

6

Private Sector Performance

Overview

Growth of private sector income is expected to remain encouraging in 1996 underpinned by strong, albeit slower rate of economic growth. As in previous years, the increase in private sector earnings is expected to continue to emanate from both domestic and external sources. Growth in earnings from domestic sales is expected to expand moderately in 1996, in view of the expected slower growth in private consumption and investment, particularly those related to public sector initiated projects during the year. Private sector consumption is expected to slow down in 1996 in response to higher interest rate as well as Government's efforts to further promote savings. Growth earnings from the export sector are expected to decelerate in 1996 due to softening of growth in manufactured exports, as well as the weakening of prices of major commodities in the global market.

Private Sector Earnings

Total private sector income is expected to grow by 17.7% to RM174.7 billion in 1996, after increasing by 20.3 % in 1995 reflecting the expansion of the corporate sector base, larger workforce and increase in wages against a moderate expansion in corporate revenue. In tandem with the moderation in the overall expansion of economic activities, increased competition and weaker commodity prices, the revenue expansion of 220 business corporations, according to the **Business Expectations Survey (BES)** conducted by the Department of Statistics, is expected to moderate to 10.7% in 1996, compared with a growth of 19.5% in 1995. All major sectors of the economy, except agriculture, mining and hotels, are anticipated to continue to record positive growth in gross revenue (please see Table 6.1).

Table 6.1

Gross Revenue by Sector¹

Sector	Value (RM million)		Annual Change (%)	
	1995	1996 [†]	1995	1996 [†]
Agriculture	4,065	3,813	24.5	-6.2
Rubber	372	321	37.8	-13.7
Oil palm	2,822	2,637	26.3	-6.6
Logging	871	855	14.3	-1.8
Mining ²	362	348	9.7	-3.9
Manufacturing	79,665	86,113	23.6	8.1
Construction	2,981	3,792	28.1	27.2
Services	68,355	78,063	14.6	14.2
Wholesale and retail trade	37,945	41,615	21.1	9.7
Hotels	436	432	6.3	-0.9
Banks and other financial institutions	15,047	19,810	8.4	31.7
Insurance, real estate and business services	5,611	6,100	-0.8	8.7
Transport	9,316	10,106	11.0	8.5
TOTAL	155,428	172,129	19.5	10.7

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

² Excluding petroleum and gas.

[†] forecast.

Source: Department of Statistics.

The **manufacturing sector**, which accounted for more than half of total revenue, is expected to see a sharp deceleration in revenue growth from 23.6% in 1995 to 8.1% in 1996 (please see Table 6.2). The deceleration in revenue performance is attributed to the moderation in the growth of both production and sales envisaged in some sub-sectors. During the first seven months of 1996, manufacturing output expanded at a slower rate of 13.1% (January-July 1995:14.7%) while total sales rose by 14.8% (January-July 1995: 26.1%). Growth of manufactured exports also decelerated to 14.9% (January-July 1995: 21.0%). Nevertheless, almost all of the export and domestic-oriented industries continue to record favourable revenue performance, albeit at a slower rate of growth. Some of the manufacturing sub-sectors which are projected to record double-digit rates of growth in revenue include textiles and wearing apparel, non-metallic mineral products, transport equipment, chemical and chemical products, and wood-based industries.

Revenue of the export-oriented industries, such as the electronics and electrical, textiles and wearing apparel, wood and rubber products, is envisaged to increase by 5.5% in 1996 compared with an increase of 32.3% recorded in 1995. Underlying this growth, albeit at a slower rate, is the surge in the sales of textiles and apparel products by 33.4% (1995: 26.6%), as well as the more moderate growth in external demand for the wood products of 13.1% (1995: 90.0%). During the first seven months of 1996, exports of textile and apparel products (including footwear) increased by 11.0% (January-July 1995: 8.0%), due to increased off-takes from Japan, Hong Kong and Germany. The significant growth in export earnings of wood products (16.9%) during the period was due to increased external demand, especially for wooden furniture for both office and household uses. Nevertheless, the revenue growth in the electrical and electronic products industry is projected to decelerate significantly from 32.0% in 1995 to only 3.8% in 1996, due to the softening in external demand for the electronic goods in the first half of 1996 following the high level of stock overhang in the global market since late 1995. The more moderate growth of 17.0% in export of electrical and electronic products during the first seven months of 1996 reflects this trend. Similarly, the rubber products industry is envisaged to register a decline in revenue by 4.5% in 1996, after a strong growth of 31.5% in 1995. This is

Table 6.2
Gross Revenue by Manufacturing Sector¹

Industry	Value (RM million)		Annual Change (%)	
	1995	1996 ²	1995	1996 ²
Export market-oriented industries	37,593	39,669	32.3	5.5
Electrical and electronic products	32,353	33,589	32.0	3.8
Textiles and wearing apparel	2,515	3,356	26.6	33.4
Wood products, excluding furniture	686	776	90.0	13.1
Rubber products	2,039	1,948	31.5	-4.5
Domestic market-oriented industries	42,070	46,444	16.7	10.4
Food, beverages and tobacco	13,352	11,915	21.4	-10.8
Paper products and printing	660	616	45.7	-6.7
Chemicals and chemical products	7,247	10,367	1.1	43.1
Petroleum refining	4,541	4,905	7.9	8.0
Plastic and glass products	401	431	14.9	7.5
Non-metallic mineral products	1,268	1,713	12.1	35.1
Iron and steel	2,038	2,103	34.9	3.2
Fabricated metal products	1,529	1,476	-4.4	-3.5
Machinery, excluding electrical	3,334	3,637	11.0	9.1
Transport equipment	7,700	9,281	36.7	20.5
TOTAL	79,663	86,113	23.6	8.1

¹ Based on BES.

