8 Prices, Employment and Wages

Prices

The continued strong economic growth accompanied by the acceleration in domestic demand has somewhat exerted pressure on consumer prices. In addition, labour shortages and its concomitant pressures on wage expectations as well as the high level of resource utilisation, particularly in the manufacturing sector, have been a cause for concern that the economy may approach overheating. Given these developments, the Government undertook a strong anti-inflationary stance to combat inflationary pressures on the economy. A tight monetary policy was adopted to reduce the excess liquidity arising from large inflows of foreign short-term capital. At the same time, further fiscal restraints were continued, aimed at further consolidating public sector expenditure. In addition, administrative measures were also instituted to curb unhealthy business ethics and practices and in particular to ensure that the benefits from the reduction and abolition of import duties announced by the Government were passed on to consumers.

Reflecting largely the success of these measures, inflation as measured by the **Consumer Price Index (CPI)** which rose by 4.5% during the first quarter of 1994, slowed down to 3.6% during the second quarter. The significant rise during the first quarter coincided with two major festive seasons. On an annualised basis, the CPI moderated to 3.8% during the first eight months of 1994, matching the 3.8% increase registered during the corresponding period of 1993. At the regional level, the CPI for Peninsular Malaysia rose by a slower pace of 3.7% (January-August 1993: 3.9%), whereas the increase for Sarawak accelerated to 4.7% (January-August 1993: 3.5%) and Sabah to 3.4% (January-August 1993: 2.9%) as shown in Table 8.1.

Table 8.1

Consumer Price Index (1990=100)

	Weights[1]	1993	Annual change (%) (January–August) 1993	1994
Malaysia	100.0	3.6	3.8	3.8
Food	33.7	2.2	1.8	5.6
Beverages and tobacco	4.3	14.8	18.8	4.9
Clothing and footwear	4.0	0.5	0.7	-0.7
Gross rent, fuel and power	20.2	3.5	3.7	2.3
Furniture, furnishings and household equipment and operation	5.8	1.3	1.0	1.9
Medical care and health expenses	1.8	5.1	5.2	3.3
Transport and communication	18.6	5.6	6.4	4.6
Recreation, entertainment, education and cultural services	5.2	0.5	0.4	0.6
Miscellaneous goods and services	6.4	2.6	2.7	2.8
Peninsular Malaysia	100.0	3.7	3.9	3.7
Sabah	100.0	2.4	2.9	3.4
Sarawak	100.0	3.4	3.5	4.7

[1] The weights used are based on the final weights from the 1990 Household Expenditure Survey and the revised selection of price collection centres.

Source: Department of Statistics.

The slower rate of increase in the CPI as the year progressed reflected the success of the Government's comprehensive package of anti-inflationary measures through a combination of tight monetary, prudent fiscal and administrative measures. The tight monetary policy in 1994 was focused primarily on reducing excess liquidity as a result of large inflows of speculative short-term funds, particularly in January 1994. Fiscal policy was mildly expansionary aimed at the maintenance of existing infrastructure as well as reducing further infrastructure bottlenecks and developing human resources which would exert pressure on costs, if left unchecked. The reduction and abolition of import duty on more than 500 items in the 1994 Budget in addition to the more than 600 items in the 1993 Budget as well as lower world inflation contributed to the relatively stable price of imports. On 19 May 1994, the Government launched a long-term anti-inflation campaign to further intensify efforts to educate the public on the causes and impact of inflation and on the positive role of consumers in combating unjustified price increases. The campaign would also contribute towards minimising inflationary expectations against the background of a rapidly growing economy.

The implementation of administrative measures aimed at improving price information, hindering profiteering and encouraging fair and ethical business practices was intensified. The Price Information Centre was set up on 12 October 1993, located at the Ministry of Domestic Trade and Consumer Affairs (MDTCA) to coordinate the collection of retail prices on 90 essential and 10 controlled items. Retail prices of these items are monitored and disseminated through the mass-media on a weekly basis to facilitate price comparisons by consumers. An Advance Warning System Joint Committee was also set up to monitor price trends as well as to identify internal and external factors that could contribute to shortages of essential goods. This will enable the Government to take preemptive measures to ensure stable supply and thus hinder sharp and sudden price increases as a result of such shortages. Fair and ethical business practice was also encouraged by the Government through the award of 'Fair Price Store' to retail outlets. As of 31 August 1994, 187 retail outlets have been awarded the 'Fair Price Store' status.

In 1994, in response to unjustified pressures to increase the prices of bread, all types of bread, except the French loaf, with weight ranging between 200 grammes and 1,000 grammes were made scheduled items on 1 August 1994 under the Control of Supplies Act 1961. With this inclusion, the number of scheduled items under this Act was increased to 20. Bakers are now required to apply for a new licence from MDTCA and obtain its approval before the price increased. The Consumer Protection and Competition acts are currently being promulgated. The Consumer Protection Act is aimed at ensuring that consumers are adequately protected from unethical and unfair trade practices, while the proposed Competition Act will create and facilitate a competitive market environment and hinder oligopolistic or monopolistic practices and price rigidities.

