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FISCAL POLICY AND STRUCTURAL ADJUSTMENT: THE MALAYSIAN CASE

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I. INTRODUCTION

The aims of this paper are two-fold: first, the paper attempts to examine the factors which have led to the malaise of the Malaysian economy at the end of the 1970s and beginning of the 1980s; and second, to analyse the effectiveness of the fiscal adjustments that have been undertaken to cure these ills. The paper also provides some possible policy directions.

Between 1970 and 1980, Malaysia's annual growth in real GNP was the fourth highest in Asia (see Table 1). However, this blissful picture was about to change at the close of the last decade and "the seeds to the present difficulties might perhaps have been sown during this period" (Jaafar 1987, p.5)

First, the second oil price shock of 1979 left in its wake a sharply changed international environment. In particular, there awakened serious apprehensions regarding international trade and financial flows which necessarily affected a country's ability to earn external revenues, service debts and finance domestic investment. While Malaysia, being a net exporter of oil, was not burdened by an increase in the value of energy imports, she suffered in other ways. Demand in western markets had fallen off owning to the recession triggered by the oil price shock, which led to the severe crash in prices of primary exports in the external markets (see Table 2). In addition, the developed countries' concern with rising unemployment encourages protectionist policies which made it difficult to export manufactured products.

The second source of change comes in the form of greater government involvement in the economy, which rose steadily in the 1970s, and accelerated sharply in the early 1980s. This is reflected in the ratio of public total expenditure to GNP which increased from 29.2% in 1970 to 39.9% in 1979, and to a peak of 58.4% in 1981 (see Table 3). The growth in the Malaysian public sector in relation to other countries is shown Table 4.

One of the reasons for the increased government intervention stemmed from the first source of change above—the impact of the oil price shock. In order to cushion the adverse effects of the recession in the developed countries, the government adopted a countercyclical macroeconomic policy. The major aims of this policy were to maintain a high and sustained level of economic growth, check domestic inflation and redistribute income to the poor. This expansionary stance "included accelerated attempts to complete development projects in 1980 since the year coincided with the final year of the Third Malaysia Plan (1976-80), and increased public expenditure in the two subsequent years particularly to strengthen the economy's commercial and industrial base" (Abu Bakar Karim 1987, p. 9-10).

Although public expenditure increased substantially, the public sector was able to maintain a current account surplus in the beginning due to continued high commodity prices, oil price bonus and buoyant levels of economic activity which resulted in high revenue productivity. Part of the expenditure was financed by borrowing at favourable rates, both from the domestic and international markets. As a result, the government managed to maintain a high level of economic growth, achieving and average rate of 6.86% per annum during the 1980-84 period—only slightly less than the targeted 7% per annum growth rate. This is due to the fact that while the recession in the OECD countries began in 1980, its impact was felt in Malaysia only after a time lag.

In response to the recession, private sector expenditure nose-dived from 14.0% in 1980 to 1.8% in 1982. This necessitated the government to inject further countercyclical measures to stimulate the private sector growth. Other reasons that have been cited for the increase in public expenditure include the creation of public enterprises aimed at accelerating the process of achieving the targets of the New Economic Policy and modernization though the Big Push development strategy. Hence, operating expenditure grew through the "Operasi Isi Penuh" while development expenditure expanded by an unprecedented annual average of 64% during 1979-81. The pressure of domestic spending spilled over into imports, which increased sharply, particularly with respect to capital goods and services of professionals. As a result the balance of payments current account surplus of 4.6% in 1979 turned into a record deficit of −14.1% in 1982 (Abu Bakar Karim 1987, p. 15).

At the same time, the expansionary stance together with the slower growth in revenues swiftly widened the overall public sector deficits, which led to further rise in domestic and foreign borrowings. Tax buoyancy has declined during this period as compared to the 1970s (see Table 5). The Federal Government total outstanding debt double between 1979 and 1982, which resulted in a large increase in debt service expenditure (see Table 6). Not only that this burdened the economy by precommitting an increasing share of earnings from exports, but it "opened up another avenue for the transmission of external influences on the domestic economy whereby the instability in the world monetary system had a direct impact on domestic activities." (Abu Bakar Karim 1987, p. 15).

