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The Malaysian Economy in 1994 and Prospects for 1995

The Malaysian Economy in 1994

The Malaysian economy remained buoyant in 1994, with gross domestic product (GDP) expanding by an estimated 8.5% (1993: 8.3%). The sustained growth was driven by stronger external demand following the gradual recovery in the major industrial countries as well as higher domestic demand. On the supply side, activities in the manufacturing, construction and services sectors are expected to sustain the robust growth. With the higher level of economic activities, the gross national product (GNP) in current prices is expected to continue to expand by 11.5% (10.7% in 1993). With the population expected to increase by 2.3%, per capita national income or GNP is, therefore, projected to increase by 9% from RM8,126 in 1993 to RM8,856, which is equivalent to US\$3,406 (RM2.60 per US\$1).

The overall balance of payments is estimated to remain in surplus in 1994 largely due to the continuing strong inflows of long-term capital. However, a significantly smaller surplus is expected in the merchandise balance, given the stronger growth in imports relative to that of exports. As the deficit in the services account is expected to deteriorate, given the higher net outflows of investment income, freight and insurance and contract and professional charges, the current account of the balance of payments is expected to register a bigger deficit of RM11.7 billion (6.8% of GNP), compared with a lower deficit of RM6.3 billion (4.1% of GNP) in 1993.

In line with the rapid growth in the economy and the tightening of the labour market, the unemployment rate is projected to decline further to 2.9%. The Consumer Price Index (CPI), on the other hand, is expected to rise at a marginally

higher rate of 3.8%, in response to demand pressures compared with the 3.6% increase registered in 1993.

Sectoral Performance

The **manufacturing sector** is expected to continue to be one of the leading growth sectors, contributing 48.5% of the growth in GDP in 1994. Value added in the sector is estimated to increase by 13.6% in 1994 compared with an increase of 12.9% in 1993, further increasing its share of GDP from 30.1% to 31.5%. The strong growth is due to the robust expansion in both the domestic market-oriented industries (estimated to increase by 10.6% in 1994 compared with 9.8% in 1993) as well as the export market-oriented industries (estimated to expand at 17.5% as against 15.8% in 1993). The strong growth in the domestic market-oriented industries is expected to be generated by the rapid growth in the fabricated metal products, chemical and chemical products and the non-metallic mineral industries. The expansion in the domestic market-oriented industries reflects largely the significant growth in local demand brought about by the expansion in construction and industrial activities. In the case of the export-oriented industries, the rapid expansion is attributed to the significant growth in the electronics and electrical, the non-electrical machinery, textiles as well as the wood and the rubber products industries, generated by stronger external demand from the gradual economic recovery taking place in a number of the major industrial countries, as well as increases in exports to non-traditional markets.

The overall performance of the **agriculture sector** is expected to slow down, with growth anticipated at a lower rate of 0.5% compared with 3.9% in 1993. Production of palm oil is expected

to decline by 3% due to the cyclical effect of tree stress, after the high yields achieved in 1993. Output of sawlogs is also expected to show a similar trend (-5.1%), given a more stringent imposition of production quotas by the relevant state governments. Although the price of rubber has improved significantly, production is expected to continue to decline as the industry continues to be affected by labour shortages and declining hectareage. In line with the nominal growth of the agriculture sector, its share of overall GDP is expected to decline further to 14.8% in 1994, from 15.9% in 1993.

The **mining sector** is expected to turn around to register a 1.8% increase in value added in 1994 compared with a decline of 0.5% in 1993. This is mainly due to an anticipated 0.9% increase in the production of crude oil to 653,400 barrels per day and a 15% increase in the output of natural gas. The production of tin, on the other hand, is expected to continue to decline by 37.5% in 1994 to 6,500 tonnes, given the continued depressed prices of tin in the international market. In spite of the anticipated growth for the sector as a whole, the share of the mining sector to overall GDP is expected to decline from 8% in 1993 to 7.5% in 1994.

The **construction sector** is projected to sustain a robust growth of 13% in 1994 (1993: 11.2%), with the impetus to growth emanating from the implementation of several on-going large and new civil engineering and infrastructural projects as well as steady construction starts in the residential, commercial and industrial sub-sectors. The contribution of the construction sector to overall GDP is, however, only expected to increase marginally to 4.2% (1993: 4%).

