

6

Private Sector Performance

Overview

Private sector performance in general is expected to moderate in 1997. This in part reflects the impact of moderation in the growth of domestic and external demand, as well as the adjustments that are envisaged following developments in the financial markets which have been triggered by speculative activity on the Thai baht since mid-May 1997. Corporate revenue is expected to expand at a slower rate, with income of the manufacturing and construction sectors as well as some sub-sectors within the services sector being variedly affected by global declines in prices of manufactured goods, restriction on bank lending to the broad property sector and for share financing, the more cautious stance of developers in view of increase in supply in some sub-sectors of the property market, as well as the erosion of consumer confidence following the decline of share prices in Kuala Lumpur Stock Exchange. The moderation in the growth of income, however, is expected to be accompanied by slower growth in private sector consumption, thereby, enabling further accumulation of savings. Nevertheless, these additional savings are expected to be largely reinvested as growth of private sector capital formation, including foreign investment, is expected to be sustained at double-digit rate in 1997.

Private Sector Earnings

Total private sector income, including that of business corporations and individuals, is expected to increase at a slower rate of 8.2% to RM182 billion in 1997 (1996: 16.9%). While the overall growth in corporate earnings is expected to be moderate, the revenue performance of the private sector is expected to be mixed. This is reflected in the results of the Business Expectation Survey (BES) carried out by the Department of Statistics

Table 6.1
Gross Revenue by Sector¹

Sector	Value (RM million)		Annual Change (%)	
	1996	1997 ¹	1996	1997 ¹
Agriculture	3,970	4,180	-2.3	5.3
Manufacturing	87,852	92,974	10.3	5.8
Construction	5,581	6,199	87.2	11.1
Services	88,144	102,021	29.0	15.7
Wholesale and retail trade	42,035	46,971	10.8	11.7
Hotels	401	388	-8.0	-3.4
Banks and other financial institutions	21,247	26,098	41.2	22.8
Insurance, real estate and business services	6,250	7,090	11.4	13.4
Transport	9,984	11,376	7.2	13.9
Telecommunication	8,228	10,098	n.a	22.7
TOTAL	185,548	205,374	19.4	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

¹ forecast

n.a not available

Source: Department of Statistics

on 220 large business corporations (please see Table 6.1). The BES indicates that the revenue for 1997 is anticipated to increase at a slower rate of 10.7% (1996: 19.4%). According to the survey, with the exception of the agriculture sector, all major sectors of the economy are expected to register a slowdown in revenue growth in 1997.

Based on BES, the manufacturing sector is expected to record a slower growth in revenue, that is 5.8%, in 1997, compared with a growth of 10.3% registered in 1996 (please see Table 6.2). The revenue performance of the **export market-oriented industries** as a group is expected to lack lustre, with revenue expected to decline marginally by 0.7% in 1997, after recording a growth of 3.5% in 1996. This is largely attributed to the poor revenue performance of the electrical and electronic products as well as the rubber-based industries. The rubber-based industry is expected to register a negative revenue growth of 13.6%, reflecting the expected further decline in both the production and export unit value of rubber for 1997. Growth in earnings of the electrical and electronic products is also expected to decline marginally by 2.1%, due to cutbacks in production and lower prices of audio-visual products as a result of excess production capacities worldwide as well as global declines in the prices of semiconductors particularly dynamic random access memory (DRAM) chips. On the other hand, the revenue growth of the wood-based sub-sector is anticipated to remain strong, increasing by 18.2% in 1997 (1996: 18.5%), as a result of strong demand for plywood from local processing industries and the continued favourable external demand. Revenue growth of the textiles and wearing apparel sub-sector is also expected to remain strong but at a slower rate of 17.6% in 1997 (1996: 27.2%). The slower revenue growth reflects increasing competition from lower-cost producers such as China, the Philippines, Bangladesh and Vietnam, as well as the rising local production costs due to the continued tight labour market situation.