Another source of difficulties during this period stemmed from the distortion in the resource market due to the Ducth Disease[1]. For Malaysia, the source of this disease is the sharp rise in the price of petroleum as shown in Table 2. According to Jaafar (1987), by 1982, one-third of total revenue was accounted for by petroleum while the share of non-oil revenue in international trade declined steadily to about 15% (p. 6). This effect, together with the effects of increasing domestic expenditure, shifted resources from agriculture and mining to nontradables such as construction, infrastructure and services, with excess demand again spilling over into imports. Nontradables had gained in importance from 49.9% of GDP in 1976 to almost 53.1% by 1980 (see Jaafar 1987, p. 6). As a consequence, employment shifted to the nontradable sector where the government and the construction sector emerged as the major absorbers of labour in the service sector, thus creating bottlenecks in the labour markets. Shortages of labour occurred in both the service and agriculture sectors. Increases in the price of commodities, particularly in the price of petroleum in 1979-80, improved the terms of trade by 4.8 per cent per year, four times the level of the previous three years (Jaafar 1987, p. 6). This led to an over-valuation of the Ringgit and resulted in our losing a competitive advantage in the external market. With all these developments, inflation had begun to accelerate reaching an annual rise of 6% towards the end of 1980. Inflation was particularly severe in the property market where prices had sky-rocketted.

The above developments not only led to the difficulties as manifested by the twin budget and balance of payments deficits, but also by the high level of resource imbalnce (investment greater savings). The magnitude and proportion of resource imbalance as a percentage of GNP is shown in Table 7. After a stretch of very favourable years, exceptionally high resource imbalance began in 1981 (−10.1% of GNP) and reached a peak of −14.1%

[1]The "Dutch Disease" arose from the bonanza of natural gas discoveries in the Netherlands testifies to the fact that a large rise in the supply of foreign exchange can be, at best, a mixed blessing, and at worst, a curse. The exchange rate appreciates, exports of goods and services other than the one where price has risen, decline; competitive imports flood into the country; domestic employment declines while inflation rises, as demand for nontradables increases (Streeten 1987, p.1).

the following year. As mentioned above, total investment was made up mainly of public investment while private investment contributed a smaller share. This is due to the fact that an increasing proportion of Gross National Savings (GNS) was being used to finance the overall deficit of the Federal Government, leaving a rapidly diminishing share for the private sector – 11% in 1984 compared with 31% in 1979. At the same time, negative structural elements contributed to the fall in GNS since 1981. Although commodity prices were still high, the sharp rise in operating expenditure eroded the public savings rate, while private savings were falling due to the sluggish demand in the external markets. In addition, there has been a declining trend in the elasticity of household saving with respect to both the level and growth of income in the early 1980s compared to the earlier years. A possible explanation (see Ismail and Osman Rani 1987), deduced from the experience of the rich oil-producing economies, is that the attempts of these governments to distribute the earnings from the export of petroleum by way of subsidies and social programmes has resulted, over time, in an orientation of the society towards consumption and away from savings and productive activities. Such a psychological behaviour might well have begun to emerge among Malaysian households, as the NEP-related policies and the increased intervention by the state took effect with the vast increase in social and investment programmes financed primarily from the surpluses of petroleum exports.

A large share of the public sector investment during this period was in the form of capital intensive projects with long payback period. This includes infrastructure projects and heavy industry manufacturing sector and non-financial public enterprises (NFPEs). There is some evidence in the form of the incremental capital output ratio (ICOR) to indicate that reliance on the public sector to spearhead the process of modernization through the Big Push strategy may have led to greater inefficiency in resource use. According to Ismail (1987 p. 10) the average ICOR increased from 2-3 in 1970 to 5-6 in early 1980s, reflecting a general decrease in capital productivity in the economy. Private sector and public sector ICOR grew from 2-2.5 and 6-7 in the 1970s to 3-4 and 15-16 respectively in the first half of the 1980s. This mirrors greater efficiency of private investment compared to public investment.

II. BEGINNING OF THE ADJUSTMENT PERIOD, 1983-85

The triple deficits could not persist indefinitely. It was decided that a cutback in expenditure was the appropriate panacea since a substantial share of imports arose from the public sector investment programme consequent to the extremely expansionary policy stance described above. Among others, the government instituted the freeze on public sector employment, checked the growth of the NFPEs by trimming down their budgetary allocations as well as relaxed the pursuance of the NEP objectives. Only those projects carried over from the Fourth Plan period that justified completion or deserved strong endorsement were continued.