Reflecting the strength of economic activities in the Malaysian economy, the expansion of the **services sector** is expected to be sustained at 9%. However, largely due to the slower growth in government services, the overall growth in the services sector is expected to be lower than the 10% growth achieved in 1993. Its contribution to GDP growth, however, remains high at 47.4% in 1994. Higher growth is anticipated from the sub-sectors of transport, storage and communications and electricity, gas and water mainly due to the expansion in productive capacity of these services in response to strong demand. The increase in

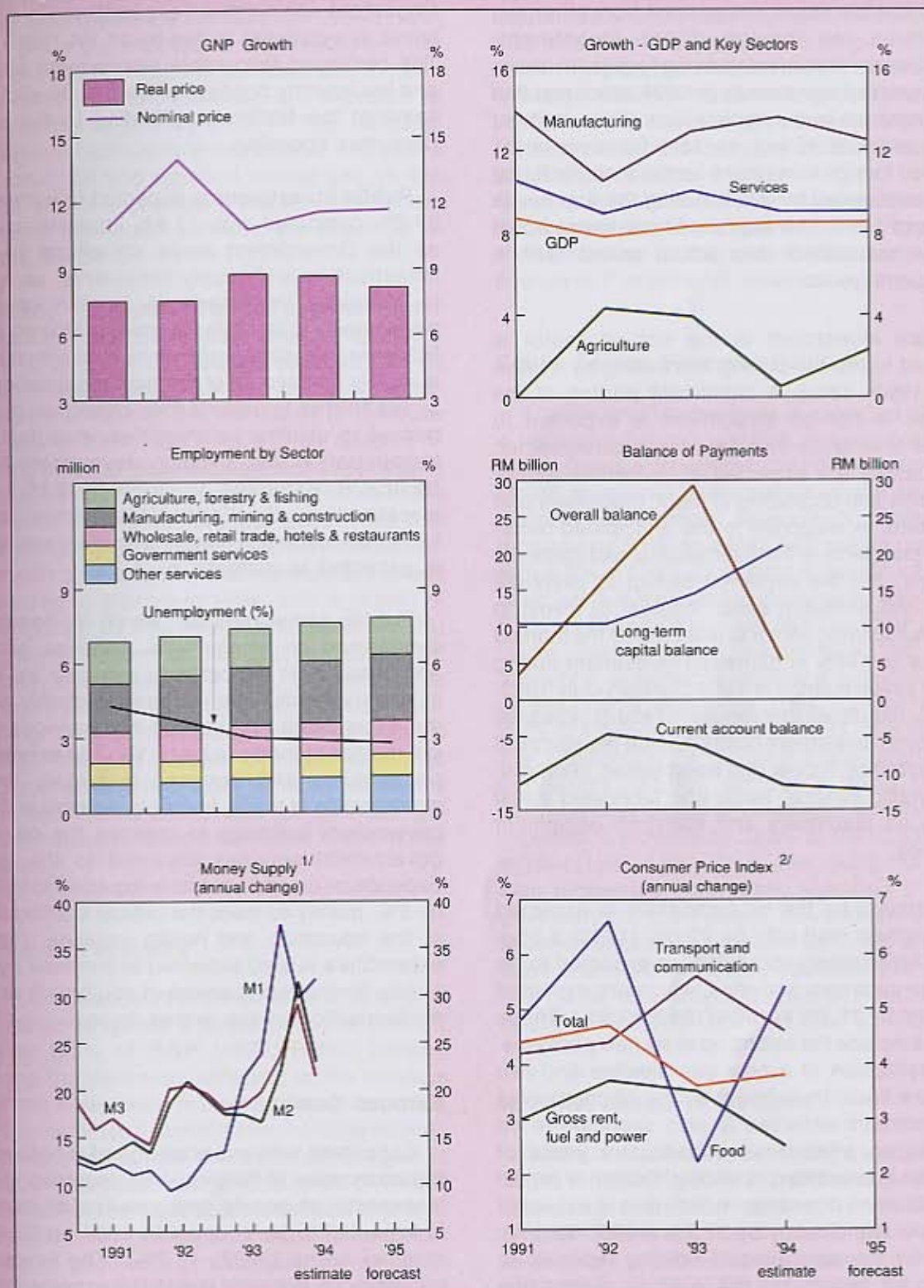
incomes and the launching of the Visit Malaysia Year Campaign are also expected to boost further the output expansion of the wholesale and retail trade, hotels and restaurants sub-sector. On the other hand, growth is expected to be lower in both the finance, insurance, real estate and business services and the government services sub-sectors. For the year 1994, the share of the services sector to overall GDP is expected to increase marginally to 44.6% from 44.4% in 1993.