Although the **domestic market-oriented industries** as a group is expected to record a more significant deceleration in revenue growth in 1997, its revenue is expected to continue to record double digit rate of growth, that is at 11% (1996: 16.4%). The chemical and chemical products industry is expected to be the strongest revenue performer among all the industries in the manufacturing sector in 1997. Its revenue is

Table 6.2
Gross Revenue by Manufacturing Sector¹

Industry	Value (RM million)		Annual Change (%)	
	1996	1997 ²	1996	1997 ²
Export market-oriented industries	38,895	38,633	3.5	-0.7
Electrical and electronic products	32,913	32,207	1.7	-2.1
Textiles and wearing apparel	3,200	3,764	27.2	17.6
Wood products, excluding furniture	813	961	18.5	18.2
Rubber products	1,969	1,701	-3.4	-13.6
Domestic market-oriented industries	48,956	54,341	16.4	11.0
Food, beverages and tobacco	12,670	13,162	-5.1	3.9
Paper products and printing	947	1,020	43.5	7.7
Chemicals and chemical products	11,297	13,843	55.9	22.5
Petroleum refining	5,616	5,475	23.7	-2.5
Plastic and glass products	421	428	5.0	1.5
Non-metallic mineral products	1,680	1,971	32.5	17.3
Iron and steel	2,021	2,174	-0.8	7.5
Fabricated metal products	1,492	1,696	-2.4	13.7
Machinery, excluding electrical	2,887	2,739	-13.4	-5.1
Transport equipment	9,925	11,833	28.9	19.2
TOTAL	87,852	92,974	10.3	5.8

¹ Based on BES

² forecast

Source: Department of Statistics

expected to increase by 22.5%, after recording a 55.9% surge in revenue growth in 1996. Strong demand from both domestic and external markets for plastics products, particularly plastics bottles by the beverages industry, synthetic resins and industrial gases is expected to support the expected strong revenue growth of the industry during 1997. The transport equipment industry is also expected to record a strong but significantly slower revenue growth, that is at 19.2% in 1997, against 28.9% in 1996. The deceleration is largely attributed to expected slower sales of passenger cars above 1,600 c.c. Growth in sales revenue of the industry is expected to be underpinned by strong sales of PROTON and PERODUA cars, motorcycles and scooters as well as motor vehicles' parts and accessories. Another industry which is expected to record a slower but strong growth in revenue is the non-metallic mineral industry, that is at 17.3% in 1997 (1996: 32.5%). The slower growth is attributed to the less robust construction starts, particularly for the higher-end condominiums and high-rise commercial buildings as developers take a more cautious stance in view of the rapid increase in supply of these buildings as well as the limit imposed on bank lending to the broad property sector.

In the **construction sector**, construction firms surveyed expect revenue growth to decelerate sharply to 11.1% in 1997, after a recording a significant growth of 87.2% in 1996. The sharp deceleration is mainly due to expected lower take-up rate for the higher-priced condominiums, office space and retail outlets in shopping complexes. Nevertheless, favourable growth in sales of landed properties as well as low and medium cost apartments and receipts from construction services in civil engineering works is expected to contribute to the double-digit revenue growth envisaged to be recorded by the construction sector in 1997.

After registering an impressive revenue growth of 29% in 1996, **the services sector** is expected to record a significant slower revenue growth of 15.7% in 1997. The envisaged slowdown in the services sector revenue growth is largely attributed to banks and other financial institutions. The revenue of financial institutions surveyed is expected to decelerate from a growth of 41.2% in 1996 to 22.8% in 1997, largely on the expectation that the recent measures introduced by Bank

Negara Malaysia to control credit growth will be more fully felt during the second half of the year. Underpinning the revenue growth of banks and other financial institutions during 1997 is still the strong expansion of loans and advances by these institutions to the private sector. The annualised rate of growth of loans and advances extended by the banking system as at the end of July 1997 is 27.8%, with an outstanding loans of RM321.4 billion. The telecommunications industry is expected to record the second strongest growth in revenue, after the banks and other financial institutions, that is 22.7%. In part, the strong revenue growth reflects the double digit growth in the demand by consumers for new telephone lines and cellular phone services. According to the BES, other services sub-sectors that are expected to record stronger revenue growth include the insurance and transportation industries. In the case of the insurance industry, the premium income of 66 insurers operating in Malaysia is expected to increase by 19.3% to RM4,999.7 million for the period January-June 1997 (January-June 1996: RM4,191.2 million). In the transport industry, the expectation of firms surveyed is that revenue could increase by 13.9% in 1997, against 7.6% in 1996. The expected acceleration in the revenue growth of the transportation industry reflects the positive impact of the expansion the of services delivery capacity of the air, sea and rail services industries.