The cut was swift and deep. The Government started the austerity drive because of the untenable high external debt. As can be seen from Table 8, the overall public sector deficit recorded a sharp decline of over 50% between 1982 and 1985. While operating expenditure increased by a much smaller percentage compared to the 1979-1981 period, development expenditure was reduced drastically. This fall was achieved mainly via a massive cutback in the general government expenditure which had contracted since 1982, its share of GNP falling by more than 40% over the three-year period. However, despite this austerity drive, NFPEs continued to expand. Their development expenditure was still rising at an incredible pace, increasing from $4006 million in 1982 to $7762 million in 1984, that is, increasing their share of GNP by more than 56% within two years.

The balance of payments situation also improved over the period, with the current account deficit from −14.1 percent of GNP in 1982 to −2.4 percent in 1985 (see Jaafar, Table 2). This was due to the expenditure contraction measures as well as the strengthening in demand for manufactured exports and high commodity prices in 1984.

The other side of fiscal policy, tax changes, played a smaller role. There was not much room for tax manipulations due to the diminishing tax buoyancy resulting from the shrinkage of the tax base. Nevertheless, the government did reduce certain taxes and provided tax and other incentives in order to steer the private sector out of the doldrums and become a leader of growth. At the same time, foreign investments were also actively promoted, and privatization and liberalization were instituted, both to reduce the size of the public sector as well as to enhance the role of the private sector.

While this paper examines the structural adjustment to fiscal policy, it is also relevant to examine the stance monetary policy took during the adjustment period. On the whole, monetary policy was complementary to fiscal policy in the sense that there was adequate liquidity and the level of interest rates was sufficiently low to encourage private sector investment. Monetary policy was also aimed at maintaining price stability. Table 9 summarized the money and credit policies in the 1980s.

In the beginning, the expansionary fiscal stance and the relatively strong private sector credit demand resulted in a substantial increase in money supply. In the later period, monetary policy was aimed at maintaining non-inflationary economic growth as well as external stability by controlling the liquidity supply and the level and structure of interest rates.

Before 1985, the Ringgit appreciated considerably against the major currencies. However, the trend was reversed since 1985, especially after the Plaza Accord on September 22, 1985, as shown in Table 10. The fall in the value of the Ringgit against the major currencies has increased Malaysian competitiveness in the foreign markets.

III. THE 1985-86 PERIOD: COPING WITH RECESSION

Fiscal restraints initiated by the Federal Government begining in 1982-83 to adjust the structure of Malaysia's public finances started to show results in 1985. The Federal Government deficit narrowed and for the first time in 1980s the NEPEs recorded overall surplus. While the public sector continued to adopt contractionary fiscal stance in 1985, at the same time, monetary policy was lossen to facilitate growth and provide liquidity for private investments. Interest rates were brought down and the Bank Negara made available $1 billion in the form of the New Investment fund (NIF) to be channelled directly to the productive sectors of the economy; manufacturing, agriculture, tourism and mining. The policy mix therefore shifted towards a tight fiscal and somewhat loose monetary policy in contrast to the strategies of previous years which had targetted loose fiscal policy at growth maximisation and tight monetary policy at managing the balance of payment and inflation.

The actual performance of the economy in 1985-86 was mix. On the external side, the term of trade declined sharply with the result that real national income per capita fell by 6.5% and 11.2% respectively for 1985 and 1986. Export receipts also fell sharply resulting from the collapse of the commodity prices combined with the downturn in manufactured exports. At the same time, imports fell by even more (−10% in 1985), concentrated mainly in investment and intermediate goods due to the cutback in public development expenditure and negative growth in private investment. Thus, this helped to improve the current account situation. This improvement, coupled with the easing of international liquidity, assured access for Malaysia in foreign capital market. This was augmented by a programme of external debt refinancing which was instituted by the government in 1985.

Internal developments, however, were considerably less favourable (see Table 3 above). Malaysia's real GDP for the first time since Independence registered a negative growth −1.0% in 1985 and stagnated at 1.2% in 1986.

The consolidated public sector deficit, after having improved somewhat in 1985, rose again in 1986 reaching 14.2% of GNP. Furthermore, revenues from all sources declined in absolute terms. Income taxes fell in respond to lower income in 1985. Indirect tax receipts fell as imports and sales declined while petroleum-based taxes and royalties collapsed with the fall in oil prices. Unemployment also started to rise significantly as labour intensive sectors such as commerce, contruction and government were badly hit and unemployment rate reached 8.5% in 1986.