Domestic Expenditure

The momentum of growth in **domestic expenditure** is expected to be sustained in 1994. In nominal terms, aggregate domestic demand (excluding the change in stocks) is expected to increase by 13.6% (10.8% in 1993), as a consequence of stronger growth in expenditure by both the public and the private sectors. Total private sector demand, which accounts for about 74% of total aggregate domestic demand, is expected to expand by 12.2% (1993: 10.5%), with the anticipated pickup in private consumption and buoyant investment activities. Likewise, public sector demand is estimated to expand by 17.8% (1993: 11.7%), due to the anticipated stronger increase in public investment outlays, especially by the Non-Financial Public Enterprises (NFPEs) and the sustained expansion in public consumption mainly due to increased expenditure for the maintenance of government facilities.

Private investment is expected to remain strong in 1994. In response to better economic prospects, the lowering of corporate tax, the decline in interest rates and the increase in reinvestment allowance, growth in private sector capital expenditure in current prices is estimated to be sustained at 12.8% (1993: 13.9%). The favourable performance is mainly on account of strong domestic investment which is expected to increase by 21.1% (1993: 21.8%) partly due to the increase in investment undertaken by the small and medium-scale industries (SMIs). The favourable performance of various investment indicators, such as imports of capital goods, sales and imports of construction materials as well as the loans and advances granted by the banking system during the first few months of 1994 reflect the strong growth in private investment. Foreign direct investment, though remaining substantial is, however, expected to decline by 3% (1993: +1.5%) due to the lagged

Chart 1.1
Key Economic Indicators



1/ End of March, June, September and December including Repos.

2/ Malaysia (1990 - base year)

effect of lower approved investment for the manufacturing sector since 1991 through 1993. The lower approved investment, especially in 1993, reflects the increased competition from emerging economies for foreign direct investment. Nevertheless, sentiments among foreign investors have improved significantly in 1994 which resulted in the increase in the applications for investment in the manufacturing sector. Consequently, approved foreign investment for the manufacturing sector rebounded by 238% during the first seven months of 1994. The approved investment would only be translated into actual investment in subsequent years.

Private investment in the non-oil sector is expected to remain strong, increasing by 11% in 1994 (1993: 16%). A significant portion of the increase in non-oil investment is expected to continue to emanate from the manufacturing sector, as industries are expected to undertake further expansion and upgrading of plant, machinery and equipment, in response to the anticipated better growth prospects in the international and domestic economy and the expected pickup in overseas orders and domestic sales. Interest to invest in the manufacturing sector is reflected by the marked increase of 174% in approved investment during the first seven months of 1994 (January-July 1993: -72.4%). Industries that registered sharp increases in approved investment outlay include the electrical and electronics, rubber and wood-based, chemical, non-metallic mineral, basic and fabricated metal as well as machinery and transport equipment industries.

Investment by the oil companies is expected to strengthen markedly by 22.8% (1993: 3.5%). Of this investment, about 92% is expected to be spent on upstream activities, which are expected to expand by 21.7% in 1994 (1993: 13.3%). These activities include the setting up of six new platforms, the construction of a new gas pipeline and two new trunk lines. Investment by the oil companies in downstream activities is also expected to be encouraging after three consecutive years of slowdown in investment spending. Growth of capital expenditure on downstream activities is expected to recover significantly by 37.3% (1993: -52.1%), largely for the upgrading of refining facilities as well as for enhancing the existing distribution network through the setting up and upgrading of new and existing service stations.

The momentum of **private consumption** is expected to be sustained in 1994 with the anticipated increase in private disposable income. Household consumption expenditure, in nominal terms, is estimated to rise by 11.9% (1993: 9%). The continued favourable employment situation and the liquidity position of the private sector are some of the factors contributing to the rise in consumer spending.

Public investment is expected to increase by 24.8% compared with 11.6% increase in 1993, as the Government steps up efforts to ease infrastructure and supply constraints, as well as to increase its efforts in human resource development to facilitate the growth of the economy. However, the strong growth in public investment is mainly on account of the higher capital outlays by the NFPEs to expand their capacities in areas related to utilities, commodities, manufacturing, transportation and shipping. Investment by the NFPEs is expected to grow by 53%, while investment by the Federal Government mainly for infrastructure and human resource development is expected to increase by 4.2%.

Public consumption, which is essentially expenditure on emoluments, supplies, services and defence, is expected to increase by 11.8% in current terms. The increase is mainly due to the expenditure on supplies and services which is expected to increase by 18.1%. The expenditure on supplies and services is largely for the maintenance of roads, hospitals, schools and other government buildings to improve the quality of government services provided to the public. Expenditure on emoluments is expected to increase by 6%, mainly to meet the critical staffing needs of the education and health services. Defence expenditure is also expected to increase by 10% mainly for the replacement of equipment and the modernisation of the armed forces.