² forecast

Source: Department of Statistics

partly due to capacity constraints as a result of strong growth in external demand, particularly for rubber gloves, tyres and other rubber-related products in recent years.

The domestic-oriented industries as a whole are expected to continue to record a double-digit growth in revenue, but at a slower rate of 10.4% compared to 16.7% in 1995. This is in line with the expected slowdown in growth of total output of the manufacturing sector, from 14.5% in 1995 to 12.8% in 1996. Reflecting capacity constraints, growth in revenue of the iron and steel industry is expected to decelerate sharply to 3.2% after a strong growth of 34.9% in 1995. Revenue growth in the transport equipment industry is projected to moderate at 20.5% (1995: 36.7%), in line with the continued expansion in production capacity of both the passenger cars and commercial vehicles assemblers, as well as higher output of vehicle parts and accessories against a slowdown in the growth of domestic demand which surged strongly in 1995. Similarly, revenue recorded by the plastic and glass products industries is envisaged to record a more moderate growth of 7.5% in 1996 (1995: 14.9%), due to moderation in domestic demand. Despite the temporary two-week shutdown of the refinery plant in Malacca during March 1996, revenue of petroleum refining industries is expected to increase further by 8.0% (1995: 7.9%). On the other hand, there are also industries that are expected to register significant improvements in revenue growth. The non-metallic mineral industry, for instance, is envisaged to record a strong revenue growth of 35.1% in 1996 (1995: 12.1%) underpinned by expansion of production capacity in the face of shortages of domestic supply of cement and related products to meet strong demand. Contributing to the strong growth in revenue of the non-metallic mineral industry is the 71.4% increase in the sales of cement and concrete products during the first seven months of 1996 (January-July 1995: 16.4%). A substantial revenue growth of 43.1% is also projected for the chemical-related industries in 1996 (1995: 1.1%), mainly as a result of strong demand for paints and industrial gases and production capacity expansion.

The food and paper products and printing industries are projected respectively to register a 10.8% and 6.7% drop in revenue in 1996, after recording a strong growth in revenue of 21.4% and 45.7% in 1995. The decline in gross revenue

of the food products, including beverages and tobacco, is partly due to anticipated marginal growth in the production of local food industry which is affected by supply constraints. Similarly, the paper products and printing industries is envisaged to register lacklustre revenue performance due to slower growth in sales orders and production capacity constraints. The revenue of the fabricated metal industry is also expected to decline further by 3.5% (1995: -4.4%) due to slackening demand.

Revenue growth for the **construction sector** is projected to remain strong at 27.2% in 1996, compared with 28.1% recorded in the previous year. The strong revenue growth reflects the brisk sales of residential and non-residential properties since 1995 as well as revenue generated from construction of infrastructural projects. The total number and value of transactions of new and existing properties increased at robust rates of 10.7% and 31.6%, respectively during the first seven months of 1996. Total loans extended by the banking system for the housing sector, including mortgage loans increased by 7.7% as at the end of July 1996 from end of 1995 (end-July 1995: 7.8%).

Revenue growth in the **services sector**, as a whole, is projected to remain relatively strong in 1996, that is by 14.2% (1995: 14.6%), due to strong earnings of the banking and financial institutions, insurance, real estate and business services, as well as the transport sub-sector. Revenue of the banking and financial sub-sector is projected to increase significantly by 31.7% (1995: 8.4%) due mainly to strong credit expansion. In the case of the insurance industry, it is expected to maintain its pace of revenue growth in 1996. Preliminary data for the first half of 1996 indicate that the combined premium income of the industry rose by 19.0% to RM4,176.7 million, compared with 20.4% during the corresponding period of 1995. The total written premiums of the general insurance sector increased by 18.2% during the period to RM2,554.3 million, compared with 14.0% during the corresponding period of 1995. However, the life insurance industry is expected to record lower new business growth in 1996, partly attributed to the adjustments in the industry following the implementation of the Central Bank's Guidelines on Operating Cost of Life Insurance Business. Annual premium in force of the life insurance sector increased by 20.1% to RM4,771.9 million as at the end of June 1996 (end of June 1995: 23.8%). Revenue growth in the transport sub-

sector is expected to moderate to 8.5% in 1996 (1995: 11.0%), mainly as a result of slower growth in the volume of cargoes. Similarly, the wholesale and retail trade is expected to register slower growth in revenue at 9.7%, after a sharp increase of 21.1% in 1995, reflecting the impact of recent measures to promote savings and discourage excessive credit expansion for unproductive purposes as well as slower growth in disposable income.

The **mining sector** (excluding petroleum and gas) is anticipated to register a 3.9% decline in revenue in 1996 (1995: 9.7%), mainly due to output constraints despite firmer prices as in case of tin. Tin production, for instance, is expected to decline further by 1.6% in 1996 (1995: -0.9%), as a result of depleting reserve.