External Shocks

The immediate cause of Malaysia's recession was the collapse in the prices of its major exports. While the diversification of commodity exports had in the past provided a hedge against price flunctuations, the problem of 1984-85 was caused by a stimultaneous fall in the prices for the petroluem, palm oil, rubber, saw logs, tin and cocoa (see Table 2 above).

To some extent, the impact of the term of trade decline was upset by rising commodity production particularly in petroleum, palm oil and cocoa. Other commodities have a mix performance, with rubber and timber exports declining in 1985 and rebounded in 1986, while tin and saw logs posted strong gains in 1985, before production fell in 1986. Nevertheless, commodity exports as a whole fell by almost one quarter in nominal term in 1986 relative to 1984.

One result of weak commodity export was to increase the importance of manufacturing exports (see Table 11). This had doubled between 1981-84 largely on the basis of rapid growth in electronics exports helped along by the weakening of the Ringgit. Despite its bouyant performance, Malaysia's manufacturing exports has remained highly concentrated, with the volatile electronics and electrical machinery accounting for over half of the manufacturing exports.

The decline in commodity prices in 1985-86 affected real GDP growth in two ways: first, output responded directly to price changes and second, decreased prices indirectly affected output by reducing purchasing power and hence domestic demand. However, the effect of the term of trade changes on consumption seemed to be limited. In 1985, the decline in private consumption associated with price drop was about 6% or about one-fifth of the fall on domestic demand.

Internal Shocks

Economic performance in any year is a function of a complex mix of cyclical and structural trends set in motion in past development and by policy changes. Each of these elements imparted negative impulse on the economy in 1985-86 which cumulatively resulted in recession.

The coinciding effects of the twin cycles—property cycle and the business cycle—turned Malaysia's adjustment programme into a full-pledge and ultimately a very painful recession. Signs of overheating in the property market had clearly emerged by 1984. Housing investment which accounted about 5% in 1970s, rose to about 9% in the early 1980s. The price and output developments pushed the supply of housing well beyond underlying demand. However, the property boom dashed with the collapse of the global commodity prices. New housing construction was promptly halted coupled with the decline in the government civil work projects and the collapse in the demand for commercial property triggered by the decline in corporate profits. The construction industry loss about one-fifth of its real value added by 1986.

At the same time, as the property market collapse business cycle turned down. One characteristics of this cycle is that the upswing is associated with wage rate rising faster than productivity. As this occured, corporate profits are hurt, investment declined and growth suffered.

Structural factors were also at play in reducing growth in 1985-86. The tremendous growth impetus that had been provided by petroleum and gas exports flattened out, tin production was disrupted by the suspension of the K. L. tin market. Weaknesses also emerged in the financial services sector necessitating Bank Negara intervention through direct control, tightening regulation and supervision.

Fiscal Policy Stance

Perhaps, the most important policy shift however, was in the fiscal account. The overall public sector deficit fell to 7.8% of GNP in 1985 despite cyclical factors which would have typically led to a widening of a deficit during the year of depressed growth. This was augmented by the improved fiscal account of the NFPEs which for the first time since 1981 experienced surplus in its overall account. This was achieved as a result of a cutback in the capital expenditures of many NFPEs and aided by increased profits of Petronas with the increase in its production.

When government responded by first increasing public saving and then cutting public investment, it withdrew demand stimulus that have bouyed the economy in the early 1980s. Thus the net fiscal impulse, the portion of the deficit attributable to the policy changes rather than cyclical factors, is highly negative in 1985 and has been since 1983. The fiscal impulse (as percentage of GNP) was −6% in 1983, 4% in 1984 and 3% in 1985. The magnitude of this change particularly in comparison to earlier years reflects the government success in bringing expenditures of NFPEs under control. In bringing about adjustment, however, there have been inevitably some costs. One such cost is the accentuation of the unemployment rate and increased idle capacity.

The cutback in public investments were largely in defence and transport, but by 1986, investments in irrigation, commerce and industry were also affected. The negative fiscal impulse did not last long. The fall in tax revenue, particularly those from petroleum caupled with a levelling of government expenditures, led to a resurgence of fiscal deficit. At the same time the NFPEs account again returned into the red as Petronas surplus declined. Exacerbating the NFPEs difficulty was the rise in the value of the Yen and the consequence surge in debt service obligation. In addition to this structural elements, which account almost entirely for the increase in deficit, the government undertook several discrete policy changes. An antirecessionary committee was formed to create employment and growth and improve the budgetary account. As a result of the recommendation of this Committee the special low-cost housing programme was launched to build 240 thousand units over there years and a total of $2 billion was restored to the initial cutback in the Fifth Plan development budget. Overall fiscal policy became neutral in 1986.