External Demand

Consistent with expectations of a recovery in the economies of the industrial countries, growth in **exports of goods and non-factor services** is expected to be stronger in 1994, at 22.4% in nominal terms (1993: 15.7%). The favourable performance is mainly due to the expected strong increase in merchandise exports, estimated at 22.2% (1993: 17.3%). Exports of manufactured

goods are estimated to rise substantially by 28%, thus contributing to about 78% of merchandise exports (1993: 74%). Major agricultural commodity exports are expected to increase by 12.4% (1993: 1.3%), given the anticipated improvement in the prices of major agricultural commodities. Exports of the mining sector, however, are expected to decline further by 18.9% (1993: -11.7%), reflecting the continued softening in demand for and prices of tin, crude oil and liquefied natural gas. In line with the efforts in promoting the services sector, exports of non-factor services are expected to increase by 24%.

Similarly, the **import of goods and non-factor services** is expected to grow strongly by 25.9% (1993: 17.5%), due to sharp increases in imports of both merchandise and non-factor services. Merchandise imports are estimated to increase by 25.9% in 1994 (1993: 19.3%) on account of the rising demand for investment and intermediate goods, following the rapid pace of activities in the manufacturing and construction sectors as well as the rising capital outlays by the services sector. The import of investment and intermediate goods is expected to pick up in 1994, with a growth of 26.4%, (1993: 13.1%) and 29.6% (1993: 21.1%) respectively. Imports of consumption goods are expected to increase by 14.4%, in response to the improvement in domestic consumption spending. Due to the expansion of Malaysia's external trade and buoyant domestic economic activities, imports of non-factor services, particularly freight and insurance as well as contract and professional payments, are estimated to rise rapidly by 25.9%.

Balance of Payments

The current account of the balance of payments is expected to record a larger deficit of RM11.7 billion or 6.8% of GNP (1993: RM6.3 billion), following the continued widening of the services deficit and a narrowing of the merchandise surplus. With the expected growth in merchandise imports outpacing exports, the merchandise account is expected to register a smaller surplus of RM5.9 billion, while the services account deficit is expected to increase to RM17.7 billion. However, the overall balance of payments is estimated to remain in surplus in 1994, attributable largely to the continuing strong inflows of long-term capital. Private short-term capital (including errors and omissions) is

anticipated to register a net outflow of RM4 billion, following the narrowing of the interest differentials and reduced interest arbitrage opportunities. This net outflow of short-term capital is, however, more than offset by the increase in long-term capital inflow, estimated at RM20.9 billion. However, due to a larger deficit in the current account, the overall position of the balance of payments is expected to record a smaller surplus in 1994, estimated at RM5.3 billion (1993: RM29.2 billion). Consequently, the net international reserves of the Central Bank are estimated to increase to RM81.7 billion at the end of 1994, sufficient to finance 6.7 months of retained imports.

Public Sector Financial Position

The Federal Government is expected to record a balanced budget in 1994, mainly due to the higher revenue growth resulting from the continued strong economic performance of the economy. Federal Government revenue is projected to increase by 9.6% to RM45,692 million compared with 6.2% in 1993. Operating expenditure, on the other hand, is expected to increase by 4.8% (1993: 0.4%) to RM33,753 million. With revenue growing faster than operating expenditure, the current account is expected to register a sizeable surplus of RM11,939 million in 1994, compared with RM9,474 million achieved in 1993, mainly due to the Government's prudent fiscal stance and budgetary control, amidst a good revenue performance. Gross development expenditure is expected to increase by 23.5% to RM12,502 million in 1994 (1993: 4.5%). Thus, after taking into account loan recoveries from public agencies and state governments, the Federal Government's overall financial position is expected to record an overall surplus of RM637 million, equivalent to 0.4% of GNP, after recording a surplus of RM354 million (0.2% of GNP) for the first time in 1993.

National Resource Position

With national income increasing by an estimated 11.5% in 1994 (1993: 10.7%) and total consumption increasing at a faster pace of 11.9% to 67.7% of GNP (1993: 67.5% of GNP), gross national savings are expected to increase at a slower rate of 10.3% to 32.4% of GNP (1993: 32.7% of GNP). As a result, the national resource position is expected to register a larger savings-investment

gap amounting to 6.8% of GNP (1993: 4.1% of GNP), with gross capital formation rising at a faster rate of 18.5% (1993: 15.4%). The resource gap, as reflected in the current account of the balance of payments, is expected to be financed mainly by foreign private capital inflows.