Consumption Expenditure

Private consumption in current prices is expected to increase at slower rate of 6.9% in 1997 to RM122.8 billion (1996: 9.7%), reflecting the impact of moderation in income growth, negative wealth effect of lower prices of shares listed on the Kuala Lumpur Stock Exchange on consumption spending and the measures introduced by the Government to promote private sector savings. In real terms, growth in private consumption is envisaged to decelerate to 3.8% (1996: 6%) while, in terms of per capita, it is expected to increase by 1.4% (1996: 3.6%).

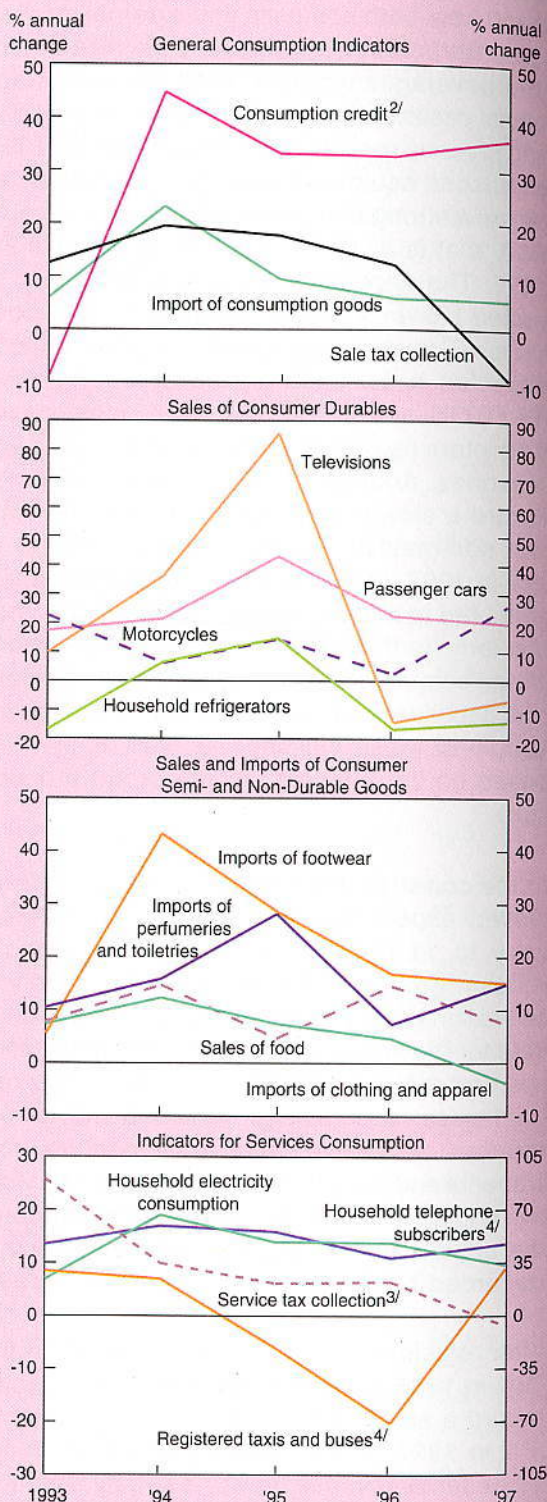
The moderation in the growth of private consumption is reflected in a number of major consumption indicators. For instance, imports of consumption goods, which is a major indicator on private consumption, increased at a slower rate of 5.6% to RM 7.5 billion during the first seven months of 1997 (January-July 1996: 9.6%).

In the case of consumer durable goods, major sales indicators for the first seven months 1997 showed that private sector consumption of these goods has generally declined or increased at a slower rate, except for passenger cars and motorcycles. The sales of television sets recorded a decline of 6.8% to 136,670 units during the first seven months of 1997 (January-July 1996: 8.7%), while the sales of household refrigerators registered a decline of 14.1% to 100,814 units (January-July 1996: -15.7%). However, the sales of passenger cars grew at a stronger rate of 19.9% (January-July 1996: 17%), while the number of new registration of cars with the Road and Transport Department increased by 8.9% (January-July 1996: 5.3%). Nevertheless, it is envisaged that private consumption spending on cars, especially luxury and higher capacity cars will be affected in the last five months of 1997. Private consumption of motorcycles accelerated during the first seven months of 1997 as indicated by the 22.8% increase in the sales of motorcycles to 232,541 units (January-July 1996: 0.5%) (please see Chart 6.1).