The **agriculture sector's** performance is envisaged to be lacklustre with gross revenue expected to decline by 6.2% in 1996, as against a high growth of 24.5% in 1995. The poor revenue performance is caused by both lower production and declining prices of major primary commodities, including rubber, oil palm and sawlogs. The production of rubber is expected to continue to decline by 1.7% in 1996 (1995: -1.1%), while that of palm oil is expected to decelerate to a growth 2.9% in 1996 (1995: 8.2%). Consequently, gross revenue from rubber industry is envisaged to decline by 13.7% in 1996 (1995: 37.8%) as the export unit value of rubber is estimated to decline from 398.6 sen per kilogramme in 1995 to 386.2 sen per kilogramme in 1996. Similarly, with palm oil price envisaged to decline to RM1,185 per tonne in 1996 (1995: RM1,527 per tonne), the oil palm sub-sector is expected to record a 6.6% decline in revenue in 1996, against a strong growth of 26.3% in 1995. As for the logging industry, its revenue is expected to decline marginally by 1.8% as both the production and export volume of sawlogs are expected to decline by 1.9% and 9.6%, respectively. Total production and export volume of sawn timber are also expected to decline considerably by 5.3% and 15.0%, respectively.

Private Consumption Expenditure

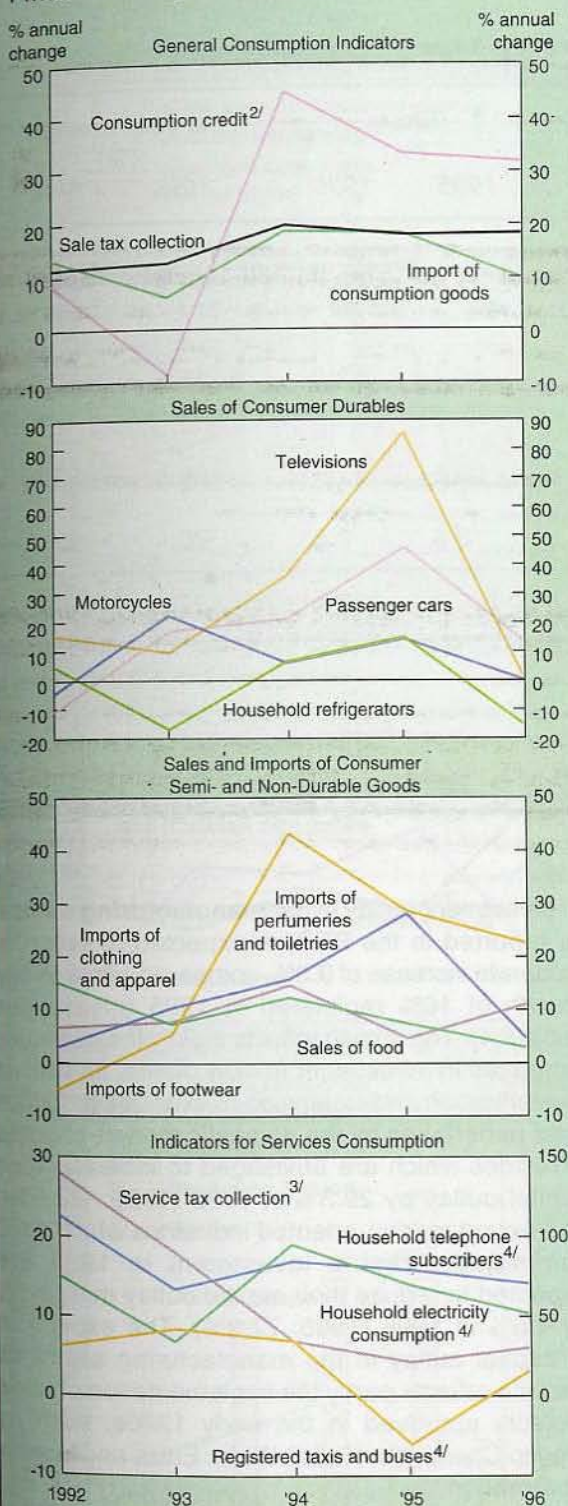
Private consumption expenditure is expected to increase at a slower rate of growth of 10.6%

to RM115.7 billion in 1996, compared with a growth of 13.1% to RM104.7 billion recorded in 1995. After discounting for price increases, private consumption expenditure in real terms is expected to increase at a rate of 6.7% in 1996 (1995: 9.4%). The moderation in the expansion of private consumption expenditure reflects partly the slower growth in disposable income, the lagged effects of monetary measures introduced in October 1995 to curb excessive credit expansion for financing purchases of passenger cars and real estates, the prevailing high interest rate and the more stringent conditions imposed on hire purchase loans and credit cards. The promotion and mobilisation of savings through the Amanah Saham Wawasan 2020 since September 1996 is also expected to induce slower growth in consumption expenditure.