Private savings are anticipated to increase by a slower rate of 4.9% to account for 19.2% of GNP in 1994 (1993: 20.4% of GNP) as a result of the anticipated pickup in household and corporate consumption. With private investment anticipated to increase by 14.5% in 1994 to account for 25.6% of GNP, the resource position of the private sector is envisaged to remain in deficit at 6.4% of GNP in 1994 (1993: 4.5% of GNP).

After two consecutive years of resource surpluses, the public sector resource position is expected to register a savings-investment gap of 0.4% of GNP in 1994, (1993: surplus of 0.4% of GNP). This is mainly the result of continued rapid

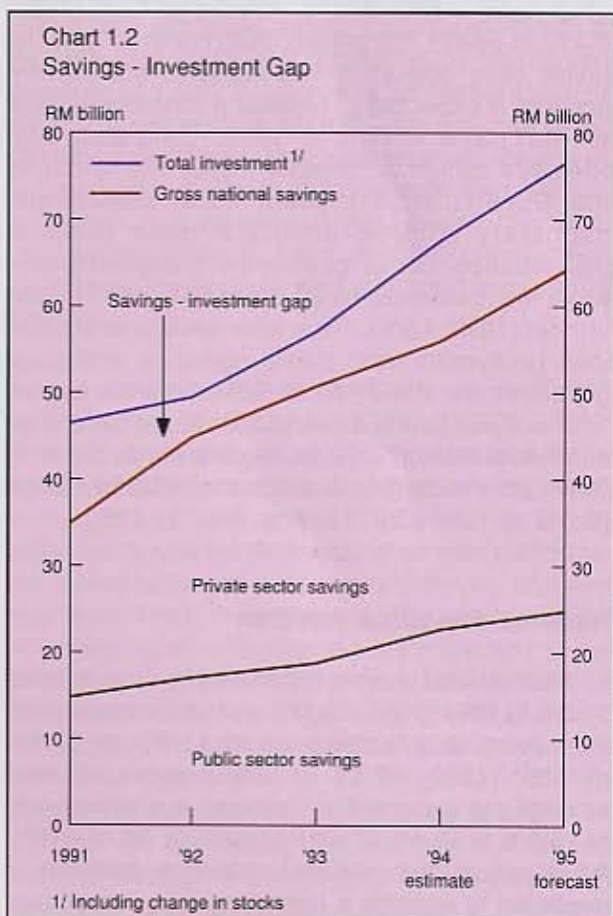
expansion of public sector capital formation (26.7%), amidst a slower growth in public savings (19.3%).

Liquidity and Interest Rates

The major thrust of monetary policy in 1994 is to ensure economic growth whilst, at the same time, maintaining price stability. Continued inflows of funds from abroad, in particular short-term capital, posed a challenge to monetary management, especially in the first half of 1994. Managing these inflows as well as excess liquidity became important as it was necessary to curb the increase in money supply to control price increases in the economy. Consequently, a tight monetary policy stance was pursued to ensure both financial and price stability.

Several measures were undertaken by the Central Bank to reduce the liquidity in the economy. To curb the inflow of short-term funds, the eligible liabilities base of banking institutions was redefined to include all inflows of foreign funds and a ceiling was imposed on the net external liability position of banks. In addition, banks were required to place with the Central Bank the ringgit funds held in non-interest-bearing vostro accounts of foreign financial institutions and all residents were prohibited from selling short-term monetary instruments of less than one year maturity to non-residents. As a consequence of these measures, the broader monetary aggregate, M3, moderated to 20.1% at the end of July 1994 from 29% at the end of March 1994. Therefore, some of these measures have, since May 1994, been lifted. On 12 August 1994, the Central Bank lifted the restriction on foreign purchases of short-term monetary instruments.

During the first seven months of 1994, inter-bank interest rates showed a downward trend reflecting excess liquidity in the banking system. The daily weighted average interbank rate for 3-month money declined from 6.5% per annum at the end of 1993 to 4.5% per annum as at end July 1994. The mode three-month fixed deposit rates offered by the commercial banks and finance companies declined from 6.4% and 6.5% per annum at the end of 1993 to 4.3% and 4.5% per annum respectively as at end July 1994. In line with the lower cost of funds, the mode base lending rates eased from 8.5% and 10.5% per annum to



7.4% and 8.75% per annum over the same period. Lower Malaysian interest rates and generally rising international interest rates saw a narrowing of interest differentials during the first half of 1994.

