introduced by many countries in the region, the pace is expected to gain momentum. The momentum from growth in the second half of this year is expected to be sustained into 2004, when world growth is expected to reach 4.1% (2003: 3.2%).

On a less optimistic note, downside risks remain for the outlook for 2004. Geopolitical tensions and sporadic militant acts will continue to pose security risks and impact on worldwide travel and the hospitality industry. Though the US had in early May 2003 declared an end to the major conflict in Iraq, the longer-than-expected reconstruction of the country as evidenced by the on-going pockets of resistance, is also a cause for concern. A delayed or faltering recovery in the US could also cloud the present optimism and derail the much-anticipated recovery in the rest of the world.

Public Sector Finance

ECONOMIC REPORT

4

Fiscal Operations in 2003

Amidst continued global uncertainties, fiscal operations, while expansionary, were premised on striking a balance between sustaining the growth momentum and fiscal consolidation...

In Budget 2003, the Government made clear its explicit intention to consolidate its fiscal position after six consecutive expansionary budgets and on expectations of improved prospects for higher world growth. The statement reflects the commitment of the Government to balance its budget in line with the policy objective of the Eighth Malaysia Plan. The expected better global prospects, which would have enabled fiscal consolidation to take place, however did not materialise. The external environment further deteriorated with the US-led invasion on Iraq and the outbreak of the Severe Acute Respiratory Syndrome (SARS), further weakening global growth. To mitigate the adverse repercussions of these developments on the economy, the Government announced the Package of New Strategies in May 2003, which aims at enhancing competitiveness, sustaining consumption and generating economic activities by mobilising domestic sources of growth to reduce the over-dependence on external sources.

The Package focusses, among others, on stimulating consumption through a 2% reduction in employees' contribution to Employees Provident Fund (EPF) as well as a half-month bonus for civil servants. Some of the sectors that will get a boost from the Package are the housing sector, from tax exemption on loans and real property gain tax exemption for low- and medium-cost housing and waiver on stamp duties; and the small and medium enterprises (SMEs) through additional allocation to the various funds and micro credit schemes set up to enhance their accessibility to financing.

The new Package, in essence, differs from the earlier stimulus packages implemented in March and September 2001 in terms of funding as well as strategy. With the twin objectives to enhance medium- and long-term national competitiveness and address the impact of SARS-affected sectors, the new pro-growth package aims at stimulating private sector growth and investment as well as providing relief to specific sectors and industries affected by SARS. Cognizant of the fiscal deficit position of the Federal Government and the need to cap expenditure, only RM1.7 billion is financed from the Federal Government's budget although the Package is worth RM7.3 billion. Bank Negara Malaysia (BNM) and the Development Financial Institutions (DFIs) are expected to provide the balance of the financing needs of the Package, which are channelled to various micro credit schemes established under the different loan programmes. With additional expenditure, coupled with slower revenue growth arising from a lower revised GDP growth, the overall Federal Government deficit is forecast to marginally decline from 5.6% of GDP in 2002 to 5.4% of GDP in 2003, but higher than the targetted 4.0% in September last year.

Government expenditures were directed toward supporting the 2003 Budget strategies of increasing domestic investment, developing new sources of growth as well as strengthening the effectiveness of public service. In this regard, the thrust of the expenditures was for education and training, with emphasis on imparting skills and knowledge needed to support emerging high value-added industries and Information and Communications Technology (ICT) development for the transformation towards a knowledge-based economy. To increase competitiveness and reduce cost of doing business, expenditure on infrastructure and industrial sector was also

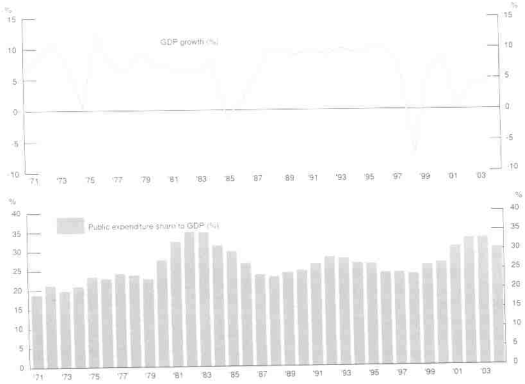
THE ROLE OF FISCAL POLICY SINCE THE ASIAN FINANCIAL CRISIS

Fiscal policy has played a significant role in Malaysia's macroeconomic management. The policy thrusts, have by and large, reflected the socio-economic objectives as contained in the medium- and long-term development plans as well as the prevailing and likely economic environments. In the 1970s, the Government's interventionist policy based on the twin objectives of the New Economic Policy (NEP), led to the establishment of various public enterprises that resulted in public sector expenditure expanding by an average of 13.7% from 1971 to 1982. Following the implementation of the privatisation policy in 1983, where the private sector became the engine of growth, public sector expenditure shrunk to 4.3% from 1983 to 1996. Conversely, private investment grew at an average rate of 14.4% and contributed to 22.1% to GDP during the same period. Real GDP growth rates during the period from 1988 to just before the 1997-1998 financial crisis period were the highest in the nation's history, averaging 9.5% per annum.

When the economy was experiencing robust growth with private sector playing the major role as during the period before the Asian financial crisis, the fiscal stance was tight and the country registered fiscal surpluses from 1993 to 1997. Public expenditure was 25.8% of GDP and was mainly to facilitate private sector initiatives and development. On the other hand, in the years immediately after the Asian financial crisis, which plunged the Malaysian economy into its deepest recession, the Government embarked on an expansionary fiscal policy to provide counter-cyclical measures to compensate for the financially strapped private sector. From an initial austerity drive based on fiscal tightening stance, the Government reversed the decision to implement fiscal stimulus measures to resuscitate the economy. In line with the strategy to spur economic recovery through construction activities, an infrastructure development fund was set up to assist in the financing of large infrastructure

CHART 4.1

GDP Growth and Public Expenditure Share to GDP (%)



projects and public facilities to avoid delays in their implementation. In addition to the emphasis given to stimulate economic activities, the Government also allocated more funds for socio-economic projects to cushion the impact of the crisis on the more vulnerable segments of the society. The expansionary budget policy has been effective and together with strong export demand for electronic and electrical products, the economy bounced back from -7.4% in 1998, to chart a strong GDP growth of 8.5% in 2000. The Malaysian economy again faced difficult challenges when the world economy began slowing down towards the end of 2000. The external environment became even more uncertain with heightened geopolitical tensions following September 11 incident. In order to mitigate the effects of slower world growth and September 11, the Government implemented two fiscal stimulus packages of RM3.0 billion and RM4.3 billion in March and September 2001, respectively. These stimulus packages were mainly allocated for small projects in rural and selected urban areas for which funds could be disbursed quickly. Development projects identified were those with high spillover effects, low import content and short gestation periods, such as upgrading of government buildings and facilities, training of retrenched workers and unemployed graduates and tourism promotion.

Thus, despite the increasingly difficult external environment that followed the Asian crisis, led by slower world growth and finally culminating in the Iraq war and outbreak of SARS this year, Malaysia's economy continued to show resilience and record positive annual growth rates. The ability to steer clear of recession was due in part to the strong macroeconomic fundamentals built over the years and the effective use of fiscal measures to mitigate the adverse impact of the global environment on Malaysia.

The latest Package of New Strategies, implemented in May this year, marks the culmination of fiscal stimulus thus far. The Package, while designed to help mitigate the adverse effects of the Iraq war as well as SARS, has a medium and long-term approach through enhancing the nation's overall competitiveness. Thus, the new Package is broad-based with a longer horizon and emphasises private sector initiatives with focus on SMEs development. As the objective is to stimulate private sector investment and enhance competitiveness, the package focusses on making funds more accessible at reasonable costs to the private sector, particularly the SMEs. The Package is, therefore, less construction oriented and less dependent on direct Government spending with only RM1.7 billion provided through budgetary allocation out of the total RM7.3 billion.

The contribution of public sector expenditure to GDP growth has been significant, particularly in 2001 when Malaysia was able to avoid recession to grow at a marginal 0.3%. The effectiveness of fiscal instruments in sustaining growth indeed reflects the flexibility and adaptability of the Government in macroeconomic management to speedily respond and adopt appropriate fiscal policy thrusts to meet the prevailing needs of the economy. The contribution of the public sector to GDP growth has increased over the 1999-2002 period from 26.1% to 32.9%, reflecting the expanding role of the public sector and consistent with its continuous expansionary budget policy and the series of fiscal stimulus packages. The expanding role of the public sector is considered necessary, given that private investment continues to remain well below pre-crisis levels.

Public sector expenditure has been two pronged, namely to sustain aggregate demand in the immediate term to support domestic economic activities and growth, as well as to expand capacity, improve productivity and enhance the government delivery system. While operating expenditure was maintained at around 17.0% of GDP, development expenditure on the other hand, has shown an increasing trend in recent years, due to the stimulus packages and the continued need to build capacity, infrastructure and human resource development to enhance competitiveness. As a percentage to GDP, it has increased from an average of 5.9% prior to 1997 to 8.0% post 1997.

Fiscal prudence and responsibility have always been the cornerstone of Malaysia's fiscal management. It is pertinent to note that Government borrowings have been made only to finance development projects and not for operating purposes, as the current account registered surpluses averaging 4.3% of GDP from 1997 to 2003. Overall deficit of the Federal Government edged up 5.6% of GDP in 2002, but is expected to decline to 5.4% in 2003, way below 16.7% in 1982, despite the expansionary budgets and a series of fiscal stimulus packages. In 2004, the deficit is envisaged to decline further to 3.3% of GDP. The consolidated public sector as a whole has shown a much stonger financial position with surpluses achieved in 1999 and 2000 despite the Federal Government incurring deficits since 1998. With better performance of NFPEs and reined-in public expenditure, the consolidated public sector is expected to achieve overall surplus again in 2004. The Government remains committed to fiscal consolidation and a balanced budget, as expressly stated in the Eighth Malaysia Plan and the 2003 Budget.

given priority. In the social sector, the bulk of expenditure was for upgrading health care facilities and standards, expanding rural electricity and water supply coverage, enhancing welfare and promoting community and youth development.

The Government continues to exercise vigilance on its external indebtedness and has capitalised on the lower domestic interest rates and ample liquidity in the financial system by sourcing 91.7% of its financing needs from the domestic market. The issuance of Malaysian Government Securities (MGS) is expected to constitute 95.2% of the total domestic borrowing. Four new issues and eight reopening of MGS amounting to RM39,850 million are expected to be completed by the end of the year. The balance of domestic borrowing consists of rollover of Government Investment Issues (GII) and Treasury Bills (TB) upon maturity.

In spite of higher borrowing and Federal Government debt increasing to 47.7% of GDP in 2003, other measures of debt vulnerability are still within prudential limits. Debt service charges as a percentage to revenue and operating expenditure remain low at 9.9% and 12.1%, respectively. Similarly, external debt of the Federal Government is also low at 9.1% of GDP. Given the moderately high savings rate in the economy, ample liquidity in the financial system, and the sizeable current account surplus of the balance of payments, financing fiscal deficits is not a critical issue for Malaysia. The Government, however, sees the need for and is committed to fiscal consolidation in its move to strengthen its financial position and achieve balanced budget.

Federal Government

Fiscal Policy was targetted at increasing consumption and building capacities to enhance long-term growth prospects...

In 2003, Federal Government receipts were lower than anticipated on account of more subdued GDP growth of 4.5% compared with the original forecast of 6% to 6.5%, following the weak external environment. Thus the lower revenue growth, compounded by spillover expenditure arising from the previous year's expansionary budget as well as the Package of New Strategies, resulted in a marginally lower Federal Government overall deficit of 5.4% of GDP (2002: 5.6%) but higher than the targetted 4% deficit envisaged in the original 2003 Budget, as shown in *Table 4.1*. Despite slower revenue growth and a higher operating expenditure, the current account continues to register substantial surplus.

TABLE 4.1

Federal Government Financial Position 2002-2004

	RM million			Change (%)		
	2002	2003[1]	2004[2]	2002	2003	2004
Revenue	83,515	89,168	95,595	*5.0*	*6.8*	*7.2*
Operating expenditure	68,699	73,237	80,030	*7.8*	*6.6*	*9.3*
Current balance	**14,816**	**15,931**	**15,565**	***-6.3***	***7.5***	***-2.3***
Gross development expenditure	35,977	37,963	29,960[3]	*2.1*	*5.5*	*-21.1*
(–) Loan recoveries	908	1,183	1,000	*-9.5*	*30.3*	*-15.5*
Net development expenditure	35,069	36,780	28,960	*2.4*	*4.9*	*-21.3*
Overall balance	**-20,253**	**-20,849**	**-13,395**	***9.9***	***2.9***	***-35.8***
% of GDP	***-5.6***	***-5.4***	***-3.3***			

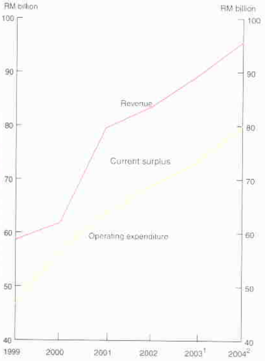
[1] Revised estimate.

[2] Budget estimate, excluding 2004 tax measures.

[3] Exclude contingency fund of RM2,000 million.

CHART 4.2

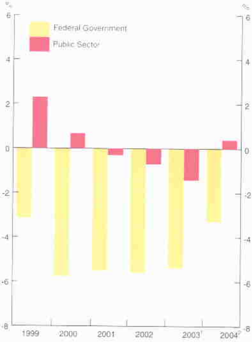
Federal Government Finance-Current Account



[1] Revised estimate
[2] Budget

CHART 4.3

Percentage of Overall Deficit/Surplus to Gross Domestic Product



[1] Revised estimate
[2] Budget

Revenue

Federal Government revenue in 2003 is projected at RM89,168 million, 6.8% higher than 2002, but slightly below the original estimate of RM89,183 million made during the presentation of the 2003 Budget. Revenue collection for most categories increased except for sales tax, which declined by 7.9% due to higher tax exemptions for petroleum products under the Automatic Pricing Mechanism (APM) formula, where the increase in crude oil prices will result in a decline in sales tax collection. Revenue performance is in line with recent trends, with total collection constituting about 23.1% of GDP. If not for the decline in sales tax collection following increase in tax exemptions for petroleum products, total revenue collection is likely to be above the recent trend. In 2003, no increase or new taxes were introduced despite reduction in taxes for several items. The focus was on enforcement, particularly on tax evasion and containment of smuggling and contraband activities. The Government's relentless efforts in improving tax collection, ensuring compliance and pursuing tax defaulters and evaders have borne significant results. Both corporate and individual income taxes showed slight improvement despite the rebates and reduction of tax rates granted to individual taxpayers over the past couple of years, as shown in *Table 4.2*.

Direct taxes remain the major sources of revenue, representing 52.2% of the total revenue (2002: 53.1%). As for indirect taxes, its share to total revenue is 25.4% in 2003. Import and export duties have continued to register declining trends in line with trade liberalisation and gradual dismantling of trade barriers. Import duties, as a percentage to total indirect tax, declined from 28.1% in 1997 to 17.2% in 2003, while export duties fell marginally from 4.5% to 4.4% during the same period. On the contrary, to compensate for the declining trend of import and export duties,

TABLE 4.2

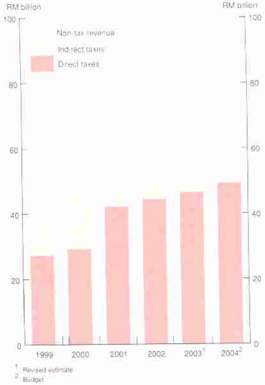
Federal Government Revenue
2002-2004

	RM million			Change (%)			Share (%)		
	2002	2003[1]	2004[2]	2002	2003	2004	2002	2003	2004
Tax revenue	66,861	69,171	75,112	*8.7*	*3.5*	*8.6*	*80.1*	*77.6*	*78.6*
Direct tax	44,351	46,481	49,261	*5.4*	*4.8*	*6.0*	*53.1*	*52.2*	*51.6*
o/w[3]: Companies	24,642	24,952	27,571	*18.6*	*1.3*	*10.5*	*29.5*	*28.0*	*28.8*
Individuals	9,889	10,370	10,986	*4.8*	*4.9*	*5.9*	*11.8*	*11.6*	*11.5*
Indirect tax	22,510	22,690	25,851	*16.1*	*0.8*	*13.9*	*27.0*	*25.4*	*27.0*
o/w: Excise duty	4,745	4,933	5,452	*14.9*	*4.0*	*10.5*	*5.7*	*5.5*	*5.7*
Sales tax	9,244	8,514	10,442	*25.7*	*-7.9*	*22.6*	*11.1*	*9.5*	*10.9*
Non-tax revenue	16,654	19,997	20,483	*-7.9*	*20.1*	*2.4*	*19.9*	*22.4*	*21.4*
o/w: Licences/permits	5,882	6,684	6,443	*-1.9*	*13.6*	*-3.6*	*7.0*	*7.5*	*6.7*
Investment Income	8,353	10,798	11,370	*-16.9*	*29.3*	*5.3*	*10.0*	*12.1*	*11.9*
Total revenue	**83,515**	**89,168**	**95,595**	***5.0***	***6.8***	***7.2***	***100.0***	***100.0***	***100.0***
% of GDP	***23.2***	***23.1***	***23.3***						

[1] Revised estimate.
[2] Budget estimate, excluding 2004 tax measures.
[3] o/w: of which.

CHART 4.4

Major Components of Federal Government Revenue



there is a greater reliance on sales and service taxes, the scope and threshold of which have been extended to encompass greater coverage. Thus, sales tax as a percentage to total indirect tax increased from 26.6% in 1997 to 37.5% in 2003. Similarly, service tax too has grown significantly from 6.4% to 10.4% during the same period. Non-tax revenue as a percentage of GDP and total revenue has increased only marginally, mainly contributed by investment income, licences and permits and royalties.

Expenditure

Total Federal Government expenditure is higher by 6.2% in 2003 with both operating and development expenditures contributing to sustain the growth momentum on account of the expansionary fiscal stance and the additional fiscal stimulus package implemented since May 2003. As a percentage of GDP, both operating and development expenditures now stand at 19.0% and 9.8%, respectively (2002: 19.0%, 10.0%).

Operating expenditure, which accounts for 65.9% of total Federal Government expenditure, is expected to increase by 6.6% to RM73,237

TABLE 4.3

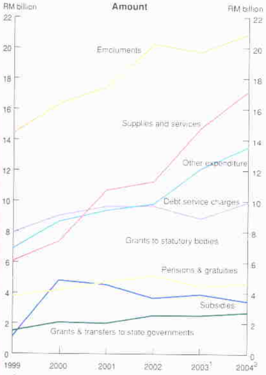
Federal Government Operating Expenditure by Object
2002-2004

	RM million			Change (%)			Share (%)		
	2002	2003[1]	2004[2]	2002	2003	2004	2002	2003	2004
Emolument	20,242	19,727	20,934	*16.0*	*-2.5*	*6.1*	*29.4*	*26.9*	*26.2*
Debt service charges	9,669	8,868	9,929	*0.4*	*-8.3*	*12.0*	*14.1*	*12.1*	*12.4*
Grants to state government	2,534	2,534	2,724	*25.9*	*0.0*	*7.5*	*3.7*	*3.5*	*3.4*
Pension and gratuities	5,134	4,408	4,624	*9.0*	*-14.1*	*4.9*	*7.5*	*6.0*	*5.8*
Supplies and services	11,269	14,781	17,216	*5.3*	*31.2*	*16.5*	*16.3*	*20.2*	*21.5*
Subsidies	3,677	3,925	3,413	*-19.2*	*6.7*	*-13.0*	*5.4*	*5.4*	*4.3*
Grants to statutory bodies[3]	6,361	6,854	7,640	*19.7*	*7.8*	*11.5*	*9.3*	*9.4*	*9.5*
Refunds	1,792	2,731	2,185	*0.9*	*52.4*	*-20.0*	*2.6*	*3.7*	*2.7*
Others	8,021	9,409	11,365	*5.3*	*17.3*	*20.8*	*11.7*	*12.8*	*14.2*
Total	**68,699**	**73,237**	**80,030**	***7.8***	***6.6***	***9.3***	***100.0***	***100.0***	***100.0***
% of GDP	***19.0***	***19.0***	***19.5***						

[1] Revised estimate.
[2] Budget estimate, excluding 2004 tax measures.
[3] Includes emolument.

CHART 4.5

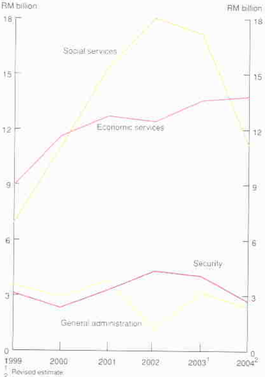
Federal Government Operating Expenditure



[1] Revised estimate
[2] Budget

CHART 4.6

Federal Government Development Expenditure by Sector



[1] Revised estimate
[2] Budget

TABLE 4.4

Federal Government Development Expenditure by Sector
2002-2004

	RM million			Change (%)			Share (%)		
	2002	2003[1]	2004[2]	2002	2003	2004	2002	2003	2004
Economic services	12,434	13,581	13,779	*-2.3*	*9.2*	*1.5*	*34.6*	*35.8*	*46.0*
o/w[3]:Agriculture and rural development	1,364	2,956	3,421	*-2.2*	*116.7*	*15.7*	*3.8*	*7.8*	*11.4*
Trade and industries	3,474	3,135	1,890	*-28.1*	*-9.8*	*-39.7*	*9.7*	*8.3*	*6.3*
Transport	5,401	5,091	6,377	*7.1*	*-5.7*	*25.3*	*15.0*	*13.4*	*21.3*
Social services	18,043	17,165	11,154	*17.3*	*-4.9*	*-35.0*	*50.2*	*45.2*	*37.2*
o/w: Education	12,436	10,495	4,615	*20.0*	*-15.6*	*-56.0*	*34.6*	*27.6*	*15.4*
Health	1,503	1,990	2,643	*-4.3*	*32.4*	*32.8*	*4.2*	*5.2*	*8.8*
Housing	1,808	2,150	1,366	*42.6*	*18.9*	*-36.5*	*5.0*	*5.7*	*4.6*
Security	4,333	4,063	2,683	*31.8*	*-6.2*	*-34.0*	*12.0*	*10.7*	*9.0*
General administration	1,167	3,154	2,344	*-69.6*	*170.3*	*-25.7*	*3.2*	*8.3*	*7.8*
Total	**35,977**	**37,963**	**29,960**	***2.1***	***5.5***	***-21.1***	***100.0***	***100.0***	***100.0***
% of GDP	***10.0***	***9.8***	***7.3***						

[1] Revised estimate.
[2] Budget estimate, excluding 2004 tax measures.
[3] o/w: of which.

million in 2003, as shown in *Table 4.3*. The largest share or 32.9% of the operating expenditure is for emolument and payments of pension and gratuities for civil servants. Other increases include outlays for supplies and services, which is higher by 31.2% as part of the measures to improve the public sector delivery system. Debt service charges was lower at RM8,868 million for 2003 despite additional loans taken and the refinancing of loans due to lower interest rates. Higher grants to agencies and other levels of government, scholarships, textbooks loan scheme, food assistance programme, subsidy payments for petroleum products such as diesel and liquefied petroleum gas (LPG) and agriculture, in particular for fertilizers and *padi* farmers, have also pushed up transfer payments.

The thrust of the **development expenditure** was geared toward supporting the 2003 Budget strategies of increasing domestic investment, developing new sources of growth as well as strengthening the effectiveness of public service. Therefore, a total of RM10,495 million or 27.6% was for education and training to ensure adequate supply of skilled and K-workers to support the development of ICT and high value-added industries.

Public and low cost housing has always been a priority of the Government in line with the policy to provide shelter for all. The increased expenditure on public and low cost housing is, therefore, expected to benefit the lower income group as well as public sector personnel in the armed forces, police, customs and the teaching profession. Syarikat Perumahan Nasional Berhad (SPNB) is expected to construct a total of 25,815 units of low cost houses during the year with 16,015 units presently in the final stage of completion. The Government also increased expenditure for the health sub-sector to cater for ongoing construction of new and upgrading of existing hospitals and as well as improving health care standards. An additional RM200 million was allocated under the Package of New Strategies for local authorities to improve the cleanliness of public places and promote healthier life styles and living conditions to contain the spread of contagious diseases in the light of the SARS outbreak.

Development expenditure for economic services is expected to increase significantly by 9.2% in 2003, after a slight decline by 2.3% in 2002, as shown in *Table 4.4*. In the transport sub-sector, emphasis was given to improving and upgrading the country's infrastructure, particularly to increase the efficiency of the nation's air, sea and land transportation. This is expected to lower the cost of doing business and hence enhances the nation's competitiveness. Most of the projects are for the construction of roads and bridges, maintenance and upgrading of rail tracks, dredging and deepening of port channels and upgrading of airport runways. With the emphasis on the development of SMEs as a catalyst for higher value-added growth in manufacturing, expenditure under the trade and industry sub-sector was largely focussed on the development of SMEs and industrial research. A sum of RM500 million was channelled to DFIs as equity to supplement their efforts to finance small businesses in agriculture and non-agriculture sectors through micro-credit schemes under the Package of New Strategies. Expenditure on agriculture and rural development remains high, with flood mitigation projects, rural roads, water supply and electrification given priority. Transfers to agriculture and land development related agencies are sizable, constituting 20.0% of the expenditure under this sub-sector. Expenditure under general administration is expected to increase significantly due to, among others, the purchase of ICT equipment, upgrading works of Malaysian missions overseas and renovations and upgrading of court buildings.

Financing

The Government continued to undertake prudent measures in its management of public sector finance to reduce its exposure to foreign debt and risks by sourcing its financing needs mainly from the domestic market. Furthermore, the Government was able to reduce its debt service charges by refinancing its loans at lower interest rates.

Net borrowing from domestic sources, amounting to RM23,250 million, represents all the financing needs of the Federal Government, as shown in *Table 4.5*. Consequently, the Government was

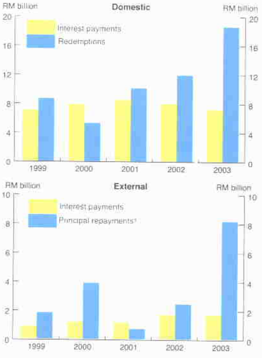
TABLE 4.5

Federal Government Financing 2002-2003

	RM million		Share (%)	
	2002	2003	2002	2003
Net domestic borrowing	**6,076**	**23,250**	***30.0***	***111.5***
Gross borrowing	18,000	41,850	*63.2*	*91.7*
Investment issues	3,000	2,000	*16.7*	*4.8*
Government securities	15,000	39,850	*83.3*	*95.2*
(–) Repayment	11,924	18,600		
Net external borrowing	**8,020**	**-4,391**	***39.6***	***-21.1***
Gross borrowing	10,466	3,771	*36.8*	*8.3*
Market loans	9,091	1,439	*86.9*	*38.2*
Project loans	1,375	2,332	*13.1*	*61.8*
(–) Repayment	2,446	8,162		
Change in assets	**6,157**	**1,990**	***30.4***	***9.6***
Total	**20,253**	**20,849**	***100.0***	***100.0***

CHART 4.7

Federal Government Loans - Principal Repayments, Redemptions and Charges



[1] Excludes prepayments

CHART 4.8

Composition of Federal Government Borrowing in 2003

able to contain its level of foreign debt and minimise exposure to foreign exchange risk.

With market interest rates remaining low, the Government is able to refinance and raise new loans at lower rates, thereby reducing debt service charges. In addition to meeting the financing requirements of the Government, the regular issue of Government papers also provided the benchmark yield to facilitate the development of the domestic bond market.

In the first half of 2003, the Government issued three new and reopened five MGS amounting to RM25,100 million. For the rest of the year, it is expected that one new and three reopening of MGS amounting to RM14,750 million will be issued. In addition, the existing GII and TB amounting to RM2,000 million and RM7,120 million, respectively will be rolled over upon maturity. While provident, pension and insurance funds hold about 71.4% of MGS, GII and TB are mainly held by banks and insurance companies as at 30 June, 2003.

During the year, the Government is expected to raise RM1,439 million from the international financial market through syndicated loans to maintain its foreign market presence as well as to provide a benchmark yield curve. The continued good response to Malaysian papers reflects continued investors' confidence underpinned by Malaysia's strong economic fundamentals, investor friendly policies, sound economic management and political stability. Drawdown of project loans from bilateral and multilateral sources amounted to RM2,332 million, constituting 61.8% of the total external loans. These loans were taken during the 2000-2002 period to finance specific projects such as the National Sewerage Treatment project, the electric double tracking project as well as funds to provide the financing of venture capital for ICT projects. In 2003, Federal Government's external debt is expected to decline marginally to RM34,962 million or 9.1% of GDP (2002: RM36,283 million, 10.1% GDP).

Debt

Total Federal Government debt increased by 11.4% to RM183,817 million or 47.7% of GDP, with domestic debt comprising the bulk or 81.0% of the total, as shown in *Table 4.6*. Although debt level has increased in recent years, the external debt has declined by RM1,321 million in 2003. The debt servicing capacity of the Federal Government has also remained strong with most debt vulnerability indicators within prudent limits. Interest charges as a percentage to operating expenditure and revenue remained low at 12.1% and 9.9%, respectively. In addition, sound debt management has reduced the bunching of repayments and ensured a well-spaced debt maturity profile. Consequently, 35.2% of Federal Government's debt has a maturity of less than three years, 22.9% between three and five years and the balance 41.9% more than five years as at 30 June, 2003. The bulk of the loans have fixed interest rates, thereby reducing interest risks in the event of upward movements of interest rates in future.

The **external debt of the nation,** which comprises all long and short-term external debt of the Federal Government, Non-Financial Public Enterprises (NFPEs), and the private sector is expected to

CHART 4.9

Federal Government External Debt by Currencies

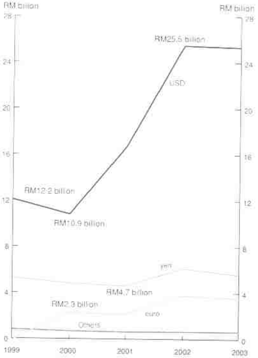


TABLE 4.6

Federal Government Debt
2002-2003

	RM million		Share (%)		GDP (%)	
	2002	2003	2002	2003	2002	2003
Domestic debt	**128,680**	**148,855**	***78.0***	***81.0***	***35.6***	***38.6***
Treasury bills	4,320	4,320	*3.4*	*2.9*	*1.2*	*1.1*
Investment issues	5,000	7,000	*3.9*	*4.7*	*1.4*	*1.8*
Government security	109,550	130,800	*85.1*	*87.9*	*30.3*	*33.9*
Other domestic loans[1]	9,810	6,735	*7.6*	*4.5*	*2.7*	*1.8*
External debt	**36,283**	**34,962**	***22.0***	***19.0***	***10.1***	***9.1***
Market loans	28,674	25,766	*79.0*	*73.7*	*8.0*	*6.7*
Project loans	7,609	9,196	*21.0*	*26.3*	*2.1*	*2.4*
Total	**164,963**	**183,817**	***100.0***	***100.0***	***45.7***	***47.7***

[1] Mainly syndicated loans from foreign banks incorporated in Malaysia and loans taken for Treasury Housing Loan Fund.

TABLE 4.7

National Debt
2002-2003

	RM million		Share (%)		GDP (%)	
	2002	2003	2002	2003	2002	2003
Medium and long term debt	**153,560**	**151,234**	***82.7***	***81.3***	***42.6***	***39.2***
Public sector	100,613	97,338	*54.2*	*52.3*	*27.9*	*25.2*
Federal Government	36,283	34,962	*19.6*	*18.8*	*10.1*	*9.1*
NFPEs	64,330	62,376	*34.7*	*33.5*	*17.8*	*16.2*
Guaranteed	10,180	12,410	*5.5*	*6.7*	*2.8*	*3.2*
Non-Guaranteed	54,150	49,966	*29.2*	*26.8*	*15.0*	*13.0*
Private sector	52,947	53,896	*28.5*	*29.0*	*14.7*	*14.0*
Short term debt	**32,014**	**34,794**	***17.3***	***18.7***	***8.9***	***9.0***
Total	**185,574**	**186,028**	***100.0***	***100.0***	***51.5***	***48.2***

increase marginally by 0.2% to RM186.028 million or 48.3% of GDP with Federal Government and NFPEs paring down their debt, as shown in *Table 4.7*. Thus, although private short-term and long-term debt has increased, the lower NFPEs and Federal Government debt has helped to contain the total national debt level. The bulk of the nation's external debt is medium and long term, with short-term debt constituting only 18.7% of the total. The international reserves to short-term debt ratio, a measure of reserve adequacy to meet short-term external debt obligation, is more than sufficient to cover four times of short term debt as at 30 June, 2003. The external debt service ratio, a measure of principal repayment and interest charges against the country's export earnings, is expected to remain low at 7.7%. These indicators reflect the strong health of the Government financial position.

State Governments

Despite higher expenditures for both operating and development, the consolidated financial position of the state governments remains healthy due to substantial increase in state revenue. The overall deficit at RM381 million was RM140 million lower than 2002, as shown in *Table 4.8*. The deficit, as in previous years, is financed mainly from loans provided by the Federal Government and from drawdown of accumulated financial assets of state governments.

Similar to the Federal Government, operating expenditure is higher on account of increased emolument payments following the implementation of the Malaysia Remuneration System for public sector employees. In addition, acquisition of assets and transfers to local authorities also increased significantly due to efforts to further improve services at the state and local government levels. The bulk of the 33.6% increase in development expenditure was for drainage and irrigation, rural and agriculture development as well as the provision and upgrading of water supply, housing and other public amenities.

During the year, total revenue collected is estimated at RM11,001 million of which 84.5% was from states' own sources while the balance

TABLE 4.8

Consolidated State Government Financial Position
2002-2003

	RM million		Change (%)	
	2002	2003[1]	2002	2003
Current account				
Revenue	8,341	11,001	*0.3*	*31.9*
Operating expenditure	5,090	6,073	*-4.1*	*19.3*
Current account balance	3,251	4,928	*8.1*	*51.6*
Development account				
Gross development expenditure	4,161	5,559	*-14.6*	*33.6*
Development fund	3,685	5,029	*-10.8*	*36.5*
Water supply fund	476	530	*-35.4*	*11.3*
Loan recoveries	389	250	*134.3*	*-35.7*
Net development expenditures	3,772	5,309	*-19.8*	*40.7*
Overall balance	**-521**	**-381**	***-69.3***	***-26.9***
% of GDP	***-0.1***	***-0.1***		

[1] Revised estimate.

comes from federal grants. The main sources of state revenue are royalties from mining and forestry, land premium and land related taxes, investment income and fees from permits and licences and receipts from provision of services.

General Government

The financial position of the general government which consolidates the accounts of the Federal Government, state governments, local authorities and statutory bodies after netting out inter-government transfer and net lending, shows an overall deficit of RM17,023 million or 4.4% of GDP, lower than the Federal Government deficit of RM 20,849 million or 5.4% of GDP. The surplus positions enjoyed by the statutory bodies and local authorities helped to reduce the deficit, thus improving the overall financial position of the general government, as shown in *Table 4.9*.

TABLE 4.9

Consolidated General Government Financial Position
2002-2004

	RM million			Change (%)		
	2002	2003[1]	2004[2]	2002	2003	2004
Current account						
Revenue	96,763	105,599	114,556	*5.6*	*9.1*	*8.5*
Operating expenditure	76,314	81,732	88,335	*5.6*	*7.1*	*8.1*
Current account balance	**20,449**	**23,867**	**26,221**	***5.8***	***16.7***	***9.9***
Development expenditure	36,975	40,890	37,931	*2.5*	*10.6*	*-7.2*
Overall balance	**-16,526**	**-17,023**	**-11,710**	***-1.3***	***3.0***	***-31.2***
% of GDP	***-4.6***	***-4.4***	***-2.8***			

[1] Revised estimate.
[2] Budget estimate, excluding 2004 tax measures.

Non-Financial Public Enterprises (NFPEs)

The overall financial position of NFPEs is expected to continue to register surplus despite challenging business environment. Revenue is projected to be higher at RM134,998 million on account of higher telecommunication and electricity sales while revenue from oil and gas was lower due to more subdued prices of crude oil last year, as shown in *Table 4.10*.

The increase in operating expenditure by 8.7% is largely attributed to higher fuel and manpower costs resulting from the increase in price of fuel and yearly increments for staffs. The higher operating expenditure is also due to the constant upgrading in technology and the employment of highly skilled manpower to manage these technologies to improve services.

Capital expenditure for NFPEs as a group is expected to increase by 9.5% to RM35,365 million due largely to increased expenditure by Petroliam Nasional Berhad (PETRONAS) and Tenaga Nasional Berhad (TNB). Outlays for capital expenditure, as in the past, are largely focussed on capacity expansion both locally and abroad. In particular, capital spending incurred by PETRONAS was largely for the construction of the MLNG3 plant, exploration and production under the Production Sharing Contracts, continued development of Universiti Teknologi PETRONAS, and building of liquefied natural gas (LNG) vessels. Similarly, Telekom Malaysia Berhad (TMB) and TNB continued their planned investment programmes to enhance their revenue generating capacity. Among the major projects undertaken by TMB during the year are the submarine cable systems connecting South-east Asia, Middle East and Western Europe and the Corporate Information Superhighway project to facilitate and support multimedia applications, network computing and communications for major and small businesses. As for TNB, a large portion of the capital expenditure is for upgrading of transmission and power generation. Major projects include the Pulau Bunting 220MW Open Cycles Gas Turbines, Kenyir II Hydro project and Cameron Highlands/Batang Padang Life Extension project. As for Putrajaya Holdings Sendirian Berhad, the increased spending was mainly for the on-going construction of government buildings, quarters for civil servants and commercial centres as well as infrastructure works such as roads, bridges and parks.

TABLE 4.10

Consolidated NFPEs Financial Position[1] 2002-2003

	RM million		Change (%)	
	2002	2003[2]	2002	2003
Revenue	126,562	134,998	*20.4*	*6.7*
Current expenditure	80,951	88,007	*23.8*	*8.7*
Retained income	**45,611**	**46,991**	***14.9***	***3.0***
% of GDP	***12.6***	***12.2***		
Development expenditure	32,297	35,365	*34.4*	*9.5*
Overall balance	**13,314**	**11,626**	***-14.9***	***-12.7***
% of GDP	***3.7***	***3.0***		

[1] Refers to 36 NFPEs.
[2] Revised estimate.

Consolidated Public Sector

The financial position of the public sector portrays the consolidated position of the general government with the NFPEs after netting out all transfers and net lending between the two entities. Due to the surplus of NFPEs, the overall deficit of the consolidated public sector at RM5,687 million or 1.5% of GDP is lower than the general government or Federal Government deficit, as shown in *Table 4.11*. Thus, the financial position of the public sector portrays a more favourable position than the Federal Government or general government, with the deficit standing at 1.5% of GDP compared with 5.4% for Federal Government and 4.4% for general government.

TABLE 4.11

Consolidated Public Sector Financial Position
2002-2004

	RM million			Change (%)		
	2002	2003[1]	2004[2]	2002	2003	2004
Revenue[3]	96,763	105,599	114,556	*5.6*	*9.1*	*8.5*
Operating expenditure	75,450	81,732	88,335	*4.4*	*8.3*	*8.1*
NFPEs current surplus	45,324	46,643	47,499	*14.8*	*2.9*	*1.8*
Public sector current balance	**66,637**	**70,510**	**73,720**	***13.3***	***5.8***	***4.6***
Development expenditure	69,125	76,197	72,071	*15.7*	*10.2*	*-5.4*
General government[4]	36,828	40,832	38,017	*3.2*	*10.9*	*-6.9*
NFPEs	32,297	35,365	34,054	*34.4*	*9.5*	*-3.7*
Overall balance	**-2,488**	**-5,687**	**1,649**	***174.6***	***128.6***	***-129.0***
% of GDP	***-0.7***	***-1.5***	***0.4***			

[1] Revised estimate.
[2] Budget estimate, excluding 2004 tax measures.
[3] Excludes transfer.
[4] Development expenditure differs from development expenditure in Table 4.9 due to transfers and net lending.

Outlook for 2004

The public sector financial position is expected to be stronger and reflect a much improved overall balance in tandem with the better economic prospects for 2004. Private sector activity is envisaged to pick up further to generate higher GDP growth, enabling the public sector to focus its role in providing a conducive environment for private sector initiatives to thrive. With the resumption of the private sector as the engine of growth, the Government is able to begin the process of fiscal consolidation to achieve a balanced budget in the near term.

The thrust of the fiscal policy is to cap expenditure and at the same time, increase revenue. Total Federal Government expenditure will be reined in at RM109,990 million, declining by 1.1%, with development expenditure showing a sharper decline of 21.1% to RM29,960 million. The basic policy thrust of expenditure will be for locked-in items and contractually committed and approved projects. Agencies with own sources of funds, especially those with high uncommitted reserves, will not be given allocation. Improved corporate tax collections and better performances from NFPEs and state-owned companies are expected to provide additional revenue.

For operating expenditure, the bulk or 67.2% of the RM80,030 million operating allocation is for locked-in expenditure, such as pensions and gratuities, debt service charges and emolument. The allocation for supplies and services, such as maintenance and repair services, rental payments, telecommunications and utilities as well as professional fees, another major expenditure item under operating expenditure, will increase by 16.5% to ensure proper maintenance of public assets in order to improve the quality of public services. Grants and fixed charges including contributions to statutory bodies, state governments and subsidies for petroleum products, *padi* and scholarships constitute the balance.

Based on the mid-term review and revised ceiling of the Eighth Malaysia Plan, **development allocation** in 2004 is RM29,960 million, significantly lower than the projected expenditure of RM37,963 million in 2003. Given the much lower allocation, priority will be given to ongoing and contractually committed and approved projects with NFPEs assuming a greater role in public sector capital formation. Among the primary objectives of development allocation are to direct resources to enhance the nation's competitiveness and to support private sector investment and initiatives. Hence, priority will be given to projects with strong linkages and high multipliers in the economy. This includes projects and programmes to facilitate privatisation and other public-private sector co-operation as well as to enhance the delivery system, especially in the rural areas with a view to developing agriculture into a high economic value generating sector. As in the past and to reflect the Government's social agenda, a substantial sum is allocated for the promotion of a caring society through increased allocation to non governmental organisations (NGOs), ministries and agencies involved in welfare services, such as Acquired Immune Deficiency Syndrome (AIDS) and drugs prevention programmes, women and children development, health care services as well as activities to assist the handicapped and the disabled.

With respect to revenue, it is expected to grow at 7.2% to RM95,595 million on account of better economic performance, sustained commodity prices and higher equity prices. Growth in revenue is expected to emanate from higher corporate, sales and service taxes due to improved corporate profits and consumption of goods and services.

The more favourable revenue collection coupled with controlled expenditure is envisaged to result in a more pronounced downward trend of the Government's deficit position. Federal Government deficit is, therefore, forecast to record a reduction by RM7,454 million to RM13,395 million or 3.3% of GDP, while public sector deficit is expected to show a slight surplus of 0.4% of GDP. The healthy trends are clear indications of the Government's unwavering commitment to implement fiscal restraints to support long term sustainable economic growth and national competitiveness. With fiscal prudence as the core principle, the Government is confident of achieving a balanced budget in the near term.

Financial and Capital Market Developments

5

Overview

Stronger financial and capital markets supporting private sector activities and growth...

Monetary policy remains accommodative in 2003 to support domestic demand in the light of the more difficult external environment, as geopolitical tensions and the outbreak of the Severe Acute Respiratory Syndrome (SARS) aggravated uncertainties on global economic growth prospects. As part of the Package of New Strategies announced on 21 May 2003 to stimulate the economy, Bank Negara Malaysia (BNM) has reduced the 3-month intervention rate. Amidst the low inflation situation, the thrust of monetary policy was directed at supporting domestic demand, ensuring adequate market liquidity and enhanced access to financing to the private sector, in particular to new growth areas and small and medium enterprises (SMEs). The nation's strong macroeconomic fundamentals, coupled with the easier global interest rates have further accorded flexibility in maintaining the accommodative monetary stance. With the prevailing low rate of inflation, depositors continued to earn positive real rate of return.

Despite the less favourable external conditions and the impact of SARS, bank lending was sustained at a high level in the first half of 2003. Financing raised by the private sector through the banking system and the bond market after excluding redemptions remained high as at end-June 2003. Amidst the low interest rate environment, large corporations increasingly raised funds from the bond market to lock in funds at lower cost while continuing to rely on bank lending for short-term working capital requirements.

While lending activities moderated somewhat in May due to SARS, the demand for financing recovered strongly in June, following the containment of SARS and the positive response to the pro-growth policies in the Package of New Strategies as well as the reduction in interest rates. Demand for credit was high across the board. Stronger loan growth was seen in the household sector, while business loans showed a higher growth for SME businesses. Strong demand for loans reflected the effectiveness of policies put in place to support consumption and SME activities. In addition, the economic stimulus package announced in May 2003 has given added impetus to SME financing with the establishment of a micro-credit scheme.

The banking sector continues to provide the main source of financing to the private sector complemented by higher activities in the private debt securities (PDS) market. In addition, the better-capitalised banking industry is now offering a wider range of financial products. The institutional set-up to address financial restructuring during the financial crisis marked an important milestone with the closure of the Corporate Debt Restructuring Committee (CDRC), while Danaharta and Danamodal are on track to cease operations.

Islamic banking and insurance have gained increasing prominence in the domestic market in terms of expansion of market share. On the international front, Malaysia's *sukuk*, the first sovereign Islamic bond in the world, was a resounding success. Meanwhile, efforts to develop the Labuan International Offshore Financial Centre (IOFC) as a niche market in Islamic banking, finance and insurance have witnessed steady progress, with additional banks approved, including from Saudi Arabia as well as increased listings on the Labuan International Financial Exchange (LFX).

The development financial institutions complemented the banking system with increased lending to priority sectors, with Bank Pertanian

Malaysia (BPM) and Bank Simpanan Nasional (BSN) given the task of managing the new micro-credit scheme. The provident and pension funds as well as the life insurance companies continue to play an important role in mobilising long-term savings as well as providing funds to support socio-economic development. The performance of the insurance industry was sustained, driven by the robust growth in investment-linked insurance products.

The stock market rebounded strongly in June following receding fears of SARS and on renewed confidence in response to the Package of New Strategies. Funds raised in the capital market were dominated by the higher issuance of PDS to finance economic activities as well as restructuring, aided by the low interest rate environment. The performance of the derivatives market was mixed, with better performance of the 3-month Kuala Lumpur Interbank Offered Rate (KLIBOR) futures, crude palm oil (CPO) futures and the 5-year Malaysian Government Securities (MGS) futures. Measures continue to be undertaken to further enhance the efficiency, resilience and competitiveness of the capital market, in particular the ten new capital measures announced in March to stimulate the capital market.

Monetary Policy

Monetary policy has been accommodative in 2003 to support domestic growth in the light of the more difficult external environment, as geopolitical tensions and the outbreak of SARS aggravated uncertainties on global economic growth prospects. To mitigate the adverse impact of the less favourable external conditions, BNM reduced the 3-month intervention rate by 50 basis points to 4.5% in May 2003 as a pre-emptive measure to reinforce other measures in the Package of New Strategies to stimulate the economy. The thrust of monetary policy was to ensure that interest rates were supportive of economic expansion, adequate market liquidity and enhanced access to financing by the private sector, while ensuring positive real interest returns for depositors. Low inflation, strong balance of payments position and the generally easier global monetary stance have further accorded flexibility in maintaining an accommodative monetary policy stance to support growth.

On the external front, **international interest rates** were also reduced in 2003 to stimulate economic activity. The United States (US) reduced the federal funds rate to 1%, marking a 45-year low. The Euro region and the United Kingdom cut key interest rates twice to 2% and 3.5%, respectively.

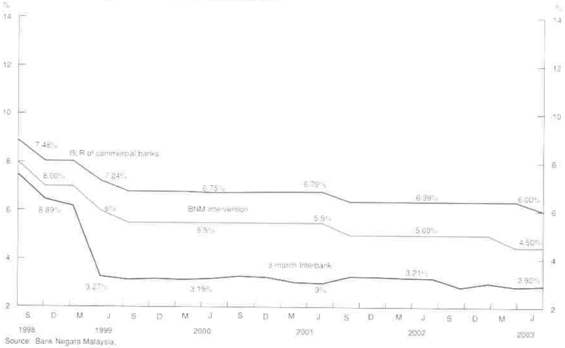
Since 1998, the **fixed exchange rate** regime has continued to benefit the economy. The ringgit peg provides an environment of predictability and stability to support economic activities. Although the ringgit has depreciated in line with the weaker US dollar since the beginning of the year, the ringgit peg remains consistent with the fundamentals of the economy, such as low inflation, strong current account surplus, higher international reserves, low external indebtedness as well as a sound and well-capitalised banking system.

Monetary Developments

Interest rates continued to remain low. In the interbank market, the overnight and 1-month monthly average interbank interest rates remained relatively stable at 2.77% and 2.84%, respectively in June (December 2002: 2.79% and 2.88%). The 3-month interbank rate traded at 2.90% (December 2002: 3.01%), as shown in *Chart 5.1*. Following the reduction in the BNM intervention rate on 21 May, the base lending rate (BLR) of commercial banks and finance companies declined by 39 basis points and 55 basis points, respectively to 6% and 6.9%, as shown in *Table 5.1*. In an environment of competitive credit market amidst ample liquidity, borrowers continued to benefit as banking institutions offered multi-tiered housing loan products and hire purchase rates at below the BLR.

CHART 5.1

BNM Intervention Rate, 3-month Interbank Rate and Base Lending Rate of Commercial Banks



Source: Bank Negara Malaysia.

TABLE 5.1

Interest Rates of Commercial Banks and Finance Companies
(%)

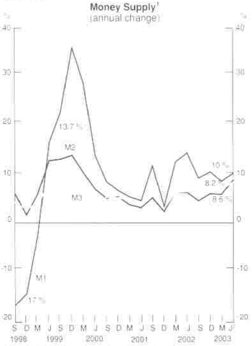
	End-2002	End-June 2003	Difference
Commercial banks			
Base lending	*6.39*	*6.00*	*-0.39*
Savings deposit	*2.12*	*1.92*	*-0.20*
3-month fixed deposit	*3.20*	*3.00*	*-0.20*
Finance companies			
Base lending	*7.45*	*6.90*	*-0.55*
Savings deposit	*2.65*	*2.22*	*-0.43*
3-month fixed deposit	*3.20*	*3.01*	*-0.19*

Source: Bank Negara Malaysia.

All monetary aggregates expanded during the first half of 2003. **M1 or narrow money**, a measure of demand for transaction balances consisting of currency in circulation and demand deposits, rose by 10% at end-June (end-2002: 10.3%) or RM1,489 million in the first half of the year, as shown in *Chart 5.2*. The increase reflected continued demand for currency and higher demand deposits or checking accounts attributable to improving business activities as well as the stock market in positive response to the pro-growth measures in the Package of New Strategies as well as strong consumer spending. The **broad monetary aggregate, M3,** expanded by RM21,285 million in the first half or an annual growth rate of 8.2% at end-June (end-2002: 6.7%). The main impetus to the monetary expansion emanated from higher financing of the private sector by the banking system (RM16,033 million) as well as expansionary Government operations (RM9,573 million).

CHART 5.2

Monetary Aggregates
1998-2003



[1] end of March, June, September and December including Repurchase Agreements (repos)
[2] as at end-June 2003

Source: Bank Negara Malaysia

In tandem with higher economic expansion, **total deposits** mobilised by the banking system grew by 7.6% or RM21,692 million to RM526,063 million at end-June (January-June 2002: RM9,654 million to RM488,701 million). The increase reflected higher deposits placed by business enterprises (RM13,426 million or 61.9% of the increase) and individuals (RM7,384 million or 34%). Reflecting higher disposable income over the past few years, deposits by individuals have risen to account for 47.7% of total deposits with the banking system at end-June 2003 (end-1996: 40.9%). The bulk of deposits was placed in fixed deposits which constituted RM290,717 million or 55.3% of total deposits.

Financing activity of the private sector remained high in the first half of 2003. As a whole, bank lending remained at high levels with loan applications, approvals and disbursements recording monthly averages of RM18,183 million, RM12,235 million and RM34,151 million, respectively (2002: RM18,125 million, RM11,489 million and RM34,322 million, respectively). Loan applications, approvals and disbursements rose by 14.5%, 24.5% and 8.5%, respectively as at end-June 2003, as shown in *Table 5.2*.

TABLE 5.2

Banking System: Loan Indicators

Indicator	RM million				Annual growth (%)		
	2002	2003			2003		
	January-June	May	June	January-June	May	June	January-June
Loan applications	106,791	16,383	18,313	109,099	*-32.6*	*14.5*	*2.2*
Loan approvals	66,856	11,198	13,944	73,409	*-26.1*	*24.5*	*9.8*
Loan disbursements	204,702	31,817	37,653	204,908	*-12.5*	*8.5*	*0.1*
Loan repayments	196,862	30,697	31,522	197,658	*-6.9*	*-3.9*	*0.4*
Of which:							
Business enterprises							
Loan applications	68,185	8,643	9,664	61,998	*-40.2*	*10.2*	*-9.1*
Loan approvals	32,969	5,317	7,347	37,757	*-39.5*	*45.8*	*14.5*
Loan disbursements	141,490	21,392	26,197	139,597	*-16.9*	*6.5*	*-1.3*
Loan repayments	134,854	20,793	21,373	135,659	*-7.6*	*-7.0*	*0.6*
Households							
Loan applications	39,400	7,516	8,389	44,953	*-3.1*	*14.9*	*14.1*
Loan approvals	32,713	5,860	6,467	34,145	*-6.5*	*6.6*	*4.4*
Loan disbursements	51,260	8,559	9,608	53,462	*-0.8*	*14.3*	*4.3*
Loan repayments	41,001	7,044	7,248	44,073	*4.0*	*12.1*	*7.5*

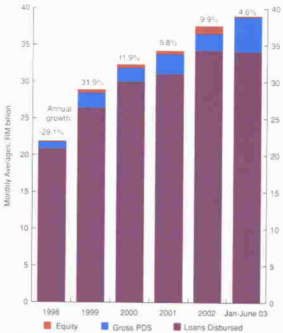
Source: Bank Negara Malaysia.

Loans outstanding to the household sector rose by 12.7% to RM217,902 million in the first half of 2003. Large corporations increasingly raised funds from the bond market for longer-term capital requirements. Given the significant increase in funds raised from the PDS market by 186.9% in the first half of the year, total gross financing from the banking system and capital market (comprising total loans disbursed, PDS and equity issues) expanded at an annual rate of 4.6%, as shown in *Chart 5.3*. After taking into account redemptions and repayments, total net financing raised by the private sector through the banking system and the bond market grew by 7.8% as at end-June 2003 (end-December 2002: 1%), as shown in *Table 5.3*.

A positive development is the increased lending to SMEs. This followed measures taken to improve access to financing to SMEs in tandem with the objective of developing them as a catalyst of growth. During the first half of the year, a total of RM12,012 million was approved to 37,670 SMEs (2002: RM30,678 million), with RM40,207 million disbursed. With a higher annual growth rate of 4.9% in June, up from a decline of 1.7%

CHART 5.3

Gross Private Sector Financing through Banking System Loans and Capital Market



Source: Bank Negara Malaysia.

TABLE 5.3

Net Financing through Banking System Loans and PDS

	RM million				Annual growth (%)	
	Outstanding		Change			
	2002	June 03	January - June 02	January - June 03	2002	June 03
Financing by banking system	**518,416**	**532,409**	**9,692.8**	**13,993.7**	***4.4***	***5.1***
Loans outstanding (A)	490,289	501,990	12,819.6	11,701.6	*4.2*	*3.9*
Holdings of PDS	28,127	30,419	-3,126.7	2,292.2	*7.4*	*31.9*
Total PDS outstanding[1] (B)	103,951	123,121	-20,846.4	19,169.9	*-11.7*	*27.2*
Total (A) + (B)	**594,239**	**625,111**	**-8,026.8**	**30,871.5**	***1.0***	***7.8***

[1] Refers to total PDS issued by the private sector with original maturity period of more than one year. Excludes debt securities issued by banking institutions, Khazanah, BNM, Cagamas, Danaharta and Danamodal.

Source: Bank Negara Malaysia.

in June last year, loans to SMEs accounted for 31% of total business loans and 15.5% of total outstanding loans (end-2002: 29.6% and 15.2%, respectively). The bulk of loans to SMEs was channelled to the broad property (RM23,982 million), manufacturing (RM19,262 million) and the wholesale, retail, restaurants and hotels (RM18,127 million) sectors.

The direction of lending by the banking system was generally broad-based. Retail loans were channelled for the purchase of residential properties (RM108,727 million) and passenger cars (RM58,025 million), while corporate loans were mainly to the manufacturing (RM67,298 million), wholesale and retail trade, restaurants and hotels (RM40,131 million), construction (RM37,013 million) and finance, insurance and business services (RM32,682 million) sectors, as shown in *Table 5.4*.

Meanwhile, the RM1,000 million Special Relief Guarantee Facility (SRGF) set up by BNM to alleviate the financial burden of borrowers in the tourism-related sectors hit by SARS, has benefitted 29 borrowers up to end-July 2003 with financing facilities worth RM15.9 million.

The **exchange rate of the ringgit** has remained pegged at RM3.80 to the US dollar since 2 September 1998. Since early 2002, the ringgit has depreciated against major currencies in tandem with the weaker dollar, mainly on market concerns over the US current account deficit and the strength of the US economic recovery, geo-political developments, as well as asset reallocation into higher yielding currencies, in particular the euro, as shown in *Charts 5.4* and *5.5*. The US dollar, however, began to strengthen and reversed the trend against several major and regional currencies in mid-2003 on market optimism over the prospects for US economic growth. In line with the performance of the US dollar, the ringgit has recorded a mixed performance against both the major and regional currencies since the end of 2002. The ringgit depreciated against the euro and Japanese yen by 3.7% and 1.3% respectively, but appreciated

TABLE 5.4

Banking System: Direction of Lending[1]

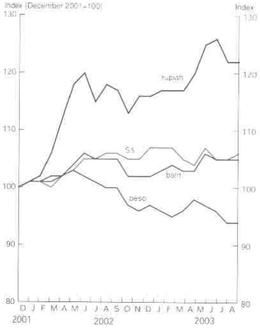
Sector	RM million December 2002	June 2003	Change	Share (%) End-June 2003
Agriculture, hunting, forestry and fishing	12,219.7	11,862.5	-357.2	*2.4*
Mining and quarrying	1,247.0	1,205.7	-41.4	*0.3*
Manufacturing	67,200.9	67,298.4	97.5	*13.4*
Electricity, gas and water	6,879.1	6,701.6	-177.6	*1.3*
Wholesale, retail, restaurants and hotels	39,486.2	40,130.8	644.5	*8.1*
Broad property sector	186,383.2	192,871.1	6,487.8	*38.4*
Construction	38,203.0	37,013.3	*-1,189.7*	*7.4*
Residential property	101,229.9	108,726.7	*7,496.8*	*21.7*
Non-residential property	29,667.0	29,796.7	*129.7*	*5.9*
Real estate	17,283.3	17,334.4	*51.1*	*3.5*
Transport, storage and communication	11,797.9	12,710.4	912.4	*2.5*
Finance, insurance and business services	32,669.5	32,682.2	12.6	*6.5*
Consumption credit	81,381.9	84,959.2	3,577.3	*16.9*
of which:				
Credit cards	10,668.4	11,195.8	527.4	*2.2*
Purchase of passenger cars	55,006.5	58,025.0	3,018.5	*11.6*
Purchase of securities	30,569.6	29,814.5	-755.1	*5.9*
Purchase of transport vehicles	3,111.6	3,110.9	-0.8	*0.6*
Community, social and personal services	5,918.3	5,975.0	56.7	*1.2*
Others	11,423.4	12,719.9	1,296.5	*2.5*
Total loans outstanding[2]	**490,288.6**	**502,042.2**	**11,753.4**	***100.0***

[1] Including Islamic banks.
[2] Including loans sold to Cagamas and Danaharta.

Source: Bank Negara Malaysia.

CHART 5.4

Performance of Ringgit Against Selected Regional Currencies

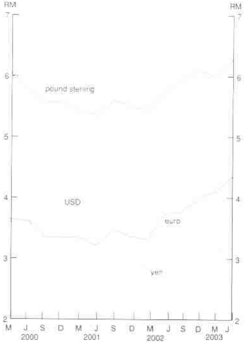


Note: An increase in the index represent an appreciation of currency against the ringgit.

Source: Bank Negara Malaysia

CHART 5.5

Performance of Ringgit Against Selected Major Currencies



Source: Bank Negara Malaysia.

TABLE 5.5

Performance of Ringgit against Selected Currencies

RM per foreign currency[1]	2 September 1998	End-2002	End-August 2003	% Change vs 2 September 1998	% Change vs End-2002
US dollar	3.8000	3.8000	**3.8000**	*0.0*	*0.0*
Pound sterling	6.3708	6.0924	**5.9932**	*1.4*	*1.7*
Euro[2]	-	3.9811	**4.1323**	-	*-3.7*
Japanese yen (100)	2.7742	3.2020	**3.2438**	*-12.5*	*-1.3*
Singapore dollar	2.1998	2.1887	**2.1627**	*1.7*	*1.2*
Thailand baht (100)	9.3713	8.8096	**9.2267**	*3.5*	*-4.5*
Philippine peso (100)	8.8302	7.1462	**6.9135**	*24.4*	*3.4*
Indonesian rupiah (100)	0.0354	0.0425	**0.0445**	*-23.1*	*-4.5*
Korean won (100)	0.2827	0.3197	**0.3224**	*-11.1*	*-0.8*

[1] Interbank rates at 12.00 noon in Kuala Lumpur are an average of the highest buying and lowest selling quotes.
[2] Euro was introduced in January 1999.

Source: Bank Negara Malaysia.

against the pound sterling by 1.7%, as shown in *Table 5.5*. The ringgit declined in the range of 0.8%-4.5% against several regional currencies, with the exception of the Philippine peso and Singapore dollar, against which the ringgit appreciated by 3.4% and 1.2%, respectively.

Performance of the Banking System

Stronger banking system with non-performing loans declining ...

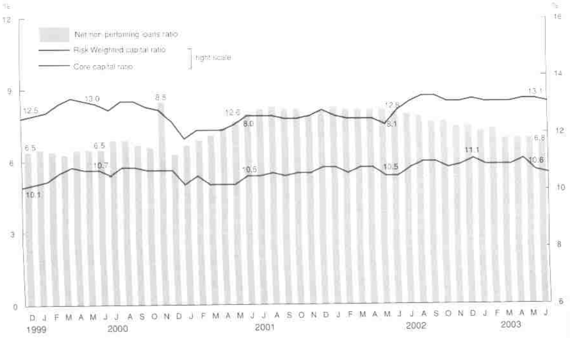
Several measures continued to be implemented to further strengthen the banking system. The banking sector consolidation that was completed in 2000 has resulted in a better-capitalised domestic banking system with a stronger capital base of RM61,565 million at end-2002 (prior to consolidation: RM54,356 million at end-1997). A wider range of financial products and services is now offered, such as internet banking, wireless banking, short messaging service (SMS) financial services, financial planning and bancassurance.

The 10 domestic banking groups would soon be allowed to further rationalise their internal operations to maximise economies of scale through mergers between commercial banks and finance companies within the same group when changes to the current legislation take place.

Recent measures taken to further enhance the soundness and improve the efficiency and competitiveness of the banking sector include the migration from the existing magnetic stripe credit card to the Europay-MasterCard-Visa (EMV) chip-based card to combat credit card skimming fraud, instituting tighter controls to mitigate automatic teller machine (ATM) related fraud, phasing out of product pre-approval requirements as well as promoting greater consumer activism through the launching of a 10-year consumer education programme known as BankingInfo in January 2003. In addition, BNM has established an International Centre for Leadership in Finance in March this year to accelerate human resource development for senior management, particularly in the financial sector.

CHART 5.6

Banking System:
Risk Weighted Capital Ratio, Core Capital Ratio and Net Non-Performing Loans Ratio



Source: Bank Negara Malaysia.

The capital position of the banking system remained strong with the risk-weighted capital ratio (RWCR) and core capital ratio (CCR) at 13.1% and 10.6% respectively in June 2003, as shown in *Chart 5.6*. Both ratios were higher than the respective internationally accepted minimum requirements of 8% and 4%. The net non-performing loans (NPLs) ratio based on a 6-month classification declined to 6.8% in June (end-2002: 7.5%), reflecting the improvements in loan portfolios following significant progress in debt restructuring and the improved economy. NPLs on a 6-month classification declined by RM3,122 million to RM55,763 million (end-2002: RM58,885 million).