The slower growth in private consumption is reflected in the slowdown of purchases of **consumer durable goods**. The sales of household refrigerators, for instance, declined by 15.0% during the first seven months of 1996, after recording a significant growth of 15.4% during the corresponding period of 1995 (please see chart 6.1). In the case of television sets, the rate of growth of sales decelerated sharply to 1.7% during the same period (January-July 1995: 75.4%). Similarly, growth in the sales of passenger cars decelerated substantially to 12.3%, after recording a strong growth of 59.2% in the same period of 1995. Consequently, the number of new registration of passenger cars with the Road Transport Department increased at a slower rate of 5.3% to 144,554 during the first seven months of 1996 (January-July 1995: 53.9%). Similarly, the growth of imports of completely knocked-down passenger cars declined by 6.5% compared with a strong growth of 82.1% in the same period of 1995. The slower growth in the purchase of passenger cars reflects partly the more stringent conditions for hire-purchase loans imposed by the banking system.

Growth in private consumption of the **non-durable goods** is stronger in 1996. Sales of food increased by 11.2% during the first seven months of 1996, (January-July 1995: 10.4%), while import of food rose by 20.4% (January-July 1995: 11.8%). Sales of tobacco and beverage also indicated a growth of 18.4% during the period (January-July 1995: 5.1%). However, private consumption of **semi-durable goods** is mixed as reflected in the

Chart 6.1
Private Consumption Indicators ^{1/}



1/ 1996 figures refer to January-July period.

2/ Refers to total amount extended by the commercial banks and finance companies as at end of the year, except for 1996 as at end of July.

3/ Refers to right scale.

4/ Refers to left scale.

imports and sales of these goods. The import of clothing expanded by 3.0% during the first seven months of 1996 (January-July 1995: 8.0%), while the import of footwear increased by 22.7% (January-July 1995: 30.9%). Import of perfumeries and toiletries also rose at a slower rate of 4.8% (January-July 1995: 16.8%). However, the sales of soap and cleaning preparations grew at a higher rate of 15.7% (January-July 1995: 7.0%).

Private sector demand for **services** is expected to expand, although at a slower rate in 1996. In the case of public transport services, the number of passengers using Keretapi Tanah Melayu Berhad rose by 11.7% while the number of new buses registered with the Road Transport Department increased by 15.7% during the first seven months of 1996, against an increase of 1.5% and 24.0% respectively during the corresponding period of 1995. Similarly for communication services, the slower growth in demand is reflected in the slower increase in the number of household telephone subscribers that is by 10.0% to 221,869 subscribers during the first seven months of 1996 (January-June 1995: 15.4%). In the case of electricity, the demand by the industrial sector is envisaged to increase by 10.0% and the household sector by 6.8% in 1996, compared with 9.6% and 14.0% growth respectively recorded in 1995.

Capital Outlay

The expansion of private investment is expected to moderate to a more sustainable level in 1996, after a strong growth during 1994-95 period. Total private investment in nominal terms is expected to increase by 9.9% to RM73.2 billion, compared with a growth of 28.9% recorded in 1995. The anticipated softening in private investment is attributed mainly to lower investment in up-stream activities in the oil and gas sector, and slower growth of investment outlay in the services and construction sectors, including large privatised projects. Nevertheless, the overall business confidence remains strong especially in the manufacturing sector, as reflected in the 115.9% increase to RM27.2 billion in terms of proposed capital in the applications submitted for the consideration of Malaysian Industrial Development Authority (MIDA) during the first seven months of 1996 (January-July 1995: RM12.6 billion).

Table 6.3
Capital Expenditure by Type¹

Expenditure category	Value (RM million)		Share (%)		Annual change (%)	
	1995	1996 ^f	1995	1996 ^f	1995	1996 ^f
New buildings and other structure	1,448	2,360	11.4	20.3	-11.3	63.0
New machinery and equipment	5,901	6,066	46.4	52.2	16.3	2.8
New transport equipment	4,916	2,295	38.6	19.7	62.8	-53.3
Other expenditure	460	911	3.6	7.8	70.4	98.0
TOTAL	12,725	11,632	100.0	100.0	27.3	-8.6

¹ Based on BES.