The increase in the overall CPI during the first eight months of 1994 was mainly due to the significant increase registered in the price indices for food, transport and communication as well as gross rent, fuel and power. Collectively, these groups contributed to 83.7% of the overall CPI increase, compared with 67.7% during the corresponding period of 1993. The **food** sub-index rose by 5.6% (January-August 1993: 1.8%) and accounted for more than half of the overall CPI

Chart 8.1
Consumer Price Index (1990 = 100)
(annual change)

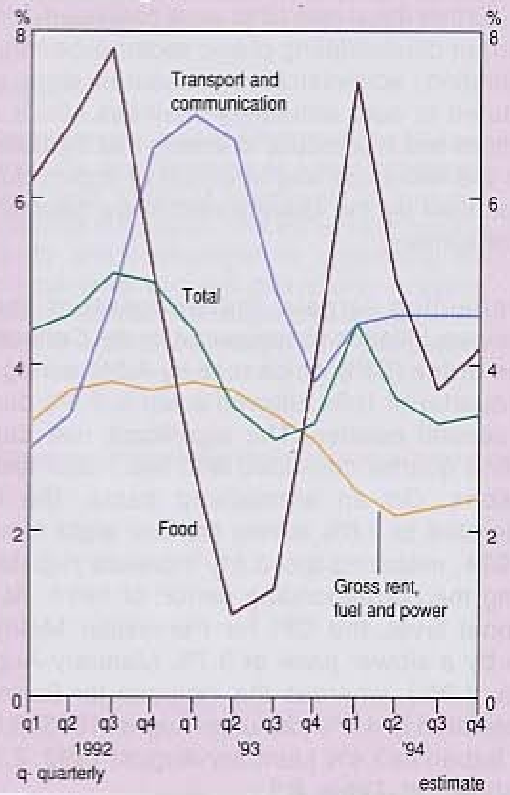


Table 8.2

Malaysia: Consumer Price Index for Food (1990=100)

	Weights[1]	1993	Annual change (%) (January–August) 1993	1994
Total food	33.7	2.2	1.8	5.6
Food at home	27.0	2.4	1.8	6.2
Rice, bread and other cereals	6.2	2.4	2.4	0.6
Meat	4.2	1.5	1.7	7.7
Fish	5.2	3.9	2.5	13.5
Milk and eggs	2.4	2.9	3.5	1.3
Oils and fats	0.8	2.5	3.3	0.5
Fruits and vegetables	5.2	3.1	0.6	8.9
Sugar	0.8	–0.2	–0.2	0.1
Coffee and tea	0.9	0.0	–0.1	1.4
Other food	1.3	–1.1	–0.4	–3.0
Food away from home	6.7	1.9	1.9	2.8

[1] The weights used are based on the final weights from the 1990 Household Expenditure Survey and the revised selection of price collection centres.

Source: Department of Statistics.

increase, while the non–food items rose moderately by 2.9% (January-August 1993: 4.8%). The sharp increase in food sub-index was mainly due to the significant increases in the sub-groups for fish (13.5%), fruits and vegetables (8.9%) and meat (7.7%) as shown in Table 8.2. The increase reflects supply constraints and distribution bottlenecks as well as rising domestic and external demand.

The sub-index for **transport and communication** rose significantly by 4.6% during the first eight months of 1994, though lower than the 6.9% increase registered during the corresponding period of 1993. The increase was mainly due to the increase in prices of private motor vehicles, particularly as a result of the yen appreciation and the introduction of new models in the higher price range. In Sarawak, the taxi and stage bus fares were increased by 15% with effect from 1 May 1994. Nevertheless, the reduction of import and excise duties on tyres and the three sen reduction in the pump price of unleaded petrol effective from 1 January 1994, moderated somewhat the increase in prices. However, the retail prices of other petroleum products remained unchanged. Similarly, the sub-index for **gross rent, fuel and power** continued to rise by 2.3%, (January-August 1993: 3.7%) mainly due to the 3% increase in rentals as a result of strong demand for residential units and the buoyant property market. However, the reduction in tariffs for electricity with effect from 1 March and 1 June 1994 as a result of lower world oil prices moderated the increase to a large extent. Effective from 1 September 1993, electricity tariffs for all categories of consumers in Peninsular Malaysia will be reviewed based on a formula that among others takes into account the CPI, the efficiency factor and Tenaga Nasional Berhad fuel component. The CPI will be reviewed yearly, the efficiency factor once in four years and the fuel component once every three months to take into account the fluctuating costs of fuel.

The sub–index for **clothing and footwear** registered a decline of 0.7% (January-August 1993: 0.7%), the first since 1975, mainly due to the lower prices of apparel and footwear, following the reduction in import duty for some of these items as announced in the 1994 Budget. The sub-index for **beverages and tobacco** continued to increased by 4.9%, though significantly lower than the 18.8% increase registered during the corresponding period of 1993.

Prices for **durable goods** rose higher by 6.8% (January-August 1993: 5.5%), reflecting mainly the higher prices of private motor vehicles. Similarly, the prices of **non-durable goods** rose by 4.5% (January-August 1993: 3.3%), indicating the significant increase in the prices of fish, fruits, vegetables and meat. In contrast, the sub-index for **semi-durable goods** (which include clothing, linen and garden tools) declined by 0.6% (January-August 1993: 0.7%), while the sub-index for **services** rose moderately by 2.8%, compared with the 4.3% increase during the corresponding period of 1993.

The Producer Price Index (PPI) which measures the average rate of change in the prices of all goods charged by producers and paid by importers, rose at a higher rate during the first eight months of 1994. The PPI for **domestic economy** rose by 3.7% (January-August 1993: 2.4%), largely due to price increases in major sub-indices, particularly of agricultural products as shown in Table 8.3. The sub-index for food and live animals rose significantly by 7.2% (January-August 1993: 3.8%), mainly due to supply constraints and increasing cost of production. The sub-index for animal and vegetable oils and fats rose even higher by 15.2% (January-August 1993: 0.7%) due to higher prices of crude and processed palm oil on account of strong demand. The sub-index for crude materials increased by 7.6% during the first eight months of 1994 (January-August 1993: 2.1%), primarily on account of the continued increase in the prices of natural rubber and unprocessed palm oil.