Private consumption for non-durable and semi-durable goods generally increased at a slower rate. Reflecting this trend is the slowdown in the rate of increase in the sales of food to 6.1% (January-July 1996: 11.2%) and the import of foods and beverages to 8.6% (January-July 1996: 13.4%). Indicating the slowdown in private consumption of semi-durable goods, import growth of semi-durable goods decelerated to 1.9% during the first seven months of 1997 (January-July 1996: 15%). The sales of cotton cloth fell by 6.7% (January-July 1996: -41.7%) and the import of clothing and apparel declined by 3.7% (January-July 1996: 3.1%). The import of footwear increased at a slower rate of 15.1% (January-July: 22.7%).

Nevertheless, private sector **demand for services** during the first seven months of 1997 remained relatively stable, as reflected in the demand for services provided by transport and communications industries, as well as the energy sub-sectors. In particular, the number of passengers using KTMB Komuter increased significantly by 57.2% to 9,318,491 passengers compared with a total passenger of 5,926,193 registered in the same period of 1996. At the same time, the number of taxis and buses registered with the Road and

Chart 6.1
Private Consumption Indicators ^{1/}



^{1/} 1997 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 1997 as at end of July.

^{3/} Refers to right scale.

^{4/} Refers to left scale.

Transport Department rose by 8.9% (January-July 1996: 3.2%). In terms of demand for telecommunication services, the number of household subscribers expanded further by 14% to 2,927,247 subscribers at end of July 1997 (end-July 1996: 12.4%). Consumption of electricity was also higher, increasing by 14.9% during the first seven months of 1997, after recording a growth 11.5% in the same period of 1996.

Capital Outlay

Private sector investment within the country is expected to increase by 10.6% to RM85.2 billion (1996: 15.8%). Reflecting the sustained growth in private sector fixed capital formation is the 21.2% increase in the growth of imports of capital goods during the first seven months of 1997 (January-July 1996: -7.7%). Business sectors that are expected to experience strong increases in investment are the manufacturing, oil and gas as well as the services sector, especially in transportation and telecommunications. However, private sector investment in the agriculture and

construction sectors is expected to slow down. The increase in private sector investment is underpinned by increases in both domestic and foreign investment. Investment undertaken by domestic investors within the country in 1997 is estimated at RM63.3 billion, an increase of 9.7% when compared to RM57.7 billion invested in 1996 (14%). Investment undertaken by foreign investors including those involved in joint venture projects is expected to increase by 13% to RM21.9 billion (1996: 21.3%).

Based on the 220 large companies surveyed by the Department of Statistics, the capital expenditure of these companies is expected to turn around to record a growth of 67.8%, after a decline of 4.1% in 1996 (please see Table 6.3 and Chart 6.2). Whilst investment in new buildings including factories and other structures is expected to increase by 91.3%, the bulk of investment continues to be focused on the purchase of new machinery and equipment, which accounts for 53.3% of total investment in 1997. Total investment in new machinery and equipment is envisaged to grow at a rapid rate of 54% (1996:21.6%). The

Table 6.3
Capital Expenditure by Type¹

<i>Expenditure category</i>	<i>Value (RM million)</i>		<i>Share (%)</i>		<i>Annual change (%)</i>	
	<i>1996</i>	<i>1997^f</i>	<i>1996</i>	<i>1997^f</i>	<i>1996</i>	<i>1997^f</i>
New buildings and other structure	2,136	4,086	17.3	19.7	47.5	91.3
New machinery and equipment	7,178	11,050	58.1	53.4	21.6	54.0
New transport equipment	2,083	4,229	16.9	20.4	-57.6	103.0
Other expenditure	947	1,346	7.7	6.5	105.6	42.1
TOTAL	12,344	20,711	100.0	100.0	-3.0	67.8