Financial Restructuring

The closure of CDRC signifies marked progress in financial restructuring...

The institutional framework put in place since the financial crisis in 1998 has contributed towards further strengthening of the banking system. One such institution, the **CDRC** has ceased operations in August 2002, after resolving 48 cases with debts valued at RM52,559 million.

Danaharta, the national asset management company, ceased to acquire NPLs from the financial sector since 2001 and has been actively engaged in maximising recovery from the NPLs in its portfolio. The positive impact from the acquisition of NPLs from the financial sector has enabled the banking sector to focus on the intermediary role of providing financing to support economic activities. As at end-June 2003, NPLs in Danaharta's portfolio amounted to RM47,580 million, comprising RM19,616 million of loans acquired from financial institutions and the remaining RM27,964 million of loans managed on behalf of the Government. As at end-June 2003, Danaharta achieved recovery of RM30,420 million or 58% out of the total adjusted loans right acquired value of RM52,300 million. With the progress made, Danaharta is expected to be on schedule to wind down its operations in 2005.

The capital injection by **Danamodal**, a special purpose vehicle set up to recapitalise the banking institutions, has mostly been repaid. Since 1999, there has not been any further addition to the capital injection of RM7,590 million into 10 banking institutions. To date, RM5,450 million has been fully repaid by seven banking institutions, with RM2,140 million still outstanding from three financial institutions. Danamodal is on track to cease operations by end-2003.

Progress of the Financial Sector Master Plan

The FSMP on track with 26% recommendations fully implemented...

The Financial Sector Master Plan (FSMP) was launched in March 2001 and outlines the medium and long-term strategies for the development of the financial sector. The FSMP comprises a total of 119 recommendations to be implemented in three phases over a 10-year period from 2001 to 2010, with the objective of bringing in greater innovation, flexibility and dynamism into the Malaysian financial system to meet increasingly more sophisticated consumer and business demand and face the challenges of globalisation and liberalisation.

The implementation of the FSMP is on track. As at July 2003, 24 recommendations are being implemented on a continuous basis out of the total 119 recommendations, while 25 or 26% of the remaining 95 recommendations have been fully implemented. The completed recommendations essentially focus on building the capacity and capability of domestic financial institutions.

Islamic Banking

Gaining prominence domestically and internationally...

Since its introduction in 1983, Islamic banking has made great strides in expanding its market share of banking assets, deposits and financing, reflecting its increasing prominence, consistent with the Government's efforts to promote Islamic banking. As at end-June 2003, Islamic banking assets, deposits and financing grew 10.9%, 8% and 15.4% to RM75,470 million, RM57,573 million and RM42,364 million, respectively (end-2002: RM68,070 million, RM53,306 million and RM36,718 million), as shown in *Table 5.6*. Similarly, the market share of Islamic banking assets, deposits and financing rose to 9.4%, 10.5% and 9.2%, respectively of the total banking system (end-2002: 8.9%, 10.2% and 8.1%, respectively). To date, 35 banking institutions, comprising two Islamic banks and 33 conventional banking institutions offer Islamic banking products and services.

The growth in Islamic financing was driven by the increase in financing for the purchase of residential properties amounting to RM12,780 million or 30.2% of total financing as at end-June 2003 (end-2002: RM10,763 million) as well as the purchase of passenger cars accounting for RM10,087 million or 23.8% (end-2002: RM8,102 million). The strong consumer demand for Islamic financing augurs well for the growth of Islamic banking and the objective to make Malaysia a regional Islamic financial centre.

Several measures continue to be undertaken to strengthen and promote Islamic banking both domestically and internationally. The transformation of the Islamic Banking and Finance Institute Malaysia (IBFIM) from a bank-owned entity into an industry-owned institute marks part of ongoing efforts to enhance capacity building in Islamic banking. IBFIM also aims to be a premier regional training centre in Islamic banking and finance. In terms of product development, a collaborative approach has been adopted with the industry players to widen the scope of Islamic financing, including financing based on the concepts of *mudharabah* (profit-sharing), *musyarakah* (profit and loss sharing) as well as the *ijarah* (leasing) concept for the introduction of an Islamic floating rate mechanism. A standard list of generic names of Islamic banking products and services with the indicator "i" affixed after the generic name was introduced in January this year, aimed at facilitating the identification of Islamic banking products and services in a dual banking environment. In addition, a dedicated High Court for Islamic banking and finance has been established in Kuala Lumpur to further strengthen the legal framework.

TABLE 5.6

Islamic Banking: Key Indicators

	RM million		change
	End-2002	End-June 2003	%
Assets	**68,070**	**75,470**	***10.9***
Deposits	**53,306**	**57,573**	***8.0***
of which:			
Investment	32,884	33,913	*3.1*
Savings	5,425	6,141	*13.2*
Demand	9,185	9,369	*2.0*
Financing	**36,718**	**42,364**	***15.4***
of which:			
Residential property	10,763	12,780	*18.7*
Passenger cars	8,102	10,087	*24.5*

Source: Bank Negara Malaysia.

On the international front, there have been some significant developments in Islamic finance. In particular, Malaysia's first sovereign global *sukuk* issuance amounting to US$600 million last year was an overwhelming success that would act as a catalyst for similar issuance in the future. Another noteworthy achievement was the launch of the Islamic Financial Services Board (IFSB) in Kuala Lumpur in November last year, with Malaysia as the secretariat. The IFSB, which currently comprises ten central banks and the Islamic Development Bank (IDB), is entrusted with promoting, disseminating and harmonising standards and best practices in the regulation and supervision of the Islamic financial services industry.

Meanwhile, the development of the Labuan IOFC as a niche market in Islamic banking, finance and insurance has made further strides. Eight new banks, including two Islamic investment banks from Saudi Arabia were approved in 2002 to operate in Labuan. The number of new offshore companies incorporated in 2002 rose to 486 from 364 in the previous year. Labuan IOFC has also been at the forefront in *takaful*, with the launch of the world's first investment-linked *takaful* product last year. The LFX also witnessed an increase in listings from a single listing as at end-2001 to ten listings currently, including Malaysia's first sovereign global *sukuk*.

MALAYSIA: TWO DECADES OF ISLAMIC BANKING

Introduction

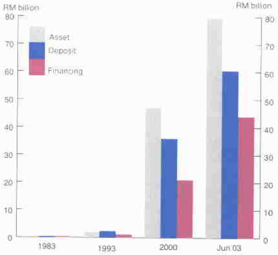
Since its introduction in Malaysia in 1983, Islamic banking has brought a new facet to the nation's financial system in the uniqueness of Malaysia being the only nation adopting a dual banking system, that is an Islamic banking system operating in parallel with the conventional banking system. In just a period of 20 years, Islamic banking has grown rapidly from a single Islamic bank to an Islamic banking system comprising various financial institutions, namely two Islamic banks, 33 conventional banks offering Islamic banking, an Islamic money market as well as other institutions that support the growth of Islamic banking.

Two specific legislations were passed in Parliament to establish Islamic banking. The Islamic Banking Act 1983 allows the Government to approve Islamic banking licences and BNM to regulate the operations of Islamic banks in Malaysia. Bank Islam Malaysia Berhad was established in July 1983 and became the first Islamic bank in Malaysia as well as in the ASEAN region. The Government Investment Act 1983 allows the Government to issue Government Investment Issues based on *Syariah* principles to enable Islamic banks to meet their liquidity requirements as well as providing an instrument to absorb idle funds.

In a period of two decades, Islamic banking assets have expanded from RM370 million in 1983 to RM79.5 bilion at end-June 2003, with an average annual growth rate of 36.7% and accounting

CHART 1

Islamic Banking: Assets, Deposits and Financing



Source: Bank Negara Malaysia.

for 9.4% of total assets of the banking system, as shown in *Chart 1*. Similarly, total deposits and financing, which amounted to RM275 million dan RM250 million, respectively in 1983 rose to RM60.4 billion dan RM43.9 billion at end-June 2003 to constitute 10.5% and 9.2%, respectively of total deposits and financing of the banking system. The Islamic banking system is also a catalyst to the growth of other sectors, such as *takaful* or Islamic insurance and the money market. Today, Malaysia has a comprehensive Islamic financial system that includes Islamic banking, *takaful*, Islamic capital market and Islamic money market.

Rationale in Promoting Islamic Banking

Several factors have contributed to efforts in promoting Islamic banking in Malaysia. Firstly, Islamic banking provides Muslims the option of a banking system that is consistent with *Syariah*. Before 1993, Islamic banking facilities were constrained by the existence of a single Islamic bank with few branches. Today, there are more than 2,000 branches offering Islamic financial services.

Secondly, the emergence of Islamic banking has provided a wider option of banking facilities to all Malaysians. Previously, the conventional banks only offer conventional financial products and services but are presently also providing various Islamic financial products and services.

Thirdly, Islamic financial and banking products and services have vast growth potential, driven by rapid advancements in information technology and globalisation, which have significant impact on the financial system. Technological advancements have resulted in an improved and more sophisticated banking system, including Islamic banking through more efficient services as well as providing several new products and services to consumers. This approach has given Malaysian Islamic financial products and services a relative edge over other Islamic countries.

Islamic banking has also taken into consideration the multi-racial and multi-religious structure of the Malaysian population. As Islamic banking and finance are not confined to Muslims only, the implementation of Islamic banking has been undertaken carefully and in stages. This gradual approach is more realistic in the context of a Malaysian community familiar with the conventional financial system.

Dual Banking System

The capability of the first Islamic bank in being able to show sustainable growth as well as compete with the conventional banking system encouraged the Government to widen the scope of Islamic banking and finance. BNM drew up the policy to develop a dual banking system, that is an Islamic banking system operating in parallel with the conventional banking system. The initial approach was to develop an Islamic banking system with as many players and at the lowest cost and in the shortest time possible. An interest-free banking scheme, which is now known as the Islamic Banking Scheme (IBS) was introduced in 1993. The scheme allows conventional banks to offer Islamic banking products and services from their existing premises and branches. Section 32 of the Banking and Financial Institutions Act 1989 was amended to enable conventional banks to participate in IBS.

IBS is currently into its first decade and has succeeded in raising its contribution to the overall growth of Islamic banking activities. Banks under the IBS contribute 72% of total assets, 78.2% of total deposits and 70% of total financing of Islamic banking as at end-June 2003. Apart from Islamic banks, Islamic banking is now available at 13 commercial banks (including four foreign banks), nine finance companies, four merchant banks and seven discount houses, while the number of IBS outlets comprises 11 Islamic banking branches and 2,065 counters.

Islamic Money Market

An Islamic money market is integral to the smooth functioning of the Islamic banking system in terms of providing Islamic banking institutions with facilities for adjusting portfolios over the short-term as well as provide a channel for the transmission of monetary policy. The Islamic money market was introduced in Malaysia in 1994, marking the first of its kind in the world. It has two important components, namely *mudharabah* (profit-sharing) inter-bank investments and transactions in Islamic financial instruments. The volume of Islamic money market instruments has expanded rapidly to reach RM400 billion in 1999 from RM2.1 billion in 1994. During the first six months of 2003, the volume of Islamic money market instruments totalled RM155 billion. Presently, the Islamic money market has several instruments, such as Islamic accepted bills, Islamic negotiable instruments, BNM negotiable notes and Islamic private debt securities, apart from Government Investment Issues.

Further Initiatives in Promoting Islamic Banking

1. ***Institutions***

The Association of Islamic Banking Institutions Malaysia (AIBIM) was set up in June 1995 with the main objective of promoting the establishment of a sound Islamic financial system with best practices. The Islamic Banking and Finance Institute of Malaysia (IBFIM) was set up on 19 February 2001 in efforts to enhance knowledge and expertise in Islamic banking. In September 2002, IBFIM completed its transformation from an Islamic bank-owned institute into an Islamic industry-owned entity.

2. ***Syariah Framework***

A National Syariah Advisory Council was established in 1997 to harmonise *Syariah* views on Islamic banking and *takaful*. The Council serves as the sole authoritative body to give views and decisions on *Syariah* matters related to Islamic banking and *takaful*. The Council is represented by *muftis*, *Syariah* experts, academicians and banking practitioners.

3. ***Financial Sector Master Plan***

The Financial Sector Master, which was launched by BNM in March 2001, outlines the landscape for the Islamic financial system in line with the objective of establishing Malaysia as a regional Islamic financial centre as well as for Islamic banking and *takaful* to capture 20% market share of total assets of the banking system and insurance industry by 2010. The Master Plan also aims at creating a number of strong and highly capitalised Islamic banking institutions and *takaful* operators with high calibre and trained management and supported by a comprehensive *Syariah* and regulatory framework.

4. ***Policies and Framework***

New policies on risk management control, corporate governance and transparency have been issued to enhance the regulation and operational framework of Islamic banking. These include compliance on weighted capital ratio framework, capital adequacy on Islamic banking portfolio and a standard framework for the computation of the rate of return for Islamic banking institutions.

Several committees have also been established to further strengthen the infrastructure of Islamic banking. These include the Committee on Promotion of *Mudharabah* and *Musyarakah* Financing, Committee on Standardisation of Islamic Banking Terminology, Committee on Variable Rate Financing and the Committee on Tax and Stamp Duty.

A significant achievement in Islamic banking regulation was the establishment of a dedicated High Court in Kuala Lumpur to handle all cases related to Islamic banking and finance, effective from 1 March 2003. Following this development, a Law Review Committee has also been set up, with representation from legal practitioners, the Bar Council and the Attorney-General's office. The main objective of the committee is to review and suggest amendments to existing laws, specifically the National Land Code 1965, the Contract Act 1950 and the Stamp Act 1949 towards ensuring the smooth implementation of Islamic banking and *takaful*.

4. ***Consumer Awareness and Education***

To enhance the awareness and education of consumers on Islamic banking, the Islamic banking and *takaful* industry has taken the step to organise an Islamic Banking and *Takaful* Week (IBTW) every two years. The first IBTW was held from 26 October to 2 November 2001, during which the Islamic banking logo was launched, aimed at increasing the visibility of Islamic banking to consumers. The second IBTW will be held from 26 September to 2 October 2003. In addition, BNM and the Islamic banking industry are also working closely on a 10-year consumer education programme up to 2010.

Initiatives at the International Level

Based on Malaysia's niche or strength in Islamic banking as well as in tandem with the vision of the Financial Sector Master Plan, integrated efforts have been taken to establish Malaysia as a regional Islamic financial centre. Malaysia's success in Islamic finance has also prompted other ASEAN members, such as Brunei, Indonesia and Thailand to introduce Islamic banking in their countries. This potential should be further harnessed to enable Malaysia to become a well-known Islamic financial centre at the international level.

Another important achievement on the international front was the launching of the Islamic Financial Services Board (IFSB) in Kuala Lumpur in November 2002. The nation's contribution towards the development of Islamic finance has been acknowledged with the appointment of Malaysia as the secretariat to the IFSB. The Board is tasked with formulating prudential standards and best practices for Islamic financial institutions worldwide. IFSB currently has 11 members represented by central banks from Bahrain, Indonesia, Iran, Kuwait, Pakistan, Arab Saudi, Sudan, Jordan, Qatar and Malaysia as well as the Islamic Development Bank. The establishment of the IFSB is expected to enhance the soundness of the Islamic financial system in facing global competition as well as contribute towards the strengthening of the international financial architecture.

Malaysia has also penetrated the international capital market based on Islamic principles when it launched the first Islamic global sovereign bond totalling US$600 million in June 2002. The sovereign bond also known as *sukuk* Malaysia received overwhelming response and was twice over-subscribed by investors, including non-Islamic investors. The issuance of the soverign bond reflected Malaysia's strong and continuous commitment towards the development of Islamic banking and finance on the global front, and marked yet another achievement to further enhance Malaysia's image in the international finance arena.

Conclusion

From being a new phenomenon in international finance nearly three decades ago, Islamic banking in Malaysia has made significant inroads after overcoming the initial obstacles. In a period of only two decades, Islamic banking has grown rapidly to become an integral component of the nation's financial system. Backed by stong policies and fundamentals, Islamic banking and finance are expected to continue to expand to support the nation's growth and development as well as elevate Malaysia's image as the region's Islamic financial hub.

Note: The article is prepared with input from Bank Negara Malaysia.

Other Financial Institutions

Development Finance Institutions

DFI financing to identified priority sectors increased further...

Development finance institutions (DFIs) play a significant role in supporting the development of identified priority sectors, such as agriculture, infrastructure development, SMEs, shipping and high-technology industries. The DFIs provide medium- and long-term financing of projects that could carry higher risks due to the longer investment tenure. Total resources of the 10 DFIs surveyed increased by 10.4% to RM57.1 billion as at end-June 2003 (end-June 2002: RM51.8 billion), reflecting largely higher borrowings mainly from the Government, which accounted for a 22.8% of total resources, as well as higher earnings. Borrowings from the Government were primarily used to fund the various financing schemes initiated by the Government to ensure easier access to financing for identified targetted groups.

Loans extended by the DFIs rose by 12.7 % in total loans outstanding to RM28.6 billion (end-June 2002: RM25.4 billion), as shown in *Table 5.7*. The increase was driven by the growth in infrastructure loans. Loans extended to the transport and storage sector increased by 6.7% with Bank Pembangunan dan Infrastruktur Malaysia Berhad (BPIMB) accounting for 75% of the total loans outstanding to the sector. Higher growth of 23.2% was also recorded in lending to the real estate and construction sector, reflecting largely a significant increase in financing of the sector by BPIMB. In consonance with the Government's objective to promote the agriculture sector as the third source of growth, loans extended to the agriculture sector rose by 15.7%, largely by BPM. The manufacturing sector continued to benefit from the financing activities of the DFIs, recording an increase of 7.6%.

TABLE 5.7

Direction of Lending by Development Financial Institutions
End-June

Sector	RM million 2002	RM million 2003	% share 2002	% share 2003
Manufacturing	3,674.2	3,951.6	*14.5*	*13.8*
Agriculture	1,782.4	2,061.6	*7.1*	*7.3*
Real estate & Construction	5,967.4	7,354.1	*23.5*	*25.7*
General commerce	1,502.3	1,399.4	*5.9*	*4.9*
Transport & storage	5,414.7	5,779.0	*21.3*	*20.2*
Others	7,021.0	8,037.2	*27.7*	*28.1*
TOTAL	**25,362.0**	**28,582.9**	***100.0***	***100.0***

Source: Bank Negara Malaysia.

In tandem with the Government's policy to develop and strengthen the SMEs as the catalyst of growth, loans channelled to SMEs by selected DFIs, namely BPIMB, Bank Industri dan Teknologi Malaysia Bhd (BITMB), Malaysian Industrial Development Fund (MIDF), BPM and Export-Import Bank of Malaysia (EXIM) also expanded by 8.8% amounting to RM4.9 billion (end-June 2002: RM4.5 billion). Meanwhile, the Government has also allocated RM1 billion under a micro credit scheme in the Package of New Strategies to ensure greater access to financing for SMEs and micro-enterprises. The response to the micro credit scheme of BSN and BPM has been overwhelming. As at end-July 2003, BSN has received 25,621 applications and approved 5,664 cases valued at RM54.2 million. A total of RM9.5 million has been disbursed to borrowers, mainly in the restaurant and hotel sector. In the case of BPM's micro credit scheme, which focusses on the agriculture sector, the bank has received 26,469 applications and approved 14,683 applications valued at RM176.4 million, and has made disbursements of RM124.6 million as at end-July 2003.

Discount Houses

Greater investment in PDS...

Discount houses are non-banking institutions that contribute towards liquidity in the financial system by mobilising short-term deposits from financial institutions and corporations and investing the funds in MGS, PDS, bankers acceptances and negotiable instruments of deposit. Total resources mobilised by the discount houses increased further by 19.3% to RM28,373 million during the first five months of 2003 (January-May 2002: RM23,792 million). The bulk of deposits accepted was primarily in the form of short-term fixed deposits, accounting for a significant RM14,863 million or 52.4% of total resources. In particular, Islamic banking deposits remained strong and rose by 27.7% to constitute RM3,727 million or 13.1% of total deposits.

Total investment of discount houses, rose by 5.1% to RM20,344 million during the first five months of 2003 (January-May 2002: RM19,362 million) on account of an increase in investment in PDS. During the same period, discount houses invested largely in PDS, which grew 5.1% to RM9,401 million and accounted for 46.2% of total investments, following the active issuance of PDS in the market.

The fee-based activities of discount houses were on a rising trend during the first five months of 2003. The amount of PDS arranged, lead-managed and co-managed by the industry rose significantly by 233.2% to RM1,316 million (January-May 2002: RM395 million). In addition, the amount of PDS underwritten rose further by 33.8% to RM1,130 million (January-May 2002: RM845 million).

Provident and Pension Funds

Increased resources to support socio-economic development...

Provident and pension funds (PPFs) play an important role in supporting socio-economic development by mobilising and channelling funds to finance public and private sector projects. Total resources of the eight PPFs, comprising the Employees Provident Fund (EPF), the Social Security Organisation (SOCSO), the Armed Forces Fund, the Pensions Trust Fund and four other private PPFs rose 7.3% to RM260,835 million attributable to the increase in accumulated contributions. The bulk of resources was contributed by the EPF, accounting for a 83.1% share. Similarly, gross contributions of PPFs grew by 7.2% in tandem with the increase in the number of active contributors, as shown in *Table 5.8*. Lower withdrawals were recorded during the period resulting in higher net contributions which amounted to RM6,193 million (end-June 2002: RM4,275 million). This was mainly attributed to the termination of the EPF withdrawal scheme for the purchase of computers since August 2002 and the discontinuation of the annuity scheme since October 2001, as well as the increase in employees' contribution rate to 11% from 9% since April 2002. Beginning 1 June 2003, however, EPF reduced employees' contribution rate from 11% to 9% for a period of one year, as part of measures taken to stimulate domestic consumption announced in May 2003.

Investment income of PPFs, however, was marginally lower amid the low interest rate environment. The PPFs continued to invest substantially in MGS, which increased by 18.3% to constitute 34% of total investments due to active issuance of MGS. Investments in corporate securities and bonds also rose by 6.4% to RM93,326 million, accounting for a 37% share (end-June 2002: RM87,678 million).

TABLE 5.8

Provident and Pension Funds: Selected Indicators

	RM million	
	2002	2003[1]
As at end June		
Number of active contributors ('000)	**10,580**	**10,709**
of which : EPF	5,073	4,887
SOCSO	5,309	5,613
Accumulated contributions	**216,586**	**236,890**
Total resources	**243,140**	**260,835**
of which : EPF	199,504	216,758
SOCSO	10,698	11,252
Investments in MGS	**72,071**	**85,258**
During the period (January-June)		
Gross contributions	11,813	12,664
Withdrawals	7,539	6,476
Net contributions	4,275	6,193
Investment income	6,468	6,383

[1] Preliminary.

Source: Employees Provident Fund, Social Security Organisation, Pensions Trust Fund, Armed Forces Fund and four other private provident and pension funds.

Insurance Industry

Sustained performance with growth of life insurance contributed by investment-linked products.

The insurance industry plays an important role in the economy by mobilising long-term savings to support economic growth. Insurance companies investment in Government securities, equities and bonds, represents a source of funds to finance economic activities. The broader economic growth in the first half of 2003 provided for the overall sustainable performance of the insurance industry, comprising life insurance and general insurance business. Combined premium income of the industry increased by 11.5% to RM8,741 million (January-June 2002: 13.3% to RM7,837 million). Total benefits and claims paid fell by 5.4% to RM3,602 million (January-June 2002: 17.5%), mainly due to the decline in the amount of maturity benefits for life insurance policies. Insurance fund assets expanded by 15.7% to RM73,117 million in the first half of 2003.

New business premiums of **life insurance** increased by 16.1% to RM1,926 million in the first half of 2003 (January-June 2002: 28.1% to RM1,659 million), largely contributed by the 58.6% growth of investment-linked products, as shown in *Table 5.9*. The rising demand for investment-linked products is attributed to active promotion and consumer preference for insurance products providing capital guarantee and investment returns. Total income, however, grew at a lower rate of 10% to RM7,438 million (January-June 2002: 18.4% to RM6,766 million) due to the reduction in profit on sale of assets and investments as well as accretion of discount on securities, which amounted to RM136 million and RM92 million, respectively (January-June 2002: RM316 million and RM110 million, respectively). Premium income, which accounted for the bulk of total income, grew at a slightly lower rate of 12.4% to RM5,557 million (January-June 2002: 13.9% to RM4,942 million) due to a 71.8% increase to RM835 million in net premium from investment-linked business (January-June 2002: 89.8% to RM486 million).

TABLE 5.9

Life and General Insurance Business

	End 2002	End-June[1] 2003
Life insurance business (RM million)		
New business:		
Number of policies ('000 units)	1,382	714
Sums insured	140,809.3	76,350.3
Total premiums	3,581.2	1,925.6
Business in force		
Number of policies ('000 units)	8,357	8,656
Sums insured	481,336.3	488,046.5
Annual premiums	9,137.0	9,551.1
Premium income	10,831.0	5,557.0
Benefit payments		
Total	4,108.5	1,959.0
Maturity	1,021.3	371.4
Death & disability	585.5	351.4
Surrender	964.4	573.7
Cash bonuses	529.6	235.6
Medical	307.5	167.1
Others	700.2	259.8
General insurance (RM million)		
Premium income:		
Gross direct premiums	7,449.1	4,228.4
Net premiums	6,022.3	3,184.3
Reinsurance placed outside Malaysia	910.9	639.2
Retention ratio[2] (%)	*86.9*	*83.3*
Number of insurance companies		
Direct:	44	43
Life	7	7
General	28	27
Composite	9	9
Reinsurance:	10	10
Life	1	1
General	8	8
Composite	1	1

[1] Preliminary data.

[2] Net premiums to gross direct and reinsurance accepted premiums less reinsurance within Malaysia.

Source: Bank Negara Malaysia.

Total assets of life insurance funds (including annuities) rose by 20.1% to RM57,051 million (January-June 2002: 14.4% to RM47,485 million), as shown in *Table 5.10*. In terms of composition of assets, investment in corporate and debt securities continued to account for the largest share at 49.2% of total assets, followed by investment in MGS with a share of 17.8%.

Gross direct premiums of **general insurance business** rose by 11.3% to RM4,228 million in the first half of 2003 (January-June 2002: 18.4% to RM3,798 million), as shown in *Table 5.11*. Marine, Aviation and Transit (MAT), contractors' all risks and engineering and motor insurance increased at a slower rate of 11.7%, 11.4% and 7.5%, respectively (January-June 2002: 63.3%, 45% and 12.3%). The higher growth in the first half of 2002 was due to the increase in premium rates following the September 11 incident. The lower growth of motor premiums is consistent with the slower sales of motor vehicles in the first half of the year totalling 199,438 (January-June 2002: 219,141). Motor insurance continued to dominate the general insurance business, accounting for the largest share of 41.9% (January-June 2002: 43.4%) or RM1,771 million of total gross direct premiums. Net premiums increased at a slower rate of 10% to RM3,184 million. The more stringent underwriting as well as release of reserves resulted in the overall claims ratio improving to 56.9% from 64%. All categories recorded improvement in the claims ratio, except workmen's compensation and employers' liability, which registered a higher claims ratio of 24.8% (January-June 2002: 22%) and motor insurance, which recorded a claims ratio of 151.9% (January-June 2002: 138.9%) due to increased claims on accidents. Total assets of general insurance funds increased, albeit at a slower pace of 2.2% to RM16,066 million in the first half of 2003. Cash and deposits continued to account for the largest share of 35% of total assets, followed by investment in corporate and debt securities at 31.7%.

The insurance industry continued to further consolidate itself into a more financially sound,

TABLE 5.11

General Insurance Premium Growth and Distribution
January-June

	RM Million		Growth (%)
	2002	2003	
Sector			
Motor	1,647.4	1,771.4	*7.5*
MAT[1]	456.6	510.1	*11.7*
Fire	765.4	870.1	*13.7*
Miscellaneous	928.2	1,076.8	*16.0*
Gross Direct Premium	**3,797.6**	**4,228.4**	***11.3***

[1] Marine, aviation and transit.

Source: Bank Negara Malaysia.

TABLE 5.10

Assets of Life and General Insurance Funds
(RM million)

	Life Insurance		General Insurance	
	2002	End-June 2003[1]	2002	End-June 2003[1]
Fixed assets	383.0	419.8	696.1	723.7
Loans	6,661.9	7,147.8	210.4	234.5
Government securities	7,532.5	10,151.3	1,851.9	1,928.4
Government guaranteed loans	12.3	7.2	10.7	10.5
Corporate and debt securities	25,640.9	28,053.4	5,086.5	5,097.8
Investment properties	2,708.4	2,695.9	426.0	428.8
Cash and deposits	6,428.5	6,742.0	5,447.6	5,623.0
Other assets[2]	1,804.0	1,833.1	5,086.5	2,019.4
Total	**51,171.5**	**57,050.5**	**18,815.7**	**16,066.1**

[1] Preliminary data.
[2] Includes other investments and foreign assets.

Source: Bank Negara Malaysia.

resilient and well-managed insurance industry that can better withstand global vagaries and effectively meet the increasing insurance needs of the nation. As at 30 June 2003, 15 mergers and acquisitions (M&As) involving 28 insurers were completed. With the completion, the number of direct insurers in the industry has been reduced to 43 from 58 in 1999. Four other insurers are currently engaged in M&A proposals.

Takaful

Growth of takaful expected to accelerate with enhanced competition

Takaful or Islamic insurance is fast gaining ground in line with efforts to promote Malaysia as a regional Islamic financial centre. The overall performance of the *takaful* industry further improved during the first six months of 2003. Combined assets of *takaful* funds and shareholders' funds increased by 7.2% (end-June 2002: 6.8%) to RM3,994 million as at end-June 2003, as shown in *Table 5.12*. In tandem with the positive growth recorded in 2002, new contributions of family *takaful* business rose by 9.7% to RM248 million (January-June 2002: RM226 million). Similarly, the total number of certificates issued during the period increased by 22% to 123,794 certificates compared with 101,484 certificates during the corresponding period in 2002. General *takaful* business also experienced a better performance with total gross contributions increasing by 25.6% to RM212 million (January-June 2002: RM169 million). On the other hand, net claims paid were higher at RM54 million compared with RM40 million during the corresponding period in 2002.

In February 2003, the Government approved the Malaysian Takaful Association as the mandatory association for *takaful* operators. With the establishment of the association, the *takaful* industry now has an official platform to represent the interests of its members and enhance collaboration among all *takaful* operators in Malaysia. Meanwhile, the entry of the fourth *takaful* operator in July is expected to inject greater market competition, enhance market penetration and accelerate the development of the *takaful* industry to become an important component of the financial system.

TABLE 5.12

Family and General *Takaful* Business

	Financial Year 2002	As at 30 June 2003[1]
Assets[2] (RM million)	**3725.0**	**3,994.2**
Government Investment Issues	327.9	373.6
Investment deposits:		
- Bank Islam Malaysia Bhd.	102.1	98.4
- Others	1,288.8	1,269.8
Corporate securities	1,661.6	1,927.5
Cash and deposits	62.5	67.7
Financing	112.3	99.7
Fixed assets	104.8	103.1
Others	64.9	54.3
Family *takaful* business		
New Business:		
Total contribution (RM million)	452.2	247.7
Sums participated (RM million)	14,174.8	8,881.1
Number of certificates	237,037	123,794
Business in force:		
Total contribution (RM million)	2,105.8	2,274.8
Sums participated (RM million)	53,625.9	57,416.8
Number of certificates	932,212	1,013,137
General *takaful* business		
Gross contributions (RM million)	332.7	212.1
Net claims paid (RM million)	72.9	54.1

[1] Preliminary data.

[2] Assets of family *takaful* funds, general *takaful* funds and shareholders' funds.

Source: Bank Negara Malaysia.

Capital Market

Net funds raised through the capital market expanded strongly to meet higher financing needs...

The capital market, comprising equities and bonds, remains an important source of financing. During the first six months of 2003, gross funds raised in the capital market totalled RM60,644 million, with RM31,313 million (51.6%) raised by the private sector and the remaining RM29,331 million (48.4%) by the public sector, as shown in *Table 5.13*. Funds raised by the public sector increased significantly, expanding more than 300% to meet the higher financing needs of the Government. The bulk of funds was mainly raised through the issuance of MGS amounting to RM25,862 million (January-June 2002: RM6,590 million). This also reflected the Government's commitment to establish a benchmark yield for the development of the bond market through regular issuance of MGS. Apart from that, regular issuance of MGS is also important in ensuring a liquid and active domestic bond market while providing a market-based instrument for open market operations. After adjusting for redemptions of RM12,804 million, net funds raised expanded strongly to RM16,526 million (January-June 2002: RM1,158 million).

In the PDS market, gross funds raised were higher at RM30,317 million in the first six months of 2003 (January-June 2002: RM16,039 million) as companies increasingly turned to the bond market for longer-term financing and debt restructuring, supported by low interest rates and ample liquidity as well as investors' preference for more stable investment options. By sector, funds raised were mainly in the manufacturing, Government, finance and insurance, transport as well as real estate and business services sectors, as shown in *Table 5.14*. The bulk of funds was raised largely through straight bonds which accounted for 66.3% of total funds raised in the PDS market, while Islamic bonds accounted for 22.5% of the share. During the period, lower redemption was recorded, which amounted to RM11,413 million (January-June 2002: RM20,408 million). As a result, on a net basis, funds raised by the private sector rose sharply by more than three times to RM18,904 million (January-June 2002: RM-4,369 million).

TABLE 5.13

Funds Raised in the Capital Market
January–June
(RM million)

	2002	2003[1]
By public sector		
Debt Securities		
Malaysian Government Securities	6,589.4	25,861.6
Khazanah bonds	-	1,739.6
Government Investment Issues	-	1,729.4
Malaysia Savings Bonds	471.5	-
New Government debt securities	**7,060.9**	**29,330.6**
(–) **Redemptions**		
Malaysian Government Securities	5,900.0	11,800.0
Khazanah bonds	-	1,000.0
Government Investment Issues	-	-
Malaysia Saving Bonds	3.0	4.4
Net funds raised	**1,157.9**	**16,526.2**
By private sector		
Shares[2]		
Initial public offerings	6,222.1	409.5
Rights issues	1,224.4	346.4
Private placements	1,566.5	81.9
Special issues	70.4	38.3
Warrants	160.4	120.7
New share issues	**9,243.8**	**996.8**
Debt Securities[3] **(gross)**		
Straight bonds	1,097.1	20,092.6
Convertible bonds	1,202.1	734.1
Islamic bonds	7,364.7	6,815.0
Asset-backed bonds	-	510.0
Bonds with warrants	150.0	-
Cagamas bonds	6,225.0	2,165.0
New debt securities	**16,038.9**	**30,316.7**
(–) **Redemptions**		
Private debt securities[4]	17,685.9	8,115.7
Cagamas bonds	2,722.0	3,297.0
Net issues of debt securities	**(4,369.0)**	**18,904.0**
Net funds raised	**4,874.8**	**19,900.8**
Total net funds raised	**6,032.7**	**36,427.0**

[1] Preliminary data.
[2] Excludes funds raised by the exercise of Employees Share Option Scheme, Transferable Subscription Rights and Irredeemable Convertible Unsecured Loan Stocks.
[3] Includes bonds issued by the banking institutions since July 2000.
[4] Includes straight bonds, bonds with warrants, convertible bonds and Islamic bonds.

Source: Bank Negara Malaysia.

TABLE 5.14

New Issues of PDS by Sector[1]
January-June

Sector	2002 RM million	2002 Share %	2003[2] RM million	2003[2] Share %
Agriculture	-	-	410.3	1.5
Manufacturing	561.6	5.7	8,776.3	31.2
Electricity, gas and water supply	819.0	8.3	987.0	3.5
Wholesale & retail trade, restaurants and hotels	1,025.8	10.5	-	-
Construction	598.5	6.1	1,621.0	5.7
Transport, storage and communication	6,197.6	63.2	5,455.3	19.4
Financing, insurance, real estate and business services	461.4	4.7	5,433.8	19.3
Government and others	150.0	1.5	5,468.0	19.4
Total	**9,813.9**	***100.0***	**28,151.7**	***100.0***

[1] Excluding Cagamas bonds.
[2] Preliminary.

Source: Bank Negara Malaysia.

In line with the generally subdued equity market during the first half of the year arising from concerns of the Iraq war, SARS and global growth prospects, funds raised through equity issues were lower amounting to RM997 million (January-June 2002: RM9,244 million). Market sentiment, however, improved following the Government's announcement on the Package of New Strategies and the World Health Organisation's announcement on the containment of SARS. This was reflected in the increased number of initial public offerings (IPOs) at 19 between May and August, compared with 13 IPOs in the first four months of 2003.

Despite the marginal decline in terms of number of issues, **Cagamas** remains the leading issuer of PDS. During the first seven months of 2003, Cagamas raised 18 PDS issues valued at RM8,490 million (January-July 2002: RM14,820 million from 24 issues). The volume of secondary trading of Cagamas debt securities declined by 27.4% to RM20,441 million (January-July 2002: RM28,170 million) due to a reduction in issuance of debt securities. The continued excess liquidity in the banking system and market perception that domestic interest rates may decline further led to a decline in the purchase of loans and debts which amounted to RM4,497 million (January-July 2002: RM8,528 million). Housing loans, which constituted 57% of total purchases of loans and debts, decreased by 14.7% to RM2,562 million (January-July 2002: RM3,006 million). Similarly, hire-purchase financing and leasing debts declined by 54.5% to RM1,935 million (January-July 2002: RM4,255 million).

The two credit rating agencies continue to play a crucial role in the development of the bond market by providing the primary level of confidence to investors that the rated PDS are backed by the required financial strength and underwriting standards. During the first seven months of 2003, the value of ratings completed by both **Rating Agency Malaysia (RAM)** and **Malaysian Rating Corporation (MARC)** increased by 42.1% valued at RM25,707 million (January-July 2002: RM18,807 million). Ratings completed were predominantly long and medium-term issues which represented 66% and 31%, respectively of the total number of proposed PDS issues, indicating a greater preference for longer tenure papers as market participants sought to lock in financing at low interest rates. During the period, RAM delivered 45 new ratings valued at RM17,891 million, while MARC completed 17 new ratings valued at RM7,815 million. The bulk of long-term bonds was in the AA and A categories from various sectors of the economy, including automotive, infrastructure and utilities, financial services, as well as construction, property and real estate.

Kuala Lumpur Stock Exchange

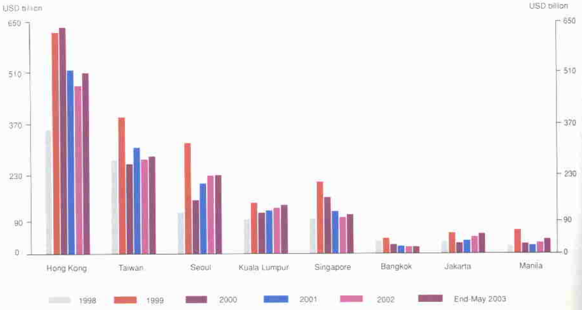
KLSE rebounding strongly on positive investor confidence, following the Package of New Strategies and improved growth prospects…

The **Kuala Lumpur Stock Exchange (KLSE)** began 2003 with better market sentiment following several positive corporate developments as well as the announcement on the establishment of ValueCap, a Government-initiated investment fund to purchase undervalued stocks with good fundamentals. The KLCI rose 2.9% to 664.77 points at end-January (end-2002: 646.32 points). In tandem with major and regional markets, the KLCI, however, reversed its upward trend as investor sentiment was adversely affected by the war in Iraq and the outbreak of SARS as well as concerns over global economic growth. As at end-April, the KLCI declined 5.2% to close at 630.37 points compared with end-January. Similarly, turnover declined by 76.4% to 4,165 million units valued at RM7,997 million in April from 7,347 million units valued at RM10,965 million in January. Market capitalisation was also lower at RM476 billion at end-April (end-January: RM498 billion).

The performance of the KLSE rebounded following improved investor confidence in response to the Package of New Strategies announced in May as well as the containment of the SARS outbreak. Strengthened economic fundamentals coupled with the more favourable external environment helped pushed the KLCI to close higher at 743.30 points as at end-August. Market capitalisation amounted to RM580 billion, representing an almost four-fold increase since 1990 and making the KLSE the largest market in the ASEAN region, as shown in *Chart 5.7*. To date, the KLCI rose 15%. However, when compared with 1 September 1998, the KLCI with an increase of 182.9%, has far outperformed other major and regional stock indices, as shown in *Chart 5.8*.

CHART 5.7

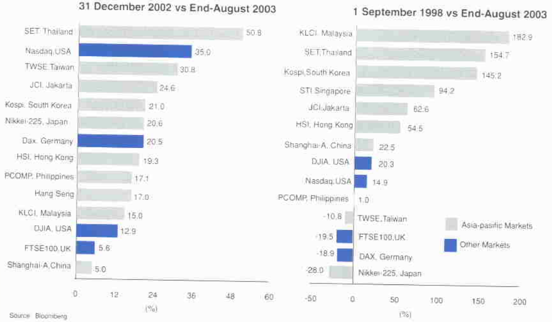
Market Capitalisation of East Asia Markets ex-Japan



Source: Bloomberg

CHART 5.8

Performance of Selected Indices



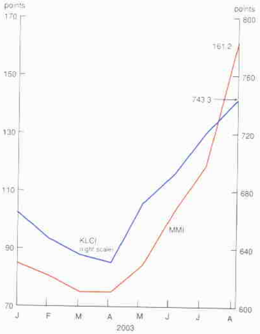
Source: Bloomberg

The performance of the Malaysian Exchange of Securities Dealing and Automated Quotation (MESDAQ) improved markedly following MESDAQ's merger with the KLSE. The Mesdaq Market Index (MMI) increased significantly by 93.7% since end 2002 to close at 161.22 points at end-August, surpassing the 15% gain in the KLCI, as shown in *Chart 5.9*. The bulk of trading was, however, concentrated in the months of June and July in tandem with the surge on Nasdaq following better corporate results of several US technology companies. In addition, seven of the 10 best performing stocks to date in terms of price, are listed on the Mesdaq market.

Total volume transacted on the KLSE increased by 36.8% to 59,946 million units in the first eight months of 2003 (January-August 2002: 43,831 million units) while average daily turnover registered 365 million units (January-August 2002: 256 million units), as shown in *Table 5.15* and *Chart 5.10*. The 10 new measures introduced by the Government in March to enhance market liquidity further boosted the capital market and has contributed to the improved performance of the KLSE. In particular, the standardisation of board lots to 100 units in May coupled with the

CHART 5.9

Movement of the Mesdaq Market Index (MMI) against the Kuala Lumpur Composite Index (KLCI)



Source: Kuala Lumpur Stock Exchange

more upbeat market sentiment due to the economic package saw a surge in trading activity on the KLSE. Daily average turnover rose more than two-fold to 526 million units in June from 261 million units in May. The buoyant performance of the KLSE also attracted more foreign investors with the value of foreign trading tripling to RM12,668 million in July 2003 from RM4,203 million in December 2002. On a sectoral basis, the mining sector was the top performing sector with an increase of 47% in the mining index on account of strong crude oil prices. The technology sector was the second best performer with an increase of 23%, following the recovery in global chip prices.

Corporate performance of public listed companies also improved with the number of profit-making companies reported in the first half of the year, accounting for 67% of total public listed companies. Meanwhile, despite unfavourable publicity regarding the Practice Note 4 (PN4) companies, their impact on the KLSE is fairly small as the 83 PN4 companies constitute less than 10% of the total public listed companies and 0.7% of market capitalisation as at end-August 2003.

The equity market remains an important avenue to raise funds. During the period, there were 32 IPOs amounting to RM996 million in the property, industrial and technology sectors. With the new listings, the total number of companies listed on the KLSE stood at 885 with 573 companies on the Main Board, 287 companies on the Second Board and 25 on the Mesdaq Market.

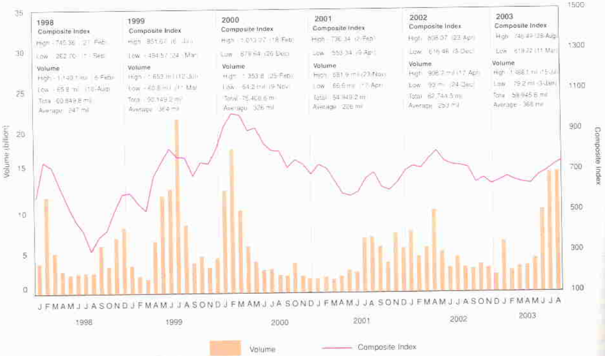
Unit Trust Industry

Spurred by strong growth of Islamic funds...

The unit trust industry registered strong growth with increased volume of units in circulation, number of accounts and unit trust funds in 2003. During the first six months of 2003, 23 new funds were launched (2002: 26 funds), bringing

CHART 5.10

KLSE Market Performance: KLCI vs Total Volume
January 1998 - End August 2003



Source: Kuala Lumpur Stock Exchange and Bloomberg

TABLE 5.15

Kuala Lumpur Stock Exchange: Selected Indicators
(January-August)

	2002	2003
Price indices[1]		
Composite	711.4	743.3
Emas	173.5	185.0
Second Board	115.8	121.7
Mesdaq Market	101.3	161.2
Total turnover[2]		
Volume (million units)	43,831	59,946
Value (RM million)	93,386	92,177
Average daily turnover[2]		
Volume (million units)	256.6	365.5
Value (RM million)	566.0	562.1
Market Capitalisation[1] (RM million)	529,528	579,538
Market Capitalisation/GDP (%)	*149.6*	*150.2*
Total no. of companies listed[1]	859	885
Main Board	556	573
Second Board	292	287
Mesdaq Market	11	25
Market liquidity[1]		
Turnover value/Market capitalisation (%)	*17.6*	*15.9*
Turnover volume/No. of listed Securities (%)	*19.6*	*24.3*
Market concentration[1]		
10 Most Highly Capitalised Stocks/Market Capitalisation (%)	*32.7*	*32.1*
Average Paid-up Capital of Stockbroking Firms[1] (RM million)	156.3	167.3

[1] End period.

[2] During period.

Source: Kuala Lumpur Stock Exchange.

the total number of unit trust funds to 195, as shown in *Table 5.16*. Subsequently, the net asset value (NAV) of the industry increased by 18.2% to RM63,486 million (end-2002: RM53,698 million). The portion of NAV contributed by the Government-sponsored funds, declined from 61% to 58%, reflecting an improvement in private sector participation in the investment management industry.

In line with efforts to develop the Islamic capital market, the Islamic unit trust segment has expanded further with 44 Islamic funds launched in less than 10 years since the introduction of the first Islamic fund in 1993. The number of approved Islamic funds experienced a strong compounded annual growth rate of 41% compared with 18% in the unit trust industry over the same period.

Malaysia Derivatives Exchange

CPO futures drives growth of MDEX with prices remaining high...

The performance of the **Malaysia Derivatives Exchange (MDEX)** was mixed in the first seven months of 2003. Trading in the Kuala Lumpur Stock Exchange Composite Index Futures (KLSE CI Futures) was generally lacklustre, with a decline of 10.9% to 126,420 contracts (January-July 2002: 141,857 contracts). The lower volume was consistent with the subdued performance of the KLSE for most of the first half of 2003 before the strong rally in June in response to the pro-growth stimulus package. Total trading volume of the Kuala Lumpur Stock Exchange Composite Index Options (KLSE CI Options) remained tradeless due to a lack of product understanding and high margin requirement.

Turnover of the KLIBOR futures contracts was stronger, increasing by 77.7% to 72,793 contracts (January-July 2002: 40,958 contracts). The higher trading activity was attributed to ample liquidity in the interbank cash market as well as higher interest in the local bond and interest rate swap markets. Similarly, the performance of the 5-Year Malaysian Government Securities Futures (FMG5), which was introduced in March 2002 was robust with total turnover of 73,396 contracts

TABLE 5.16

Unit Trust Industry: Selected Indicators

	End-2002			End-June 2003		
	Government Supported Funds	Private Funds	Total	Government Supported Funds	Private Funds	Total
Number of unit trust management cos.	10	29	39	10	28	38
Number of unit trust funds[1]	32	140	172	35	160	195
Units in circulation (million)	46,445	38,098	84,543	46,608	45,622	92,230
Number of accounts (million)	8.650	1.525	10.175	8.684	1.575	10.259
Net asset value (NAV) (RM million)	33,076	20,622	53,698	37,033	26,453	63,486
NAV/KLSE Market value (%)	*6.87*	*4.28*	*11.15*	*6.96*	*4.97*	*11.93*

[1] Refers to funds already launched.

Source: Securities Commission.

during the first seven months of 2003 (March-July 2002: 29,386 contracts) due to the active issuance of MGS.

CPO futures remained as one of the top performers on MDEX, with trading increasing by 74.6% to 792,332 contracts equivalent to 19.8 million tonnes (January-July 2002: 453,909 contracts, equivalent to 11.3 million tonnes). The stronger growth is attributed to the lower supply of other edible fats and oils in the world market due to unfavourable climate conditions. Average daily volume traded was higher, increasing to 5,542 contracts in August 2003 (August 2002: 3,617 contracts).

Meanwhile, MDEX continued to undertake efforts to further deepen the derivatives market. MDEX is working on the development of new instruments, such as the 3-Year and 10-year MGS futures, crude palm kernel oil futures as well as modifications on the KLSE CI futures which are expected to be introduced by year end.

Progress of the Capital Market Master Plan

Twenty-six per cent of CMP recommendations completed...

The Capital Market Master Plan (CMP), which was launched by the Securities Commission (SC) on 22 February 2001, comprises 24 strategic initiatives and 152 recommendations and is aimed at ensuring that the domestic capital market enhances its role in supporting economic growth. The recommendations are being implemented over three phases from 2001-2010. As at 31 July 2003, 26% or 39 recommendations of the CMP have been completed. In particular, there has been substantial implementation of several key strategic initiatives, such as the repositioning of the exchanges to enhance competitiveness and efficiency, strengthening of corporate governance, shift to disclosure-based regulation, lowering of transaction costs as well as enhancing the fund raising process in the equity and corporate bond markets.

KEY CAPITAL MARKET MEASURES

Ensuring an efficient, resilient and competitive capital market...

In 2003, the capital market witnessed great challenges arising from uncertainties in the global and regional markets, particularly in the earlier part of the year. Consequently, the Government announced 10 new measures on 11 March to stimulate and further enhance the capital market. These measures were in addition to several other measures introduced during the first seven months of 2003, aimed at further enhancing ongoing efforts to promote efficiency, transparency and corporate governance, as well as improving investor confidence and the resilience and competitiveness of the capital market. The key capital market measures are as follows:

Encouraging Investor Participation

Standardisation of Board Lots

All board lot sizes for securities traded on the KLSE were reduced and standardised at 100 units beginning on 7 April with the Second Board and the Main Board from 28 April. This measure is aimed at attracting more players to the market by making the purchase of securities on the KLSE more affordable as well as to reduce the incidence of odd lot holdings. The exercise to standardise the board lot of all securities was completed on 26 May 2003.

Enhancing Market Mechanism and Competitiveness

Reduction in Stamp Duty

Starting from 17 March 2003, stamp duty on all securities traded on the KLSE was capped at RM200 per contract. This was in line with efforts to lower transaction cost and to further enhance the attractiveness of trading on the KLSE.

Enhancing Liquidity

New Guidelines for Listing of Large Companies

On 1 April 2003, the SC liberalised the entry requirements for large companies seeking listing on the KLSE. Companies other than those in construction and property development, with a minimum market capitalisation of RM250 million and an after-tax profit of RM8 million for the latest financial year were exempted from the three to five years profit record requirement.

Merger of Government-linked Companies

The Government will also facilitate the merger of Government-linked companies within common sectors with the objective of enhancing shareholder value as well as to increase the number of premier companies.

Reduction of Moratorium

Effective 12 March 2003, the moratorium requirement on promoter's/major shareholder's holdings for all new IPOs or Reverse Takeovers (RTOs) was reduced from four years to one year to ensure greater availability of shares and increased liquidity in the market. Previously, moratorium shares were not allowed to be disposed in the first year after listing and subsequent divestment was capped at one third per year.

Enhancing Efficiency of Capital Raising

Reduction in IPO Processing Time

In an effort to enhance the capital raising process, the processing time for submission of IPOs received from 1 May 2003 is reduced to three months from six to eight months previously.

Foreign Investment Committee (FIC) Approvals to be Processed by SC

Effective 12 March 2003, the SC will process the FIC aspects of the corporate proposals based on FIC guidelines. This mechanism only applies where both SC and FIC approvals are required.

Strengthening Intermediaries

Consolidation of the Stockbroking Industry

As at end-August 2003, the number of stockbroking companies stood at 37, including seven Universal Brokers (end-2002: 40 stockbroking companies and six Universal Brokers). Further incentives have been provided to the Universal Brokers, including allowing them to deal directly in unlisted debt securities, granting them access to Real Time Electronic Transfer of Funds and Securities (RENTAS) as well as allowing them to act as advisers on corporate issue proposals for both equity and bond products.

Improving Capital Market Skills

In efforts to increase the supply of skilled manpower in the Malaysian capital market, the SC launched the Capital Market Graduate Training Scheme in April, with an initial intake of 120 graduates. The training scheme involves a one-month classroom training and an 11-month on-the-job training with participating organisations. A total of 500 graduates is expected to benefit from the scheme in 2003. In addition, a RM5 million *Bumiputera* Dealer Representatives Fund was launched in July, aimed at enhancing the skills and knowledge of *Bumiputera* remisiers and paid dealer representatives.

Enhancing the Role of Intermediaries

Following a proposal by the Association of Stockbroking Companies in Malaysia (ASCM), minimum commission rates are to be established for retail trades while institutional and inter-broker trades will remain fully negotiable. Effective 9 June 2003, the minimum commission rate structure is as follows:

Trade Category	Minimum rate per contract
Inter-broker	Fully negotiable
Institutional	Fully negotiable
Retail trades valued above RM100,000	0.30%
Retail trades valued up to RM100,000	0.60%
E-broking transactions	Up to 30% discount

Enhancing Corporate Governance

Disclosure-Based Regulation

In March, the SC completed the transition from merit-based to disclosure-based regulation (DBR) for fund raising. Full DBR for the issuance of corporate bonds was implemented in three phases since 1996. The DBR, premised on improved and higher quality of disclosure, will further enhance transparency in the market. The higher levels of disclosure will further assist investors to make informed investment decisions and will further reduce the cost of capital.

In connection with this, seven fund-raising guidelines were revised to further enhance the efficiency and competitiveness of raising funds in line with the objective of establishing Malaysia as a preferred fund-raising centre for domestic companies. The revised guidelines, which relate to the offer of securities, PDS, asset-backed securities and call warrants as well as asset valuations, prospectus, unit trust funds, became effective from 1 May 2003.

Some of the key improvements in the revised fund-raising guidelines include a reduction in the review process by about 50% and a streamlined and flexible process. In addition, investor protection has been further improved with enhanced disclosure, due diligence and corporate governance requirements.

Demutualisation of the KLSE

Work on the demutualisation of the KLSE is in the final phase. Under a demutualised structure, the KLSE will be converted from a company limited by guarantee to one with shares and shareholders. The objective of the demutualisation exercise is to enable the KLSE to reposition itself to respond swiftly to changing market needs as well as facilitate the development of strategic linkages and alliances to further enhance liquidity in the market.

Outlook for 2004

Easier monetary stance to support private sector initiatives, augmented by a stronger capital market

Growth of the Malaysian economy is anticipated to strengthen in 2004 in tandem with an improving external environment as recovery picks up in the major industrial countries and regional economies and reinforced by stronger domestic private sector consumption. Loan growth of the banking system is, thus, envisaged to improve on the back of stronger economic performance. Monetary policy will remain accommodative to support the growth momentum, with the thrust on supporting greater private sector initiatives in view of the Government's stance in consolidating its fiscal position. As such, monetary policy will be aimed at ensuring low and stable interest rates, liquidity and easier access to funds to support economic activities, in particular financing to SMEs and new growth areas.

The capital market is projected to further expand in line with the stronger economy. Islamic PDS issuance, which has seen impressive growth in recent years, is expected to be sustained, given the increasing investor demand for Islamic PDS and consistent with efforts to promote Malaysia as a regional centre in Islamic finance. Meanwhile, the consolidated and stronger banking system as well as the more vibrant capital market are poised to support the stronger financing needs of the economy.

Islamic Capital Market Developments

Brief History

Islamic financial markets in Malaysia began with the introduction of Islamic banking and *takaful* in the early 1980s. During the period, the Islamic capital market played a relatively minor role as most of the Islamic financing facilities were provided by the Islamic banking system. Notwithstanding this, Islamic investment activities had already been undertaken through individual initiatives since the mid-1960s when Lembaga Tabung Haji (then known as Lembaga Urusan dan Tabung Haji) began to manage funds of Muslims planning to perform pilgrimage in Mekah, in accordance with Islamic principles.

Participation in the Islamic capital market in the 1970s and 1980s was minimal as there was lack of clear guidance on Islamic financial investments, activities and services. This has somewhat affected the development of the Islamic capital market. In July 1996, the SC established the *Syariah* Advisory Council (SAC) for the capital market to provide appropriate guidance to those who wish to invest or raise funds using financial instruments that comply with *Syariah* principles. One of the immediate tasks undertaken by the SAC was to implement a regular compliance review process to identify and classify *Syariah*-approved securities listed on the KLSE. The classification and identification of *Syariah*-approved securities led to the introduction of a list of approved securities of companies that were not involved in activities containing non-permissible elements such as *riba* (usury), *maisir* (gambling), *gharar* (ambiguity), non-*halal* food and liquour.

The SAC also undertook several other initiatives aimed at providing clearer guidance and advice on matters relating to the Islamic capital market, including capital raising, investment, risk management and the provision of services by intermediaries. This has spawned more Islamic capital market products and services, both in the equity and bond markets over the last few years.

Rationale in Promoting the Islamic capital market

The rapid growth of Islamic banking and financial products and services in Malaysia has provided the Islamic capital market the opportunity to play a more significant role in broadening and deepening Islamic financial services. The demand for products and instruments that meet the risk-return profile of market participants for various purposes such as liquidity, investment and financing activities necessitates the further expansion of the Islamic capital market in terms of products and services.

The Islamic capital market is poised to be a niche area of the Malaysian capital market, given the significant development and expansion in the Islamic equity and bond markets in recent years. Malaysia has the comparative and competitive advantage to further exploit the potential of the Islamic capital market both domestically and internationally. The increased recourse to Islamic bonds by Malaysian issuers in recent years certainly augurs well for the development of the Islamic capital market.

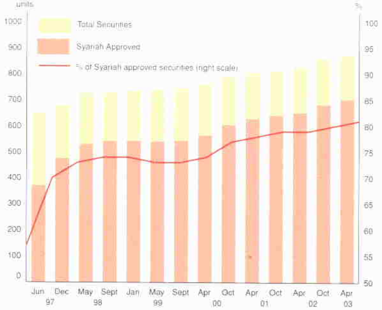
In addition, Malaysia is also well placed to play a more prominent role as one of the key players providing Islamic capital market products and services, given the huge concentration of prospective consumers of Islamic financial products and services within Asia, coupled with several notable achievements on the international front. Moreover, the development of the Islamic capital market is also consistent with the objective of establishing Malaysia as an international Islamic capital market centre. This will certainly enlarge and expand the breadth and depth of the overall capital market beyond the borders of the conventional capital market that will eventually contribute to the overall growth of the Malaysian financial markets.

Islamic Capital Market Products and Services

The Islamic capital market complements the conventional capital market and plays an important role in supporting economic growth by offering products and services that comply with *Syariah* principles. It consists of two main sectors, namely the Islamic equity sector and the Islamic PDS or bond sector. The Islamic equity sector comprises products, such as *Syariah*-approved securities listed on the KLSE and Islamic unit trust funds. Currently, *Syariah*-approved securities represent more than 80% of the total 885 securities listed on the KLSE, as shown in *Chart 1*.

Chart 1

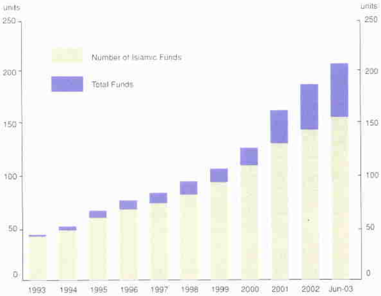
Syariah Approved Securities



Since the introduction of the list of securities approved by the SAC, the Islamic capital market has grown significantly in terms of the number of new products introduced, size of funds raised and the number of market participants. This was clearly reflected in the growth of Islamic unit trust funds. From only three Islamic unit trust funds introduced in 1993, the industry now has more than 50 Islamic unit trust funds, representing almost 25% of the total funds in the country, as shown in *Chart 2*. An Islamic equity index known as the KLSE *Syariah* Index (SI) was introduced in April 1999 to facilitate investors in tracking and benchmarking the performance of *Syariah*-approved securities.

Chart 2

Islamic Unit Trust Funds



In the corporate sector, the first Islamic PDS was issued by Shell MDS in 1990 to finance its operations. Since then, several large corporations, such as PETRONAS, Tenaga Nasional and Telekom Malaysia have turned to the Islamic PDS market. Similarly, Cagamas and Khazanah Nasional have also raised funds through the issuance of Islamic bonds. In January 2002, Guthrie also issued a US$150 million global *sukuk*.

Islamic stockbroking services began to emerge in 1994 with the establishment of a full-fledged Islamic stockbroking company in response to the needs of Muslim investors to trade and invest in the stock market. There are now two full-fledged Islamic stockbroking companies and three Islamic windows operating side-by-side with the conventional stockbroking services.

The Growing PDS Market

The PDS market has grown rapidly, particularly since the Asian financial crisis in 1997 in consonance with efforts undertaken to develop the bond market and reduce the over-reliance on the banking sector in financing long-term projects. PDS issuance rose more than two-fold from RM14.1 billion in 1998 to RM36.7 billion in 2001 but declined to RM26.7 billion in 2002, as shown in *Table 1*. Of significance is the phenomenal growth of Islamic PDS from a mere 2.4% share of PDS issuance in 1998 to account for more than 50% of PDS issuance in 2002, as shown in *Chart 3*. Similarly the share of Islamic PDS in terms of the outstanding size of the PDS market has expanded from 18.7% in 2000 to 37.1% as at June 2003, as shown in *Table 2*.

TABLE 1
Islamic Bonds Issued in the Domestic Market
(RM million)

Year	Total Issuance of Islamic bonds	Total bond issues (Islamic + conventional)	% of Islamic bonds to total bonds issues
1990	268.7	1,847.9	*14.5*
1991	250.8	1,538.2	*16.3*
1992	17.2	3,007.1	*0.6*
1993	-	3,564.0	*0.0*
1994	201.8	6,910.2	*2.9*
1995	534.8	8,171.5	*6.6*
1996	2,068.8	11,341.4	*13.8*
1997	5,371.7	21,120.1	*25.4*
1998	345.0	14,152.0	*2.4*
1999	1,733.9	26,557.4	*6.5*
2000	7,666.1	31,096.9	*24.7*
2001	13,501.4	36,697.0	*36.8*
2002	13,829.2	26,660.4	*51.9*
2003[1]	2,755.0	23,535.6	*11.7*

[1] As at May 2003.
Note: Excluding Cagamas bonds.

Source: Securities Commission and Bank Negara Malaysia.

TABLE 2
Outstanding Size/Value of Islamic Bonds in the Domestic Market

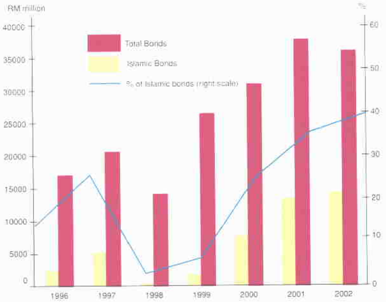
	Private Sector (RM million)				Public Sector (RM million)			
Year	**Islamic**	**Conventional**	**Total**	**% of Islamic bonds**	**Islamic**	**Conventional**	**Total**	**% of Islamic bonds**
2000	33,471.6	145,286.2	178,757.8	*18.7*	4,250.0	95,550.0	99,800.0	*4.3*
2001	50,833.6	146,404.4	197,237.9	*25.6*	5,000.0	109,950.0	114,950.0	*4.4*
2002	64,583.9	110,526.9	175,110.8	*36.9*	6,885.0	119,550.0	126,435.0	*5.5*
2003[1]	**72,400.1**	**122,852.3**	**195,252.4**	***37.1***	**10,000.0**	**122,850.0**	**132,850.0**	***7.5***

[1] As at June 2003.

Source: Bank Negara Malaysia.

Chart 3

Islamic Bonds Raised in the Bond Market



Initiatives in Promoting the Islamic Capital Market

The development and promotion of Islamic capital market is an integral part of the overall development of the Malaysian capital market. One of the earliest initiatives to promote the Islamic capital market was the establishment of the SAC, which plays an important role in ensuring compliance of products and services with *Syariah* principles as well as in enhancing the credibility and integrity of the overall Islamic capital market in Malaysia.