^f Forecast

Source: Department of Statistics

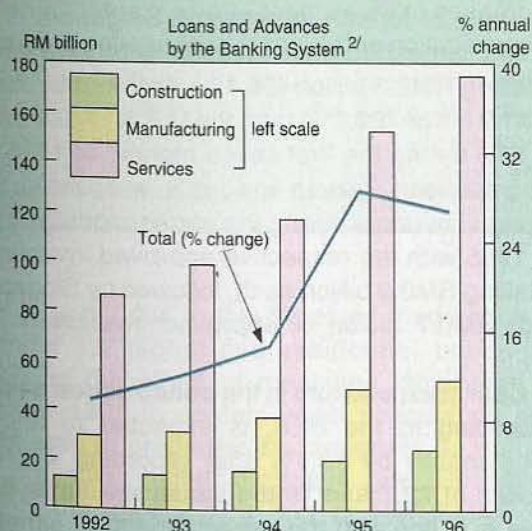
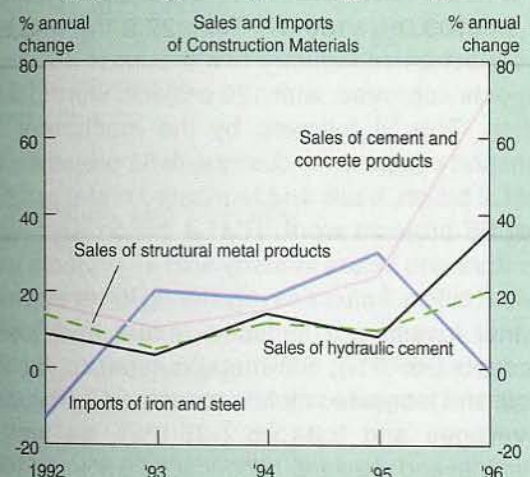
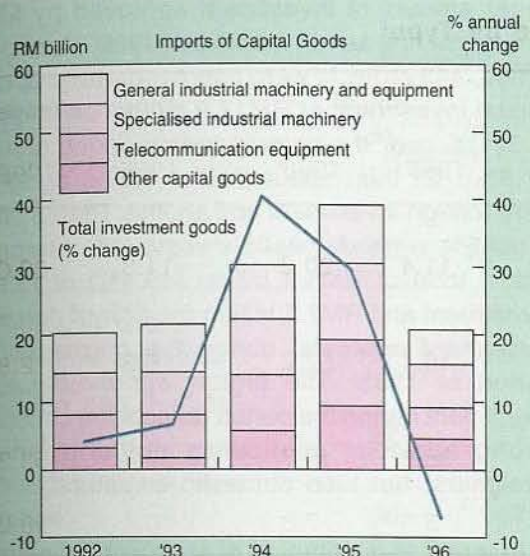
Major investment indicators during the first seven months of 1996, however, showed a mixed performance, as reflected in Chart 6.2. Imports of capital goods declined by 7.1% during the first seven months of 1996 (January-July 1995: 44.2%), while that of iron and steel declined by 0.3% (January-July 1995: 22.6%). The production and sales of construction-related materials, however, remained strong, increasing between 12.5% to 70.9%, reflecting robust construction activities.

According to the BES, the total capital expenditure of 220 firms surveyed is expected to decline by 8.6% in 1996, compared with a growth of 27.3% recorded in 1995. As shown in Table 6.3, 71.9% of the capital investment in 1996 (1995: 85%), continues to be on the purchases of new machinery and transport equipment and another 20.3% on the new buildings and other structure (1995: 11.4%). Investment spending is expected to increase in the agriculture, mining and the manufacturing sectors, while in the services and construction sectors, investment is expected to decline.

Investment outlay in the **manufacturing sector**, as reported in the BES, is expected to record a moderate increase of 9.3%, compared with a strong growth of 16% registered in 1995 (please see Table 6.4). The growth reflects mainly the continued increases in investment in new plants, as well as diversification and expansion of existing production lines undertaken by the domestic market-oriented industries which are envisaged to increase their capital outlay by 29.3% in 1996 (1995: -22.6%). The export market-oriented industries which have committed sizeable investment in 1995 are expected to reduce their capital outlay marginally by 4.6% in 1996 (1995: 77.3%). The expansion of capital outlay in the manufacturing sector as a whole reflects partly the implementation of large projects approved in the early 1990s, such as Amoco Chemicals, Kedah Wafer Emas and Hualon Corporation.

Export market-oriented industries surveyed in the BES are expected to show a mixed performance with respect to their capital outlays in 1996. Investment in wood-based industry is expected

Chart 6.2
Private Investment Indicators^{1/}



1/ 1996 figures refer to January-July period.

2/ Refers to total as at end of the year, except for 1996 as at end of July.

Table 6.4

Capital Expenditure by the Manufacturing Sector¹

	Value (RM million)		Annual Change (%)	
	1995	1996 [†]	1995	1996 [†]
Export market-oriented industries	3,577	3,414	77.3	-4.6
Electrical and electronic products	2,473	2,087	37.8	-15.6
Textiles and wearing apparel	1,009	844	747.9	-16.3
Wood products, excluding furniture	28	294	-33.3	950.0
Rubber products	67	189	9.8	182.1
Domestic market-oriented industries	2,475	3,200	-22.6	29.3
Food, beverages and tobacco	175	359	13.6	105.1
Paper products and printing	25	11	-10.7	-56.0
Chemicals and chemical products	856	1,264	-23.9	47.7
Petroleum refining	258	170	52.7	-34.1
Plastic and glass products	36	121	-47.8	236.1
Non-metallic mineral products	244	98	-56.8	-59.8
Iron and steel	444	79	909.1	-82.2
Fabricated metal products	51	89	-52.8	74.5
Machinery, excluding electrical	178	293	21.9	64.6
Transport equipment	208	716	-73.7	244.2
TOTAL	6,052	6,614	16.0	9.3

[†] Based on BES

[†] Forecast

Source: Department of Statistics

to register a significant growth of 950.0%, after registering a negative growth of 33.3% in 1995. This turnaround is largely for expansion of production capacity, following the recent surge in export demand for wood products, especially wooden furniture, plywood and veneer. Similarly, investment in rubber-based industry is expected to grow strongly by 182.1% (1995: 9.8%) in anticipation of higher domestic and external demand for tyres and rubber-based products. However, investment in the electrical and electronics industry is expected to decline by 15.6% in 1996 (1995: +37.8%), reflecting partly the cautious stance of the industry following the recent softening in global demand for some electronic and audio visual products in the early half of 1996. Following a significant investment in new and advanced production technology undertaken by the textiles and wearing apparel industry in recent years, the industry's capital outlay for 1996 is expected to decline by 16.7% (1995: 747%).