¹ Based on BES

^f Forecast

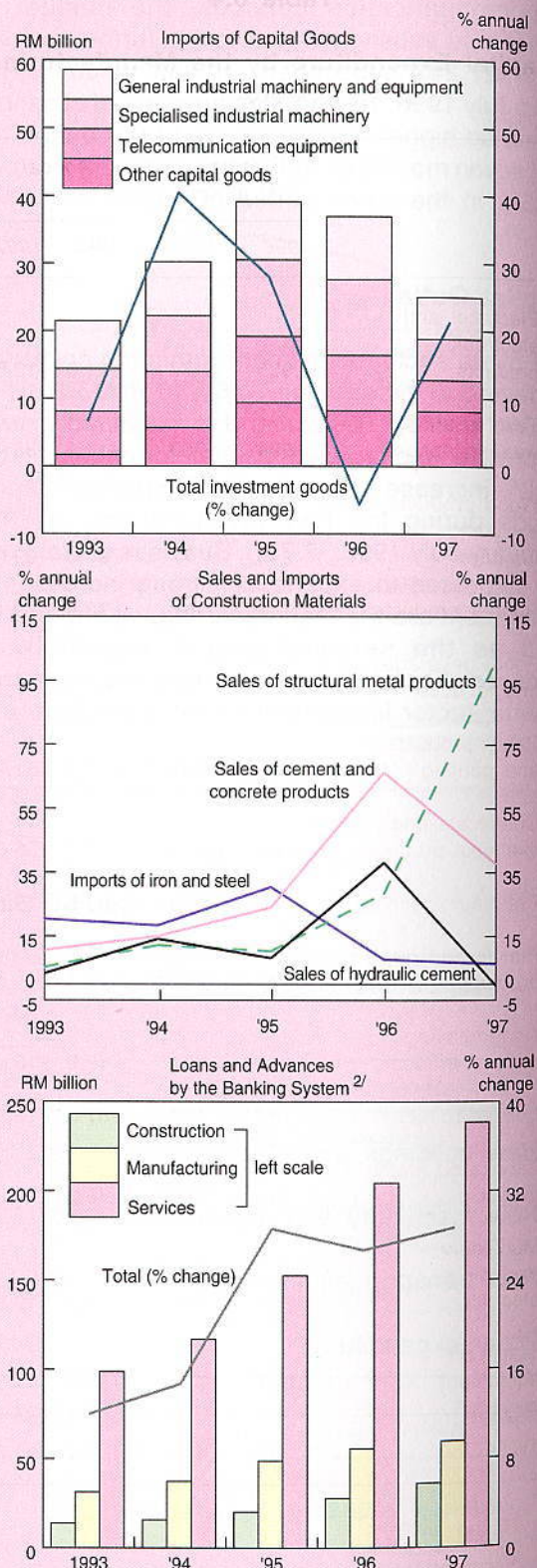
Source: Department of Statistics

significant expansion of investment by the business sector in new machinery and equipment is reflected in the strong growth of imports of capital goods, that is at 21.2% during the first seven months of 1997.

According to the BES, capital outlay in the **manufacturing sector** is expected to expand significantly, that is by 45.8%, in 1997, after registering a negative growth of 4.1% in 1996 (please see Table 6.4). The significant increase in private investment reflects the higher amount of investment approved by MIDA during 1994-96, totalling RM78.2 billion, of which 48% were from foreign investors. Industries which are expected to record sizable increase in investment are the chemical and chemical products industry with a growth of 156%, followed by the electrical and electronics products industry, with a growth of 12.5%. The strong increase in investment in the chemical and chemical products industry is expected to be encouraged by strong growth in domestic and external demand for its products. During the first seven months of 1997, exports of chemical and chemical products increased by 13.8%. A large part of the investment in this industry reflects the on-going implementation of several large petrochemical projects in Kertih, Gebeng and Pasir Gudang. Investment in the chemical and chemical products industry is underpinned by a total of 181 chemical projects amounting to RM9.8 billion which were approved by MIDA during 1994-96. Similarly, investment in the electrical and electronic products industry is expected to be encouraged by strong export volume offtake of semiconductors despite worldwide competition which has depressed prices of these products, as well as the 68.7% increase in export earnings of electronics data processing machines during the first seven months of 1997.

