

6

Private Sector Performance

Overview

Pprivate sector earnings and spending remain strong in 1994 underpinned by the buoyant economic growth. Corporate earnings generally improved due to higher sales turnover, as a result of strong domestic and external demand. Disposable income has also increased due to the favourable employment situation and higher remuneration. As a result, private consumption spending is expected to pick up in 1994. Private investment is also envisaged to remain buoyant. The higher investment spending reflects the bullish business confidence in the economy as well as improvement in investment incentives following an increase in the rate of reinvestment allowance and the indefinite extension of the entitlement of this allowance announced in the 1994 Budget.

Private Sector Earnings

In line with the continued strong growth in the economy, total **private sector income** (in nominal terms) of both business entities and individuals is estimated to increase by 9.7% in 1994 (1993: 10.7%). Underlying this growth is the stronger increase in export earnings (22.5%) during the first seven months of 1994 (January-July 1993: 19.8%) due to improved external demand, particularly of manufactured goods, since the end of 1992. Higher total expenditure by both the public and private sectors is also expected to contribute to the better performance of private sector earnings.

Private sector performance remains generally favourable as indicated in the Business Expectations Surveys (BES) of the Department of Statistics, as shown in Table 6.1. The BES indicates that the revenue growth for 1994 is expected to sustain at 14.1% (1993: 14.4%) with

all major sectors of the economy, except construction, anticipated to register improved performance in earnings.

The **manufacturing sector**, which accounts for almost half of the revenue of the companies surveyed, is envisaged to register a significant increase of 19.9% in revenue in 1994 (1993: 20.9%). Among the factors that contribute to the revenue growth are increased exports and higher production. During the first seven months of 1994, exports of manufactured goods expanded strongly by 31.1% (January-July 1993: 30%) and its output by 14.1% (January-July 1993: 13.6%). The revenue performance of the export market-oriented industries is expected to improve further while that of the domestic market-oriented industries is projected to remain encouraging (see Table 6.2).

The export market-oriented industries of the electrical and electronic, rubber and wood-based products, are anticipated to record impressive revenue growth, ranging from 18% to 42% in 1994. The strong revenue performance of the electrical and electronics industry (42%), in particular, is attributable to the growing demand for its new value-added products, the production of which had been relocated to Malaysia. The growing base of local and foreign multinational customers and the economic recovery of several of Malaysia's major trading partners, such as the United States (US) and the United Kingdom, are contributory factors to the strong revenue growth of the sector. This is further enhanced by the on-going development of the domestic telecommunications and information technology industries. The revenue expansion for both the rubber and wood-based industries are expected to be sustained by the continued high level of orders from the domestic and export markets brought about by enhanced development of downstream processing

Table 6.1
Gross Revenue by Sector¹

Sector	Value (RM million)		Annual change (%)	
	1993	1994 ^f	1993	1994 ^f
Agriculture	2,806	2,882	-7.6	2.7
Rubber	212	247	-22.9	16.5
Oil palm	1,783	1,971	8.1	10.5
Logging	811	664	-27.1	-18.1
Mining ²	339	350	-0.9	3.2
Manufacturing	50,942	61,099	20.9	19.9
Construction	2,576	2,285	8.3	-11.3
Services	52,360	57,821	10.5	10.4
Wholesale and retail trade	23,147	27,087	3.6	17.0
Hotels	367	403	6.1	9.8
Banks and other financial institutions	17,422	17,906	23.7	2.8
Insurance, real estate and business services	4,275	4,548	16.8	6.4
Transport	7,149	7,877	3.2	10.2
TOTAL	109,023	124,437	14.4	14.1

¹ Based on the various publications of the Business Expectations Surveys (BES) conducted by the Department of Statistics (DOS) biannually covering 220 large corporations.

² Excluding petroleum and gas.

^f Forecast.

Source: Department of Statistics

of resource-based industries over the past few years. For the textile industry, however, revenue performance is envisaged to remain poor, registering a decline of 0.4% (1993: -4.1%), despite the continued strong demand in the external markets. Output and, hence, earnings are expected to be constrained by the shortage of skilled labour. Further, the increased competition from low-cost producing countries, such as China, Thailand and Vietnam, is another contributory factor to the lacklustre performance of the industry.

The revenue performance of the domestic market-oriented industries, except for fabricated metal products, is expected to be equally encouraging. The earnings of the non-metallic

mineral, plastic and glass as well as transport equipment industries are envisaged to be higher, ranging from 17% to 21% in 1994. While the better revenue performance of the non-metallic mineral as well as plastic and glass industries reflects the continued buoyant activities in the construction sector, the favourable revenue growth for the transport equipment industry is due to the strong domestic sales for commercial vehicles and passenger cars. Nonetheless, the other domestic-oriented industries, such as food products, iron and steel as well as petroleum refining are projected to register moderate revenue performance, with growth ranging from 1% to 6%.