The Capital Market Masterplan (CMP), which was launched by the SC in February 2001 also outlines long-term strategic plans to develop the Islamic capital market in tandem with the objective of establishing Malaysia as an international Islamic capital market centre. The CMP strategic initiatives for the development and promotion of the Islamic capital market focus on the following:

i. Facilitating the development of a wide range of competitive products and services related to Islamic capital market,

ii. Creating a viable market for the effective mobilisation of Islamic funds,

iii. Ensuring that there is an appropriate and comprehensive accounting, tax and regulatory framework for the Islamic capital market, and

iv. Enhancing the value recognition of the Malaysian Islamic capital market internationally.

To further promote the Islamic capital market, the 2003 Budget provided tax deduction on expenses incurred by an issuer in relation to the issuance of Islamic bonds applying the *Syariah* principle of *Mudharabah, Musyarakah* or *Ijarah* for a period of five years. The SC has also introduced additional requirements on the registration of individuals who wish to be appointed as a member of the *Syariah* committee or adviser for the Islamic unit trust funds, aimed at ensuring the credibility and integrity of Islamic funds.

Initiatives at the International Level

A recent significant development was the issuance of the world's first sovereign Islamic bond by the Malaysian Government in June 2002. Malaysia's US$600 million sovereign *Syariah*-compliant bond *(sukuk)* was twice over-subscribed by the international investing community, drawing some US$1.1 billion in orders, with 51 accounts from 17 different countries, including investors from the Middle East, East Asia, Europe and the US. The global *sukuk* is also listed on both the Labuan International Financial Exchange and the Luxembourg Stock Exchange.

Malaysia's efforts in promoting the Islamic capital market has also gained recognition from the International Organisation of the Securities Commission (IOSCO), with the SC elected to chair the IOSCO Islamic Capital Market Task Force in May 2002. The aim of the task force is to study the extent of development and potential regulatory and *Syariah* compliance issues relating to Islamic capital market as well as to gather information on Islamic financial products and activities.

In addition, contributions made by Malaysian *Syariah* scholars in the development of the Islamic capital market have been increasingly recognised. The appointment of Malaysian *Syariah* scholars to sit on *Syariah* boards, such as the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), the International Islamic Financial Market and the Islamic Development Bank is a testimony to Malaysia's efforts in developing the Islamic capital market. The participation of Malaysian *Syariah* scholars on these boards is important in harmonising and standardising universal *Syariah* issues towards further promotion of Islamic finance.

Another important development was the establishment of the Islamic Financial Services Board (IFSB) in Kuala Lumpur in November 2002. Malaysia has again gained recognition in the field of Islamic finance, with the appointment as secretariat to the IFSB. The IFSB is entrusted to develop and promulgate internationally accepted prudential regulatory standards and best practices for the Islamic financial services industry in consistence with *Syariah* principles.

Conclusion

The initiatives put in place to promote and develop the Islamic capital market has placed Malaysia on a strong footing to further exploit the potential of the Islamic capital market within the country as well as regionally and internationally. The relatively small share of current global Islamic bonds at 15% to total market bonds points to the huge potential for the Islamic capital market. The resounding success of Malaysia's first sovereign global *sukuk* should act as an impetus to further tap the international markets with Islamic bonds. However, notwithstanding the progress made, there should be no let-up in efforts to further promote the Islamic capital market, particularly in developing innovative products and services as well as in increasing the awareness and acceptance of Islamic capital market products and services.

Note: The article is prepared with input from the Securities Commission.

Investors' Guide
Economic Report 2003/2004

Investors' Guide

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I. INVESTMENT INCENTIVES BY LEGISLATION (AS AT 11 SEPTEMBER 2003)

Malaysia offers incentives for investments in promoted products and activities in the manufacturing, agriculture, tourism (including hotel), approved services projects, research and development (R&D), training, environmental protection activities and other manufacturing related services sectors. These incentives are contained in the Promotion of Investments Act 1986, Income Tax Act 1967, Labuan Offshore Business Activity Tax Act (LOBATA) 1990, Customs Act 1967, Sales Tax Act 1972, Excise Act 1976, Service Tax Act 1976 and Free Zones Act 1990. The incentives are designed to grant partial or to a limited extent total relief from the payment of tax.

A. PROMOTION OF INVESTMENTS ACT 1986

1. Pioneer Status

A company that is granted Pioneer Status (PS) will enjoy different degree of exemptions depending on the types of promoted products or activities as follows:

(a) Promoted Product or Activity - Company will be granted tax exemption on 70% of the statutory income for 5 years. The balance 30% of that statutory income will be taxed at the prevailing company tax rate.

(b) Promoted Product or Activity in Promoted Area - Company located in Sabah, Sarawak, the Federal Territory of Labuan* and the designated Eastern Corridor of Peninsular Malaysia which covers, Kelantan, Terengganu, Pahang and the district of Mersing in Johor, will be granted tax exemption on 85% of the statutory income for 5 years. The balance 15% of that statutory income will be taxed at the prevailing company tax rate. This incentice is applicable for all applications received by 31 December 2005.

(c) Promoted Product or Activity for High Technology Companies - Company will be granted full tax exemption on 100% of the statutory income for 5 years.

(d) Promoted Product or Activity in an Approved Industrial Linkage Scheme (SMIs producing intermediate goods) - Company will be granted full tax exemption on 100% of the statutory income for 5 years. Companies in approved industrial linkage scheme capable of achieving world class standards in terms of price, quality and capacity are eligible for tax exemption of 100% of its statutory income for a period of 10 years.

(e) Promoted Product or Activity of National and Strategic Importance.

Strategic project includes product/activity that is of national importance. Generally, it involves heavy capital investment with long gestation period, high technology and integrated that generates widespread industrial linkages as well as provides significant impact to the economy.

Company will be granted full tax exemption on 100% of the statutory income for 5 years and is eligible for extension of another 5 years.

Companies that have started operation are also eligible but the incentives will only be given on the additional investment.

* only applicable to the hotel and tourism industry.

For companies currently enjoying PS may apply for the incentives at the end of the pioneer period.

(f) Contract R&D company - A company that provides R&D services in Malaysia to a company other than its related company, will be granted full tax exemption on 100% of the statutory income for 5 years.

Terms and conditions for companies enjoying PS:

(i) Company granted PS must within 6 months request for a pioneer certificate, specifying among others the date of production from which the partial exemption/full exemption will be granted.

(ii) Capital allowances have to be utilised during the pioneer period and will not be allowed to be carried forward to the post pioneer period.

(iii) Losses unabsorbed during the pioneer period will not be allowed to be carried forward to the post pioneer period except for PS for Contract Research and Development company.

(iv) Dividends paid out of tax-exempt income to shareholders will also be exempted from tax.

2. Investment Tax Allowance

Investment Tax Allowance (ITA) is an alternative to PS and is designed to cater for projects which have large capital investments and long gestation period.

As in the case of PS, a company granted ITA will enjoy different degree of exemptions depending on the types of promoted products/activities as follows:

(a) Promoted Product or Activity

Company will be granted an allowance of 60% in respect of qualifying capital expenditure (such as factory, plant, machinery or other equipment used for approved project) incurred within 5 years from the date the first capital expenditure was incurred. The allowance can be utilised to set off (exempt) up to 70% of the statutory income in the assessment year. The balance of that statutory income will be taxed at the prevailing company tax rate.

(b) Promoted Product or Activity In Promoted Area

Company located in Sabah, Sarawak, the Federal Territory of Labuan* and designated Eastern Corridor of Peninsular Malaysia (which covers Kelantan, Terengganu, Pahang and the district of Mersing in Johor) will be granted an allowance of 80% in respect of qualifying capital expenditure incurred within 5 years from the date the first capital expenditure was incurred. The allowance can be utilised to set off (exempt) up to 85% of the statutory income in the assessment year. The balance of that statutory income will be taxed at the prevailing company tax rate.

(c) Promoted Product or Activity For High Technology Companies

Company will be granted an allowance of 60% in respect of qualifying capital expenditure incurred within 5 years from the date from which the first capital expenditure was incurred. The allowance can be utilised to set off (exempt) against 100% of statutory income in the assessment year.

(d) Promoted Product In An Approved Industrial Linkage Programme

Company will be granted an allowance of 60% in respect of qualifying capital expenditure incurred within 5 years from the date from which the first capital expenditure was incurred. The allowance can be utilised to set off (exempt) against 100% of statutory income in the assessment year.

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* only applicable to the hotel and tourism industry.

(e) Promoted Product/Activity of National and Strategic Importance and product/activity in the approved linkage programme which achieve world class standard:

Company will be granted an allowance of 100% in respect of qualifying capital expenditure incurred within 5 years from the date from which the first capital expenditure was incurred. The allowance can be utilised to set off (exempt) against 100% of statutory income in the assessment year. Companies that have started operation are also eligible but the incentives will only be given on the additional income. For companies currently enjoying ITA may apply for the incentives at the end of the ITA period.

(f) R&D Activities

Different incentives are given to companies specialising in R&D activities as follows:

(i) R&D Company (a company that provides R&D services in Malaysia to its related company or to any other company)

Company will be granted an allowance of 100% in respect of qualifying capital expenditure incurred within 10 years from the date from which the first capital expenditure was incurred. The allowance can be utilised to set off (exempt) up to 70% of the statutory income in the assessment year. The balance of that statutory income will be taxed at the prevailing company tax rate.

(ii) Contract R&D Company (a company that provides R&D services in Malaysia to a company other than its related company)

Company will be granted an allowance of 100% in respect of qualifying capital expenditure incurred within 10 years from the date from which the first capital expenditure was incurred. The allowance can be utilised to set off (exempt) up to 70% of the statutory income in the assessment year. The balance of that statutory income will be taxed at the prevailing company tax rate.

(iii) In-house R&D (R & D carried out in Malaysia within a company for the purpose of its own business)

Company will be granted an allowance of 50% in respect of qualifying capital expenditure incurred within 10 years from the date from which the first capital expenditure was incurred. The allowance can be utilised to set off (exempt) up to 70% of the statutory income in the assessment year. The balance of that statutory income will be taxed at the prevailing company tax rate.

(g) Technical or Vocational Training Company

Company will be granted an allowance of 100% in respect of qualifying capital expenditure incurred within 10 years from the date from which the first capital expenditure was incurred. The allowance can be utilised to set off (exempt) up to 70% of the statutory income in the assessment year. The balance of that statutory income will be taxed at the prevailing company tax rate.

Companies with existing technical or vocational training institutes and which incur new investment to upgrade their training equipment or expand their training capacities are also eligible for this incentive.

Terms and conditions for companies enjoying ITA:

(i) Any unutilised allowance can be carried forward to subsequent years until fully utilised.

(ii) Dividends paid out of tax exempt income to shareholders are also exempted from tax.

3. Industrial Adjustment Allowance

Industrial Adjustment Allowance (IAA) is available to companies in selected manufacturing sector mainly in wood based, textile, machinery and engineering, stamping, mould, tools and dies and machinery sub-sector. The companies should already be in existence before 31.12.1990 and have been participating in certain industrial adjustment activities such as reorganisation, reconstruction or amalgamation within the sector.

Companies will be granted an allowance of 60% to 100% based on the industrial adjustment activities undertaken. The allowance will be given in respect of qualifying capital expenditure incurred within 5 years. The allowance can be utilised to set off (exempt) against 100% of adjusted income in the assessment year.

Terms and conditions for companies enjoying IAA:

(i) Any unutilised allowance can be carried forward to the subsequent years until it is fully utilised.

(ii) Dividends paid out of tax-exempt income to shareholders will also be exempted from tax.

4. Infrastructure Allowance

Infrastructure Allowance is available to any company located in the promoted areas engaged in manufacturing, agriculture, hotel, tourist and other industrial/commercial activities.

Company will be granted an allowance of 100% in respect of capital expenditure on infrastructure (such as reconstruction, extension, or improvement of any permanent structure including a bridge, jetty, port or road). The allowance can be utilised to set off (exempt) up to 85% of statutory income in the assessment year. The balance of that statutory income will be taxed at the prevailing company tax rate. This incentive is applicable to all applications received by 31 December 2005.

5. Double Deduction for Promotion of Exports

This incentive is available to any resident company in Malaysia seeking opportunities for exports of manufactured and agricultural products.

The expenses eligible for double deduction are:

(a) overseas advertising;

(b) supply of free samples abroad;

(c) export market research;

(d) preparation of tenders for the supply of goods overseas;

(e) supply of technical information abroad;

(f) publicity expenses connected with export;

(g) exhibits and/or participation required in trade or industrial exhibitions held abroad approved by the Ministry of International Trade and Industry (MITI);

(h) fares in respect of travel overseas by employees of companies for business;

(i) accommodation and sustenance expenses up to RM200 per day;

(j) cost of maintaining sales office overseas for the promotion of exports;

(k) expenses for services rendered for public relations work connected with export;

(l) professional fees incurred in packaging design services provided by local professional service provider;

(m) participation in virtual trade shows;

(n) participation in trade portals for the promotion of local products; and

(o) cost of maintaining warehouse overseas.

For pioneer companies, the expenses are accumulated and allowed against their post-pioneer income.

6. Incentives for the Multimedia Super Corridor

Companies with Multimedia Super Corridor (MSC) status are entitled to enjoy a set of tax incentives and benefits from the Government of Malaysia that is backed by a Bill of Guarantees. The incentives are as follows:

(i) PS with tax exemption on 100% of the statutory income for 5 years which is eligible for extension another 5 years; or

(ii) ITA of 100% of capital expenditure incurred within a period of 5 years to be set off (exempt) againts 100% of the statutory income in the assessment year;

(iii) R&D grants (for majority Malaysian ownership MSC status companies);

(iv) Freedom to source capital and borrow funds globally;

(v) Duty-free importation of multimedia equipment;

(vi) Intellectual property protection and a pioneering and comprehensive framework of cyberlaws;

(vii) No cencorship of the Internet;

(viii) World-class physical and IT infrastructure;

(ix) Globally competitive telecommunication tariffs and services guarantees; and

(x) High-powered implementation agency, the Multimedia Development Corporation to provide consultancy and assistance within the MSC.

The tax incentives accorded to the MSC companies are also extended to multimedia faculties located outside the MSC. Multimedia facility is referred to as a center of learning which provides courses in media, computer, information technology, telecommunications, communications and contents relating to data, voice, graphics and images.

7. Strategic knowledge-based company

(i) PS with tax exemption on 100% of the statutory income for 5 years; or

(ii) ITA of 60% of capital expenditure incurred within a period of 5 years to be set off (exempt) against 100% of the statutory income in the assessment year.

The incentives given are on condition:

(a) the company must be a knowledge-intensive company having the characteristics:

- potential to generate knowledge content
- high value added operations
- high technology
- a large number of knowledge workers

(b) must have a corporate knowledge-based masterplan.

8. Incentives for the Manufacture of Machinery and Equipment

Companies undertaking activities in the production of specialised machinery and equipment (machine tools, plastic injection machines, material handling equipment, robotics and factory automation equipment specialised/ process machinery or equipment for specific industry, packaging machinery, plastic extrusion machinery, and parts and components of the above mentioned machinery and equipment) are eligible fort he following incentives:

(i) PS with full tax exemption on 100% of statutory income for 10 years; or

(ii) ITA of 100% of capital expenditure incurred within a period of 5 years to be set off (exempt) against 100% of the statutory income in the assessment year.

9. Incentives for Manufacturing Related Services

Companies providing the following value added manufacturing related services:

(i) Integrated logistic services which comprise the entire supply chain management including procurement of software and hardware, warehousing, distribution (transportation and freight services), packaging activities and custom clearance;

(ii) Integrated market support services which comprise the activities of brand development, consumer development, packaging design, advertising and promotion; and

(iii) Integrated central utility facilities which provide services including the supply of steam, demineralised water and industrial gas are eligible for the following incentives:

   (i) PS with tax exemption on 70% of statutory income for 5 years; or

   (ii) ITA of 60% of capital expenditure incurred within a period of 5 years, to be set off (exempt) against 70% of the statutory income in the assessment year.

10. Reinvestment in the Promoted Resource-Based Industries

Local companies (with at least 51% equity owned by Malaysians) undertaking investment in rubber, oil palm and wood based industries for expansion purposes are eligible for the following incentives:

(i) PS with tax exemption on 70% of the statutory income for 5 years; or

(ii) ITA of 60% of capital expenditure incurred within a period of 5 years to be set off (exempt) against 70% of the statutory income in the assessment year.

11. Reinvestment in the promoted food processing activity

Local companies (with at least 60% equity owned by Malaysian) undertaking investment in promoted food processing activity for expansion purposes are eligible for:

(i) PS with tax exemption on 70% of the statutory income for 5 years; or

(ii) ITA of 60% of the qualifying capital expenditure incurred within 5 years from the date on which the first qualifying capital expenditure is incurred. The allowance can be utilised to set off (exempt) up to 70% of the statutory income in the assessment year.

12. Incentive for Companies Providing Cold Chain Facilities and Services for Food Products

To encourage companies to provide cold room and refrigerated facilities and related services such as collection and treatment of locally produced perishable food products, companies will be granted the following incentives:

(i) PS with tax exemption of 70% on statutory income for 5 years; or

(ii) ITA of 60% of capital expenditure incurred within 5 years to be set off (exempt) against 70% of statutory income in the assessment year.

13. Rearing of chicken and duck in the promoted areas

(i) PS with tax exemption on 85% of the statutory income for 5 years; or

(ii) ITA of 80% of the qualifying capital expenditure incurred within 5 years from the date on which the first qualifying capital expenditure is incurred. The allowance can be utilised to set off (exempt) up to 85% of the statutory income in the assessment year.

14. Incentive For Forest Plantation Project

Companies which undertake forest plantation projects are eligible for the following incentives:

(i) PS with full income tax exemption on 100% of the statutory income for 5 years and eligible for extension of another 5 years; or

(ii) ITA of 100% of capital expenditure incurred within a period of 5 years to be set off (exempt) against 100% of the statutory income in the assessment year.

15. Incentive For Storage, Treatment And Disposal Of Toxic And Hazardous Waste

Companies which are directly involved in the storage, treatment and disposal of toxic and hazardous waste in an integrated manner are granted:

(i) PS with tax exemption on 70% of the statutory income for 5 years; or

(ii) ITA of 60% of capital expenditure incurred within a period of 5 years to be set off (exempt) against 70% of the statutory income in the assessment year.

16. Incentive For Waste Recycling Activities

Companies undertaking waste recycling activities of high value added using high technology are granted:

(i) PS with tax exemption on 70% of the statutory income for 5 years; or

(ii) ITA of 60% of capital expenditure incurred within a period of 5 years to be set off (exempt) against 70% of the statutory income in the assessment year.

17. Incentive for the Conservation of Energy

(A) Companies providing energy conservation services are granted:

(i) PS with tax exemption on 70% of statutory income for 5 years; or

(ii) ITA of 60% of capital expenditure incurred within a period of 5 years to be set off (exempt) against 70% of the statutory income in the assessment year.

(B) Companies which incur capital expenditure arising from energy conservation measures in their own company are granted Accelerated Depreciation Allowance, to be written off within a period of 3 years.

18. Incentive For Utilising Biomass As A New Source Of Energy

Companies intending to generate 'energy' from 'biomass sources' are granted:

(i) PS with tax exemption of 70% of statutory income for 5 years; or

(ii) ITA of 60% of capital expenditure incurred within a period of 5 years to be set off (exempt) against 70% of the statutory income in the assessment year.

For purposes of this incentive 'biomass sources' refer to the following:

(i) palm oil mill/estates waste

(ii) rice mill waste

(iii) sugar cane mill waste

(iv) timber/saw mill waste

(v) paper recycling mill waste

(vi) municipal waste

(vii) biogas (from landfill, palm oil mill effluent, animal waste, others)

'Energy' forms in this incentive refers to:

(i) electricity

(ii) steam

(iii) chilled water

(iv) heat

B. INCOME TAX ACT, 1967

1. Income Tax Exemption

(i) Approved Service Projects

Approved Service Projects (ASP) i.e. projects in the transportation, communications and utilities sub-sector approved by the Minister of Finance qualify for income tax exemption under Section 127 of the Income Tax Act 1967 or

Investment Allowance (IA) under Schedule 7B of the Income Tax Act, 1967. The income tax exemptions or IA are as follows:

a. ASP (outside promoted areas)

Tax exemption on 70% of the statutory income for 5 years; or

IA of 60% of capital expenditure incurred within 5 years from the date from which the approval is to take effect. The allowance can be utilised to set off (exempt) against 70% of the statutory income in the assessment year.

b. ASP (in promoted areas)

Tax exemption on 85% of the statutory income for 5 years; or

IA of 80% of capital expenditure incurred within 5 years from the date from which the approval is to take effect. The allowance can be utilised to set off (exempt) against 85% of the statutory income in the assessment year.

c. ASP (of national and strategic importance)

Tax exemption on 100% of the statutory income for 5 years which is eligible for extension for another 5 years; or

IA of 100% of capital expenditure incurred within 5 years from the date from which the approval is to take effect. The allowance can be utilised to set off (exempt) against 100% of the statutory income in the assessment year.

Terms and conditions for companies enjoying income tax exemption

(a) Capital allowances have to be utilised during the exemption period and are not allowed to be carried forward to the post exemption period;

(b) Losses unabsorbed during the exemption period are not allowed to be carried forward to the post exemption period; and

(c) Dividends paid out of tax-exempt income to shareholders are also exempted from tax.

Terms and conditions for companies enjoying IA

(a) Any unutilised allowance can be carried forward to subsequent years until fully utilised; and

(b) Dividends paid out of tax-exempt income to shareholders are also exempted from tax.

(ii) **Malaysian International Trading Companies**

Companies approved as Malaysian International Trading Companies (MITC) are given income tax exemption equivalent to 20% of the increased export value for 5 years. For the purpose of this incentive, export sales do not include trading commissions and profits derived from trading at the commodity exchange. MITC must satisfy the following criteria:

(a) incorporated in Malaysia;

(b) achieve an annual sales turnover of more than RM10 million;

(c) have equity holding of at least 60% by Malaysian;

(d) export manufactured goods, especially those from small and medium scale industry;

(e) registered with MATRADE;

(f) not more than 20% of annual sales is derived from trading of commodities; and

(g) company uses local services for export such as banking, finance, insurance, ports and airports.

(iii) **Hypermarket and direct selling company**

Tax exemption equivalent to 20% of increased export value.

(iv) **Operational Headquarters**

An approved Operational Headquarters (OHQ) is a locally incorporated company, whether Malaysian or foreign-owned, which carries on a business in Malaysia of providing qualifying services to its offices or related companies outside Malaysia.

The qualifying services are in respect of:

(i) general management and administration;

(ii) business planning and co-ordination;

(iii) procurement of raw materials, components and finished products;

(iv) technical support and maintenance;

(v) marketing control and sales promotion planning;

(vi) data/information management and processing;

(vii) treasury and fund management services;

(viii) corporate financial advisory services;

(ix) R&D work;

(x) training and personnel management;

Companies granted approved OHQ status enjoy tax exemption on 100% of the statutory income for 10 years. Dividends paid out of tax exempt income to shareholders are also exempted from tax.

To qualify for the above incentives, the company must fulfil the following conditions:

(i) the paid up capital should be at least RM0.5 million;

(ii) total business spending should be at least RM1.5 million per annum; and

(iii) should perform a minimum of three of the qualifying services

(v) **Regional Distribution Centre**

Regional Distribution Centre (RDC) is a collection and consolidation center for finished goods, components and spare parts from overseas or within the country to be distributed to dealers and importers or its subsidiaries or associated companies within or outside the country.

RDC is eligible for tax exemption on 100% of the statutory income for 10 years. Dividends paid out of tax exempt income to shareholders are also exempted from tax.

RDC must satisfy the following conditions:

(a) incorporated in Malaysia;

(b) total annual turnover should not be less than RM100 million;

(c) must be located in the free industrial/ commercial zones or licensed public/ private warehouse or licensed manufacturing warehouses; and

(d) must not sell more than 20% of its products to the local market.

(vi) **Venture Capital Industry**

The following incentives are available:

(i) Venture Capital Companies (VVC) Investing In Venture Companies:

VCC investing in venture companies are given full tax exemption on all sources of income for 10 years of assessment or the years of assessment equivalent to the life span of the fund (if any) established for the purpose of investing in the venture company whichever is the lesser. Where a VCC incurs a loss from the disposal of shares in a venture company in the basis period for any year of assessment within the exempt period, such loss shall be carried forward to the post-exempt period.

Conditions to qualify for the exemption:

- be a company incorporated under the Companies Act 1965, a partnership, a scheme or an arrangement investing in a venture company in the form of seed-capital, start-up or early-stage financing.
- have at least 70% of its funds invested in venture companies which are not its related companies at the point of first investment.
- the venture companies must be a resident in Malaysia for the basis year for the year of assessment and involved in products/activities promoted by the Government including those recognised by the following:
  - Promotion Investments Act (PIA) 1986;
  - Technology-based activities prescribed by Kuala Lumpur Stock Exchange (KLSE) for the MESDAQ Market;
  - Industrial Research & Development Grant Scheme;
  - MSC Research & Development Grant Scheme.

VCC must obtain annual certification from the Securities Commission that the conditions imposed for the incentives have been complied. The letter of certification must be attached with the income tax return form for submission to the Inland Revenue Board.

(ii) Companies or Individuals Investing In Venture Companies:

A company or an individual having a business source, having invested in a venture company at start-up, seed capital and early stage financing are entitled to a deduction from the adjusted income equivalent to the value of the investment made in the venture company. If the company or individual does not have sufficient adjusted income to offset the investment, the deductions will be allowed to be carried forward.

Conditions to qualify for the deduction:

- be a resident in Malaysia and making investments in a venture company for financing or funding at seed-capital, start-up or early-stage.
- the investment in the venture company is in a form of holding of shares which at the point of acquisition are not listed for quotation in the official list of a stock exchange.
- the venture companies must not be its related companies at the point of first investment.
- the venture companies must be resident in Malaysia for the basis year of the year of assessment and involved in products/activities promoted by the Government include those recognised by the following:
  - PIA 1986;
  - Technology-based activities prescribed by KLSE for the MESDAQ market;
  - Industrial Research & Development Grant Scheme;
  - MSC Research & Development Grant Scheme.

A company or an individual must obtain annual certification from the

Securities Commission that the conditions imposed for the incentives have been complied. The letter of certification must be attached with the income tax return form for submission to the Inland Revenue Board. For a company the incentive (vi)*(a)* and *(b)* are mutually exclusive.

For purposes of obtaining tax incentives, the definitions for stages of financing are as follows: "early-stage financing" means financing or funding provided to a venture company as:

(a) capital expenditure and/or working capital to initiate commercialisation of a technology or product;

(b) additional capital expenditure and/or working capital to increase production capacity, marketing or product development; or

(c) an interim funding for venture companies expecting to be listed on the official list of a stock exchange.

For products or activities that are not on the KLSE MESDAQ market's list of technology-based activities, subclauses (b) or (c) would only be applicable if the financing or funding has been provided for from seed-capital or start-up stage.

"seed-capital financing" means financing or funding provided to a venture company, for the purposes of research, assessment and development of an initial concept and/or prototype.

"start-up financing" means financing or funding provided to a venture company for product development and initial marketing.

(vii) **Promotion of Exports**

(a) Companies whose exported manufactured goods attain at least 30% value added

Tax exemption on statutory income equivalent to 10% of the value of increased exports.

(b) Companies whose exported manufactured goods attain at least 50% value added

Tax exemption on statutory income equivalent to 15% of the value of increased exports.

(c) Companies whose exported manufactured goods achieve a significant increase in exports

Tax exemption on statutory income equivalent to 30% of the value of increased exports.

(d) Companies which succeed in penetrating new export market

Tax exemption on statutory income equivalent to 50% of the value of increased exports.

(e) Companies which achieve the highest increase in exports

Full tax exemption on statutory income on increased export value.

(f) Companies which export fruits, fresh and dried cut flowers, ornamental plants and ornamental fish

Tax exemption on statutory income equivalent to 10% of the value of increased exports.

(g) Companies in selected services sector

Tax exemption on statutory income equivalent to 50% of the value of increased exports.

Selected services sectors are:

Legal, accounting, engineering consultancy, architecture, marketing, business consultancy, office services, construction management, building management, plantation management, health, education, publishing and information and communication technology.

(viii) **Tour Operators**

(i) Incentive for bringing in foreign tourists

Exemption from tax on income earned from the business of operating tours provided that the tour operators are licensed with the Ministry of Culture, Arts & Tourism and the tour operators bring in at least 500 foreign tourists per year through group inclusive tours. This incentive is extended until year of assessment 2006.

(ii) Incentive for domestic tourism

Exemption from tax on income earned from the business of operating tours provided that the tour operators are licensed with the Ministry of Culture, Arts and Tourism and the tour operators conduct domestic tour packages with at least 1,200 local tourist per year. For this purpose, a domestic tour package means any tour package within Malaysia participated by local tourist (individuals who are Malaysian citizens or residing in Malaysia) inclusive of transportation by air, land or sea and providing at least one night accommodation. This incentive is extended until year of assessment 2006.

(ix) **Organisers of International Conference or Trade Exhibitions**

Local companies, which organise international conferences in Malaysia will be eligible for income tax exemption on income earned from bringing at least 500 foreign participants per year into the country.

(x) **Car and Motorcycle Racing**

Drivers and organisers of car and motorcycles racing of international standard held in Malaysia are eligible for:

(i) full tax exemption on income earned by the drivers;

(ii) 50% tax exemption on income earned by the organisers.

(xi) **Repair and Maintenance of luxury Boats/Yachts in Langkawi**

Companies undertaking repair and maintenance activities of luxury boats and yacht in Langkawi are eligible for full income tax exemption for 5 years.

(xii) **Chartering Services of Luxury Yachts**

Income derived by the company in providing chartering services of luxury yachts are eligible for full tax exemption for full tax exemption for 5 years.

(xiii) **Rental of ISO Containers**

Income received from rental of ISO containers by non-resident from shipping companies in Malaysia is exempted from income tax.

(xiv) **Malaysia My Second Home Program**

Income tax exemption on all pension income remitted to Malaysia; and

Income tax exemption on all income (other than pension) for participants from countries that do not have Double Taxation Agreement with Malaysia.

(xv) **Royalty Under the Franchised Education Scheme**

Income tax exemption on royalty income received by non-residents (franchisor) for franchised education schemes approved by the Ministry of Education.

2. Reinvestment Allowance

Reinvestment Allowance (RA) is given to manufacturing and agricultural companies producing essential food (rice, maize, vegetable, tubers, livestock farming, production of aquatic products and any other activities approved by the Minister of Finance) undertaking expansion, modernisation and diversification activities.

The levels of RA granted are as follows:

(a) Projects in promoted areas:

- RA of 60% in respect of qualifying capital expenditure incurred. The allowance can be utilised to set off against 100% of statutory income in the assessment year.

(b) Projects in non-promoted areas:

(i) The RA of 60% in respect of qualifying capital expenditure incurred. The allowance can be utilised to set off (exempt) up to 70% of statutory income in the assessment year. The balance of the statutory income will be taxed at the prevailing company tax rate.

(ii) Companies that carry out reinvestment, which can improve significantly their productivity level, will be granted RA of 60% which is allowed to be utilised to set off (exempt) against 100% of statutory income.

Productivity will be measured by using the Process Efficiency Ratio (PER) as shown below:

Definition of "significant increase in productivity" has increased by at least the same rate as the GDP growth rate for that industry.

Formula : Process Efficiency Ratio (PER)

$$PER = \frac{\text{Total Output - BIMS}}{\text{Total Input - BIMS}}$$

Whereby, BIMS (Bought in materials and services) is defined as value of materials consumed in the production process (including payment for the transport, tax paid including those on materials) + value of equipment used such as packaging materials, daily used materials (including office stationery, materials for improvement and maintenance) + publication cost + lubricants + cost of goods sold in same condition such as utilities (water, electricity and fuels) + payments to contractors + payment to industrial work done by others + payment for non-industrial services.

RA is subject to the following criteria:

(i) The company must be in operation for at least 12 months.

(ii) RA will be given for a period of 15 consecutive years beginning from the year the first reinvestment is made.

(iii) Assets acquired from RA cannot be disposed within 2 years of reinvestment.

(iv) Has incurred in the basis period for a year of assessment capital expenditure on a factory, plant/machinery used in Malaysia for the purpose of a qualifying project.

(v) Has achieved the level of productivity as prescribed by the Minister of Finance. (this only applies to a company which is claiming for the allowance to be set off (exempt) against 100% of the statutory income).

Effective from the year of assessment 2001, upon expiry of RA, companies promoted products or engaging in promoted activities or promoted food products are eligible for Accelerated Capital Allowance on their capitale expenditure at the following rate: initial rate 40% and annual rate 20% enabling them to write off their capital expenditure within 3 years. The promoted food products are rice, maize, vegetables, tubers, roots, fruits, livestock farming, aquatic product and any other activities approved by the Minister of Finance.

3. Double Deduction

i. Research & Development

Types of (R&D) that are eligible for the double deduction are:

(a) Approved Research- Section 34A of Income Tax Act 1967
Double Deduction on non-capital expenditure incurred on research and development approved by the Minister of Finance (delegated to the Inland Revenue Board).

(b) Payment for Services- Section 34B (1) *(b)* & *(c)* Double deduction on payment for use of services of:

(i) approved research institutions; *

(ii) approved R&D company; **

(iii) a contract R&D company. **

Note:

* Approved research institution includes the following:

(i) all government research institutions, including institutions corporatised under Section 24 of the Companies Act 1965;

(ii) government funded universities which undertake research that conform to the definition of R &D as indicated above.

** R&D company or contract R&D company refers to companies which are established in conformity with Section 2 of the Promotion Of Investment Act 1986.

(c) Cash Contributions Section 34B (1) *(a)*

Double deduction on cash contributions made to approved research institutions. The list of approved research institutions are:

(i) Malaysian Agricultural Research and Development Institute (MARDI)

(ii) Rubber Research Institute of Malaysia

(iii) Forest Research Institute Malaysia (FRIM)

(iv) Malaysian Institute of Micro Electronic System

(v) Palm Oil Research Institute of Malaysia

(vi) Standard and Industrial Research Institute of Malaysia (SIRIM)

(vii) Mineral Research Institute

(viii) Malaysian Centre for Remote Sensing

(ix) Veterinary Research Institute

(x) Fisheries Research Institute

(xi) Institute for Medical Research

(xii) Malaysian Institute for Nuclear Technology Research (MINT)

(xiii) Unit Pengurusan Penyelidikan, Universiti Kebangsaan Malaysia

(xiv) Pusat Inovasi dan Perundingan, Universiti Sains Malaysia

(xv) Pusat Penyelidikan dan Perundingan, Universiti Utara Malaysia

(xvi) Unit Penyelidikan, Universiti Putra Malaysia

(xvii) Pusat Penyelidikan, Universiti Islam Antarabangsa Malaysia

(xviii) Unit Perundingan, Universiti Malaya

(xix) Unit Penyelidikan dan Pembangunan, Universiti Teknologi Malaysia

(xx) Unit Penyelidikan, Universiti Malaysia Sabah

(xxi) Unit Pemindahan Teknologi & Perundingan, Universiti Malaysia Sarawak

(xxii) Pusat Sains dan Teknologi Pertahanan, Kementerian Pertahanan

(xxiii) Biro Penyelidikan, dan Perundingan, Universiti Teknologi MARA (UiTM)

For purposes of this incentive, R&D is defined as follows:

"Any systematic or intensive study undertaken in the field of science or technology with the object of using the results of the study for the production or improvement of materials, devices, products, produce or processes but does not include:

(i) quality control of products or routine testing of materials, devices, products or produce;

(ii) research in the social sciences or the humanities;

(iii) routine data collection;

(iv) efficiency surveys or management studies;

(v) market research or sales promotion; and

(vi) with effect from year of assessment 1998, a company carried out designing or prototyping as an independent activity will also qualify for R&D incentives".

ii. Training

Effective from 1 July 1993 double deduction for expenses on training will be considered only for companies which do not contribute to the Human Resource Development Fund (HRDF) and the trainees must be full-time employees who are Malaysian citizens.

(a) Approved Training Institutions

Companies, including those in the services sector not covered by the HRDF are eligible for double deductions on training expenses if such training were to be undertaken in approved training institution or government training institutions. Companies undertaking training in approved training institutions could claim double deduction on expenses billed by the respective approved training institutions. (No other expenses are allowed for double deduction). The approved training institutions are as follows:

(i) National Productivity Corporation

(ii) SIRIM

(iii) UiTM

(iv) MARDI

(v) FRIM

(vi) The Centre For Instructor and Advanced Skill Training

(vii) Penang Skills Development Centre

(viii) Institut Kemahiran Mara

(ix) Industrial Training Institute

(x) German-Malaysia Institute

(xi) Malaysian Timber Industry Board

(xii) Federation of Malaysian Manufacturer - Entrepreneur and Skills Development Centre

(xiii) Perak Entrepreneur and Skills Development Centre

(xiv) Tuas Polytech (British Malaysian Institute)

(xv) ASEAN Timber Technology Centre

(xvi) Sarawak Skills Development Centre

(xvii) Kedah Industrial Skills & Management Development Centre

(xviii) Malaysia France Institute

(xix) Selangor Human Resource Development Centre

(xx) Pusat Pembangunan Tenaga Industri Johor

(xxi) MINT

(xxii) Pahang Skills Development Centre

(b) Approved Training Programmes

(i) Manufacturing companies in production

Manufacturing companies which do not contribute to the HRDF undertaking training programmes locally or overseas approved by MIDA for the purpose of upgrading/developing craft, supervisory skills, technical skills, productivity and quality improvements.

(ii) Manufacturing companies not yet in production

Qualified manufacturing companies which do not contribute to the HRDF undertaking training programmes that are approved by MIDA for the purpose acquiring/developing craft, supervisory or technical skills, that can contribute to future production.

(iii) Training for handicapped person

A company which incurred training expenses in the training of any handicapped person who is not an employee of the company. The training should be done either in-house or at any approved training institution in Malaysia. Such handicapped person must be classified as handicapped by the Ministry of National Unity and Social Development and the training undertaken must serve to enhance his/her employment prospect.

(iv) Tourism Industry

Companies in the hotel or tour operating business which undertake training for the purpose of upgrading the level of skills and professionalism in the tourism industry and approved by the Minister of Culture, Arts and Tourism.

(v) Non-manufacturing Companies

Non-manufacturing companies that send their employees to attend training programmes approved by the Ministry of Finance in the following institutions (19 October 2001):

(a) Institute Bank-Bank Malaysia

(b) Malaysian Insurance Institute

(c) Persekutuan Penghantar Fret Malaysia

(d) Association of Consulting Engineers Malaysia

(e) Persatuan Elektrik & Elektronik

(f) AFCM Training Services Sdn. Bhd

(g) Institut Pengurusan Malaysia

(h) Institut Jurutera Malaysia

iii. Freight Charges

(a) Double deduction on freight charges for manufacturers in Sabah & Sarawak who export rattan and wood-based products except sawn timber and veneer.

(b) Double deduction on freight charges for all manufacturers who ship their goods from Sabah & Sarawak to Peninsular Malaysia provided they use the ports in Peninsular Malaysia.

iv. Insurance Premiums

(a) Double deduction on premiums paid for export credit insurance.

(b) Double deduction on insurance premiums paid for the import of goods provided the risk are insured with an insurance company incorporated in Malaysia.

(c) Double deduction on insurance premiums paid for export of goods provided the risk are insured with an insurance company incorporated in Malaysia.

v. Overseas Promotion

(a) Tourism Industry

Double deduction for tourism industry is granted on expenditure incurred by hotels and tour operators for overseas promotions as follows:

(i) expenditure on publicity and advertisement in any mass media outside Malaysia;

(ii) expenditure on the publication of brochures, magazines and guide books, including delivery costs which are not charged to the overseas customers;

(iii) expenditure on market research to explore for new markets overseas, subject to the prior approval of the Ministry of Culture, Arts and Tourism;

(iv) expenditure which includes fares to any country outside Malaysia for purposes of negotiating or securing a contract for advertising or participating in trade fairs, conferences or forum approved by the Ministry of Culture, Arts and Tourism. Such expenses are subject to a maximum for RM300 per day for lodging and RM150 per day for food for the duration of the stay overseas;

(v) expenditure on organising trade fairs, conferences or forum approved by the Ministry of Culture, Arts and Tourism; and

(vi) maintenance of sales office overseas.

(b) Approved International Trade Fairs

Double deduction is allowed for expenditure incurred by a company for participating in an approved international trade fair held in Malaysia.

(c) Export of Services

The incentive on double deduction on expenses incurred pertaining to promotion of export of services, which is currently available to the tourism sub sector, is extended to the entire services sector.

The expenses eligible for double deduction include:

(i) export market research;

(ii) preparation of tenders for the supply of services overseas;

(iii) supply of technical information abroad;

(iv) fares in respect of travel overseas by employees of companies for business;

(v) accommodation and sustenance expenses incurred by Malaysian businessmen going overseas for promotion of services for export, subject to RM300 per day for accommodation and RM150 per day for sustenance;

(vi) cost of maintaining office overseas for purpose of promotion the export of services;

(vii) feasibility studies for overseas projects identified for the purpose of tender;

(viii) participation in trade or industrial exhibitions in the country or overseas;

(ix) participation in exhibitions held in Malaysia Permanent Trade Exhibition Centres overseas.

The above incentive is only granted to companies registered with the Registrar of Companies. Effective from year of assessment 2003, the incentive if extended to the following professional services that are provided by partnership or sole proprietors registered with the Registrar of Business:

(i) Legal;

(ii) Accounting (including taxation and management consultancy services);

(iii) Architectural (including town planning and landscaping services);

(iv) Engineering and integrated engineering (including valuation and quantity surveying); and

(v) Medical and dental.

For companies enjoying tax incentives under Section 127 or Schedule 7B of the Income Tax Act 1967, double deduction on promotion of export of services is allowed to be accumulated and offset against their post exemption income.

vi. Promotion of Local Brand Name

Double deduction on the following expenses:

(i) The cost of advertisement through internet, magazines and newspaper, television, advertisement handling trade publications or sponsoring approved international events or international book conference/exhibition; and

(ii) Professional fees paid to companies promoting Malaysian brand names.

To be eligible for this incentive, the local brands must satisfy the following criteria:

(a) brand name is owned by a company which is locally incorporated with at least 70% Malaysian owned;

(b) the brand name is registered in Malaysia or overseas;

(c) the brand name product must achieve export quality standards; and

(d) expenditure incurred in advertising must be incurred in Malaysia.

4. Single Deduction

(a) Approved Investment Overseas

Single deduction on pre-operating expenses such as cost of market research for approved investment overseas.

(b) Training Expenses

Single deduction on pre-operating training expenses incurred by any company.

(c) Technical or Vocational Training Institute

Single deduction for contribution in cash to a technical or vocational training institute established and maintained by the Government or statutory body.

(d) Organisation for the Promotion and Conservation of the Environment

Single deduction for donations to an approved organisation established exclusively for the protection and conservation of the environment.

(e) Single deduction for gift under Section 44(6A)

Single deduction for an amount equal to value as determined by the Department of Museums & Antiquities, the National Archives or National Art Gallery of any gift or artefact or manuscript made to the State/National Art Gallery, Government or State Government.

(f) Single deduction for gift in cash and kind under Section 34(6)
Single deduction for an amount equal to expenditure incurred:

(i) on the provision of services, public amenities and contribution to a charity or community project pertaining to education, health, housing and infrastructure and information & communication technology approved by the Minister of Finance.

(ii) on the provision and maintenance of a child care centre for the benefit of persons employed by him in his business;

(iii) in establishing and managing a musical or cultural group approved by the Minister;

(iv) on sponsoring local and foreign cultural performances approved by the Ministry of Culture, Art and Tourism;

(v) as operational expenditure including payments to consultants related to the usage of IT to improve management and production processes; and

(vi) in obtaining quality systems and standards and halal certification.

(g) Single deduction for expenses incurred by a company in providing practical training to residents who are not employees of the company.

(h) Single deduction for an amount equal to expenditure and contributions incurred by companies in the management and

operation of Rosetta Net Malaysia and in assisting local small and medium scale companies to adopt Rosetta Net.

(i) Promotion of Export:

(i) single deduction for payment incurred for registration of patents, trademarks and product licensing overseas;

(ii) single deduction payment for hotel accommodation for a maximum of 3 nights to companies providing hospitality to every potential importers instead to Malaysia as a follow-up to trade and investment missions organised by government agencies or industrial trade associations.

(j) Single deduction on expenditure incurred by a company for drafting its corporate knowledge-based masterplan.

5. Industrial Building Allowance

Industrial Building Allowance (IBA) is granted to companies incurring capital expenditure on construction or purchase of a building which is used for specific operational purposes as per Schedule 3 of the Income Tax Act 1967. In this regard, companies are eligible for an initial allowance of 10% and annual allowance of 3% so as IBA can be claimed within 30 years.

IBA is granted to an industrial building and approved building used for the following purposes:

(a) factory;

(b) dock, wharf, jetty or other similar building;

(c) warehouse and the business consists or mainly consists of the hire of storage space to the public;

(d) business of water or electricity supply projects or telecommunication project for the public;

(e) used with the working of the farm with or without other farms;

(f) used with the working of a mine with or without other mines;

(g) private hospital, maternity home and nursing home licensed under any written law for the registration of private hospital, maternity home or nursing home;

(h) R&D approved by the Minister;

(i) R&D undertaken by a company participating in industrial adjustment programme;

(j) training undertaken by a company participating in industrial adjustment programme;

(k) research by contact R&D company and R&D company defined in the Promotion of Investments Act 1986;

(l) buildings or structures used for the operation of approved service projects;

(m) hotel building which has been registered with the Ministry of Culture, Arts and Toursim; and

(n) business of construction, reconstruction or improvement of any public road and ancillary structures pursuant to an agreement with the agreement.

A special building allowance which is 1/10 of the expenditure incurred on the construction or purchase of building is given to the following:

(a) Warehouse buildings which are used for storing goods for exports and re-export;

(b) Approved industrial training, technical or vocational training and education;

(c) Accommodation of employees in manufacturing, approved services project, hotel or tourism business;

(d) providing child care facilities to employees for sectors in *(c)*;

(e) use for industrial, technical or vocational training.

Where industrial building is in use and a building is constructed for use as living accommodation, the initial allowance of 2/5 of the qualifying expenditure is granted; and

Business of construction of a building on a build-lease-transfer basis pursuant to an agreement with the government is granted industrial building allowance equal to 3/5 of the qualifying expenditure.

6. Accelerated Capital Allowance

(a) Computer and information technology assets including software.

Initial allowance of 20% and annual allowance of 40%.

(b) Environmental protection equipment.

Initial allowance of 40% and annual allowance of 20%.

(c) Companies that reinvest in the production of promoted products and food items are eligible for accelerated capital allowance upon expiry of reinvestment allowance.

Initial allowance of 40% and on annual allowance of 20%.

(d) Conservation of energy for own consumption

Capital expenditure incurred on the equipment used in enery conservation is written-off within one year.

7. Deduction for Acquiring Property Rights

Capital expenditure on acquiring proprietary rights such as patent, industrial design/trademarks is allowed as deduction of 20% on the cost of the acquisition of the proprietary rights for 5 years.

8. Deduction for Acquiring a Foreign-owned Company

An amount equal to 20% of the cost of acquisition is allowed as a deduction in ascertaining the adjusted income for 5 yeas for purpose of:

(i) acquiring high technology for production within the country; or

(ii) gaining new export market for local products.

9. Deduction for developing websites

Cost of developing websites is allowed as an annual deduction of 20% for a period of 5 years.

10. Deduction for Capital Expenditure on Approved Agricultural Projects

Capital expenditure on approved agricultural projects under schedule 4A of the Income Tax Act 1967 allows a person carrying on an approved agricultural project to elect so that the qualifying capital expenditure incurred by him in respect of that project is deducted from his aggregate income, including income from other sources. Where there is insufficient aggregate income for the qualifying farm, expenditure to be deducted from the unabsorbed expenditure will be carried forward to subsequent years of assessment. he so elects, he will not be entitled to any capital allowance or agricultural allowance on that same capital expenditure.

This incentive is not available to companies which have been granted incentive under the PIA, 1986 and the repealed Investment Incentive Act, 1968 and whose tax relief period have not started or have not expired.

The qualifying capital expenditure eligible for deduction for purposes of this incentive are as follows:

(a) the clearing and preparation of land;

(b) the planting (but not replanting) of a crop relating to an approved agricultural project;

(c) the construction on a farm of a road or bridge;

(d) the construction on a farm of a building used for the purposes of an approved agricultural project which is carried out on that farm or the construction on that farm of building provided for the welfare and accommodation or persons employed in that project and which, if that project ceased to be carried out, is likely to be little or no value to any person except in connection with the working of another farm;

(e) the construction of a pond or the installation of an irrigation or drainage system which is used for the purposed of an approved agricultural project.

Only expenditure incurred within a specific time frame and in respect of a farm cultivation and utilising a specified minimum hectarage for each approved project as stipulated by the Minister of Finance will qualify. The approved projects are as follows:

Project	Period	Minimum Hectarage
1. Cultivation of Crops:		
papaya	1 year	40 hectares
bananas	1 year	40 hectares
passion fruit	1 year	40 hectares
star fruit	2 years	8 hectares
guava (jambu)	2 years	8 hectares
mangosteen	7 years	8 hectares
2. Floriculture*	2 years	8 hectares
3. Cultivation of vegetables, tubers, roots, herbs, spices, crops for animal feeds and hydroponics based products	3 years	40 hectares
4. Ornamental fish culture-open system (land concrete pond)	2 years	5 hectares
5. Ornamental fish culture-enclosed system	2 years	0.25 hectares
6. Pond culture-fish and prawns (brackish water fresh water)	2 years	20 hectares
7. Tank culture-fish (brackish water fresh water)	2 years	1 hectares
8. Off-shore marine cage culture-fish	2 years	0.5 hectares
9. Marine cage culture -fish (brackish water/fresh water)	2 years	0.5 hectares
10. Cockle culture	1 year	10 hectares
11. Mussel and oyster culture	2 years	0.5 hectares
12. Seaweed culture	1 year	5 hectares
13. Shrimp hatchery	2 years	0.25 hectares
14. Prawn hatchery	2 years	0.25 hectares
15. Fish hatchery (sea water/ brackish water/ fresh water)	2 years	0.5 hectares

* (Plants, bulbs, tubers and roots with or without flowerbuds, of the kind specified in chapter 6 of the Custom Duties Order 1988, which are suitable for planting of ornamental use, excluding mushroom spawn, budded or seedling rubber stamp and rubber budwood).

11. Additional Incentives for Food Production

A company which invests in a subsidiary company engaged in food production are eligible for incentives as in alternative A or B:

Alternative A:

(i) The company which invests in the subsidiary company engaged in the food production is granted tax deduction equivalent to the amount of investment made in that subsidiary; AND

(ii) The subsidiary company undertaking food production is given tax exemption on 100% of the statutory income for 10 years commencing from the first year the company enjoys profit in which:

(a) Losses incurred before the exemption period is allowed to be brought forward after the exemption period of 10 years;

(b) Losses incurred during the exemption period is also allowed to be brought forward after the exemption period of 10 years; and

(c) Dividend paid from the exempt income be exempted in the hands of the shareholders.

OR

Alternative B:

(i) The company which invests in the subsidiary company engaged in food production is given group relief for the losses incurred by subsidiary company before it records any profits; AND

(ii) The subsidiary company undertaking food production is given tax exemption on 100% of the statutory income for 10 years commencing from the first year the company enjoys profit in which:

(a) Losses incurred during the exemption period is also allowed to be brought forward after the exemption period of 10 years; and

(b) Dividends paid from the exempt income be exempted in the hands of the shareholders.

The incentives are granted with the following conditions:

(i) The investing company should own 100% of the subsidiary company that undertakes foods production;

(ii) The eligible food products are as approved by the Minister of Finance. Initially the approved food products are kenaf, vegetables, fruits, herbs, spices, aquaculture, beef and mutton: and

(iii) The food production project should commence within a period of one year from the date the incentive is approved.

The above incentives are extended to companies which reinvests in the production of the same food product but the incentives are for a period of 5 years subject to the same conditions. Application for these incentives should be submitted for the approval of the Minister of Finance through the Minister of Agriculture.

12. Incentives for Deep Sea Fishing

The existing incentives for food production is extended to new companies undertaking deep sea fishing as follows:

First alternative:

(a) The company which invests in the subsidiary company engaged in deep sea fishing is granted tax deduction equivalent to the amount of investment made in that subsidiary: AND

(b) The subsidiary company undertaking deep sea fishing is given tax exemption on 100% of the statutory income for 10 years commencing from the first year the company enjoys profit in which:

(i) Losses incurred before the exemption period is allowed to be brought forward after the exemption period of 10 years;

(ii) Losses incurred during the exemption period is allowed to be brought forward after the exemption period of 10 years; and

(iii) Dividends paid from the exempt income are exempted in the hands of the shareholders.

OR

Second alternative:

(a) The company which invests in the subsidiary company engaged in deep sea fishing is given group relief for the losses incurred by the subsidiary company before it records any; AND

(b) The subsidiary company undertaking deep sea fishing is given tax exemption on 100% of the statutory income for 10 years commencing from the first year the company enjoys profit in which:

(i) Losses incurred before the exemption period is allowed to be brought forward after the exemption period of 10 years; and

(ii) Dividends paid from the exempt income are exempted in the hands of the shareholders.

The incentives are granted with the following conditions:

(a) The investing company must own 100% of the company that undertakes deep sea fishing;

(b) The project should commence operation within one year from the date the incentive is approved; and

(c) The project must comply with the provision of the Fisheries Act 1985.

For investors and companies already involved in deep sea fishing, the incentives are given for a period of 5 years subject to the same conditions as above.

13. Incentives to Consolidate the Management of Smallholdings and Idle Land

(i) A company that invests in a wholly-owned subsidiary company involved in the consolidation of management of small-holdings or idle land is given a deduction equivalent to the amount of investment; and

(ii) a wholly-owned subsidiary company involved in the consolidation of management of smallholdings or idle land is exempted from service tax.

14. Incentives to Increase the Planting of Rubberwood Trees

Plantation companies that switch to rubber wood planting is given Agriculture Allowance on capital expended for land preparation, planting and maintenance of rubber wood to be written off in one year.

This incentive is given to companies that plant at least 10% of their plantations with rubber wood trees.

15. Incentives for Modernising Chicken and Duck Rearing System

Chicken and duck rearers who reinvest for the purpose of shifting from opened house system to closed house system is given RA for a period of 15 consecutive years commencing from the first year the reinvestment is made.

(i) **Projects located in promoted areas**

RA of 60% on qualifying capital expenditure incurred with the allowance deducted in each year of assessment to be set off (exempt) up to 100% of statutory income; and

(ii) **Projects located outside promoted areas**

RA of 60% on qualifying capital expenditure incurred with the allowance deducted in each year of assessment to be set off (exempt) up to 70% of statutory income;

16. Incentives for Malaysian Experts Abroad to Return to Work in Malaysia

To encourage Malaysian experts who are abroad to return to serve Malaysia the following incentives are granted:

(i) Income remitted within 2 years from the date of arrival will be exempted from income tax;

(ii) Two motorcars registered in the country of origin for at least 6 months in the name either the husband/wife/children will be exempted from import duty and sales tax; and

(iii) Husband/wife and children of a Malaysian citizen will be given permanent resident status within 6 months from the date of arrival.

These incentives are effective from 1 January 2001. Applications for this incentive should be submitted to a Special Committee in the Ministry of Human Resources.

17. Tax Exemption on Income of Trade Association

Statutory income from subscription fees received by trade association is exempted from income tax indefinitely. However, if this tax exemption is less beneficial compared to the current tax treatment of 50% exemption, then the trade association can continue to enjoy the prevailing tax exemption until the expiry of the period and subsequently, enjoy the tax exemption on statutory income from subscription fees.

18. Tax Incentive for Offshore Trading Via Websites in Malaysia

Income received by companies undertaking offshore trading via website in Malaysia be taxed at a concessionary rate of 10% for a period of 5 years.

19. Special Tax Treatment for Gift

(a) Training Activity

Special tax treatment for donation of used machinery or equipment, to a technical or vocational training institute established and maintained by the Government or statutory body or technical or vocational training institute approved by the Minister of Finance.

(b) Research Activity

Special tax treatment for donation of used machinery or equipment to approved research institutes.

For both *(a)* & *(b)*

The disposal value of such machinery or equipment is deemed as zero. Any unutilised capital allowance (residual expenditure) in respect of the machinery or equipment will be given full deduction in the year of assessment in which the machinery or equipment are donated.

C. Labuan Offshore Business Activity Tax Act 1990

I. Labuan Offshore Business Activity Tax Act (LOBATA) 1990 provides for the imposition, assessment and collection of tax on offshore business activities carried on by an offshore company in or from Labuan and for matters connected therewith;

II. Offshore Business Activity means an offshore trading or an offshore non-trading activity with non-residents and in a currency other than Ringgit Malaysia. However, there are certain exceptions whereby dealings are allowed with residents or in Ringgit Malaysia, as follows:

(a) Offshore company carrying on offshore banking or insurance may be carried on with residents and in Ringgit Malaysia as permitted in the Section 20(2) of Offshore Banking Act 1990;

(b) Holding of investments by an offshore company in a domestic company may be in Ringgit Malaysia, where permitted;

(c) Offshore company carrying on money-broking or leasing may be carried with residents, where permitted; and

(d) Others as approved by the Minister of Finance

III. Offshore Business Activities are categorized into:

(a) Offshore Trading Activities, which includes banking, insurance, trading, management, licensing, petroleum operations or any other activity which is not an offshore non-trading activity but does not include shipping operations;

(b) Offshore non-trading operations means an activity relating to the holding of investments in securities, stock, shares, loans, deposits, and immovable properties by an offshore company on its own behalf.

IV. Offshore companies in Labuan undertaking offshore trading activities can choose either to:

(i) pay tax at a rate of 3% from the audited net profit; or

(ii) pay RM20,000.

V. Income of offshore companies from non-trading activities is not subject to any tax. However, where an offshore company carrying on both offshore trading and non-trading activity, it is deemed to be carrying on offshore trading activity.

In Addition to Promote Labuan as International Offshore Financial Centre

(i) Dividends received from an offshore company by its shareholders including a Malaysian Domestic Company (MDC), which are paid, credited or distributed out of income derived from an offshore business activity is exempted from income tax. In addition, the shareholders of the MDC are exempted from tax on the dividends paid out of dividends received by MDC from an offshore company.

(ii) Royalties received from an offshore company by a non-resident or another offshore company is exempted from income tax.

(iii) Interest received from an offshore company by residents, non-residents or another offshore company is exempted from income tax.

(iv) Technical and management fees received from an offshore company by a non-resident or another offshore company is exempted from income tax.

(v) Distributions received from an offshore trust by the beneficiaries are exempted from tax.

(vi) Documents for offshore business activities, transfer of shares in an offshore company and Memorandum & Articles of Association of an offshore company is exempted from stamp duty.

(vii) 65% tax exemption on statutory income of Labuan trust company and service providers providing qualifying professional services of accounting, financial, legal and secretarial services to offshore company until the year of assessment 2004.

(viii) 50% tax exemption on gross income of non-citizen employee working in a managerial capacity in an offshore company until the year of assessment 2004.

(ix) 50% tax exemption on gross income of a non-citizen trust officer working in a trust company until the year of assessment 2005.

(x) 50% tax exemption on Labuan and housing allowances of citizen working in Labuan with the Federal or State Government, a Statutory Body or an offshore company until year of assessment 2005.

(xi) withholding tax exemption on rental payment to non-residents from the use of moveable property by an offshore leasing company.

(xii) 100% exemption on director fees received by a non-citizen director of an offshore company from year of assessment 2002 to 2006.

(xiii) Duty free goods for individuals whose period of stay in Labuan is 24 hours (formerly 72 hours).

D. Customs Act, 1967; Sales Tax Act 1972, Excise Act, 1976 and Free Zone Act 1990

(1) **Manufacturing Sector**

(a) Import duty exemption on raw materials/components used in:

(i) Production for export market

Full exemption of import duty on import raw materials/components used directly and not manufactured locally, or manufactured locally but not of acceptable quality and price.

(ii) Production for domestic market

Effective 1 January 1999, full exemption from import duty on raw materials/components used directly and not available locally.

(b) Import duty/excise duty and Sales Tax exemption for machinery and equipment, spares and consumables

It is the policy of the Government not to impose taxes on machinery/ equipment, which are not produced locally and used directly in the manufacturing process. However, due to difficulties arising from tariff classification rules, some machinery/ equipment which are not locally manufactured are categorised under taxable items.

Therefore, full exemption is given on:

(i) Import duty and sales tax for imported machinery/equipment that not available locally;

(ii) Sales tax and excise duties on locally purchased machinery/equipment.

For spares and consumables, tax exemption was granted selectively based on specific criteria until 31 December 2003. The criteria are as follows:

(i) Company must export at least 80% of their production;

(ii) Such spares and consumables that have limited demand and not feasible for domestic production;

(iii) Import duty on such items exceeds 5%.

(c) Duty Drawback

Manufacturers who have paid duty on the import of raw materials & components used for the production of goods for export within a year are eligible to claim drawback on the duty paid. Drawback can be claimed from the Customs Department but subject to the conditions under Section 99 of the Customs Act, 1967.

(d) Sales Tax Exemption

Manufacturers of taxable goods with annual sales turnover exceeding RM100,000 are required to be licensed under Sales Tax Act 1972 and be eligible for exemption from sales tax on inputs (in line with single stage tax concept). However manufacturers with annual sales turnover less than RM100,000, have the option either to obtain exemption from sales tax on inputs (by being licensed) or pay sales tax on inputs but enjoy exemption on output.

There are few categories of goods exempted at both the input and output stage, i.e. all goods (including packing materials) used in the manufacture of the following:

(i) controlled articles (goods);

(ii) pharmaceutical products;

(iii) milk products;

(iv) batik fabrics;

(v) perfumes and eau d' toilette, beauty or make-up preparations;

(vi) photographic cameras, wrist-watches, pens;

(vii) computers and computers peripherals, parts and accessories;

(viii) carton boxes, corrugated paper or paperboard, folding carton boxes and cases of non-corrugated paper and paperboard;

(ix) products in the printing industry;

(x) agricultural or horticultural sprayers;

(xi) plywood;

(xii) retreaded tyres;

(xiii) uninterruptible power systems;

(xiv) machinery; and

(xv) manufactured goods for export.

(2) **Agriculture Sector**

(a) Full import duty exemption on raw materials/components used in:

(i) Production for export market.

Imported direct raw materials/ components not available locally or available locally but not of acceptable quality and price.

(ii) Production for domestic market.

Direct raw materials/ components not available locally.

(b) Full import/excise duty and sales tax exemption on machinery/ equipment

Full exemption from:

(i) imported machinery/ equipment not available locally.

(ii) locally purchased machinery/ equipment.

(3) **Approved Service Sector**

(a) Import duty and sales tax exemption on materials used directly in the implementation of ASP and are not available locally.

(b) Excise duty and sales tax exemption on machinery/equipment for locally purchased machinery/equipment used in the implementation of ASP.

(4) **Tourism Sector**

(i) Import duty, sales tax and excise duty exemption on selected materials and equipment for accommodation and non-accommodation tourism projects;

(ii) Import duty exemption on CKD components and excise duty exemption on localy assembled tourist buses;

(iii) Excise duty exemption on purchase of national car for car rental operators for tourist;

(iv) Import duty exemption on branded items valuing more than RM200.00 f.o.b.; and

(v) Import duty, sales tax and excise duty exemption on one unit of car for participants of Malaysia My Second Home program.

(5) **Film & Music Sector**

Duty exemption on equipment for recording studios, production houses and cineplexes.

Full exemption from:

(a) import duty and sales tax on identified imported equipments.

(b) sales tax and excise duty on selected locally purchased equipment.

(6) **Research Activity**

Duty exemption on machinery/ equipment, materials and samples used for approved research projects, in house research, contract R&D company and R&D company.

Full exemption from:

(a) import duty and sales tax on imported items used for R&D irrespective whether it is available locally.

(b) sales tax and excise duty on locally purchased items used for R&D .

(7) **Training Activity**

Duty exemption on machinery/ equipment, materials and samples used in approved training programme or by an approved training institution and technical or vocational training company.

Full exemption from:

(a) import duty and sales tax on imported items used for training irrespective whether it is available locally.

(b) sales tax and excise duties on locally purchased items used for training.

(8) **Environment Protection**

(a) Manufacturing companies that purchased control pollution machinery/equipment.