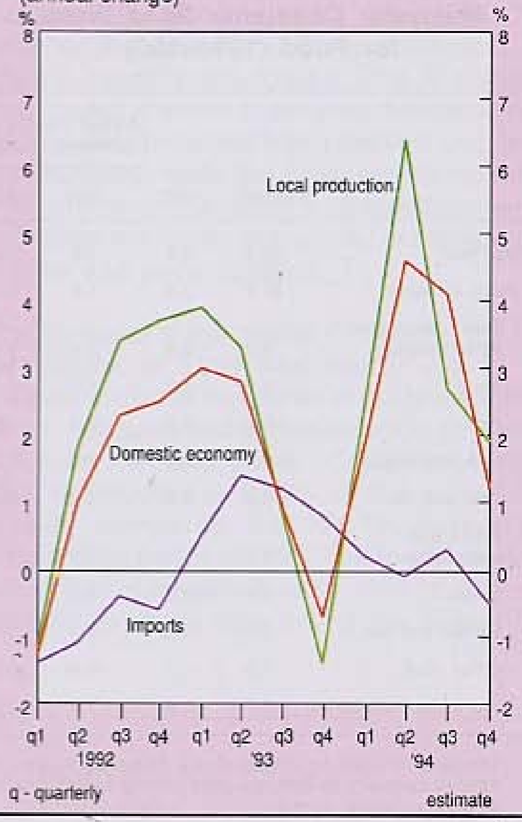
Table 8.3

Producer Price Index (1978=100)

			Annual change (%) (January–August)	
	Weights	1993	1993	1994
Domestic Economy	100.0	1.4	2.4	3.7
Food and live animals chiefly for food	16.8	1.9	3.8	7.2
Beverages and tobacco	2.7	11.4	12.3	5.6
Crude materials, inedible except fuels	20.7	1.4	2.1	7.6
Mineral fuels, lubricants and related materials	11.3	-2.3	-0.7	-3.7
Animal and vegetable oils and fats	5.9	-2.2	0.7	15.2
Chemicals and chemical products	4.4	-0.4	-0.8	1.3
Manufactured goods classified chiefly by materials	14.9	0.9	0.4	1.1
Machinery and transport equipment	17.8	3.4	4.1	0.3
Miscellaneous manufactured articles	4.1	0.5	0.4	2.9
Miscellaneous commodities and transactions	1.4	0.9	3.4	-0.5
Local Production	71.8	1.6	2.9	5.1
Imports	28.2	1.0	1.0	0.1

Source: Department of Statistics.

Chart 8.2
Producer Price Index (1978 = 100)
(annual change)



At the disaggregated level, the PPI for **local production**, rose by 5.1% during the first eight months of 1994, compared with 2.9% during the corresponding period of 1993. The rapid price increase was mainly due to the significant price increase registered by vegetable oils and fats (15.2%), crude materials (8.2%) and food and live animals (8.1%). In contrast, the sub-indices for miscellaneous commodities and transactions as well as machinery and transport equipment declined by 0.7% and 0.3% respectively, while the increase in the sub-index for beverages and tobacco moderated to 6.9% (January-August 1993: 12.9%).

The **PPI for imports** rose marginally by 0.1% (January-August 1993: 1%), reflecting to a large extent the positive impact of the abolition and reduction of import duty in the 1994 Budget as well as lower world inflation. This is shown in the further 2.6% decline in mineral fuels, lubricants and related materials (January-August 1993:

-0.2%) as well as the 2.2% decline in the prices for crude materials (January-August 1993: 0.2%). Lower increases were recorded in the sub-indices for chemical and chemical products (0.1%), beverages and tobacco (2.2%), manufactured goods (0.2%) and machinery and transport equipment (0.7%).

For 1995, the Government will continue to check inflationary trends through a combination of monetary, fiscal and administrative measures while at the same time ensure that price increases will not be exacerbated by unrestrained wage increases that are not matched by productivity improvements. In addition, steps will also be taken to reduce supply constraints, especially for food. The success of these measures would contribute to lowering the increase in the general price levels.

Employment

The continued strong performance of the economy is envisaged to generate greater employment opportunities. As such, employment is expected to grow at a rate of 3% in 1994 (1993: 4.2%), generating about 222,000 additional jobs (1993: 300,000). With the labour force anticipated to grow at a slower rate of 2.9% (1993: 3.5%) the unemployment rate will decline further to 2.9% in 1994 compared with 3% in 1993, indicating that the economy has reached full employment level. This has led to further tightening of the labour market, with most sectors in the economy experiencing labour shortages.

Total employment in 1994 is estimated to reach 7.6 million (1993: 7.4 million). As in previous years, the secondary and tertiary sectors are expected to contribute a major share of 79.6% of total employment (1993: 78.3%), while the contribution of the primary sector is expected to further decline to 20.4% from 21.8% in 1993. (see Table 8.4). Significant employment creation is expected to come from the manufacturing, services and construction sectors in line with the strong rates of output growth in these sectors.

Total employment in the manufacturing sector is estimated to reach 1.9 million jobs in 1994, accounting for one-quarter of total employment, or 60.8% of new jobs generated. The sector which is envisaged to record a double-digit growth in output will therefore, become the largest contributor in terms of new job creation in the economy. However, with industrial restructuring towards higher value-added and more labour-saving production processes, industries are shifting into greater automation. The approved capital investment data by the Malaysian Industrial Development Authority indicates that investment-to-job ratio in the manufacturing sector improved from 14 job opportunities for every million ringgit of approved investment in 1989 to seven job opportunities in 1993. Accompanying this shift, however, is the growing demand for skilled and semi-skilled workers.