Monetary policy was accomodative throughout this period and nominal interest rate began to fall in line with the global development. Both the deposit rate and the prime lending rate increased in real term aggravating the drop in domestic demand. To assist the recovery, the authority implemented the new credit programme, including the NIF and Small Industrial Development Fund. Government also took step to reduce administrative requirements in the important private investment sector. The loosening of credit policy however did not prove to have an effective effect in stimulating investment in the economy.

IV. BEGINNING OF RECOVERY

Spurred primarily by improved commodity prices and demand, the economy began to recover in the second half of 1986 and strengthened further throughout 1987. The process of recovery was also augmented by improved conditions for investments resulting from falling wages, better profitability, depreciated real exchange rate, the introduction of liberalized industrial licensing and relaxation of regulation on foreign investments. As in the downturn, the upswing coincided with a change in the terms of trade. The balance of payments improved substantially registering a surplus of 8.1% of

GNP in 1987 based on significant gains in export revenues. This hepled to build up external reserves by almost $19 billion or equivalent to about eight months of retained imports, thus permitting the government to prepay some $2 billion in external debt. Bank Negara estimated that the real GNP growth for 1987 is 4.7% based on a strong performance in the manufacturing and the agriculture sectors, and this figure is likely to be an underestimate of the actual performance. Despite the strong recovery, the budget deficit and unemployment remain negative items in the economic performance. The overall public sector deficit remains high at 9.7% of GNP (Expressed in terms of the ratio of debt to GNP, Malaysia has one of the highest level of indebtedness in the world), and unemployment grew to 9.1% of GNP. (The estimate of unemployment is somewhat unreliable—the Malaysian Institute Of Economic Research estimated that the rate of unemployment in 1987 exceeded the double digits).

Recovery in the output growth and the current surplus indicates that the process of macroeconomic adjustment was largely completed in 1987. This adjustment can be viewed from both external and internal perspectives. As shown in Table 12, the current account surplus reflect the rapid real growth in exports of 11.3% coupled with price improvement that together boosted the share of exports to GNP to a record of 69.5%. At the same time, it also reflect private sector saving far in excess of private investment.

On the external side, both commodities and manufactured exports rose sharply. The value of total merchandise trade increased by 26.5% over 1986. On the internal side, the recovery was evenly divided between the public and the private sector. The overall public sector saving-investment gap continued to widen, reaching 7.3% of GNP in 1987. This was the result of countinued retraint in public sector expenditure and closer supervision of the investment activities of NEPEs, which led to furthur decline of 9.4% in public sector investment (including stock). Simultaneously, public saving declined more markedly from $3,833 million (5.8% of GNP) in 1986 to $2,185 million (3% of GNP) in 1987. Meanwhile the private sector saved an estimated 15.4% of GNP more than it spent and this helped to finance the public deficit. As a result aggregate domestic demand only increased by 0.6%.

V. POLICY DIRECTION

As indicated above, the fiscal stance adopted to bring about adjustment has inevitably had its costs. Growth was dampened and unemployment accentuated. In addition, the emphasis on short-term adjustments has meant that longer-term structural problems—revenue productivity, heavy reliance on commodities, narrow manufacturing base, employment and socio-economic restructuring—had to be deferred. The policy challenge, therefore, is to convert the achievement of the short-term adjustments into lasting improvements in individual welfare and to restructure the Malaysian economy in harmony with the changing world environment.

TABLE 1
Asian Growth And Wealth

		Annual Growth in real GNP per capita 1970-80	GNP at Market Prices US$ Billions in 1981	GNP Per Capita US$ in 1981
1.	South Korea	7.5%	66	1700
2.	Hong Kong	7.2%	26	5100
3.	Singapore	6.7%	13	5240
4.	Malaysia	5.1%	26	1840
5.	Indonesia	4.8%	79	530
6.	Thailand	4.2%	37	770
7.	China	4.1%	300	300
8.	Phillippines	3.7%	39	790
9.	Japan	3.4%	1186	10080
10.	Sri Lanka	2.8%	4	300
11.	Burma	2.3%	7	190
12.	Pakistan	1.9%	30	350
13.	India	1.5%	177	260
14.	Bangladesh	1.4%	13	140

Source : World Bank Atlas 1983.