Full exemption from:

(i) import duty and sales tax on imported machinery/ equipment not available locally.

(ii) sales tax and excise duty on locally purchased machinery/ equipment.

(b) Companies undertaking storage, treatment and disposal of toxic and hazardous wastes.

Full exemption from:

(i) import duty and sales tax on imported machinery/ equipment that are not available locally.

(ii) sales tax and excise duty on locally purchased machinery/ equipment.

The level and criteria of exemption on raw material/component are the same as the exemption on raw material/component for the manufacturing sector.

(c) Catalytic Converters

Exemption from import duty and sales tax on catalytic converters used in motor vehicle assemblies.

(d) Companies providing energy conservation services & Companies which incur capital expenditure arising from energy conservation measures undertaken in their own company.

Full exemption from:

(i) import duty and sales tax on imported machinery/ equipment that are not available locally.

(ii) sales tax and excise duty on locally purchased machinery/ equipment.

(e) Companies utilising biomass as a new source of energy.

Full exemption from:

(i) import duty and sales tax on imported machinery/ equipment that are not available locally.

(ii) sales tax and excise duty on locally purchased machinery/ equipment.

(9) **Education Sector**

All private institutions of higher learning and private language institutions are granted import duty, sales tax and excise duty exemption on all education equipment including laboratory equipment, workshop studio and language laboratory.

(10) **International Procurement Centre**

The term International Procurement Centre (IPC) refers to locally incorporated company, local or foreign owned, which carries on a business in Malaysia to undertake procurement and sales of raw materials, components and finished products from local or third countries to its group of related and unrelated companies in Malasia or abroad.

Tax incentives given to IPC is in the form of exemption of import duty and sales tax on raw materials, components and finished products into the Free Zones or Licensed Manufacturing Warehouses under Section 11, Free Zone Act 1990, Section 14, Customs Act 1967 and Section 10, Sales Tax Act 1970. IPC is also given non-tax incentives as follows:

(a) expatriate posts will be approved based on requirement of IPC;

(b) open one or more foreign currency accounts with any licensed commercial bank to retain their export proceeds without any limit imposed;

(c) enter into foreign exchange forward contracts with any licensed commercial bank to sell forward export proceeds based on projected sales; and

(d) exempted from the requirements of the Ministry of Domestic Trade and Consumer Affairs Guidelines on foreign equity ownership on wholesale and retail trade.

IPC with total annual turnover not less than RM million is eligible for full tax exemption on statutory income for 10 years.

In order to qualify for the whole package of incentives offered, the IPC must be an 'approved IPC status company'. To qualify for 'approved IPC status ' it must satisfy the following conditions:

(a) locally incorporated under the Company's Act 1965 with a minimum paid-up capital of RM0.5 million;

(b) a minimum total operating expenditure of RM1.5 million per year;

(c) goods to be handled directly through Malaysian ports and airports.

SUMMARY OF DIRECT & INDIRECT TAX INCENTIVES BY SECTORS

(1) **Manufacturing Sector**

1. Pioneer Status
2. Investment Tax Allowance
3. Industrial Adjustment Allowance
4. Infrastructure Allowance
5. Double deduction on expenses for:
   - promotion of exports
   - R&D
   - training
   - freight charges
   - insurance premium
   - overseas promotion
   - promotion of local brand names
6. Single deduction on expenses for:
   - pre-operating expenses on approved investment overseas
   - pre-operating training expenses
   - contribution in cash to technical or vocational training institutes
   - donation to approved organization for the promotional and conservation of environment
   - gifts under Section 44(6A) and 34(6)

- providing practical training to non-employees
- managing and operating RosettaNet Malaysia
- promotion of export
- drafting corporate knowledge-based masterplan

7. Tax exemption on value of increased exports
8. Accelerated Capital Allowance
9. Reinvestment Allowance
10. Industrial Building Allowance
11. Deduction for:
    - aquiring property rights
    - acquiring a foreign-owned company
    - developing websites
12. Import duty and sales tax exemption on raw materials/components
13. Import duty and sales tax exemption on machinery/equipment and spares and consumables
14. Duty drawback

(2) **Agricultural Sector**

1. Pioneer Status
2. Investment Tax Allowance
3. Infrastructure Allowance
4. Double deduction on expenses for:
    - promotion of exports
    - R&D
    - insurance premium
5. Single deduction on expenses for:
    - pre-operating expenses on approved investment overseas
    - donation to approved organisation for the promotional and conservation of environment
    - gifts under Section 44(6A) and 34(6)
6. Tax exemption on value of increased exports
7. Accelerated Capital Allowance
8. Reinvestment Allowance
9. Industrial Building Allowance
10. Deduction for capital expenditure on approved agricultural projects
11. Additional incentives for food production and deep sea fishing
12. Accelerated Agriculture Allowance on planting of rubberwood trees
13. Import duty and sales tax exemption on raw materials/components
14. Import duty and sales tax exemption on machinery/equipment and spares and consumables
15. Duty drawback

(3) **Service Sector**

a. Approved Service Projects (ASP)

1. Income tax exemption
2. Investment Allowance
3. Infrastructure Allowance
4. Double deduction on expenses for:
    - promotion of exports of services
    - R&D
    - training
5. Single deduction on expenses for:
    - pre-operating expenses on approved investment overseas
    - pre-operating training expenses

6. Industrial Building Allowance
7. Import duty and sales tax exemption on machinery/equipment

b. **Tourism**

1. Pioneer Status
2. Investment Tax Allowance
3. Infrastructure Allowance (IA)
4. Double deduction on expenses for:
   - promotion of exports
   - training
5. Single deduction on expenses for:
   - pre-operating expenses on approved investment overseas
   - pre-operating training expenses
6. Industrial Building Allowance
7. Income tax exemption:
   - tour operators
   - organisers of international conference or trade exhition
   - cars and motorcycle racing
   - repaire and maintenance of luxury boat yacht in Langkawi
   - chartering services of luxury yacht
8. Import duty and sales tax exemption on selected materials and machinery

c. **R & D**

1. Pioneer Status
2. Investment Tax Allowance
3. Double deduction on:
   - Non-capital expenditure incurred on R&D
   - Payment for use of services of
4. Accelerated Capital Allowance
5. Import duty and sales tax exemption on materials, samples and equipment

d. **Training Activity**

1. Investment Tax Allowance
2. Double deduction on expenses for training
3. Single deduction on expenses for:
   - pre-operating training expenses
   - contribution in cash to technical or vocational training institutes
   - providing practical training to non-employees
4. Industrial Building Allowance
5. Import duty and sales tax exemption on materials, samples and equipment
6. Duty drawback

(4) **Environmental Protection Activity**

(1) Pioneer Status/Investment Tax Allowance for carrying out promoted activity such as:
   (i) forest plantation
   (ii) recycling of products
   (iii) storage, treatment and disposal of dangerous toxic and hazardous waste
   (iv) energy conservation
   (v) utilising biomass as a new source of energy

(2) Accelerated Capital Allowance for environmental protection equipment

(3) Import duty and sales tax exemption on machinery and equipment

(4) Import duty and sales tax exemption on catalytic converters

(5) Reinvestment Allowances for modernising chicken and duck rearing system

(5) **Labuan International Offshore Financial Centre (IOFC)**

(a) Offshore Companies can be incorporated or registered in Labuan IOFC to undertake financial and non-financial offshore business activities with non-residents and in a currency other than Ringgit Malaysia. However, under certain circumstances dealings are allowed with residents or in Ringgit Malaysia;

(b) Offshore companies in Labuan undertaking offshore business activity enjoy preferential tax treatment under the LOBATA, 1990, Income Tax and Stamp Duty exemptions.

(c) Offshore Companies is also declared as non-residents under Exchange Control Act of Malaysia (ECM). Thus, offshore companies not subject to ECM regulations, except for dealings with residents or dealings in Ringgit Malaysia.

E. Non-tax Incentives

A number of other non-tax incentives are also provided to spur the private sector to take advantage of investment opportunities that will assist the development of the Malaysian economy. These incentives include:

1. Export Credit Refinancing Facilities;
2. Export Credit Insurance and Guarantee Schemes; and
3. Industrial Technical Assistance Fund.

E1. Export Credit Refinancing Scheme

Export Credit Refinancing (ECR) is a scheme whereby Export Import Bank of Malaysia Berhad (Exim Bank) provides short-term financing to direct/indirect exporters, via the commercial banks.

Objectives of the ECR scheme:

- To promote the export of manufactured products, agricultural products and selected primary commodities that have significant value-added and utilize local content resources;
- To provide exporters with ready access to credit facilities at competitive rates of interest;
- To develop backward linkages in export-oriented industries.

Two types of facilities are available to exporters under the scheme;

- The pre-shipment ECR; and
- The post-shipment ECR

Eligibility for ECR Facilities

Eligible exporter

- Direct exporter either:
  - Manufacturer
  - Agricultural products producer
  - Trader
- Indirect exporter (supplier of domestic input)

Eligible product

- Product not listed in the Negative List of Exim Bank's Export Credit Refinancing Guidelines;
- Product with a minimum Value Added of 20 per cent and a minimum Domestic Content of 30 per cent; or
- Products listed in Appendix 3 of Exim Bank's Export Credit Refinancing Guideline.

Detail of the two facilities are explained as per the following table:

	Pre-shipment ECR		Post-shipment ECR
Purpose	Loan advance to manufacturing/agricultural products producer to facilitate the production of eligible goods or loan advance to trader for purchasing of domestic Intermediate/final products, for export prior to shipment.		Loan advance for a period after shipment to finance the export of eligible goods on usance terms of minimum 30 days
Methods of Financing	Order-Based	Certificate of Performance (CP)	Bills Discounting
User	*(a)* Direct Exporter – New Exporter; or – Seasonal Exporter; or – Exporter whose maximum exports for the last financial year and the preceding 12 months is less than RM1 million; and *(b)* Indirect Exporter	Direct Exporter whose maximum exports for the last financial year and the preceding 12 months is RM1 million and above Note: Exporter whole exports for the last financial year and the last preceding 12 months is between RM1 billion to RM3 million can use either order-based or CP method	Direct Exporter whose exports of eligible goods on usance terms of minimum 30 days
Margin of Financing	Max. of 80% of value of export order	Amount specified on the CP	Max. of 100% of value of export bill
Period of Financing	Max. of 4 months	Max. of 4 months.	Min. period of 7 days Max. period of 6 months
Interest Rate	Shall be at Exim Bank's ECR funding rate.	Shall be at Exim Bank's ECR funding rate.	Shall be at Exim Bank's ECR funding rate.
Limit	The max limit of RM50 million loans outstanding at any one	The eligible amount of financing is segregated into 3 period of 4 months each, subject to a max amount of RM50 million per period.	The max. limit of RM50 million loans outstanding at any one time
Request for financing	Request for financing limit of exceeding RM50 million is subject to recommendation of exporter's bank.	Request for financing limit of exceeding RM50 million is subject to recommendation of exporter's bank.	Request for financing limit of exceeding RM50 million is subject to recommendation of exporter's bank.
Repayment	Upon receipt of: For direct exporter: – export proceeds; or – post-shipment proceeds; whichever is earlier For indirect exporter: – payment from the buyer's bank or – upon maturity of the loan, whichever is earlier	Upon receipt of: – export proceeds and or post - shipment proceeds or – upon maturity of the loan whichever is earlier	Upon: – receipt of export proceeds; or – maturity of the post-shipment bill whichever is earlier

Future details on the ECR scheme are available in the "Guideline on Export Credit Refinancing (ECR)" issued by Exim Bank.

E2. Malaysia Export Credit Insurance Berhad

Malaysia Export Credit Insurance Berhad (MECIB), incorporated in 1977 is a wholly owned subsidiary of Bank Industri & Teknologi Malaysia Berhad, a Government development financial institution.

MECIB's objective is to help promote Malaysian exports and foreign investments by providing a range of export credit insurance and financing guarantee facilities. MECIB provides protection, whereby it undertakes to indemnify its policyholders for their losses arising from any of the following risks inherent in international trade.

A. Risks Covered

(i) **Commercial Risks**

(a) Buyer's insolvency;

(b) Buyer's default; and

(c) Buyer's non-acceptance of goods

(ii) **Political Risk**

(a) Blockage or delay in transfer of payments to Malaysia;

(b) War, revolution and other annoyances, including war between Buyer's and exporter's country;

(c) The imposition of import restrictions;

(d) Cancellation of import licenses;

(e) Default of a foreign Government buyer.

B. Facilities Offered

(a) **Short Term Facilities**

(i) **Comprehensive Policy (Shipments)**

This policy covers non-payment resulting from commercial and political risks in respect of goods and commodities exported on credit terms of not more than 180 days. The cover commences from the date of shipment. Percentage of cover is up to 95% of the amount of loss.

(ii) **Comprehensive Policy (Contracts)**

This policy covers the risks of non-payment for goods specifically produced under a contract of sale for overseas buyers especially where loss can be sustained in the event of the contract being frustrated in the pre-shipment period. Hence, cover commences from the date of the contract. Percentage of cover is up to 95% of the amount of loss.

(iii) **Comprehensive Policy (Service)**

This policy covers export of services other than tangible goods to overseas clients or principals such as technical or professional assistance; repairs; refits conversion carried out on ships; and payment under royalty agreement etc; on credit terms of not more than 180 days. Cover is effective from date of invoice. Percentage of cover is up to 95% of the amount of loss.

(iv) **Bank Letter of Credit Policy**

Bank Letter of Credit (LC) Policy is offered to commercial banks providing post-shipment financing to the exporters selling on LC terms of payment. With the policy, the LC negotiating bank's concerns about the credit standing of the LC issuing bank and/or the political and economic conditions prevailing in the buyers' country are mitigated.

The policy insures the LC negotiating bank for non-reimbursement by the LC issuing bank up to 95% of the face value of the LC.

This policy aims to promote Malaysian export to non-traditional and difficult markets by enabling the commercial banks to finance the exports to these regions.

(b) **Medium and Long-Term Facilities**

(i) **Specific Policy**

This policy covers export of capital or semi-capital goods and/or services with lengthy manufacturing and/or payment periods and high contract values. It is tailored to the needs and features of each project or manufacturer in Malaysia. The credit terms must be for a minimum of two years and the policy is issued on a one-off project basis. Percentage of cover is up to 95% of the amount of loss.

(ii) **Supplier Credit Guarantee**

This guarantee applies to loans given by the financial institutions to finance a Malaysian supplier/exporter/contractor of Malaysian goods and services or Malaysian turnkey contractor undertaking an overseas project.

Without the loan, the Malaysian exporter or turnkey contractor may not be able to implement the project.

To mitigate its balance sheet exposure to political risks in the buying country, the Malaysian exporter or turnkey contractor can insure these risks with MECIB under the Specific Policy.

The percentage of cover for the Supplier Credit Guarantee is determined on case-by-case basis up to a maximum of 100%. The loan, in turn, could provide financing for up to 85% of the Malaysian contract value related to the overseas project or export transaction. If the contract contains goods other than Malaysian goods and services, a Malaysian content and value added requirement of 30% is necessary.

(iii) **Buyer Credit Guarantee**

This guarantee is provided to financial institutions lending to a foreign sovereign, public or private buyer for financing the purchase of Malaysian goods and services typically capital goods or turnkey projects whereby disbursement is made directly to the exporter in accordance with the supply contract.

Without the loan, the foreign buyer may not be able to purchase the Malaysian goods and services.

Percentage of cover is on case-by-case basis, but generally, for a loan to a sovereign buyer, a 100% comprehensive coverage is extended. The loan, in turn, could provide financing for up to 85% of the Malaysian contract value related to the overseas project or export transaction. If the contract contains goods other than Malaysian goods and services, a Malaysian content and value added requirement of 30% is necessary.

(iv) **Project Finance Guarantee**

This guarantee applies to loans given by financial institutions to companies undertaking overseas privatisation projects e.g. Build-Operate-Transfer or Build-Own-Operate-Transfer on limited recourse financing basis where the source of repayment is from the cash flow of the project itself.

Guarantee provided can be in the form of political risks cover only or both political and commercial risks coverage. The extent of commercial risk coverage is determined on case-by-case basis subject to maximum of 100%. The project is normally required to be financed through injection mix of debt and equity, and, typically a 70:30 mix is ideal for an infrastructure project.

(v) **Overseas Investment Insurance**

This insurance protects Malaysian investors of their investment typically related to an overseas project either in the form of equity commercial bank loan or shareholder's loan against losses arising from political risks such as restrictions or blockage in repatriation of profits, dividend, loan repayment etc., expropriatory acts by the host government whether directly or indirectly and damages to tangible assets due to war and civil disturbances. On a case-by-case basis, where concession has been awarded to an investor, extended coverage of repudiation of contract by host government may be considered.

Standard coverage of 90% of any investment losses arising from the aforementioned political risks is available.

(vi) **Bond Facility**

MECIB can either issue bonds or provide guarantee to commercial banks to encourage the issuance of bonds on behalf of the Malaysian companies to meet the requirement of the overseas buyers of Malaysian goods and services.

The types of bonds typically covered are tender bond, advance payment bond and performance bond. Coverage is 100%.

An unfair calling of bond is also available providing protection to Malaysian companies against unfair calling of the bond by the overseas buyer/principal. Standard coverage of 95% is available.

For further information, please contact MECIB at the nearest office:

Kuala Lumpur

Malaysia Export Credit Insurance Berhad (32522-U)
Level 17, Bangunan Bank Industri, Bandar Wawasan
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80300 Johor Bahru,
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Fax : 607 - 2240370
E-mail : ros@mecib.com.my

E3. Industrial Technical Assistance Fund

To enhance capacity and capability of SMEs, the Industrial Technical Assistance Fund (ITAF) was set up in 1990 with an allocation of RM120 million under 7MP. To further provide assistance for SMEs, RM40 million has been allocated under 8MP. The ITAF schemes are as follows:

(i) Grant for Planning and Development (ITAF1);

(ii) Grant for Process and Product Improvement (ITAF 2);

(iii) Grant for Productivity and Quality Improvement and Certification (ITAF 3); and

(iv) Market Development Grant (ITAF 4).

SMIs that fulfill that following conditions are eligible to apply for assistance:

(i) Companies incorporated under the Companies Act 1965;

(ii) Manufacturing companies or companies providing manufacturing related services* with an annual sales turnover of not exceeding RM25 million and with full-time employees of not exceeding 150; and

(iii) At least 60% held by Malaysian.

* manufacturing related services include the following activities:

- engineering support services such as calibration, electroplating, machining, heat treatment, metal casing, metal forging;
- specialized services such as warehousing, bulk breaking, international procurement center, haulage;
- maintenance and repair of factory machinery and equipment;
- software development such as CAD, CAM, CAE, ERP, CIM, SCM, CRM;
- automation of production line;
- design houses; and
- packaging services

Priority will be given to SMEs which:

- Manufacture products or involved in activities or services promoted under the PIA, 1986;
- Participate in the Industrial Linkage Programme.

Assistance is given in the form of matching grant whereby 50% of the project cost is borne by the government and the remaining 50% is borne by the applicant company subject to a maximum grant as stipulated for each schemes. Further information on ITAF 1,2 and 3 can be obtained from SMIDEC and for ITAF 4 from MATRADE:

ITAF Secretariat,
Perbadanan Pembangunan Industri Kecil dan Sederhana Malaysia
701 D, Level 7, Tower D,
Uptown 5,
Jalan SS 21/39,
Damansara Uptown,
47400 Petaling Jaya,
Selangor

Telephone No : 03-7660 8585
Fax No : 03-7660 1919

II. THE INDUSTRIAL COORDINATION ACT, 1975

The objective of the Industrial Coordination Act 1975 (ICA 1975) is to ensure orderly development and growth in the manufacturing sector. The ICA 1975 requires person(s) engaging in any manufacturing activity to obtain a licence from the Licensing Officer in respect of such manufacturing activity. Only manufacturing companies with shareholders' funds of RM2.5 million and above or engaging 75 or more full-time employees need to apply for a licence under the ICA 1975. Manufacturing activities in relation to optical discs are not subjected to this provision.

All applications for manufacturing licences should be made in the prescribed form to the Director-General of the MIDA in Kuala Lumpur, Malaysia. MIDA is the Government's principal agency for the promotion and coordination of industrial development in Malaysia.

The relevant definitions in the ICA are as follows:

(a) The "Licensing Officer" is the Secretary-General of the MITI.

(b) "Manufacturing activity" means the making, altering, blending, ornamenting, finishing or otherwise treating or adapting any article or substance with a view to its use, sale, transport, delivery or disposal and includes the assembly of parts and ship repairing but shall not include any activity normally associated with retail or wholesale trade.

(c) "Shareholders' funds" means the aggregate amount of a company's paid-up capital (in respect of preference shares and ordinary shares and not including any amount in respect of bonus shares to the extent they were issued out of capital reserve created by revaluation of fixed assets), reserves (other than any capital reserve which was created by revaluation of fixed assets and provisions for depreciation, renewals or replacements and diminution in value of assets), balance of share premium account (not including any amount credited there in at the instance of issuing bonus shares at premium out of capital reserve by revaluation of fixed assets) and balance of profit and loss appropriation account.

(d) "Full-time paid employees" means all persons normally working in the establishment for at least six hours a day and at least 20 days a month for 12 months during the year and who receive a salary. Persons such as traveling sales, engineering, maintenance and repair personnel, or who are paid by and are under the control of the establishment are also included. Full-time paid employees also include directors of incorporated enterprises except those paid solely for the attendance at Board of Directors meetings. Family workers who receive regular salaries or allowances and who contribute to the Employees Provident Fund (EPF) or other superannuation funds are also included in the definition.

1. Guidelines for Approval of Industrial Projects

Malaysia's rapid industrial growth over the past decade has created a high demand for labour in the manufacturing sector. The last few years has seen a tightening in the labour market situation.

In view of this, the Government has set down guidelines for the consideration of industrial project based on the Capital Investment Per Employee (C/E) Ratio. With effect from 26 August 1995, projects with a C/E Ratio of less than RM55,000 will be defined as labour-intensive and will not be considered for a manufacturing licence or for tax incentives by MITI.

However, projects which fulfill one of the following criteria will be exempted from the above guideline:

(a) If value-added is more than 30%.

(b) If the Managerial, Technical and Supervisory (MTS) Index is more than 15%.

(c) If the project undertakes activities or products listed as promoted activities and products of high technology.

(e) If the project is located in the Eastern Corridor of Peninsular Malaysia, Sabah and Sarawak.

2. Expansion of Production Capacity and Diversification of Products

An existing licensed company which proposes to undertake an expansion of production capacity for its approved products or diversification to manufacture additional products is required to submit an application for the expansion or diversification in the prescribed form to MIDA.

III. GUIDELINES ON FOREIGN INVESTMENT

1. Equity Policy In The Manufacturing Sector

The Malaysian Government welcomes foreign investment in the manufacturing sector. In keeping with the objective of increasing Malaysian participation in manufacturing activities, it is the policy of the Government to encourage projects to be undertaken on a joint-venture basis between Malaysians and foreign entrepreneurs.

1.1 In continuing its effort to further improve the investment climate, the Malaysian Government has decided to fully liberalise equity holdings in all manufacturing projects. Thus, effective from 17 June 2003, 100% foreign equity holdings is allowed for all investment in new projects as well as investments in expansion/diversification projects by existing companies, irrespective of the level of exports and without any product/activity being excluded.

However, equity and export conditions imposed on companies prior to this new policy will be maintained. Some flexibility will be given to requests for the removal of these conditions depending on the merits of each case.

Foreign equity participation in manufacturing projects has been governed by the level of exports. Effective from 31 July 1998, the Malaysian Government has liberalised the equity policy for the manufacturing sector in respect of new investments, expansion or diversification as follows:

(a) Foreign investors can now hold 100% equity irrespective of the level of exports.

(b) This relaxation is applicable for all applications received from 31 July 1998 until 31 December 2003 to set up manufacturing projects with the exception of specific activities and products where Malaysians small and medium scale companies have the capabilities and expertise. These activities and products are paper packaging; plastic packaging (bottles, films, sheets and bags); plastic injection moulded components; metal stamping, metal fabrication; wire harness; printing and steel service centres. For these activities and products, the prevailing specific equity guidelines are applicable.

(c) This policy will apply to all applications received from 31 July 1998 to 31 December 2003, as well as applications already received, but for which decisions are pending.

(d) All projects approved under this policy will not be required to restructure their equity after the period.

(e) The Government will review this policy after 31 December 2003

1.2 Equity Policy Applicable to Existing Companies

(a) Companies, which have been licensed before 31 July 1998, have to comply with the equity condition as stated in the licence. However, for existing companies undertaking expansion or diversification, the equity policy as in para 1.1 above applies to the expansion and diversification projects.

The equity policy as in para 1.1 above also applies to the following companies:

(b) Companies previously exempted from the Manufacturing Licence but whose shareholders' funds have now reached RM2.5 million or have engaged 75 or more full-time employees; and

(c) Existing licensed companies exempted from the equity condition which are required to inform MITI when their shareholders' funds reach RM2.5 million

1.3 Relaxation of Export Conditions for Existing Manufacturers

To encourage greater levels of industrial linkages and local sources, the Government has relaxed the export conditions imposed on manufacturing companies effective from 1 January 1998 to 31 December 2003. With this relaxation, all existing companies with export conditions can apply to MIDA for an approval to sell in the domestic market as follows:

- up to 100% of their output for those products with nil duty or not produced locally.
- Up to 80% of their output, if the domestic supply is inadequate; or the imports from ASEAN for products with CEPT duties of 5% and below have increased.

The above temporary relaxation of export condition will not affect the current equity structure and incentives of existing companies.

2. Protection Of Foreign Investment

2.1 Equity Ownership

A company that has been approved with a certain equity participation will not be required to restructure its equity at any time, provided that the company continues to comply with the original conditions of approval and retains the original features of the project.

2.2 Investment Guarantee Agreements

Malaysia's readiness to conclude Investment Guarantee Agreements (IGA) is a testimony of the Government's desire to increase the confidence of foreign investors in Malaysia.

An IGA will provide the foreign investor with the following:

(a) Protection against nationalisation and expropriation.

(b) Prompt and adequate compensation in the event of nationalisation or expropriation.

(c) Free transfer of profits, capital and other fees.

(d) Settlement of investment disputes under the Convention on the Settlement of Investment Disputes of which Malaysia has been a member since 1966.

Malaysia has concluded Investment Guarantee Agreements with the following countries (in order of precedence): United States of America, Germany, Canada, Netherlands, France, Switzerland, Sweden, Belgo-Luxembourg, United Kingdom, Sri Lanka, Romania, Norway, Austria, Finland, Organisation of Islamic Countries (OIC), Kuwait, Association of South-East Asian Nations (ASEAN), Italy, South Korea, China, United Arab Emirates, Denmark, Vietnam, Papua New Guinea, Chile, Laos, Taiwan, Hungary, Poland, Indonesia, Albania, Zimbabwe, Turkmenistan, Namibia, Cambodia, Argentina, Jordan, Bangladesh, Croatia, Bosnia Herzegovina, Spain, Pakistan, Kyrgyz Republic, Mongolia, India, Uruguay, Peru, Kazakhstan, Malawi, Czech Republic, Guinea, Ghana, Egypt, Botswana, Cuba, Uzbekistan, Macedonia, North Korea, Yemen, Turkey, Lebanon, Burkina Faso, Republic of Sudan, Republic of Djibouti, Republic of Ethiopia, Senegal and State of Bahrain, Algeria, Saudi Arabia and Morocco.

- **Convention on the Settlement of Investment Disputes**

In line with the national policy of promoting and protecting foreign investment, the Malaysian Government in 1966 ratified the provisions of the Convention on the Settlement of Investment Disputes established under the auspices of the International Bank for Reconstruction and Development (IBRD).

Facilities for international conciliation or arbitration are established by the Convention through the International Center for Settlement of Investment Disputes, which is located at the principal office of the IBRD in Washington.

- **Regional Centre for Arbitration**

The Kuala Lumpur Regional Centre for Arbitration was established in 1978 under the auspices of the Asian-African Legal Consultative Committee (AALCC) - an inter-governmental organisation in cooperation with and with the assistance of the Government of Malaysia.

The Centre serves the Asian and Pacific region. It is a non-profit organisation and has been established with the objective of providing a system for the settlement of disputes for the benefit of parties engaged in trade and commerce and investments with and within the region.

* The Eastern Corridor of Peninsular Malaysia covers Kelantan, Terengganu, Pahang and the district of Mersing in Johor.

IV. MALAYSIAN INDUSTRIAL DEVELOPMENT AUTHORITY

The Malaysian Industrial Development Authority (MIDA) is the first point of contact for investors who intend to set up projects in the manufacturing and related support services sector in Malaysia. MIDA has established a global network of overseas offices covering North America, Europe and the Asia-Pacific and a local network of branch offices in the various states to assist investors in the initial stages to the implementation and operation of their projects.

Since 1 October 1988, MIDA has been designated as the Coordinating Centre on Investment. Investors need only to approach MIDA to obtain most of the approvals required at the Federal level. This measure is aimed at further streamlining the administrative procedures in respect of investment at the Federal level.

The major functions of MIDA are:

- *(a)* Promote foreign and local investments in the manufacturing and related services sector;
- *(b)* Undertake planning for industrial development in Malaysia;
- *(c)* Recommend to the Minister of International Trade & Industry policies and strategies on industrial promotion and development;
- *(d)* Evaluate various types of applications relating to the set up and implementation of industrial and related projects;
- *(e)* Assist companies in the implementation and operation of their projects and other assistance through direct consultation and cooperation with the relevant authorities at both the federal and state levels;
- *(f)* Facilitate the exchange of information and coordination among institutions engaged in or connected with industrial development.

Applications evaluated cover the following:

- *(a)* Manufacturing licences;
- *(b)* Tax incentives for manufacturing activities, agriculture projects, hotel and tourism projects, R&D, technical or vocational training institutions and software development, IPCs, OHQs, RDCs and approval for Regional Offices and Representatives Offices;
- *(c)* Expatriate posts;
- *(d)* Import duty exemption on raw materials an components;
- *(e)* Import duty and sales tax exemption on machinery and equipment;
- *(f)* Tariff protection; and
- *(g)* Asean Industrial Cooperation Scheme

To further enhance MIDA's role in assisting investors, senior representatives from various key Ministries, departments and relevant corporations are emplaced within the MIDA Headquarters in Kuala Lumpur to assist and advise investors and coordinate applications for approvals and other matters under the purview of these bodies. The representatives are from:

- *(a)* Ministry of Finance;
- *(b)* Ministry of Human Resources;
- *(c)* Immigration Department;
- *(d)* Royal Customs and Excise Department;
- *(e)* Department of Occupational Safety and Health;
- *(f)* Department of Environment;
- *(g)* Tenaga Nasional Berhad; and
- *(h)* Telekom Malaysia Berhad.

On the 1st April 2002, a Promotion of Services Sector Division was established in MIDA. The function of this Division include:

- *(a)* Formulation of programmes related to the promotion of manufacturing related services
- *(b)* Promotion of investments in the manufacturing related services such as logistics (warehousing, distribution, packaging), specialized services centers, product testing, central utilities facilities and integrated market support services (brand and consumer development, advertising and promotion services)

(c) Collation of information on policies, procedures, incentives and facilities on manufacturing related services sector.

Investment Centre at State Level

At the state level, investment centres have also been formed to provide efficient services to investors. Presently, nine states have set up such centres. These are Johor, Kelantan, Melaka, Negeri Sembilan, Pahang, Perak, Sabah, Selangor and Terengganu. The State Government of Sarawak has also agreed in principle to set up a similar centre. The three other states of Kedah, Perlis and Pulau Pinang are still operating under this existing systems where applications are submitted directly to the respective agencies for approval. If complications or delays should arise in the granting of certain approvals, the State Economic Development Corporations (SEDCs) of Kedah and Perlis and the Penang Development Corporation will then convene a meeting among the agencies concerned to expedite the granting of such approvals.

The investment centres at the state level are either at the SEDCs as in Johor, Kelantan, Melaka, Pahang and Perak or at the State Economic Planning Units (SEPUs) as in the case of Negeri Sembilan, Selangor and Terengganu. In Sabah, the centre is at the Department of Industrial Research and Development. In Sarawak, the State Government has agreed that the centre be based at the Ministry of Industrial Development.

To assist these centers to function effectively, Special Committees have been established. The role of these Committees is to coordinate and decide all matters concerning the issue of licences, permits and approvals and problems faced by investors at the state level. All applications and complaints received are channeled by the centers (which also serve as the secretariats to the Special Committees) to the relevant agencies for consideration. The centers at state level do undertake different functions but they are generally very similar and their functions relate more to expediting the necessary approvals for the implementation of their projects.

The essential Terms of Reference of the centres at the state level are as follows:

(a) to establish an investment information centre for collecting, updating and providing relevant information or data to investors;

(b) to receive, process and convey decisions on applications for licences, permits and approvals required by investors at the state level for the implementation and operation of their projects;

(c) to monitor the progress of projects with the view to assisting investors in the implementation of their projects; and

(d) to advise the State Governments from time to time on all matters pertaining to the development of the industrial sector in the state.

With the establishment of the investment centers at the state level, the administrative procedures involved in the granting of approvals, permits and licences required for the implementation and operation of the projects at the respective state level have been streamlined. It would not only make it easier for the investors as they would have to deal only with the centres in respect of most, if not all, of the problems they would encounter at the state level, but the time taken to secure the necessary approvals would also be reduced. This would save the investors valuable time, effort and resources in their dealings with the State Governments and would consequently enhance the overall investment climate not only of the states but also of the nation as a whole.

Pertaining to the relationship between Federal and State Governments, the joint Industrial Coordination Committee involving Federal and State has been established in every state with the following function:

(i) Plan industrial development at the state level to ensure that it is in accordance with national planning. State industrial development plans are used as inputs to national industrial to national industrial development plans to ensure effectiveness.

(ii) Identify investment promotion strategies to ensure efficient distribution of industries. For this the committee will emphasize:

(a) Identifying new industrial zones evaluating infrastructure elements such as roads, water supply, electricity, transportation, communications, storage and disposal of industrial wastes;

(b) Evaluating the feasibility of setting up specific industrial zones, specifically for SMIs;

(c) identifying and solving problems faced by companies operating in industrial zones; and

(d) identifying industries which need to be emphasized in the different states.

(iii) Plan and monitor linkages in industrial sub-sectors in order to ensure the presence of critical supporting industries at the state level. Industrial development is to be more integrated. Synergy in industrial development to be achieved by the different states.

(iv) Promote Skills Development Centres at the state level to ensure a sufficient supply of skilled workers for industry.

(v) Identity weaknesses in procedures hindering project implementation and recommend remedial action.

(vi) Plan export promotions so that industrial producers explore international markets.

(vii) Provide feedback and references to help the private sector solve their problems.

V. TRANSFER OF TECHNOLOGY

All manufacturing projects licensed under the Industrial Coordination Act 1975 must obtain the prior written approval of the MITI before entering into any technology transfer agreement involving foreign partners.

Types of Agreements

Technology transfer agreements cover license rights over specific processes, formulae or manufacturing technology (may be patented or unpatented), other knowledge and expertise necessary for the setting up of plant, and provision of various technical assistance and supporting services.

Under these arrangements, a specific agreement entered into could be in the form of:

(i) Joint-Venture Agreement. An agreement to set up a joint-venture company between two or more parties involving locals and foreigners.

(ii) Technical Assistance and Know-How Agreement. An agreement between two or more parties where one party will provide the technical assistance and know-how for the manufacture of certain products for a certain amount of fee or royalty.

(iii) Licence Agreement. An agreement between two or more parties where the licensor grants a licence/right to the licensee to use its patents, trademarks and other industrial/intellectual properties for the manufacture of certain products for a certain amount of fee or royalty.

(iv) Patent and Trademark Agreement. An agreement between two or more parties where one party gives the right to the other to use its patents and trademarks for the manufacture of certain products for a certain amount of fee.

(v) Turnkey Contract. A contract between two or more parties where the contract is awarded to one of the parties to perform all stages from the initial stage inclusive of consultancy, managerial, technical and other services, until the contractual project is ready for immediate commercial production or final use.

(vi) Management Agreement. An agreement between two or more parties where one party will provide management services to the other for a management fee.

Guidelines on Transfer of Technology

Agreements on transfer of technology must define in detail the following:

(i) Technological content and principal features of technology or process;

(ii) Anticipated production;

(iii) Quality and specification of products; and

(iv) Particular of technical assistance, services and manner in which they are to be provided.

The transfer of technology must be affected through the following:

1. Access to Improvements

The technology to be supplied should incorporate:

(i) The latest development know-how of the supplier; and

(ii) Access to innovations or breakthrough in technology, including new patents applied for or registered.

2. Remuneration for Technology

Payment for technology can be in the form of a 'fixed lump sum fee' or a 'running royalty' or a combination of lump sum fee and running royalty for a specified period. Lump sum payments are usually allowed in cases where the know-how can be fully and completely transferred and absorbed within a specified period. The method of payment that is preferable is the running royalty based on net sales. Initial lump sum payments in addition to royalties are not encouraged by MITI. Where such payments are requested, it should be only for the recovery of actual expenses incurred by the Licensor for preliminary services provided to the Licensee.

3. Method of Payment

(a) Royalty is imputed in relation to the level of technology and principal elements of transfer. Depending upon the merits of each case, a rate of 1% to 5% of net sales can be considered. Net sales are defined as gross sales less sales discounts or returns, transport costs (including freight), insurance, duties, taxes and other charges including where applicable, costs of raw materials, parts and components imported from the foreign licensor concerned or its subsidiaries or affiliated companies.

(b) The Government has liberalised the present policy for regulating technology transfer agreements by allowing automatic approval of the following:

(i) Technology transfer agreements signed between 100% foreign-owned companies in Malaysia and any foreign party or foreign holding company.

(ii) All technical assistance, licence and know-how agreements signed between Malaysia-owned/Malaysian joint-venture companies and any foreign party where the royalty payment is as follows:

(a) Running royalty not exceeding 3% of net sales; or

(b) Lump sum payment not exceeding RM500,000; or

(c) Lump sum payment and running royalty in total not exceeding 3% of net sales.

(iii) Trademark and patent agreements signed between Malaysia-owned/ Malaysian joint-venture companies and any foreign party involving royalty payments not exceeding 1% of net sales for each category.

Practice of itemization of service under separate agreements is discouraged.

(c) Capitalisation of know-how fees or royalty is not encourages

4. Duration and Renewal

(a) Duration of the agreement should be adequate for full absorption of technology. The life of any patent relating to the technology is also taken into consideration.

(b) An initial period of five years is normally approved and any renewal is subject to the prior approval of MITI.

5. Training

A provision for adequate training of the local company's personnel in the technology supplier's plant facilities as well as in-house training in the local company's plant should be incorporated and clearly specified. In the case of the former, the number of personnel to be trained, the areas of training and its duration, together with arrangements and the facilities to be made available for the training should also be defined. The cost of training should be borne by the technology supplier but all expenses related to salaries, wages, living and traveling allowances should be borne by the local company.

6. Patents and Trademarks

Patents and trademarks may come as one of the components of the whole technology transfer package. In the case of patents, it is of utmost importance that those patents involved in any process know-how be explicitly defined in the arrangements and the local company is granted user rights over all such patents. Where the life of the patents extends beyond the duration of the agreement concerned, an arrangement should be made for the continued use of the patents after the expiry of the agreement.

7. Confidentiality/Secrecy

Confidentiality of information should be confined to the duration of the agreement only.

8. Guarantee/Warranty

The agreement should define a guarantee with respect to the production capacity, product quality and specifications and other features of the manufacturing process.

9. Infringement of Third Party's Right

The technology supplier should undertake to indemnify the local company against any claims in the event that legal proceedings are taken by a third party against the local company for infringement upon any industrial property rights arising out of the use by the local company of any of the technical assistance furnished by the technology supplier.

10. Termination Clause

Either party should have the right to terminate the agreement.

11. Taxes

A withholding tax of 10% is levied on payments made to foreign suppliers of technology and this tax has to be borne by the foreign recipient. Exemption under the Double Taxation Agreement, where applicable, has to be made to the Ministry of Finance separately.

12. Sales Territory

The local company should be free to sell its produce (manufactured with the licensed technology) in the whole of Malaysia and all other countries except where the foreign technology supplier is manufacturing directly or where he has given exclusive rights to others or where he is legally not empowered to allow sales based on his technology.

13. Governing Laws and Arbitration

The governing laws for any technology transfer arrangement should be Malaysian laws and arbitration proceedings must be conducted in Malaysia in accordance with either the Malaysian Arbitration Act, 1952 (Revised 1972) or the United Nation Commission on International Trade Law Rules and conducted at the AALCC Regional Centre for Arbitration, Kuala Lumpur.

The requirement does not apply to agreements signed between 100% foreign-owned companies in Malaysia and any foreign party or foreign holding company.

VI. INTELCTUAL PROPERTY PROTECTION

Intellectual property protection in Malaysia consists of Patent, Trademark, Industrial Design, Copyright and Layout Design of Integrated Circuit.

Malaysia is a member of the World Intellectual Property Organization and signatory to the Paris Convention and Berne Convention, which govern the abovementioned intellectual properties. In addition Malaysia is also a signatory to the Agreement On Trade Related Aspects of Intellectual Property Rights (TRIPS), an agreement under the auspices of the WTO. Therefore the Malaysian laws on Intellectual Property are kept abreast with the international standards, and do provide adequate protection in the field of intellectual property for both local and foreign investors.

1. Patents

Patents protection is governed by Patents Act 1983 and the Patents Regulations 1996. An applicant may file a patent application directly if he is domicile or resident in Malaysia. A foreign patent's application can only be filed through a registered patent agent in Malaysia who will act on behalf of the applicant. Similar to the provision of the legislation in the other countries, an invention is patentable if it is new, involves and inventive step and is industrially applicable. The Act provides that a period for patent protection is 15 years from the date of grant and subject to yearly renewal. The Patent Act was amended to extend the protection period to twenty years from the date of filing of an application in order to comply with the TRIPS agreement.

For utility innovation (minor innovation) the protection period is 5 years from the date of grant, and may be extended to a maximum of 10 years subject to use. Under the recent amended Act, the utility innovation certificate is given an initial duration of ten years protection from the date of filing of the applications instead of five years from the date of grant of the certificate. The owner of a patent has a right to exploit the patented invention, to assign or transmit the patent and to conclude licensed contract.

2. Trade Marks

Trademarks protection is governed by the Trade Marks Act 1976 and the Trade Marks Regulations 1997. The Act provides adequate protection for registered trade marks and service mark in Malaysia. If a trade mark or service mark is registered, no person or enterprise other than its proprietor or authorized users may use it, otherwise infringement action can be initiated against them. The period of protection is 10 years, which is renewable for a period of every 10 years thereafter. The proprietor of the trade mark or service mark has the right to deal or assign as well as to license the use of it. In accordance with the TRIPS requirements, provision for the prohibition of registration of well known trade marks by unauthorized persons and provision for border measures to prohibit counterfeit trade marks from being imported into Malaysia are provided for to facilitate a conducive business environment in Malaysia. While the local applicants may file applications on their own, the foreign applicants would have to file applications only through the agents.

3. Industrial Design

Industrial design protection is governed by the Industrial Designs Act 1996 and Industrial Designs Regulations 1999. The new Act replaces the United Kingdom Designs (Protection) Act 1949 for West Malaysia, the United Kingdom Designs (Protection) Ordinance Chapter 152 for Sabah and Designs (United Kingdom) Ordinance Chapter 59 for Sarawak. With the introduction of the New Act, registration for the protection of industrial designs in Malaysia must be filed locally.

The Act provides the rights of registered industrial designs as that of a personal property capable of assignment and transmission by operation of the law. Registrable industrial designs must be new and does not include a method of construction or design that are dictated solely by function. In addition the design of the article must not be dependent upon the appearance of another article of which the article forms an integral part. Registration by a local applicant can be filed individually or through a registered industrial designs agent. However for a foreign applicant, filing has to be done through a registered industrial designs agent. Registered industrial designs are protected for an initial period of 5 years, and may be extended twice for a 5-year term each, providing a total protection period of 15 years.

4. Copyright

Copyright protection is governed by the Copyright Act 1987, which provides comprehensive protection for copyrightable works. The Act outlines the nature of works eligible for copyright (which includes computer software), the scope of protection, and the manner in which the protection is accorded. There is no registration of copyright works.

The duration of copyright protection in literary, musical or artistic works, is the life of the author and 50 years after his death, while the duration of protection in sound recordings, broadcasts and films is 50 years after the works are first published or made. The act also provides protection for the performers' rights in a live performance which shall continued to subsist until the expiry of fifty years computed from the beginning of the calendar year following the year in which the live performance was given. A unique feature of the Act is the inclusion of provision for enforcement of the Act, which included such powers to enter premises suspected of having infringing copies and to search and seize infringing copies and contrivances. A special team of officers is appointed to enforce the Act.

5. Layout Design of Integrated Circuit

Layout design of integrated circuit is governed by the Layout Design of Integrated Circuit Act 2000. The Act recognizes a protection for layout design of integrated circuit base on its originality, creator's own invention and the creation is freely created. There is no registration of the Layout Design of Integrated Circuit.

The duration of its protection is ten years from the date of its commercial exploitation or fifteen years from the date it was created if not commercially exploited. The Act also allows an action to be taken by the owner it such a right recognized under the Act has been infringed. It can also be transferred either party or wholly by way of assignment, licence, wills or through the enforcement of law. The Act is implemented in compliance with the TRIPS agreement to ensure the growth of technology in this country and provide a guarantee to the investors in the electronic industrial sector.

For further details on the Intellectual Property Protection, please contact the Ministry of Domestic Trade and Consumer Affairs.

VII. LABUAN INTERNATIONAL OFFSHORE FINANCIAL CENTRE

To further enhance the role of Malaysia as a financial centre, the Federal Territory of Labuan was launched as an International Offshore Financial Centre (IOFC) on 1 October 1990. Labuan as an IOFC will complement the onshore financial system in Kuala Lumpur. The business and activities promoted in Labuan IOFC are:

- (i) Offshore banking including investment banking;
- (ii) Offshore insurance and offshore insurance-related businesses;
- (iii) Offshore Trusts and Trusts business;
- (iv) Investment holdings;
- (v) Mutual funds, units trust and fund management;
- (vi) Factoring;
- (vii) Limited partnerships;
- (viii) Venture capital;
- (ix) Company management;
- (x) Money broking;
- (xi) Money market, Corporate Treasury; and
- (xii) Labuan International Financial Exchange (LFX); and
- (xiii) Islamic Financial Business

The Administration of Labuan IOFC

Labuan Offshore Financial Services Authority (LOFSA) was established on 15 February 1996 under the Labuan Offshore Financial Services Authority Act 1996 as a single regulatory authority responsible to develop and promote offshore business in Labuan IOFC. However, matters relating to taxation continue to be administrated by the Inland Revenue Board. LOFSA's establishment further underscores the

Government's commitment to make Labuan a premier IOFC of high repute. LOFSA has developed a two-pronged strategy for the development of Labuan IOFC: The creation of an integrated offshore financial centre offering a wide range of offshore products, particularly in its niche market of Islamic banking and finance, and the provision of a legal and supervisory framework for the development of a globally competitive offshore industry. In implementing the strategy, LOFSA:

i. Develops national objectives, policies and priorities for the orderly development and administration of the offshore financial services industry in Labuan IOFC;

ii. Supervises the activities and operations of the offshore financial institutions in Labuan; and

iii. Oversees the promotional and developmental aspects of the IOFC.

Legislation

The legislation governing the conduct of offshore businesses and investment activities in Labuan IOFC is as follows:

(a) **Offshore Companies Act, 1990**

For the incorporation, registration and administration of offshore companies and foreign offshore companies

(b) **Labuan Trust Companies Act, 1990**

For the registration of companies as trust companies in Labuan, for the prescription of their powers and duties

(c) **Offshore Banking Act, 1990;**

For the licensing and regulations of persons carrying on offshore banking business

(d) **Offshore Insurance Act, 1990;**

For the licensing and regulation of persons carrying on offshore insurance business and offshore insurance-related activitie

(e) **Labuan Offshore Business Activity Tax Act, 1990;**

For the imposition, assessment and collection of tax on offshore business activity carried on by an offshore company in or from Labuan

(f) **Labuan Offshore Financial Services Authority Act, 1996;**

For the establishment of Labuan Offshore Financial Services Authority and to provide for its functions and powers

(g) **Labuan Offshore Trusts Act, 1996;**

For the creation and recognition of offshore trusts

(h) **Labuan Offshore Limited Partnership Act, 1997;**

For the establishment, regulation and dissolution of offshore limited partnerships

(i) **Labuan Offshore Securities Industry Act, 1998;**

For the regulation of securities in Labuan, the establishment of a facility for the listing thereof on an exchange

(j) Any other laws relating to offshore financial services in Labuan

Tax System

(a) **Offshore Companies**

An offshore company must be incorporated or registered under the Offshore Companies Act 1990 to carry on offshore business activities in or from Labuan and to enjoy the preferential tax treatment under the LOBATA, 1990. The definition of an offshore company includes an offshore trust created in Labuan, a Limited Partnership and a branch of Malaysian bank. An offshore company carrying on an offshore trading activity (which includes banking, insurance, trading, petroleum operations, management activities, chartering and leasing of ships (on bareboat basis) for the basis period for a year of assessment will be taxed at a rate of 3% of its audited net profits or at a fixed rate of RM20,000 upon election by the company for that year of assessment payable to the Inland Revenue Board. An offshore company carrying on an offshore non-trading activity (which refers to an activity relating to the holding of investments in securities, stocks, shares, loans, deposits and immovable properties by an offshore company on its own behalf) for the basis period for a year of assessment is not subject to tax for that year of assessment. However, where an offshore company is carrying on both offshore trading and non-trading activity, it is deemed to be carrying on offshore trading activity.

(b) **Companies other than Offshore Companies/Residents and Non-Resident Individuals**

Companies operating in Labuan, incorporated or registered under the Companies Act 1965, are not recognised as offshore companies and do not enjoy the preferential tax treatment under the LOBATA. Such companies continue to be taxed under the Income Tax Act, 1967. Tax incentives under the LOBATA are also not applicable to companies carrying on industrial and/or manufacturing activities but instead they may apply for incentives under the Promotion of Investments Act 1986. Non-resident and resident individuals in Labuan will continue to be taxed under the Income Tax Act, 1967.

(c) **Preferential Tax Treatment Accorded Under Income Tax, 1967 and Stamp Act, 1949**

The preferential tax treatments are:

(i) **Treatment on Dividends**

Dividends received by an offshore company from a Malaysian resident company are not subject to income tax and no refund or set-off is given in respect of tax deducted from such dividends. Dividends paid by an offshore company out of income derived from an offshore business activity or out of exempt income is not subject to income tax in the hands of the recipient. Such dividends will be paid gross without any tax deduction at source. In addition, shareholders of Malaysian Companies, which are shareholders of an offshore company, are also exempted from tax on the dividend paid of the exempt dividends.

(ii) **Treatment on Distribution By Offshore Trust**

Distribution made by an offshore trust is not subject to income tax in the hands of the beneficiary.

(iii) **Treatment on Royalty**

Royalty paid by an offshore company to a non-resident person or another offshore company is not subject to income tax and hence is not subject to withholding tax.

(iv) **Treatment on Interest**

Interest paid by an offshore company to a non-resident person or another offshore company is not subject to income tax. However, where the interest accrues to a banking, finance company or insurance business carried on by a non-resident person in Malaysia, that interest will be subject to income tax as part of business income. Interest paid by an offshore company to a resident person, other than a person carrying on a banking, finance company or insurance business in Malaysia, is not subject to income tax.

(v) **Treatment on Technical Or Management Fees**

Technical or management fees paid by an offshore company to a non-resident or another offshore company is not subject to income tax.

(vi) **Exemption from Stamp Duty**

All instruments made in connection with an offshore business activity transfer of shares and Memorandum and Articles by an offshore company are not subject to stamp duty under the Stamp Act 1949.

(vii) **Abatement of Tax for Professional Services**

Income derived from qualifying professional services rendered to an offshore company in Labuan is exempted from tax up to an amount equivalent to 65% of the statutory income from that source. This incentive is applicable until year of assessment 2004.

(viii) **Abatement of Tax for Employment**

Income derived by a non-citizen individual from an employment exercisable in a managerial capacity of an offshore company in Labuan and a non-citizen trust officer in a Labuan Trust Company is exempted from tax up to an amount equivalent to 50% of the gross income from that employment until year of assessment 2004 and 2005, respectively.

(ix) **Exemption of Tax for Non-citizen Director of Offshore Company**

Director fees received by a non-citizen director of an offshore company is 100% exempted from tax for years of assessment 2002 to 2006.

VIII. PETROLEUM DEVELOPMENT ACT, 1974

The Petroleum Development Act, 1974 came into force on 1 October 1974. The purpose of the Act is to regulate the petroleum and petrochemical industries. The power to regulate all activities in the upstream petroleum sector is vested in the Petroliam Nasional Berhad or PETRONAS. The Petroleum Regulations 1974, which were amended on 14 January 1991, vested powers to the Ministry of Domestic Trade and Consumer Affairs and the MITI to regulate all activities in the downstream sector of the petroleum industry.

The Ministry of Domestic Trade and Consumer Affairs have been given the powers to issue licences for the marketing and the distribution of petroleum and petrochemical products. MITI is vested with the powers to issue licences for the processing and refining of petroleum as well as the manufacture of petrochemical products.

In addition, the Petroleum (Income Tax) Act 1967 was amended in 1976 to bring the structure in line with the production sharing contracts signed between PETRONAS and the various oil companies. Effective from the year of assessment 1998, income tax on the petroleum industry was reduced from 40% to 38% while the export duty for crude oil and condensate was reduced from 20% to 10% with effect from 1 January 1998.

IX. GAS SUPPLY ACT, 1993

The Gas Supply Act, 1993 was gazetted on 4 February 1993 to safeguard the interests of consumers supplied with gas through pipelines and from storage tanks or cylinders specifically used for reticulation of gas. Gas was reticulated to commercial and industrial outlets as well as residential consumers.

The Gas Supply Act 1993 came into effect simultaneously with the gazetting of the Gas Supply Regulations 1997 on 17 July 1997. The Regulations include procedures for the issuance of a license to supply, installation of gas pipelines, inspection, tests and maintenance of gas installations as well as the certification and registration of competent persons to undertake the relevant work in such a manner as to ensure public safety.

With the gazetting of the Gas Supply Act 1993, the relevant sections in the Petroleum Development Act 1974 pertaining to the gas reticulation process have also been amended to prevent duplications between the two Acts. This is to ensure that all gas reticulation and related transmission and supply activities will be conducted in accordance with the Gas Supply Regulations 1997. The Gas Supply Act 1993 was amended in September 2001 and the Energy Commission was established to replace the Department of the Electricity and Gas Supply Department. The Energy Commission, among others, is responsible for the gas reticulation industry.

X. SECURITIES COMMISSION

The Securities Commission (SC) was established and started operations on 1 March 1993 with the coming into force of the Securities Commission Act 1993. With the coming into force of the Securities Commission Act 1993, the functions of the Capital Issues Committee established under the Securities Industry Act 1983 and those of the Panel on Take-overs and Mergers under the Companies Act 1965 were transferred to the SC.

The SC comprises the following nine members appointed by the Minister of Finance:

(a) SC a Chairman, who shall be an Executive Chairman;

(b) Four members representing the Government, including the Deputy Chief Executive; and

(c) Four other persons from the private sector.

A member of the SC shall hold office for a term not exceeding three years and is eligible for reappointment.

Functions of the Securities Commission

The functions of the SC as stipulated in the Securities Commission Act 1993, are as follows:

(a) to advise the Minister of Finance on all matters relating to the securities and futures' industries;

(b) to regulate all matters relating to securities and futures contracts;

(c) to ensure that the provisions of the securities laws are complied with;

(d) to regulate the take-overs and mergers of companies;

(e) to regulate all matters relating to unit trust schemes;

(f) to be responsible for supervising and monitoring the activities of any exchange, clearing house and central depository;

(g) to take all reasonable measures to maintain the confidence of investors in the securities and futures' markets by ensuring adequate protection for such investors;

(h) to promote and encourage proper conduct among members of the exchanges, clearing houses, central depository and all licensed persons;

(i) to suppress illegal, dishonourable and improper practices in dealings in securities and trading in futures contracts and the provision of investment advice or other services relating to securities or futures contracts;

(j) to consider and make recommendations for the reform of the law relating to securities and futures contracts;

(k) to encourage and promote the development of securities and futures' markets in Malaysia including research and training in connection thereto;

(l) to encourage and promote self-regulation by professional associations or market bodies in the securities and futures industries;

(m) to license and supervise all licensed persons as may be provided for under any securities law; and

(n) to promote and maintain the integrity of all licensed persons in the securities and futures' industries.

In addition, the SC is also the sole regulator of the private debt securities market and the registering authority for prospectuses in respect of all securities other than shares and debentures issued by unlisted recreational clubs. Following the announcement of the economic stimulus package in May 2003, the implementation of the FIC Guidelines to process corporate proposals that had previously required approval from both the SC and the FIC will be operationalised solely by the SC. This measure forms part of the effort to further streamline the approval processes in the Malaysian capital market.

Governing Acts and Guidelines

The SC is responsible for the administration and enforcement of the following Acts:

(a) Securities Commission Act 1993;

(b) Securities Industry Act. 1983;

(c) Futures Industry Act 1993; and

(d) Securities Industry (Central Depositories) Act 1991.

The following are some of the Guidelines, Codes and Regulations issued and administered the SC:

(a) Policies and Guidelines on Issue/Offer of Securities;

(b) Guidelines for Public Offerings of Securities of Infrastructure Project Companies;

(c) Guidelines for Public Offerings of Securities of Closed-End Funds;

(d) Guidelines for the Public Offering of Securities of Foreign-Based Companies with the Listing and Quotation on the KLSE;

(e) Prospectus Guidelines;

(f) Guidelines on the Offering of Private Debt Securities;

(g) Guidelines on Contents of Prospectus for Debentures;

(h) Securities Commission (Shelf Registration Scheme for Debentures) Regulations 2000;

(i) Guidelines on the Minimum Contents Requirements for Trust Deeds;

(j) Malaysian Code on Take-overs and Mergers;

(k) Guidelines on Asset Valuations for Submission to the Securities Commission;

(l) Guidelines on Unit Trust Funds;

(m) Guidelines on Property Trust Funds;

(n) Guidelines on the Establishment of Foreign Fund Management Companies;

(o) Guidelines for Application for Fund Manager's and Fund Manager's Representative's Licence Under the Securities Industry Act 1983;

(p) Guidelines For Application For Futures Fund Manager's and Futures Fund Manager's Representative's Licence under The Futures Industry Act 1993;

(q) Guidelines for the issue of Call Warrants;

(r) Guidelines on Securities Borrowing and Lending in Malaysia;

(s) Guidelines for Application of Licence under the Futures Industry Act 1993;

(t) Statutory Declaration by a Person Pursuant to an Application for a Licence under the Futures Industry Act 1993/Securities Industry 1983;

(u) Guidelines on the offering of Asset-Backed Debt Securities.

Applications For Corporate Proposals

A public company is required to seek the approval of the SC, as required by the Securities Commission Act 1993, before undertaking any of the following proposals:

(a) Make available, offer for subscription or purchase, or issue an invitation to subscribe for or purchase securities in Malaysia.

(b) Make available, offer for subscription or purchase, or issue an invitation to subscribe for or purchase, outside Malaysia, securities of a public company or to list such securities on a securities exchange outside Malaysia;

(c) Make a bonus issue of securities of a public company other than by way of capitalisation of unappropriated profits.

(d) By way of issue of securities effect:

(i) a compromise or arrangement whether or not for the purposes of or in connection with a scheme, compromise or arrangement for the amalgamation of any two or more corporations or for reconstruction of any corporation; or

(ii) an employee share or employee share option scheme; or

(iii) an acquisition of securities or assets.

(e) Apply for the listing of a corporation or for the quotation of securities on a stock market of a stock exchange.

(f) Distribute assets of a public company to its members other than distribution in cash or distribution of assets to members of the public company on its winding up.

(g) Acquire or dispose of assets (whether or not by way of issue of securities), which results in a significant change in the business direction or policy of a listed public company.

In considering the proposals stipulated above, the SC may have regard to any of the following matters:

(a) whether or not there will be adequate disclosure of such information that investors and their professional advisers would reasonably require and reasonably expert to find in the prospectus for the purpose of making an informed assessment of:

(i) the assets and liabilities, financial position, profits and losses and prospects of the issuer, and in the case of a unit trust scheme or prescribed investment scheme, of the scheme;

(ii) the rights attaching to the securities; and

(iii) the merits of investing in the securities and the extent of the risk involved in doing so.

(b) whether the enquiries (if any) of the corporation concerned, its officers, underwriters and advisers provide adequate verification of the accuracy and completeness of information disclosed;

(c) whether the persons in respect of whom a proposal has been made, need protection through the process of approval and disclosure pursuant to Part IV of the Securities Commission Act 1993.

(d) the type of business in which the corporation is engaged and the risks associated with it;

(e) the record of the corporation and the character, skills and experience of its management;

(f) the purpose for which the company is raising funds;

(g) the suitability of permitting the proposal or permitting trading in securities on the stock market of a stock exchange or any stock market outside Malaysia;

(h) interests of the public; or

(i) whether the operation of the market forces, including those with respect to price, provide an adequate mechanism for dealing with risks and merits of the proposal.

Regulatory Framework for Fundraising

With the promulgation of the Securities Commission (Amendment) Act (SCA), 2000 on 1 July 2000, the Securities Commission became the sole approving authority for prospectuses in respect of all securities, other than shares and debentures issued by unlisted recreational clubs.

The existing provisions in the Companies Act 1965 that deal with prospectuses will apply to any offer of shares or debentures by unlisted recreational clubs and in respect of "interests" which are regulated under Division 5 of Part IV of the Companies Act 1965. The Companies Commission of Malaysia (CCM) would also continued to regulate all public offers of shares and debentures by unlisted recreational clubs under Division 4 of Part IV of the Companies

Act 1965 administered by the Companies Commission of Malaysia. The Registrar of Companies (later replaced by the CCM beginning April 2002) would also continue to regulate all public offers of shares and debentures by unlisted recreational clubs under Division 4 of Part IV of the Companies Act 1965 administered by the ROC.

The SC is the single regulatory body for all corporate bond issuance except for bonds which are issued by unlisted recreational clubs. The SC is responsible for the regulation of trustees, trust deeds, borrowers' and guarantors' obligations in relation to debenture issues which are considered to be integral to the regulation of corporate bond market.

A company undertaking fundraising activities may be required to prepare and registered with the SC a document known as a prospectus. The SCA 2000 specifies when a prospectus must be registered and what its contents must include.

Division 3 Part IV of the SCA 2000 set out the provisions regulating the requirement for prospectuses in relation to any issue of, offer for subscription or purchases of or invitation to subscribe for or purchase securities. Other forms of fundraising include debt securities e.g. debentures, mortgage debentures and unsecured notes. These forms of fundraising are also governed by the prospectus requirements set out in the SCA 2000 and other specific requirements in relation to debentures set out in Division 4 of Part IV of the SCA 2000, such as the requirement for a trustee and trust deed, the duties of a trustee, duties of a borrower and the duties of a guarantor.

Initial Public Offering of Securities with Listing and Quotation on a Stock Exchange

The general policies and principles adopted by the SC on public companies intending to undertake initial public offerings of securities with listing and quotation on the KLSE are stipulated in the "Policies and Guidelines on Issue/Offer of Securities" (Issues Guidelines), which became effective on 1 January 1996.

The Issues Guidelines were amended in April 1999, leading to a revision of regulatory requirements for listing on both the Main Board and the Second Board of the KLSE and the requirements for take-overs/back-door listings. These amendments ehanced listing standards and were also aimed at strengthening investor confidence in the Malaysian capital market. A revamp of the KLSE Listing Requirements in January 2001, aimed at continuously improving the level of corporate governance and further promoting the credibility and efficiency of the Malaysian market in order to benefit listed companies, directors, major shareholders as well as minority investors.

Amendments made to the Issues Guidelines and six other fund raising guidelines effective from may 2003 marked the Malaysian capital market's move into the third phase of a disclosure-based regulatory (DBR) framework for fund raising. DBR, which focuses on greater and higher-quality of information disclosure by issuers, aims at bringing greater transparency in the market and empowering investors to make informed investment decisions. Under Phase 3 of the DBR, the market enjoys significant improvement in the efficiency of the fund raising process, through a more streamlined approval process as well as more business-friendly and market-based rules. Issuers also benefit from faster approval time, with the processing time for IPSs expected to be reduced to less than 3 months from 6-8 months previously.

In addition the Government also announced measures in 2003 to strengthan the capital market, which include the reduction of the moratorium period on promoters' shareholdings for all new Initial Public Offerings/Reverse Takeovers from four years to one year, as an effort to ensure greater availability of shares and increased liquidity in the market.