Table 8.4

Employment by Sector
(% share to total)

	1993	*1994*
Agriculture, forestry and fishing	21.3	19.9
Mining	0.5	0.5
Manufacturing	23.6	24.6
Construction	7.4	7.8
Electricity, gas and water	0.8	0.8
Wholesale and retail trade, hotels and restaurants	17.2	17.3
Finance, insurance, real estates, business services	4.5	4.5
Transport, storage and communication	4.7	4.8
Government services	11.6	11.4
Other services	8.4	8.4
TOTAL	100.0	100.0
Primary sector	21.8	20.4
Secondary sector	31.0	32.4
Service sector	47.2	47.2

Source: Economic Planning Unit

Employment in the **services sector** is expected to reach 3.6 million in 1994 (1993: 3.5 million), with its share in total employment of 47.2%. The transport, storage and communications sub-sector as well as the wholesale and retail trade, hotels and restaurants sub-sectors are expected to show sustained growth in employment. Employment in the **construction** sector is also expected to improve further, creating 49,000 new jobs in 1994 reflecting an increase of 8.9% during the period. Its share in total employment will also increase from 7.4% in 1993 to 7.8% in 1994. In contrast, the **agriculture, forestry and fishing sector's** share to total employment is expected to decline further in line with the slower growth of the sector. Its share in total employment will decline to 19.9% from 21.3% during the period.

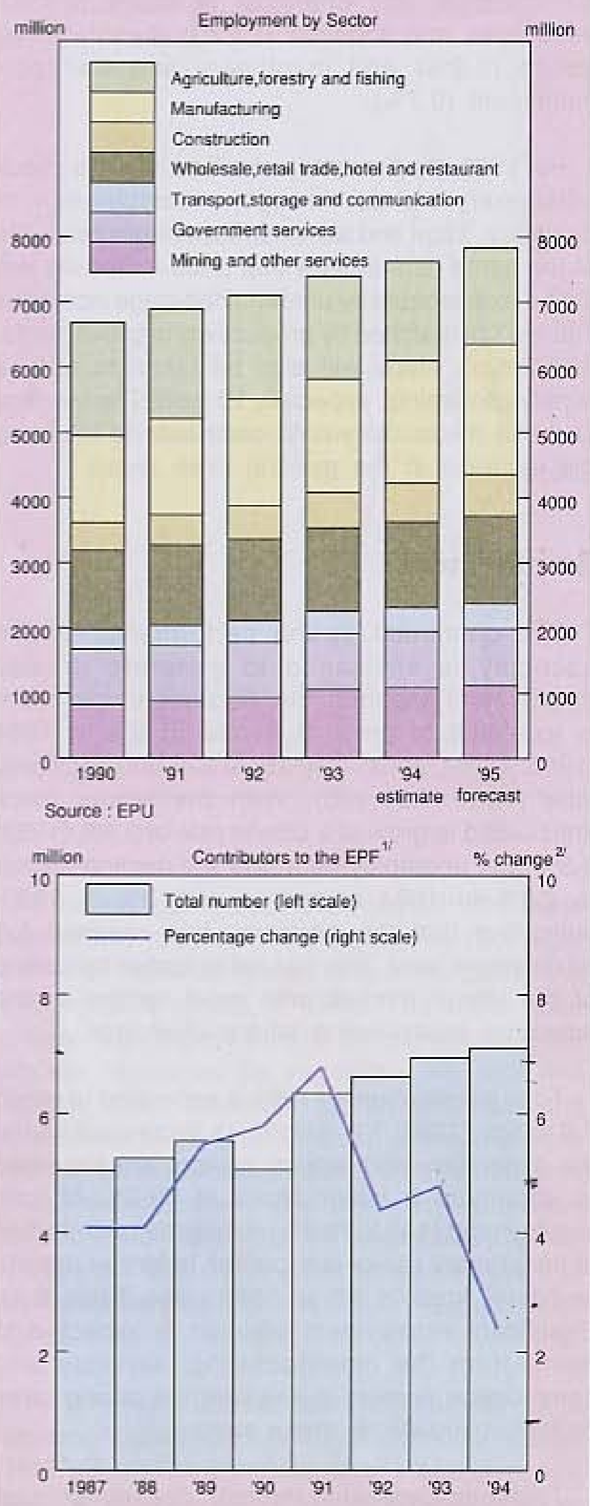
In terms of new vacancies reported to the Manpower Department of the Ministry of Human Resources, the number has declined by 44% during the first seven months of 1994, to 32,705* compared with 58,921 new vacancies during the corresponding period in 1993. The declines in Penang, Perak and Johor, were even higher at a rate of 73%, 78% and 66% respectively. However, in Selangor, Pahang and Melaka an increase of 22%, 38% and 38% respectively was recorded.

The number of active registrants (that is active job seekers) registered with the Manpower Department also declined by 23% to 27,437* as at July 1994 when compared with 35,485 for the corresponding month in 1993. By state, the largest declines were in Selangor, Negri Sembilan, Johor and Melaka. However, in Kelantan and Sabah, the number of active registrants showed an increase of 22% and 69% respectively.

With the economy reaching full employment, the problem of labour shortage is experienced by most sectors, especially in the plantation, construction, manufacturing and services sectors. The 1993 second half-yearly Employment Turnover Survey conducted by the Manpower Department identified a significant turnover of workers in seven occupations. The incidence of significant employment turnover was identified for civil engineering assistants and related technicians

* Figures for the months are unvalidated.