Consumer Prices

The continued growth in domestic demand exerted upward pressure on prices of consumer goods, particularly during the early part of the year. The rate of increase in the CPI peaked in the month of February at 5% and remained high in March 1994 at 4.4%, after recording an average increase of 3.6% in 1993. The sharper increase in the CPI during February and March 1994 is attributed to the celebration of two major festivals during the period. The increase in CPI, nevertheless, moderated in subsequent months to average 3.8% in the first eight months of 1994 (January-August 1993: 3.8%). The most notable increase during the period was in food prices which surged by 5.6% from 1.8% in the corresponding period of 1993. However, the increase in the CPI for non-food items slowed down from 4.8% during the first eight months of 1993 to 2.9% during the same period of 1994. The moderation of the rate of increase in the CPI, as the year progressed, to 3.3% in August partly reflects the positive impact of the anti-inflationary measures undertaken by the Government.

A combination of tight monetary and prudent fiscal policies as well as administrative measures, such as compulsory price tagging and enforcement to ensure that the reduction and abolition of import duties on more than 1,100 items since 1993, were undertaken. In addition to these measures, an anti-inflation campaign was launched in May 1994, aimed at further educating the public and creating consumer awareness of the effects of inflation. Nevertheless, with demand remaining strong, particularly during the early part of the year, the inflation rate in 1994 is expected to rise marginally to an estimated 3.8%.

Employment

With the buoyant economy, the number of jobs created is expected to expand by 3% in 1994. With new entrants to the labour force expected to increase by only 2.9%, the unemployment rate is expected to decline further to 2.9% (1993: 3%). With this rate of unemployment, the economy is virtually at full employment. The tightening of the

labour market has led consequently to pressure on wages, resulting in wage increases outpacing labour productivity. During the first seven months of 1994, manufacturing establishments surveyed registered an average wage increase of 6.7%, while the increase in labour productivity of these establishments was 2.2% during the same period. This resulted in the unit labour cost increasing by 4.4% during the period.

Prospects for 1995

The Malaysian economy is expected to register yet another year of strong growth in 1995, boosted partly by the more broad-based economic recovery in the industrial countries, as well as the sustained high growth in the developing countries, particularly of East Asia. With economic growth of industrial countries projected at 2.7% and that of developing countries at 5.7%, the Malaysian economy, with its well placed economic fundamentals, is expected to benefit from the expected higher international output growth and its consequent expansionary impact on world trade. Growth in world trade is estimated to be in the region of 6% to 7% during the 1994-95 period. This and the successful conclusion of the Uruguay Round augur well for Malaysia's external sector, as trading nations are expected to progressively move towards more liberal trade policies in line with their General Agreement on Tariffs and Trade (GATT) commitments.

With the anticipated strong external stimulus and continued strength of domestic demand, Malaysia's real GDP is expected to sustain a growth of 8.5% in 1995. In current prices, GNP is projected to expand by 11.6%, with growth in GNP per capita rising by 9% to RM9,649 in 1995, equivalent to US\$3,711 (RM2.60 per US\$1).

Sectoral Performance

Output growth in 1995 is expected to be supported by the continued strong growth in the manufacturing, construction and services sectors. The **manufacturing sector** is expected to continue as one of the leading growth sectors in the economy, contributing 46.1% of GDP growth. Stimulated by stronger external and domestic demand, output in the manufacturing sector is expected to expand by 12.5%. The industries that are expected to contribute significantly to

this expansion include those producing fabricated metal products, chemicals and chemical products and electrical and electronic products.

In 1995, **agriculture output** is expected to recover, with a growth of 2.3% compared with 0.5% estimated for 1994. The growth is expected to emanate mainly from the 2.8% recovery in palm oil production due to the higher yields and more matured areas coming into production. Output of sawlogs is expected to decline by 3.8% due to conscious efforts aimed at sustainable exploitation of forest resources, while output of rubber is expected to decline by 3.5% due to the shortage of labour and the conversion of rubber land to other uses. However, the livestock sub-sector is projected to increase its output by 9% in response to increase in demand.

Output of the **mining sector** is forecast to improve marginally by 2% in 1995. While the production of crude oil and tin is forecast to decline by 0.5% and 18.5% respectively, gas production is expected to expand by 22% in line with the national energy objective of diversifying into non-oil fuels. Production of crude oil is expected to be reduced to 650,000 barrels per day while that of gas will increase to 2,930 million standard cubic feet per day (mscf/d).