Table 6.2
Gross Revenue by Manufacturing Sector¹

	Value (RM million)		Annual change (%)	
	1993	1994 ^f	1993	1994 ^f
Export market-oriented industries	20,236	27,819	37.0	37.5
Electrical and electronic products	17,452	24,723	45.4	41.7
Textiles and wearing apparel	1,341	1,336	-4.1	-0.4
Wood products, excluding furniture	346	407	56.6	17.6
Rubber products	1,097	1,353	-4.5	23.3
Domestic market-oriented industries	30,706	33,280	12.2	8.4
Food, beverages and tobacco	9,622	9,995	0.0	3.9
Paper products and printing	384	439	-7.0	14.3
Chemicals and chemical products	6,215	6,824	58.7	9.8
Petroleum refining	4,338	4,393	2.1	1.3
Plastic and glass products	257	312	17.9	21.4
Non-metallic mineral products	1,025	1,197	-1.2	16.8
Iron and steel	1,408	1,496	14.4	6.3
Fabricated metal products	1,408	1,399	13.6	-0.6
Machinery, excluding electrical	1,567	1,788	0.4	14.1
Transport equipment	4,482	5,437	15.5	21.3
TOTAL	50,942	61,099	20.9	19.9

¹ Based on BES.

^f forecast

Source: Department of Statistics

The slow revenue growth of the food industry is partly due to the higher cost of production, arising from increased costs of raw materials. In the case of iron and steel industry, the moderate revenue performance is due to lower production, despite projected increases in potential domestic demand which will be met by imports. The petroleum industry is anticipated to record a lacklustre revenue performance attributable mainly to lower crude oil prices and stiff market competition. The fabricated metal industry is anticipated to register a marginal decline in revenue despite the rapid expansion in economic activities by the foundry and engineering as well as fabrication activities in the oil sector.

The **construction sector** is expected to register a decline of 11.3% in revenue (1993: 8.3%) despite the continued strong pace of development of the on-going infrastructural projects in the country (see Table 6.1). The weak earnings of construction companies is attributable to the glut in the supply of office space, particularly in the up-market segment in the Klang Valley area with the completion of several non-residential buildings. The poor revenue performance is also due to the softening demand, especially for higher priced condominiums.

The revenue performance of the **agriculture sector** is expected to recover by 2.7% (1993: -7.6%), mainly due to improved revenue of the rubber and oil palm companies. Despite lower production, the revenue performance of rubber and oil palm companies is envisaged to strengthen, largely on account of improved prices of these commodities. Nevertheless, logging companies are projected to continue to record a decline in revenue due partly to the stricter enforcement of the felling quotas to conserve the logging areas.

Profits of the **mining sector** (excluding petroleum and gas) are also anticipated to recover in 1994, with a projected increase of 3.2% (1993: -0.9%). The better performance reflects mainly the stronger revenue growth of copper mining and quarrying, arising from increased production.

The revenue increase of the **services sector** is projected to remain strong, at 10.4% in 1994 (1993: 10.5%). Much of the growth is expected to emanate from the wholesale and retail trade, hotel, transport as well as insurance and business services sub-sectors, with anticipated revenue

increases between 6% to 17%. Sustained economic growth and higher disposable private sector income are major underlying factors contributing to the strong revenue growth in these sub-sectors. The Visit Malaysia Year 1994 campaign, in particular, to promote tourism helps to increase earnings in the hotel, wholesale and retail trade sub-sectors. However, the banking and financial sub-sector is anticipated to generate moderate revenue growth in 1994, attributable to falling interest rates.