Other manufacturing industries which are expected to record strong increases in investment during 1997 are industries producing plastics and glass products, non-metallic mineral products, paper products, food, beverages and tobacco as well as petroleum refining. The 219% increase in investment by firms surveyed in the plastic and glass products industry is expected to be stimulated by strong domestic and external demand for its products in view of the rapidly expanding food packaging and beverages bottling industry, as well as the continued favourable demand for plastic products from domestic automobile industry. The

Chart 6.2
Private Investment Indicators^{1/}



1/ 1997 figures refer to January-July period.

2/ Refers to total as at end of the year, except for 1997 as at end of July.

Table 6.4

Capital Expenditure by the Manufacturing Sector¹

	Value (RM million)		Annual Change (%)	
	1996	1997 ²	1996	1997 ²
Electrical and electronic products	1,935	2,177	-21.8	12.5
Textiles and wearing apparel	894	569	-11.4	-36.4
Wood products, excluding furniture	249	77	790.0	-69.0
Rubber products	119	117	78.9	-2.1
Food, beverages and tobacco	354	485	102.5	37.1
Paper products and printing	109	165	341.7	51.7
Chemicals and chemical products	865	2,215	1.1	156.0
Petroleum refining	205	438	-20.6	113.6
Plastic and glass products	77	247	115.6	219.0
Non-metallic mineral products	142	872	-42.0	516.4
Iron and steel	147	170	-67.0	15.8
Fabricated metal products	90	107	76.3	18.8
Machinery, excluding electrical	246	295	38.8	19.8
Transport equipment	369	521	76.9	41.3
TOTAL	5,801	8,456	-4.1	45.8

¹ Based on BES² Forecast

Source: Department of Statistics

expected strong increase in investment in the non-metallic mineral industry reflects partly the expansion of production capacity undertaken by the existing cement companies in view of strong domestic demand for cement. Nevertheless, investment in the wood-based industry is expected to slow down after exceptionally large capital investment by the industry in 1996, with firms surveyed expecting a decline of 69% in 1997. Investment in the textiles industry which slowed down by 11.4% in 1996 is expected to record a further cut back in 1997 by 36.4%, partly as a result of labour shortage problem and intense competition from lower-cost producing countries.

Proposed capital investment in the manufacturing sector which has been approved by MIDA during the first seven months of 1997 amounted to RM14.6 billion for 416 projects (January-July 1996: RM18.2 billion, 454 projects). In terms of proposed capital, the approved investment during the first seven months of 1997 was 19.8% lower than corresponding period of 1996 (please see Table 6.5). The lower level of approved investment reflects the impact of the large increase (64.2%) in proposed investment that has been approved in 1996 which will largely be implemented in 1997 and 1998. Of the RM14.6 billion of investment approved during the first seven months of 1997, 43.1% is foreign investment (RM 6.3 billion). The largest proposed investment approved during the first seven months of 1997 was the electrical and electronic industry (32.9% of the total proposed capital investment), followed by the metal products industry (16.4%), petroleum refinery (12.3%) and chemical products industry (8.2%). Japan remained the largest foreign investor which accounted for 25.4% of total approved capital investment, followed by the US (24.4%), Korea (10.3%) and Singapore (8.6%).

Investment in the oil and gas sector by four major companies, including Petronas, is expected to increase by 70.6% to RM11.1 billion in 1997, after a decline of 12% in 1996. Investment in the upstream activities is expected to increase by 55% to RM6.2 billion from RM4.0 billion in 1996, while investment in the downstream activities is expected to increase by 94% to RM4.9 billion. Excluding Petronas, three private oil companies are expected to step up their investment by 76.7% to RM1.2 billion. Their investment in the upstream activities is expected to increase by 283.1% to

Table 6.5

Projects Approved by Industry
(January-July)

Industry	Number		Value (RM million)		Share (%)		Annual change (%) 1997
	1996	1997	1996	1997	1996	1997	
Electrical and electronic products	120	97	7,716	4,824	43.2	33.1	-37.5
Textiles and leather products	27	11	196	151	1.1	1.0	23.0
Wood, furniture and fixture	47	44	566	516	3.2	3.6	-8.8
Food, beverages and tobacco	39	33	417	544	2.3	3.7	30.5
Rubber and plastic products	19	30	188	310	1.0	2.1	64.9
Petroleum and coal	5	1	1,576	1,823	8.8	12.5	15.7
Chemical and chemical products	30	30	1,322	1,168	7.4	8.0	-11.6
Non-metallic mineral products	17	37	612	885	3.4	6.1	44.6
Basic and fabricated metal products	55	54	1,407	2,375	7.9	16.3	68.8
Machinery and transport equipment	61	54	1,228	1,306	6.9	9.0	6.3
Miscellaneous	29	25	2,931	669	14.8	4.6	-77.2
TOTAL	449	416	18,159	14,571	100.0	100.0	-19.8