To reflect the implementation of the full DBR and the latest revamp/amendments to the SC's Guidelines, which became effective on 1st May 2003. In evaluating an applicant's suitability for listing, the SC will take into consideration a number of factors including adherence to quantitative and qualitative requirements as well as other requirements set out in the Issues Guidelines.

Some of the more pertinent requirements that would have to be met are as follows:

1. **Issued and Paid-up Capital**

(a) **Listing on Main Board**

An applicant seeking listing of and quotation for its securities on the Main Board should have a minimum issued and paid-up capital of RM 60 million, comprising ordinary shares with per value of at least 10 sen per share.

(b) **Listing On Second Board**

An applicant seeking listing of and quotation for its securities on the Second Board should have a minimum issued and paid-up capital of RM40 million, comprising ordinary shares with per value of at least 10 cent per share.

2. **The applicant should fulfill one of the following tests:**

2.1 Historical Profit Performance

(a) **Listing on Main Board**

The company should have an uninterrupted profit record of either three to five full financial years, with an aggregate after-tax profit of not less than RM30 million over the said three to five years, and at least RM8 million after-tax profit for the latest financial year. Following the announcement of the economic stimulus package in May 2003, the implementation of the FIC Guidelines to process corporate proposals that had previously required approval from both the SC and the FIC will be operationalised solely by the SC. This measure forms part of the effort to furthe streamline the approval processes in the Malaysian capital market.

(b) **Listing on Second Board**

The company should have an uninterrupted profit record of either three to five full financial years, with an aggregate after-tax profit of not less than RM12 million over the said three to five years, and at least RM4 million after-tax profit for the latest financial year.

2.2 Infrastucture Project Company

There are no minimum historical profit track record applicants which are considered as infrastructure project companies (IPC).

(iii) **Pricing of securities**

While public companies have the discretion in the pricing of all securities of all securities issued public companies are respected to price their securities based on market-based principles and at a level which is in the best interests of the company, and to take into account the interest of minority shares.

Flexibilities in Listing Criteria for *Bumiputera* Companies

Flexibilities in compliance with the listing requirements for applications on proforma accounts are given by The SC for *Bumiputera*-controlled companies that have pooled together for listing on the KLSE.

Paragraph 6.13*(b)*(iv) of the Guidelines pertaining to the use of proforma accounts for the purpose of listing state the following:

"Where a group of companies is seeking listing using the market capitalisation test, all the companies in the group must:

(a) be involved in the same or complementary business activities;

(b) have common directors; and

(c) have common shareholders with controlling shareholding, on a collective basis.

over a minimum period of three full financial years prior to submission to the SC.

For the purpose of determining controlling shareholding, only legal or registered ownership will be accepted, and control is taken as more than 50% of the voting shares of the company.

With these flexibilities, a group of Bumiputera-controlled companies applying for listing based on the strength of the group's proforma accounts would only have to comply with the first criterion of being involved in the same or complementary business activities and not the other two criteria of having common directors and common controlling shareholders.

However, in order to qualify for the flexibility, the *Bumiputera* group of companies must fulfill the following conditions:

(a) The group must have a genuine pooled arrangement;

(b) The company which is the single largest contributor, on an average basis for the past three full financial years, to profits within the proforma group should have been incorporated and have been in business operating the same or complementary business for at least 5 full financial years prior to making submission to the SC;

(c) Each company to be pooled together must have been a *Bumiputera*-controlled company under the control of the same Bumiputera shareholders with controlling shareholding for at least 3 full financial years prior to making submission to the SC (or throughout the duration of the company if the company has been incorporated for a period of less than 3 financial years); and

(d) The company used as the listing vehicle must, upon and subsequent to listing, be a Bumiputera-controlled company.

The purpose of the flexibilities is to provide *Bumiputera* companies with the opportunities to access the capital market.

Regulations Relating to Take-overs and Mergers

Persons involved in any take-over and merger exercise are required to observe the provisions relating to take-overs and mergers contained in sections 33 to 33E of the Securities Commission Act, 1993 (SCA) and the Malaysian Code on Take-overs and Mergers 1998 (Code). In administering the Code, the SC will take into account the desirability of ensuring that the acquisition of voting shares or control of companies takes place in an efficient, competitive and informed market.

Pursuant to section 33B(2) of the SCA, an acquirer who has obtained control in a company is required to make a take-over offer, other than in respect of voting shares of the company which at the date of the offer are already held by the acquirer of which the acquirer is entitled to exercise. In this regard, control, in relation to an acquisition of shares, is defined under section 33 of the SCA as the acquisition or holding of, or entitlement to exercise or control the exercise of, voting shares of more than 33% in a company.

Pursuant to section 33B(3) of the SCA, an acquirer who has obtained more than 33% of the voting shares in a company but less than 50% of voting shares in that company shall not acquire any additional voting shares in that company, except in accordance with the provisions of the Code. In this regard, section 6(1) (b) of the Code provides that an acquirer who holds more than 33% but less than 50% of the voting shares of a company and such person acquires in any period of six months more than 2% of the voting shares of the company, such person shall be subjected to the provisions in the Code relating to mandatory offers.

In addition, where an acquirer acquirers part of a vendor's holding, particularly where he acquires just under 33% of the voting shares, thereby avoiding an obligation to make an offer, the SC may require such acquirer to provide confirmation that he has not in fact obtained control of the company. In providing such confirmation, the following situations should be taken into consideration:

(i) whether the vendor is acting in concert with the acquirer;

(ii) whether a significant premium was paid for the voting shares;

(iii) any change in the board composition or a significant change in business direction or policy, following the acquisition.

A person who fails to comply with the mandatory offer requirement shall be guilty of an offence and shall, upon conviction, be punished with a fine not exceeding one million ringgit or imprisonment for a term not exceeding 10 years or both pursuant to section 33B(4) of the SCA.

Additionally, where any documents or information is required to be submitted to the SC, in relation to or in connection with a take-over offer or merger and a person submits or causes to be submitted any document or information that is false or misleading, the person shall be guilty of an offence and shall upon conviction, be punished to a fine not exceeding three million ringgit or to imprisonment not exceeding 10 years or both pursuant to section 33E(3) of the SCA.

Certain restrictions are imposed on both the acquirer as well as persons who sell their shares to an acquirer. Pursuant to section 7 of the Code, acquirers who are subject to the mandatory offer requirement are restricted from appointing any director to the board of the offeree company or exercising the voting rights attached to the voting shares which have been acquired before the acquirer sends out an offer document to the offeree shareholders. Section 10 of the Code provides that persons who intend to sell his or its voting shares to an acquirer are not allowed to resign as director or cause a director who is accustomed to act in accordance to his or its directions or instructions to resign from the board of the offeree until the first closing date of the take-over offer or the date when the take-over becomes or is declared unconditional as to acceptances, whichever is later.

Practice Notes attached to the Code provide guidance on the interpretation of certain provisions of the Code. Amongst others, it provides for instances where the mandatory offer obligation would be deemed to be incurred as well as circumstances under which a person may apply for exemption from mandatory offer provisions.

Capital Market Masterplan

The SC released the Capital Market Masterplan in February of 2001. It is intended to be a comprehensive plan charting the strategic positioning and future direction of the Malaysian capital market for the next 10 years. The plan is a comprehensive review towards:

- Formulating a comprehensive vision and programme for the development of the Malaysian capital market going forward;
- Formulating a framework for the orderly and effective sequencing of further deregulation and liberalization; and
- Identification and mapping the direction for the strategic positioning of the Malaysian capital market both domestically and externally.

The recommendations are based on 6 strategic initiatives, which include; to be the preferred fund raising center for Malaysian.

XI. KUALA LUMPUR STOCK EXHANGE

Kuala Lumpur Stock Exchange (KLSE),is a front-line regulator and market operator for exchange traded securities. It has its own Memorandum and Articles of Association and Rules which governs the conduct of its members in securities dealings.

Its is also responsible for the surveillance of the marketplace, and for the enforcement of its Listing Requirements, which spell out the criteria for listing, disclosure requirements and standards to be maintained by listed companies.

Products and Services

The KLSE today is one of the largest bourses in ASEAN, with over 870 companies listed either on the Main Board for larger capitalised companies, Second Board for medium-sized companies and MESDAQ Market for growth and technology companies. These companies, which mirror the diversity and scope of the Malaysian economy, are categorised into 15 different sectors for Plantation, Mining, Trading/Services, to Technology, Infrastructure and Finance to name a few.

KLSE Group of Companies

In addition to providing a marketplace for equities securities, the KLSE Group also provides a comprehensive range of services to support the securities industry in Malaysia.

- Malaysia Derivatives Exchange (MDEX) operates the derivatives market. MDEX was a result of the consolidation between the financial futures and commodities futures exchanges. MDEX provides investors with hedging instruments and currently offers commodities, financial and equity-related futures. Current products available are KLSE CI Futures and Options, Kuala Lumpur Interbank Offered Rate (KLIBOR) Interest Rate Futures, Five-Year Malaysian Government Securities Futures and Crude Palm Oil Futures.

- Labuan International Financial Exchange (LFX) offers and trading facilities that caters for a wide range of multi-currency financial instruments in an offshore environment. These instruments can be based on conventional or Islamic based principles. LFX offers web-based trading and on-line submission of documents, including equity and debt instruments, bonds, insurance products and intellectual property rights. Instruments that are currently listed include a conventional bond issue and two series of the serial Islamic Lease Sukuk, and an Islamic financial instrument.

- Securities Clearing Automated Network Services Sdn. Bhd is the equity clearing house while the Malaysian Derivatives Clearing House Bhd (MDCH) is the derivatives clearing house, provide clearing and settlement facilities for each market respectively.

- Malaysian Central Depository Sdn Bhd provides efficient central clearing and settlement of securities, and operates the central depository system.

Stockbroking companies

Currently there are 39 stockbroking companies offering services in the dealing of securities listed on the KLSE. Out of these, 6 stockbroking companies have been granted universal brokers status. Universal brokers are able to offer a full scope of integrated capital market services that is, corporate finance, debt securities trading and share dealing.

XII. REGULATION OF ACQUISITION OF ASSETS, MERGERS AND TAKE-OVERS

The Foreign Investment Committee (FIC) Guidelines of 1974 were formulated to establish a set rules regarding the acquisition of assets or any interest, mergers or take-overs of companies and business. The Guidelines may be viewed as a means of restructuring the pattern, ownership and control of the corporate sectors in line with the objectives of the New Economic Policy (NEP) of 1970-90. Through these Guidelines, the Government endeavors to reduce the present imbalances in the distribution of the corporate wealth and to encourage those forms of private investment that would contribute to the development of the country in consonance with the objectives of the NEP. Since efforts made in restructuring the equity ownership in the corporate sector will continue under the National Development Policy for the period after 1990, the 1974 FIC Guidelines will continue to apply regarding the acquisition of assets or any interest, mergers and take-overs of companies and businesses in furtherance of the restructuring objectives.

Rules and Regulations Regarding Acquisition, Mergers and Take-Over

The Guidelines for the acquisition of assets, mergers or take-overs by foreign or Malaysian interests are governed among others by the following rules:

(a) Against the existing pattern of ownership, the proposed acquisition of assets or any interest, mergers or take-overs should result directly or indirectly in a more balanced Malaysian participation in ownership and control.

(b) The proposed acquisition of assets or any interest, mergers or take-over should lead directly or indirectly to net economic benefits in relation to such matters as the extent of Malaysian participation, particularly *Bumiputera* participation, ownership and management, income distribution, growth, employment, exports, quality, range of products and services,

economic diversification, processing and upgrading of local raw material, training, efficiency, and research and development.

(c) The proposed acquisition of assets or any interest, mergers or take-overs of companies and businesses should not have adverse consequences in term of national policies in such matters as defence, environmental protection or regional development.

(d) The onus of proving that the proposed acquisition of assets or any interest, mergers or take-overs of companies and businesses is not against the objectives of the NEP is on the acquiring parties concerned.

The above guidelines will apply to the following:

(a) any proposed acquisition by foreign interests fixed assets in Malaysia;

(b) any proposed acquisition of assets or any interest, mergers and take-overs of companies and businesses in Malaysia by any means, which will result in ownership or control passing to foreign interest;

(c) any proposed acquisition of 15% or more of the voting power by any one foreign interest or associated group or by foreign interests in the aggregate of 30% or more of the voting power of a Malaysia company or business;

(d) control of Malaysian companies or businesses through any form of joint-venture agreement, management agreement and technical assistance agreement or other agreement;

(e) any merger and take-over of any company or business in Malaysia whether by Malaysians or foreign interests; and

(f) any other proposed acquisition of assets or interests exceeding in value of RM10 million whether by Malaysians or foreign interests.

The guidelines, however, do not apply to specific projects approved by the Government comprising the following:

(a) acquisition by Ministries and Government Departments;

(b) acquisition by Minister of Finance Incorporated, Menteri Besar Incorporated and State Secretary Incorporated; and

(c) privatisation projects approved by the Federal or State Government.

Foreign Investment Committee

For the purpose of implementing the guidelines, the Foreign Investment Committee (FIC) was established and is responsible for major issues on foreign investment. The functions of the FIC are:

(a) to formulate policy guidelines on foreign investments in all sectors of the economy to ensure the fulfillment of the objectives of the NEP;

(b) to monitor the progress and help resolve problems pertaining to foreign private investments and to recommend suitable investment policies;

(c) to supervise and advise ministries and Government agencies in all matters concerning foreign investments;

(d) to coordinate and regulate the acquisition of any assets or interests, mergers and take-overs of companies and businesses in Malaysia; and

(e) to monitor, assist and evaluate the form, extent and conduct of foreign investments in the country and to maintain comprehensive information to foreign investments.

The FIC comprises the following members:

(a) Director-General of the Economic Planning Unit (as Chairman);

(b) Secretary-General of the Ministry of Finance;

(c) Governor of the Central Bank ;

(*d*) Secretary-General of the Ministry of International Trade and Industry;

(*e*) Chairman of the Securities Commission;

(*f*) Chairman of the Malaysian Industrial Development Authority;

(*g*) Director-General of the Implementation and Coordination Unit;

(*h*) Secretary-General of the ministry of Domestic Trade and Consumer Affairs;

(*i*) Secretary-General of the Ministry of Entrepreneur Development;

(*j*) Secretary General Ministry of Land and Cooperative Development; and

(*k*) Commissioner of Companies Malaysia.

Further details on the Guidelines and procedures for submission of proposals to the FIC are obtainable from:

The Secretary
Foreign Investment Committee
Economic Planning Unit
Prime Minister's Department
Block B5 & B6
62502 Putrajaya.

XIII. EXCHANGE CONTROL POLICIES

In line with the policy of gradual and progressive liberalisation of the financial sector, Malaysia continued to further liberalise the exchange control rules. In this regard, further changes were effected in 2002 and early 2003 to enhance efficiency for businesses operating in Malaysia. Measures included:

(i) Increasing the aggregate amount of domestic credit facilities that can be extended by residents to non-resident controlled companies (NRCC) to RM50 million from RM10 million and abolishing the requirement that at least 50% of the credit facilities from banking institutions must be extended by Malaysian-owned banking institutions.

(ii) Allowing a non-resident to obtain:

(*a*) Ringgit credit facilities up to RM5 million to finance projects undertaken in Malaysia;

(*b*) Overdraft facilities up to RM500,000 in aggregate as long as the credit facilities are secured by fixed deposits placed by the non-resident with the lending bank; and

(*c*) Ringgit loans to refinance property loans taken to finance the purchase of properties in Malaysia.

(iii) Liberalising payments for ringgit assets between residents and non-residents as well as between non-residents to be made either in ringgit or foreign currency. Prior to the liberalisation, such payments were allowed only in ringgit.

(iv) Increasing the maximum overnight limit on foreign currency accounts for export proceeds maintained by resident exporters from USD10 million to up to USD70 million, depending on their average monthly export receipts.

(v) Allowing residents to enter into foreign exchange forward contracts with an authorised dealer to sell foreign currency receivables for ringgit for any purpose. Prior to 1 April 2003, only export proceeds and services receivables (excluding interest receivables) were allowed to be sold on forward contract basis.

(vi) Removing the limit of RM10,000 equivalent in foreign currency for investment abroad by residents under the Employee Share Option/Purchase Scheme.

(vii) Abolishing the requirement to complete Form KPW X for exports exceeding RM100,000 f.o.b.

(viii) Increasing the threshold to RM50,001 from RM10,001 to complete Form P for payments. Accordingly, the threshold to complete Form R for receipts has also been raised to RM50,001.

Rules on capital flows are liberal with policies aimed at monitoring the settlement of payments and receipts. For monitoring and compiling balance of payments statistics, residents are required to complete statistical forms, Form P and Form R, for each payment and receipt respectively of more than RM50,000 vis-á-vis non-residents. All rules are applied uniformly to transactions with all countries, except Israel, Serbia and Montenegro for which special restrictions apply. Exchange control rules are also applied where appropriate to prevent recourse to the Malaysian banking system for terrorist financing.

The following are the main exchange control rules:

I. Current Account Transactions

(a) Payments for Import of Goods and Services

There are no restriction on payments to non-residents for imports of goods and services. Such payments must be made in foreign currencies, except currencies of Israel, Serbia and Montenegro.

Residents may enter into a forward exchange contract to buy foreign currency against ringgit to make payment for imports from a non-resident, provided the maturity of the forward contract is not later than 12 months after the intended date of import.

(b) Export Proceeds

All export proceeds are required to be repatriated back to Malaysia in accordance to the payment schedule as specified in the sales contract, which in any case should not exceed six months from the date of export.

Export proceeds must be received in foreign currency and must be sold for ringgit or retained in permissible foreign currency accounts with resident commercial banks and Islamic banks. The aggregate overnight limits range from USD1 million up to USD70 million. Higher limits may be allowed on a case-by-case basis.

Residents may enter into a forward foreign exchange contract with an authorised dealer to sell foreign currency for ringgit arising from export proceeds provided the maturity of the forward contract is not later than six months after the intended date of export.

For exports in excess of RM100,000 f.o.b., resident exporters are required to submit a quarterly report detailing such exports. In addition, the resident exporters are required to submit yearly summary reports no later than 30 days after the close of the financial year of the companies.

(c) Import and Export of Currency by Travellers

Import and export of ringgit up to RM1,000 including demonetised RM1,000 and RM500 notes, and export of foreign currency up to an equivalent of RM10,000 by residents are allowed. Resident travellers are also allowed to carry on person or in baggage any amount of foreign currency into Malaysia. Resident travellers are required to obtain permission from the Controller of Foreign Exchange (the Controller) and declare in the Traveller's Declaration Form when they carry currency notes and/or traveller's cheques as listed below:

- carrying into or out of Malaysia, ringgit notes exceeding RM1,000.
- Carrying out foreign currency notes including traveller's cheques exceeding the equivalent of RM10,000.

Approval is given within one day of application.

Non-residents are free to bring in any amount of foreign currency and/or traveller's cheques. Declaration in the Disembarkation Card issued by the Immigration Department is only required for amounts in excess of the equivalent of USD2,500.

Non-residents would need to seek approval if the amount of foreign currency to be carried abroad exceeds the amount brought into Malaysia, provided the amount to be taken out is more than the equivalent of USD2,500.

Non-residents must obtain permission and declare ringgit exceeding RM1,000 being brought into or out of Malaysia.

II. Capital Account Transactions

(a) Foreign Direct Investment

Foreign direct investors are freely allowed to repatriate their investments, including capital, profits, dividends and interest.

(b) Investment Abroad by Residents

Residents, other than commercial banks, Islamic banks and approved merchant banks, are required to seek prior approval from the Controller to remit funds in excess of RM10,000 equivalent in foreign currency for overseas investment purposes. Approval is based on a set of transparent criteria, namely:

(i) The investment is undertaken to gain market access and the investments will use Malaysian inputs (raw materials, parts, components);

(ii) The investment will assist in exporting Malaysian products or services;

(iii) There is transfer of technology and know-how to Malaysia;

(iv) The investment will supply inputs required by resident companies; or

(v) The investment is synergistic to the investing company's core business.

Resident individuals may invest any amount in foreign currency in securities offered by their employers' overseas parent or related companies under the Employee Share Option/Purchase Scheme. This is provided that such investments are registered with the Controller at least 7 days prior to the remittance of funds overseas.

Commercial banks, Islamic banks and approved merchant banks may invest abroad as long as they comply with the Banking and Financial Institutions Act, 1989 and their approved foreign currency net open position limit. Remittance for investments abroad must be made in foreign currency.

(c) Foreign Currency Credit Facilities from Non-Residents

Residents are freely permitted to obtain credit facilities in foreign currency up to the equivalent of RM5 million in the aggregate from licensed banks, licensed merchant banks and non-residents. Any amount exceeding the permitted limit would require the prior approval of the Controller. Where the aggregate amount exceeds the equivalent of RM1 million, the resident must provide the Controller information on the credit facilities.

There is no restriction for repayment of credit facilities obtained as long as such credit facilities have been obtained in accordance with the relevant exchange control policies.

(d) Ringgit Credit Facilities from Non-Residents

Residents are not allowed to obtain credit facilities in ringgit from non-residents without the prior approval of the Controller.

(e) Extension of Credit Facilities to Non-Residents

Foreign Currency Credit Facilities

Commercial banks and Islamic banks may extend credit facilities in foreign currency to non-residents for any purpose. However, credit facilities extended for the acquisition or development of immovable property in Malaysia would be subject to similar requirements as in ringgit credit facilities outlined below.

Ringgit Credit Facilities

Non-bank residents may extend credit facilities in ringgit to non-residents not exceeding RM10,000. Such credit facilities may be extended by crediting the funds into the non-resident's External Account. Any remittance abroad must be made in foreign currency.

Resident stockbroking companies may extend margin-financing facilities to non-resident clients for the purchase of shares listed on the KLSE, provided they comply with all the relevant rules imposed by the KLSE.

Commercial banks and Islamic banks are allowed to extend ringgit overdraft facility in aggregate not exceeding RM200 million on intra-day basis and not exceeding RM10 million on overnight basis to non-resident stockbroking companies and non-resident custodian banks. The facilities are strictly for financing funding gaps due to unforeseen or inadvertent/technical administration errors or time zone delays in relation to settlement of trades on the KLSE.

Resident insurance companies may extend policy loans in ringgit to its non-resident policy holders not exceeding the attained cash surrender value of the policies at all times for a duration not exceeding the duration of the policy.

Financial institutions may extend up to three property loans in ringgit in aggregate to a non-resident to finance/refinance the purchase or construction of any property in Malaysia (excluding for the purchase of land only), subject to their own internal credit assessment guideline. All purchases are subject to the guidelines issued by the FIC. Details of the guidelines can be found at http://www.epu.jpm.my.

Resident companies may extend credit facilities to their non-resident employees subject to terms and conditions of employment to finance the purchase or construction of property (excluding for the purchase of land only) in Malaysia. The credit facility will be included as one of the three permissible property loans to be extended by financial institutions.

Banking institutions may extend credit facilities in ringgit up to the aggregate of RM200,000 to a non-resident for purposes other than to finance the acquisition or development of immovable property in Malaysia. The above is in addition to credit facilities extended for the purchase of one vehicle for own use. Prior approval of the Controller is required for the extension of credit facilities exceeding the limit.

Banking institutions may also extend credit facilities in ringgit up to the aggregate of RM5 million to a non-resident to finance project undertaken in Malaysia. The project may be undertaken by the non-resident individually or jointly with residents and/or non-residents. The total amount of credit facilities should not exceed the contract value of the project undertaken by the non-resident.

In addition to the above, banking institutions may also extend to a non-resident ringgit overdraft facilities not exceeding RM500,000 in aggregate provided they are secured by fixed deposits placed by the non-resident customer with the banking institutions.

Ringgit Swap/Forward

Authorised dealers are allowed to enter into:

(i) Short-term currency swap arrangements with non-resident stockbrokers and non-resident custodian banks to cover payment for their share purchases on the KLSE; and

(ii) Outright ringgit forward sale contract with non-residents for the same purpose.

The permission is subject to the condition that such contracts are based on firm commitment and not on anticipated purchases, and for maturity period of up to three working days with no rollover option.

Authorised dealers are allowed to enter into forward foreign exchange contracts with residents to purchase foreign currency receivables against ringgit for any purpose (other than export proceeds) provided the transaction is supported by firm underlying commitment to receive such currency and the tenure of the contract does not exceed 12 months. For forward sale of export proceeds, the maturity date of the forward contract should not be later than six months after the intended date of export.

(f) **Portfolio Investments**

Non-residents are freely allowed to repatriate their principal sum, profits and dividends out of the country at any time. (The exit levy system was abolished on 2 May 2001).

III. Ringgit Credit Facilities to Non-Resident Controlled Companies

Residents are freely allowed to extend credit facilities in ringgit to a Non-Resident Controlled Company (NRCC) operating in Malaysia up to an aggregate limit of RM50 million per corporate group or on single entity basis and any amount of short-term trade financing where the tenure does not exceed 12 months.

The NRCC is required to obtain prior approval from the Controller for domestic borrowing exceeding RM50 million in aggregate. However, the NRCC has to comply with the 3:1 gearing ratio requirement between its domestic debt and eligible capital funds, only for the portion that is in excess of RM50 million.

In computing the 3:1 gearing ratio requirement, NRCC are provided with the option to compute their domestic debt and eligible capital funds either on per corporate group basis or on single entity basis.

There is no restriction on the amount of credit facilities to be extended by foreign-owned banking institutions in Malaysia to a NRCC provided the aggregate amount of credit facilities obtained by the NRCC from all residents does not exceed RM50 million.

In addition to the above, resident banking institutions in Malaysia are also permitted to allow NRCC to overdraw their current accounts for amounts of up to RM500,000 per account for a period not exceeding 2 business days.

IV. Issuance of Ringgit Private Debt Securities

Residents are generally permitted to raise domestic credit facility through the issuance of ringgit Private Debt Securities regardless of amount, provided the proceeds are not used for financing of investment abroad and/or for refinancing of offshore borrowing. The issuance of Private Debt Securities must also be in accordance with the Exchange Control Guideline on Private Debt Securities. The amount issued by the NRCC would be included as part of the NRCC's total domestic credit facilities and is subject to the 3:1 gearing ratio.

V. Foreign Currency Accounts of Residents

Resident exporters are permitted to open foreign currency accounts (export FCA) with resident commercial banks and Islamic banks to retain export proceeds in foreign currency of between USD1 million and USD50 million, depending on their average monthly export receipts.

In addition, upon attaining the maximum limit of permitted overnight limit of the export FCA, resident exporters may retain 10% of subsequent export proceeds repatriated to Malaysia in the export FCA, provided the aggregate overnight limit does not exceed the overnight limit of the next higher threshold.

For resident exporters who are eligible to retain export proceeds up to the general permissible USD50 million limit, the maximum additional amount they are able to retain is USD20 million. The balance

90% must be sold to authorised dealers for ringgit.

Effective from 1 April 2003, the permissible aggregate overnight limits are as follows:

Aggregate Overnight Limit (USD million)	Limit including 10% accumulation (USD million)	Average Monthly Export Receipts
50	70	Exceeding RM100 million
30	50	Exceeding RM50 million up to RM100 million
10	30	Exceeding RM20 million up to RM50 million
5	10	Exceeding RM10 million up to RM20 million
3	5	Exceeding RM5 million up to RM10 million
1	3	Not exceeding RM5 million or new exporters

Resident companies with domestic credit facilities are permitted to open foreign currency accounts to retain foreign currency receivables, other than export proceeds, up to an aggregate overnight limit of:

(i) USD0.5 million with commercial banks and Islamic banks in Malaysia; and

(ii) USD0.5 million with Licensed Offshore Banks in Labuan.

Resident companies with no domestic credit facilities are permitted to open foreign currency accounts with commercial banks and Islamic banks in Malaysia to retain foreign currency receivables (other than export proceeds) with no overnight limit specified by BNM.

Resident individuals are also allowed to open foreign currency accounts solely to facilitate education and employment overseas up to an aggregate overnight limit of:

(i) USD100,000 with commercial banks and Islamic banks in Malaysia;

(ii) USD100,000 with Licensed Offshore Banks in Labuan; and

(iii) USD50,000 with overseas banks.

VI. Foreign Currency Accounts of Non-Residents

Commercial banks, Islamic banks and merchant banks are freely allowed to open foreign currency accounts for non-residents.

There are no restrictions on the inflow and outflow of funds through the foreign currency accounts of non-residents.

VII. External Accounts of Non-Residents

Financial institutions are freely allowed to open accounts in ringgit, known as External Accounts, for non-residents.

Non-residents are allowed to use their ringgit funds in the External Account for the following purposes:

(i) Purchase of foreign currency excluding the currencies of Israel, Serbia and Montenegro;

(ii) Purchase of ringgit assets;

(iii) Payment for goods and services for own use in Malaysia;

(iv) Payment of administrative and statutory expenses incurred in Malaysia;

(v) Payment under a non-financial guarantee (where the External Account holder is making payment upon the guarantee being called upon) due to residents;

(vi) Extension of ringgit credit facilities to staff in Malaysia in accordance to the terms and conditions of employment;

(vii) Repayment of ringgit credit facilities that were extended in accordance to ECM Notice, ECM 6 (Credit Facilities to Non-residents) or the terms and conditions of employment;

(viii) Ringgit cash withdrawals of any amount; and

(ix) Payments to resident beneficiary for any purpose other than for the following:

- Payment for the import of goods and services;
- Extension of ringgit credit facilities to residents other than as permitted above;
- Settlement under financial guarantees; and
- Payment on behalf of a third party.

The sources of funds in these ringgit External Accounts may be from:

(i) Sale of foreign currency excluding the currencies of Israel, Serbia and Montenegro;

(ii) Sale of ringgit assets;

(iii) All income derived from Malaysia including salaries, wages, royalties, commissions, fees, rental, interest, profits or dividends;

(iv) Proceeds from credit facilities permitted under ECM Notice, ECM 6 (Credit Facilities to Non-residents) or in accordance with the terms and conditions of employment;

(v) Proceeds from repayment of ringgit credit facilities extended in accordance with ECM Notice, ECM 6 (Credit Facilities to Non-residents) or in accordance with the terms and conditions of employment;

(vi) Transfers from:

- Another External Account of the same account holder of any amount; and/or
- Another External Account of different account holders and/or Resident Account by way of–
  - Automatic Teller Machine transfer up to RM5,000 per person/ company, per day, per bank for any purpose; and/or
  - Internet-bank transfers up to RM5,000 per person/ company, per day, per bank for any purpose.

(vii) Deposit of ringgit notes of an aggregate not exceeding RM10,000 per day; and

(viii) Deposit of cheques up to RM5,000 per cheque for any purpose.

Ringgit funds in the External Accounts may be converted into foreign currency and repatriated or used in Malaysia for permissible purposes mentioned above.

There is no restriction on the operations of the External Accounts of non-residents working or studying in Malaysia (including their spouse, children and/or parents who are currently residing in Malaysia), Central Banks, Embassies, Consulates, High Commissions, Supranational or international organisations recognised by the Malaysian Government. Such persons or organisations can use funds in the External Accounts for all purposes, including the permissible purposes referred to above.

VIII. Special Status Granted to Selected Companies

(a) Offshore Entities in the Labuan International Offshore Financial Centre

Entities established in Labuan IOFC are declared as non-residents for exchange control purposes after they are incorporated/registered under the Offshore Companies Act 1990.

Offshore entities in Labuan are freely allowed to deal with non-residents in foreign currency (other than the restricted currencies namely the currencies of Israel, Serbia and Montenegro).

Licensed Offshore Banks in Labuan are permitted to receive payments in ringgit from residents arising from fees, commissions, dividends, or interest from deposit of funds.

Licensed Offshore Banks in Labuan are permitted to invest in assets/instruments in Malaysia for their own account provided investments are transacted directly with resident banking institutions or resident brokers. The investments must not be financed by ringgit borrowings.

All offshore entities are freely allowed to maintain External Accounts, with resident banks to facilitate the defrayment of statutory and administrative expenses in Malaysia.

Offshore insurance entities in Labuan may also use the External Accounts to facilitate the receipt of insurance premiums and for payment of claims arising from insurance and reinsurance of domestic insurance business.

(b) **Multimedia Super Corridor Companies**

Companies operating in Multimedia Super Corridor (MSC) that are incorporated as separate legal entities, are given exemption from exchange control rules upon the companies being awarded the MSC status by the Multimedia Development Corporation. The exemption granted to the MSC status company is solely for transactions undertaken on its own account. However, prior approval should be obtained for MSC status companies to deal with Specified Persons or in Restricted Currencies of Israel, Serbia and Montenegro.

In line with the exemption from exchange control rules, MSC status companies may maintain foreign currency accounts with any authorised dealer in Malaysia or non-residents, without a limit on the overnight balances of the accounts.

MSC status companies may also obtain any amount of foreign currency credit facilities from commercial banks, Islamic banks and merchant banks in Malaysia and non-residents. In addition, the MSC status companies may also invest any amount abroad.

Notwithstanding the above, the MSC status companies are required to submit specified statistical forms/reports/statements for monitoring purposes.

(c) **Approved Operational Headquarters**

Approved Operational Headquarters (OHQs) are allowed to:

(i) open foreign currency accounts with commercial banks and Islamic banks in Malaysia to retain export proceeds in foreign currency up to an aggregate overnight balance equivalent to USD70 million, regardless of the amount of export receipts;

(ii) open foreign currency accounts with commercial banks and Islamic banks in Malaysia, Licensed Offshore Banks in Labuan or overseas banks for crediting foreign currency receivables, other than export proceeds, with no limit on the overnight balances;

(iii) obtain domestic credit facilities in ringgit not exceeding RM50 million, provided the ringgit funds are used in Malaysia; and

(iv) obtain any amount of foreign currency credit facilities from commercial banks, Islamic banks and merchant banks in Malaysia, and from any non-residents, provided the OHQ do not on-lend to, or raise the funds on behalf of, any resident. Such credit facilities can be extended to their related companies overseas or invested abroad if their aggregate domestic credit facilities in ringgit does not exceed RM50 million.

(d) **Approved International Procurement Centres**

Approved International Procurement Centres (IPC) are allowed to:

(i) retain any amount of export proceeds in foreign currency accounts maintained with resident commercial banks for the approved IPC activities only.

(ii) enter into forward exchange contracts with resident commercial banks and Islamic banks to hedge exchange risk based on projected volume of trade.

XIV. DOUBLE TAXATION AGREEMENTS

Double taxation agreements (DTA) provide for the avoidance of incidences of double taxation on international income, such as business profits, dividends, interests and royalties, derived in one country and remitted to another country. This removes the "tax barrier" to international trade and investment. The agreements also provide for the exchange of information on relevant income to prevent evasion of taxes on income.

Under DTA business profits are taxed only in the country in which the enterprise is situated. Where the enterprise carries on business through a permanent establishment situated in the other contracting country, tax is levied in the other country on profits attributable to or derived by the permanent establishment in the country where it is situated. Under most DTA profits from shipping and air transport operations in international traffic are taxed only in the country where the management and control of the enterprise are exercised.

In most DTA which Malaysia has entered into, countries of residence accord tax sparing credit. A tax sparing credit is a credit given if no tax or a lower rate of tax is paid in the host country. In case of dividends paid by companies exempted from tax under the PIA, 1986, the recipients are also exempted from Malaysian income tax on such dividends. If the recipients are also taxed in their country of residence on the dividends, then the country of residence will give credits as if Malaysian tax has been paid.

Under most of the agreements, interests on approved loans and approved industrial or technical royalties derived from Malaysia by residents of other countries are exempted from tax in Malaysia. In addition, there is a provision for credit to be given by the country of residence for the tax spared by Malaysia in respect of such income.

To date, 60 countries have DTA with Malaysia, namely:

	Country	*Date of Signing Agreement*
1.	Sweden	21.11.1970
2.	Sweden (Protocol)	12.03.2002
3.	Denmark	04.12.1970
4.	Norway	23.12.1970
5.	United Kingdom United Kingdom (New Agreement)	30.03.1973 10.12.1996
6.	Belgium Belgium (Protocol)	24.10.1973 21.11.1995
7.	Switzerland	30.12.1974
8.	France France (Protocol)	24.04.1975 31.01.1991
9.	Federal Republic of Germany)	08.04.1977
10.	Poland	16.09.1977
11.	Romania	26.11.1982
12.	Italy	28.01.1984
13.	Finland	28.03.1984
14.	Russia	31.07.1987
15.	Netherlands Netherlands (Protocol)	07.03.1988 04.12.1996
16.	Hungary	24.05.1989
17.	Austria	20.09.1989
18.	Albania	24.01.1994
19.	Malta	03.10.1995

	Country	Date of Signing Agreement
20.	Czech Republic	08.03.1996
21.	Ireland	28.11.1998
22.	Singapore Singapore (Supplementary)	26.12.1968 06.07.1973
23.	Japan Japan (New Agreement)	30.01.1970 19.02.1999
24.	Sri Lanka Sri Lanka (New Agreement)	16.09.1972 16.09.1997
25.	India India (New Agreement)	25.10.1976 14.05.2001
26.	Thailand Thailand (Protocol)	29.03.1982 10.02.1995
27.	South Korea	20.04.1982
28.	Philippines	27.04.1982
29.	Pakistan	29.05.1982
30.	Bangladesh	19.04.1983
31.	China	23.11.1985
32.	Indonesia	12.09.1991
33.	Iran	11.11.1992
34.	Sudan	07.10.1993
35.	Turkey	27.09.1994
36.	Jordan	01.10.1994
37.	Mongolia	27.07.1995
38.	Vietnam	07.09.1995
39.	United Arab Emirates	28.11.1995
40.	Kuwait	06.04.1997
41.	Egypt	14.04.1997
42.	Uzbekistan	06.10.1997
43.	Republic of Kyrgyz	19.11.2000
44.	Myanmar	09.03.1998
45.	Bahrain	14.06.1999
46.	New Zealand New Zealand (Protocol)	19.03.1976 14.07.1994
47.	Australia	20.08.1980
48.	Papua New Guinea	20.05.1993
49.	Fiji	19.12.1995
50.	Canada	16.05.1976
51.	Mauritius	23.08.1992
52.	Zimbabwe	28.04.1994
53.	Namibia	28.07.1997
54.	Croatia	18.02.2002
55.	Lebanon	20.01.2003
56.	Luxembourg	21.11.2002
57.	Morocco	02.07.2001

LIMITED DTA AGREEMENT (In respect of income of Transport Enterprises only)

58.	Saudi Arabia (air transport only)	18.07.1993
59.	U.S.A (shipping and air transport)	17.04.1989
60.	Republic of Argentina (shipping and air transport)	03.10.1997

XV. INVESTMENT GUARANTEE AGREEMENTS

The purpose of the Investment Guarantee Agreements (IGA) is to ensure against non-commercial risks such as expropriation and nationalisation and to allow for remittances and repatriation of capital. For a developing country such as Malaysia, it is hoped that the IGA will help to quicken the pace of industrialisation by encouraging the inflows of foreign capital. It is generally considered that the IGA, which prevent arbitrary action by a recipient country, will generate confidence in foreign investors.

Coverage

The IGA normally covers the following:

(a) A guarantee that there shall be no expropriation or nationalisation except for a lawful or public purpose and under due process of law and with prompt and adequate compensation.

(b) A permission to remit or repatriate in any freely usable currency, profits or capital on investment.

Beneficiaries

Under most IGA, the beneficiaries would be:

(a) nationals or citizens according to the laws of each contracting party; and

(b) companies which are incorporated in either contracting party's country and substantially owned by, and whose management and control are vested in the nationals of each contracting party.

Arbitration

Under the IGA, two forms of disputes may arise. First, disputes on the interpretation or the application of the agreement itself and secondly, disputes in connection with the investments in the contracting countries.

(a) In most of the IGA that Malaysia has signed, it is provided for that consultations through diplomatic channels shall settle disputes on the interpretation or application of the agreement with the view towards arriving at an amicable solution. Where a dispute fails to be settled in the above manner, it will be submitted to an arbitration board or an arbitration tribunal for settlement. If these measures fail to resolve the dispute, it would be referred to the International Court of Justice.

(b) Disputes in connection with the investment between the national or company (investor) and the host country shall first be settled by making use of local administrative and judicial facilities. If the above means fail to settle the issue, it should then be submitted for reconciliation or arbitration to the International Centre for Settlement of Investment Disputes which is established under the auspices of the IBRD or the International Adhoc Arbitral Tribunal established under the Arbitration Rules of the United Nations Commission on International Trade Law.

Status of Investment Guarantee Agreements

Malaysia has signed IGAs with the following countries:

	Country	*Date of Signing Agreement*
1.	United States of America	21.4.1959 (amended on 24.6.1965)
2.	Federal Republic of Germany[1]	22.12.1960 (amended on 5.11.1965)
3.	Netherlands	15.6.1971
4.	Canada	1.10.1971
5.	France	24.4.1975
6.	Switzerland	1.3.1978
7.	Sweden	3.3.1979
8.	Belgo-Luxembourg	22.11.1979
9.	United Kingdom	21.5.1981
10.	Sri Lanka	16.4.1982
11.	Romania	26.11.1982 (amended on 25.6.1996)
12.	Norway	6.11.1984
13.	Austria	12.4.1985
14.	Finland	15.4.1985
15.	Organization of Islamic Conference (OIC)	30.9.1987
16.	Kuwait	21.11.1987
17.	ASEAN	15.12.1987
18.	Italy	4.1.1988
19.	Republic of Korea	11.4.1988
20.	People's Republic of China	21.11.1988
21.	United Arab Emirates	11.10.1991
22.	Denmark	6.1.1992
23.	Socialist Republic of Vietnam	21.1.1992
24.	Papua New Guinea	27.10.1992
25.	Republic of Chile	11.11.1992
26.	Lao People's Democratic Republic	8.12.1992

[1] Germany since 3.10.1990.

	Country	Date of Signing Agreement		Country	Date of Signing Agreement
27.	Taiwan	18.2.1993	50.	Czech Republic	9.9.1996
28.	Republic of Hungary	19.2.1993	51.	Republic of Guinea	7.11.1996
29.	Republic of Poland	21.4.1993	52.	Republic of Ghana	11.11.1996
30.	Republic of Indonesia	22.1.1994	53.	Arab Republic of Egypt	14.4.1997
31.	Republic of Albania	24.1.1994	54.	Republic of Botswana	31.7.1997
32.	Republic of Zimbabwe	28.4.1994	55.	Republic of Cuba	26.9.1997
33.	Turkmenistan	30.5.1994	56.	Republic of Uzbekistan	6.10.1997
34.	Republic of Namibia	12.8.1994	57.	Macedonia	11.11.1997
35.	Kingdom of Cambodia	17.8.1994	58.	Democratic People's Republic of Korea	4.2.1998
36.	The Argentine Republic	6.9.1994	59.	Republic of Yemen	11.2.1998
37.	Jordan	2.10.1994	60.	Republic of Turkey	25.2.1998
38.	Republic of Bangladesh	12.10.1994	61.	Republic of Lebanon	26.2.1998
39.	Republic of Croatia	16.12.1994	62.	Burkina Faso	23.4.1998
40.	Bosnia Herzegovena	16.12.1994	63.	Republic of Sudan	14.5.1998
41.	Spain	4.4.1995	64.	Republic of Djibouti	3.8.1998
42.	Pakistan	7.7.1995	65.	Republic of Ethiopia	22.10. 1998
43.	Kyrgyz Republic	20.7.1995	66.	Senegal	11.2. 1999
44.	Mongolia	27.7.1995	67.	State of Bahrain	15.6. 1999.
45.	Republic of India	3.8.1995	68.	Algeria	27.02.2000
46.	Oriental Republic of Uruguay	9.8.1995	69.	Saudi Arabia	25.10.2000
47.	Republic of Peru	13.10.1995	70.	Morocco	16.04.2002
48.	Republic of Kazakhstan	27.5.1996	71.	Iran	22.07.2002
49.	Republic of Malawi	5.9.1996			

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CATATAN PERANGKAAN

Lampiran Perangkaan memberi perangkaan penting dalam siri masa. Setiap jadual mengandungi data ekonomi terpilih, mengenai kepentingan semasa.

Sebahagian dari jadual-jadual yang ditunjukkan dalam laporan-laporan terdahulu telah diasingkan supaya dapat memberi persembahan yang mudah difahami. Kadar perubahan peratus diberi sebagai satu penunjuk aliran ekonomi untuk data yang dianggap lebih penting. Pembahagian peratus juga diberi di mana dianggap berguna. Di mana sesuai nota kaki diberi.

Dalam beberapa siri, data terdahulu telah dipinda. Anggaran bagi 2003 adalah berasaskan kepada maklumat bagi enam hingga lapan bulan dan ramalan bagi 2004 diberi di mana yang berkaitan.

Perubahan Tahun Asas Akaun Negara

Akaun negara telah diasaskan semula daripada tahun 1978 kepada tahun 1987. Perubahan semula tahun asas akaun negara merupakan amalan biasa. Ini adalah untuk mengambilkira perubahan dari semasa ke semasa mengenai struktur pengeluaran, struktur harga relatif, struktur penggunaan, kemunculan produk baru, lenyapnya produk lama serta perubahan kualiti yang boleh diambilkira secara berkesan dalam anggaran akaun negara.

Perubahan semula tahun asas akaun negara Malaysia yang terakhir ialah pada tahun 1987. Sejak itu, ekonomi Malaysia telah mengalami perubahan yang ketara. Dengan itu, wajaran yang diberi kepada setiap industri tidak lagi tepat untuk mencerminkan struktur semasa. Terdapat industri-industri yang baru mungkin tidak diambilkira secara langsung dalam pengukuran. Bagi mendapat anggaran yang hampir tepat, ianya diambilkira secara tidak langsung dengan mengandaikan nilaian dari keluaran industri baru mengikuti perubahan harga yang sama yang dialami oleh beberapa industri yang berkaitan i.e. industri baru tidak disisih sama sekali tetapi andaian mengenai perubahan harga yang dibuat berkemungkinan kurang tepat. Dengan mengasaskan semula akaun negara memberi peluang untuk membolehkan wajaran (kepentingan relatif) dikemas kini.

Dari segi konsep, akaun negara berasaskan tahun 1978 adalah sama dengan akaun negara berasaskan tahun 1987. Walau bagaimanapun, akaun negara berasaskan tahun 1987 mengandungi analisis industri yang terperinci, sementara akaun negara berasaskan tahun 1978 bergantung kepada output kasar untuk mengubahkan nilai ditambah. Akaun negara berasaskan tahun 1987 menggunakan sebarang data yang diperoleh untuk membenarkan perubahan dalam input. Selanjutnya, akaun negara tahun 1987 mendapat faedah dari Kajian Input-Output Tahun 1987 untuk dijadikan sebagai asas permulaan pengiraan. Yang demikian, akaun negara berasaskan tahun 1987 akan berbeza dengan akaun negara berasaskan tahun 1978.

Jika tidak disebut sumbernya, data adalah disediakan oleh Bahagian Ekonomi dan Antarabangsa, Kementerian Kewangan.

Simbol-simbol yang digunakan adalah:

n.a.	=	Tidak terdapat
t.s.t.l.	=	Tidak disebut di tempat lain
f.o.b.	=	Percuma atas kapal
c.i.f.	=	Kos, insurans dan tambang
RM	=	Ringgit Malaysia
USD	=	Dolar Amerika

Ringkasan berikut menunjukkan sumber data:

ADB	=	Bank Pembangunan Asia
BNM	=	Bank Negara Malaysia
JP	=	Jabatan Perangkaan
UPE	=	Unit Perancang Ekonomi
IMF	=	Kumpulan Wang Antarabangsa
IFS	=	Perangkaan Kewangan Antarabangsa
MAS	=	Sistem Penerbangan Malaysia Berhad
KSM	=	Kementerian Sumber Manusia
MIDA	=	Lembaga Kemajuan Perindustrian Malaysia
MISC	=	Perbadanan Perkapalan Antarabangsa Malaysia
KP	=	Kementerian Pendidikan
KK	=	Kementerian Kesihatan
OECD	=	Pertubuhan untuk Kerjasama dan Pembangunan Ekonomi
PETRONAS	=	Petroliam Nasional Berhad
PNSL	=	Perbadanan Nasional Shipping Line
JKR	=	Jabatan Kerja Raya
JPJ	=	Jabatan Pengangkutan Jalan
SDR	=	Hak Pengeluaran Khas
TNB	=	Tenaga Nasional Berhad

STATISTICAL ANNOTATION

The Statistical Appendix provides key economic data in a time series. Each table contains selected economic data of current interest.

Some of the tables shown in previous reports have been separated to provide a comprehensive yet simpler presentation. Percentage rates of change have been provided for the more important variables as a quick indication of economic trends. In addition, percentage proportions of totals have been given where deemed useful. Wherever necessary, footnotes have been provided.

In some series, historical figures have been revised. Estimates for 2003 are based on six to eight months data and forecasts for 2004 have been provided where appropriate.

Changing the Base year of the National Account

The national accounts have been rebased from 1978 to 1987. Rebasing the national accounts is standard international practice. This is to take into account for structural changes over time in production structure, structural changes in relative prices, structural changes in consumption patterns, appearance of new products and disappearance of old products and large quality changes that can effectively be incorporated in the national accounts estimates.

The last re-base in the Malaysian national accounts was done in 1987. Since then the Malaysian economy has undergone significant changes. As such, the weight given to each industry no longer accurately reflects the current structure. New industries that have started may not have been included directly in the measure. As an approximation, they have been included indirectly by assuming that the value of the new industry output has followed the same price changes as some related industry i.e. the new industries have not been omitted altogether but assumptions on price change have had to be made which might be inappropriate. The re-base provides an opportunity to bring the weights (relative importance) up to date.

Conceptually, the 1978 based national accounts is similar to the 1987 based national accounts. The 1987 based national accounts, however, has a more detailed industry analysis while the 1978 based national accounts relied on gross output to move value added, the 1987 based national accounts make use of wherever data is available to allow for variations in input. In addition, the 1987 based national accounts have the advantage of the 1987 Input-Output Study as a starting point. Hence the 1987 based national accounts will differ from the 1978 based national accounts.

Unless otherwise stated, the source of data is the Economics and International Division of the Ministry of Finance.

Symbols used are:

n.a.	=	*Not available*
n.e.s.	=	*Not elsewhere stated*
f.o.b.	=	*Free on board*
c.i.f.	=	*Cost, insurance and freight*
RM	=	*Malaysian Ringgit*
USD	=	*US Dollar*

The following abbreviations refer to sources of data:

ADB	=	*Asian Development Bank*
BNM	=	*The Central Bank of Malaysia*
DOS	=	*Department of Statistics*
EPU	=	*Economic Planning Unit*
IMF	=	*International Monetary Fund*
IFS	=	*International Financial Statistics*
MAS	=	*Malaysia Airlines System Berhad*
MHR	=	*Ministry of Human Resources*
MIDA	=	*Malaysian Industrial Development Authority*
MISC	=	*Malaysian International Shipping Corporation*
ME	=	*Ministry of Education*
MH	=	*Ministry of Health*
OECD	=	*Organisation for Economic Cooperation and Development*
PETRONAS	=	*Petroliam Nasional Berhad*
PNSL	=	*Perbadanan Nasional Shipping Line*
PWD	=	*Public Works Department*
RTD	=	*Road Transport Department*
SDR	=	*Special Drawing Rights*
TNB	=	*Tenaga Nasional Berhad*

1.1 — PERANGKAAN PENTING EKONOMI NEGARA-NEGARA MAJU

1.1 — KEY ECONOMIC DATA OF ADVANCED COUNTRIES

	Pertumbuhan KDNK Benar (%) *Real GDP Growth (%)*	KDNK Per Kapita (USD) *GDP Per Capita (USD)*	Kadar Faedah Nasional[1] (%) *National Interest Rates[1] (%)*	Pertumbuhan Harga Pengguna (%) *Growth in Consumer Prices (%)*	Kadar Pengangguran[2] (%) *Unemployment Rate[2] (%)*	Imbangan Perdagangan[3] (USD bilion) *Balance of Trade[3] (USD billion)*	Imbangan Akaun Semasa Imbangan Pembayaran (USD bilion) *Current Account Balance of the Balance of Payments (USD billion)*	Rizab Antarabangsa Kasar[4] (USD bilion) *Gross International Reserves[4] (USD billion)*
Negara Maju ***Advanced Countries***								
2000	3.8	n.a.	n.a.	2.3	5.9	−205.3	−224.5	n.a.
2001	0.9	n.a.	n.a.	2.2	5.9	−193.5	−187.3	n.a.
2002	1.8	n.a.	n.a.	1.5	6.4	n.a.	−217.2	n.a.
2003[5]	1.9	n.a.	n.a.	1.9	6.6	n.a.	−270.4	n.a.
2004[6]	**2.9**	**n.a.**	**n.a.**	**1.7**	**6.5**	**n.a.**	**−261.9**	**n.a.**
Amerika Syarikat *United States of America*								
2000	3.8	35,690	6.4	3.4	4.0	−449.6	−410.3	56.6
2001	0.3	35,400	1.8	2.8	4.8	−424.3	−393.4	57.6
2002	2.4	35,050	1.2	1.6	5.8	−480.9	−503.4	67.96
2003[5]	2.2	n.a.	1.0	2.3	6.2	n.a.	−576.7	n.a.
2004[6]	**3.6**	**n.a.**	**n.a.**	**2.3**	**5.9**	**n.a.**	**−583.10**	**n.a.**
Jepun *Japan*								
2000	2.8	37,558	0.2	−0.9	4.7	116.73	119.6	354.9
2001	0.4	32,530	0.0	−0.7	5.0	70.4	87.6	395.2
2002	0.3	n.a.	0.0	−0.95	5.4	93.83	112.8	461.2
2003[5]	0.8	n.a.	0.0	−0.7	5.5	n.a.	115.5	n.a.
2004[6]	**1.0**	**n.a.**	**n.a.**	**−0.6**	**5.4**	**n.a.**	**131.3**	**n.a.**
United Kingdom *United Kingdom*								
2000	3.1	24,210	6.0	2.1	5.5	−45.89	−29.1	43.8
2001	2.0	24,020	4.0	2.1	5.1	−48.20	−23.6	37.3
2002	1.6	26,280	4.00	2.2	5.2	−51.83	−29.7	36.9
2003[5]	2.0	n.a.	3.5	2.8	5.4	n.a.	−35.3	n.a.
2004[6]	**2.5**	**n.a.**	**n.a.**	**2.7**	**5.3**	**n.a.**	**−41.9**	**n.a.**
Jerman *Germany*								
2000	2.9	23,160	4.8	2.1	7.8	57.51	−20.9	56.9
2001	0.6	23,570	3.3	2.4	7.8	88.51	3.5	51.3
2002	0.2	24,000	2.8	1.3	8.2	122.18	49.6	51.2
2003[5]	0.5	n.a.	2.0	0.6	10.5	n.a.	59.5	n.a.
2004[6]	**1.9**	**n.a.**	**n.a.**	**0.7**	**8.8**	**n.a.**	**63.4**	**n.a.**
Perancis *France*								
2000	4.2	22,580	4.8	1.8	9.6	1.13	19.4	37.0
2001	1.8	23,180	3.3	1.8	8.6	2.85	24.0	31.7
2002	1.2	23,520	2.8	1.9	8.8	8.99	29.7	28.4
2003[5]	1.2	n.a.	2.0	2.0	9.1	n.a.	36.1	n.a.
2004[6]	**2.4**	**n.a**	**n.a.**	**1.6**	**9.1**	**n.a.**	**33.4**	**n.a.**

[1] Kadar faedah utama nasional/kadar faedah dasar sehingga bulan Julai 2003.
[2] Komposit bagi kumpulan-kumpulan negara ialah purata kadar pengangguran negara diwajarkan mengikut jumlah tenaga buruh di negara masing-masing.
[3] Eksport percuma atas kapal (f.o.b.) tolak import kos insurans fret (c.i.f.).
[4] Jumlah rizab tolak emas. Data adalah yang mutakhir dari IFS Julai 2003.
[5] Sehingga Julai 2003.
[6] Unjuran.

Sumber: IMF World Economic Outlook, OECD Economic Outlook, OECD Main Economic Indicators, IMF International Financial Statistics (IFS), World Development Report

[1] National interest rates/Policy related interest rates at end July 2003.
[2] Composites for the country groups are averages of national unemployment rates weighted by labour force in the respective countries.
[3] Exports f.o.b. less imports c.i.f.
[4] Total reserves minus gold. Figures are the latest available in the July 2003 IFS.
[5] As at July 2003.
[6] Forecast.

Source: IMF World Economic Outlook, OECD Economic Outlook, OECD Main Economic Indicators, IMF International Financial Statistics (IFS), World Development Report.

1.2 — ASEAN: PERANGKAAN PENTING EKONOMI

1.2 — ASEAN: KEY ECONOMIC DATA

	Pertumbuhan KDNK Benar (%) *Real GDP Growth (%)*	KDNK Per Kapita Pada Harga Semasa (USD) *GDP Per Capita at nominal value (USD)*	Pertumbuhan Harga Pengguna (%) *Growth in Consumer Prices (%)*	Imbangan Akaun Semasa Imbangan Pembayaran (USD juta) *Current Account Balance of the Balance of Payments (USD million)*	Rizab Antarabangsa Kasar (USD juta) *Gross International Reserves (USD million)*	Jumlah Hutang Luar Negara (USD bilion) *Total External Debt (USD billion)*	Kadar Pengangguran (% daripada tenaga buruh) *Unemployment rates (% of labour force)*
Brunei Darussalam *Brunei Darussalam*							
2000	2.8	12,751	1.6	4,007	n.a.	n.a.	4.7
2001	3.0	12,245	−3.1	3,765	n.a.	n.a.	5.6
2002	3.2	n.a.	−0.3	3,708	n.a.	n.a.	4.6
2003[1]	5.0-6.0	n.a.	1.0	n.a.	n.a.	n.a.	n.a.
2004[2]	**n.a.**	**n.a.**	**1.3**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
Indonesia *Indonesia*							
2000	4.9	740	9.3	7,985	29,394	0.14	6.1
2001	3.4	691	12.5	6,899	28,017	0.13	8.1
2002	3.7	n.a.	10.0	7,257	31,571	0.13	9.1
2003[1]	3.5-4.0	n.a.	9.0	n.a.	28,004	n.a.	n.a.
2004[2]	**4.0**	**n.a.**	**8.4**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
Malaysia *Malaysia*							
2000	8.5	3,837	1.5	8,487	29,886	0.042	3.1
2001	0.3	3,664	1.4	7,286	30,848	0.045	3.6
2002	4.1	3,870	1.8	7,190	34,583	0.048	3.5
2003[1]	4.5	4,053	1.2	9,676	38,669[3]	0.048	3.5
2004[2]	**5.5-6.0**	**4,229**	**n.a.**	**10,543**	**n.a.**	**n.a.**	**3.4**
Filipina *Philippines*							
2000	4.4	981	6.6	9,349	15,024	0.052	10.1
2001	4.5	914	4.1	1,323	15,658	0.052	9.8
2002	4.4	n.a.	2.6	4,197	16,299	0.054	11.4
2003[1]	4.2-5.2	n.a.	4.0	n.a.	n.a.	n.a.	10.0
2004[2]	**4.0**	**n.a.**	**4.0**	**n.a.**	**n.a.**	**n.a.**	**10.0**
Singapura *Singapore*							
2000	9.4	23,071	2.1	13,291	80,362	0.22	3.1
2001	−2.4	20,659	−0.6	16,114	75,800	0.22	3.3
2002	2.2	n.a.	0.4	18,740	82,276	0.23	4.4
2003[1]	0.0-1.0	n.a.	0.9	n.a.	n.a.	n.a.	4.5
2004[2]	**3.5**	**n.a.**	**1.7**	**n.a.**	**n.a.**	**n.a.**	**4.0**
Thailand *Thailand*							
2000	4.6	1,968	1.4	9,328	32,661	0.079	3.6
2001	1.9	1,831	0.8	6,236	23,048	0.067	3.3
2002	5.3	n.a.	1.6	7,647	38,924	0.059	2.4
2003[1]	4.2	n.a.	1.0-2.0	n.a.	n.a.	n.a.	n.a.
2004[2]	**4.3**	**n.a.**	**0.9**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
Vietnam *Vietnam*							
2000	6.76	403	−0.6	−354	3,417	n.a.	6.4
2001	6.93	416	0.5	−682	3,675	n.a.	6.3
2002	7.04	n.a.	4.0	−870	4,121	n.a.	n.a.
2003[1]	6.2	n.a.	3.8	n.a.	n.a.	n.a.	n.a.
2004[2]	**7.0**	**n.a.**	**3.3**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
Myanmar *Myanmar*							
2000	13.7	142	−6.3	−243.0	223.5	0.006	n.a.
2001	9.9	151	51.0	−309.5	410.2	n.a.	n.a.
2002	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
2003[1]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
2004[2]	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
Lao, PDR *Lao, PDR*							
2000	5.8	328	10.6	−12.1	140.9	0.001	7.3
2001	5.8	330	7.5	−78.6	133.4	0.001	n.a.
2002	5.9	n.a.	15.2	−32.8	191.0	0.001	n.a.
2003[1]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
2004[2]	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**

[1] Anggaran
[2] Unjuran
[3] Seperti pada 30 Ogos 2003

Sumber: IMF *World Economic Outlook*, April 2002 dan pelbagai sumber

[1] *Estimate*
[2] *Forecast*
[3] *As at 30 August 2003*

Source: IMF World Economic Outlook, April 2002 and various sources

1.3 — PERANGKAAN PENTING EKONOMI NEGARA-NEGARA MEMBANGUN TERPILIH
Di Asia

1.3 — KEY ECONOMIC DATA OF SELECTED DEVELOPING COUNTRIES
In Asia

	Pertumbuhan KDNK Benar (%) *Real GDP Growth (%)*	KDNK Per Kapita (USD) *GDP Per Capita (USD)*	Pertumbuhan Harga Pengguna (%) *Growth in Consumer Prices (%)*	Imbangan Akaun Semasa Imbangan Pembayaran (USD bilion) *Current Account Balance of the Balance of Payments (USD billion)*	Hutang Luar Negara (USD bilion) *External Debt (USD billion)*
R.R. China *P.R. of China*					
2000	*8.0*	855	*0.4*	20.5	145.7
2001	*7.3*	936	*0.7*	17.4	170.0
2002	*8.0*	1,000	*−0.8*	23.3	162.0
2003[1]	*9.0-10.0*	1,060	*0.2*	19.1	165.0
2004[2]	**7.5**	**1,120**	**1.5**	**15.8**	**n.a.**
Hong Kong SAR *Hong Kong SAR*					
2000	*10.2*	24,830	*−3.7*	9.1	45.0
2001	*0.6*	24,239	*−1.6*	12.3	57.7
2002	*2.3*	23,730	*−3.0*	18.5	57.6
2003[1]	*3.0*	23,530	*−1.6*	18.0	61.3
2004[2]	**3.3**	**25,000**	**−1.0**	**18.0**	**63.9**
India *India*					
2000	*5.4*	445	*4.0*	−4.3	100.4
2001	*4.2*	467	*3.8*	−0.1	97.3
2002	*4.9*	479	*4.3*	4.4	96.6
2003[1]	*5.1*	539	*4.1*	2.5	95.1
2004[2]	**5.9**	**593**	**5.5**	**1.3**	**97.7**
Republik Korea *Republic of Korea*					
2000	*9.3*	9,767	*2.3*	12.2	131.7
2001	*3.0*	9,039	*4.1*	8.6	118.8
2002	*6.3*	9,970	*2.8*	6.1	131.0
2003[1]	*3.3*	10,500	*3.5*	1.6	n.a.
2004[2]	**5.3**	**11,430**	**3.2**	**2.8**	**n.a.**
Taiwan *Taiwan*					
2000	*5.9*	13,948	*1.3*	8.9	23.5
2001	*−2.2*	12,580	*0.0*	17.9	19.1
2002	*3.5*	12,470	*−0.2*	25.7	22.9
2003[1]	*3.2*	12,300	*0.3*	25.0	26.3
2004[2]	**3.7**	**13,070**	**0.8**	**25.9**	**31.0**

[1] Anggaran.
[2] Unjuran.

Sumber: *IMF World Economic Outlook* April 2003 dan pelbagai sumber.

[1] *Estimate.*
[2] *Forecast.*

Source: IMF World Economic Outlook April 2003 and various sources.