In the case of domestic market-oriented industries, the transport equipment industry is expected to step up its capital investment by 244.2% in 1996 (1995: -73.7%). This reflects mainly the continued investment activities undertaken by the motor vehicles assemblers, including assembly of motor cycles and scooters. In view of the need to expand its production capacity to meet favourable demand, the food industry is expected to step up its capital outlay by 105.1% in 1996 after a growth of 13.6% in 1995. Investment in the chemical industry is also expected to record a significant growth of 47.7% (1995: -23.9%) underpinned by expansion programmes including that of Easterner Chemical from the United States, as well as the establishment of two other leading high-tech petrochemical companies from Britain and Germany in Pahang, with expected total investment of more than RM1 billion. Other industries which are expected to show strong rates of growth in capital outlay include fabricated metal products (74.5%) and machinery industry (64.6%). With the expected lower investment expenditure by Perwaja, investment in the iron and steel industry, as a whole, is envisaged to decline by 82.2% in 1996 (1995: 909.1%). Capital outlays in both the non-metallic mineral products and petroleum refining industry industries are also projected to decline by 59.8% and 34.1%, respectively.

Prospective investment in the manufacturing sector is envisaged to remain strong due to the larger amount of investment approved by MIDA during the first seven months of 1996. During the period, 449 projects were approved with proposed capital investment of RM17.9 billion, an increase of 37.3% over the corresponding period of 1995 (-7.3%). Of this, about RM9.4 billion or 52.5% were foreign investment and another RM8.5 billion or 47.5% were domestic investment, compared with a total of RM5.9 billion (45.4%) of foreign investment and RM7.1 billion (54.6%) of domestic investment approved during the corresponding period of 1995. The higher approved capital investment during the period reflects the continued strong business confidence not only among foreigners, but also domestic investors.

In terms of distribution of approved investment by industry, as shown in Table 6.5, the electrical and electronics industry has the most number of projects approved, with 120 projects worth RM7.7 billion. This is followed by the machinery and transport equipment industry with 61 projects worth RM1.2 billion, basic and fabricated metal products with 55 projects worth RM1.4 billion and wood, furniture and fixture industry with 47 projects worth RM0.6 billion. Industries registering lower approved capital investment included textile and leather products (-69.6%), non-metallic mineral (-62.9%), basic and fabricated metal products (-47.9%), food, beverages and tobacco (-35.8%), as well as chemical and chemical products (-35.9%). In terms of origin of foreign investment, Singapore is the single largest foreign investor with investment totalling RM3.3 billion (35.1%), followed by Japan RM1.9 billion (20.2%), and the U.S.A RM0.9 billion (9.6%) during the first seven months of 1996. As a comparison, Taiwan and Japan were the largest foreign investors during the corresponding period of 1995 with the respective approved investment totalling RM0.9 billion each, followed by Singapore with RM0.7 billion of approved investment.

Capital expenditure in the **construction sector**, according to the BES, is expected to decline substantially by 50.9% after recording a strong growth of 72.7% in 1995 (please see Table 6.6). This is in line with the expectation that, although construction activity will remain strong, new construction starts will not be as large as in 1995.

Table 6.5

Projects Approved by Industry
(January-July)

Industry	Number		Value (RM million)		Share (%)		Annual change (%)
	1995	1996	1995	1996	1995	1996	1996
Electrical and electronic products	112	120	1,163	7,716	8.9	43.2	563.4
Textile and leather products	27	27	644	196	5.0	1.1	-69.6
Wood, furniture and fixture	68	47	1,150	566	8.8	3.2	-50.8
Rubber and plastic products	62	39	357	417	2.7	2.3	16.8
Food, beverages and tobacco	19	19	293	188	2.3	1.0	-35.8
Petroleum and coal	1	5	255	1,576	2.0	8.8	518.0
Chemicals and chemical products	49	30	2,061	1,322	15.8	7.4	-35.9
Non-metallic mineral products	36	17	1,650	612	12.7	3.4	-62.9
Basic and fabricated metal products	46	55	2,698	1,407	20.7	7.9	-47.9
Machinery and transport equipment	50	61	1,030	1,228	7.9	6.9	19.2
Miscellaneous	27	29	1,713	2,640	13.2	14.8	54.1
TOTAL	497	449	13,014	17,868	100.0	100.0	37.3

Source: Malaysian Industrial Development Authority (MIDA).