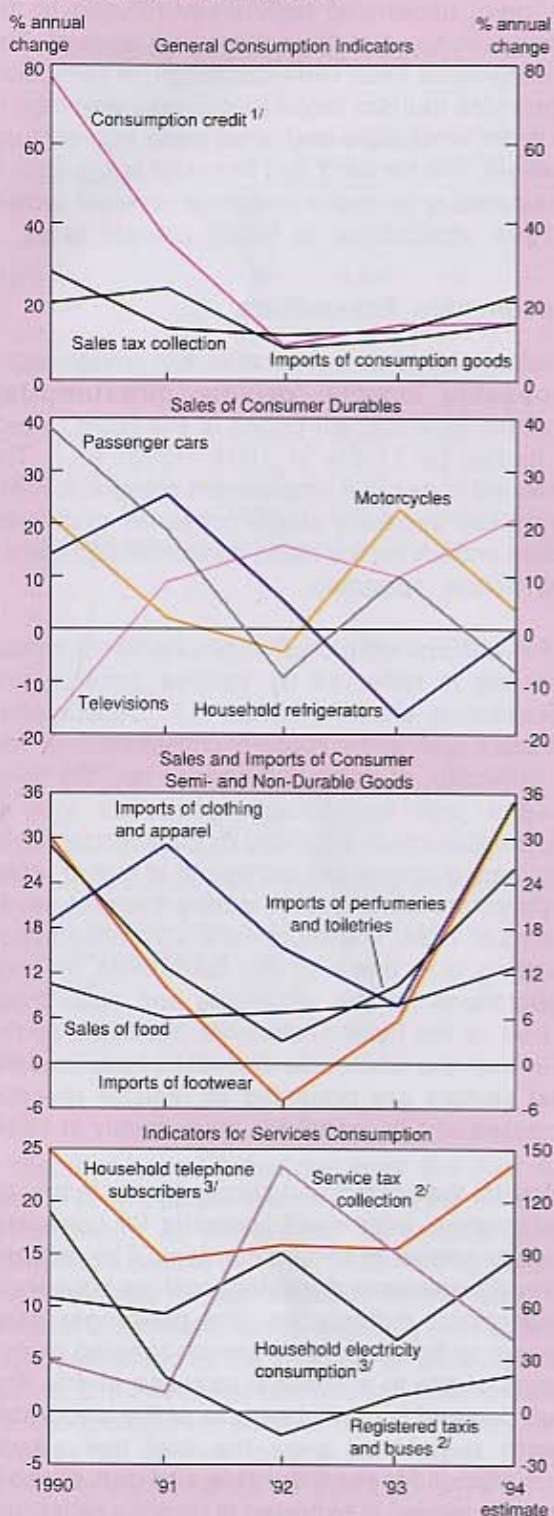
Consumption Expenditure

Induced by continued increases in private sector disposable income, **private consumption expenditure** in current prices is expected to pick up further by 11.9% in 1994 (1993: 9%). The continued favourable employment prospects, rising wages and generally stable consumer prices are factors underlying the rising consumer confidence and, hence, spending.

The anticipated pickup in private consumption spending is reflected by various consumption indicators as shown in Chart 6.1. Consumption indicators such as the import of consumption goods, the collection of sales and service tax, the sales of semi- and non-durable goods as well as consumption credit extended by commercial banks and finance companies increased at higher rates, varying from 13% to 42% during the first seven months of 1994. The improvement in consumption spending is in line with the favourable revenue expectations for the wholesale and retail trade as well as the hotel sectors. As indicated by the BES, both the wholesale and retail trade and the hotel sectors are projected to register revenue increases of 17% and 9.8% respectively in 1994.

Amidst the anticipated strong growth in private consumption, household spending for consumer durables seems to remain cautious. The demand for most **consumer durables**, such as household refrigerators, motorcycles and passenger cars, appears to be weak, with growth ranging from a decline of 8% to a nominal increase of 4%. The weak demand is partly because of the favourable growth registered over the last few years. Consumption for **semi-durable and non-durable goods**, however, is expected to record a significant increase in 1994. The increase, as reflected in the sales and imports of such goods, is in line with the rising consumer confidence following the increase in incomes and continued favourable

Chart 6.1
Private Consumption Indicators



1/ Refers to total amount extended by the commercial banks and finance companies as at end of the year, except for 1994 as at end of July.

2/ Refers to right scale.

3/ Refers to left scale.

employment outlook in the economy. Household demand for **services** is generally envisaged to continue to expand as population and incomes increase. The rising consumer demand for services is reflected in the projected demand for transport, telecommunications and energy.

Despite the increase in consumer spending, prices of consumer goods have been relatively stable. The reduction and abolishment of import duties on more than 1,100 items, including foodstuffs, footwear and motor vehicle parts, as well as Malaysia's commitment to liberalise trade have reduced prices of imports.

Taking into consideration the anticipated increases in prices of consumption goods and services at 3.8% in 1994 (1993: 3.6%), private consumption in real terms is expected to increase by 7.8% (1993: 5.3%). Consequently, real private consumption per capita is estimated to pick up moderately by 5.3% (1993: 2.8%).

Capital Outlay

Private sector capital outlay is envisaged to remain strong in 1994, reflecting the continued bullish business sentiment boosted by lower corporate tax rates, improved investment incentives and reduced interest rates. Total private investment (in nominal terms) is expected to expand by 12.8% in 1994 (1993: 13.9%), sustained by higher capital outlays by domestic investors as well as higher reinvestment spending by the foreign corporations. The introduction of the various fiscal and non-fiscal incentives, including the Domestic Investment Initiative programme launched in 1993 and the extension of the reinvestment allowance benefits for both the small and large-scale corporations are expected to enhance the investment climate. The anticipated pickup in the domestic and overseas sales and the continued high capacity utilisation are some of the contributory factors to the strong growth in investment spending.