Chart 8.3
Employment Indicators



1/ End of period except for 1994, up to June.
2/ % change for 1994 is based on June data
Source : EPF

due to the current boom in the construction sector. In the production and related workers category, occupations which continued to experience significant turnover of workers were pattern makers and cutters as well as sewer and embroiderers in the textile and apparel industry, woodworking machine operators in the wood-based products industry, electrical and electronic equipment assemblers in the electrical and electronic products industry and printers and related workers in the printing and publishing industry. A study by the Ministry of Science, Technology and Environment indicated that manpower shortage is prevalent in the ceramics, oleochemicals, machinery and engineering, plastics, wood-based, information technology, chemicals, electronics and electrical and textile and apparels industries. The problem of labour shortages is exacerbated by the mismatch in demand and supply of labour as well as the slow pace in which skills are being upgraded to meet technological changes.

To address the problem of skills training the **Human Resource Development Fund (HRDF)** which was launched on 1 January 1993, provides financial assistance to employers in the manufacturing sector who sent their workers for approved training programmes. As at July 1994, a total of 3,417 employers have registered with HRDF and a total levy of RM88.1 million has been collected for training purposes. An estimated sum of RM26.4 million or 30% has been approved for training grants in respect of approved allowance costs for programmes conducted. About 320,133 workers have benefitted from training courses financed by the Fund.

To enhance the effectiveness of the Fund and encourage employers to intensify training of their workers, a new training assistance scheme, new allowance costs and revised rates of financial assistance for training of workers were introduced. To facilitate and encourage, particularly the smaller employers to increase retraining and skills upgrading of their workforce with minimum financial burden, the new Perla Scheme (Training Agreement with Training Providers) was also introduced. Employers need to pay a small percentage of the approved fees upon registering their employees for the training programmes as upfront fees and the balance will be claimed directly by the training provider concerned from the Human Resource Development Council (HRDC). This is an improvement to the existing procedures whereby employers pay upfront the total fees incurred and only claim for reimbursements at the end of the training. The new allowance costs include accommodation, meal allowance for in-house programmes, travelling allowances for corporate trainers conducting training in company's branches. Retraining and skills upgrading programmes/ courses at diploma level will also be eligible to receive financial support. The new subsidy rate for skills training on technical craftsmanship and computer-related fields is 80% of cost incurred, retraining and upgrading of skills 75% and overseas training 50%.

To ensure an adequate supply of trained workforce, the Government has encouraged the establishment of vocational and training institutions and advanced skill development centres, especially by the private sector. Student intakes at the public training institutes administered government agencies have increased while the capacity of training institutions in Kuala Lumpur and Pasir Gudang have been expanded. Enrolment in the existing 10 Industrial Training Institutes (ITI) increased by 56.7% to 3,545 trainees in 1994 compared with 2,262 trainees enroled in 1993. The number of instructors enroled in the Centre for Instructors and Advanced Skill Training (CIAST) has also increased by 29.3% from 2,415 persons in 1993 to 3,122 persons in 1994.

As an interim measure to ease the shortage of labour, the Government continues to allow the employment of foreign workers based on specific needs, although the freeze on the intake of semi-skilled and unskilled foreign workers imposed in early 1994 is still in force. For instance, to alleviate the manpower shortage in the rubber and oil palm estates run by public agencies, the recruitment of 17,000 foreign workers was approved in May 1994. The Government has also reduced the levy imposed on foreign workers in the plantation sector, from RM360 to RM300. The employment of foreign professionals, experts or specialists, however continued to be allowed.

While the Government has allowed the recruitment of foreign workers as a temporary measure to address the problem of labour shortage, a long-term solution to the problem must be formulated. Towards this end, apart from promoting greater automation and labour saving production devices, efforts are being made to maximise the utilisation of existing labour force, especially the female workforce who constituted some 46% of total labour force. In this respect, the Government announced tax incentives under the 1994 Budget, in the form of tax deductions for expenses incurred in establishing child-care centres for employees at their premises. In addition, efforts are also being made to encourage employers to provide employment opportunities to the handicapped and rehabilitated drug addicts. As of December 1993, the Government has successfully found placements for 1,473 handicapped people and 1,500 rehabilitated drug addicts in the private sector.

The Government recognises that concerted efforts should be made to resolve the manpower supply problem. The private sector will be encouraged through the provision of necessary incentive schemes to set up specialised skills training institutes which will focus on technical programmes that meet industry requirements. In addition, the Industrial Training Institutes under the Ministry of Human Resources are being gradually privatised so that they can be taken over by industrial sub-sectors for specialised training directly related to the needs of industry.

Priority will also be given to training of trainers and the creation of a pool of technical/scientific skilled training related personnel. The recruitment and sourcing of foreign technical experts/specialists will be facilitated through the relaxation of entry requirements while the remuneration scheme for trainers will be reviewed to attract and retain experienced trainers.

Wages

The strong growth of the economy coupled with labour shortage arising from the tight labour market has given rise to upward pressure in wages whereby industries competing, particularly for skilled and semi-skilled labour, are offering better wages and other remunerations to attract the required labour. The average wage increase (as derived from the Department of Statistics Manufacturing Survey covering some 660,000 workers of all levels) during the first seven months of 1994 in the manufacturing sector was 6.7% higher compared with the same period in 1993. The rates of increase, however, fluctuate within the sub-sectors.