This is partly due to the expected moderation in demand for higher-end residential buildings, reflecting the effect of measures introduced in October 1995 to contain asset speculation and purchases of properties by foreigners as well as the prevailing higher mortgage rate. Reflecting mainly the impact of a levy of RM100,000 on every purchase of real estate by foreign interest introduced in the 1996 Budget, the value of residential properties bought by foreigners declined

by 52.2% during the first seven months of 1996. Capital expenditure for purpose of implementing public sector initiated projects is not expected to increase significantly as new projects approved under the Seventh Malaysia Plan are not expected to be implemented in the first year of the Plan. The bulk of the investment expenditure is for construction of on-going projects, including several mega engineering projects, such as the Kuala Lumpur International Airport, the Light Rail Transit

Table 6.6
Capital Expenditure by Sector¹

Sector	Value (RM million)		Annual Change (%)	
	1995	1996 ²	1995	1996 ²
Agriculture	325	421	39.5	29.5
Rubber	38	20	137.5	-47.4
Oil palm	208	310	15.6	49.0
Logging	79	91	113.5	15.2
Mining ²	14	18	-77.4	28.6
Manufacturing	6,052	6,614	16.0	9.3
Construction	114	56	72.7	-50.9
Services	6,220	4,523	40.8	-27.3
Wholesale and retail trade	475	921	53.2	93.9
Hotels	46	33	24.3	-28.3
Banks and other financial institutions	433	909	-20.8	109.9
Insurance, real estate and business services	84	106	223.1	26.2
Transport	5,182	2,554	48.1	-50.7
TOTAL	12,725	11,632	27.3	-8.6

¹ Based on BES.

² Excluding petroleum and gas.

³ Forecast

Source: Department of Statistics

in the hotels sub-sector is also expected to decline by 28.3%, reflecting partly the smaller number of projects approved for the development of new hotels and resorts by private sector in 1996. All other services sub-sectors, however, are expected to record significant rates of growth in investment spending, ranging between 26.2% to 109.9%. Investment by the wholesale and retail trade sub-sector is expected to increase strongly by 93.9%, particularly for expansion of supermarket chains and convenience stores. The bank and other financial institutions sub-sector is expected to increase its capital spending by 109.9% in 1996, after a decline of 20.8% in 1995. The investment includes improvements in banking technology and establishment of new branches in order to provide better customer services. The insurance, real estate and business services sub-sector is expected to show a moderate increase of 26.2% in investment outlay in 1996, after expanding by 223.1% in 1995.

Investment spending in the **mining sector** (excluding petroleum and gas) is envisaged to surge by 28.6% in 1996, after contracting by 77.4% in 1995. The increase is attributed mainly to investment in the quarrying industry to meet the demand by the construction industry.

Despite the anticipated reduction in investment spending in rubber plantation (47.7%), capital expenditure by the **agriculture sector** is expected to increase further by 29.5% in 1996, compared with a growth of 39.5% in 1995. According to BES, investment in oil palm planting is expected to surge by 49.0% in 1996 (1995: 15.6%) in view of relatively higher investment returns on oil palm. More than half of the investment is in the form of newly planted trees. According to the Palm Oil Registration and Licensing Authority (PORLA), total newly planted and replanted palm oil hectareage is projected to increase by 2.4% to 2,567,000 hectares by the end of 1996, from 2,507,000 hectares as at the end of 1995. Growth in investment spending for the logging industry, however, is expected to slow down significantly to 15.2%, after a strong growth of 113.5% registered in 1995. Much of the investment will be in reafforestation programmes undertaken by both the logging industry and the government to ensure sustainable exploitation of the forests.

System and the Kuala Lumpur City Centre. The implementation of previously approved mega projects, such as Bakun Hydroelectric Dam, the new Federal Government administrative centre in Putrajaya and the Kuala Lumpur Sentral projects are still at the incipient stage.

Private investment in the **service sector**, as a whole, is also expected to decline by 27.3% in 1996 (1995: 40.8%). This is largely due to a sharp reduction in capital investment in the transport sub-sector (50.7%), reflecting mainly lower investment by the Malaysian Airlines. Investment

Private Sector Resource Position

With private sector earnings expected to increase by 17.7% to RM174.7 billion in 1996 from RM148.5 billion in 1995, private sector savings is projected to total at RM59.0 billion in 1996. This represents an increase of 34.7% compared with RM43.8 billion or a growth of 42.0% recorded in 1995. Nevertheless, gross private capital formation (including change in stocks) is also anticipated to remain strong, increasing by 9.4% to RM73.3 billion (1995: 42.7%, RM67.0 billion). Despite the faster rate of savings growth relative to that of investment, the private sector resource position is expected to continue to record a deficit of RM14.3 billion or 6.1% of GNP in 1996. This deficit, however, is considerably lower than the deficit of RM23.2 billion or 11.1% of GNP registered in 1995, as shown in Table 6.7.

Table 6.7

Private Sector Resource Position (in current prices)

	(RM million)		% Change	
	1995	1996 ¹	1995	1996 ¹
Private sector income ¹	148,474	174,728	20.3	17.7
Less Private consumption	104,695	115,741	13.1	10.6
Private sector savings (% of GNP)	43,779 (21.0)	58,987 (25.1)	42.0	34.7
Private sector investment ² (% of GNP)	66,961 (32.2)	73,280 (31.1)	42.7	9.4
Private savings-investment gap (% of GNP)	-23,182 (-11.1)	-14,293 (-6.1)		

¹ After direct taxes but include subsidies.

² Include change in stocks.

¹ Forecast

Sources of Financing

With the higher level of private sector savings in 1996, internally generated funds, including funds raised in the capital market and foreign direct equity participation are expected to remain the primary source of financing for private investment. According to the BES, 78% of the planned capital expenditure of 220 large companies in 1996 will be financed through these funds (see Table 6.8). Other sources of financing are borrowings from domestic and foreign sources.