The sustained expansion in private investment is reflected in a number of investment indicators, as shown in Chart 6.2. These indicators, which include total loans and advances granted by the banking system, imports of capital goods, sales and imports of construction materials, reflect encouraging investment performance, with growth ranging from 8% to 33% during the first seven months of 1994.

Inflows of foreign direct investment are expected to slow down due to the lagged effect of lower approved investments for manufacturing sector since 1991 through 1993, as a result of the global decline in foreign direct investment funds and the increasing competition for funds from the emerging free market economies, such as Vietnam, Cambodia, China and Eastern Europe. To offset the anticipated decline in foreign direct investment, the Domestic Investment Initiative programme was launched in 1993, with a view to encouraging greater domestic investment. As a result, domestic investment is expected to play the leading role in spearheading growth in 1994, increasing strongly by 21.1% (1993: 21.8%). Domestic investment by the small and medium-scale industries (SMIs) is expected to increase at a more rapid pace, in line with the enhancement of the vendor development programme with the view to encouraging greater linkages between the SMIs and the large corporations.

The BES indicated that capital expenditure is expected to decline by 2.1% in 1994 (1993: 33%), as seen in Table 6.3. The Survey, however, covered only 220 large companies and does not include the SMIs and companies not yet in operation, which will account for a significant portion of the investment outlays. As in the past, the bulk (83%) of the investment is anticipated to continue to be in the purchases of new machinery and transport equipment, which is projected to grow significantly on account of the buoyant activities in the export-oriented manufacturing industries as well as distributive and financial services sectors. However, investment in new transport equipment is envisaged to decline, following significant increases (67% per annum) over the last three years. Investment in new buildings and other structure is also expected to decline. However, the Survey does not take into account new companies which are not yet in operation. The two major sectors, manufacturing and services, are projected to decrease their investment spending.

The **manufacturing sector**, which accounts for more than half of the total planned investment, is expected to record a marginal increase of 0.9% in investment in 1994 (1993: 37.2%). The lacklustre performance is largely due to the anticipated decline in investment by the domestic-oriented industries while investment by the export-oriented industries is projected to continue to increase sharply.