TABLE 2
Major Commodity Export Prices 1981-87

Major Commodities	81	82	83	84	85	86	87[a]
Petroleum (Average Weighted Price) (US $/barrel)	39.0	36.3	30.7	29.3	27.6	14.8	18.0
Palm Oil ($/Tonne, Local Delivered)	1153	829	984	1583	1046	579	720
Rubber Price RSS1 (sen/kg)	259	201	247	231	192	208	245
Tin ($/Kg.)	32.34	30.17	30.19	29.16	29.60	15.49	16.80
Sawlog's ($/metre)	156.0	175.3	149.9	165.7	141.2	149.7	165.0
Cocoa ($/Tonne)	4060	3440	4000	5110	4660	4700	4150

Source : Economic Reports, Ministry of Finance, various issues

Note : [a]Estimates by Ministry of Finance

TABLE 3
Consolidated Public Sector Finance 1987
As Percentage of GNP

	1970	1979	1980	1981	1982	1983	1984	1985	1986	1987[a]
Revenue	24.6	30.7	32.7	32.9	33.1	33.2	32.5	36.6	37.6	31.2
Operating Expenditure	20.9	26.8	30.1	31.1	30.5	30.6	29.5	33.5	36.9	32.6
Current Surplus/Deficit	3.7	3.9	2.6	1.9	2.6	2.6	2.9	3.1	.01	−1.4
Non-Financial Public Enterprises Surplus	.8	1.2	.6	5.1	5.7	6.6	6.7	8.0	3.7	4.4
Total Public Sector Current Surplus/Deficit	4.5	5.0	3.2	6.9	8.3	9.2	9.7	11.1	4.3	−3.0
Development Expenditure	8.3	13.1	19.4	27.3	27.2	26.2	22.9	18.9	18.5	12.7
General Government	7.6	11.0	16.3	22.6	20.5	16.8	12.4	11.6	12.4	8.6
NFPEs	.7	2.1	3.1	4.7	6.7	9.4	10.5	7.3	6.1	4.1
Total Expenditure	29.2	39.9	49.5	58.4	57.7	56.8	52.4	52.4	55.4	45.3
Overall Surplus/Deficit	−3.7	−8.1	−16.2	−20.4	−18.9	−17.0	−13.2	−7.8	−14.2	−9.7
GNP Growth	5.8	22.6	15.9	8.2	7.4	9.2	13.9	−3.2	−8.3	5.5
GDP Growth	6.2	9.3	7.4	6.9	5.9	6.3	7.8	−1.0	1.2	4.7

Source : Economic Reports, Ministry of Finance, various issues
Bank Negara Malaysia, Annual Report 1987

Note : [a]Bank Negara, preliminary.

TABLE 4
Growth Of The Public Sector in Selected Countries 1970-1982

Country	Public sector outlays as percentage of gross domestic product		Of which state enterprises		Estimated share of state enterprises in gross domestic investment	Public Sector deficit as percentage of gross domestic product	
	1970	1972*	1970	1982	(1978 – 1980)	1970	1982
Argentina	33	35	11	12	20	1	14
Brazil	28	32	6	11	39	2	17
Chile	41	36	5	10	13	5	2
Colombia	26	30	6	10	9	4	2
Mexico	21	48	10	26	24	2	17
Peru	25	57	4	32	15	1	9
Venezuela	32	66	17	45	45	3	4
Weighted average	28	42	9	19	29	2	9
Malaysia	36	53	4	34	33	12	19
Republic of Korea	20	28	7	4	23	4	3
France	38	48	6	7	13	0.5	3
Japan	23	27	8	8	11	1.5	6
Sweden	52	66	4	6	11	2	10
Britain	43	49	10	11	17	3	6
United States	22	21	10	9	4	1	2

Source : Ismail and Abdul Rauf 1987, Appendix Table 2

(*) : The peak figure for Argentina was 42 per cent and for Brazil 35 per cent; both pertain to 1981.