2.1 — KELUARAN NEGARA KASAR MENGIKUT AGREGAT PERMINTAAN[1]

Malaysia

RM juta

	Perbelanjaan penggunaan *Final consumption expenditure* (A)				Pembentukan modal tetap kasar *Gross fixed capital formation* (B)			
	Awam *Public*		Swasta *Private*		Awam[2] *Public*[2]		Swasta[3] *Private*[3]	
Harga Semasa/*Current Prices*								
1998	27,670	*(–8.8)*	117,718	*(–7.9)*	31,953	*(0.4)*	44,029	*(–50.9)*
% Bahagian *% Share*	*10.3*		*43.9*		*11.9*		*16.4*	
1999	33,044	*(19.4)*	125,056	*(6.2)*	34,466	*(7.9)*	31,375	*(–28.7)*
2000	35,676	*(8.0)*	145,355	*(16.2)*	43,627	*(26.6)*	44,102	*(40.6)*
2001	42,097	*(18.0)*	150,644	*(3.6)*	48,817	*(11.9)*	34,528	*(–21.7)*
2002	50,015	*(18.8)*	159,506	*(5.9)*	53,698	*(10.0)*	30,066	*(–12.9)*
2003[5]	53,639	*(7.2)*	169,848	*(6.5)*	56,680	*(5.6)*	30,944	*(2.9)*
% Bahagian *% Share*	*14.9*		*47.3*		*15.8*		*8.6*	
2004[6]	**56,340**	***(5.0)***	**184,031**	***(8.4)***	**54,854**	***(–3.2)***	**34,330**	***(10.9)***
Harga Benar 1987/1987 Real Prices								
1998	20,059	*(–8.9)*	82,031	*(–10.2)*	23,204	*(–8.4)*	31,973	*(–55.2)*
% Bahagian *% Share*	*11.6*		*47.5*		*13.4*		*18.5*	
1999	23,485	*(17.1)*	84,377	*(2.9)*	26,994	*(16.3)*	24,574	*(–23.1)*
2000	23,868	*(1.6)*	95,370	*(13.0)*	32,244	*(19.4)*	32,596	*(32.6)*
2001	27,919	*(17.0)*	97,630	*(2.4)*	36,930	*(14.5)*	26,120	*(–19.9)*
2002	31,336	*(12.2)*	101,946	*(4.4)*	40,547	*(9.8)*	22,702	*(–13.1)*
2003[5]	33,603	*(7.2)*	107,226	*(5.2)*	42,417	*(4.6)*	23,157	*(2.0)*
% Bahagian *% Share*	*15.9*		*50.9*		*20.1*		*10.8*	
2004[6]	**35,265**	***(4.9)***	**114,745**	***(7.0)***	**40,664**	***(–4.1)***	**25,449**	***(9.9)***

[1] Angka dalam kurungan adalah peratus perubahan tahunan.

[2] Termasuk pelaburan oleh Perusahaan Awam Bukan Kewangan.

[3] Termasuk pelaburan petroleum dan gas.

[4] Termasuk import oleh MAS, MISC dan PNSL.

[5] Anggaran oleh Kementerian Kewangan.

[6] Unjuran oleh Kementerian Kewangan.

Sumber: Jabatan Perangkaan.

2.1 — GROSS NATIONAL PRODUCT BY DEMAND AGGREGATE[1]

Malaysia

RM million

Perubahan dalam stok *Change in stocks* (C)	Eksport barangan dan perkhidmatan bukan faktor *Exports of goods and non-factor services* (D)		Import barangan dan perkhidmatan bukan faktor[4] *Imports of goods and non-factor services*[4] (E)		KDNK pada harga pasaran *GDP at market prices* (F) F=A+B+C+D-E		Bayaran faktor bersih ke luar negeri *Net factor payments abroad* (G)	KNK pada harga pasaran *GNP at market prices* (H) H=F+G	
−427	327,836	*(24.7)*	265,536	*(2.0)*	283,243	*(0.5)*	−15,321	267,922	*(0.5)*
−0.1	*122.4*		*99.1*		–		*−5.7*	*100.0*	
1,476	364,861	*(11.3)*	289,514	*(9.0)*	300,764	*(6.2)*	−20,886	279,878	*(4.5)*
5,378	427,004	*(17.0)*	358,530	*(23.8)*	342,612	*(13.9)*	−28,909	313,703	*(12.1)*
−3,268	389,256	*(−8.8)*	327,765	*(−8.6)*	334,309	*(−2.4)*	−25,623	308,686	*(−1.6)*
4,425	411,391	*(5.7)*	348,443	*(6.3)*	360,658	*(7.9)*	−25,061	335,597	*(8.7)*
2,077	422,571	*(2.7)*	349,985	*(0.4)*	385,774	*(7.0)*	−26,515	359,259	*(7.1)*
0.6	*117.6*		*97.4*		–		*−7.4*	*100.0*	
2,982	**449,769**	***(6.4)***	**371,256**	***(6.1)***	**411,050**	***(6.6)***	**−28,521**	**382,529**	***(6.5)***
−233	187,415	*(0.5)*	162,212	*(−18.8)*	182,237	*(−7.4)*	−9,451	172,786	*(−5.2)*
−0.1	*108.5*		*93.9*		–		*−5.5*	*100.0*	
1,254	212,085	*(13.2)*	179,347	*(10.6)*	193,422	*(6.1)*	−13,628	179,794	*(4.1)*
2,785	246,158	*(16.1)*	223,062	*(24.4)*	209,959	*(8.5)*	−19,271	190,688	*(6.1)*
−1,778	227,685	*(−7.5)*	203,866	*(−8.6)*	210,640	*(0.3)*	−17,642	192,998	*(1.2)*
3,452	235,834	*(3.6)*	216,507	*(6.2)*	219,309	*(4.1)*	−17,253	202,056	*(4.7)*
1,583	238,310	*(1.0)*	217,009	*(0.2)*	229,287	*(4.5)*	−18,164	211,123	*(4.5)*
0.7	*112.9*		*102.7*		–		*−8.6*	*100.0*	
2,251	**252,487**	***(5.9)***	**229,076**	***(5.6)***	**241,785**	***(5.5-6.0)***	**−19,444**	**222,341**	***(5.3)***

[1] *Figures in parentheses are annual percentage changes.*
[2] *Includes investments of Non-Financial Public Enterprises.*
[3] *Includes petroleum and gas investment.*
[4] *Includes imports by MAS, MISC and PNSL.*
[5] *Estimates by Ministry of Finance.*
[6] *Forecasts by Ministry of Finance.*
Source: *Department of Statistics.*

2.2 — KELUARAN DALAM NEGERI KASAR MENGIKUT PUNCA-PUNCA KEGIATAN[1]

pada harga benar 1987, Malaysia

RM juta

2.2—*GROSS DOMESTIC PRODUCT BY INDUSTRIAL ORIGIN*[1]

in 1987 real prices, Malaysia

RM million

	2000	2001	2002	2003[4]	2004[5]
Pertanian, perhutanan dan perikanan[2] ***Agriculture, forestry and fishing***[2]	**18,062** ***(2.6)***	**17,897** ***(-0.9)***	**18,438** ***(3.0)***	**18,869** ***(2.3)***	**19,436** ***(3.0)***
Perlombongan dan kuari ***Mining and quarrying***	**15,385** ***(0.3)***	**15,258** ***(-0.8)***	**15,826** ***(3.7)***	**16,545** ***(4.5)***	**17,124** ***(3.5)***
Pembuatan ***Manufacturing***	**67,250** ***(18.3)***	**63,346** ***(- 5.8)***	**65,908** ***(4.0)***	**70,225** ***(6.5)***	**75,249** ***(7.2)***
Pembinaan ***Construction***	**6,964** ***(0.6)***	**7,108** ***(2.1)***	**7,275** ***(2.3)***	**7,461** ***(2.5)***	**7,652** ***(2.6)***
Perkhidmatan ***Services***	**113,409** ***(6.7)***	**119,962** ***(5.8)***	**124,939** ***(4.1)***	**130,187** ***(4.2)***	**137,282** ***(5.5)***
Elektrik, gas dan air *Electricity, gas and water*	8,278 *(16.9)*	8,427 *(1.8)*	8,755 *(3.9)*	9,398 *(7.3)*	10,122 *(7.7)*
Pengangkutan, penyimpanan dan perhubungan *Transport, storage and communications*	16,858 *(9.8)*	18,079 *(7.2)*	18,554 *(2.6)*	19,398 *(4.5)*	20,502 *(5.7)*
Perdagangan borong dan runcit, hotel dan restoran *Wholesale and retail trade, hotels and restaurants*	31,116 *(5.9)*	31,904 *(2.5)*	32,741 *(2.6)*	33,445 *(2.1)*	35,013 *(4.7)*
Kewangan, insurans, harta tanah dan perkhidmatan perniagaan *Finance, insurance, real estate and business services*	26,755 *(7.1)*	29,819 *(11.5)*	31,388 *(5.3)*	32,973 *(5.0)*	35,050 *(6.3)*
Perkhidmatan Kerajaan *Government services*	14,331 *(2.0)*	14,895 *(3.9)*	15,892 *(6.7)*	16,631 *(4.6)*	17,263 *(3.8)*
Perkhidmatan-perkhidmatan lain[3] *Other services*[3]	16,070 *(4.0)*	16,838 *(4.8)*	17,609 *(4.6)*	18,341 *(4.2)*	19,331 *(5.4)*
(–) Bayaran perkhidmatan bank yang dikenakan (–) *Imputed bank service charges*	15,832 *(6.3)*	17,678 *(11.7)*	18,614 *(5.3)*	19,680 *(5.7)*	21,038 *(6.9)*
(+) Cukai import (+) *Import duties*	4,721 *(–11.2)*	4,746 *(0.5)*	5,537 *(16.7)*	5,681 *(2.6)*	6,082 *(7.1)*
KDNK pada harga pasaran ***GDP at market prices***	**209,959** ***(8.5)***	**210,640** ***(0.3)***	**219,309** ***(4.1)***	**229,287** ***(4.5)***	**241,785** ***(5.5-6.0)***

[1] Angka-angka dalam kurungan adalah peratus perubahan tahunan.

[2] Termasuk ternakan dan hortikultur.

[3] Perkhidmatan-perkhidmatan kemasyarakatan, sosial dan persendirian, perkhidmatan swasta tanpa keuntungan kepada isi rumah dan perkhidmatan rumah tangga bagi isi rumah.

[4] Anggaran oleh Kementerian Kewangan.

[5] Unjuran oleh Kementerian Kewangan.

Sumber: Jabatan Perangkaan.

[1] *Figures in parentheses are annual percentage changes.*

[2] *Includes livestock and horticulture.*

[3] *Community, social and personal services, private non-profit services to households and domestic services of households.*

[4] *Estimate by Ministry of Finance.*

[5] *Forecast by Ministry of Finance.*

Source: Department of Statistics.

2.3 — IMBANGAN PEMBAYARAN (BPM 5)

Malaysia

RM juta

2.3 — BALANCE OF PAYMENTS (BPM 5)

Malaysia

RM million

	2000	2001	2002	2003[1]	2004[2]
	Bersih/*Net*	**Bersih/*Net***	**Bersih/*Net***	**Bersih/*Net***	**Bersih/*Net***
A. **Barangan dan perkhidmatan/*Goods and services***	**68,474**	**61,488**	**62,948**	**72,585**	**78,512**
1. **Barangan/*Goods***	**79,144**	**69,854**	**68,914**	**81,043**	**86,598**
1.1 Eksport/*Exports*	374,033	334,326	354,855	368,915	392,525
1.2 Import/*Imports*	294,889	264,472	285,941	287,872	305,927
2. **Perkhidmatan/*Services***	**−10,670**	**−8,366**	**−5,966**	**−8,458**	**−8,086**
2.1 Pengangkutan/*Transportation*	−11,736	−11,352	−11,542	−11,297	−12,776
2.2 Perjalanan/*Travel*	11,158	16,148	17,102	13,308	15,936
2.3 Urus niaga kerajaan/*Government transactions*	−62	25	−284	−100	−192
2.4 Perkhidmatan lain/*Other services*	−10,030	−13, 187	−11,242	−10,369	−11,054
B. **Pendapatan/*Income***	**−28,909**	**−25,623**	**−25,061**	**−26,515**	**−28,521**
C. **Pindahan semasa/*Current transfers***	**−7,313**	**−8,178**	**−10,566**	**−9,303**	**−9,927**
D. **Imbangan akaun semasa/*Balance on current account***	**32,252**	**27,687**	**27,321**	**36,767**	**40,064**
E. **Akaun kewangan/*Financial account***	**−23,848**	**−14,791**	**−11,941**	**−12,500**	–
1. Pelaburan langsung/*Direct investment*	6,694	1,091	4,935	3,500	–
2. Pelaburan portfolio/*Portfolio investment*	−9,395	−2,466	−6,506	–	–
3. Pelaburan lain/*Other investment*	−21,147	−13,416	−10,370	−16,000	–
F. **Kesilapan dan ketinggalan/*Errors & omissions***	**−12,107**	**−9,234**	**−1,189**	**−9,020**	–
G. **Imbangan Kesuruhan/*Overall balance* (D+E+F)**	**−3,703**	**3,662**	**14,191**	**15,247**	–
H. **Aset rizab/*Reserve assets***	**3,703**	**−3,662**	**−14,191**	**−15,247**	–
Perubahan bersih dalam rizab luar negara Bank Negara Malaysia [bertambah (−)/berkurangan (+)] *Net change in Bank Negara Malaysia's external reserves [increase(−)/decrease(+)]*	3,703	−3,662	−14,191	−15,247	–

[1] Anggaran oleh Kementerian Kewangan.

[2] Unjuran oleh Kementerian Kewangan.

Sumber: Jabatan Perangkaan

[1] *Estimate by the Ministry of Finance.*

[2] *Forecast by the Ministry of Finance.*

Source: Department of Statistics.

2.4 — INDEKS HARGA PENGGUNA (MENGIKUT KAWASAN)[1]

2000=100, Malaysia

Tempoh *Period*	Jumlah *Total*		Makanan *Food*		Minuman dan tembakau *Beverages and tobacco*		Pakaian dan kasut *Clothing and footwear*	
	MALAYSIA							
Wajaran[2] *(Weights)*[2] %	100.0		33.8		3.1		3.4	
1999	98.5	*(2.8)*	98.1	*(4.6)*	97.2	*(7.9)*	101.8	*(-2.0)*
2000	100.0	*(1.6)*	100.0	*(1.9)*	100.0	*(2.8)*	100.0	*(-1.7)*
2001	101.4	*(1.4)*	100.7	*(0.7)*	104.8	*(4.8)*	97.4	*(-2.6)*
2002	103.2	*(1.8)*	101.4	*(0.7)*	109.2	*(4.2)*	95.2	*(-2.3)*
2003[3]	**104.2**	***(1.1)***	**102.6**	***(1.2)***	**109.2**	***(0.1)***	**93.8**	***(-2.1)***
	SEMENANJUNG MALAYSIA							
Wajaran[2] *(Weights)*[2] %	100.0		33.8		3.2		3.3	
1999	98.4	*(2.9)*	98.1	*(4.8)*	97.1	*(8.1)*	101.6	*(-2.1)*
2000	100.0	*(1.6)*	100.0	*(2.0)*	100.0	*(3.0)*	100.0	*(-1.6)*
2001	101.5	*(1.5)*	100.8	*(0.8)*	105.0	*(5.0)*	97.6	*(-2.4)*
2002	103.6	*(2.1)*	101.7	*(0.9)*	109.5	*(4.3)*	95.5	*(-2.2)*
2003[3]	**104.6**	***(1.2)***	**102.9**	***(1.2)***	**109.6**	***(0.1)***	**94.2**	***(-1.9)***
	SARAWAK							
Wajaran[2] *(Weights)*[2] %	100.0		32.5		3.1		3.9	
1999	98.5	*(1.6)*	97.9	*(3.3)*	97.6	*(6.9)*	102.4	*(-2.1)*
2000	100.0	*(1.5)*	100.0	*(2.2)*	100.0	*(2.5)*	100.0	*(-2.4)*
2001	100.8	*(0.8)*	100.6	*(0.6)*	103.8	*(3.8)*	97.6	*(-2.4)*
2002	101.8	*(1.0)*	100.6	*(0.0)*	107.4	*(3.5)*	95.7	*(-1.9)*
2003[3]	**102.3**	***(0.6)***	**101.4**	***(0.7)***	**107.6**	***(0.3)***	**93.6**	***(-3.1)***
	SABAH							
Wajaran[2] *(Weights)*[2] %	100.0		34.8		2.7		3.7	
1999	99.4	*(2.3)*	99.3	*(5.3)*	98.1	*(7.8)*	102.0	*(-1.1)*
2000	100.0	*(0.6)*	100.0	*(0.7)*	100.0	*(2.0)*	100.0	*(-2.0)*
2001	100.6	*(0.6)*	99.6	*(-0.4)*	103.7	*(3.7)*	95.6	*(-4.4)*
2002	101.4	*(0.8)*	99.4	*(-0.2)*	107.3	*(3.5)*	92.6	*(-3.1)*
2003[3]	**102.2**	***(1.0)***	**100.8**	***(1.7)***	**107.1**	***(-0.2)***	**91.1**	***(-2.5)***

[1] Angka-angka dalam kurungan adalah peratus perubahan tahunan.

[2] Wajaran berdasarkan kepada wajaran mutakhir Kajian Perbelanjaan Isi Rumah 1999/2000.

[3] Januari hingga Julai.

Sumber: Jabatan Perangkaan.

2.4 — *CONSUMER PRICE INDEX (BY REGION)*[1]

2000=100, Malaysia

Sewa kasar, bahan api dan kuasa *Gross rent, fuel and power*		Perabot, hiasan dalaman dan peralatan dan pengendalian rumahtangga *Furniture, furnishings and household equipment and operation*		Perbelanjaan rawatan perubatan dan kesihatan *Medical care and health expenses*		Pengangkutan dan perhubungan *Transport and communication*		Perkhidmatan rekreasi, hiburan, pendidikan dan kebudayaan *Recreation, entertainment, education and cultural services*		Pelbagai barang dan perkhidmatan *Miscellaneous goods and services*	
					MALAYSIA						
22.4		5.3		1.8		18.8		5.9		5.5	
98.6	*(1.6)*	100.0	*(1.3)*	98.0	*(3.1)*	98.0	*(0.5)*	99.5	*(2.5)*	99.1	*(1.5)*
100.0	*(1.5)*	100.0	*(0.0)*	100.0	*(2.0)*	100.0	*(2.1)*	100.0	*(0.5)*	100.0	*(0.9)*
101.4	*(1.4)*	100.1	*(0.1)*	102.9	*(2.9)*	103.6	*(3.6)*	99.9	*(–0.1)*	100.7	*(0.7)*
102.1	*(0.7)*	99.7	*(–0.4)*	105.4	*(2.4)*	110.4	*(6.6)*	100.1	*(–0.2)*	101.8	*(1.1)*
102.8	***(0.8)***	**99.3**	***(–0.5)***	**107.0**	***(2.0)***	**112.2**	***(2.3)***	**100.7**	***(0.6)***	**102.9**	***(1.3)***
					PENINSULAR MALAYSIA						
22.2		5.3		1.9		19.1		5.7		5.5	
98.3	*(2.2)*	99.9	*(1.5)*	97.8	*(3.3)*	98.1	*(0.6)*	99.5	*(2.9)*	98.9	*(1.4)*
100.0	*(1.7)*	100.0	*(0.1)*	100.0	*(2.2)*	100.0	*(1.9)*	100.0	*(0.5)*	100.0	*(1.1)*
101.7	*(1.7)*	100.0	*(0.0)*	103.2	*(3.2)*	103.7	*(3.7)*	99.8	*(–0.2)*	100.8	*(0.8)*
102.6	*(0.9)*	99.6	*(–0.4)*	105.9	*(2.6)*	110.9	*(6.9)*	99.6	*(–0.2)*	102.1	*(1.3)*
103.5	***(1.0)***	**99.3**	***(–0.4)***	**107.5**	***(2.0)***	**112.8**	***(2.4)***	**100.1**	***(0.4)***	**103.2**	***(1.3)***
					SARAWAK						
19.1		5.2		1.6		21.0		7.7		5.9	
99.3	*(–0.7)*	100.1	*(0.7)*	98.8	*(2.1)*	97.1	*(0.0)*	98.6	*(1.4)*	100.0	*(1.8)*
100.0	*(0.8)*	100.0	*(–0.1)*	100.0	*(1.2)*	100.0	*(3.0)*	100.0	*(1.4)*	100.0	*(0.0)*
100.3	*(0.3)*	99.8	*(–0.2)*	101.2	*(1.2)*	102.3	*(2.3)*	99.9	*(–0.1)*	100.0	*(0.0)*
100.1	*(–0.2)*	99.3	*(–0.5)*	102.8	*(1.6)*	106.9	*(4.5)*	99.3	*(–0.6)*	100.9	*(0.9)*
100.0	***(–0.1)***	**98.4**	***(–1.1)***	**104.3**	***(1.9)***	**107.8**	***(1.5)***	**100.3**	***(1.0)***	**102.0**	***(1.3)***
					SABAH						
27.6		5.0		1.8		14.0		5.4		5.0	
100.6	*(–1.1)*	100.8	*(0.9)*	99.3	*(1.4)*	97.0	*(0.8)*	100.2	*(0.4)*	99.0	*(2.1)*
100.0	*(–0.6)*	100.0	*(–0.8)*	100.0	*(0.7)*	100.0	*(3.1)*	100.0	*(–0.2)*	100.0	*(1.0)*
99.8	*(–0.2)*	101.4	*(1.4)*	101.4	*(1.4)*	104.7	*(4.7)*	101.1	*(1.1)*	100.2	*(0.2)*
99.6	*(–0.2)*	100.8	*(–0.6)*	102.6	*(1.2)*	109.6	*(4.7)*	106.7	*(5.5)*	100.2	*(0.0)*
99.5	***(–0.1)***	**100.3**	***(–0.7)***	**103.9**	***(1.6)***	**111.3**	***(2.1)***	**108.2**	***(2.1)***	**100.6**	***(0.4)***

[1] *Figures in parentheses are annual percentage changes.*

[2] *Weights based on final weights from the 1999/2000 Household Expenditure Survey.*

[3] *January to July.*

Source: Department of Statistics.

2.5 — INDEKS HARGA PENGGUNA - (MENGIKUT STRATA DAN KUMPULAN PENDAPATAN)[1]

2000=100, Malaysia

Tempoh *Period*	Jumlah *Total*		Makanan *Food*		Minuman dan tembakau *Beverages and tobacco*		Pakaian dan kasut *Clothing and footwear*	
	LUAR BANDAR							
Wajaran[2] *(Weights)*[2] %	100.0		37.8		3.7		3.9	
1999	98.6	*(3.0)*	98.7	*(4.8)*	97.4	*(9.3)*	100.8	*(−0.6)*
2000	100.0	*(1.4)*	100.0	*(1.3)*	100.0	*(2.7)*	100.0	*(−0.8)*
2001	101.3	*(1.3)*	100.3	*(0.3)*	104.9	*(4.9)*	98.9	*(−1.1)*
2002	102.8	*(1.5)*	100.7	*(0.4)*	109.5	*(4.4)*	98.0	*(−0.9)*
2003[3]	**103.8**	***(1.0)***	**101.8**	***(1.1)***	**109.6**	***(0.2)***	**97.6**	***(−0.6)***
	BANDAR							
Wajaran[2] *(Weights)*[2] %	100.0		31.5		2.8		3.1	
1999	98.4	*(2.7)*	97.6	*(4.7)*	97.4	*(9.3)*	103.1	*(−3.5)*
2000	100.0	*(1.6)*	100.0	*(2.5)*	100.0	*(2.7)*	100.0	*(−3.0)*
2001	101.4	*(1.4)*	100.7	*(0.7)*	104.8	*(4.8)*	95.9	*(−4.1)*
2002	103.4	*(2.0)*	101.8	*(1.1)*	108.8	*(3.8)*	92.5	*(−3.5)*
2003[3]	**104.4**	***(1.1)***	**103.0**	***(1.3)***	**108.9**	***(0.0)***	**89.9**	***(−3.8)***
	Kumpulan Pendapatan (<RM1500)							
Wajaran[2] *(Weights)*[2] %	100.0		42.0		4.1		4.2	
1999	98.5	*(3.2)*	98.3	*(4.9)*	97.3	*(8.5)*	101.6	*(−1.7)*
2000	100.0	*(1.5)*	100.0	*(1.7)*	100.0	*(2.8)*	100.0	*(−1.6)*
2001	101.2	*(1.2)*	100.5	*(0.5)*	105.1	*(5.1)*	97.6	*(−2.4)*
2002	102.6	*(1.4)*	101.0	*(0.5)*	110.1	*(4.8)*	95.5	*(−2.2)*
2003[3]	**103.6**	***(1.1)***	**102.3**	***(1.2)***	**110.2**	***(0.1)***	**94.1**	***(−2.1)***
	Kumpulan Pendapatan (<RM1000)							
Wajaran[2] *(Weights)*[2] %	100.0		44.2		4.1		4.0	
1999	98.6	*(3.6)*	98.5	*(5.2)*	97.2	*(8.6)*	101.4	*(−1.7)*
2000	100.0	*(1.4)*	100.0	*(1.5)*	100.0	*(2.9)*	100.0	*(−1.4)*
2001	101.1	*(1.1)*	100.4	*(0.4)*	105.2	*(5.2)*	97.6	*(−2.4)*
2002	102.3	*(1.2)*	100.9	*(0.5)*	110.3	*(4.8)*	95.6	*(−2.0)*
2003[3]	**103.3**	***(1.1)***	**102.2**	***(1.3)***	**110.4**	***(0.1)***	**94.3**	***(−1.9)***

[1] Angka-angka dalam kurungan adalah peratus perubahan tahunan.

[2] Wajaran berdasarkan kepada wajaran mutakhir Kajian Perbelanjaan Isi Rumah 1999/2000.

[3] Januari hingga Julai.

Sumber: Jabatan Perangkaan.

2.5 — *CONSUMER PRICE INDEX (BY STRATA AND INCOME GROUP)*[1]

2000=100, Malaysia

Sewa kasar, bahan api dan kuasa *Gross rent, fuel and power*		Perabot, hiasan dalaman dan peralatan dan pengendalian rumah tangga *Furniture, furnishings and household equipment and operation*		Perbelanjaan rawatan perubatan dan kesihatan *Medical care and health expenses*		Pengangkutan dan perhubungan *Transport and communication*		Perkhidmatan rekreasi, hiburan, pendidikan dan kebudayaan *Recreation, entertainment, education and cultural services*		Pelbagai barang dan perkhidmatan *Miscellaneous goods and services*	
RURAL											
19.6		5.3		1.6		18.2		5.0		4.9	
98.3	*(1.4)*	99.8	*(1.9)*	98.3	*(2.5)*	97.8	*(0.4)*	99.8	*(2.0)*	98.6	*(1.6)*
100.0	*(1.7)*	100.0	*(0.2)*	100.0	*(1.7)*	100.0	*(2.2)*	100.0	*(0.2)*	100.0	*(1.4)*
101.4	*(1.4)*	100.1	*(0.1)*	102.4	*(2.4)*	103.7	*(3.7)*	99.8	*(−0.2)*	100.3	*(0.3)*
101.8	*(0.4)*	99.7	*(−0.4)*	104.9	*(2.4)*	109.6	*(5.7)*	99.4	*(−0.4)*	101.7	*(1.4)*
102.3	***(0.5)***	**99.4**	***(−0.4)***	**106.1**	***(1.5)***	**111.1**	***(1.9)***	**99.5**	***(−0.1)***	**103.3**	***(1.8)***
URBAN											
23.9		5.2		2.1		19.2		6.4		5.8	
98.8	*(1.5)*	100.1	*(1.0)*	97.8	*(3.5)*	98.1	*(0.5)*	99.4	*(2.7)*	99.2	*(1.5)*
100.0	*(1.2)*	100.0	*(−0.1)*	100.0	*(2.2)*	100.0	*(1.9)*	100.0	*(0.6)*	100.0	*(0.8)*
101.5	*(1.5)*	100.0	*(0.0)*	103.2	*(3.2)*	103.6	*(3.6)*	100.0	*(0.0)*	101.0	*(1.0)*
102.2	*(0.7)*	99.5	*(−0.5)*	106.0	*(2.7)*	110.8	*(6.9)*	100.5	*(0.5)*	101.9	*(0.9)*
103.0	***(0.9)***	**99.0**	***(−0.6)***	**107.8**	***(2.2)***	**112.6**	***(2.3)***	**101.3**	***(0.9)***	**102.8**	***(1.0)***
Income Group (<RM1500)											
23.1		4.4		1.3		11.9		4.2		4.8	
98.6	*(1.5)*	100.0	*(2.0)*	98.1	*(3.5)*	97.7	*(0.6)*	99.9	*(2.6)*	98.9	*(2.0)*
100.0	*(1.4)*	100.0	*(0.0)*	100.0	*(1.9)*	100.0	*(2.4)*	100.0	*(0.1)*	100.0	*(1.1)*
101.5	*(1.5)*	99.9	*(−0.1)*	102.4	*(2.4)*	103.8	*(3.8)*	99.9	*(−0.1)*	100.3	*(0.3)*
102.1	*(0.6)*	99.4	*(−0.5)*	104.7	*(2.2)*	110.7	*(6.6)*	99.7	*(−0.2)*	101.7	*(1.4)*
102.8	***(0.8)***	**99.0**	***(−0.6)***	**106.2**	***(1.9)***	**112.8**	***(2.9)***	**99.9**	***(0.0)***	**103.2**	***(1.9)***
Income Group (<RM1000)											
24.1		4.2		1.1		10.1		3.9		4.3	
98.6	*(1.5)*	100.0	*(2.5)*	98.0	*(3.5)*	97.5	*(0.8)*	100.0	*(2.7)*	99.0	*(1.9)*
100.0	*(1.4)*	100.0	*(0.0)*	100.0	*(2.0)*	100.0	*(2.6)*	100.0	*(0.0)*	100.0	*(1.0)*
101.4	*(1.4)*	100.0	*(0.0)*	102.1	*(2.1)*	103.8	*(3.8)*	100.0	*(0.0)*	100.2	*(0.2)*
102.1	*(0.7)*	99.6	*(−0.4)*	104.4	*(2.3)*	110.6	*(6.6)*	99.0	*(−0.1)*	101.4	*(1.2)*
102.8	***(0.9)***	**99.2**	***(−0.2)***	**105.9**	***(1.8)***	**112.9**	***(2.8)***	**100.1**	***(0.1)***	**102.8**	***(1.6)***

[1] *Figures in parentheses are annual percentage changes.*

[2] *Weights based on final weights from the 1999/2000 Household Expenditure Survey.*

[3] *January to July.*

Source: Department of Statistics.

2.6 — INDEKS HARGA PENGELUAR[1]

1989=100, Malaysia

	Jumlah *Total*		Makanan dan haiwan hidup yang boleh dimakan *Food and live animals chiefly for food*		Minuman dan tembakau *Beverages and tobacco*		Bahan mentah tidak boleh dimakan kecuali bahan api *Crude materials, inedible except fuels*		Minyak galian, pelincir dan bahan yang berhubungan *Mineral fuels, lubricants and related materials*	
Nombor SITC *SITC Number*	—		0		1		2		3	
	BARANGAN DALAM EKONOMI TEMPATAN									
Wajaran *(Weights)* %	100.00		14.88		2.08		17.96		18.82	
1999	127.8	*(−3.3)*	130.0	*(−2.3)*	153.9	*(10.2)*	113.8	*(−2.7)*	133.5	*(14.2)*
2000	131.8	*(3.1)*	130.5	*(0.4)*	154.5	*(0.4)*	115.3	*(1.3)*	178.8	*(33.9)*
2001	125.2	*(−5.0)*	131.0	*(0.4)*	157.3	*(1.8)*	108.5	*(−5.9)*	159.8	*(−10.6)*
2002	130.7	*(4.4)*	131.5	*(0.4)*	163.4	*(3.9)*	116.1	*(7.0)*	159.8	*(0.0)*
2003[2]	**136.9**	***(7.0)***	**130.4**	***(−1.7)***	**164.4**	***(1.1)***	**122.7**	***(8.7)***	**176.7**	***(15.6)***
	IMPORT									
Wajaran *(Weights)* %	100.00		13.07		1.05		3.05		12.47	
1999	116.8	*(−0.6)*	129.6	*(−1.0)*	133.2	*(1.8)*	110.2	*(−1.5)*	120.5	*(−1.1)*
2000	118.1	*(1.1)*	129.0	*(−0.5)*	133.5	*(0.2)*	111.3	*(1.0)*	126.0	*(4.6)*
2001	117.8	*(−0.3)*	130.2	*(0.9)*	134.5	*(0.7)*	114.6	*(3.0)*	124.1	*(−1.5)*
2002	117.0	*(−0.7)*	128.8	*(−1.1)*	132.2	*(−1.7)*	113.9	*(−0.6)*	122.0	*(−1.7)*
2003[2]	**117.7**	***(0.5)***	**130.8**	***(0.9)***	**131.2**	***(−1.0)***	**114.7**	***(0.6)***	**124.1**	***(2.0)***
	PENGELUARAN TEMPATAN									
Wajaran *(Weights)* %	100.00		15.34		2.34		21.74		20.42	
1999	130.6	*(−3.9)*	130.1	*(−2.6)*	156.2	*(11.1)*	113.9	*(−2.6)*	135.5	*(16.6)*
2000	135.3	*(3.6)*	130.8	*(0.5)*	156.9	*(0.4)*	115.4	*(1.3)*	186.9	*(37.9)*
2001	127.0	*(−6.1)*	131.2	*(0.3)*	159.9	*(1.9)*	108.3	*(−6.2)*	165.4	*(−11.5)*
2002	134.2	*(5.7)*	132.0	*(0.6)*	166.9	*(4.4)*	116.1	*(7.2)*	165.6	*(0.1)*
2003[2]	**141.8**	***(8.5)***	**130.3**	***(−2.2)***	**168.2**	***(1.3)***	**123.0**	***(8.9)***	**184.9**	***(17.3)***

[1] Angka-angka dalam kurungan adalah peratus perubahan tahunan.

[2] Januari hingga Julai.

Sumber: Jabatan Perangkaan.

2.6 — *PRODUCER PRICE INDEX*[1]

1989=100, Malaysia

	Minyak dan lemak haiwan dan sayur-sayuran *Animal and vegetable oils and fats*	Kimia dan keluaran kimia t.t.t.l. *Chemicals and related products n.e.c.*	Barang perkilangan dijeniskan mengikut bahan *Manufactured goods classified chiefly by material*	Alat jentera dan kelengkapan pengangkutan *Machinery and transport equipment*	Pelbagai barang keluaran kilang *Miscellaneous manufactured articles*	Pelbagai perniagaan dan barangan yang tidak dikelaskan secara khusus dalam SITC *Commodities and transactions not classified elsewhere in the SITC*
	4	5	6	7	8	9
			GOODS IN THE DOMESTIC ECONOMY			
	8.47	4.42	10.82	18.35	3.61	0.59
	188.2 *(−29.4)*	118.8 *(1.5)*	119.9 *(−0.9)*	110.5 *(−0.5)*	127.4 *(1.4)*	113.8 *(−0.9)*
	128.1 *(−31.9)*	120.0 *(1.0)*	121.0 *(0.9)*	110.4 *(−0.1)*	128.6 *(0.9)*	114.2 *(0.4)*
	105.6 *(−17.6)*	118.7 *(−1.1)*	120.4 *(−0.5)*	110.3 *(−0.1)*	127.8 *(−0.6)*	126.0 *(10.3)*
	154.7 *(46.5)*	117.9 *(−0.7)*	120.2 *(−0.2)*	110.0 *(−0.3)*	127.5 *(−0.2)*	129.3 *(2.6)*
	173.8 ***(21.7)***	**119.5** ***(1.6)***	**122.0** ***(1.7)***	**110.1** ***(0.1)***	**128.3** ***(0.7)***	**129.9** ***(0.8)***
			IMPORTS			
	0.74	9.98	13.36	42.59	2.70	0.99
	109.8 *(−0.2)*	120.6 *(0.8)*	116.4 *(−0.8)*	111.2 *(−0.6)*	122.2 *(0.2)*	101.4 *(−2.7)*
	109.2 *(−0.5)*	121.2 *(0.5)*	116.8 *(0.3)*	112.3 *(1.0)*	123.9 *(1.4)*	102.6 *(1.2)*
	105.0 *(−3.8)*	120.7 *(−0.4)*	116.6 *(0.2)*	111.8 *(−0.4)*	123.9 *(0.0)*	102.6 *(0.0)*
	104.7 *(−0.3)*	119.0 *(−1.4)*	116.0 *(−0.5)*	111.8 *(0.0)*	123.6 *(−0.2)*	102.0 *(−0.6)*
	104.9 ***(0.3)***	**118.9** ***(−0.1)***	**116.3** ***(0.3)***	**112.0** ***(0.3)***	**124.9** ***(1.1)***	**102.0** ***(0.0)***
			LOCAL PRODUCTION			
	10.42	3.01	10.17	12.23	3.83	0.50
	189.7 *(−29.6)*	117.2 *(2.1)*	121.1 *(−0.9)*	110.0 *(−0.4)*	128.3 *(1.6)*	120.0 *(0.0)*
	128.4 *(−32.3)*	118.9 *(1.5)*	122.4 *(1.1)*	108.8 *(−1.1)*	129.4 *(0.9)*	120.0 *(0.0)*
	105.6 *(−17.8)*	117.0 *(−0.6)*	121.7 *(−0.6)*	109.1 *(0.3)*	128.5 *(−0.7)*	137.7 *(14.8)*
	155.6 *(47.3)*	117.0 *(0.0)*	121.6 *(−0.1)*	108.4 *(−0.6)*	128.1 *(−0.3)*	143.0 *(3.8)*
	175.1 ***(22.0)***	**120.0** ***(3.1)***	**123.9** ***(2.1)***	**108.3** ***(−0.2)***	**128.9** ***(0.6)***	**143.9** ***(1.1)***

[1] *Figures in parentheses are annual percentage changes.*

[2] *January to July.*

Source: Department of Statistics.

3.1 — PERDAGANGAN BARANGAN MENGIKUT SITC[1] DAN HALUAN

RM juta, Malaysia

Mengikut SITC *By SITC Section*	Jumlah *Total*					Makanan, minuman dan tembakau *Food, beverages and tobacco*		Bahan-bahan mentah tidak boleh dimakan *Crude materials, inedible*		Bahan api galian, pelincir dll.[3] *Mineral fuels, lubricants, etc.*[3]	
	Eksport *Exports*		Import *Imports*		Imbangan *Balance*	Eksport *Exports*	Import *Imports*	Eksport *Exports*	Import *Imports*	Eksport *Exports*	Import *Imports*
1999	321,560	*(12.2)*	248,477	*(8.9)*	73,083	7,276	11,555	9,910	6,225	22,480	7,489
% Sumbangan *% Share*	*100.0*		*100.0*			*2.3*	*4.7*	*3.1*	*2.5*	*7.0*	*3.0*
2000	373,270	*(16.1)*	311,459	*(25.3)*	61,811	7,685	12,102	10,288	7,096	35,903	14,973
2001	334,284	*(−10.4)*	280,229	*(−10.0)*	54,056	7,889	13,201	7,565	6,891	32,288	14,706
2002	354,475	*(6.0)*	303,508	*(8.3)*	50,967	8,777	13,867	8,441	6,839	30,715	14,386
% Sumbangan *% Share*	*100.0*		*100.0*			*2.5*	*4.6*	*2.4*	*2.3*	*8.7*	*4.7*
2003[5]	**180,862**	***(6.9)***	**144,257**	***(−1.6)***	**36,605**	**4,707**	**6,570**	**4,761**	**3,477**	**19,635**	**8,817**

Haluan Perdagangan *Direction of Trade*	Amerika Syarikat *United States of America*			Kesatuan Eropah/*European Union*: Jumlah *Total*			United Kingdom *United Kingdom*			Jerman, Belanda, Perancis dan Belgium *Germany, Netherlands, France and Belgium*			Australia *Australia*		
	Eksport *Exports*	Import *Imports*	Bersih *Net*	Eksport *Exports*	Import *Imports*	Bersih *Net*	Eksport *Exports*	Import *Imports*	Bersih *Net*	Eksport *Exports*	Import *Imports*	Bersih *Net*	Eksport *Exports*	Import *Imports*	Bersih *Net*
1999	70,375	43,397	26,978	50,478	28,937	21,541	12,061	5,626	6,435	30,552	14,810	15,742	7,706	5,674	2,032
% Sumbangan *% Share*	*21.9*	*17.5*	—	*15.7*	*11.6*	—	*3.8*	*2.3*	—	*9.5*	*6.0*	—	*2.4*	*2.3*	—
2000	76,579	51,744	24,835	51,019	33,527	17,492	11,566	6,080	5,486	31,230	17,874	13,356	9,210	6,052	3,158
2001	67,672	44,841	22,831	45,462	36,075	9,387	8,779	6,872	1,907	29,304	18,453	10,851	7,798	5,944	1,854
2002	71,502	49,692	21,810	43,926	34,368	9,558	8,353	5,970	2,383	28,320	19,101	9,219	8,013	5,411	2,602
% Sumbangan *% Share*	*20.2*	*16.4*		*12.4*	*11.3*	–	*2.4*	*2.0*		*8.0*	*6.3*	–	*2.3*	*1.8*	
2003[5]	**30,572**	**23,224**	**7,348**	**23,361**	**17,006**	**6,355**	**4,239**	**2,832**	**1,407**	**14,867**	**10,680**	**4,187**	**4,407**	**2,310**	**2,097**

[1] Klasifikasi Piawaian Perdagangan Antarabangsa

[2] Angka-angka dalam kurungan adalah peratus perubahan tahunan.

[3] Termasuk arang kok, arang batu, petroleum dan produk petroleum dari gas.

[4] Tidak termasuk Hong Kong SAR.

[5] Januari hingga Jun.

Sumber: Jabatan Perangkaan.

3.1 — COMMODITY TRADE BY SITC[1] AND DIRECTION

RM million, Malaysia

Minyak dan lemak binatang dan sayur-sayuran *Animal and vegetable oils and fats*		Bahan kimia *Chemicals*		Semikonduktor dan kelengkapan elektronik *Semiconductor and electronic equipment*		Jentera dan barangan pembuatan *Machinery and manufactured goods*		Kelengkapan pengangkutan *Transport equipment*		Pelbagai barangan pembuatan *Miscellaneous manufactured articles*		Pelbagai urus niaga dan barangan *Miscellaneous transactions and commodities*	
Eksport *Exports*	Import *Imports*	Eksport *Exports*	Import *Imports*	Eksport *Exports*	Import *Imports*	Eksport *Exports*	Import *Imports*	Eksport *Exports*	Import *Imports*	Eksport *Exports*	Import *Imports*	Eksport *Exports*	Import *Imports*
18,280	1,056	10,353	18,790	144,900	107,573	74,185	63,208	5,230	11,658	26,188	12,873	2,758	8,050
5.7	*0.4*	*3.2*	*7.6*	*45.1*	*43.3*	*23.1*	*25.4*	*1.6*	*4.7*	*8.1*	*5.2*	*0.9*	*3.2*
12,937	604	14,278	22,371	166,831	139,313	89,366	79,758	2,970	9,253	29,925	17,659	3,088	8,330
12,342	793	14,318	20,704	139,773	117,140	84,715	72,808	2,455	8,959	29,171	15,730	3,767	9,298
17,928	1,270	16,760	21,525	154,309	132,453	79,686	74,591	2,930	11,495	30,448	17,019	4,480	10,064
5.1	*0.4*	*4.7*	*7.1*	*43.5*	*43.6*	*22.5*	*24.6*	*0.8*	*3.8*	*8.6*	*5.6*	*1.3*	*3.3*
11,133	**749**	**9,969**	**11,547**	**72,142**	**62,391**	**38,744**	**33,730**	**1,599**	**4,305**	**15,629**	**7,976**	**2,543**	**4,697**

Jepun *Japan*			Republik Korea *Republic of Korea*			Republik Rakyat China[4] *People's Republic[4] of China*			Hong Kong SAR *Hong Kong SAR*			Taiwan *Taiwan*			Asia Barat *West Asia*		
Eksport *Exports*	Import *Imports*	Bersih *Net*	Eksport *Exports*	Import *Imports*	Bersih *Net*	Eksport *Exports*	Import *Imports*	Bersih *Net*	Eksport *Exports*	Import *Imports*	Bersih *Net*	Eksport *Exports*	Import *Imports*	Bersih *Net*	Eksport *Exports*	Import *Imports*	Bersih *Net*
37,767	51,732	–13,965	9,601	12,984	–3,383	8,804	8,151	653	14,331	6,240	8,091	14,530	13,246	1,284	5,737	2,623	3,114
11.7	*20.6*	–	*3.0*	*5.2*	–	*2.7*	*3.3*	–	*4.5*	*2.5*	–	*4.5*	*5.3*	–	*1.8*	*1.1*	–
48,770	65,513	–16,743	12,464	13,926	–1,462	11,507	12,321	–814	16,654	8,557	8,297	14,189	17,511	–3,322	6,560	6,175	385
44,503	54,002	–9,499	11,157	11,240	–83	14,520	14,457	63	15,299	7,191	8,108	12,117	15,932	3,815	6,887	6,861	26
39,778	53,912	–14,134	11,823	16,079	–4,256	19,966	23,472	–3,506	20,128	8,837	11,291	13,224	16,863	–3,639	7,541	5,094	2,447
11.2	*17.8*	–	*3.3*	*5.3*	–	*5.6*	*7.7*	–	*5.7*	*2.9*	–	*3.7*	*5.6*	–	*2.1*	*1.7*	–
20,574	**24,992**	**–4,418**	**5,629**	**7,174**	**–1,545**	**11,223**	**11,144**	**79**	**11,504**	**3,860**	**7,644**	**6,681**	**6,942**	**–261**	**4,411**	**3,673**	**738**

[1] *Standard International Trade Classification.*
[2] *Figures in parentheses are annual percentage changes.*
[3] *Include coke, coal, petroleum and petroleum products and gas.*
[4] *Excludes Hong Kong SAR.*
[5] *January to June.*

Source: Department of Statistics.

3.2 — PERDAGANGAN MALAYSIA DENGAN NEGARA-NEGARA ASEAN
RM juta

3.2 — MALAYSIA'S TRADE WITH ASEAN COUNTRIES
RM million

		1999	2000	2001	2002	2003[1]
Jumlah *Total*	**Eksport/*Exports***	**76,473**	**99,028**	**84,091**	**92,306**	**47,150**
	Import/*Imports*	**58,305**	**74,940**	**63,539**	**69,512**	**34,330**
	Bersih/*Net*	**18,168**	**24,088**	**20,552**	**22,794**	**12,820**
Brunei Darussalam *Brunei Darussalam*	Eksport/*Exports*	808	965	1,037	977	578
	Import/*Imports*	43	13	19	15	9
	Bersih/*Net*	765	951	1,018	962	569
Kemboja *Cambodia*	Eksport/*Exports*	144	271	229	209	118
	Import/*Imports*	41	64	72	75	18
	Bersih/*Net*	104	207	157	134	100
Indonesia *Indonesia*	Eksport/*Exports*	4,677	6,484	5,940	6,846	3,754
	Import/*Imports*	6,688	8,623	8,517	9,689	5,004
	Bersih/*Net*	-2,010	-2,139	-2,577	-2,843	-1,250
Lao, PDR *Lao, PDR*	Eksport/*Exports*	5	6	7	11	8
	Import/*Imports*	0.02	0.2	1.2	2	1
	Bersih/*Net*	5	6	5	9	7
Myanmar *Myanmar*	Eksport/*Exports*	890	878	749	909	284
	Import/*Imports*	217	264	297	292	163
	Bersih/*Net*	673	614	452	617	121
Filipina *Philippines*	Eksport/*Exports*	4,925	6,558	4,893	5,073	2,515
	Import/*Imports*	6,216	7,562	6,989	9,863	4,822
	Bersih/*Net*	-1,291	-1,004	-2,096	-4,790	-2,307
Singapura *Singapore*	Eksport/*Exports*	53,087	68,574	56,669	60,660	30,372
	Import/*Imports*	34,820	44,696	35,313	36,317	17,587
	Bersih/*Net*	18,267	23,879	21,356	24,343	12,785
Thailand *Thailand*	Eksport/*Exports*	10,474	13,485	12,768	15,096	8,160
	Import/*Imports*	9,335	11,987	11,121	12,017	6,095
	Bersih/*Net*	1,139	1,498	1,647	3,079	2,065
Vietnam *Vietnam*	Eksport/*Exports*	1,462	1,806	1,801	2,525	1,362
	Import/*Imports*	944	1,731	1,208	1,244	632
	Bersih/*Net*	518	75	593	1,281	730

[1] Sehingga bulan Jun sahaja.

Sumber: Jabatan Perangkaan.

[1] *Until June only.*

Source: *Department of Statistics.*

3.3 — PENGELUARAN, EKSPORT DAN HARGA BARANGAN UTAMA[1]

Malaysia

3.3 — *PRODUCTION, EXPORTS AND PRICES OF MAJOR PRIMARY COMMODITIES*[1]

Malaysia

Barangan Utama/*Major Commodities*	2000		2001		2002		2003[7]		2004[7]	
PETROLEUM MENTAH[2]/ *CRUDE PETROLEUM*[2]										
Pengeluaran ('000 tsh)[3] *Production ('000 bpd)*[3]	680.8	*(–1.5)*	666.1	*(–2.1)*	698.5	*(4.9)*	716.0	*(2.5)*	721.0	*(0.7)*
Eksport ('000 tan metrik) *Exports ('000 tonnes)*	16,672	*(–5.9)*	15,118	*(–9.3)*	16,192	*(7.1)*	16,620	*(2.6)*	16,872	*(1.5)*
RM juta/RM million	14,245	*(53.1)*	11,160	*(–21.7)*	11,597	*(3.9)*	13,104	*(13.0)*	11,125	*(–15.1)*
Harga Purata Wajaran (USD/tong) *Weighted Average Price (USD/barrel)*	30.18	*(62.2)*	24.92	*(–17.4)*	25.83	*(3.7)*	27.30	*(10.1)*	22.83	*(–16.4)*
MINYAK SAWIT/*PALM OIL*										
Pengeluaran ('000 tan metrik) *Production ('000 tonnes)*	10,839	*(2.7)*	11,804	*(8.9)*	11,910	*(0.9)*	12,450	*(4.5)*	13,207	*(6.1)*
Eksport ('000 tan metrik)[4] *Exports ('000 tonnes)*[4]	8,863	*(–1.1)*	10,600	*(19.6)*	10,979	*(3.6)*	11,200	*(2.0)*	12,000	*(7.1)*
RM juta/*RM million*	9,948	*(–31.3)*	10,588	*(6.4)*	15,054	*(42.2)*	16,770	*(11.4)*	17,740	*(5.8)*
Harga (RM/tan metrik, Hantaran Tempatan) *Price (RM/tonne, Local Delivery)*	993	*(–31.6)*	897	*(–9.7)*	1,364	*(52.1)*	1,450	*(6.3)*	1,350	*(–6.9)*
GETAH/*RUBBER*										
Pengeluaran ('000 tan metrik) *Production ('000 tonnes)*	615	*(–20.9)*	547	*(–11.1)*	589	*(7.7)*	610	*(3.5)*	618	*(1.3)*
Eksport ('000 tan metrik) *Exports ('000 tonnes)*	978	*(–0.6)*	821	*(–16.1)*	887	*(8.0)*	880	*(–0.8)*	880	*(0.0)*
RM juta/*RM million*	2,571	*(9.7)*	1,886	*(–26.6)*	2,492	*(32.1)*	2,941	*(18.0)*	3,000	*(2.0)*
Harga RSS 1 (sen/kg) *Price RSS 1 (sen/kg)*	262	*(9.5)*	227	*(–13.2)*	293	*(29.0)*	350	*(19.3)*	350	*(0.0)*
KAYU BALAK/*SAWLOGS*										
Pengeluaran ('000 meter padu) *Production ('000 cu.metres)*	23,074	*(5.8)*	18,923	*(–18.0)*	19,346	*(2.2)*	20,300	*(4.9)*	19,760	*(–2.7)*
Eksport ('000 meter padu) *Exports ('000 cu.metres)*	6,485	*(–3.8)*	5,100	*(–21.4)*	4,873	*(–4.5)*	4,939	*(1.4)*	4,791	*(–3.0)*
RM juta/*RM million*	2,489	*(–6.5)*	1,650	*(–33.7)*	1,790	*(8.5)*	1,867	*(4.3)*	1,923	*(3.0)*
Nilai seunit (RM/meter padu) *Unit value (RM /cu.metre)*	384	*(–2.9)*	324	*(–15.7)*	367	*(13.5)*	378	*(2.9)*	401	*(6.2)*
TIMAH/*TIN*										
Pengeluaran ('000 tan metrik) *Production ('000 tonnes)*	6.3	*(–14.1)*	5.0	*(–21.2)*	4.2	*(–15.2)*	4.0	*(–5.1)*	4.0	*(0.0)*
Eksport ('000 tan metrik) *Exports ('000 tonnes)*	20.6	*(–14.2)*	27.3	*(32.3)*	27.1	*(–0.7)*	12.0	*(–55.7)*	12.6	*(5.0)*
RM juta/*RM million*	435	*(–11.4)*	461	*(6.0)*	425	*(–7.7)*	202	*(–52.6)*	209	*(3.8)*
Harga (RM/kg)/(USD/tan metrik)[5] *Price (RM/kg)/(USD/tonne)*[5]	20.47	*(1.3)*	16.50	*(–19.4)*	15.44	*(–6.4)*	17.48	*(13.2)*	16.61	*(–5.0)*
GAS ASLI CECAIR/*LIQUEFIED NATURAL GAS (LNG)*										
Eksport ('000 tan metrik) *Exports ('000 tonnes)*	15,430	*(2.6)*	15,423	*(0.0)*	15,025	*(–2.6)*	15,115	*(0.6)*	15,568	*(3.0)*
RM juta/*RM million*	11,423	*(63.1)*	11,119	*(–2.7)*	9,932	*(–10.7)*	12,153	*(22.4)*	13,130	*(8.0)*
Nilai seunit (RM/tan metrik) *Unit value (RM/tonne)*	740	*(59.0)*	721	*(–2.6)*	661	*(–8.3)*	804	*(21.6)*	843	*(4.9)*
GAS ASLI/*NATURAL GAS*										
Pengeluaran ('000 jkps)[6] *Production ('000 mmscf)*[6]	1,598	*(10.8)*	1,658	*(3.7)*	1,873	*(13.0)*	2,060	*(10.0)*	2,299	*(11.6)*

[1] Angka-angka dalam kurungan adalah peratus perubahan tahunan.
[2] Kadar pertumbuhan tahun 2000 berdasarkan 366 hari.
[3] tsh = tong sehari (7.6 tong = 1 tan metrik).
[4] Termasuk minyak sawit mentah yang diproses dan stearin.
[5] Mulai Februari 2001, harga di Bursa Timah Kuala Lumpur disebut dalam USD/tan metrik.
[6] jkps = juta kaki padu standard.
[7] Unjuran oleh Kementerian Kewangan.

Sumber: JP, PETRONAS, Jabatan Mineral dan Geosains Malaysia dan Kementerian Perusahaan Utama.

[1] *Figures in parentheses are annual percentage changes.*
[2] *2000 growth is based on 366 days.*
[3] *bpd = barrels per day (7.6 barrels = 1 tonne).*
[4] *Includes crude and processed palm oil and palm stearin.*
[5] *From February 2001, prices in Kuala Lumpur Tin Market (KLTM) was quoted in USD/tonne.*
[6] *mmscf = million standard cubic feet.*
[7] *Forecasts by Ministry of Finance.*

Source: DOS, PETRONAS, Minerals and Geoscience Department and Ministry of Primary Industries.

3.4 — EKSPORT UTAMA MENGIKUT HALUAN[1]

Malaysia

Eksport / *Exports*	1997 '000 tan metrik / *'000 tonnes*	1997 RM juta / *RM million*	1997	1998 '000 tan metrik / *'000 tonnes*	1998 RM juta / *RM million*	1998
BARANGAN PEMBUATAN[5]/*MANUFACTURED GOODS*[5]						
Jumlah/*Total*		**171,691**	***(100.0)***		**229,436**	***(100.0)***
Amerika Syarikat/*United States of America*		39,191	*(22.8)*		59,902	*(26.1)*
Singapura/*Singapore*		37,548	*(21.9)*		41,674	*(18.2)*
Kesatuan Eropah/*European Union*		27,504	*(16.0)*		39,336	*(17.1)*
Jepun/*Japan*		17,414	*(10.1)*		20,952	*(9.1)*
Hong Kong SAR/*Hong Kong SAR*		10,824	*(6.3)*		11,942	*(5.2)*
Taiwan/*Taiwan*		7,513	*(4.4)*		9,825	*(4.3)*
MINYAK SAWIT[2]/*PALM OIL*[2]						
Jumlah/*Total*	**7,591**	**10,817**	***(100.0)***	**7,521**	**17,799**	***(100.0)***
Pakistan/*Pakistan*	1,097	1,587	*(14.7)*	1,054	2,480	*(13.9)*
China/*China*	1,102	1,653	*(15.3)*	921	2,262	*(12.7)*
Singapura/*Singapore*	392	574	*(5.3)*	400	955	*(5.4)*
Mesir/*Egypt*	321	433	*(4.0)*	353	831	*(4.7)*
Jepun/*Japan*	344	522	*(4.8)*	334	821	*(4.6)*
India/*India*	975	1,412	*(13.1)*	1,331	3,289	*(18.5)*
Republik Korea/*Republic of Korea*	186	268	*(2.5)*	138	341	*(1.9)*
Belanda/*Netherlands*	347	451	*(4.2)*	617	1,377	*(7.7)*
KAYU BALAK[3]/*SAW LOGS*[3]						
Jumlah/*Total*	**6,396**	**2,346**	***(100.0)***	**5,418**	**1,866**	***(100.0)***
Jepun/*Japan*	2,856	1,120	*(47.7)*	2,222	804	*(43.1)*
Taiwan/*Taiwan*	1,216	379	*(16.2)*	967	266	*(14.3)*
Republik Korea/*Republic of Korea*	370	145	*(6.2)*	234	86	*(4.6)*
India/*India*	688	303	*(12.9)*	741	337	*(18.1)*
China/*China*	431	157	*(6.7)*	743	237	*(12.7)*
KAYU GERGAJI[3]/*SAWN TIMBER*[3]						
Jumlah/*Total*	**3,067**	**2,775**	***(100.0)***	**2,675**	**2,520**	***(100.0)***
Belanda/*Netherlands*	222	376	*(13.5)*	269	441	*(17.5)*
Jepun/*Japan*	359	473	*(17.0)*	217	299	*(11.9)*
Thailand/*Thailand*	725	461	*(16.6)*	336	211	*(8.4)*
Singapura/*Singapore*	332	193	*(7.0)*	259	153	*(6.1)*
Taiwan/*Taiwan*	233	163	*(5.9)*	273	180	*(7.1)*
PETROLEUM MENTAH/*CRUDE PETROLEUM*						
Jumlah/*Total*	**15,872**	**7,069**	***(100.0)***	**18,071**	**7,535**	***(100.0)***
Thailand/*Thailand*	3,735	1,677	*(23.7)*	3,206	1,318	*(17.5)*
Jepun/*Japan*	2,722	1,213	*(17.2)*	2,108	905	*(12.0)*
Republik Korea/*Republic of Korea*	2,393	1,071	*(15.2)*	2,328	974	*(12.9)*
Singapura/*Singapore*	1,829	816	*(11.5)*	1,094	449	*(6.0)*
India/*India*	1,050	461	*(6.5)*	2,017	824	*(10.9)*
Indonesia/*Indonesia*	882	384	*(5.4)*	2,127	872	*(11.6)*
Amerika Syarikat/*United States of America*	535	225	*(3.2)*	925	408	*(5.4)*

[1] Angka-angka dalam kurungan adalah peratus daripada jumlah nilai dalam setiap kategori.
[2] Termasuk minyak kelapa sawit mentah yang diproses dan stearin.
[3] Angka-angka kuantiti adalah dalam ribu meter padu.
[4] Januari hingga Jun.
[5] Termasuk SITC 1+5+6+7+8

Sumber: Jabatan Perangkaan.

3.4 — *DIRECTION OF MAJOR EXPORTS*[1]

Malaysia

1999			2000			2001			2002			2003[4]		
'000 tan metrik / *'000 tonnes*	RM juta / *RM million*		'000 tan metrik / *'000 tonnes*	RM juta / *RM million*		'000 tan metrik / *'000 tonnes*	RM juta / *RM million*		'000 tan metrik / *'000 tonnes*	RM juta / *RM million*		'000 tan metrik / *'000 tonnes*	RM juta / *RM million*	
	262,100	***(100.0)***		**304,606**	***(100.0)***		**271,867**	***(100.0)***		**285,371**	***(100.0)***		**138,796**	***(100.0)***
	67,463	*(24.7)*		73,321	*(24.1)*		64,864	*(23.9)*		68,980	*(24.2)*		29,071	*(20.9)*
	46,225	*(17.6)*		60,464	*(19.8)*		48,760	*(17.9)*		52,219	*(18.3)*		25,393	*(18.3)*
	44,599	*(17.0)*		45,607	*(15.0)*		40,370	*(14.8)*		37,697	*(13.2)*		19,145	*(13.8)*
	27,284	*(10.4)*		34,225	*(11.2)*		31,246	*(11.5)*		27,110	*(9.5)*		12,782	*(9.2)*
	12,971	*(5.0)*		15,455	*(5.1)*		13,681	*(5.0)*		18,507	*(6.5)*		10,845	*(7.8)*
	12,675	*(4.8)*		11,103	*(3.6)*		9,570	*(3.5)*		10,967	*(3.8)*		5,206	*(3.8)*
8,964	**14,475**	***(100.0)***	**8,863**	**9,948**	***(100.0)***	**10,600**	**10,588**	***(100.0)***	**10,979**	**15,054**	***(100.0)***	**5,765**	**9,306**	***(100.0)***
1,028	1,650	*(11.4)*	1,075	1,149	*(11.6)*	1,136	1,053	*(10)*	1,028	1,650	*(11.0)*	508	808	*(8.7)*
783	1,311	*(9.1)*	1,023	1,119	*(11.2)*	1,364	1,320	*(12.5)*	783	1,311	*(8.7)*	1,041	1,635	*(17.6)*
473	799	*(5.5)*	354	438	*(4.4)*	423	436	*(4.1)*	473	799	*(5.3)*	245	410	*(4.4)*
491	781	*(5.4)*	435	469	*(4.7)*	465	414	*(3.9)*	491	781	*(5.2)*	291	466	*(5.0)*
368	645	*(4.5)*	341	443	*(4.4)*	375	400	*(3.8)*	368	645	*(4.3)*	212	345	*(3.7)*
2,402	3,905	*(27.0)*	2,029	2,289	*(23.0)*	2,066	1,862	*(17.6)*	2,402	3,905	*(25.9)*	921	1,465	*(15.7)*
193	296	*(2.0)*	194	218	*(2.2)*	241	224	*(2.1)*	193	296	*(2.0)*	92	1,442	*(15.5)*
644	942	*(6.5)*	524	515	*(5.2)*	1,017	873	*(8.2)*	644	942	*(6.3)*	429	659	*(7.1)*
6,738	**2,663**	***(100.0)***	**6,485**	**2,489**	***(100.0)***	**5,100**	**1,650**	***(100.0)***	**4,873**	**1,790**	***(100.0)***	**2,634**	**971**	***(100.0)***
2,280	977	*(36.7)*	2,188	930	*(37.4)*	1,410	478	*(28.9)*	1,501	660	*(36.9)*	660	258	*(26.6)*
919	333	*(12.5)*	899	320	*(12.8)*	670	193	*(11.7)*	440	155	*(8.7)*	316	106	*(10.9)*
393	155	*(5.8)*	301	135	*(5.4)*	175	65	*(3.9)*	226	98	*(5.5)*	59	26	*(2.7)*
838	368	*(13.8)*	873	371	*(14.9)*	985	344	*(20.9)*	214	90	*(5.0)*	743	312	*(32.1)*
1,680	630	*(23.6)*	1,406	481	*(19.3)*	1,071	308	*(18.7)*	506	221	*(12.3)*	595	188	*(19.4)*
2,818	**2,807**	***(100.0)***	**2,876**	**3,020**	***(100.0)***	**2,538**	**2,466**	***(100.0)***	**2,335**	**2,228**	***(100.0)***	**1,222**	**1,252**	***(100.0)***
273	520	*(18.5)*	270	594	*(19.7)*	205	402	*(16.3)*	259	505	*(22.7)*	97	196	*(15.6)*
237	373	*(13.3)*	239	392	*(13.0)*	237	336	*(13.6)*	205	312	*(14.0)*	82	114	*(9.1)*
490	310	*(11.0)*	566	352	*(11.7)*	533	323	*(13.1)*	167	123	*(5.5)*	302	190	*(15.2)*
247	141	*(5.0)*	220	131	*(4.3)*	206	137	*(5.6)*	101	73	*(3.3)*	136	54	*(4.3)*
213	141	*(5.0)*	226	165	*(5.5)*	171	109	*(4.4)*	89	71	*(3.2)*	111	82	*(6.6)*
17,725	**9,306**	***(100.0)***	**16,672**	**14,245**	***(100.0)***	**15,118**	**11,160**	***(100.0)***	**16,192**	**11,597**	***(100.0)***	**8,437**	**7,439**	***(100.0)***
2,306	1,247	*(13.4)*	2,890	2,522	*(17.7)*	2,797	2,126	*(19.0)*	2,306	1,247	*(10.8)*	1,386	1,227	*(16.5)*
2,004	1,011	*(10.9)*	1,299	1,098	*(7.7)*	1,457	1,066	*(9.6)*	2,004	1,011	*(8.7)*	802	709	*(9.5)*
2,540	1,294	*(13.9)*	2,293	1,945	*(13.7)*	2,291	1,736	*(15.6)*	2,540	1,296	*(11.2)*	638	570	*(7.7)*
626	325	*(3.5)*	626	558	*(3.9)*	215	145	*(1.3)*	626	325	*(2.8)*	276	52	*(0.7)*
2,387	1,186	*(12.7)*	2,161	1,742	*(12.2)*	1,690	1,216	*(10.9)*	387	1,186	*(10.2)*	1,607	1,378	*(18.5)*
1,658	857	*(9.2)*	1,060	885	*(6.2)*	753	536	*(4.8)*	1,658	857	*(7.4)*	478	410	*(5.5)*
1,143	691	*(7.4)*	1,055	937	*(6.6)*	704	529	*(4.7)*	1,143	689	*(5.9)*	427	368	*(4.9)*

[1] *Figures in parentheses are per cent of total value in each category.*

[2] *Includes crude and processed palm oil and palm stearin.*

[3] *Figures on quantity are in thousand cubic metres.*

[4] *January to June.*

[5] *Includes SITC 1+5+6+7+8*

Source: Department of Statistics.