In the unionised sector however, the average wage growth as reflected in the 197 collective wage agreements affecting 54,592 workers (this represents less than 10% of total unionised workers) concluded during the first seven months of 1994 was 10% compared with 8.3% for the corresponding period in 1993. The largest number of wage agreements concluded were for workers in the manufacturing sector which provided for an average wage increase of 11.5% for the first seven months of 1994 (January-July 1993: 12.2%). The number of workers involved was 23,759, a small percentage compared with the total number of workers in the manufacturing sector of 1.9 million.

The increase in wages, however, was not matched by improvements in productivity. Labour productivity as measured by output per worker in the manufacturing sector, showed a change of 2.2% for the period January-July 1994 compared with ~~the~~ same period in 1993. This has resulted in increasing unit labour cost i.e. 4.4% for the period January-July 1994. Labour costs in the manufacturing sector account for 6% to 7% of

Table 8.6

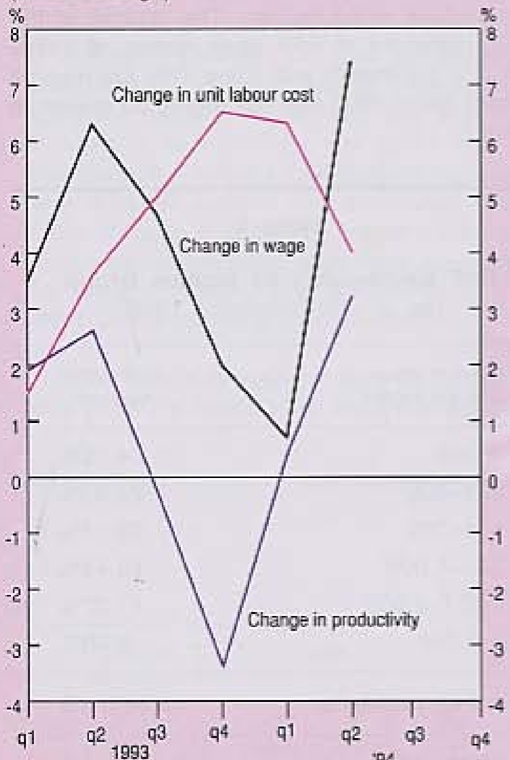
Private Sector Wage Agreements
(January–July)

Sector	No. of wage agreements		No. of workers involved		Average wage increases (%)	
	1993	*1994*	*1993*	*1994*	*1993*	*1994*
Manufacturing	91	115	23,350	23,759	12.2	11.5
Commercial	23	25	3,031	4,762	11.0	8.7
Transport	21	20	2,289	1,874	9.9	10.8
Services	18	26	4,656	23,606	6.4	10.0
Agriculture	4	7	121	412	4.4	11.6
Mining	3	0	2,439	0	4.1	—
Construction	0	1	0	162	—	—
Others	1	3	2	17	10.0	7.3
TOTAL	161	197	35,888	54,592	8.3	10.0

Source: Ministry of Human Resources

! Nota — not available

Chart 8.4
Wage, Productivity and Unit Labour Cost
(annual change)



q - quarterly
Source: Manpower Department

total sales value of manufactured products. This points to the need to introduce a productivity-based wage which is being studied by the National Labour Advisory Council.

The number of industrial disputes, strikes and lockout recorded during the first seven months of 1994, was 323 involving 57,390 workers compared with 237 involving 26,175 workers reported over the same period in 1993. In the manufacturing sector, where the incidence of industrial disputes was the highest (36% of total industrial disputes), the number of industrial disputes reported increased to 116 (January-July 1993: 112). In the plantation sector, the number of industrial disputes totalled 108 compared with 56 in the same period in 1993, while in the transport sector, 47 industrial disputes were recorded during the first seven months of 1994 compared with 24 over the same period in 1993.

The main reasons for the disputes were disagreement over terms and conditions of employment including non-implementation of contractual terms in collective agreements and other service contracts; deadlocks in collective bargaining and promotion, allocation of duties, transfer and other management prerogatives.

The number of strikes and lockouts declined from 12 for the first seven months of 1993 to eight during the corresponding period in 1994. The number of workers involved in the strikes declined to 704 during the same period in 1994 compared with 1,635 in 1993. The strikes are mainly disputes over non-conformance of terms and conditions of collective agreements and service contract, infringement of workers' rights and disciplinary matters.

In view of the rise in industrial accidents, the Government has intensified its campaign to promote better safety at the workplace. The introduction of the Occupational Safety and Health Act, which was gazetted in February 1994, is to ensure that employers adhere to safety measures at all times. Employers are required to inspect and maintain equipment periodically while workers must be trained in protection and safety measures to avoid industrial accidents.

FEATURE ARTICLE 6

The Employees Provident Fund and Its Role in Socio-Economic Development

The Employees Provident Fund (EPF), has evolved, over the last 43 years of its inception, as a premier provident fund based social security institution as well as the primary vehicle in providing domestic source of financing for the economic development process of the nation. This dual prong role of the EPF has been inbuilt into the institution since its origins, as reflected in the provisions of the law, governing its inception and the functions of the institution.

Growth of EPF

The EPF started with about 12,000 employers who paid RM27 million in contributions in respect of 0.5 million employees. As at December 1993, there were about 223,142 employers, and 6.94 million members with contributions totalling RM7.4 billion, as shown in Table 1.

Table 1

EPF Membership and Contributions by Age - Group
(as at end December 1993)

Age group	Total members		
	% members	% savings	Average savings per head
16-25	27.47	5.91	RM2,206
26-30	17.28	12.12	RM7,189
31-35	16.24	19.77	RM12,474
36-40	13.60	21.92	RM16,518
41-45	10.18	17.90	RM18,031
46-50	7.20	12.70	RM18,076
51-55	5.53	7.99	RM14,793
Above 55	2.48	1.69	RM6,990
Unidentified	0.02	0.00	RM40
TOTAL	6.94 million people	RM7.4 billion	RM10,250

Source: EPF

Since its inception, the Fund has grown multifold and the EPF is, by far the largest provident and pension fund in the country. The majority of the active members of EPF earn income of below RM2,000 per month and some 73% are income earners below RM1,000 per month as shown in Table 2.