Chart 6.2
Private Investment Indicators

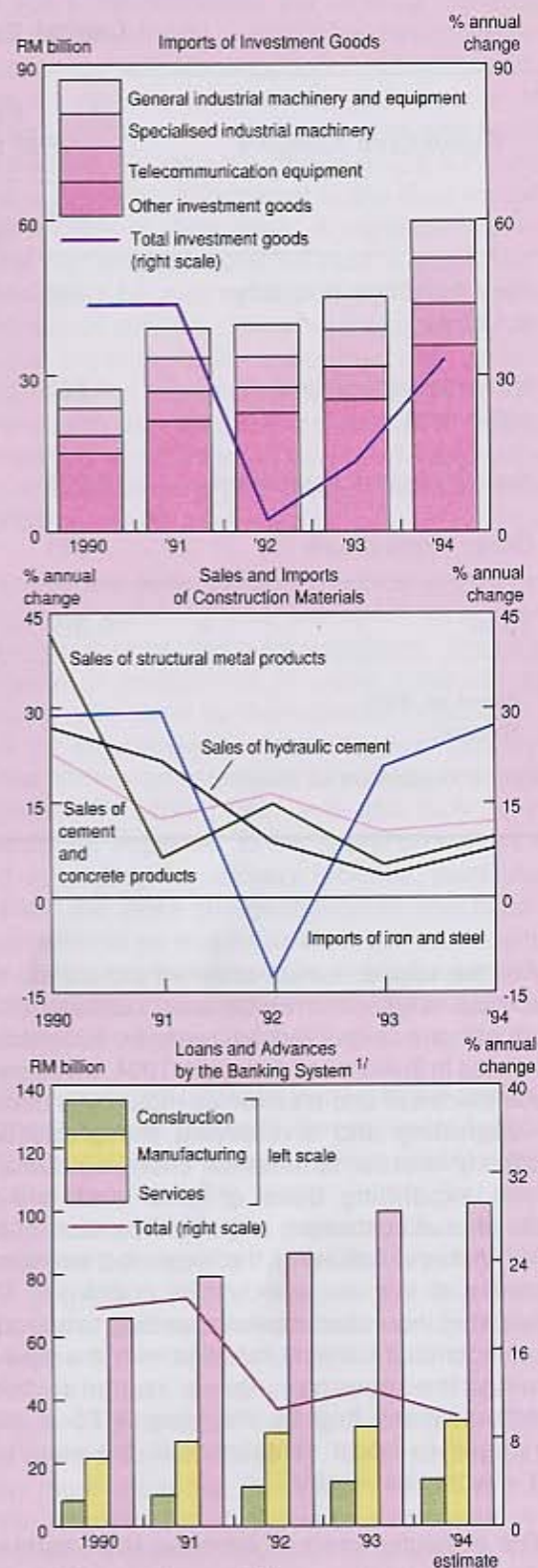


Table 6.3
Capital Expenditure by Type¹

<i>Expenditure category</i>	<i>Value (RM million)</i>		<i>Share (%)</i>		<i>Annual change (%)</i>	
	1993	1994 ^f	1993	1994 ^f	1993	1994 ^f
New buildings and other structure	1,465	1,431	14.1	14.1	67.2	-2.3
New machinery and equipment	4,563	4,871	44.0	47.9	19.2	6.7
New transport equipment	3,998	3,555	38.5	35.0	41.8	-11.1
Other expenditure	351	305	3.4	3.0	26.7	-13.1
TOTAL	10,377	10,162	100.0	100.0	33.0	-2.1

¹ Based on BES.

^f Forecast

Source: Department of Statistics

For the export market-oriented industries, the electrical and electronics and rubber-based products are expected to register substantial increases in investment outlays in 1994. Investment in the electrical and electronics industry is mainly for upgrading and diversifying the production capability in order to meet the changing demand of the expanding base of local and foreign multinational customers and in anticipation of the rising demand following the expected economic recovery of the major industrial countries. The anticipated increased capital spending to upgrade the telecommunications facilities with the view to turning the country into a regional telecommunications hub by the year 2020 is also envisaged to boost investment in the electrical and electronics sector.

The projected marked increase in investment during 1994 in the rubber-based industry, after slowing down over the last two years, is attributable

to the increasing potential demand in the overseas market, particularly for rubber gloves. The anticipated increased demand for new value-added products, particularly the higher-end rubber moulded products for the automobile and electronics industries, is a major contributory factor to the rapid rise in investment spending in the rubber-based industry.

Investment in wood-based products industry is expected to remain strong in 1994 with investment in furniture processing envisaged to increase further, particularly with the planned establishment of two additional furniture parks in Terengganu and Pahang and the existing ones in Olak Empit, Selangor and Pengkalan Industrial Estate, Perak. However, investment in the textile and wearing apparel industry is expected to decline in 1994. This is due to the projected sharp decline in investment in the labour-intensive textile sub-sector, which is facing problem of shortages of skilled

Table 6.4

Capital Expenditure by the Manufacturing Sector¹

	Value (RM million)		Annual change (%)	
	1993	1994 [†]	1993	1994 [†]
Export market-oriented industries	1,525	2,222	56.2	45.7
Electrical and electronics products	1,407	2,101	62.7	49.3
Textiles and wearing apparel	87	51	2.4	-41.4
Wood products, excluding furniture	11	16	175.0	45.5
Rubber products	20	54	-13.0	170.0
Domestic market-oriented industries	3,582	2,931	30.5	-18.2
Food, beverages and tobacco	205	179	-6.4	-12.7
Paper products and printing	14	35	-65.9	150.0
Chemicals and chemical products	1,749	1,283	109.0	-26.6
Petroleum refining	133	223	-7.0	67.7
Plastic and glass products	76	64	-64.8	-15.8
Non-metallic mineral products	268	191	-0.4	-28.7
Iron and steel	197	25	-72.3	-87.3
Fabricated metal products	99	92	153.8	-7.1
Machinery, excluding electrical	270	109	107.7	-59.6
Transport equipment	571	730	305.0	27.8
TOTAL	5,107	5,153	37.2	0.9

¹ Based on BES.[†] Forecast

Source: Department of Statistics

and chemical products is mainly due to the heavy investment in several big projects during the last few years. Nevertheless, the recently completed multi-billion ringgit integrated petrochemical complex in Pasir Gudang, Johor is anticipated to spin off further downstream activities in the petrochemical as well as fabrication and related businesses. Despite the ample scope for further food processing, investment in the food industry is envisaged to slow down. A significant portion of the domestic demand for food is projected to continue to be met by imports. Despite robust construction activities, following the implementation of the several major infrastructural projects scheduled for completion until the year 2000, investment by existing construction-related companies is projected to decline. These include non-metallic mineral products, iron and steel and fabricated metal products.