3.5 — IMPORT UTAMA MENGIKUT SUMBER[1] Malaysia

3.5 — *SOURCE OF MAJOR IMPORTS*[1] *Malaysia*

Import *Import*	1999 RM juta *RM million*		2000 RM juta *RM million*		2001 RM juta *RM million*		2002 RM juta *RM million*		2003[2] RM juta *RM million*	
INJAP & TIUB TERMIONIK/ *THERMIONIC VALVES AND TUBES*										
Jumlah/*Total*	**74,273**	***(100.0)***	**94,406**	***(100.0)***	**76,322**	***(100.0)***	**88,476**	***(100.0)***	**42,173**	***(100.0)***
Amerika Syarikat *United States of America*	20,291	*(27.3)*	24,806	*(26.3)*	19,691	*(25.8)*	24,357	*(27.5)*	13,337	*(31.6)*
Jepun/*Japan*	13,827	*(18.6)*	17,752	*(18.8)*	14,609	*(19.1)*	13,433	*(15.2)*	5,869	*(13.9)*
Singapura/*Singapore*	10,669	*(14.4)*	13,696	*(14.5)*	9,984	*(13.1)*	10,552	*(11.9)*	4,690	*(11.1)*
ALAT GANTI MESIN PEJABAT/ *PARTS FOR OFFICE MACHINE*										
Jumlah/*Total*	**10,366**	***(100.0)***	**13,565**	***(100.0)***	**13,239**	***(100.0)***	**13,305**	***(100.0)***	**5,879**	***(100.0)***
Singapura/*Singapore*	2,342	*(22.6)*	2,657	*(19.6)*	2,043	*(15.4)*	1,427	*(10.7)*	667	*(11.3)*
Thailand/*Thailand*	1,371	*(13.2)*	1,602	*(11.8)*	1,013	*(7.7)*	424	*(3.2)*	287	*(4.9)*
Jepun/*Japan*	1,168	*(11.3)*	1,809	*(13.3)*	1,237	*(9.3)*	1,312	*(9.9)*	588	*(10.0)*
PERKAKAS ELEKTRIK/ *ELECTRICAL APPARATUS*										
Jumlah/*Total*	**10,297**	***(100.0)***	**14,004**	***(100.0)***	**11,649**	***(100.0)***	**11,388**	***(100.0)***	**5,071**	***(100.0)***
Singapura/*Singapore*	2,610	*(25.3)*	2,738	*(19.6)*	1,959	*(16.8)*	1,852	*(16.3)*	633	*(12.5)*
Jepun/*Japan*	2,433	*(23.6)*	3,492	*(24.9)*	2,404	*(20.6)*	2,573	*(22.6)*	1,094	*(21.6)*
Thailand/*Thailand*	271	*(2.6)*	358	*(2.6)*	283	*(2.4)*	314	*(2.8)*	165	*(3.3)*
ALAT MENGUKUR, MEMERIKSA & KAWALAN/ *MEASURING, CHECKING & CONTROLLING INSTRUMENTS*										
Jumlah/*Total*	**3,978**	***(100.0)***	**6,175**	***(100.0)***	**5,598**	***(100.0)***	**4,912**	***(100.0)***	**2,165**	***(100.0)***
Amerika Syarikat *United States of America*	1,717	*(43.2)*	3,304	*(53.5)*	2,595	*(46.4)*	2,179	*(44.4)*	885	*(40.9)*
Jepun/*Japan*	792	*(19.9)*	962	*(15.6)*	1,092	*(19.5)*	790	*(16.1)*	323	*(14.9)*
Singapura/*Singapore*	545	*(13.7)*	645	*(10.4)*	494	*(8.8)*	666	*(13.6)*	391	*(18.1)*
SAYUR/*VEGETABLE*										
Jumlah/*Total*	**684**	***(100.0)***	**632**	***(100.0)***	**726**	***(100.0)***	**789**	***(100.0)***	**394**	***(100.0)***
Australia/*Australia*	161	*(23.6)*	149	*(23.6)*	153	*(21.1)*	168	*(21.3)*	60	*(15.2)*
Thailand/*Thailand*	81	*(11.8)*	88	*(13.9)*	81	*(11.2)*	111	*(14.1)*	65	*(16.5)*
New Zealand/*New Zealand*	29	*(4.2)*	26	*(4.1)*	20	*(2.8)*	21	*(2.7)*	12	*(3.0)*
GANDUM/*WHEAT*										
Jumlah/*Total*	**818**	***(100.0)***	**711**	***(100.0)***	**783**	***(100.0)***	**766**	***(100.0)***	**329**	***(100.0)***
Australia/*Australia*	572	*(69.9)*	490	*(69.0)*	480	*(61.3)*	370	*(48.3)*	117	*(35.6)*

[1] Angka dalam kurungan merujuk kepada peratus daripada jumlah nilai dalam setiap kategori.

[2] Januari hingga Jun.

Sumber: Jabatan Perangkaan.

[1] *Figures in parentheses refer to the share of each category.*

[2] *January to June.*

Source: Department of Statistics.

3.6 — EKSPORT BARANGAN PEMBUATAN[1]
Malaysia
RM juta

3.6 — EXPORTS OF MANUFACTURED GOODS[1]
Malaysia
RM million

	1997	1998	1999	2000	2001	2002	2003[3]	
								% Bahagian *% Share*
Elektronik, jentera dan perkakasan elektrik *Electronics, electrical machinery and appliances*	119,025	160,653	194,221	230,425	199,280	209,062	97,383	*65.6*
Semikonduktor *Semiconductor*	40,887	54,493	65,459	71,070	60,778	72,467	40,023	*26.9*
Kelengkapan dan peralatan elektronik *Electronic equipment and parts*	39,889	59,534	79,425	95,737	78,995	81,842	32,119	*21.6*
Jentera dan produk elektrik *Machinery and electrical products*	38,249	46,715	49,338	63,618	59,507	54,753	25,241	*17.0*
Tekstil, pakaian dan kasut *Textiles, apparel and footwear*	7,616	9,441	9,375	10,433	9,033	8,587	4,180	*2.8*
Keluaran kayu *Wood products*	8,524	8,773	10,119	13,251	8,578	9,212	4,631	*3.1*
Keluaran getah *Rubber products*	3,987	5,747	5,126	4,727	4,497	4,559	2,479	*1.7*
Makanan, minuman dan tembakau *Food, beverages and tobacco*	4,473	5,520	5,564	5,677	5,939	6,449	3,465	*2.3*
Keluaran Petroleum *Petroleum products*	3,777	3,577	5,334	9,642	9,755	8,948	5,549	*3.7*
Kimia, keluaran kimia dan plastik *Chemicals, chemical and plastic products*	9,228	11,683	12,287	16,745	16,815	19,367	11,347	*7.6*
Keluaran galian bukan logam *Non-metallic mineral products*	1,709	2,096	2,244	2,571	2,482	2,862	1,415	*1.0*
Besi, keluli dan keluaran logam *Iron, steel and metal products*	5,741	8,348	8,005	8,696	8,680	8,900	5,578	*3.8*
Kelengkapan pengangkutan *Transport equipment*	4,959	8,070	5,091	2,894	2,455	2,930	1,599	*1.1*
Barangan pembuatan lain[2] *Other manufactured goods*[2]	11,153	13,902	15,286	18,937	19,504	21,383	10,833	*7.3*
Jumlah ***Total***	**180,192** ***(13.3)***	**237,810** ***(32.2)***	**272,653** ***(14.7)***	**323,998** ***(18.9)***	**287,018** ***(–10.5)***	**302,258** ***(5.3)***	**148,458** ***(1.4)***	***100.0***

[1] Angka-angka dalam kurungan adalah peratus perubahan tahunan.

[2] Termasuk barang-barang kertas dan palpa, perkakasan saintifik dan lain-lain.

[3] Januari hingga Jun.

Sumber: Jabatan Perangkaan.

[1] *Figures in parentheses are annual percentage changes.*

[2] *Includes paper and pulp products, scientific instruments, etc.*

[3] *January to June.*

Source: Department of Statistics.

3.7 — INDEKS PENGELUARAN PERINDUSTRIAN[1]
(1993 = 100)

3.7 — INDUSTRIAL PRODUCTION INDEX[1]
(1993 = 100)

	Wajaran % *Weights %*	1999	2000	2001	2002	2003[2]
Jumlah Pengeluaran Perindustrian ***Total Industrial Production***	**100.0**	**158.0** *(9.0)*	**188.2** *(19.1)*	**180.5** *(-4.1)*	**188.1** *(4.2)*	**196.8** *(8.0)*
Perlombongan ***Mining***	**22.15**	**119.3** *(-3.4)*	**119.4** *(0.0)*	**122.7** *(2.8)*	**124.9** *(1.8)*	**130.5** *(10.1)*
Elektrik ***Electricity***	**7.44**	**178.7** *(3.3)*	**190.7** *(6.7)*	**207.1** *(8.6)*	**219.9** *(6.2)*	**237.7** *(6.5)*
Pembuatan ***Manufacturing***	**70.41**	**167.8** *(12.9)*	**209.7** *(25.0)*	**195.8** *(-6.6)*	**204.7** *(4.5)*	**213.4** *(7.8)*
Industri berorientasi eksport ***Export-oriented industries***	**37.25**	**167.0** *(10.8)*	**219.3** *(31.0)*	**190.9** *(-13.0)*	**201.3** *(5.5)*	**204.5** *(4.3)*
Elektrik, elektronik dan jentera *Electrical, electronics and machinery*	23.17	194.6	273.4	229.7	248.3	252.6
Peralatan profesional, saintifik, ukuran dan kawalan *Professional, scientific, measuring and controlling equipment*	0.95	116.6	133.7	106.0	115.4	115.6
Tekstil dan pakaian *Textiles and apparel*	3.99	119.4	129.7	118.9	111.6	108.7
Kayu dan produk berasas kayu *Wood and wood-based products*	5.42	99.6	103.6	104.9	98.6	96.2
Produk getah *Rubber products*	3.72	159.3	165.7	169.3	172.9	184.6
Industri berorientasi domestik ***Domestic-oriented industries***	**33.16**	**168.6** *(15.4)*	**199.0** *(18.2)*	**201.4** *(1.2)*	**208.5** *(3.5)*	**223.4** *(11.5)*
Makanan, minuman dan tembakau *Food, beverages and tobacco*	7.83	145.3	171.4	180.8	189.5	197.8
Penapisan minyak mentah *Crude oil refineries*	0.96	140.5	163.6	204.4	201.7	208.8
Pelbagai produk petroleum dan arang batu *Miscellaneous products of petroleum and coal*	0.29	132.5	175.5	178.0	151.8	156.9
Kertas dan keluaran kertas *Paper and paper products*	1.19	140.8	162.0	165.0	186.2	186.1
Kimia, produk kimia dan plastik *Chemicals, chemical and plastic products*	10.89	214.8	247.2	228.2	234.5	263.1
Produk galian bukan logam dan kaca *Non-metallic mineral and glass products*	3.43	129.5	155.9	170.8	179.5	195.5
Logam asas *Basic metal*	6.00	150.2	188.3	191.7	194.6	211.3
Kelengkapan pengangkutan *Transport equipment*	2.57	167.4	199.3	237.1	251.9	213.4

[1] Angka dalam kurungan adalah peratus perubahan tahunan.
[2] Januari hingga Jun.

Sumber: Indeks Pengeluaran Perindustrian, Jabatan Perangkaan.

[1] *Figures in parentheses are annual percentage changes.*
[2] *January to June.*

Source: *Index of Industrial Production, Department of Statistics.*

4.1 — KEWANGAN SEKTOR AWAM DISATUKAN / *4.1 — CONSOLIDATED PUBLIC SECTOR FINANCE*

RM juta / *RM million*

	2000	2001	2002[4]	2003[5]	2004[6]
Sektor Kerajaan[1] / ***General Government[1]***					
Hasil / *Revenue*	76,002	91,633	96,763	105,599	114,556
Perbelanjaan Mengurus / *Operating Expenditure*	64,445	72,299	75,450	81,732	88,335
Lebihan semasa Perusahaan Awam Bukan Kewangan[2] / *Non-financial Public Enterprises' surplus[2]*	41,204	39,484	45,324	46,643	47,499
Jumlah lebihan/defisit semasa Sektor Awam / ***Total Public Sector Current Surplus/Deficit***	**52,761**	**58,818**	**66,637**	**70,510**	**73,720**
Perbelanjaan Pembangunan / ***Development Expenditure***					
Jumlah Kecil / *Sub-total*	50,439	59,724	69,125	76,197	72,071
Sektor kerajaan / *General government*	27,079	35,692	36,828	40,832	38,017
Perusahaan Awam Bukan Kewangan / *Non-Financial Public Enterprises*	23,360	24,032	32,297	35,365	34,054
Lebihan/Defisit Keseluruhan / ***Overall Surplus/Deficit***	**2,322**	**–906**	**–2,488**	**–5,687**	**1,649**

1 Sektor kerajaan terdiri daripada kerajaan persekutuan, kerajaan-kerajaan negeri, badan-badan berkanun dan kerajaan-kerajaan tempatan.

2 Bagi liputan rujuk kepada jadual 4.13.

3 Termasuk pemberian asing dari akaun hasil yang disatukan dan pengeluaran dari IMF.

4 Anggaran sebenar.

5 Anggaran disemak.

6 Unjuran.

1 *General government comprises federal government, state governments, statutory authorities and local governments.*

2 *Refer to table 4.13 for details.*

3 *Includes foreign grants from consolidated revenue account.*

4 *Estimated actual.*

5 *Revised estimate.*

6 *Forecast.*

4.2 — KEWANGAN KERAJAAN PERSEKUTUAN / *4.2 — FEDERAL GOVERNMENT FINANCE*

RM juta / *RM million*

	2000	2001	2002[5]	2003[6]	2004[7]
Hasil / ***Revenue***	**61,864**	**79,567**	**83,515**	**89,168**	**95,595**
(% perubahan) / *(% change)*	*5.4*	*28.6*	*5.0*	*6.8*	*7.2*
Perbelanjaan Mengurus[1] / ***Operating Expenditure[1]***	**56,547**	**63,757**	**68,699**	**73,237**	**80,030**
(% perubahan) / *(% change)*	*21.2*	*12.8*	*7.8*	*6.6*	*9.3*
Lebihan/Defisit Semasa / *Current Surplus/Deficit*	5,317	15,810	14,816	15,931	15,565
Perbelanjaan Pembangunan Kasar / ***Gross Development Expenditure***	**27,941**	**35,235**	**35,977**	**37,963**	**29,960**
(% perubahan) / *(% change)*	*23.6*	*26.1*	*2.1*	*5.5*	*−21.1*
Perbelanjaan Langsung / *Direct Expenditure*	26,304	32,638	33,598	36,832	28,425
(% perubahan) / *(% change)*	*22.3*	*24.1*	*2.9*	*9.6*	*−22.8*
Pinjaman Kasar / *Gross Lending*	1,637	2,597	2,379	1,131	1,535
Tolak terimaan balik pinjaman / ***Minus Loan Recoveries***	**2,909**	**1,003**	**908**	**1,183**	**1,000**
Perbelanjaan Pembangunan Bersih / ***Net Development Expenditure***	**25,032**	**34,232**	**35,069**	**36,780**	**28,960**
(% perubahan) / *(% change)*	*16.6*	*36.8*	*2.4*	*4.9*	*−21.3*
Defisit/Lebihan Keseluruhan / ***Overall Deficit/Surplus***	**−19,715**	**−18,422**	**−20,253**	**−20,849**	**−13,395**
Peratusan Kepada KDNK / *Percent of GDP*	*−5.8*	*−5.5*	*−5.6*	*−5.4*	*−3.3*
Sumber Pembiayaan / ***Sources of Finance***					
Pinjaman Bersih Luar Negeri[2] / *Net External Borrowing[2]*	864	6,295	8,020	−4,391	–
Pinjaman Bersih Dalam Negeri[3] / *Net Domestic Borrowing[3]*	12,714	13,381	6,076	23,250	–
Perubahan Harta[4] / *Change in Assets[4]*	6,137	−1,254	6,157	1,990	–

[1] Tidak termasuk pindahan antara akaun seperti Kumpulan Wang Pembangunan.
[2] Termasuk terimaan khas.
[3] Termasuk caruman pendahuluan.
[4] (+) bererti penggunaan harta.
[5] Anggaran sebenar.
[6] Anggaran disemak.
[7] Anggaran Bajet.

[1] *Excludes intra-account transfer such as Development Fund.*
[2] *Includes special receipts.*
[3] *Includes advance subscriptions.*
[4] *(+) indicates a drawdown of assets.*
[5] *Estimated actual.*
[6] *Revised estimate.*
[7] *Budget estimate.*

4.3 — HASIL KERAJAAN PERSEKUTUAN[1]
RM juta

4.3 — FEDERAL GOVERNMENT REVENUE[1]
RM million

	2000	%	2001	%	2002[4]	%	2003[5]	%	2004[6]	%
CUKAI LANGSUNG ***DIRECT TAXES***	**29,156** *(7.0)*	*47.1*	**42,098** *(44.4)*	**52.9**	**44,351** *(5.4)*	*53.1*	**46,481** *(4.8)*	**52.2**	**49,261** *(6.0)*	**51.6**
Cukai Pendapatan *Income Taxes*	27,017 *(7.4)*	*43.7*	40,136 *(48.6)*	*50.4*	42,236 *(5.2)*	*50.6*	44,390 *(5.1)*	*49.9*	47,020 *(5.9)*	*49.2*
Syarikat-syarikat *Companies*	13,905		20,771		24,642		24,952		27,571	
Perseorangan *Individuals*	7,015		9,436		9,889		10,370		10,986	
Petroleum *Petroleum*	6,010		9,859		7,636		8,995		8,390	
Koperasi *Co-operatives*	87		71		69		73		73	
Lain-lain[2] *Others*[2]	2,139	*3.5*	1,962	*2.5*	2,115	*2.5*	2,092	*2.3*	2,241	*2.3*
CUKAI TAK LANGSUNG ***INDIRECT TAXES***	**18,017** *(–0.5)*	*29.1*	**19,393** *(7.6)*	*24.4*	**22,510** *(16.1)*	*27.0*	**22,690** *(0.8)*	*25.4*	**25,851** *(13.9)*	*27.0*
Duti Eksport *Export Duties*	1,032 *(54.0)*	*1.7*	867 *(–16.0)*	*1.1*	803 *(–7.4)*	*1.0*	997 *(24.2)*	*1.1*	793 *(–20.5)*	*0.8*
Petroleum *Petroleum*	996		831		768		959		752	
Lain-lain *Others*	36		36		35		38		41	
Duti Import dan Cukai Tokok *Import Duties and Surtax*	3,599	*5.8*	3,193	*4.0*	3,669	*4.4*	3,912	*4.4*	4,421	*4.6*
Eksais *Excise*	3,803	*6.1*	4,129	*5.2*	4,745	*5.7*	4,933	*5.5*	5,452	*5.7*
Cukai Jualan *Sales Tax*	5,968	*9.6*	7,356	*9.2*	9,244	*11.1*	8,514	*9.5*	10,442	*10.9*
Cukai Perkhidmatan *Service Tax*	1,701	*2.7*	1,926	*2.4*	2,214	*2.7*	2,363	*2.7*	2,642	*2.8*
Lain-lain *Others*	1,914	*3.1*	1,922	*2.4*	1,835	*2.2*	1,971	*2.2*	2,101	*2.2*
HASIL BUKAN CUKAI[3] ***NON-TAX REVENUE***[3]	**14,691** *(10.2)*	*23.7*	**18,076** *(23.0)*	*22.7*	**16,654** *(–7.9)*	*19.9*	**19,997** *(20.1)*	*22.4*	**20,483** *(2.4)*	*21.4*
JUMLAH HASIL ***TOTAL REVENUE***	**61,864** *(5.4)*	*100.0*	**79,567** *(28.6)*	*100.0*	**83,515** *(5.0)*	*100.0*	**89,168** *(6.8)*	*100.0*	**95,595** *(7.2)*	*100.0*

[1] Angka-angka dalam kurungan adalah peratus perubahan tahunan.
[2] Termasuk hasil daripada duti setem.
[3] Termasuk hasil daripada perkhidmatan kerajaan berupa perniagaan, faedah dan hasil daripada pelaburan, lesen, bayaran perkhidmatan, cukai jalan, denda dan rampasan, hasil sewa daripada Wilayah-wilayah Persekutuan, pemberian daripada kerajaan-kerajaan luar negeri dan agensi-agensi antarabangsa dan royalti bayaran tunai atas petroleum dan gas.
[4] Anggaran sebenar.
[5] Anggaran disemak.
[6] Anggaran Bajet tanpa mengambilkira apa-apa perubahan cukai.

[1] *Figures in parentheses are annual percentage changes.*
[2] *Includes revenue from stamp duties.*
[3] *Includes government commercial undertakings, interest and returns on investment, licences, services fees, road tax, fines and forfeitures, rental revenue from Federal Territories, contributions from foreign governments and international agencies, and petroleum royalties/ gas cash payments.*
[4] *Estimated actual.*
[5] *Revised estimate.*
[6] *Budget estimate, without taking into account any tax changes.*

4.4 — PERBELANJAAN MENGURUS KERAJAAN PERSEKUTUAN[1]

Mengikut Objek

RM juta

4.4 — FEDERAL GOVERNMENT OPERATING EXPENDITURE[1]

By Object

RM million

	2000	%	2001	%	2002[5]	%	2003[6]	%	2004[7]	%
Emolumen[2] *Emoluments[2]*	16,357	*28.9*	17,443	*27.4*	20,242	*29.4*	19,727	*26.9*	20,934	*26.2*
Pencen dan ganjaran *Pensions and gratuities*	4,187	*7.4*	4,711	*7.4*	5,134	*7.5*	4,408	*6.0*	4,624	*5.8*
Bayaran khidmat hutang *Debt service charges*	9,055	*16.0*	9,634	*15.1*	9,669	*14.1*	8,868	*12.1*	9,929	*12.4*
Luar negeri *External*	1,187	*2.1*	1,150	*1.8*	1,692	*2.5*	1,688	*2.3*	1,675	*2.1*
Dalam negeri *Internal*	7,868	*13.9*	8,484	*13.3*	7,977	*11.6*	7,180	*9.8*	8,254	*10.3*
Pemberian dan serahan kepada kerajaan negeri *Grants and transfers to state governments*	2,077	*3.7*	2,013	*3.2*	2,534	*3.7*	2,534	*3.5*	2,724	*3.4*
Pemberian di bawah Perlembagaan *Constitutional Grants*	1,223	*2.2*	1,306	*2.0*	1,424	*2.1*	1,439	*2.0*	1,561	*2.0*
Lain-lain pemberian/pindahan[3] *Other grants/transfers[3]*	854	*1.5*	707	*1.1*	1,110	*1.6*	1,095	*1.5*	1,163	*1.5*
Bekalan dan perkhidmatan *Supplies and services*	7,360	*13.0*	10,703	*16.8*	11,269	*16.3*	14,781	*20.2*	17,216	*21.5*
Subsidi *Subsidies*	4,824	*8.5*	4,552	*7.1*	3,677	*5.4*	3,925	*5.4*	3,413	*4.3*
Biasiswa/dermasiswa dan bantuan pelajaran *Scholarships and educational aid*	695	*1.2*	867	*1.4*	998	*1.5*	1,245	*1.7*	1,814	*2.3*
Bayaran pengurusan kepada sekolah rendah dan menengah *Operating grants to primary and secondary schools*	528	*0.9*	833	*1.3*	1,133	*1.6*	1,154	*1.6*	1,097	*1.4*
Pembelian harta *Asset acquisition*	572	*1.0*	1,339	*2.1*	968	*1.4*	1,963	*2.7*	768	*1.0*
Bayaran balik dan hapus kira *Refunds and write-offs*	2,382	*4.2*	1,776	*2.8*	1,792	*2.6*	2,731	*3.7*	2,185	*2.7*
Pemberian kepada badan-badan berkanun *Grants to statutory bodies*	4,016	*7.1*	5,312	*8.3*	6,361	*9.3*	6,854	*9.4*	7,640	*9.5*
Lain-lain perbelanjaan[4] *Other expenditure[4]*	4,494	*7.9*	4,575	*7.2*	4,922	*7.1*	5,045	*6.9*	7,686	*9.6*
Jumlah ***Total***	**56,547** ***(21.1)***	***100.0***	**63,757** ***(12.8)***	***100.0***	**68,699** ***(7.8)***	***100.0***	**73,237** ***(6.6)***	***100.0***	**80,030** ***(9.3)***	***100.0***

[1] Angka-angka dalam kurungan adalah peratus perubahan tahunan.
[2] Termasuk badan-badan berkanun.
[3] Pemberian kepada kerajaan negeri meliputi serahan-serahan selain dari pemberian di bawah Perlembagaan Persekutuan.
[4] Termasuk pemberian kepada pertubuhan-pertubuhan antarabangsa, tuntutan insurans dan pampasan dan lain-lain.
[5] Anggaran sebenar.
[6] Anggaran disemak.
[7] Peruntukan Bajet.

[1] *Figures in parentheses are annual percentage changes.*
[2] *Includes statutory bodies.*
[3] *Grants to state governments include transfer payments that are not listed in the Federal Constitution.*
[4] *Includes grants to international organizations, insurance claims and gratuities and others.*
[5] *Estimated actual.*
[6] *Revised estimate.*
[7] *Budget allocation.*

4.5 — PERBELANJAAN MENGURUS KERAJAAN PERSEKUTUAN[1]

Mengikut Sektor

RM juta

4.5 — FEDERAL GOVERNMENT OPERATING EXPENDITURE[1]

By Sector

RM million

	2000	2001	2002[4]	2003[5]	2004[6]
KESELAMATAN ***SECURITY***	**6,958**	**8,310**	**9,029**	**10,011**	**11,104**
Pertahanan *Defence*	3,972	4,779	5,119	5,840	6,482
Keselamatan dalam negeri *Internal security*	2,987	3,531	3,910	4,171	4,622
PERKHIDMATAN SOSIAL ***SOCIAL SERVICES***	**18,784**	**21,756**	**24,799**	**28,114**	**29,993**
Pendidikan *Education*	12,923	14,422	16,982	19,436	20,386
Kesihatan *Health*	4,131	4,680	5,151	5,766	6,354
Perumahan *Housing*	92	397	136	184	213
Lain-lain *Others*	1,638	2,257	2,530	2,728	3,040
PERKHIDMATAN EKONOMI ***ECONOMIC SERVICES***	**6,637**	**5,150**	**6,015**	**6,745**	**7,238**
Pertanian dan pembangunan luar bandar *Agriculture and rural development*	1,323	1,366	1,446	1,657	1,736
Kemudahan awam *Public utilities*	104	39	460	111	110
Perdagangan dan perindustrian *Trade and industry*	3,761	1,870	1,837	2,463	2,860
Pengangkutan *Transport*	1,286	1,671	2,069	2,432	2,435
Perhubungan *Communications*	34	62	36	42	48
Lain-lain *Others*	130	142	167	40	48
PENTADBIRAN AM[2] ***GENERAL ADMINISTRATION[2]***	**8,401**	**8,635**	**8,275**	**8,461**	**7,872**
LAIN-LAIN PERBELANJAAN[3] ***OTHERS[3]***	**15,767**	**19,906**	**20,581**	**19,906**	**23,823**
Jumlah ***Total***	**56,547** *(21.1)*	**63,757** *(12.8)*	**68,699** *(7.8)*	**73,237** *(6.6)*	**80,030** *(9.3)*

[1] Angka-angka dalam kurungan adalah peratus perubahan tahunan.
[2] Termasuk Jabatan-Jabatan Perkhidmatan Awam, Perangkaan, Kastam dan Eksais Di Raja, Lembaga Hasil Dalam Negeri dan Kementerian Luar Negeri.
[3] Termasuk bayaran khidmat hutang dan bayaran pindahan.
[4] Anggaran sebenar.
[5] Anggaran disemak.
[6] Peruntukan Bajet.

[1] *Figures in parentheses are annual percentage changes.*
[2] *Includes Public Services, Statistics, Royal Customs and Excise, Inland Revenue Departments and Ministry of Foreign Affairs.*
[3] *Includes debt service charges and transfer payments.*
[4] *Estimated actual.*
[5] *Revised estimate.*
[6] *Budget allocation.*

4.6 — PERBELANJAAN PEMBANGUNAN KERAJAAN PERSEKUTUAN[1]

4.6 — FEDERAL GOVERNMENT DEVELOPMENT EXPENDITURE[1]

RM juta / *RM million*

	1999	%	2000	%	2001	%	2002[5]	%	2003[6]	%	2004[7]	%
KESELAMATAN ***SECURITY***	**3,122** *(126.2)*	*13.8*	**2,332** *(-25.3)*	*8.3*	**3,287** *(40.9)*	*9.3*	**4,333** *(31.8)*	*12.0*	**4,063** *(-6.2)*	*10.7*	**2,683** *(-34.0)*	*9.0*
Pertahanan *Defence*	2,792	*12.3*	1,854	*6.6*	2,572	*7.3*	3,385	*9.4*	3,326	*8.8*	2,089	*7.0*
Keselamatan dalam negeri[2] *Internal security[2]*	330	*1.5*	478	*1.7*	715	*2.0*	948	*2.6*	737	*1.9*	594	*2.0*
PERKHIDMATAN SOSIAL ***SOCIAL SERVICES***	**6,936** *(19.9)*	*30.7*	**11,076** *(59.7)*	*39.6*	**15,384** *(38.9)*	*43.7*	**18,043** *(17.3)*	*50.2*	**17,165** *(-4.9)*	*45.2*	**11,154** *(-35.0)*	*37.2*
Pendidikan *Education*	3,865	*17.1*	7,099	*25.4*	10,363	*29.4*	12,436	*34.6*	10,495	*27.6*	4,615	*15.4*
Kesihatan *Health*	836	*3.7*	1,272	*4.6*	1,570	*4.5*	1,503	*4.2*	1,990	*5.2*	2,643	*8.8*
Perumahan *Housing*	1,081	*4.8*	1,194	*4.3*	1,269	*3.6*	1,808	*5.0*	2,150	*5.7*	1,366	*4.6*
Lain-lain *Others*	1,154	*5.1*	1,511	*5.4*	2,182	*6.2*	2,296	*6.4*	2,530	*6.7*	2,530	*8.4*
PERKHIDMATAN EKONOMI ***ECONOMIC SERVICES***	**8,969** *(-3.0)*	*39.7*	**11,639** *(29.8)*	*41.7*	**12,725** *(9.3)*	*36.1*	**12,434** *(-2.3)*	*34.6*	**13,581** *(9.2)*	*35.8*	**13,779** *(1.5)*	*46.0*
Pertanian dan pembangunan luar bandar *Agriculture and rural development*	1,088	*4.8*	1,183	*4.2*	1,394	*4.0*	1,364	*3.8*	2,956	*7.8*	3,421	*11.4*
Kemudahan awam[3] *Public utilities[3]*	1,850	*8.2*	1,517	*5.4*	1,092	*3.1*	1,808	*5.0*	1,785	*4.7*	1,775	*5.9*
Perdagangan dan perindustrian *Trade and industry*	2,798	*12.4*	3,667	*13.1*	4,830	*13.7*	3,474	*9.7*	3,135	*8.3*	1,890	*6.3*
Pengangkutan *Transport*	2,893	*12.8*	4,863	*17.4*	5,042	*14.3*	5,401	*15.0*	5,091	*13.4*	6,377	*21.3*
Perhubungan *Communications*	289	*1.3*	228	*0.8*	330	*0.9*	282	*0.8*	193	*0.5*	123	*0.4*
Lain-lain *Others*	51	*0.2*	181	*0.6*	37	*0.1*	105	*0.3*	421	*1.1*	193	*0.6*
PENTADBIRAN AM[4] ***GENERAL ADMINISTRATION[4]***	**3,587** *(111.4)*	*15.9*	**2,894** *(-19.3)*	*10.4*	**3,839** *(32.7)*	*10.9*	**1,167** *(-69.6)*	*3.2*	**3,154** *(170.3)*	*8.3*	**2,344** *(-25.7)*	*7.8*
Jumlah ***Total***	**22,614** *(24.9)*	*100.0*	**27,941** *(23.6)*	*100.0*	**35,235** *(26.1)*	*100.0*	**35,977** *(2.1)*	*100.0*	**37,963** *(5.5)*	*100.0*	**29,960** *(-21.1)*	*100.0*

[1] Angka-angka dalam kurungan adalah peratus perubahan tahunan.
[2] Termasuk Polis, Keselamatan Sempadan dan Negeri.
[3] Kebanyakannya bekalan elektrik dan air.
[4] Termasuk Jabatan-Jabatan Perkhidmatan Awam, Perangkaan, Kastam dan Eksais Di Raja, Lembaga Hasil Dalam Negeri dan Kementerian Luar Negeri.
[5] Anggaran sebenar.
[6] Anggaran disemak.
[7] Peruntukan Bajet (tidak termasuk simpanan luar jangka sebanyak RM2,000 juta).

[1] Figures in parentheses are annual percentage changes.
[2] Includes Police, State and Border Security.
[3] Mainly electricity and water supply.
[4] Includes Public Services, Statistics, Royal Customs and Excise, Inland Revenue Departments and Ministry of Foreign Affairs.
[5] Estimated actual.
[6] Revised estimate.
[7] Budget allocation (excludes RM2,000 million contingency reserve).

4.7 — PINJAMAN BERSIH KERAJAAN PERSEKUTUAN / 4.7 — *FEDERAL GOVERNMENT NET BORROWING*

Nilai semasa dalam RM juta / *Nominal value in RM million*

	1999	2000	2001	2002[4]	2003[5]
PINJAMAN BERSIH DALAM NEGERI / ***NET DOMESTIC BORROWING***	**5,423**	**12,714**	**13,381**	**6,076**	**23,250**
Sekuriti Kerajaan / *Government Securities*					
Keluaran kasar[1] / *Gross issue*[1]	10,000	16,000	21,500	15,000	39,850
Bayaran balik pokok / *Principal repayments*	6,676	5,286	7,100	8,900	18,600
Keluaran bersih / *Net issue*	3,324	10,714	14,400	6,100	21,250
Sijil Pelaburan / *Investment Certificates*	–	2,000	–	1,000	2,000
Pinjaman bersindiket (bank asing) / *Syndicate loan (foreign bank)*	2,099	–	–1,019	–1,024	0
PINJAMAN BERSIH LUAR NEGERI / ***NET EXTERNAL BORROWING***	**2,923**	**864**	**6,295**	**8,020**	**–4,391**
Projek / *Project*					
Penerimaan / *Receipts*	599	385	645	1,375	2,332
Bayaran balik pokok / *Principal repayments*	733	635	528	737	745
Bersih / *Net*	–134	–250	117	638	1,587
Pasaran / *Market*					
Penerimaan / *Receipts*	4,164	4,381	6,385	9,091	1,439
Bayaran balik pokok[2] / *Principal repayments*[2]	1,107	3,267	207	1,709	7,417
Bersih / *Net*	3,057	1,114	6,178	7,382	–5,978
Jumlah / ***Total***	**8,346**	**13,578**	**19,676**	**14,096**	**18,859**
BAYARAN FAEDAH[3] / ***INTEREST PAYMENTS***[3]	**7,941**	**9,055**	**9,634**	**9,669**	**8,868**
Dalam negeri / *Domestic*	7,057	7,868	8,484	7,977	7,180
Luar negeri / *External*	884	1,187	1,150	1,692	1,688
NISBAH KHIDMAT HUTANG LUAR NEGERI[6] **(%)** / ***EXTERNAL DEBT SERVICE RATIO***[6] ***(%)***	***0.7***	***1.2***	***0.5***	***1.0***	***2.3***

[1] Termasuk caruman pendahuluan.
[2] Termasuk bayaran balik awal.
[3] Tidak termasuk caruman ke atas Kumpulan Wang Penjelas Hutang dan bayaran pengurusan dan penyerahan.
[4] Anggaran sebenar.
[5] Anggaran disemak.
[6] Tidak termasuk bayaran balik awal.

[1] *Includes advance subscriptions.*
[2] *Includes prepayments.*
[3] *Excludes contribution to Sinking Fund and commitment management fees.*
[4] *Estimated actual.*
[5] *Revised estimate.*
[6] *Excludes prepayments.*

4.8 — HUTANG DALAM NEGERI KERAJAAN PERSEKUTUAN[1]

Nilai semasa dalam RM juta

4.8 — *FEDERAL GOVERNMENT DOMESTIC DEBT*[1]

Nominal value in RM million

	1999	2000	2001	2002[7]	2003[8]
BIL PERBENDAHARAAN / ***TREASURY BILLS***	4,320 (–)	4,320 (–)	4,320 (–)	4,320 (–)	4,320 (–)
Institusi bank-bank[2] / *Banking institutions*[2]	3,720	4,166	4,014	3,744	3,933
Bank Negara / *Bank Negara*	–	–	–	–	–
Lain-lain[3] / *Others*[3]	600	154	306	576	387
SIJIL PELABURAN / ***INVESTMENT CERTIFICATES***	2,000 (0.0)	4,000 (100.0)	4,000 (0.0)	5,000 (25.0)	7,000 (40.0)
SEKURITI KERAJAAN / ***GOVERNMENT SECURITIES***	78,336 (+4.4)	89,050 (+13.7)	103,450 (+16.2)	109,550 (+5.9)	122,850 (+12.1)
Sektor awam[4] / *Public sector*[4]	3,970	2,703	1,965	6,607	5,759
Kumpulan Wang Simpanan Pekerja / *Employees Provident Fund*	51,757	61,476	67,415	72,980	77,867
Bank Simpanan Nasional / *National Savings Bank*	909	1,025	1,524	1,478	1,806
Bank Negara / *Bank Negara*	90	84	32	29	29
Institusi bank / *Banking institutions*	12,313	12,374	18,562	14,600	21,164
Syarikat insurans / *Insurance companies*	6,094	6,652	8,566	9,313	9,847
Lain-lain[5] / *Others*[5]	3,203	4,736	5,386	4,543	6,378
LAIN-LAIN PINJAMAN DALAM NEGERI[6] / ***OTHER DOMESTIC BORROWINGS***[6]	9,094 (+32.5)	9,435 (+3.7)	9,626 (+2.0)	9,810 (+1.9)	8,095 (–17.5)
JUMLAH / ***TOTAL***	93,750 (6.3)	106,805 (13.9)	121,396 (13.7)	128,680 (+6.0)	142,265 (+10.6)

[1] Angka-angka dalam kurungan adalah peratus perubahan tahunan.

[2] Termasuk Bank Perdagangan, Syarikat Kewangan, Bank Saudagar dan Syarikat Diskaun.

[3] Termasuk syarikat insurans, Bank Kerjasama Rakyat Malaysia Bhd. dan Lembaga Tabung Haji.

[4] Termasuk kerajaan negeri, badan-badan berkanun dan awam.

[5] Termasuk Kumpulan Wang Simpanan Guru, kerajaan negeri, syarikat meminjam, syarikat diskaun, syarikat penamaan dan amanah, syarikat kerjasama dan PETRONAS.

[6] Termasuk pinjaman daripada bank-bank perdagangan, Kumpulan Wang Simpanan Pekerja, Kumpulan Wang Pinjaman Perumahan dan pinjaman daripada Negeri Sabah kepada Negeri Terengganu.

[7] Anggaran sebenar.

[8] Pada akhir Jun.

[1] *Figures in parentheses are annual percentage changes.*

[2] *Includes Commercial Bank, Finance Companies, Merchant Bank and Discount Houses.*

[3] *Includes insurance companies, Bank Kerjasama Rakyat Malaysia Bhd. and Lembaga Tabung Haji.*

[4] *Includes state governments, statutory bodies and public enterprises.*

[5] *Includes Teachers Provident Fund, state governments, borrowing companies, discount houses, nominee and trustee companies, co-operative societies and PETRONAS.*

[6] *Includes loans from commercial banks and Employees Provident Fund, Housing Loans Fund and loans from Sabah State to Terengganu State.*

[7] *Estimated actual.*

[8] *As at end of June.*

4.9 — HUTANG NEGARA[1]

Nilai semasa dalam RM juta

4.9 — *NATIONAL DEBT[1]*

Nominal value in RM million

	1999	2000	2001	2002[5]	2003[6]
KERAJAAN PERSEKUTUAN *FEDERAL GOVERNMENT*	**18,368** *(23.1)*	**18,821** *(2.5)*	**24,328** *(29.3)*	**36,283** *(49.1)*	**34,962** *(-3.6)*
Pinjaman pasaran luar negeri *External market loans*	11,076	12,041	17,682	28,674	25,766
Amerika Syarikat *United States*	7,175	6,115	12,121	21,028	20,638
Jepun *Japan*	3,448	3,192	2,952	3,361	924
Jerman *Germany*	–	–	–	–	
Euro *Euro*	–	2,316	2,204	3,838	3,755
Lain-lain[2] *Others[2]*	453	418	406	449	449
Pinjaman projek luar negeri[2] *External project loans[2]*	7,293	6,780	6,646	7,690	9,196
Pelbagai hala *Multilateral*	5,004	4,788	4,692	4,534	4,581
Dua hala *Bilateral*	2,289	1,992	1,954	3,076	4,615
Kredit pembekal *Suppliers credit*	–	–	–	–	–
PABK[3] ***NFPEs[3]***	**57,021**	**59,566**	**67,415**	**64,330**	**62,376**
Sektor awam ***Public sector***	**75,390**	**78,387**	**91,743**	**100,613**	**97,338**
Sektor swasta ***Private sector***	**64,315**	**65,069**	**57,670**	**52,947**	**53,896**
Hutang jangka pendek ***Short-term debt***	**22,427**	**17,589**	**23,986**	**32,014**	**34,794**
HUTANG NEGARA ***NATIONAL DEBT***	**162,132** *(–4.6)*	**161,045** *(–0.7)*	**173,399** *(7.7)*	**185,574** *(7.0)*	**186,028** *(0.2)*
Jumlah khidmat hutang ***Total debt servicing***	**23,313**	**24,250**	**26,096**	**26,365**	**33,142**
Bayaran balik pokok[4] ***Principal repayment[4]***	**15,726**	**15,565**	**18,759**	**19,319**	**26,418**
Kerajaan Persekutuan *Federal Government*	1,840	3,902	735	2,445	8,162
PABK *NFPEs*	2,230	2,506	7,886	6,942	9,756
Sektor swasta *Private sector*	11,656	9,157	10,138	9,932	8,500
Bayaran faedah ***Interest payment***	**7,587**	**8,685**	**7,337**	**7,046**	**6,724**
Kerajaan Persekutuan *Federal Government*	884	1,187	1,150	1,692	1,688
PABK *NFPEs*	2,755	3,408	3,574	3,430	3,205
Sektor swasta *Private sector*	2,420	2,518	1,621	1,169	1,075
Hutang jangka pendek *Short-term debt*	1,528	1,572	992	755	756
Nisbah khidmat hutang luar negeri (%) ***External debt service ratio (%)***	***6.3***	***5.6***	***6.6***	***6.3***	***7.7***

[1] Angka-angka dalam kurungan adalah peratus perubahan tahunan.
[2] Termasuk pinjaman dalam mata wang Amerika Syarikat, Jepun, United Kingdom, Euro, Jerman, Switzerland, Kanada, Peranchis dan Arab Saudi.
[3] Perusahaan Awam Bukan Kewangan.
[4] Tidak termasuk bayaran balik awal.
[5] Anggaran sebenar.
[6] Anggaran disemak.

[1] *Figures in parentheses are annual percentage changes.*
[2] *Includes loans in the currency of the United States, Japan, United Kingdom, Euro, Germany, Switzerland, Canada, France and Saudi Arabia.*
[3] *Non-Financial Public Enterprises.*
[4] *Excluding prepayment.*
[5] *Estimated actual.*
[6] *Revised estimate.*

4.10 — KEWANGAN KERAJAAN NEGERI DISATUKAN[1]

RM juta

4.10 — STATE GOVERNMENTS CONSOLIDATED FINANCE[1]

RM million

	1999	2000	2001	2002[5]	2003[6]
Hasil[2] *Revenue[2]*	**8,792** *(2.3)*	**10,314** *(17.3)*	**8,312** *(–19.4)*	**8,341** *(0.3)*	**11,001** *(31.9)*
Punca negeri *States sources*	6,730	7,751	6,872	6,692	9,294
Pemberian persekutuan *Federal grants*	1,992	2,488	1,416	1,622	1,668
Bayaran ganti persekutuan *Federal reimbursements*	70	75	24	27	39
Perbelanjaan mengurus[3] *Operating expenditure[3]*	**4,862** *(5.3)*	**5,254** *(8.1)*	**5,305** *(1.0)*	**5,090** *(–4.1)*	**6,073** *(19.3)*
Lebihan/defisit semasa *Current surplus/deficit*	**3,930**	**5,060**	**3,007**	**3,251**	**4,928**
Perbelanjaan pembangunan *Development expenditure*	**4,443** *(–7.3)*	**5,348** *(20.4)*	**4,870** *(–8.9)*	**4,161** *(–14.6)*	**5,559** *(33.6)*
Kumpulan Wang Pembangunan *Development Fund*	3,768	4,742	4,133	3,685	5,029
Kumpulan Wang Bekalan Air *Water Supply Fund*	675	606	737	476	530
Terimaan balik pinjaman *Loan recoveries*	616	266	166	389	250
Perbelanjaan pembangunan bersih *Net development expenditure*	**3,827**	**5,082**	**4,704**	**3,772**	**5,309**
Imbangan keseluruhan *Overall balance*	**103**	**–22**	**–1,697**	**–521**	**–381**
Sumber pembiayaan *Sources of financing*					
Pinjaman bersih persekutuan *Net federal loans*	682	440	549	752	365
Perubahan harta[4] *Change in assets[4]*	–785	–418	1,148	–231	16

[1] Angka-angka dalam kurungan adalah peratus perubahan tahunan.

[2] Hasil meliputi pemberian pembangunan dan bayaran ganti daripada Kerajaan Persekutuan yang sebelum ini diletakkan di bawah sumber pembiayaan, selaras dengan Sistem Perakaunan Negara (SNA) serta prinsip perangkaan kewangan awam.

[3] Tidak termasuk caruman kepada Kumpulan Wang Pembangunan dan Kumpulan Wang Bekalan Air tetapi meliputi perbelanjaan berulang dalam Kumpulan Wang Bekalan Air.

[4] (–) bererti pertambahan harta.

[5] Anggaran sebenar.

[6] Anggaran disemak.

[1] *Figures in parentheses are annual percentage changes.*

[2] *Revenue includes development grants and reimbursements from the Federal Government earlier treated as a source of finance, consistent with the Systems of National Accounts (SNA) as well as conventions of public finance statistics.*

[3] *Excludes contribution to Development and Water Supply Funds but includes recurrent expenditure from Water Supply Fund.*

[4] *(–) indicates a build-up in assets.*

[5] *Revised estimate.*

[6] *Revised estimate.*

4.11 — KEWANGAN KERAJAAN TEMPATAN DISATUKAN[1]

RM juta

4.11 — LOCAL GOVERNMENTS CONSOLIDATED FINANCE[1]

RM million

	1999	2000	2001	2002[2]	2003[3]
Hasil ***Revenue***	**3,535** ***5.7***	**3,410** ***-3.5***	**5,528** ***62.1***	**5,400** ***-2.3***	**5,299** ***-1.9***
Punca sendiri *Own sources*	2,769	2,815	2,318	3,295	3,424
Pemberian negeri dan persekutuan *State and federal grants*	721	529	3,210	2,105	1,875
Bayaran ganti persekutuan *Federal reimbursements*	45	66	–	–	–
Perbelanjaan semasa *Current expenditure*	2,573 *14.1*	2,415 *-6.1*	2,777 *15.0*	2,945 *6.0*	3,286 *11.6*
Lebihan/defisit semasa ***Current surplus/deficit***	**962**	**995**	**2,751**	**2,455**	**2,013**
Perbelanjaan pembangunan bersih *Net development expenditure*	1,262 *-11.6*	1,098 *-13.0*	2,176 *98.2*	2,322 *6.7*	2,508 *8.0*
Imbangan keseluruhan ***Overall balance***	**-300**	**-103**	**575**	**133**	**-495**
Sumber pembiayaan ***Sources of financing***					
Pinjaman bersih persekutuan *Net federal loans*	-11	-13	-10	-7	-7
Pinjaman bersih negeri *Net state loans*	-3	–	9	-1	-2
Perubahan harta[4] *Change in assets[4]*	314	116	-574	-125	504

[1] Angka-angka dalam kurungan adalah peratus perubahan tahunan.
[2] Anggaran sebenar.
[3] Anggaran disemak.
[4] (–) bererti pertambahan harta.

[1] *Figures in parentheses are annual percentage changes.*
[2] *Estimated actual.*
[3] *Revised estimate.*
[4] *(–) indicates a build-up in reserves.*

4.12 — KEWANGAN BADAN BERKANUN DISATUKAN[1]

RM juta

4.12 — *STATUTORY BODIES CONSOLIDATED FINANCE*[1]

RM million

	1999	2000	2001	2002[3]	2003[4]
Hasil *Revenue*	**8,157** ***(7.5)***	**11,933** ***(46.3)***	**13,417** ***(12.4)***	**15,628** ***(16.5)***	**16,997** ***(8.8)***
Punca sendiri *Own sources*	2,720	3,585	4,635	4,725	5,106
Pemberian persekutuan[2] *Federal grants*[2]	5,437	8,348	8,782	10,903	11,891
Perbelanjaan semasa *Current expenditure*	5,774 *(23.1)*	6,519 *(12.9)*	7,967 *(22.2)*	8,659 *(8.7)*	9,495 *(9.7)*
Lebihan/defisit semasa ***Current surplus/deficit***	**2,383**	**5,414**	**5,450**	**6,969**	**7,502**
Perbelanjaan pembangunan *Development expenditure*	1,516 *(11.7)*	3,175 *(109.4)*	3,088 *(−2.7)*	3,841 *(24.4)*	3,352 *(−12.7)*
Imbangan keseluruhan ***Overall balance***	**867**	**2,239**	**2,362**	**3,128**	**4,150**
Sumber pembiayaan ***Sources of financing***					
Pinjaman bersih luar negeri *Net foreign borrowing*	−242	−379	−136	2	0
Pinjaman bersih dalam negeri *Net domestic borrowing*	−249	469	−1,440	201	−371
Perubahan harta[5] *Change in assets*[5]	−376	−2,329	−786	−3,331	−3,779

[1] Angka-angka dalam kurungan adalah peratus perubahan tahunan. Badan-badan berkanun adalah sebarang perbadanan korporat yang dibentuk di bawah peruntukan undang-undang Persekutuan dan Negeri. Bagi tahun 1998 dan 1999, data meliputi 62 Badan Berkanun. Bagi tahun 2000 hingga 2003, data meliputi 69 Badan Berkanun.

[2] Merujuk kepada pemberian mengurus dan pembangunan.

[3] Anggaran sebenar.

[4] Anggaran disemak.

[5] (−) bererti pertambahan harta.

[1] *Figures in parentheses are annual percentage changes. Statutory bodies refer to any corporate body that is established by Federal and state laws. For the years 1998 and 1999, the data covers 62 Statutory Bodies. For the years 2000 until 2003, the data covers 69 Statutory Bodies.*

[2] *Refers to both operating and development grants.*

[3] *Estimated actual.*

[4] *Revised estimate.*

[5] *(−) indicates a build-up in assets.*

4.13 — KEDUDUKAN KEWANGAN PABK[1]

RM juta

4.13 — NFPEs FINANCIAL POSITION[1]

RM million

	1999[2]	2000[3]	2001[4]	2002[5]	2003[6]
Hasil ***Revenue***	**99,807**	**115,419**	**105,075**	**126,562**	**134,998**
Perbelanjaan semasa *Current expenditure*	60,845	71,725	65,392	80,951	88,007
Lebihan/defisit semasa ***Current surplus/deficit***	**38,962**	**43,694**	**39,683**	**45,611**	**46,991**
Perbelanjaan pembangunan *Development expenditure*	23,908	23,360	24,033	32,297	35,365
Imbangan keseluruhan ***Overall balance***	**15,054**	**20,334**	**15,650**	**13,314**	**11,626**

[1] Perusahaan Awam Bukan Kewangan (PABK) merupakan agensi-agensi sektor awam yang menjual barang dan perkhidmatan. PABK termasuk badan-badan berkanun, syarikat-syarikat yang dimiliki dan/atau dikuasai oleh Kerajaan dan agensi-agensi di bawah badan berkanun. Pemilikan dan kawalan adalah berdasarkan kepada Kerajaan atau agensi sektor awam memiliki lebih daripada 50 peratus jumlah ekuiti. Jadual di atas merujuk kepada PABK yang diawasi oleh Kerajaan berdasarkan kepada hasil jualan tahunan minimum RM100 juta.

[2] Merujuk kepada 28 PABK kerana Pernas Trading, Pernas Edar dan Pernas International Hotel and Properties telah dijual dalam tahun 1997.

[3] Merujuk kepada 37 PABK.

[4] Merujuk kepada 37 PABK.

[5] Merujuk kepada 37 PABK.

[6] Merujuk kepada 36 PABK.

[1] *Non-Financial Public Enterprises (NFPEs) are public sector agencies undertaking the sale of industrial and commercial goods and services. They includes statutory bodies, Government-owned and/or Government controlled companies and agencies owned by statutory bodies. Ownership and control refer to Government or a public-sector agency controlling more than 50 per cent of total equity. The above table refers to NFPEs being monitored based on minimal annual sales of at least RM100 million.*

[2] *Refers to 28 NFPEs; Pernas Trading, Pernas Edar and Pernas International Hotel and Properties were sold in 1997.*

[3] *Refers to 37 NFPEs.*

[4] *Refers to 37 NFPEs.*

[5] *Refers to 37 NFPEs.*

[6] *Refers to 36 NFPEs.*

5.1 — *AGREGAT MONETARI*[1]

Malaysia

Akhir tempoh *End of period*	Wang secara luas[2]/*Broad Money*[2] *(M3)*														
							Separuh wang secara luas[3]/*Broad quasi money*[3]								
	Jumlah (pertumbuhan tahunan) *Total (annual growth)*		Matawang dalam edaran *Currency in circulation*		Deposit permintaan *Demand deposits*		Jumlah *Total*		Deposit tabungan *Savings deposit*		Deposit tetap *Fixed deposit*		NID *NIDs*	
	RM bilion *RM billion*		RM bilion *RM billion*	% bahagian *% share*	RM bilion *RM billion*	% bahagian *% share*	RM bilion *RM billion*	% bahagian *% share*	RM bilion *RM billion*	% bahagian *% share*	RM bilion *RM billion*	% bahagian *% share*	RM bilion *RM billion*	% bahagian *% share*
1999	434.6	*(8.3%)*	24.7	*5.7*	48.7	*11.2*	361.6	*83.2*	35.2	*8.1*	198.3	*45.6*	8.2	*1.9*
2000	456.5	*(5.0%)*	22.3	*4.9*	55.9	*12.2*	377.9	*82.8*	40.6	*8.9*	205.4	*45.0*	5.1	*1.1*
2001	469.5	*(2.9%)*	22.1	*4.7*	58.6	*12.5*	388.1	*82.7*	44.8	*9.5*	202.9	*43.2*	4.0	*0.9*
2002	501.1	*(6.7%)*	24.0	*4.8*	65.2	*13.0*	294.5	*58.8*	49.9	*10.0*	207.5	*41.4*	5.4	*1.1*
2003 Januari/*January*	509.3	*(7.8%)*	28.4	*5.6*	64.6	*12.7*	296.3	*58.2*	50.7	*10.0*	210.2	*41.3*	5.3	*1.0*
Februari/*February*	511.0	*(6.4%)*	24.7	*4.8*	64.5	*12.6*	310.0	*60.7*	51.1	*10.0*	210.6	*41.2*	5.5	*1.1*
Mac/*March*	513.7	*(6.7%)*	24.2	*4.7*	64.2	*12.5*	302.1	*58.8*	50.3	*9.8*	214.1	*41.7*	5.3	*1.0*
April/*April*	516.1	*(6.7%)*	24.2	*4.7*	63.3	*12.3*	306.7	*59.4*	50.6	*9.8*	216.6	*42.0*	5.8	*1.1*
Mei/*May*	522.2	*(7.8%)*	24.7	*4.7*	63.5	*12.2*	313.0	*59.9*	50.4	*9.7*	219.6	*42.1*	6.4	*1.2*
Jun/*June*	522.4	*(8.2%)*	24.3	*4.7*	66.3	*12.7*	310.9	*59.5*	51.3	*9.8*	220.4	*42.2*	5.9	*1.1*
Julai/*July*	526.6	*(8.7%)*	24.2	*4.6*	66.9	*12.7*	311.6	*59.2*	52.0	*9.9*	221.3	*42.0*	5.5	*1.0*

[1] Data berasaskan laporan terbaru BNM.

[2] Ditakrifkan termasuk mata wang dalam edaran dan semua deposit sektor swasta dengan bank perdagangan, bank Islam, syarikat kewangan, bank saudagar dan syarikat diskaun; tidak termasuk deposit di kalangan institusi kewangan ini.

[3] Ditakrifkan untuk meliputi deposit tabungan, deposit tetap, NID, Repo dan deposit mata wang asing sektor swasta dengan bank perdagangan, bank Islam, syarikat kewangan, bank saudagar dan syarikat diskaun; tidak termasuk deposit di kalangan institusi kewangan ini.

[4] Berkaitan dengan Kerajaan Persekutuan dan Negeri.

[5] Ditakrifkan untuk meliputi individu; perusahaan perniagaan; institusi kewangan bukan bank, badan berkanun dan kerajaan tempatan.

[6] Semua perkara lain dalam kunci kira-kira BNM dan sistem perbankan yang tidak termasuk dalam mana-mana perkara yang disenaraikan.

Sumber: Bank Negara Malaysia.

5.1 — MONETARY AGGREGATES[*]

Malaysia

Repo *Repo*		Deposit mata wang asing *Foreign currency deposits*		Tuntutan bersih ke atas Kerajaan *Net claims on Government*		Tuntutan ke atas Kerajaan[3] *Claims on Government*[3]		Deposit Kerajaan[3] *Government[3] deposits*		Tuntutan ke atas Sektor Swasta[4] *Claims on the private sector[4]*		Operasi luar bersih *Net external operations*		Pengaruh lain[5] *Other influences[5]*	
				Faktor penentu M3/*Factors affecting M3*											
RM bilion *RM billion*	% bahagian *% share*	RM bilion *RM billion*	% bahagian *% share*	RM bilion *RM billion*	% bahagian *% share*	RM bilion *RM billion*	% bahagian *% share*	RM bilion *RM billion*	% bahagian *% share*	RM bilion *RM billion*	% bahagian *% share*	RM bilion *RM billion*	% bahagian *% share*	RM bilion *RM billion*	% bahagian *% share*
15.2	*3.5*	6.9	*1.6*	(18.8)	*(4.3)*	22.3	*5.1*	41.1	*9.5*	461.0	*106.1*	124.7	*28.7*	(132.3)	*(30.4)*
15.6	*3.4*	9.8	*2.1*	(14.4)	*(3.2)*	25.6	*5.6*	40.3	*8.8*	487.0	*106.7*	126.7	*27.8*	(142.8)	*(31.3)*
19.1	*4.1*	11.0	*2.3*	(16.0)	*(3.4)*	29.8	*6.2*	45.7	*9.7*	507.3	*108.1*	129.4	*27.6*	(151.3)	*(32.2)*
21.6	*4.3*	10.0	*2.0*	(4.4)	*(0.9)*	28.9	*5.8*	33.3	*6.6*	535.0	*106.8*	137.2	*27.4*	(166.8)	*(33.3)*
20.2	*4.0*	9.9	*1.9*	1.3	*0.3*	30.4	*6.0*	29.0	*5.7*	539.3	*105.9*	136.9	*26.9*	(168.1)	*(33.0)*
23.7	*4.6*	10.1	*2.0*	(0.1)	*(0.0)*	31.1	*6.1*	31.2	*6.1*	540.5	*105.8*	137.2	*26.8*	(166.6)	*(32.6)*
22.7	*4.4*	10.0	*1.9*	0.4	*0.1*	31.5	*6.1*	31.1	*6.1*	542.3	*105.6*	135.9	*26.5*	(164.8)	*(32.1)*
23.8	*4.6*	10.0	*1.9*	4.4	*0.9*	32.3	*6.3*	28.0	*5.4*	542.7	*105.2*	136.8	*26.5*	(167.8)	*(32.5)*
26.3	*5.0*	10.2	*2.0*	6.9	*1.3*	33.1	*6.3*	26.1	*5.0*	543.6	*104.1*	138.4	*26.5*	(166.7)	*(31.9)*
23.4	*4.5*	9.9	*1.9*	5.2	*1.0*	35.4	*6.8*	30.2	*5.8*	551.1	*105.5*	138.4	*26.5*	(172.3)	*(33.0)*
22.2	*4.2*	10.5	*2.0*	4.1	*0.8*	34.2	*6.5*	30.1	*5.7*	556.6	*105.7*	142.2	*27.0*	(176.3)	*(33.5)*

[*] *Data based on latest reports of BNM.*

[1] *Defined to include currency in circulation and all private sector deposits with commercial banks, Islamic banks, finance companies, merchant banks and discount houses, excludes placements among these financial institutions.*

[2] *Defined to comprise private sector savings, fixed deposits, NIDs, repos and foreign currency deposits with commercial banks, Islamic banks, finance companies, merchant banks and discount houses; excludes placements among these institutions.*

[3] *Refers to Federal and State Governments.*

[4] *Defined to comprise private individuals; business enterprises; non-bank financial institutions; statutory authorities and local governments.*

[5] *All other balance sheet items of BNM and the banking system that are not assignable to the items listed.*

Source: *Bank Negara Malaysia.*

5.2 — BANK PERDAGANGAN: ARAH ALIRAN PINJAMAN (TERMASUK BANK ISLAM)[1]

Malaysia

Pinjaman Yang Belum Dijelaskan Mengikut Sektor	1999		2000		2001	
	RM juta *RM million*	% bahagian *% share*	RM juta *RM million*	% bahagian *% share*	RM juta *RM million*	% bahagian *% share*
Pertanian, ternakan, perhutanan dan perikanan	7,841.3	*2.4*	10,039.8	*2.9*	10,686.4	*3.0*
Perlombongan dan kuari	1,289.1	*0.4*	1,355.9	*0.4*	1,177.7	*0.3*
Pembuatan	60,189.0	*18.6*	62,822.3	*18.2*	62,845	*17.6*
Elektrik, gas dan bekalan air	6,522.2	*2.0*	7,005.2	*2.0*	4,778.6	*1.3*
Perdagangan borong dan runcit, restoran dan hotel	31,915.4	*9.8*	33,654.3	*9.7*	34,125.4	*9.6*
Sektor harta tanah yang luas	118,544.6	*36.6*	128,997.8	*37.3*	141,447.7	*39.7*
Pembinaan	30,420.2	*9.4*	30,361.9	*8.8*	29,604.4	*8.3*
Harta kediaman	51,123.3	*15.8*	61,773.0	*17.9*	73,924.8	*20.7*
Harta bukan kediaman	23,425.2	*7.2*	23,190.3	*6.7*	23,363.1	*6.6*
Harta tanah	13,575.9	*4.2*	13,672.6	*4.0*	14,555.4	*4.1*
Pengangkutan, penyimpanan dan komunikasi	12,018.0	*3.7*	10,750.7	*3.1*	9,594.0	*2.7*
Perkhidmatan kewangan, insuran dan perniagaan	29,624.9	*9.1*	30,647.3	*8.9*	32,077.1	*9.0*
Kredit penggunaan	19,584.3	*6.0*	20,861.0	*6.0*	22,444.8	*6.3*
Kegunaan sendiri	12,697.3	*3.9*	13,060.4	*3.8*	13,348.8	*3.7*
Kad kredit	4,355.4	*1.3*	6,073.8	*1.8*	7,367.1	*2.1*
Pembelian barangan pengguna	887.7	*0.3*	735.6	*0.2*	637.4	*0.2*
Pembelian kereta penumpang	1,643.9	*0.5*	991.3	*0.3*	1,091.5	*0.3*
Pembelian sekuriti	22,938.7	*7.1*	23,178.4	*6.7*	22,173.4	*6.2*
Pembelian kenderaan pengangkutan[2]	163.1	*0.1*	224.2	*0.1*	361.9	*0.1*
Perkhidmatan sosial, masyarakat dan persendirian	5,723.2	*1.8*	4,956.1	*1.4*	4,917.7	*1.4*
Lain-lain	7,891.2	*2.4*	10,965.1	*3.2*	9,850.1	*2.8*
JUMLAH PINJAMAN YANG BELUM DIJELASKAN[3]	**324,245.0**	***100.0***	**345,458.0**	***100.0***	**356,479.9**	***100.0***

[1] Data berasaskan laporan terbaru BNM.