Strong growth is expected to continue in the **construction sector** in 1995, with a growth of 12.7%. This strong growth is supported by the continued implementation of large infrastructural projects as well as the construction of residential, commercial and industrial buildings.

The **services sector** is expected to continue to outpace average GDP growth of the Malaysian economy, with a growth projected at 9%. This sector will contribute 46.8% to growth of GDP in 1995. The major contributors to this growth are envisaged from the distributive trade, tourism and financial services and utilities sub-sectors, given the strong performance of the other major sectors in the economy and the on-going shift towards upgrading and improving the quality of services.

Domestic Demand

On the demand side, growth in aggregate domestic demand (excluding the change in stocks) is expected to remain strong at 11.3% in 1995, with public and private expenditure rising by 8%

and 12.4% respectively. The main impetus to demand growth is expected to emanate from public and private investments which are projected to increase by 13.7% and 13.4% respectively. The larger capital formation is underpinned largely by the implementation of several large infrastructure projects and the sustained increase in investment in the manufacturing sector.

Private investment outlays are projected to expand further by 13.4% in 1995. The anticipated robust economic activities, the rising business confidence and the higher level of investments approved for the manufacturing sector in 1994, which are expected to be progressively implemented through 1995, are factors envisaged to boost private investment in 1995. Expansion in investment in the non-oil sector is anticipated to accelerate by 18% in 1995. Investment in the oil and gas sector, on the other hand, is projected to decline by 9.6%, after registering robust growth over the last two years. The decline is attributable to the anticipated slowdown in capital expenditure for upstream activities, as most of the production sharing contractors or oil companies have already fulfilled their minimum contractual obligations. Nevertheless, oil companies are expected to continue to increase their investment spending on downstream activities for the enhancement and upgrading of their refining facilities and their distribution network so as to increase their market share.

Growth in **private consumption** expenditure is forecast to remain robust in 1995, following the anticipated increase in disposable income and improved employment outlook. As such, private consumption is expected to rise by 12%.

Public investment is anticipated to increase further in 1995, increasing by 13.7%. The large increase is attributable to the expected increase in development expenditure of the Federal Government as 1995 will be the final year for the implementation of projects approved for the Sixth Malaysia Plan. The major thrust of investment expenditure continues to be on infrastructure and human resource development as well as the maintenance of public services. The NFPEs are also expected to continue with their upgrading and expansion programmes and, hence, their investment is expected to remain high. As in the previous years, the investment by NFPEs continues to be channelled into the gas, energy, telecommunications and transportation sectors.

Public consumption is envisaged to increase by 2.6% in 1995. The increase is expected to come mainly from expenditure on supplies and services for normal maintenance, repair work and supplies to upgrade the government machinery. The major portion of public consumption is expected to be devoted to the expenditure for emoluments, which is expected to account for about 55% of total public consumption expenditure in 1995. Defence expenditure is also expected to remain high as modernisation of the armed forces continues into 1995.

External Demand

On the external front, the strong performance of exports of goods and non-factor services is expected to be sustained in 1995, with a growth of 20.6%, following the anticipated favourable growth in world trade, due partly to better economic prospects in the major industrial countries. Merchandise exports are anticipated to increase by 21.4% given the projected 25% increase in manufactured exports. While exports of major agricultural commodities are anticipated to decline by 1.7%, exports of the mining sector are projected to improve, rising by 12.5%. In line with the moderation in trade, exports of non-factor services are expected to register a slower growth of 13.8%.

Imports of goods and non-factor services are expected to moderate slightly, increasing by 19.6% in 1995. In line with the anticipated further expansion in domestic demand, growth in imports of goods will be sustained at 20.6%. Nevertheless, the import of non-factor services is envisaged to increase at a slower rate of 14.5%.

Balance of Payments

In anticipation of the moderation in import growth as result of a slower growth in public sector expenditure, the merchandise account is projected to improve, registering a larger surplus of RM8.3 billion in 1995. However, with the envisaged widening in the services deficit to RM21 billion, the current account of the balance of payments is projected to record a deficit of RM12.4 billion or equivalent to 6.4% of GNP. The overall position of the balance of payments is, nevertheless, expected to improve in 1995, as the long-term capital account is projected to remain favourable.

Public Sector Financial Position

Fiscal policy in 1995 will continue to focus on the further consolidation of public sector finances and continued restraint on consumption spending, consistent with an anti-inflationary stance and the maintenance of a balanced budget. At the same time, in the allocation of investment expenditure, priority will be given to ease infrastructure constraints as well as promote the development of human resources and science and technology.