Domestic borrowing is expected to finance 12% of the total capital expenditure planned by the 220 large companies surveyed in the BES. As shown in Table 6.9, total loans and advances (excluding consumption credit) extended by the banking system to the private sector increased by 26.8% to RM251.4 billion during the first seven months of 1996, compared with 27.2% (RM198.2 billion) during the corresponding period of 1995. In particular, a substantial amount, that is RM52.3 billion or 20.8% of total credit, was extended to the manufacturing sector, representing an increase of 16.8% over the same period of 1995. Other sectors which received significant amount of credit during the period were the real estate and housing sector (RM47.7 billion), finance, insurance and business services (RM40.2 billion), construction (RM24.4 billion) and general commerce (RM23.2 billion).

Table 6.8

Private Sector Source of Financing¹ (% share)

	1995	1996 (forecast)
Own fund	66	78
Local borrowings	16	12
Foreign borrowings	18	10
TOTAL (RM million)	100 12,725	100 11,632

¹ Based on BES.

Source: Department of Statistics

Table 6.9

**Loans and Advances by the
Banking Sector¹**
(as at end of July)

Sector	Value (RM million)		Annual Change (%)	
	1995	1996	1995	1996
Agriculture	4,924	5,841	1.7	18.6
Mining & quarrying	1,119	1,485	29.2	32.7
Manufacturing	44,788	52,298	34.8	16.8
Construction	18,012	24,437	22.7	35.7
Services	129,406	167,364	26.6	29.3
General commerce, including wholesale and retail trade	19,424	23,157	23.1	19.2
Transport and storage	2,936	3,834	11.9	30.6
Finance, insurance and business services	26,358	40,232	40.1	52.6
Property including real estate and housing	40,041	47,683	15.7	19.1
Others	40,647	52,458	14.3	29.1
TOTAL	198,249	251,425	27.2	26.8

¹ Excluding consumption credit.

Source: Central Bank of Malaysia

According to the BES, only 10% of the private investment planned in 1996 is envisaged to be financed by foreign borrowings, which is significantly lower than 18% in 1995. Nevertheless, equity participation by foreign investors remains as an important source of financing for private investment. Inflows of foreign capital into the country are projected to increase steadily in 1996 with net inflow of foreign corporate investment estimated at RM10.8 billion (1995: RM10.3 billion). Reflecting this trend is the 58.8% increase in foreign investment approved by MIDA during the first seven months of 1996 to RM9.4 billion.

Table 6.10

**Funds Raised in the Capital Market
(January-August)**

	(RM million)		% share	
	1995	1996	1995	1996
Shares	5,919	9,427	91.0	67.9
Public issues	428	619	6.6	4.4
Rights issues	3,345	3,954	51.4	28.5
Special issues	1,524	3,430	23.4	24.7
Offer for sale	622	1,424	9.6	10.3
Debt securities	585	4,453	9.0	32.1
Conventional bonds ¹	70	3,335	1.1	24.0
Convertible bonds ²	—	—	—	—
Islamic Notes	—	—	—	—
Others ³	515	1,118	7.9	8.1
TOTAL	6,504	13,880	100.0	100.0
Shares and debt securities by sector				
Agriculture	203	461	3.1	3.3
Mining	—	533	—	3.8
Manufacturing	2,024	4,810	31.1	34.7
Construction	1,018	2,668	15.7	19.2
Services	3,259	5,408	50.1	39.0
General trading	914	1,377	14.1	9.9
Finance and insurance	2,071	1,261	31.8	9.1
Transport	15	903	0.2	6.5
Others	259	1,867	4.0	13.5
TOTAL	6,504	13,880	100.0	100.0

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 and yankee bonds.

Source: Kuala Lumpur Stock Exchange.

The **local capital market** is another source of financing for the private sector. To meet the financing requirements of the corporate sector, a total fund of RM13.9 billion was mobilised from the capital market during the first eight months of 1996, representing an increase of 113.4% over the corresponding period of 1995 (RM6.5 billion). During the period, the Securities Commission approved a total of RM9.4 billion for listing with the Kuala Lumpur Stock Exchange, of which RM0.6 billion (4.4%) was raised through the subscription of new public issues, RM4.0 billion (28.5%) through rights issues, RM3.4 billion (24.7%) through special issues and another RM1.4 billion (10.3%) through restricted offer for sale. A total of 54 companies were listed on both the main and second board of the KLSE during the first eight months of 1996 (January-August 1995: 32 companies). In addition, debt securities valued at RM4.5 billion were raised during the first eight months of 1996, as shown in Table 6.10. In terms of sectors, the services sector, including the financial sector, remained the largest recipient of fund raised in the capital

market, accounting for 39.0%, followed by the manufacturing sector (34.7%) and construction sector (19.2%).

Conclusion

Private sector performance is envisaged to remain strong in 1996, in tandem with the sustained growth of the economy. With income growth outpacing consumption expenditure, a higher level of savings is expected to be generated. Consequently, internally generated funds are envisaged to finance a larger portion of the investment expected to be undertaken by the private sector in 1996. Business confidence remains high, with private sector investment continuing to record positive growth rate, although at a more moderate pace. With increased savings and more moderate expansion of investment, the private sector resource position is expected to strengthen in 1996.