[2] Tidak termasuk pinjaman untuk membeli kereta penumpang.

[3] Termasuk pinjaman yang dijual kepada Cagamas dan Danaharta.

Sumber: Bank Negara Malaysia.

5.2 — COMMERCIAL BANKS: DIRECTION OF LENDING (INCLUDING ISLAMIC BANKS)[1]

Malaysia

Pada akhir bulan Julai 2002 *As at end-July 2002*		Pada akhir bulan Julai 2003 *As at end-July 2003*		Outstanding Loans by Sector
RM juta *RM million*	% bahagian *% share*	RM juta *RM million*	% bahagian *% share*	
10,485.8	2.9	10,521.7	2.7	*Agriculture, hunting, forestry and fishing*
924.8	0.3	986.4	0.3	*Mining and quarrying*
62,236.8	17.1	61,962.8	16.2	*Manufacturing*
5,227.0	1.4	5,142.1	1.3	*Electricity, gas and water*
34,923.3	9.6	35,686.9	9.3	*Wholesale, retail, restaurants and hotels*
148,264.7	40.6	160,884.4	42.0	*Broad property sector*
29,005.5	7.9	27,322.8	7.1	*Construction*
81,603.9	22.4	95,624.3	25.0	*Residential property*
23,736.7	6.5	24,533.9	6.4	*Non-residential property*
13,918.6	3.8	13,403.4	3.5	*Real estate*
10,362.3	2.8	12,289.1	3.2	*Transport, storage and communications*
31,711.1	8.7	30,854.5	8.1	*Finance, insurance and business services*
22,995.5	6.3	24,944.5	6.5	*Consumption credit*
13,881.0	3.8	14,264.9	3.7	*Personal uses*
8,023.1	2.2	9,698.5	2.5	*Credit cards*
540.0	0.1	508.9	0.1	*Purchase of consumer durables*
551.4	0.2	481.2	0.1	*Purchase of passenger cars*
22,328.4	6.1	23,785.4	6.2	*Purchase of securities*
379.3	0.1	607.4	0.2	*Purchase of transport vehicles*[2]
5,075.8	1.4	4,711.5	1.2	*Community, social and personal services*
10,096.5	2.8	10,881.5	2.8	*Others*
365,011.3	***100.0***	**383,258.3**	***100.0***	***TOTAL OUTSTANDING LOANS***[3]

[1] *Data based on latest reports of BNM.*

[2] *Excluding loans for purchase of passenger cars.*

[3] *Including loans sold to Cagamas and Danaharta.*

Source: Bank Negara Malaysia.

5.3 — **KADAR FAEDAH**
Malaysia

	Kadar purata pada akhir tahun (% setahun) *Average rates at end-year (% per annum)*			
	1999	*2000*	*2001*	*2002*
Kadar faedah campur tangan BNM/*BNM intervention rate*	5.50	5.50	5.00	5.00
Kadar faedah antara bank 3-bulan/*3-month inter-bank rate*	3.18	3.25	3.27	3.13
Bank Perdagangan/*Commercial Banks*				
Deposit tetap/*Fixed deposits:*				
3 bulan/*3-month*	3.33	3.48	3.21	3.21
12 bulan/*12-month*	3.95	4.24	4.00	4.00
Deposit tabungan/*Savings deposit*	2.76	2.72	2.28	2.25
Kadar berian pinjaman asas/*Base lending rate (BLR)*	6.79	6.78	6.39	6.39
Syarikat Kewangan/*Finance Companies*				
Deposits tetap/*Fixed deposits:*				
3 bulan/*3-month*	3.49	3.52	3.22	3.21
12 bulan/*12-month*	4.13	4.27	4.01	4.00
Deposit tabungan/*Savings deposit*	3.50	3.44	2.94	2.81
Kadar berian pinjaman asas/*Base lending rate (BLR)*	7.95	7.95	7.45	7.45
Bil Perbendaharaan (3 bulan)/*Treasury bills (3 months)*	2.71	2.98	2.73	2.82
Sekuriti Kerajaan Malaysia (1 tahun)/ *Malaysian Government Securities (1 year)*	3.37	3.36	2.93	2.93
Sekuriti Kerajaan Malaysia (5 tahun)/ *Malaysian Government Securities (5 years)*	5.21	4.80	3.18	3.15

Nota: Sebelum bulan Januari 1998, tiada kadar faedah campur tangan BNM.

Sumber: Bank Negara Malaysia.

5.3 — **INTEREST RATES**

Malaysia

Kadar purata pada akhir bulan dalam tahun 2003 (% setahun) *Average rates at end-month in 2003 (% per annum)*						
Januari *January*	Februari *February*	Mac *March*	April *April*	Mei *May*	Jun *June*	Julai *July*
5.00	5.00	5.00	5.00	4.50	4.50	4.50
2.91	2.89	2.86	2.86	2.86	2.90	2.87
3.20	3.20	3.20	3.20	3.00	3.00	3.00
4.00	4.00	4.00	4.00	3.69	3.70	3.70
2.10	2.07	2.04	2.04	1.95	1.92	1.92
6.39	6.39	6.39	6.39	6.00	6.00	6.00
3.20	3.20	3.20	3.20	3.02	3.01	3.00
4.00	4.00	4.00	4.00	3.72	3.72	3.68
2.58	2.58	2.57	2.51	2.25	2.22	2.22
7.45	7.45	7.45	7.45	6.90	6.90	6.90
2.80	2.80	2.79	2.79	2.78	2.77	2.77
2.89	2.89	2.89	2.88	2.88	2.88	2.95
3.10	3.11	3.10	3.08	3.09	3.09	3.63

Note: Prior to January 1998, there was no BNM intervention rate.

Source: Bank Negara Malaysia.

5.4 — KADAR PERTUKARAN UTAMA
Malaysia

Akhir Tempoh *End of Period*	Kadar Pertukaran *Exchange Rates of* 100 unit *100 units*				
	Dolar Singapura/ Brunei *Singapore/ Brunei Dollar*	Rupiah Indonesia *Indonesian Rupiah*	Baht Thailand *Thailand Baht*	Peso Filipina *Philippines Peso*	Yen *Yen*
1998	228.79	0.05	10.36	9.71	3.31
1999	228.09	0.05	10.12	9.48	3.71
2000	219.46	0.04	8.78	7.61	3.31
2001	216.86	0.04	8.60	7.36	2.90
2002	218.87	0.04	8.81	7.15	3.20
2003					
Januari/*January*	218.68	0.04	8.89	7.06	3.19
Februari/*February*	218.65	0.04	8.91	6.97	3.23
Mac/*March*	215.23	0.04	8.86	7.09	3.18
April/*April*	214.21	0.04	8.87	7.23	3.18
Mei/*May*	215.21	0.04	9.10	7.14	3.21
Jun/*June*	216.31	0.05	9.05	7.10	3.17
Julai/*July*	215.94	0.04	9.05	6.94	3.16
Ogos/*August*	216.27	0.04	9.23	6.91	3.24

[1] Kadar antara bank pada 12.00 tengahari di Kuala Lumpur (kadar yang disebut adalah purata di antara harga belian tertinggi dan harga jualan terendah).

[2] Euro diperkenalkan pada Januari 1999.

[3] Hak Pengeluaran Khas.

5.4 — **KEY EXCHANGE RATES**
Malaysia

Ringgit Malaysia[1] / *the Malaysian Ringgit*[1]				
1 unit / *1 unit*				
Dolar Amerika Syarikat / *US Dollar*	Euro[2] / *Euro*[2]	Pound Sterling / *Sterling Pound*	Dolar Australia / *Australian Dollar*	SDR[3] / *SDR*[3]
3.80	—	6.33	2.33	5.35
3.80	3.83	6.14	2.48	5.21
3.80	3.53	5.67	2.11	4.95
3.80	3.37	5.52	1.93	4.77
3.80	3.98	6.09	2.15	5.15
3.80	4.11	6.29	2.23	5.22
3.80	4.09	6.00	2.30	5.22
3.80	4.11	5.99	2.29	5.18
3.80	4.22	6.06	2.37	5.23
3.80	4.51	6.28	2.48	5.38
3.80	4.35	6.28	2.54	5.32
3.80	4.31	6.14	2.48	5.32
3.80	4.13	5.99	2.43	5.21

[1] *Interbank rates at 12.00 noon in Kuala Lumpur (rates are an average of the highest buying and lowest selling quotes).*
[2] *Euro was introduced in January 1999.*
[3] *Special Drawing Rights.*

5.5 — BURSA SAHAM KUALA LUMPUR: PENUNJUK TERPILIH

5.5 — *KUALA LUMPUR STOCK EXCHANGE: SELECTED INDICATORS*

	2000	2001	2002	2003[1]
Indeks/*Indices* (akhir tempoh/*end of period*)				
Komposit/*Composite*	**679.6**	**696.1**	**646.3**	**743.3**
Emas/*Emas*	159.8	165.2	157.3	185.0
Papan Kedua/*Second Board*	133.0	134.1	98.2	121.7
Pasaran Mesdaq/*Mesdaq Market*	–	–	83.3	161.2
Urus Niaga[2]/*Trading Volume*[2] (juta unit/ *million units*)	**68,346.3**	**49,663.5**	**55,630.2**	**59,945.6**
Papan Utama/*Main Board*	60,172.0	43,681.0	47,024.3	44,600.3
Papan Kedua/*Second Board*	8,174.2	5,982.5	8,193.3	10,209.1
Pasaran Mesdaq/*Mesdaq Market*	–	–	412.7	487.6
Purata Harian/*Average Daily*	279.7	203.5	224.3	365.5
Urus Niaga/*Trading Value* (RM juta/*RM million*)	**222,310.9**	**85,012.0**	**116,951.4**	**92,177.1**
Papan Utama/*Main Board*	193,077.0	75,466.7	102,566.4	75,013.2
Papan Kedua/*Second Board*	29,233.9	9,545.3	14,171.9	14,028.3
Pasaran Mesdaq/*Mesdaq Market*	–	–	213.2	2,701.4
Purata Harian/*Average Daily*	911.1	348.4	471.6	562.1
Jumlah Syarikat Yang Disenaraikan/ *No. of Listed Companies*	**795**	**812**	**865**	**885**
Papan Utama/*Main Board*	499	520	561	573
Papan Kedua/*Second Board*	296	292	292	287
Pasaran Mesdaq/*Mesdaq Market*	—	—	12	25
Nilai Pasaran/*Market Capitalisation* (RM bilion/*RM billion*) (akhir tempoh/*end of period*)	**444.4**	**465.0**	**481.6**	**579.5**
Papan Utama/*Main Board*	423.9	444.3	464.5	553.9
Papan Kedua/*Second Board*	20.5	20.7	16.4	22.0
Pasaran Mesdaq/*Mesdaq Market*	—	—	0.8	3.1
Nilai Pasaran/KDNK (%) *Market Capitalisation/GDP (%)*	***130.4***	***139.0***	***133.5***	***150.2***

[1] Sehingga Ogos 2003.

[2] Berdasarkan urus niaga pasaran.

Sumber: Bursa Saham Kuala Lumpur.

[1] *Up to August 2003.*

[2] *Based on market transactions.*

Source: Kuala Lumpur Stock Exchange.

6.1 — GUNA TENAGA DAN BURUH[1]

Malaysia

6.1 — EMPLOYMENT AND LABOUR[1]

Malaysia

	1999	2000	2001	2002[9]	2003[9]
(i) Tenaga Buruh, Malaysia ('000) *Labour Force, Malaysia ('000)*	9,177.8 *(3.7)*	9,572.5 *(4.3)*	9,892.1 *(3.3)*	10,198.8 *(3.1)*	10,514.9 *(3.1)*
(ii) Guna Tenaga, Malaysia ('000) *Employment, Malaysia ('000)*	8,869.6 *(3.5)*	9,271.2 *(4.5)*	9,532.5 *(2.8)*	9,840.0 *(3.2)*	10,150.0 *(3.2)*
(iii) Kadar Pengangguran, Malaysia (%) *Unemployment Rates, Malaysia (%)*	*3.4*	*3.1*	*3.6*	*3.5*	*3.5*
(iv) Kadar Penyertaan Tenaga Buruh (%) *Labour Force Participation Rates (%)*					
Jumlah[2]/*Total*[2]	*64.4*	*65.7*	*66.1*	*66.3*	*66.9*
Lelaki[3]/*Males*[3]	*83.9*	*85.7*	*86.1*	*86.3*	*87.1*
Perempuan[4]/*Females*[4]	*43.8*	*44.8*	*45.0*	*45.2*	*45.7*
(v) Jumlah Perjanjian Bersama ditandatangani (dan bilangan pekerja diliputi, ribu), Semenanjung Malaysia[5] *Number of Collective Agreements signed (and workers covered, thousands) Peninsular Malaysia*[5]	268 (133.0)	324 (66.1)	373 (120.9)	236 (46.3)	146[8] (47.5)[8]
(vi) Produktiviti Buruh dan Upah dalam Sektor Pembuatan (% Kenaikan) *Labour Productivity and Wages in Manufacturing Sector (% Growth)*					
Produktiviti Benar/*Real Productivity*	*8.8*	*22.7*	*-6.7*	*10.8*	*6.2*[8]
Kos Buruh Seunit/*Unit Labour Cost*	*-5.0*	*-12.0*	*10.8*	*1.2*	*-3.8*[8]
Upah Benar Purata/*Real Average Wage*	*-1.7*	*12.9*	*3.5*	*4.9*	*4.4*[8]
Guna tenaga mengikut sektor ('000) ***Employment by sector ('000)***					
Pertanian, Perhutanan dan Perikanan *Agriculture, Forestry and Fishing*	1,426.5 *(-0.2)*	1,407.5 *(-1.3)*	1,406.5 *(-0.1)*	1,405.6 *(-0.1)*	1,403.0 *(-0.2)*
Perlombongan dan Kuari *Mining and Quarrying*	41.7 *(-0.7)*	41.2 *(-1.2)*	41.8 *(1.5)*	42.2 *(1.0)*	42.8 *(1.4)*
Pembuatan *Manufacturing*	2,342.7 *(6.7)*	2,558.3 *(9.2)*	2,555.8 *(-0.1)*	2,679.8 *(4.9)*	2,814.9 *(5.0)*
Pembinaan *Construction*	748.8 *(-2.2)*	755.0 *(0.8)*	771.7 *(2.2)*	782.1 *(1.3)*	794.6 *(1.6)*
Kewangan, Insurans, Perkhidmatan Perdagangan dan Harta tanah *Finance, Insurance, Business Services and Real Estate*	474.1 *(12.5)*	508.7 *(7.3)*	574.6 *(13.0)*	607.2 *(5.7)*	635.3 *(4.6)*
Pengangkutan, Penyimpanan dan Perhubungan *Transport, Storage and Communication*	441.5 *(1.5)*	461.6 *(4.6)*	495.3 *(7.3)*	508.6 *(2.7)*	522.8 *(2.8)*
Perkhidmatan Kerajaan[6] *Government Services*[6]	961.1 *(2.1)*	981.0 *(2.1)*	979.5 *(-0.2)*	994.5 *(1.5)*	1,026.1 *(3.2)*
Perkhidmatan-perkhidmatan lain[7] *Other Services*[7]	2,433.2 *(3.9)*	2,557.9 *(5.1)*	2,707.3 *(5.8)*	2,820.0 *(4.2)*	2,910.5 *(3.2)*
JUMLAH/*TOTAL*	**8,869.6**	**9,271.2**	**9,532.5**	**9,840.0**	**10,150.0**

[1] Angka dalam kurungan adalah peratus perubahan tahunan melainkan di butiran (v), angka berkenaan menunjukkan bilangan pekerja dalam ribu.

[2] Peratus bilangan yang aktif secara ekonomi daripada jumlah orang di dalam kumpulan umur bekerja, iaitu 15 hingga 64 tahun.

[3] Peratus bilangan lelaki yang aktif secara ekonomi daripada jumlah lelaki di dalam kumpulan umur bekerja.

[4] Peratus bilangan perempuan yang aktif secara ekonomi daripada jumlah perempuan di dalam kumpulan umur bekerja.

[5] Perjanjian Bersama yang telah diiktiraf oleh Mahkamah Industri.

[6] Termasuk Pentadbiran awam, kesihatan, pendidikan dan pertahanan.

[7] Termasuk elektrik, gas dan air, perniagaan borong dan runcit serta hotel, restoran dan perkhidmatan-perkhidmatan lain.

[8] Untuk tempoh Januari-Jun 2003.

[9] Anggaran

Sumber: Unit Perancang Ekonomi dan Kementerian Sumber Manusia.

[1] *Figures in parentheses are annual percentage change except for item (v) where they denote the number of workers in thousands.*

[2] *Total number of people economically active as a percentage of total number in the working age population of 15 to 64 years.*

[3] *Total number of males economically active as a percentage of total number of males in the working age population.*

[4] *Total number of females economically active as a percentage of total number of females in the working age population.*

[5] *Collective Agreements taken in cognizance by the Industrial Court.*

[6] *Includes public administration, health, education and defence.*

[7] *Includes electricity, gas and water, wholesale and retail trade, hotel and restaurants and other services.*

[8] *For the period of January-June 2003.*

[9] *Estimate.*

Source: Economic Planning Unit and Ministry of Human Resources.

6.2 — PENCARI KERJA BERDAFTAR[1], KEKOSONGAN JAWATAN DAN PENEMPATAN

Malaysia

	Pencari Kerja Berdaftar mengikut Kumpulan Pekerjaan (akhir tempoh) *Registered Job Seekers by Occupational Group (end of period)*						
	Jumlah Pencari Kerja *Total Job Seekers*	Pekerja pengeluaran dan berkaitan *Production and related workers*	Pertanian *Agriculture*	Perkhidmatan *Services*	Perkeranian *Clerical*	Pekerja Profesional dan teknikal *Professional and technical*	Lain-lain *Others*[2]
1997	23,762	8,156	67	437	11,066	2,797	1,239
1998	33,345	9,845	95	823	14,712	5,281	2,589
1999	31,830	7,982	64	517	14,928	5,335	3,004
2000	27,820	6,982	92	417	12,966	4,438	2,925
2001	34,200	7,016	93	560	15,367	7,974	3,190
2002	32,305	6,574	112	512	15,970	6,778	2,359
% Bahagian *% Share*	*100.0*	*20.4*	*0.3*	*1.6*	*49.4*	*21.0*	*7.3*
2003 (Akhir Julai) *(End of July)*	**37,397**	**7,658**	**104**	**591**	**20,484**	**6,494**	**2,066**

	Jumlah Pencari Kerja Berdaftar (akhir tempoh) ***Total Registered Job Seekers (end of period)***	Umur *Age*				Jantina *Sex*	
		15-19 tahun *15-19 years*	20-24 tahun *20-24 years*	25-29 tahun *25-29 years*	30 tahun ke atas *30 yrs above*	Lelaki *Males*	Perempuan *Females*
1997	23,762	5,904	11,251	3,371	3,236	12,680	11,082
1998	31,345	7,778	15,334	5,209	3,024	16,832	14,513
1999	31,830	7,527	14,886	5,308	4,109	16,611	15,219
2000	27,820	5,619	13,437	5,147	3,617	14,127	13,693
2001	34,200	6,475	18,001	5,501	4,223	16,619	17,581
2002	32,305	6,796	16,742	5,178	3,589	15,928	16,377
% Bahagian *% Share*	*100.0*	*21.0*	*51.8*	*16.1*	*11.1*	*49.3*	*50.7*
2003 (Akhir Julai) *(End of July)*	**37,397**	**7,725**	**18,387**	**6,624**	**4,661**	**17,928**	**19,469**

[1] Meliputi pencari kerja berdaftar yang sedang menganggur dan juga mereka yang sedang bekerja termasuk bekerja sendiri atau untuk keluarga.

[2] Terdiri daripada pekerja-pekerja jualan, pentadbiran dan pengurusan.

[3] Perlombongan dan kuari, pembinaan, perniagaan borong dan runcit, restoran dan hotel, elektrik, gas dan air, pengangkutan, penyimpanan dan perhubungan, kewangan, insurans, perkhidmatan harta tanah dan perniagaan serta perkhidmatan-perkhidmatan lain.

[4] Mulai tahun 1993, Peperiksaan Sijil Rendah Pelajaran telah digantikan dengan Peperiksaan Penilaian Menengah Rendah (PMR).

Sumber: Kementerian Sumber Manusia.

6.2 — REGISTERED JOB SEEKERS[1], NEW VACANCIES AND PLACEMENTS

Malaysia

Bilangan Kerja-kerja Kosong dilaporkan *Number of New Vacancies Reported*				Bilangan Penempatan Pendaftar-pendaftar *Number of Placements of Registrants*			
Jumlah *Total*	Pertanian dan memproses *Agriculture and processing*	Pembuatan *Manufacturing*	Lain-lain[3] *Others*[3]	Jumlah *Total*	Pertanian dan memproses *Agriculture and processing*	Pembuatan *Manufacturing*	Lain-lain[3] *Others*[3]
64,463	1,855	40,645	21,963	26,233	122	15,139	10,972
74,610	5,231	52,159	17,220	22,611	188	14,307	8,116
108,318	24,268	66,175	17,875	23,095	173	15,260	7,662
123,484	31,315	67,480	24,689	24,738	157	13,959	10,622
131,459	36,234	60,471	34,754	17,947	235	7,461	10,251
162,787	43,805	75,655	43,327	19,277	196	8,259	10,822
100.0	*26.9*	*46.5*	*26.6*	*100.0*	*1.0*	*42.8*	*56.2*
58,183	**18,754**	**21,908**	**17,521**	**9,667**	**104**	**3,802**	**5,761**

Taraf Pendidikan *Level of Education*				Kedudukan Pekerjaan *Employment Status*
Kurang dari SRP/PMR[4] *Below LCE/PMR*[4]	SRP/PMR[4] *LCE/PMR*[4]	SPM *MCE*	STPM, Diploma dan Ijazah *MHSC, Diploma and Degree*	Tidak bekerja *Unemployed*
3,340	4,986	12,008	3,428	19,424
3,752	6,375	17,139	6,079	27,160
2,936	5,826	15,904	7,164	24,917
2,327	4,715	14,291	6,487	20,670
2,168	4,711	17,892	9,429	27,435
1,709	4,072	19,416	7,108	25,599
5.3	*12.6*	*60.1*	*22.0*	*79.2*
2,014	**4,550**	**25,245**	**5,588**	**28,263**

[1] *Covers registered job seekers who are unemployed as well as those who are employed including self-employed or family worker.*

[2] *Comprise sales, administrative and managerial workers.*

[3] *Mining and quarrying, construction, wholesale and retail trade, restaurants and hotels, electricity, gas and water, transport, storage and communication, finance, insurance, real estate and business services and other services.*

[4] *As from 1993, the Lower Certificate of Education (LCE) Examination was replaced by Penilaian Menengah Rendah (PMR) Examination.*

Source: Ministry of Human Resources.

7.1 — PENUNJUK PELABURAN DAN PENGGUNAAN SWASTA

Malaysia

Penunjuk Pelaburan Swasta / *Private Investment Indicators*	Perbelanjaan modal[1] RM juta / *Capital expenditure[1] RM million*	Import, RM juta / *Imports, RM million*		Pinjaman dan pendahuluan bank perdagangan, RM juta (akhir tempoh) / *Commercial banks' loans and advances, RM million (end of period)*	
		Barangan pelaburan[3] / *Capital goods[3]*	Barangan perantaraan[3] / *Intermediate goods[3]*	Pembuatan / *Manufacturing*	Pembinaan / *Construction*
1999	17,151	31,874	183,619	60,189	30,420
2000	26,249	44,171	232,687	62,822	30,362
2001	27,925	41,285	203,808	62,845	29,604
2002	25,382	45,672	216,493	62,283	28,709
2003	**9,331**[2]	**19,956**[5]	**104,409**[5]	**61,963**[7]	**27,323**[7]

Penunjuk Penggunaan Swasta / *Private Consumption Indicators*	Import barangan penggunaan[3], RM juta / *Imports of consumption goods[3], RM million*	Hasil kasar jualan borong dan runcit[1], RM juta / *Gross revenue of wholesale and retail[1], RM million*	Pasaran saham / *Stock market*		Jualan, bilangan / *Sales, number*	
			Indeks Komposit BSKL (akhir tempoh) / *KLSE Composite Index (end of period)*	Nilai pasaran, RM bilion (akhir tempoh) / *Market capitalisation, RM billion (end of period)*	Kereta penumpang (unit) / *Passenger cars (units)*	Motorsikal (unit) / *Motorcycles (units)*
1999	14,828	40,005	812.33	552.69	255,878	258,844
2000	17,040	63,977	679.64	444.40	296,557	256,780
2001	16,620	61,013	696.09	465.00	343,651	234,747
2002	19,263	62,916	646.32	481.62	375,358	226,671
2003	**9,141**[5]	**34,347**[2]	**743.30**[8]	**579.54**[8]	**168,356**[5]	**110,066**[5]

[1] Berdasarkan perangkaan awal Penyiasatan Jangkaan Perniagaan separuh tahun ke atas 220 (sehingga tahun 1997) dan 270 (mulai 1998) Syarikat Berhad besar yang dijalankan oleh Jabatan Perangkaan.
[2] Bagi separuh pertama tahun 2003.
[3] Merujuk kepada import mengikut kategori ekonomi umum yang dikeluarkan oleh Jabatan Perangkaan.
[4] Projek-projek perindustrian baru (tidak termasuk hotel dan kompleks pelancongan).
[5] Bagi tempoh Januari-Jun 2003 sahaja.
[6] Bagi tempoh Januari-Julai 2003 sahaja.
[7] Pada akhir Julai 2003.
[8] Pada akhir Ogos 2003.

7.1 — PRIVATE INVESTMENT AND CONSUMPTION INDICATORS

Malaysia

Pinjaman perumahan, RM juta (akhir tempoh) / *Housing loans, RM million (end of period)*			Pengeluaran barang-barang pembinaan / *Production of construction materials*			Permohonan untuk kelulusan projek melalui MIDA[4] (bilangan)	Projek-projek diluluskan oleh MIDA[4] (bilangan)	Penggunaan elektrik untuk perusahaan dan perniagaan (GWh)
			Barang-barang bukan logam / *Non-metallic products*		Bar dan batang besi dan keluli ('000 tan)			
Kerajaan / *Government*	Bank perdagangan / *Commercial banks*	Syarikat kewangan / *Finance companies*	Bumbung genting simen ('000 unit) / *Cement roofing tiles ('000 units)*	Konkrit campuran siap ('000 meter padu) / *Ready-mixed concrete ('000 cu. metres)*	*Iron and steel bars and rods ('000 tonnes)*	*Applications for project approvals through MIDA[4] (number)*	*Projects approved by MIDA[4] (number)*	*Electricity consumption for industry and commerce (GWh)*
27,135	51,123	11,861	115,810	5,858	2,261	776	725	40,862
29,255	61,773	12,434	153,722	8,057	2,584	974	805	45,677
31,978	73,925	13,057	189,023	8,858	2,691	716	839	46,951
35,929	87,094	14,059	213,113	9,374	3,221	878	792	49,523
38,435[8]	**95,624**[7]	**14,487**[7]	**105,953**[5]	**5,372**[5]	**1,729**[5]	**435**[5]	**487**[5]	**25,883**[5]

Jualan makanan (RM juta) / *Sales of food (RM million)*	Pengeluaran / *Production*		Pinjaman dalam negeri, RM juta (akhir tempoh) / *Domestic loans, RM million (end of period)*		Jumlah kutipan cukai jualan Kerajaan Persekutuan (RM juta) / *Federal Government total sales tax collection (RM million)*	Penggunaan elektrik untuk isirumah dan lampu awam (GWh) / *Electricity consumption for household and public lighting (GWh)*
	Televisyen ('000 unit) / *Television ('000 units)*	Peti sejuk ('000 unit) / *Refrigerator ('000 units)*	Kredit penggunaan oleh bank perdagangan / *Commercial banks' consumption credit*	Kredit penggunaan oleh syarikat kewangan / *Finance companies' consumption credit*		
9,743	7,611	194	19,584	31,661	4,488	8,705
9,674	10,551	215	20,861	38,754	5,968	9,957
9,488	9,501	186	22,498	46,830	7,356	10,905
9,967	10,410	173	24,386	56,891	9,244	11,926
5,290[5]	**3,951**[5]	**87**[5]	**24,944**[7]	**60,621**[7]	**4,094**[6]	**6,313**[5]

[1] *Based on preliminary statistics on the half yearly Business Expectations Survey of 220 (up to 1997) and 270 (since 1998) large Limited Companies conducted by the Department of Statistics.*

[2] *For the first half of 2003.*

[3] *Refers to imports by broad economic categories published by the Department of Statistics.*

[4] *New industrial projects (exclude hotels and tourist complexes).*

[5] *For the period January - June 2003 only.*

[6] *For the period January-July 2003 only.*

[7] *As at end July 2003.*

[8] *As at end August 2003.*

7.2 — PENUNJUK TERPILIH SEKTOR PERKHIDMATAN

Malaysia

Penunjuk *Indicators*	1998	1999
Pengendalian kargo kontena (juta TEUs)[1] *Container cargo throughputs (million TEUs)*[1]	3.0	3.9
Ketibaan pelancong (juta orang)[2] *Tourist arrivals (million persons)*[2]	5.6	7.9
Pendapatan dari pelancongan (RM juta)[2] *Receipts from tourism (RM billion)*[2]	8.6	12.3
Kadar penginapan di hotel (%)[2] *Hotel occupancy rates (%)*[2]	*49.9*	*51.7*
Bilangan pelajar asing menuntut di institusi swasta[3] *Numbers of foreign students studying in private institutions*[3]	10,927	15,999
Penggunaan elektrik ('000GWh)[4] *Electricity consumption ('000GWh)*[4]	47.2	47.5
Penggunaan elektrik (RM juta)[4] *Electricity consumption (RM million)*[4]	11,076	11,286
Pelanggan telefon talian tetap ('000)[5] *Fixed lines telephone subscribers ('000)*[5]	4,324	4,370
Pelanggan telefon selular ('000)[5] *Cellular phone subscribers ('000)*[5]	2,150	2,717
Pelanggan internet 'dial-up' ('000)[5] *Internet dial-up subscribers ('000)*[5]	405	668

Nota:

[a] Januari hingga Jun.

[b] Januari hingga Mei.

Sumber:

[1] Pelbagai Pelabuhan (termasuk Pelabuhan Klang, Johor, Pulau Pinang, Kuantan, Tanjung Pelepas, Bintulu, Rajang, Kuching dan Sabah).

[2] Lembaga Penggalakan Pelancongan Malaysia.

[3] Kementerian Pendidikan.

[4] Tenaga Nasional Berhad – Data mengikut tahun kewangan (September-Ogos), tidak termasuk jualan elektrik oleh Sabah Electricity Sdn. Bhd.

[5] Suruhanjaya Komunikasi dan Multimedia Malaysia.

7.2 — SELECTED INDICATORS FOR SERVICES SECTOR

Malaysia

2000	2001	2002	2003[a]
5.2	7.4	8.9	4.9
10.2	10.8	13.2	4.6
17.3	24.3	25.8	n.a.
57.7	53.3	57.9	55.3
20,543	18,019	28,495	n.a.
55.7	59.4	60.0	26.6[b]
13,220	13,456	14,097	6,222[b]
4,574	4,599	4,551	4,620
5,122	7,477	9,242	9,931
1,659	2,115	2,614	2,729

Note:

[a] *January to June.*

[b] *January to May.*

Source:

[1] *Various ports (includes Klang, Johor, Penang, Kuantan, Tanjung Pelepas, Bintulu, Rajang, Kuching and Sabah).*

[2] *Malaysia Tourism Promotional Board.*

[3] *Ministry of Education.*

[4] *Tenaga Nasional Berhad – Data based on financial year (September-August) excluding sales of electricity from Sabah Electricity Sdn. Bhd.*

[5] *Malaysian Communications and Multimedia Commission.*

8.1— PELABURAN ASING DALAM PROJEK-PROJEK YANG DIBERI KELULUSAN MENGIKUT NEGARA DAN INDUSTRI[1]

Malaysia

RM juta

Negara[2] *Country*[2]	Amerika Syarikat *United States*		Australia *Australia*		Belanda *Netherlands*		Hong Kong SAR *Hong Kong SAR*		Indonesia *Indonesia*		Jepun *Japan*	
1985	111.9	*(26)*	25.7	*(14)*	0.0	*(0)*	28.2	*(18)*	12.8	*(2)*	264.4	*(46)*
% Bahagian *% Share*	*11.7*		*2.7*		*0.0*		*2.9*		*1.3*		*27.6*	
1999	5,158.9	*(36)*	52.5	*(16)*	772.3	*(10)*	62.9	*(10)*	31.6	*(6)*	1,006.2	*(112)*
2000	7,491.9	*(48)*	129.9	*(14)*	2,174.8	*(14)*	345.3	*(25)*	66.3	*(6)*	2,880.5	*(118)*
2001	3,411.6	*(38)*	127.6	*(14)*	69.0	*(10)*	64.8	*(8)*	75.5	*(4)*	3,366.1	*(163)*
2002	2667.8	*(39)*	108.4	*(10)*	606.8	*(13)*	65.5	*(9)*	11.8	*(7)*	587.4	*(102)*
2003 (Januari-Jun) *(January-June)*	**552.1**	***(19)***	**73.9**	***(10)***	**223.1**	***(4)***	**94.4**	***(7)***	**48.1**	***(2)***	**1,193.8**	***(71)***
% Bahagian *% Share*	***14.0***		***1.9***		***5.7***		***2.4***		***1.2***		***30.4***	

Industri[6] *Industry*[6]	Pengilangan makanan *Food manufacturing*		Tekstil dan produk tekstil *Textiles and textile products*		Kertas, percetakan dan penerbitan *Paper, printing and publishing*		Kimia dan produk kimia *Chemicals and chemical products*		Petroleum dan gas *Petroleum and gas*		Getah dan produk getah *Rubber and rubber products*	
1985	58.6	*(2.0)*	31.3	*(6.3)*	102.0	*(1.1)*	29.4	*(0.9)*	0.8	*(0.0)*	29.8	*(1.3)*
% Bahagian *% Share*	*6.1*		*3.3*		*10.6*		*3.1*		*0.1*		*3.1*	
1999	276.7	*(1.2)*	60.6	*(1.5)*	1,071.3	*(0.7)*	262.6	*(1.4)*	3,147.8	*(2.1)*	32.3	*(2.3)*
2000	539.5	*(3.7)*	731.9	*(4.8)*	211.9	*(1.9)*	586.6	*(1.4)*	3,208.7	*(1.4)*	668.3	*(4.1)*
2001	516.0	*(4.0)*	320.4	*(2.7)*	3,084.2	*(2.4)*	746.1	*(2.5)*	115.5	*(0.2)*	810.7	*(6.3)*
2002	431.0	*(5.0)*	33.6	*(2.0)*	177.6	*(1.0)*	496.0	*(2.6)*	4,791.0	*(0.7)*	220.5	*(2.8)*
2003 (Januari-Jun) *(January-June)*	**233.1**	***(3.8)***	**34.9**	***(0.5)***	**13.7**	***(0.4)***	**297.5**	***(0.7)***	**417.0**	***(0.2)***	**82.4**	***(0.6)***
% Bahagian *% Share*	***5.9***		***0.9***		***0.3***		***7.6***		***10.6***		***2.1***	

[1] Tidak termasuk hotel dan kompleks pelancongan. Sejak 24 Oktober 1986, hanya permohonan dengan dana pemegang saham yang bernilai RM2.5 juta dan ke atas atau guna tenaga 75 orang dan lebih diperlukan untuk mendapatkan lesen di bawah Akta Penyelarasan Perindustrian 1975 (Pindaan 1986).

[2] Angka-angka dalam kurungan menunjukkan bilangan projek.

[3] Angka-angka sebelum tahun 1991 merujuk kepada Jerman Barat, manakala mulai tahun 1991 angka-angka merujuk kepada Republik Persekutuan Jerman (Jerman).

[4] Termasuk negara-negara Asia Barat, Austria, Belgium, Brunei, Kanada, Denmark, Perancis, India, Itali, New Zealand, Norway, Sweden, Switzerland, Thailand, Filipina dan negara-negara lain yang tidak disebutkan.

[5] Jumlah bilangan projek tidak dinyatakan kerana ianya boleh menyebabkan pengiraan dua kali.

[6] Angka-angka dalam kurungan menunjukkan bilangan pekerjaan akan diperolehi, dalam ribu.

[7] Termasuk minuman dan tembakau, kayu dan produk kayu, perabot dan kelengkapan-kelengkapan, produk plastik, alat-alat saintifik dan pengukuran, kulit dan barang-barang kulit, pengilangan jentera dan industri-industri lain yang tidak disebutkan.

Sumber: Lembaga Kemajuan Perindustrian Malaysia (MIDA).

8.1 — FOREIGN INVESTMENT IN APPROVED PROJECTS BY COUNTRY AND INDUSTRY[1]

Malaysia

RM million

Jerman[2] / *Germany*[3]		Republik Korea / *Republic of Korea*		Singapura / *Singapore*		Taiwan / *Taiwan*		United Kingdom / *United Kingdom*		Lain-lain[4,5] / *Others*[4,5]	Jumlah[5] / *Total*
8.0	*(12)*	25.0	*(9)*	100.2	*(92)*	31.9	*(25)*	26.9	*(17)*	323.4	959.0
0.8		*2.6*		*10.5*		*3.3*		*2.8*		*33.8*	*100.0*
187.2	*(17)*	35.3	*(6)*	902.4	*(129)*	267.0	*(66)*	192.4	*(13)*	3,605.3	12,274.0
1,655.9	*(30)*	722.8	*(14)*	1,778.5	*(145)*	916.1	*(92)*	771.6	*(17)*	914.9	19,848.5
2,603.2	*(26)*	1,703.3	*(24)*	2,227.8	*(157)*	1,139.8	*(97)*	123.1	*(21)*	3,995.4	18,907.2
5,055.4	*(14)*	369.3	*(17)*	1,019.2	*(146)*	251.9	*(64)*	167.9	*(9)*	666.6	11,578.0
50.6	***(9)***	**86.4**	***(11)***	**778.1**	***(72)***	**242.4**	***(34)***	**51.9**	***(4)***	**535.5**	**3,930.3**
1.3		***2.2***		***19.8***		***6.2***		***1.3***		***13.6***	***100.0***

Produk galian bukan logam / *Non-metallic mineral products*		Produk logam asas / *Basic metal products*		Produk logam dibentuk / *Fabricated metal products*		Produk elektrik dan elektronik / *Electrical and electronic products*		Peralatan pengangkutan / *Transport equipment*		Pelbagai[7] / *Miscellaneous*[7]		Jumlah / *Total*	
110.8	*(2.9)*	148.1	*(1.5)*	43.8	*(1.2)*	110.7	*(7.0)*	186.4	*(3.3)*	107.3	*(6.8)*	959.0	*(34.3)*
11.6		*15.4*		*4.6*		*11.5*		*19.4*		*11.2*		*100.0*	
266.9	*(1.0)*	238.4	*(1.9)*	165.4	*(2.3)*	5,946.6	*(25.9)*	231.2	*(4.4)*	574.2	*(7.6)*	12,274.0	*(52.3)*
1,527.6	*(1.6)*	428.0	*(1.2)*	163.0	*(2.2)*	10,209.7	*(33.1)*	273.1	*(6.2)*	1,300.2	*(12.2)*	19,848.5	*(73.8)*
1,603.2	*(1.6)*	421.7	*(1.1)*	379.9	*(8.3)*	9,509.4	*(43.8)*	499.1	*(3.0)*	901.0	*(13.5)*	18,907.2	*(89.4)*
98.9	*(1.7)*	158.6	*(1.1)*	212.5	*(3.4)*	4,005.4	*(24.8)*	141.4	*(3.3)*	811.5	*(16.3)*	11,578.0	*(64.7)*
14.1	***(0.6)***	**9.5**	***(0.6)***	**142.8**	***(2.2)***	**1,835.7**	***(11.9)***	**116.4**	***(3.7)***	**733.2**	***(15.7)***	**3,930.3**	***(40.9)***
0.4		***0.2***		***3.6***		***46.7***		***3.0***		***18.7***		***100.0***	

[1] *Excludes hotels and tourist complexes. Since 24 October 1986, only applications with shareholders' funds valued at RM2.5 million and above or employing 75 persons or more are required to obtain a licence under the Industrial Coordination Act 1975 (Amended 1986).*

[2] *Figures in parentheses refer to the number of projects.*

[3] *Figures prior to 1991 refer to West Germany, while figures from 1991 refer to the Federal Republic of Germany (Germany).*

[4] *Includes West Asian countries, Austria, Belgium, Brunei, Canada, Denmark, France, India, Italy, New Zealand, Norway, Sweden, Switzerland, Thailand, Philippines and other unspecified countries.*

[5] *The total number of projects is not stated as it would constitute double counting.*

[6] *Figures in parentheses refer to employment to be generated, in thousands.*

[7] *Includes beverages and tobacco, wood and wood products, furniture and fixtures, plastic products, scientific and measuring equipment, leather and leather products, machinery manufacturing and other unspecified industries.*

Source: Malaysian Industrial Development Authority (MIDA).

9.1 — PERANGKAAN SOSIO-EKONOMI TERPILIH[1]
Malaysia

	1998	1999	2000	2001	2002
PERANGKAAN DEMOGRAFI: ***DEMOGRAPHIC STATISTICS:***					
Bilangan penduduk (ribu) *Population (thousands)*					
Malaysia					
Jumlah/*Total*	22,180	22,712	23,495	24,013	24,527
Lelaki/*Males*	11,352	11,633	11,966	12,227	12,487
Perempuan/*Females*	10,828	11,079	11,529	11,786	12,040
Nisbah jantina[2]/*Sex ratio*[2]	105	105	104	104	104
Kepadatan penduduk (setiap kilometer persegi) *Population density (per square kilometre)*	67.2	68.8	71.1	72.7	74.3
Nisbah tanggungan[3]/*Dependency ratio*[3]	60.7	59.6	61.4	60.7	60.1
PENDIDIKAN: ***EDUCATION:***					
Kadar enrolmen di sekolah rendah[4] (%) *Primary school enrolment rates*[4] *(%)*	*95.1*	*94.9*	*96.8*	*97.0*	*97.8*
Enrolmen di Universiti[6] *University enrolment*	141,059	211,584	211,584	245,989	283,206
Bilangan murid setiap guru *Pupils per teacher*					
Di sekolah rendah[4]/*in primary schools*[4]	18.6	18.9	19.0	18.0	18.0
Di sekolah menengah[5]/*in secondary schools*[5]	18.7	18.1	18.0	17.0	17.0
Kadar celik huruf/*Literacy rate (%)*[7]	*93.7*	*93.7*	*93.8*	*93.9*	*94.0*
KESIHATAN: ***HEALTH:***					
Bilangan penduduk setiap doktor *Population per doctor*	1,477	1,465	1,490	1,474	1,406
Jumlah katil di hospital kerajaan dan institusi perubatan khas *Beds in government hospitals and special medical institutions*	33,338	34,455	34,579	34,522	34,524
Jangkaan hayat ketika lahir (umur dalam tahun)* *Life expectancy at birth (age in years)**					
Lelaki/*Males*	69.7	69.8	70.2	70.3	70.4
Perempuan/*Females*	74.7	74.8	75.0	75.2	75.3

[1] Data merujuk kepada Malaysia melainkan bertanda dengan * di mana ianya merujuk kepada data bagi Semenanjung Malaysia sahaja.
[2] Nisbah bilangan lelaki setiap 100 perempuan.
[3] Nisbah bilangan kanak-kanak di bawah umur 15 tahun dan bilangan orang berumur 65 tahun dan lebih kepada bilangan orang berumur 15-64 tahun.
[4] Enrolmen di sekolah rendah dinyatakan sebagai peratus daripada jumlah bilangan kanak-kanak dalam umur persekolahan, iaitu, kanak-kanak yang berumur 6-11 tahun.
[5] Tidak termasuk Sekolah Menengah Teknik dan Vokasional.
[6] Tidak termasuk enrolmen Pra-Universiti.
[7] Peratusan yang boleh membaca dan menulis bagi penduduk berumur 10 tahun dan ke atas.
[8] Liputan di bandar telah mencapai 100%.
[9] Anggaran untuk kadar fakir miskin mula dibuat daripada tahun 1990.
[10] Termasuk perkhidmatan pra-bayar.
[11] Termasuk perkhidmatan Jaring dan TMnet.

Sumber: Kementerian Pendidikan, Kementerian Kesihatan, Jabatan Perangkaan dan Unit Perancang Ekonomi.

9.1 — SELECTED SOCIO-ECONOMIC STATISTICS[1]
Malaysia

	1998	1999	2000	2001	2002
TELEKOMUNIKASI *TELECOMMUNICATIONS*					
Langganan telefon bimbit (Ribu) *Number of mobile telephone subscribers (Thousands)*	2,149	2,698	5,122[10]	7,477[10]	9,242[10]
Bilangan langganan internet (Ribu) *Number of internet subscribers (Thousand)*	405	669	1,659[11]	2,115[11]	2,614[11]
TEKNOLOGI MAKLUMAT *INFORMATION TECHNOLOGY*					
Bilangan unit komputer yang dipasang (juta) *Personal computer actively installed units (million)*	1.36	1.80	2.20	3.00	3.60
Bilangan komputer setiap 1000 penduduk *Number of computers per 1000 population*	61	79	94	126	145
INFRASTRUKTUR *INFRASTRUCTURE*					
Jumlah kilometer jalan *Total road mileage (km)*	64,382	64,685	67,590	71,667	72,165
Liputan bekalan elektrik luar bandar (% daripada penduduk)[8] *Rural electricity coverage (% of population)[8]*	*98*	*93*	*93*	*94*	*94*
Liputan bekalan air (% daripada penduduk) *Water coverage (% population)*					
Jumlah *Total*	*92*	*93*	*92*	*92*	*92*
Luar bandar *Rural*	*86*	*87*	*87*	*87*	*87*
Bandar *Urban*	*97*	*98*	*98*	*98*	*98*
STRUKTUR KEMISKINAN *POVERTY STRUCTURE*	1997	1999	2000	2001	2002
Kadar kemiskinan (% isi rumah) *Incidence of poverty (% of household)*					
Keseluruhan *Overall*	*6.1*	*7.5*	*5.5*	*4.5*	*5.1*
Bandar *Urban*	*2.1*	*3.4*	*1.9*	*1.7*	*2.0*
Luar bandar *Rural*	*10.9*	*12.4*	*10.0*	*7.4*	*11.4*
Kadar Fakir Miskin (%)[9] *Incidence of hardcore poverty (%)[9]*					
Jumlah *Total*	*1.4*	*1.4*	*0.5*	*0.4*	*1.0*
Bandar *Urban*	*0.4*	*0.5*	*0.1*	*0.1*	*0.4*
Luar bandar *Rural*	*2.5*	*2.4*	*1.0*	*0.7*	*2.3*

[1] *Data refers to Malaysia unless indicated by * in which case data is for Peninsular Malaysia only.*
[2] *Ratio of the number of males for 100 females.*
[3] *Ratio of the number of children below age 15 and the number of persons aged 65 and over to the number of persons aged 15-64.*
[4] *Primary school enrolment as a percentage of primary school-age population, that is, children aged 6-11 years.*
[5] *Excludes Technical and Vocational Secondary Schools.*
[6] *Not included Pre-University enrolment.*
[7] *Percentages of those who can read and write in the population aged 10 years or more.*
[8] *Urban coverage has reached 100%.*
[9] *Estimates for hardcore poverty were only computed from 1990 onwards.*
[10] *Includes pre-paid services.*
[11] *Includes Jaring and TMnet services.*

Source: Ministry of Education, Ministry of Health, Department of Statistics and Economic Planning Unit.

ACRONYMS AND ABBREVIATIONS

ABF	Asian Bond Fund
AALCC	Asian-African Legal Consultative Committee
ABMI	Asian Bond Markets Initiative
ADB	Asian Development Bank
AETS	Agreed Export Tonnage Scheme
AFAS	ASEAN Framework Agreement on Services
AFTA	ASEAN Free Trade Area
AHTN	ASEAN Harmonised Tariff Nomenclature
AIDS	Acquired Immune Deficiency Syndrome
AIZ	aquaculture industrial zone
AJDF	ASEAN-Japan Development Fund
AMLA	Anti-Money Laundering Act 2001
APEC	Asia Pacific Economic Cooperation
APM	Automatic Pricing Mechanism
ASA	ASEAN Swap Arrangement
ASCM	Association of Stockbroking Companies in Malaysia
ASEAN	Association of South-East Asian Nations
ASEAN+3	ASEAN+China, Japan and the Republic of Korea
ASEM	Asia-Europe Meeting
ASP	Approved Service Projects
ATM	automatic teller machine
BCB	Bumiputra-Commerce Bank
BIMS	bought in materials and services
BITMB	Bank Industri dan Teknologi Malaysia Berhad
BITS	Biotechnology and Information Technology Super Corridor
BLR	base lending rate
BNM	Bank Negara Malaysia
BOE	Bank of England
BOJ	Bank of Japan
BOP	balance of payments
bpd	barrels per day
BPIMB	Bank Pembangunan dan Infrastruktur Malaysia Berhad
BPM	Bank Pertanian Malaysia
BSA	Bilateral Swap Arrangement
BSN	Bank Simpanan Nasional
BTB	book-to-bill
CCM	Companies Commission of Malaysia
CCR	Core Capital Ratio
CDRC	Corporate Debt Restructuring Committee
C/E	Capital Investment Per Employee
CGC	Credit Guarantee Corporation
CIP	Cradle Investment Programme
CMI	Chiang Mai Initiative

CMP	Capital Market Masterplan
CP	certificate of performance
CPI	Consumer Price Index
CPO	crude palm oil
CRDF	Commercialisation of Research & Development Fund
DBR	disclosure-based regulatory
DFIs	development finance institutions
DTA	Double Taxation Agreements
E&E	electrical and electronics
EAF	electronic access facilities
ECB	European Central Bank
ECM	Exchange Control of Malaysia
ECR	Export Credit Refinancing
ELX	Electronic Labor Exchange
EMEAP	Executives' Meeting of East Asia and Pacific Central Banks
EMU	Economic and Monetary Union
EMV	Europay-MasterCard-Visa
EPF	Employees Provident Fund
EPU	Economic Planning Unit
ERF	Enterprise Rehabilitation and Development Fund
ESI	economic sentiment indicator
EU	European Union
EUREP	Euro Retailer Produce Working Group
EXIM	Export-Import Bank of Malaysia
FAS	Factory Auditing Scheme
FATF	Financial Action Task Force
FCA	foreign currency accounts
FDI	foreign direct investment
FDP	Franchise Development Programme
FELDA	Federal Land Development Authority
FIC	Foreign Investment Committee
FIR	infra red ray
FMG5	5-Year Malaysian Government Securities Futures
FRIM	Forest Research Institute Malaysia
FSMI2	Fund for Small and Medium Industries 2
FSMP	Financial Sector Masterplan
FTA	Free Trade Agreement
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GII	Government Investment Issues
GNP	gross national product
GSP	Global Supplier Programme

HIV	human immunodeficiency virus
HOPE	Home Ownership for the People
HRDC	Human Resource Development Council
HRDF	Human Resource Development Fund
IA	Investment Allowance
IAA	Industrial Adjustment Allowance
IBA	Industrial Building Allowance
IBFIM	Islamic Banking and Finance Institute Malaysia
IBRD	International Bank for Reconstruction and Development
IBS	industrialised building system
IBS	Islamic Banking Scheme
ICA	Industrial Coordination Act 1975
ICODEX	International Code of Practice
ICT	Information and communications technology
IDB	Islamic Development Bank
IFSB	Islamic Financial Services Board
IGA	Investment Guarantee Agreement
ILP	Industrial Linkage Programme
IMF	International Monetary Fund
IMR	Institute of Medical Research
IOFC	International Offshore Financial Centre
IPCs	International Procurement Centres
IPI	Industrial Production Index
IPO	initial public offering
IRC	Industrial Revitalisation Corporation
IRPA	Intensification of Research in Priority Areas
ISM	Institute for Supply Management
IT	information technology
ITA	Investment Tax Allowance
ITAF	Industrial Technical Assistance Fund
ITRCo	International Tripartite Rubber Corporation
JBIC	Japan Bank for International Cooperation
JETRO	Japan External Trade Organisation
JV	joint venture
KLCI	Kuala Lumpur Composite Index
KLIA	Kuala Lumpur International Airport
KLIBOR	Kuala Lumpur Interbank Offered Rate
KLSE	Kuala Lumpur Stock Exchange
KPLB	Kementerian Pembangunan Luar Bandar
KPUn	Kementerian Pembangunan Usahawan
LC	Letter of Credit
LFX	Labuan International Financial Exchange

LIBOR	London Interbank Offered Rate
LIs	large industries
LISA	Low Input Sustainable Agriculture
LNG	liquefied natural gas
LOBATA	Labuan Offshore Activity Tax Act 1990
LOFSA	Labuan Offshore Financial Services Authority
LPG	liquefied petroleum gas
LRT	Light Rail Transit
M&A	merger and acquisition
MARC	Malaysian Rating Corporation
MAT	Marine, Aviation and Transit
MATRADE	Malaysian External Trade Development
MARDI	Malaysian Agriculture Research and Development Institute
MAVCAP	Malaysian Venture Capital Management
MBB	Malayan Banking Berhad
MDC	Malaysian Domestic Company
MDCH	Malaysian Derivatives Clearing House Berhad
MDEX	Malaysian Derivatives Exchange
MDG	Market Development Grant
MDV	Malaysian Debt Venture Berhad
MECIB	Malaysian Export Credit Insurance Berhad
MESDAQ	Malaysian Exchange of Securities Dealing and Automated Quotation
MGS	Malaysian Government Securities
MIDA	Malaysian Industrial Development Authority
MIDF	Malaysian Industrial Development Fund Berhad
MIEL	Malaysian Industrial Estate Sendirian Berhad
MIMOS	Malaysian Institute of Micro Electronics System
MINT	Malaysian Institute for Nuclear Technology Research
MITC	Malaysian International Trading Companies
MITI	Ministry of International Trade and Industry
MMI	Mesdaq Market Index
mmscfd	million standard cubic feet per day
MNCs	multinational corporations
MLNG3	Malaysian Liquefied Natural Gas 3
MOSTE	Ministry of Science, Technology and Environment
MOU	Memorandum of Understanding
MSC	Multimedia Super Corridor
MTS	Managerial, Technical and Supervisory Index
NAP3	Third National Agriculture Policy
NAV	net asset value
NEF2	New Entrepreneur Fund 2
NEKMAT	Persatuan Nelayan Kebangsaan
NEP	New Economic Policy
NFPEs	non-financial public enterprises

NGOs	non government organisations
NOSS	National Occupational Skills Standard
NPLs	non-performing loans
NRCC	Non-Resident Controlled Company
OEM	original equipment manufacturing
OHQ	Operational Headquarters
OPEC	Organisation of Petroleum Exporting Countries
PC	personal computer
PDS	private debt securities
PER	Process Efficiency Ratio
PETRONAS	Petroliam Nasional Berhad
PFPP	Permanent Food Production Parks
PIA	Promotion Investment Acts, 1986
PKNS	Perbadanan Kemajuan Negeri Selangor
PN4	Practice Note 4
PPFs	Provident and Pension Funds
PPI	Producer Price Index
PROSPER	Projek Pembangunan Usahawan Dalam Bidang Peruncitan
PS	Pioneer Status
PSA	Port of Singapore Authority
PSC	passenger service charges
PSMB	Pembangunan Sumber Manusia Berhad
PTP	Port of Tanjung Pelepas
PUNB	Perbadanan Usahawan Nasional Berhad
QCD	quality, cost, swift deliveries
R&D	research and development
RA	Reinvestment Allowance
RAM	Rating Agency Malaysia
RDC	Regional Distribution Centre
RENTAS	Real Time Electronic Transfer of Funds and Securities
RFSMI	Rehabilitation Fund for Small and Medium Industries
RSS	ribbed smoke sheet
RTA	regional trade arrangement
RTOs	reverse takeovers
RWCR	risk-weighted capital ratio
SAC	Syariah Advisory Council
SAR	Special Administrative Region
SARS	Severe Acute Respiratory Syndrome
SBCs	Stockbroking companies
SC	Securities Commission
SCA	Securities Commission Act (Amendment), 2000
SDB	Sabah Development Bank Berhad
SDF	Skills Development Fund
SEAP	SME Experts and Advisory Panel

SEDCs	State Economic Development Corporation
SEGS	Small Entrepreneur Guarantee Scheme
SEPU	State Economic Planning Unit
SIRIM	Standards and Industrial Research Institute of Malaysia
SITC	Standard International Trade Code
SMART	Stormwater Management and Road Tunnelling
SMEs	small and medium enterprises
SMIDEC	Small and Medium Industries Development Corporation
SMIDEX	SMIDEC Annual Showcase
SMIPP	Small and Medium Industry Promotion Programme
SMIs	small and medium industries
SMR	Standard Malaysian Rubber
SMS	Supply Management Scheme
SMS	short messaging service
SOCSO	Social Security Organisation
SPED	Skim Pembiayaan Ekonomi Desa
SPM	Sijil Pelajaran Malaysia
SPNB	Syarikat Perumahan Negara Berhad
SRGF	Special Relief Guarantee Facility
SRR	Statutory Reserve Requirement
SRS	Supply Rationalisation Scheme
SSL	Skim Sangkutan dan Latihan
SSM	Sistem Saraan Malaysia
STPM	Sijil Tinggi Pelajaran Malaysia
TAF	Technology Acquisition Fund
TBs	Treasury Bills
tca	terms and conditions applied
TEUs	twenty-foot equivalent units
THIS	Total Hospital Information System
TMB	Telekom Malaysia Berhad
TNB	Tenaga Nasional Berhad
TRIPS	Trade Related Intellectual Property Rights
UAE	United Arab Emirates
UiTM	Universiti Teknologi MARA
UK	United Kingdom
ULC	unit labour cost
US	United States
USD	United States dollar
VC	Venture Capital
VCCs	Venture Capital Companies
VDP	Vendor Development Programme
WHO	World Health Organisation
WTO	World Trade Organisation

ORGANISATION OF THE MINISTRY OF FINANCE, MALAYSIA

PRIME MINISTER AND MINISTER OF FINANCE I
YAB Dato Seri Dr. Mahathir bin Mohamad

MINISTER OF FINANCE II
YB Dato' Dr. Jamaluddin bin Dato' Mohd. Jarjis

DEPUTY MINISTER OF FINANCE I
YB Dato' Dr. Hj. Shafie bin Hj. Mohd. Salleh

DEPUTY MINISTER OF FINANCE II
YB Dato' Dr. Ng Yen Yen

PARLIAMENTARY SECRETARY
YB Hashim bin Ismail

SECRETARY GENERAL OF THE TREASURY
Tan Sri Dato' Seri Dr. Samsudin bin Hitam

DEPUTY SECRETARY GENERAL OF THE TREASURY (POLICY)
Datuk Siti Hadzar bt. Mohd. Ismail

DEPUTY SECRETARY OF THE TREASURY (OPERATION)
Dato' Hj. Abdul Majid bin Hussein

DEPUTY SECRETARY GENERAL OF THE TREASURY (SYSTEMS & CONTROLS)
Datin Husniarti bt. Tamin

POLICY DIVISION

Economic and International
Datin Aida Boey bt. Abdullah

Tax
Dato' Kamariah bt. Hussain

Loans and Finance Policy
Dato' Othman bin Jusoh

OPERATIONS DIVISION

Budget
Abdul Hanan bin Alang Endut

Housing Loan
Abu Salihu bin Hj. Mohamed Shariff

Government Procurement Management
Hajjah Kamesah bt. Hj. Abu Bakar

E-Procurement
Datin Hajjah Safiah bt. Basrah

Administration
Hajjah Jamaah bt. Hassan

Treasury Administration Section
Hanaffi bin Ahmad

Federal Treasury Sabah
Daud bin Tahir

Federal Treasury Sarawak
Kamarul Zaman bin Md. Isa

SYSTEMS AND CONTROLS DIVISION

Financial Management Advisory
Maimun bt. Johari

Monitoring and Control
Hj. Ithnin bin Hj. Hassan

Coordination of MOF (Inc) Companies, Privatisation and Public Enterprises
Abdul Rahim bin Mokti

ACCOUNTANT GENERAL DEPARTMENT

Accountant General
Datuk Siti Maslamah bt. Osman

VALUATION AND PROPERTY SERVICE DEPARTMENT

Director General
Datuk Hj. Sahari bin Hj. Mahadi

SUPPORT SERVICES

Treasury Solicitor
Lim Yee Lan

Internal Audit Unit
(Vacant)

AGENCIES/DEPARTMENTS UNDER THE MINISTRY OF FINANCE

BANK NEGARA MALAYSIA
Governor
Tan Sri Dr. Zeti Akhtar Aziz

ROYAL CUSTOMS MALAYSIA
Director General
Tan Sri Abdul Halil bin Abd. Mutalib

SECURITIES COMMISSION
Chairman
Datuk Ali bin Abdul Kadir

EMPLOYEES PROVIDENT FUND
Chairman
Tan Sri Abdul Halim Ali

Chief Executive Officer
Datuk Azlan bin Mohd Zainol

BANK SIMPANAN NASIONAL
Chairman
Dato' Abdul Azim bin Mohd Zabidi

General Manager
Abu Huraira bin Abu Yazid

MALAYSIAN INLAND REVENUE BOARD
Chief Executive Officer
Tan Sri Zainol Abidin bin Abdul Rashid

SPECIAL COMMISSIONER OF INCOME TAX
Chairman
Dato' Ahmad Zaki bin Hj. Hussein

OTHER ENTITIES UNDER THE MINISTRY OF FINANCE

KHAZANAH NASIONAL BERHAD
Managing Director
Dato' Anwar bin Aji

KUALA LUMPUR STOCK EXCHANGE
Executive Chairman
Dato' Mohd Azlan bin Hashim

DANAHARTA NASIONAL BERHAD
Chairman
Dato' Zainal Abidin bin Putih

Managing Director
Zukri Samat

LANGKAWI DEVELOPMENT AUTHORITY
General Manager
Dato' Hj. Anwar bin Hj. Abd. Rahman

LABUAN AUTHORITY
Chairman
YB Dato' Hj. Suhaili bin Abdul Rahman

Chief Executive Officer
Hj. Jamaludin bin Hasan

MALAYSIAN TOTALISATOR BOARD
Chairman
Y.A.M Tunku Dato' Seri Shahabuddin bin Tunku Besar Borhanuddin

Chief Executive Officer
Dato' Abdul Rauf bin Sani

TUN ABDUL RAZAK FOUNDATION
Secretary
Hj. Hasbullah bin Hj. Yusof