The **Federal Government budgetary position** is expected to strengthen in 1995 following a further increase in revenue and more careful expenditure allocations and control. This is in line with the Government's policy of maintaining a balanced budget by placing greater emphasis on fiscal prudence and promoting greater efficiency in spending by its agencies. Federal Government revenue is estimated to increase by 4.3% to RM47,641 million, while operating expenditure is expected to increase only by 1.9% to RM34,395 million. Consequently, the current account balance is expected to record a higher surplus of RM13,246 million. As the envisaged higher current surplus exceeds projected net development expenditure of RM12,703 million, the Federal Government's overall financial position is expected to record a surplus for the third consecutive year in 1995.

The **consolidated public sector current balance** is anticipated to remain favourable in 1995, as a result of improved revenue collection and continued prudence in spending. The general government revenue is expected to increase by 2.5%, while operating expenditure is expected to decline by 2.2%. Consequently, the consolidated current account of the general government is expected to achieve a higher surplus of RM16,638 million in 1995. In addition, the major NFPEs are expected to maintain a strong operating surplus in 1995 due to continued strong economic growth and the restructuring of companies over the previous years which are expected to improve their financial position. In aggregate, the consolidated public sector current account is expected to register a larger surplus of RM26,840 million in 1995. The total public sector development expenditure in 1995 is expected to increase by 9.9% to RM30,372 million, mainly due to the increase in development expenditure of the Federal Government and NFPEs which account for about 81.5% of the total public sector development

expenditure. After taking into account the higher development expenditure in 1995, the consolidated public sector overall deficit is expected to be RM3,532 million or 1.8% of GNP.

National Resource Position

As the growth in national income is anticipated to outpace the growth in total consumption expenditure, national savings is envisaged to accelerate by 14.7% to 33.3% of GNP in 1995. The anticipated strong increase in national savings is not, however, sufficient to offset the 13.2% increase in gross capital formation. With gross capital formation expected to account for 39.7% of GNP, the national resource position will register a slight improvement, with the deficit reducing to 6.4% of GNP. Both the private and public sectors are expected to record resource gaps in 1995. The savings-investment gap of the private sector is expected to improve slightly at 5.4% of GNP, as private savings are expected to increase at a more rapid rate (19%) than private investment spending (13.1%). As for the public sector, given that savings are anticipated to rise at a much slower rate (8.3%) than investment expenditure (13.4%), the resource gap is projected to widen slightly to 1% of GNP.

Consumer Prices

The expected buoyant economic performance, accompanied by higher growth in domestic demand will further exert pressures on prices in 1995. In addition, continued labour shortages would also exacerbate wage pressures. The Government, being concerned with the threat of higher inflation, will spare no effort in combating inflationary tendencies. A tight monetary policy will be maintained and at the same time, the Government will continue to undertake prudent fiscal measures. In addition, the enforcement of administrative measures will be further strengthened. Measures will also be intensified to address supply constraints as well as to overcome market imperfections through greater efforts in liberalising import restrictions and maximising resource utilisation in food production. The campaign for public awareness of the negative impact of inflation will also be accelerated. With these measures, the Government aims to further reduce inflation in 1995.

Employment

Total **employment** is projected to grow by 2.8% in 1995. The tight labour market situation is expected to persist as job opportunities are expected to increase at a faster rate than the 2.7% growth in the labour force. The secondary and tertiary sectors of the economy will continue to remain the major generators of employment, contributing 80.6% of total employment in 1995 as against 79.6% in 1994. The share of the primary sector to total employment is expected to decline further to 19.4% in 1995 from 20.4% in 1994.

As the shortage of labour, both skilled and unskilled, is expected to remain potential constraints to growth, the private sector must undertake strategic adjustments to stay competitive. In this context, the private sector, particularly the manufacturing sector, must shift towards labour-saving production techniques, enhance its technology base, improve its product quality and value added as well as intensify the development of its human resources. In this context, the Government will continue to promote the establishment of more vocational and technical schools, review the curriculum of the public sector's industrial training institutions and extend the coverage of the Human Resource Development Fund to the services sector.

Conclusion

The Malaysian economy is, therefore, expected to experience yet another year of strong growth in 1995. Domestic demand, particularly fixed capital formation, and external demand are expected to sustain the momentum of growth. The manufacturing, construction and the services sectors are expected to continue to be the major contributors to the further increase in output. However, the external current account imbalance, particularly the services deficit of the balance of payments, labour shortages and potential inflationary pressures due to rising demand and supply constraints are key macroeconomic issues that are expected to persist into 1995. These issues have and will continue to receive policy consideration.