Investment outlay in paper products and printing, petroleum refining and transport equipment, however, is projected to be significant. The sharp increase in investment in paper products and printing is boosted by the increase in demand as well as international prices of paper products. Investment expenditure in petroleum refining is expected to strengthen, with the bulk of the investment expected to be spent on enhancing and upgrading the refinery facilities, particularly to meet the more stringent product specification requirements as well as to improve health, safety and environmental standards. Capital expenditure in the transport equipment industry is expected to take place in the assembly of up-market cars.

The significant increase in investment approved by the Malaysian Industrial Development Authority (MIDA) reflects the favourable investment outlook for the manufacturing sector. In the first seven months of 1994, the amount of approved investments surged by 174% (January-July 1993: -72.4%) with domestic investment accounting for 48% of the total approved investment and foreign investment the balance of 52%. This significant increase reflects further improvement in business confidence among domestic and foreign investors due to the buoyant economy, lower corporate tax rate, more attractive investment incentives and lower interest rate. Approved investments in all industries increased sharply, as shown in Table 6.5. The basic and fabricated metal, non-metallic mineral, chemicals and chemical products, electrical

and unskilled labour. Investment in wearing apparel and footwear sub-sector is also expected to decline despite anticipated increases in sales orders from both the domestic and external markets.

Investment in all domestic market-oriented industries, except paper products and printing, petroleum refining and transport equipment, is expected to decline, ranging from 7% to 87%. The slowdown in investment spending in chemicals

Table 6.5
Projects Approved by Industry
(January-July)

Industry	Number		Value (RM million)		Share (%)		Annual change (%)
	1993	1994	1993	1994	1993	1994	1994
Electrical and electronic products	128	127	857	3,728	17.7	28.1	335.0
Textile and leather products	32	21	486	679	10.0	5.1	39.7
Wood, furniture and fixture	44	56	321	1,136	6.6	8.5	253.9
Rubber and plastic products	33	59	150	736	3.1	5.5	390.7
Food, beverages and tobacco	32	23	264	482	5.5	3.6	82.6
Petroleum and coal	1	1	3	400	0.1	3.0	13,233.3
Chemicals and chemical products	38	24	1,109	1,816	22.9	13.7	63.8
Non-metallic mineral products	24	15	812	1,538	16.8	11.6	89.4
Basic and fabricated metal products	23	36	380	1,872	7.8	14.1	392.6
Machinery and transport equipment	32	42	272	763	5.6	5.7	180.5
Miscellaneous	34	22	191	140	3.9	1.1	-26.3
TOTAL	421	426	4,844	13,290	100.0	100.0	174.4

Source: Malaysia Industrial Development Authority (MIDA).

and electronics as well as wood, furniture and fixture industries registered a significant portion (76%) of the total approved investment. Foreign investment approved was mainly for investors from Taiwan (RM1.6 billion), Japan (RM1.5 billion), Hong Kong (RM779 million), Singapore (RM530 million) and the US (RM452 million). Investment

from these five countries amounted to 70% of the total foreign investment approved.

Private investment in the **agriculture sector** is expected to turn around by 50.7% in 1994 (1993: -17.2%), with growth coming mainly from the plantation sector of oil palm and logging, due

to the anticipated higher prices and stronger demand (see Table 6.6). Investment in oil palm plantations is expected to continue to strengthen, as demand for palm oil is expected to increase. Total newly planted and replanted oil palm hectareage is projected to increase by 79,000 hectares (1993: 48,000 hectares). Investment outlays in the logging industry is mainly in terms of reforestation in line with Malaysia's policy of sustainable forest development. Investment in rubber plantations is projected to stagnate in line with the anticipated decline in the total area to be planted with rubber to 283,000 hectares from 298,000 hectares in 1993, mainly due to the conversion of rubber land to oil palm and other uses.

Capital expenditure in the **construction sector** is anticipated to increase by 1.9% in 1994 (1993: -34.2%). Investment in the construction sector is mainly sustained by the development of several mega infrastructural projects, including the Kuala Lumpur International Airport, Kuala Lumpur City Centre, North-South Expressway Central Link, Light Rail Transit System and the double-tracking rail project.

Private investment in the **mining sector** (excluding oil and gas) is expected to increase sharply in 1994, mainly due to investment in other mining. Investment spending is also anticipated to take place in the quarry industry as economic activities in the construction sector remain strong.

Private investment in the **oil and gas industry** is projected to record a rapid growth of 22.8% in 1994 (1993: 3.5%). Capital investment in the upstream activities, which constitutes 92% of the total oil and gas investment, is expected to strengthen markedly by 21.7% in 1994 (1993: 13.3%) mainly on account of the installation of six new platforms in the Central Luconia offshore fields of Sarawak, the construction of a new gas pipeline and two new trunk lines as well as the development of the MLNG-Dua onshore project in Sarawak. Other investments in upstream activities include the drilling of 39 development wells (28 in 1993).