Table 2

EPF Membership by Income Group
(as at end December 1993)

Income group (RM per month)	*% of active members*
< 300	14.75%
301–500	22.93%
501–700	20.13%
701–1,000	15.44%
1,001–2,000	17.27%
> 2,000	9.49%
Active members	3,587,103

Source: EPF

In terms of credit balances, however, more than 70% of the members have savings of less than RM10,000 as shown in Table 3.

Table 3

EPF Membership by Contributions
(as at end December 1993)

Saving range	*% of members*
Below RM1,000	28.23
RM1,000–RM1,999	11.17
RM2,000–RM2,999	7.90
RM3,000–RM3,999	6.07
RM4,000–RM9,999	19.36
Above RM10,000	27.27
	100%
TOTAL MEMBERS	6,939,231

Source: EPF

EPF as a Financial Institution

The EPF has carved a niche as a major mobiliser of domestic savings, thereby generating the potential for it to be a leading financier in the economic system. In the first two and a half decades of its existence, the EPF's role as a financier in the nation's development process has been a rather passive and an indirect one, i.e solely through it being the major purchaser of Malaysian Government Securities. However, in the recent decade, this traditional role has undergone a dynamic transformation.

In the 1960's through the early 80's more than 90% of EPF's funds were locked in Malaysian Government Securities. (See Table 4). This share consistently declined to about 56% in 1993 and this had been made possible by the improved fiscal position of the government as well as its policy to allow the private sector to be the engine of economic growth. In addition, with its privatisation programme, the Government had less need to raise funds to finance its expenditure. Furthermore, to enable the EPF to finance private sector initiatives, the liberalized provisions under the EPF Act 1991 allowed the EPF to channel up to 50% of its annual investible funds against 30% earlier, into non-government securities. However on a cumulative basis the proportion to be invested in government securities is still maintained at 70%.

Table 4

EPF's Investment Profile

Types of Investment	*1960*		*1970*		*1980*		*1993*		*1994 (As at August)*	
	RM million	*% share*	*RM million*	*% share*	*RM million*	*% share*	*RM million*	*% share*	*RM million*	*% share*
Malaysian Government Securities	600.05	96	2,0496.02	93	8,518.39	92	39,265.42	56	40,272.18	52
Other Securities	5.03	1	57.71	3	4.14	—	—	—	—	—
Equity	—	—	—	—	25.70	1	2,457.52	4	4,117.70	6
Debenture Loan	5.00	1	83.15	3	649.42	6	5,187.85	7	6,127.17	8
Promissory Notes	—	—	—	—	—	—	2,354.60	4	2,944.95	4
Fixed deposits, negotiable certificates of deposit and money on call	—	—	—	—	—	—	19,751.50	28	21,939.25	28
Investments through portfolio managers	—	—	—	—	—	—	506.41	—	734.81	—
Corporate Bonds	—	—	—	—	—	—	1,082.36	—	1,924.91	2
Cagamas	—	—	—	—	—	—	370.00	—	370.00	—
Bank Negara Bills	—	—	—	—	—	—	268.10	—	—	—
Advance Deposit with Central Bank	9.20	2	2.50	1	63.37	1	—	—	—	—
TOTAL	619.27	100	2,189.37	100	9,261.02	100	71,243.73	100	78,430.97	100

Source: EPF

While the Government's funding requirements declined, that of the private sector increased rapidly. Hence the EPF began to part-finance private sector initiatives in major development projects, particularly in the infrastructure and utilities sectors. Among the projects currently being financed from EPF funds include the Light-Rail Transit System, North-South Highway, as well as in power generation and private hospital. The interest rates extended for these financing range from 8% to 10.25%, thus ensuring higher and lucrative returns on investment. Total loans extended reached RM8.85 billion in 1993. The share of debenture loans have increased from about 3% in 1970 to 7% in 1993. Debenture loans have been given to some 31 companies among which are Tenaga Nasional Berhad, Skim Pinjaman Perumahan Kerajaan, Permodalan Nasional Berhad, Malaysian Airline System Berhad, Perwaja Steel Sdn Bhd and Sabah Energy Corporation. The interest rates for the debenture loans range from 6.5% to 9.75%.

The EPF also ventured into money market investments since 1990. The EPF has invested about 1% of its investment in corporate bonds in 1993. In addition equity investment, mainly in the stock market, has risen sharply by 95% in 1993 from the year 1992, and as of August 1994 the amount has increased further by 67%.

The EPF had also ventured into property acquisition. In 1993, three plots of land were purchased in Cameron Highlands, Bangi and Johor Bahru and a shoplot each in Tawau and Kuala Krai. Property management is viewed as a high-yielding venture that would bring substantial returns in investment. In the pipeline, are plans to develop EPF's lands in Batu Tiga and Atabara, Kuantan into housing projects.

EPF as a Social Security Institution

From the social security perspective, the EPF's role has also been undergoing a change from one that is primarily focused on providing financial savings to meet the retirement needs of its members to one that is focused on improving the overall well-being and quality of life of its members. The EPF has widened the scope of its social security benefits, targeted to cover both the pre-retirement and retirement needs of its members.