Source: Malaysian Industrial Development Authority(MIDA)

RM712.6 million from RM186 million in 1996. However, their investment in the downstream activities is expected to decline by 3.8% to RM459 million, following a 111% increase in 1996.

Investment spending in **the construction sector**, as shown in Table 6.6, is expected to decline further by 3.3% in 1997 (1996: -3.5%). The lower level of investment is attributed to lower investment by firms surveyed in purchasing machinery, in view of the prevailing large stocks of heavy construction equipment that have been

brought into the country earlier as well as the imposition of higher duties on several heavy machineries to encourage the use of refurbished and reconditioned equipment. Reflecting the lower level of investment spending on construction equipment is the 18.2% drop in the import of tractors and the other civil engineering equipment and parts during the first seven months of 1997. More cautious stance of developers in view of the increase in supply of high rise commercial buildings for office space and retail outlets as well as condominiums is also expected to affect capital spending in the construction sector.

Table 6.6**Capital Expenditure by Sector¹**

Sector	Value (RM million)		Annual Change (%)	
	1996	1997 ^f	1996	1997 ^f
Agriculture	407	354	25.0	-13.1
Rubber	18	20	-52.2	-7.7
Oil palm	253	248	21.5	-1.8
Logging	136	86	71.7	-36.9
Manufacturing	5,801	8,456	-4.1	45.8
Construction	110	107	-3.5	-3.3
Services	6,026	11,795	-3.3	96.1
Wholesale and retail trade	625	845	31.5	35.2
Hotels	50	38	8.5	-24.5
Banks and other financial institutions	717	793	65.7	10.6
Insurance, real estate and business services	101	232	21.0	128.6
Transport	2,292	5,131	-55.8	123.9
Telecommunication	2,241	4,757	n.a	113.4
TOTAL	12,344	20,711	-3.0	67.8

¹ Based on BES^f forecast

n.a not available

Source: Department of Statistics

Capital outlay in the services sector is expected to increase significantly, with firms surveyed expecting to increase investment by 96.1% to RM11.8 billion (1996: -3.3%). This reflects largely the anticipated strong expansion in investment in the transport, storage and the telecommunication sub-sectors. Investment in the transportation sub-sector, according to BES, is expected to record a phenomenal increase of 123.9% in 1997, following

55.8% drop in investment in 1996. The increase is underpinned mainly by large investment to expand the services delivery capacities of the rail, air and shipping industries. Reflecting the increase in investment in the rail services industry is the 305.5% increase in the imports of rail vehicles and equipment to RM503.5 million during the first seven months of 1997. Investment in the airline industry, especially by MAS, is also expected to be significant. Reflecting this is the 33.2% increase in the import of aircraft and parts to RM3.1 billion during the first seven months of 1997. Investment by the business sector in the shipping industry is expected to be equally strong. As a result, the import of ships and tankers increased by 59% to RM2.6 billion during the first seven months of 1997. Closely associated with the investment in shipping and air transportation industries, investment in storage facilities is also expected to increase significantly, as reflected by the 30% increase in the import of containers of RM137.1 million during the first seven months of 1997. All

Table 6.7**Private Sector Resource Position
(in current prices)**

Sector	Value (RM million)		Annual Change (%)	
	1996	1997 ^f	1996	1997 ^f
Private sector income ¹	168.2	182.0	16.9	8.2
Less private consumption	114.9	122.8	9.7	6.9
Private sector savings	53.3	59.2	35.9	11.0
(% of GNP)	(22.4)	(22.6)		
Private sector investment ²	75.8	85.3	12.6	12.6
Private savings-investment	-22.5	-26.1		
gap (% of GNP)	(9.5)	(10.0)		

¹ After direct taxes but include subsidies² Include change in stocks^f forecast

these investments are expected to boost Malaysia's export of tradable services which, in 1996, increased by 25.7% as well as to enhance the nation's capacity to substitute related imported services. In the telecommunication sub-sector, investment is expected to more than doubled from RM2.2 billion in 1996 to RM4.8 billion in 1997, reflecting efforts by services suppliers to improve quality of services and products range as well as to keep pace with technology advancements, especially in Information Technology.