Investment in downstream activities by the oil companies (excluding PETRONAS) is also expected to increase significantly by 37.3% in

Table 6.6
Capital Expenditure by Sector¹

Sector	Value (RM million)		Annual change (%)	
	1993	1994 ²	1993	1994 ²
Agriculture	207	312	-17.2	50.7
Rubber	17	17	-52.8	0.0
Oil palm	175	249	15.9	42.3
Logging	15	46	-76.2	206.7
Mining ²	25	52	92.3	108.0
Manufacturing	5,107	5,153	37.2	0.9
Construction	52	53	-34.2	1.9
Services	4,986	4,592	33.4	-7.9
Wholesale and retail trade	284	338	-17.0	19.0
Hotels	67	34	123.3	-49.3
Banks and other financial institutions	281	382	-21.7	35.9
Insurance, real estate and business services	80	175	50.9	118.8
Transport	4,274	3,663	44.7	-14.3
TOTAL	10,377	10,162	33.0	-2.1

¹ Based on BES.

² Excluding petroleum and gas.

³ Forecast

Source: Department of Statistics

1994, after registering an average decline of 42% per annum during the 1992-93 period. Most of the capital expenditure is anticipated to be invested in upgrading the refining facilities and enhancing the existing distributive network through the improvement of the existing service stations and the opening of new service stations, particularly in northern Peninsular Malaysia. Investment in the latter is induced by the prospective development of the northern triangle, the opening of the North-South and East-West highways as well as the opening of the Kulim High Technology Park.

Capital expenditure by the **services sector**, as a whole, is anticipated to consolidate in 1994, registering a decline of 7.9%, after recording a

strong average growth of 54% per annum during the last five years. The consolidation of investment in the services sector reflects the lower investment in the transport and hotel sub-sectors. Investment by transport sector, which accounts for more than two-third of the total capital investment in the services sector, is expected to decline mainly due to the fall in capital spending in the air and shipping industries. This is mainly because of the significant investment growth over the last six years at an average of 61% per annum. Investment outlays in the hotel industry is also projected to decline despite buoyant activities in hotel construction. This is mainly because the Survey does not include new hotels as well as those that are still in construction.

Despite the weak investment performance for the services sector as a whole, investment in the wholesale and retail trade, bank and finance institutions and insurance, real estate and business services is expected to increase significantly, varying from 19% to 119% in 1994. Some of the contributory factors to the increased investment are the anticipated sustainable strong economic growth and the concomitant rise in disposable incomes which have led to an expansion in businesses in these sub-sectors. The increased investment in the wholesale and retail trade sub-sector is also attributable to a change in consumer habits in favour of more up-to-date, convenient shopping, especially in the Klang Valley. Investments undertaken by the banking and financial institutions are mainly for upgrading their technology, with the view to enhancing their competitiveness and improving customer services.

Sources of Financing

With improved earnings and, therefore, savings, the private sector finances their investment largely through internally generated funds in 1994, as indicated by the BES, as shown in Table 6.7. A significant proportion (63%) of the total investment is expected to continue to be financed by the corporations' own funds in the form of depreciation charges, retained profits, reserves and provisions as well as injection of capital funds from shareholders.

With the relatively lower interest rates, borrowing, both from domestic and external sources, is

Table 6.7
Private Sector Source of Financing¹
(% share)

	1993	1994 ²
Own fund	62	63
Local borrowings	9	12
Foreign borrowings	29	25
TOTAL (RM million)	100 10,377	100 10,162

¹ Based on BES.

² Forecast.

Source: Department of Statistics

expected to continue to be an important source of financing in 1994. The percentage share of borrowing to total investment is projected to sustain at 37% (1993: 38%). Borrowing from domestic banks is anticipated to account for 12% of the total financing requirements in 1994, representing an increment of 3 percentage points from 9% recorded in 1993. The higher domestic borrowing is also reflected in the loans and advances extended by the banking system to the private sector, please see Table 6.8. As at the end of July 1994, total loans and advances extended by the banking system to the private sector rose by 9.4% (end-July 1993: 9.8%), reflecting largely the increase in disbursements of loans and advances to the manufacturing, construction and services sectors.

The corporate sector is also envisaged to source their funds by borrowing abroad. The BES indicated that 25% (1993: 29%) of private investment in 1994 is expected to be financed by foreign borrowing. The higher foreign borrowing compared to domestic borrowing, reflects the relatively lower costs and better terms and conditions of borrowing in the international market. As reflected in the MIDA investment approvals, foreign borrowing accounted for 56% of the total loan financing in 1992-93.