The existing facilities and benefits provided under the Employees Provident Fund Withdrawals Benefit Scheme could be broadly categorized as follows:

(i) **Age 50 Withdrawals** - members are allowed to withdraw one-third of their savings unconditionally when they reach the age of 50 years. This was to enable them to prepare for their ultimate retirement. During the period 1988 to 1992, a total of 176,866 withdrawals totalling RM1.3 billion has been made under this scheme.

(ii) **Low-Cost Housing Withdrawals** - effective from May 1977, the EPF allowed members earning not more than RM500 a month to withdraw 10% of their savings to meet the cost of purchase of low-cost houses. In 1992, members were allowed to purchase or build rumah kampung on a land located outside the municipality or local government and costing not more than RM25,000 in Peninsular Malaysia and RM32,000 in Sabah and Sarawak. In this way, the EPF provided security for the aged and had extended its role to provide for more features of social security. A total of 180,925 withdrawals amounting to RM1.4 billion was made under this scheme during the period 1988 to 1992.

(iii) **Other Housing Withdrawals** - In 1982, the EPF extended the housing withdrawal scheme to members who purchased houses other than low cost houses. The objective of this scheme was to assist members in paying the down payment. Members could withdraw 10% of the purchase price of a new house or not more than 45% of their credit balance whichever is less, provided the amount does not exceed RM20,000. In 1986, the withdrawal limits for procurement of non low-cost houses was increased from 10% to 20% of the purchase price of the house. In 1992, the maximum amount of withdrawals was increased from RM20,000 to RM40,000.

(iv) **Dividend withdrawal** - This benefit was introduced in January 1982 whereby members who attained the age of 55 years would be able to withdraw only the annual dividend while retaining his principal amount with the EPF. Members are encouraged to keep their savings with EPF as the dividend would be tax exempt.

(v) **Additional amount on Death and Incapacitation** - The Additional Amount (Death) scheme was introduced in 1977 and protects the member up to the age of 60 years. A maximum amount of RM30,000 and a minimum of RM500 was imposed in 1986. In 1991, the minimum amount was raised from RM500 to

RM1,000. The amount is to meet immediate expenses incurred by the nearest next of kin. Another scheme introduced in 1986, enabled members who are permanently incapacitated to obtain an additional amount based on the insurance principle, over and above the members savings. The amount paid out would be subject to a maximum amount of RM30,000 and minimum of RM1,000.

(vi) **Contribution Renewal Scheme** - the scheme encourages members who have withdrawn all their savings on reaching the age of 55 or had left the country, and later resumed work, to continue to contribute to EPF. Hence, the retirees would not only be able to save 10% of their salaries in the form of contributions but could get an additional 12% in contributions from the employer as well as the annual dividends from EPF.

The EPF has since reviewed its Withdrawals Benefit Scheme with a view to meeting the pre-retirement and retirements needs of its members. Towards this end, a new health and medical withdrawal scheme will be introduced while the existing Housing Withdrawal Facility will be further improved.

(i) **Health Withdrawal Benefit**

Catering to health and medical needs is becoming an increasing burden for EPF contributors. This is particularly so for contributors in the lower income group when faced with the catastrophe of serious or terminal illnesses in their immediate family circle. As a measure to alleviate the financial burden on the contributor, the EPF would, effective from 1st November 1994, allow its members to withdraw 10% of their contributions to meet the treatment costs of the medical ailment. The introduction of this withdrawal facility, is intended to reduce the financial burden and assist members who do not receive medical aid schemes from their employers or where such schemes provided by the employers may be insufficient to meet the medical treatment costs.

(ii) **Housing Withdrawal Facility**

Under the new Housing Withdrawal Package, an EPF contributor would be able to withdraw 30% of his contributions, on a lump basis, to facilitate the purchase of a house. This withdrawal would be allowed only in circumstance where the amount withdrawn does not exceed the price of the house and in cases where the member has not obtained 100% loan financing for purchase of a house from other sources. EPF members who have obtained 100% loan financing for the purchase of a house form other sources will be entitled to withdraw 10% of the cost of the house from their EPF balance (30%) for the purpose of meeting costs associated with the purchase such as legal fees, insurance premiums and other costs.

An added feature of the EPF New Housing Withdrawal Package would be the introduction of the facility enabling members to make two lump sum withdrawals for the purposes of reducing their housing mortgage. Members would be entitled to **two** lump sum withdrawals of up to 30% of their contributions on a 5 years interval basis until the age of 50 years.

The EPF would be adopting a forefront role in the future in the housing sector. As a prelude, EPF would be introducing, as from 1st December 1994, a Housing Loan Scheme for its contributors at interest rates that are competitive with current market conditions. On the supply side, EPF would be taking the lead as an active financier of housing projects particularly low cost and low-medium cost houses, in an effort to achieve the Government's objective of meeting the housing needs of the people at reasonable and fair prices, to be within their means and without imposing financial strains to the low and medium income groups.

To facilitate the implementation of the above-mentioned revamp of EPF Withdrawal Packages, without jeopardising EPF's primary objective of providing financial security, each member's account in EPF would be subdivided into 3, namely, retirement account (account 1) consisting 60% of the members' contributions for retirement purposes only; pre-retirement account (account II) consisting 30% of the member's contributions to be used for housing and age 50 years withdrawals and the Health Withdrawal Account (account III) consisting 10% of the member's contributions to be used for health and medical treatment needs.

Conclusion

As the country progresses to achieve not only its economic but also its social vision by the year 2020, the role of EPF in socio-economic development becomes more crucial and prominent. It is envisaged that while EPF will be an important source of fund to finance economic development, it will continue to foster the evolution of a caring and socially balanced society.