Source of Financing

In line with the expected slower growth in revenue and income in 1997, private sector savings, which include operating surpluses of companies and household savings, are expected to increase at a slower rate of 11% to RM59.2 billion (1996: 35.9%) (please see Table 6.7). This level of savings is expected to finance 69.4% of investment, which is expected to increase by 12.6% to RM85.3 billion in 1997. The resource gap of the private sector which is envisaged to widen from a deficit of RM22.5 billion (9.5% of GNP) in 1996 to RM26.1 billion (10% of GNP) is expected to be largely financed through gross inflow of foreign long-term corporate capital investment, including retained profits, which is estimated at RM21.9 billion (8.4% of GNP).

Table 6.8

Private Sector Source of Financing¹ (% Share)

	1996	1997 (forecast)
Own fund	73.3	70.3
Local borrowings	19.9	16.0
Foreign borrowings	6.8	13.7
TOTAL	100.0	100.0
(RM million)	12,344.0	20,711.0

¹ Based on BES

Source: Department of Statistics

As indicated by the BES in Table 6.8, 70.3% of the total planned capital outlay by 220 large corporations in 1997 is expected to be financed by internally generated savings, reflecting the continued favourable growth in operating surplus. These internally generated funds include inflow of funds brought in by foreign companies to finance their investment in Malaysia. Domestic and offshore borrowings, as well as the capital market are also important sources of financing for private investment in 1997. As indicated by the BES, domestic borrowings are expected to finance a smaller portion of the total capital outlay planned by the 220 large corporations in 1997, that is at 16% compared to 19.9% in 1996. Offshore borrowings are expected to remain as a significant source of financing capital formation in 1997. These borrowings are expected to account for 13.7% of total capital outlay of firms surveyed, against 6.8% in 1996.

Table 6.9

Funds Raised in the Capital Market (January-July)

Sector	(RM million)		% share	
	1996	1997 ¹	1996	1997 ¹
Shares	9,314	12,451	44.9	49.4
Public issues	1,183	3,159	5.7	12.5
Right issues	3,256	5,209	15.7	20.7
Special issues	1,786	1,255	8.6	5.0
Private placements	3,089	2,828	14.9	11.2
Debt securities (Gross)	11,428	12,741	55.1	50.6
Conventional bonds	5,602	5,242	27.0	20.8
Convertible bonds	681	1,952	3.3	7.7
Islamic notes	2,200	4,022	10.6	16.0
Cagamas bonds	2,945	1,525	14.2	6.1
TOTAL	20,742	25,192	100.0	100.0

Source: Central Bank of Malaysia

The local capital market continued to be an important source of financing for capital formation during the first seven months of 1997. As at end of July 1997, a total of RM12.5 billion was raised through new issues of shares in the Kuala Lumpur Stock Exchange (please see Table 6.9). These included RM3.2 billion of public issues, RM5.2 billion of right issues, RM2.8 billion of private placements and another RM1.3 billion of special issues. During the first seven months of 1997, a total of 20 new companies were listed on the Main Board and another 41 companies were listed on Second Board. At the same time, the widening and deepening of the capital market also offers other financial instruments for purpose of financing private sector investment. During the first seven months of 1997, a total of RM12.7 billion were raised through the issuance of private debt

securities. These consisted of commercial papers, convertible and conventional bonds, Islamic notes as well as Cagamas bonds and notes.

Conclusion

Although the moderation of domestic economic activities and global declines in prices of some manufactured goods in 1997 are envisaged to affect revenue growth, growth in private sector savings is expected to remain favourable. Consequently, despite sustained increase in investment by both domestic and foreign companies, a significant portion of the private sector capital outlay is expected to be financed largely by internally generated funds, including funds brought into the country by foreign investors to finance their fixed capital formation in Malaysia.

- Saving
- Borrowing
- C. market ← KLSE issues.