TABLE 5
Malaysia : Bouyancy Estimates For Federal Government Revenue Categories

Category	Time Period	Buoyancy Estimates
Total Revenue	1966-1987	1.20
	1966-1976	1.21
	1977-1987	1.14
Total Tax Revenue	1966-1987	1.21
	1966-1976	1.35
	1977-1987	0.99
Total Tax Revenue (Non-Oil)[b]	1978-1987	0.69
Total Income Tax	1966-1987	1.44
	1966-1976	1.55
	1977-1987	1.23
Personal Income Tac [c]	1976-1987	1.22
Company Income Tax[c]	1976-1987	0.76
Excise Duties	1966-1987	1.02
	1966-1976	1.27
	1977-1987	0.78
Sales Tax[d]	1973-1987	1.18
Import Duty	1966-1987	0.85
	1966-1976	0.81
	1977-1987	0.81
Current Exp.	1966-1987	1.23
	1966-1976	1.22
	1977-1987	1.25
Net Dev. Exp.[e]	1966-1987	1.33
	1966-1976	1.35
	1977-1987	1.03
Total Exp.	1966-1987	1.26
	1966-1976	1.26
	1977-1987	1.19

Notes : a. estimated from the following equation:

$$\text{Log } R = a + b\log GDP$$

where R = revenue category
GDP = gross domestic product

b. derived as total tax revenue less petroleum income tax, royalty on petroleum, and export duty on petroleum.

c. before 1976, no such breakdown of income tax was published.

d. sales tax was introduced in 1972.

TABLE 6
Public Sector Borrowing, 1979-87

	Public Sector Outstanding Foreign Debt		Federal Government Total Outstanding Debt	
	$ Bln.	% GNP	$ Bln.	%GNP
1979	7.4	16.7	20.8	46.8
1980	10.8	21.0	23.4	45.6
1981	15.4	27.7	31.1	56.0
1982	24.3	40.7	41.9	70.1
1983	31.8	48.8	51.7	79.4
1984	34.7	46.8	57.9	78.0
1985	42.3	58.9	64.0	89.1
1986	50.7	77.0	74.2	112.6
1987	50.7	69.5	80.3	110.0

Source : Ministry of Finance, Annual Report, various issues.

TABLE 7
Magnitude And Proportion Of Resource Imbalance As A Percentage of GNP

	Resource Imbalance ($ million)	As a Percentage of GNP	Annual Percentage Change of Resource Imbalance
1976	1642	6.1	—
1977	1278	4.1	11.4
1978	319	0.9	6.6
1979	2033	4.6	61.9
1980	−620	−1.2	0.9
1981	−5633	−10.1	−6.8
1982	−8409	−14.1	2.7
1983	−8117	−12.5	13.8
1984	−3917	−5.3	34.1
1985	−1795	−2.5	14.2
1986	−1194	−1.8	11.7

Source : Ismail and Abdul Rauf 1987, Appendix Table 5.

TABLE 8
Malaysia : Consolidated Public Sector Finance ($M)

	1970	1979	1980	1981	1982	1983	1984	1985	1986	1987
Revenue	2861	13218	16371	18295	19754	21605	24084	26317	24731	22353
Operating Expenditure	2429	11542	15063	17266	18223	19939	21915	24094	24320	26118
% Growth		28.8	30.5	14.6	5.5	9.4	9.9	9.9	0.9	7.4
Current Surplus/Deficit	432	1676	1308	1029	1531	1666	2169	2223	411	−3765
NFPEs Surplus	95	498	291	2826	3423	4306	5005	5749	2947	2972
Total Public Sector										
Current Surplus/Deficit	527	2174	1599	3855	4954	5972	7174	7972	2858	−793
Development Expenditure	959	5657	9711	15214	16235	17048	16965	13589	12210	11572
% Growth		19.7	71.7	56.7	6.7	5.0	−.5	−19.9	−10.2	−5.2
% of Total Expenditure	32.9	39.2	46.8	47.1	46.1	46.1	43.6	36.1	33.4	30.7
General Government	878	4737	8162	12577	12229	10921	9203	8307	8157	8325
% Growth		14.8	72.3	54.1	−2.8	−10.7	−15.7	−9.7	−1.8	2.1
NFPEs	81	920	1549	2637	4006	6127	7762	5282	4053	3247
% Growth		52.8	68.4	70.2	51.9	52.9	26.7	−32.0	−23.3	−19.9
Total Expenditure	3388	17199	24774	32480	34458	36987	38880	37683	36530	37690
% Growth		25.6	44.0	31.1	6.1	7.3	5.1	−3.1	−3.1	−3.2
Overall Deficit	−432	−3483	−8112	−11359	−11281	−11076	−9791	−5617	−9352	−12365
% Growth		15.7	132.9	40.0	−0.7	−1.8	−11.6	−042.6	66.5	32.2

Source : Economic Report, Ministry of Finance, various issues.