Foreign equity is also another important source of financing of private investment. The MIDA

Table 6.8

Loans and Advances by the Banking System¹

(as at end of July)

Sector	Value (RM million)		Annual change (%)	
	1993	1994	1993	1994
Agriculture	5,587	4,842	-8.3	-13.3
Mining	984	866	-3.5	-12.0
Manufacturing	30,666	33,237	6.1	8.4
Construction	13,677	14,675	25.5	7.3
Services	91,575	102,245	10.5	11.7
General commerce, including wholesale and retail trade	15,280	15,773	0.9	3.2
Transport, storage and communications	2,046	2,624	25.7	28.3
Finance, insurance and business services	14,576	13,671	9.4	-6.2
Property including real estate and housing	34,247	34,611	10.4	1.1
Others	25,427	35,567	16.7	39.9
TOTAL	142,490	155,866	9.8	9.4

¹ Excluding consumption credit.

Source: Central Bank of Malaysia

investment approvals for 1992-93 showed that 61% of the total approved equity for the manufacturing sector was to be financed from foreign equity.

The local capital market is another important avenue for financing of private investment. The excess liquidity in the economy, strong corporate earnings and general public confidence in the capital market have facilitated the mobilisation of additional funds through the capital market via new listings and new share issues as well as the issuance of private debt securities. For the first eight months of 1994, the Securities Commission had approved the issuance of a total of RM8.8 billion shares and RM19.2 billion debt securities. Of the total funds approved, the services sector remained the largest recipient (71%), followed by

the manufacturing sector (12.7%). Together they accounted for about 84% of the total funds approved. Apart from sourcing of funds from the local bourse, several large private corporations sourced their funds from foreign capital markets, by raising convertible bonds in the US, Europe and Asian countries. In the first eight months of 1994, the Rating Agency Malaysia Bhd. completed a total of 57 corporate debt rating, valued at RM 7.7 billion.

Table 6.9

Fund Raised in the Capital Market (January-August)

	RM million		% Share	
	1993	1994	1993	1994
Shares	3,434	8,818	48.5	31.5
Public issues	28	204	0.4	0.7
Right issues	1,602	4,123	22.6	14.7
Special issues	672	2,898	9.5	10.3
Offers for sale	1,131	1,593	16.0	5.7
Debt securities	3,649	19,216	51.5	68.5
Conventional bonds ¹	1,013	11,767	14.3	42.0
Convertible bonds ²	30	3,469	0.4	12.4
Others ³	2,606	3,980	36.8	14.2
TOTAL	7,083	28,034	100.0	100.0
Shares and debt securities by sector				
Agriculture	298	2,660	4.2	9.5
Mining	—	241	—	0.9
Manufacturing	1,262	3,567	17.8	12.7
Construction	463	1,656	6.5	5.9
Services	5,060	19,910	71.4	71.0
General trading	448	447	6.3	1.6
Finance and insurance	2,487	6,437	35.1	23.0
Property	2,034	1,548	28.7	5.5
Others	91	11,478	1.3	40.9

¹ Include redeemable bonds, unsecured loan stocks and Government-guaranteed bonds. The figures include value of bonds with warrants at the time of issue but exclude funds raised upon exercise of warrants.

² Include convertible loan stocks and Euro-convertibles (exclude funds raised upon conversion of bonds).

³ Include revolving facilities, unsecured notes, yankoo bonds and Islamic debt securities.

Source: Securities Commission.

Private Sector Resource Position

Private sector savings are expected to increase at a lower rate of 4.9% in 1994 (1993: 11.2%) to account for 19.2% of GNP (1993: 20.4% of GNP). Gross private investment outlay (including the change in stocks), which account for 25.6% of GNP in 1994 (1993: 24.9%), is projected to be strong, increasing by 14.5% (1993: 16.2%). As the expansion in gross private investment outlays continues to outpace the growth in private sector savings, the private sector is envisaged to continue to register a resource gap of RM11 billion (6.4% of GNP) which will be financed mainly through foreign equity.

Table 6.10

Private Sector Resource Position (in current prices)

	RM billion		% change	
	1993	1994 ¹	1993	1994 ¹
Private sector income ¹	114.5	126.0	9.6	10.0
Less Private consumption	82.9	92.8	9.0	11.9
Private sector savings (% of GNP)	31.6 (20.4)	33.2 (19.2)	11.2	4.9
Private sector investment ² (% of GNP)	38.6 (24.9)	44.2 (25.6)	16.2	14.5
Private savings— investment gap (% of GNP)	-6.9 (4.5)	-11.0 (6.4)		

¹ After direct taxes but include subsidies.

² Include change in stocks.

¹ Forecast.