TABLE 9

Money Supply (Annual Change In Percent)

	1980	1981	1982	1983	1984	1985	1986
Broad Money (M3)	27.0	13.6	16.8	14.2	15.1	10.0	8.5
Net foreign assets	− 1.8	−11.6	0.8	−4.2	−23.4	49.0	54.8
Domestic credit	42.5	29.1	20.8	20.4	20.7	9.9	7.9
Net claims on Govt.	165.0	88.4	47.2	−2.8	17.9	−36.6	30.2
Credit to the private sector	37.6	24.6	17.7	23.7	21.0	15.0	6.6
Other liabilities (Net)	39.2	61.7	19.1	29.2	14.7	28.7	32.4

Source : Jaafar 1987, Table 7

TABLE 10

Real Effective Exchange Rates For Malaysia

	Morgan Guarantee Trust Company	IMF
	(1980-82 average = 100)	(1980 = 100)
1984	119.7	116.2
1985	116.3	110.4
1986	94.2	92.6
1987 (March)	89.4	90.4

Source : Jaafar 1987, Table 9.

TABLE 11

The Structure Of Exports, 1981-87

	1981		1984		1986		1987	
	M$ mln	%	M$ mln	%	M$ mln	%	M$ mln	%
Commodities	20,807	76.8	26,471	68.5	20,460	57.3	24,926	55.2
Petroleum	6,918	25.5	8,733	22.6	5,400	15.1	6,290	13.9
Palm Oil	2,710	10.0	5,194	13.5	3,346	9.4	3,704	8.2
Rubber	3,712	13.7	3,495	9.1	3,182	8.9	3,917	8.7
Tin	2,138	7.9	1,163	3.0	651	1.8	840	1.9
Saw Logs	2,473	9.1	2,774	7.2	2,872	8.0	4,280	9.5
Saw Timber	971	3.6	1,169	3.0	1,305	3.7	1,758	3.9
Other	1,885	7.0	3,943	10.2	3,704	10.4	4,137	9.2
Manufactures	6,302	23.2	12,156	31.5	15,264	42.7	20,255	44.8
Electrical machinery, appliances and parts	3,017	11.1	6,749	17.5	8,491	23.8	10.971	24.3
Transport	308	1.1	569	1.5	518	1.5	722	1.6
Food and beverages	600	2.2	777	2.0	960	2.7	1,219	2.7
Textiles, etc.	785	2.9	1,141	3.0	1,643	4.6	2,284	5.1
Wood & wood products	473	1.7	416	1.1	537	1.5	851	1.9
Rubber products	83	0.3	107	0.3	155	0.4	237	0.5
Chemicals	417	1.5	452	1.2	760	2.1	922	2.0
Minerals and metals	221	0.8	433	1.1	714	2.0	1,072	2.4
Other	398	1.5	1,512	3.9	1,486	4.2	1,977	4.4
Total	27,109	100.0	38,627	100.0	35,716	100.0	45,181	100.00

Source : Bank Negara Malaysia, Annual Report;
Economic Report of the Treasury.

TABLE 12

Adjustment To Shocks, 1984-87
(% Of GNP)

	1984	1985	1986	1987/a
Change in terms of trade (%)	6.9	−4.5	−15.6	7.4
Export (good and nonfactor service)	58.2	59.2	61.8	69.5
Growth rate (%)	13.8	0.4	17.6	11.3
Imports (Goods and nonfactor services)	56.2	51.9	54.9	54.7
Growth rate (%)	6.5	−10.0	−2.7	6.1
Current account	−5.3	−2.4	0.1	8.1
Next external financing	5.3	2.4	−0.1	−8.1
Public Sector	−6.5	−6.0	−6.8	−7.3
Savings /b	9.7	11.1	5.8	3.0
Investment	16.2	17.1	12.6	10.3
Private sector	1.2	3.6	6.9	15.4
Savings	21.0	16.2	21.4	29.1
Investment /c	19.8	12.6	14.5	13.7

Source : Ministry of Finance, Ekonomic Report, various issues
Bank Negara Annual Report, various issues

/a : Estimates
/b : Total public sector current surplus
/c : Includes changes in stocks

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